APTISI Transactions on Technopreneurship (ATT)
Vol. 8, No. 2, July 2026, pp. 696−711
E-ISSN: 2656-8888 | P-ISSN: 2655-8807, DOI:10.34306

Dynamic Capability Framework for Digital Workplaces and Innovation Driven Performance

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Article Info

Article history:

Submission January 7, 2026
Revised March 28, 2026
Accepted March 31, 2026
Published June 23, 2026

Keywords:

IT Capability
Dynamic Innovation Capability
Digital Workplace Policy
Employee Performance
Organizational Performance

ABSTRACT

This study aimed to analyze the influence of IT Capability at the Digital Workplace, Dynamic Innovation Capability, and Dynamic Digital Workplace Policy on Employee and Organizational Performance within the context of digital transformation. Employing the Structural Equation Modeling (SEM) method, the research investigated direct and indirect relationships between these variables, including the mediating effect of Employee Performance. **Key findings revealed** a significant and direct positive influence of IT Capability at the Digital Workplace on Employee Performance (coefficient of 2.618), which subsequently impacted Organizational Performance. Furthermore, Dynamic Innovation Capability demonstrated a positive contribution to both employee and organizational performance, both directly and through the mediating effect of Employee Performance. Notably, Dynamic Digital Workplace Policy exerted a strong and direct impact on Organizational Performance, indicating a direct pathway to enhanced organizational outcomes. These **findings** underscore the critical importance for organizations, such as PT. Wisma Berkah Sejahtera, to prioritize technological advancement and foster a culture of innovation as core strategies to enhance employee and organizational performance in the evolving digital landscape. Beyond performance implications, the **study highlights** how strengthening digital infrastructure, fostering innovation capability, and implementing adaptive digital workplace policies enable organizations to contribute to the realization of Sustainable Development Goal (SDG) 9: Industry, Innovation, and Infrastructure, by promoting resilient digital systems, sustainable industrial development, and innovation-driven growth.

DOI: https://doi.org/10.34306/att.v8i2.1004

1. INTRODUCTION

The development of digital technology has significantly transformed organizational operations, including human resource management [1]. The modern work environment has transcended traditional approaches, now demanding the utilization of digital technology to enhance efficiency, productivity, and innovation. This evolution has given rise to the concept of the Digital Workplace, a novel framework for organizations to effectively manage employee performance and support the achievement of strategic objectives [2].

A key component of dynamic capabilities lies in the ability to identify new opportunities and integrate

external resources. According to [3], dynamic capabilities can be operationalized through five components, including the identification of new opportunities and the acquisition of external resources crucial aspects in the context of digitalization [3]. Furthermore, research by [4] demonstrates the significance of dynamic capabilities by highlighting their role in mediating the relationship between absorptive capacity and sustainable processes, emphasizing the importance of adaptability to environmental change.

In a digital work environment, the ability to rapidly adapt to new technologies and evolving work processes is paramount [5]. [6] emphasized that organizations yet to undergo digital transformation must carefully consider the challenges faced and prioritize employee involvement throughout the transformation process [7]. This aligns with the findings of [8], which underscore that the adjustment of internal resources and the ability to attract and retain employees with the requisite qualifications are crucial determinants of organizational effectiveness in the digital age [9]. Research by [10] demonstrates that employees adept at navigating ambiguity and proactively completing tasks exhibit enhanced stress management capabilities in the face of change, a critical aspect of dynamic capabilities within the digital workplace context. Consequently, fostering a work environment that cultivates the development of dynamic capabilities can significantly enhance both individual and overall organizational performance [11].

As a prominent player in the modern service sector, PT. Wisma Berkah Sejahtera faces significant challenges in adapting to the dynamic nature of digital technology. To effectively navigate this digital landscape, the company must cultivate organizational dynamic capabilities, encompassing IT Capability, Dynamic Innovation Capability, and a Dynamic Digital Workplace Policy. These capabilities are believed to be crucial for enhancing employee performance and ultimately driving overall organizational success.

The successful application of dynamic capabilities within the digital workplace is inevitably intertwined with various obstacles. Challenges such as inadequate technological infrastructure, resistance to change, and inflexible work policies often hinder the full realization of the digital workplace's potential. Therefore, a comprehensive understanding of how to effectively implement dynamic capabilities to improve employee performance and achieve organizational performance objectives is essential.

This study aims to investigate the dynamic capability model within the context of PT. Wisma Berkah Sejahtera's digital workplace. Specifically, the research focuses on analyzing the influence of information technology capabilities, dynamic innovation, and digital workplace policies on employee performance, and subsequently, how employee performance contributes to the overall organizational performance. By elucidating these relationships, this research seeks to provide valuable strategic insights and recommendations for PT. Wisma Berkah Sejahtera to optimize its dynamic capabilities and thrive in the competitive digital era.

Dynamic capabilities encompass not only technical aspects but also organizational culture and employee engagement. [12] emphasize that workplace digitalization can act as a mediator between transformational leadership and an innovative culture in fostering increased employee engagement. Therefore, cultivating a culture that supports innovation and collaboration within the digital workplace is paramount for improving organizational performance [13, 14].

While prior studies have extensively examined dynamic capabilities in developed economies, limited research explores how these capabilities are operationalized within emerging market contexts such as Indonesia. This study not only investigates the structural relationships among dynamic capability components but also provides contextual insights into their implementation in Indonesian digital workplaces, offering comparative relevance to global organizational settings. In addition to its organizational implications, this study is positioned within the broader framework of the Sustainable Development Goals (SDGs), particularly SDG 9: Industry, Innovation, and Infrastructure. The transformation of digital workplaces and the development of dynamic capabilities play a significant role in strengthening technological infrastructure, fostering innovation ecosystems, and supporting sustainable industrial development. Through the enhancement of IT capability, innovation capacity, and adaptive digital policies, organizations are better equipped to build resilient systems and promote inclusive economic growth. By explicitly situating this research within the SDG framework, the study underscores the wider societal relevance of digital transformation initiatives, particularly in the context of emerging economies striving to achieve sustainable and innovation-driven development.

This research possesses both practical and theoretical significance. From a practical standpoint, the study findings can serve as a valuable reference for companies in formulating dynamic capability strategies that are more adaptable to technological advancements. From a theoretical perspective, this research is anticipated to contribute to the expanding body of literature on dynamic capabilities and digital work environments, particularly within the Indonesian organizational context.

2. THE COMPREHENSIVE THEORETICAL BASIS

2.1. Dynamic Capabilities in Organizations

The concept of dynamic capabilities was first introduced by Teece, who defined it as an organization's ability to continuously create, update, and reconfigure internal and external resources to effectively adapt to environmental changes [3]. Within the context of the digital workplace, dynamic capabilities emerge as a critical factor for maintaining organizational competitiveness in the digital era. In the time of COVID-19 dynamic capabilities help organizations respond to the challenges posed by the pandemic, highlighting their relevance in today's volatile environment [15, 16]. While [3] shows the crucial role of dynamic capabilities in enabling organizations to successfully navigate the challenges and opportunities presented by digital transformation.

Dynamic capabilities refer to an organization's ability to sense changes in the external environment, seize emerging opportunities, and reconfigure internal resources to remain competitive. Rather than focusing solely on existing operational efficiency, dynamic capability theory emphasizes adaptability and strategic renewal in response to rapid environmental change.

In practical terms, sensing capability involves identifying technological trends, market shifts, or evolving customer expectations. For example, organizations may recognize the growing importance of cloud computing or artificial intelligence in improving operational processes. Seizing capability refers to the organization's ability to invest in and implement appropriate technologies, such as adopting digital collaboration platforms or Enterprise Resource Planning (ERP) systems. Reconfiguring capability involves restructuring internal processes, redefining roles, and reallocating resources to ensure that digital transformation initiatives are effectively integrated into daily operations.

Within the digital workplace context, these three elements operate simultaneously. Organizations must continuously monitor digital developments (sensing), adopt relevant digital tools (seizing), and adjust organizational structures and policies to support digital collaboration (reconfiguring). This dynamic process explains how firms sustain performance in rapidly evolving digital environments. By presenting dynamic capabilities through these operational dimensions, the theory becomes more accessible and directly connected to observable organizational practices, particularly in digital transformation initiatives.

Three key elements of dynamic capabilities particularly relevant to the digital work environment are information technology capabilities (IT capability), dynamic innovation capabilities, and flexible digital work policies [17–19].

A crucial aspect of dynamic capabilities lies in organizational learning emphasized that employees' dynamic capabilities significantly contribute to their digital performance, suggesting that investing in the development of dynamic capabilities can substantially enhance an organization's overall performance. Furthermore, research by [3] demonstrates a positive correlation between higher levels of dynamic capabilities and organizational performance, albeit with varying degrees of determinism. These findings underscore the imperative for organizations to continuously develop and refine their dynamic capabilities to effectively respond to emerging challenges.

- IT Capability at the Digital Workplace (ITC)
  ITC is a company's ability to arrange its IT-based resources in addition to or in conjunction with other resources and talents [3] or the ability of a company to purchase, assign, integrate, and reorganize its IT resources in order to realize an IT capability to fulfill its intended purpose.

  In the modern workplace, technology and work are interwoven, and its influence on the structure and design of work is indisputable [20]. The nature of work could be drastically changed by technological innovation [21], and technologies are a means of achieving the goals of virtual teams. To cooperate on shared goals, for instance, different communication or collaboration methods can be chosen and deployed. Digital media effectiveness, however, is contingent upon its conformity to situational needs [20]. Contextual elements [22]. As a result, teams' dependence on digital media and virtuality is dependent on external factors, such as leadership [23], rather than being intrinsically good or bad [23–25].

  In the modern workplace, technology and work are inextricably intertwined, with its profound influence on the structure and design of work undeniable [26]. Technological innovation has the potential to dramatically alter the nature of work [3, 27]. Technologies serve as crucial enablers for achieving the goals of virtual teams. For instance, diverse communication and collaboration methods can be selected and implemented to foster cooperation towards shared objectives. However, the effectiveness of digital media hinges on its alignment with situational needs, such as the specific requirements of individual teams

or employees [3], and contextual elements, such as leadership styles [23]. Consequently, teams' reliance on digital media and their degree of virtuality are contingent on external factors, such as leadership [28], rather than being inherently beneficial or detrimental [24, 29].

Previous studies demonstrate that the utilization of Information Technology has a positive and significant impact on employee performance [30, 31]. Analysis of technology roles confirms that modern work systems rely heavily on IT support to complete tasks quickly and effectively. Digital-based working environments, such as front office operations in hotels, illustrate that Information Technology becomes a primary tool assisting employees in managing daily work activities, improving accuracy, and accelerating service processes. Empirical evidence highlights that strong IT capability drives individual productivity and organizational effectiveness. These findings provide a fundamental basis for proposing the following hypothesis:
H1: IT Capability has a positive influence on employee performance at the Digital workplace.

- Dynamic Innovation Capability at The Digital Workplace (DIC)
  Dynamic capability theory posits that a company's competitive advantage arises from its ability to adapt to a constantly evolving business environment. This theory emphasizes two key aspects: 1) Strategic Agility: the need for continuous strategic adjustments to align with shifting market demands and customer expectations, including the time required for innovations to gain market traction; and 2) Internal Management Effectiveness: the critical role of effectively managing organizational resources, processes, and structure to respond effectively to environmental changes [32].

  Dynamic innovation capability has a significant correlation with organizational work performance [33, 34]. Consequently, employee performance and well-being are influenced by their capacity for innovation. [35] identified six key indicators of dynamic innovation capability: Openness to new concepts, a positive outlook on new opportunities, appreciation for individual innovative ideas and actions, adaptability to societal changes, prioritizing and believing in preparation, and awareness of the impact of one's choices. These indicators highlight the importance of fostering a culture that supports creativity, collaboration, and innovation among employees.

  [2] emphasized that in the digital context, a startup's disruptive innovation pathways are significantly influenced by its dynamic capabilities. This research underscores the importance of understanding the relationship between dynamic capabilities and disruptive innovation pathways to inform more effective organizational innovation strategies. [36] further highlighted the critical role of digital leadership in innovation management within the framework of dynamic capabilities. Their findings revealed that market orientation acts as a moderator in this relationship, suggesting that effective innovation management by leaders can significantly enhance organizational performance [37, 38].
  H2: Dynamic innovation capability at the digital workplace has a positive influence on employee performance at the Digital workplace.

- Dynamic Digital Workplace Policy (DPD)
  A dynamic digital workplace policy serves as a crucial framework for effectively managing and driving digital transformation within organizations. This policy encompasses a wide range of aspects, including strong digital leadership, seamless technology adoption, and the fostering of a culture of innovation that directly supports organizational performance [39].

  Within this context, digital leaders play a pivotal role in cultivating an adaptive and innovative work environment. Dynamic digital workplace policies emphasize flexibility in work rules, the strategic utilization of technology, and a management approach that is highly responsive to the evolving needs of employees. These policies are specifically designed to support a more agile and innovative digital work environment [40].

  Research on digital work policies has consistently demonstrated that flexible policies can significantly enhance employee job satisfaction, foster increased collaboration, and ultimately drive optimal performance outcomes [20].

  To effectively leverage contemporary technologies and propel their digital workplace transformation, organizations must cultivate and nurture their dynamic capabilities. This includes articulating and implementing dynamic policies for the digital workplace, consistently upgrading their IT skills, and en-

hancing their dynamic innovation capabilities within the digital workplace to effectively adapt to the ever-evolving business landscape [33]. Based on the above arguments, we propose the following hypothes is:

H3: Dynamic Digital Workplace Policy has a positive influence on employee performance at the Digital workplace.

2.2. Employee Performance

Employee performance is an individual's contribution to the achievement of organizational goals. In the digital workplace, employee performance is influenced by several key factors, including access to appropriate technology, the ability to effectively adapt to change, and the support provided by organizational policies [20].

Research indicates that an organization's dynamic capabilities play a crucial role in shaping a work environment that fosters improved employee performance [40]. [41] conducted research to investigate the influence of digital technology on employee adjustment and subsequent organizational performance. This study specifically explored how the implementation of digital technologies impacts employee adaptation and how this ultimately affects organizational outcomes [42, 43]. The research findings highlight the significant positive impact of digital technology on various aspects of employee performance, including increased productivity, efficiency, and workplace flexibility [44]. Furthermore, the study emphasizes the critical role of effective communication, strong collaboration, and a supportive organizational culture in successfully facilitating digital transformation. Finally, the study reveals a positive correlation between the adoption of digital technology and improved organizational performance, as evidenced by increased efficiency, enhanced productivity, and heightened innovation. Based on the arguments above, we propose the following hypothesis.

H4: Employee performance positively influences organizational performance.

2.3. The Proposed Model

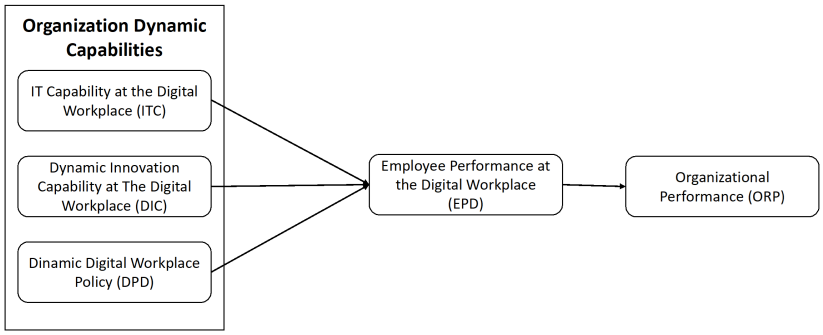

Figure 1. Organizational Dynamic Capabilities Framework

From Figure 1 encompass three key elements: IT Capability at the Digital Workplace, Dynamic Innovation Capability, and Dynamic Digital Workplace Policy. IT Capability at the Digital Workplace refers to the infrastructure and technology systems that support employee work activities within the digital environment. Dynamic Innovation Capability reflects an organization's ability to continuously adapt and create new innovations, not only in terms of product or service development, but also in how it effectively responds to both internal and external needs. Finally, Dynamic Digital Workplace Policy serves as a guiding framework for employees working in a digital environment, encompassing rules pertaining to work flexibility, data security, and organizational support for digital collaboration among employees.

3. METHODS

This study uses a quantitative approach with a survey method to collect data. The research sample consisted of 150 employees working in a digital work environment across various organizations. Data were obtained using a purposive sampling technique, where respondents were selected based on their direct involvement in digital workplace practices to ensure the relevance of the data collected.

This study applied a purposive sampling technique to ensure that respondents had direct and substantive experience with digital workplace practices. The sampling criteria were carefully designed to align with

the research objectives, particularly the examination of dynamic capabilities within technology-driven work environments. Therefore, only employees who actively engage with digital systems, collaborative platforms, and technology-supported processes in their daily work activities were considered eligible. To ensure relevance and data quality, respondents were required to meet three inclusion criteria:

- Currently employed in organizations that have implemented digital workplace systems;
- Possessing a minimum of one year of work experience to ensure adequate familiarity with organizational processes and digital transformation initiatives; and
- Directly involved in technology-enabled tasks, such as the use of digital communication platforms, enterprise systems, cloud-based applications, or innovation-related activities.

Participating organizations were accessed through professional networks and institutional collaborations. Following organizational approval, potential respondents were screened against the predefined criteria to ensure alignment with the study's conceptual framework. Only individuals who satisfied all eligibility requirements were invited to complete the survey. The use of purposive sampling is appropriate for this study because the research focuses on context-specific constructs that require information-rich participants with relevant digital workplace exposure. Consequently, representativeness in this study is defined in terms of conceptual and experiential relevance rather than statistical generalization to a broader population.

Data collection was carried out using a questionnaire that was compiled based on the indicators of each variable in the framework, namely IT Capability at the Digital Workplace (ITC), Dynamic Innovation Capability at the Digital Workplace (DIC), Dynamic Digital Workplace Policy (DPD), Employee Performance at the Digital Workplace (EPD), and Organizational Performance (ORP). The questionnaire uses a 5-point Likert scale to measure respondents' perceptions of these variables.

The data analysis was conducted using Structural Equation Modeling (SEM) to simultaneously examine the relationships among latent constructs in the proposed framework. The analysis followed a structured multi-stage procedure to ensure methodological rigor.

- Data screening was performed prior to hypothesis testing. This included checking for missing data, outliers, and normality distribution. Descriptive statistics were calculated to understand respondent characteristics and variable distributions.
- The measurement model was evaluated to assess construct validity and reliability. Convergent validity was examined using outer loading values and Average Variance Extracted (AVE). Indicator loadings greater than 0.60 were considered acceptable, while AVE values above 0.50 indicated that the construct explains more than 50% of the variance of its indicators. Internal consistency reliability was assessed using Cronbach's Alpha and Composite Reliability (CR). Cronbach's Alpha values exceeding 0.70 indicated satisfactory reliability, while Composite Reliability values above 0.70 confirmed strong construct consistency. Composite Reliability was emphasized as it is more suitable for SEM analysis due to its ability to account for different indicator loadings. Discriminant validity was then evaluated to ensure that each construct was empirically distinct. This was assessed by examining cross-loadings and ensuring that each indicator loaded higher on its respective construct than on other constructs. Additionally, the Fornell–Larcker criterion was applied by comparing the square root of AVE values with inter-construct correlations.
- After confirming the adequacy of the measurement model, the structural model was assessed. This stage involved evaluating path coefficients, t-statistics, and p-values to test the proposed hypotheses. Bootstrapping procedures were applied to estimate the significance of relationships among constructs. The coefficient of determination (R^2) was examined to evaluate the explanatory power of the endogenous variables.
- Mediation analysis was conducted to examine whether Employee Performance (EPD) mediates the relationship between IT Capability (ITC), Dynamic Innovation Capability (DIC), Dynamic Digital Workplace Policy (DPD), and Organizational Performance (ORP). The significance of indirect effects was tested using bootstrapping to determine whether mediation effects were partial or full.

3.1. Variable Definition

IT Capability at the Digital Workplace (ITC) refers to an organization's ability to manage and leverage information technology within a digital work environment. This capability encompasses IT infrastructure, digital systems that support collaboration, and the ability to adapt to technological advancements to enhance employee efficiency and productivity. Research indicates that robust IT capabilities can significantly improve organizational performance by facilitating innovation and operational efficiency. Organizations with adequate IT infrastructure can quickly adapt to changes and utilize new technologies to support their business objectives [10].

Dynamic Innovation Capability at the Digital Workplace (DIC) describes the extent to which an organization can create, adapt, and implement innovations in a digital work setting. DIC enables organizations to remain competitive by responding swiftly to rapid changes and developing new digital solutions. Studies show that the ability to innovate dynamically is crucial in a constantly evolving environment, where organizations must adapt quickly to meet market demands [40]. A strong DIC allows organizations to enhance creativity and operational effectiveness, contributing to improved employee performance [45].

Dynamic Digital Workplace Policy (DPD) also plays a vital role in supporting employee performance. This policy is designed to ensure that digital work systems remain effective and compliant with applicable regulations. Flexible and adaptive policies help organizations manage digital work environments more effectively, positively impacting employee well-being and productivity [46]. Research indicates that supportive digital policies can enhance employee engagement and facilitate better collaboration among team members [33, 47] (Show on Table 1).

Table 1. Variable Definitions

Variables	Definitions	Indicators	Measurement Scale
IT Capability at the Digital Workplace (ITC)	The organization's ability to manage and utilize information technology in a digital work environment. This capability includes IT infrastructure, digital systems that support collaboration, and the ability to adapt to technological developments to improve employee efficiency and productivity.	1. Availability of reliable digital infrastructure (IT systems, cloud platforms). 2. Integration of digital systems across departments. 3. Effectiveness of collaboration tools (e.g., ERP, online platforms). 4. Organizational ability to adopt new technologies quickly. 5. IT support responsiveness and problem-solving capability.	5-point Likert Scale (1 = Strongly Disagree to 5 = Strongly Agree)
Dynamic Innovation Capability at the Digital Workplace (DIC)	The extent to which an organization can create, adapt, and implement innovation in a digital work environment. This capability enables organizations to remain competitive by responding to rapid change.	1. Openness to new digital ideas and solutions. 2. Ability to adapt quickly to technological change. 3. Encouragement of employee creativity and experimentation. 4. Implementation of innovative digital processes. 5. Continuous improvement culture in digital practices.	5-point Likert Scale (1 = Strongly Disagree to 5 = Strongly Agree)
Dynamic Digital Workplace Policy (DPD)	Refers to flexible and adaptive organizational policies in managing a digital work environment.	1. Flexibility of remote/hybrid work policies. 2. Clarity of digital governance and data security policies.	5-point Likert Scale (1 = Strongly Disagree to 5 = Strongly Agree)

	Refers to flexible and adaptive organizational policies in managing a digital work environment. This policy is designed to ensure that digital-based work systems remain effective, in accordance with applicable regulations, and able to support employee welfare and productivity.	3. Management support for digital transformation. 4. Adaptability of work regulations to technological change. 5. Organizational commitment to digital work standards.	
Employee Performance at the Digital Workplace (EPD)	Reflects the level of effectiveness and efficiency of employees in carrying out their duties in a digital work environment.	1. Ability to complete tasks efficiently using digital tools. 2. Productivity level in digital work settings. 3. Quality of work outcomes. 4. Timeliness in task completion. 5. Adaptability to digital work processes.	5-point Likert Scale (1 = Strongly Disagree to 5 = Strongly Agree)
Organizational Performance (ORP)	Reflects the overall results achieved by the organization. Organizational performance can be measured through various indicators such as profitability, operational efficiency, competitiveness, and customer satisfaction.	1. Improvement in operational efficiency. 2. Increased organizational productivity. 3. Enhanced competitiveness in the market. 4. Customer satisfaction level. 5. Innovation performance outcomes. 6. Financial performance growth. 7. Overall organizational effectiveness.	5-point Likert Scale (1 = Strongly Disagree to 5 = Strongly Agree)

Sources: [10, 33, 45, 47–49]

4. RESULT AND DISCUSSION

The characteristics of the respondents presented in Table 2 demonstrate a fairly representative diversity. In terms of gender, the respondents were relatively evenly distributed between men and women. The majority of respondents belonged to the productive age group of 25–34, which is considered the most adaptable to digital technology developments. In contrast, the age groups under 25 and over 45 were less represented.

Table 2. Descriptive Statistics of Respondents

Profile	**Category**	**Frequency (n)**	**Percentage (%)**
Gender	Male	85	56.7
	Female	65	43.3
Age	$<$ 25 years	40	26.7
	25–34 years	70	46.7
	35–44 years	25	16.7
	$\geq$ 45 years	15	10.0
Education Level	High School/Diploma	30	20.0
	Bachelor	95	63.3
	Master/Doctoral	25	16.7

Profile	Category	Frequency (n)	Percentage (%)
Length of Service	$<$ 2 years	20	13.3
	2–5 years	65	43.3
	$>$ 5 years	65	43.3
Job Position	Staff/Employee	95	63.3
	Supervisor/Manager	40	26.7
	Senior Manager/Head	15	10.0

In terms of education level, the majority of respondents had bachelor's degrees, followed by diploma/ vocational high school degrees and master's or doctoral degrees, reflecting a diverse range of academic capacities. In terms of length of service, the majority of respondents had between 2–5 years of work experience and more than 5 years, while those with less than 2 years of service were relatively small. By position, the majority of respondents were executive staff, followed by supervisors/managers, and a small number held senior managerial or department head positions. Overall, these characteristics reflect the diverse and representative backgrounds of the respondents, ensuring a sufficient depiction of the actual conditions related to dynamic capabilities, employee performance, and organizational performance in the digital era.

4.1. Fit Model

The Table 3 model fit test results showed a Standardized Root Mean Square Residual (SRMR) of 0.079 for both the saturated and estimated models. This value is still below the threshold of 0.08, indicating that the model has a good fit and is able to adequately describe the relationships between variables. Meanwhile, the Normed Fit Index (NFI) of 0.657 is below the ideal criterion of 0.90, indicating that although the model is reasonably fit, there is still room for improvement to more optimally represent the data.

Table 3. Fit Model

Model Fit	Saturated Model	Estimated Model
SRMR	0.079	0.079
NFI	0.657	0.657
f^2 Effect Size (Independent → Dependent)	**Value**	**Remark**
Dynamic Digital Workplace Policy → Employee Performance	0.529	Large effect
Dynamic Innovation Capability → Employee Performance	0.689	Large effect
IT Capability at the Digital Workplace → Employee Performance	0.229	Medium effect
Employee Performance → Organizational Performance	0.640	Large effect
R^2 (Dependent Variable)	**Adjusted R Square**	**Remark**
Employee Performance	0.523	Moderate
Organizational Performance	0.329	Moderate

The f² effect size analysis shows that each relationship between variables exerts an influence with varying intensity. Dynamic Digital Workplace Policy on Employee Performance has an f² value of 0.529, which is categorized as a large effect, thus concluding that adaptive digital policies play a significant role in boosting employee performance. Furthermore, Dynamic Innovation Capability on Employee Performance also shows a very strong effect with an f² value of 0.689 (large effect), confirming that the ability to dynamically innovate is a key factor in improving employee performance. Regarding the relationship between IT Capability at the Digital Workplace and Employee Performance, the f² value of 0.229 is categorized as a medium effect, meaning that information technology capabilities contribute significantly, but not as strongly as dynamic innovation or digital policies. Finally, the relationship between Employee Performance and Organizational Performance shows an f² value of 0.64 (large effect), indicating that improved employee performance directly drives substantial improvements in organizational performance.

The results of the Adjusted R² test confirm these findings. The Employee Performance variable has

an R² value of 0.523, which is in the moderate category. This means that more than half of the variation in employee performance can be explained by the three independent variables: IT Capability, Dynamic Innovation Capability, and Digital Workplace Policy. Meanwhile, the Organizational Performance variable has an R² value of 0.329, also in the moderate category, indicating that approximately 32.9% of the variation in organizational performance can be explained by employee performance. This suggests that other factors outside the model likely also influence organizational performance.

4.2. Validity Test

Based on the test results, as shown in the Table 4, the IT Capability at the Digital Workplace construct consists of five indicators with outer loadings within the good range, thus adequately reflecting information technology capabilities in the digital workplace. The Cronbach's Alpha value of 0.790, Composite Reliability of 0.855, and AVE of 0.546 indicate strong internal consistency and adequate convergent validity. Similarly, the Dynamic Innovation Capability construct, measured by five indicators with relatively high outer loadings, yielded excellent reliability results. With a Cronbach's Alpha of 0.817, Composite Reliability of 0.812, and AVE right at the 0.500 limit, this construct reflects consistent and reliable dynamic innovation capabilities.

Furthermore, the Dynamic Digital Workplace Policy construct, consisting of five indicators, also demonstrated favorable results. Although one indicator had a relatively low loading, its overall reliability remained above standard. A Cronbach's Alpha of 0.782, Composite Reliability of 0.845, and AVE of 0.531 indicate that the dynamic digital workplace policy remains well-measured and meets convergent validity.

Table 4. Outer Loadings

Construct (Latent Variable)	Indicator	Loading	Cronbach's Alpha	Composite Reliability	AVE
IT Capability at the Digital Workplace	X1.2	0.751	0.790	0.855	0.546
	X1.3	0.825			
	X1.4	0.642			
	X1.5	0.618			
	X1.1	0.830			
Dynamic Innovation Capability	X2.1	0.831	0.817	0.812	0.500
	X2.2	0.858			
	X2.3	0.714			
	X2.4	0.815			
	X2.5	0.694			
Dynamic Digital Workplace Policy	X3.1	0.839	0.782	0.845	0.531
	X3.2	0.769			
	X3.3	0.761			
	X3.4	0.766			
	X3.5	0.439			
Employee Performance	Z1.1	0.896	0.767	0.787	0.501
	Z1.2	0.915			
	Z1.3	0.575			
	Z1.4	0.784			
	Z1.5	0.846			
Organizational Performance	Y1.1	0.871	0.635	0.738	0.541
	Y1.2	0.863			
	Y1.3	0.596			
	Y1.4	0.682			
	Y1.5	0.744			
	Y1.6	0.688			
	Y1.7	0.764			

The Employee Performance construct, measured by five indicators, has varying outer loadings, with several indicators demonstrating particularly strong contributions. A Cronbach's Alpha of 0.767, Composite Reliability of 0.787, and AVE of 0.501 indicate that employee performance can be assessed consistently and

validly in the context of this study.

Finally, the Organizational Performance construct, consisting of seven indicators, demonstrated quite good results, although its reliability was relatively lower compared to the other constructs. With a Cronbach's Alpha of 0.635, Composite Reliability of 0.738, and AVE of 0.541, organizational performance still meets the minimum requirements for use in structural analysis, although there is scope for improvement in certain indicators in the future.

4.3. Hypothesis Test

The test results on the Structural Equation Modeling (SEM) model shown in the diagram show the relationship between the latent variables that contribute to employee performance and organizational performance in the digital work environment. Overall, the model describes the complex interaction between IT capabilities in the digital workplace, dynamic innovation capabilities, digital workplace policies, and their impact on individual and organizational performance outcomes.

Table 5. Hypothesis Test

Hypothesis	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (|O/STDEV|)	P Values
Dynamic Digital Workplace Policy → Employee Performance	0.329	0.330	0.076	3.286	2.218
Dynamic Innovation Capability → Employee Performance	0.488	0.498	0.054	2.708	1.807
Employee Performance → Organizational Performance	0.244	0.248	0.067	3.371	2.235
IT Capability at the Digital Workplace → Employee Performance	0.190	0.190	0.052	3.231	2.618

Based on Table 5 the results of IT Capability at the Digital Workplace test, it has a significant positive influence on Employee Performance, with a path coefficient of 2.618. This shows that the better IT capabilities in the digital workplace, the higher the employee performance will be. This contribution indicates that IT capabilities play a key role in supporting efficiency and productivity in the modern work environment.

In addition, Dynamic Innovation Capability also showed a significant influence on Employee Performance with a path coefficient of 1,807 and Organizational Performance with a path coefficient of 2.218. This relationship reflects that dynamic innovation capabilities, such as adaptability, creation of new solutions, and the application of modern technologies, directly affect the performance of employees and the organization.

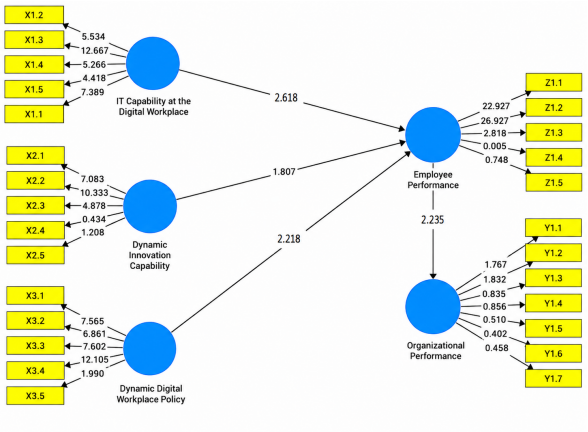

Figure 2. Result Structural Equation Modeling (SEM) model

Furthermore, the Dynamic Digital Workplace Policy also has a great influence on Organizational Performance, with a path coefficient of 2,235. This shows that policies that are flexible and supportive of the digital work environment directly improve organizational outcomes.

In terms of performance, Employee Performance is measured through observed variables such as Z1.1 to Z1.5, which shows a large contribution with values such as 22.927 and 26.927. Meanwhile, Organizational Performance is measured through Y1.1 to Y1.7, which shows a positive contribution with more varied loading factor values, such as 1.767 to 0.856.

This model provides an in-depth understanding of how technology, innovation, and policy capabilities impact employee and organizational outcomes in a digital work environment. The relationship between variables shows the importance of investing in IT capabilities, strengthening innovation, and the formulation of adaptive policies to improve overall performance.

4.4. Discussion

The findings provide strong empirical support for the dynamic capability perspective in explaining performance outcomes within digital workplaces, particularly in emerging market contexts. This study extends prior research by demonstrating that IT Capability, Dynamic Innovation Capability, and Dynamic Digital Workplace Policy do not operate in isolation but function as an integrated system that enhances Employee Performance and subsequently Organizational Performance. Unlike many previous studies that focus on single capability dimensions, this research highlights the complementary interaction between technological infrastructure, innovation processes, and adaptive governance as a unified mechanism driving performance.

Among the examined variables, Dynamic Innovation Capability emerges as the most influential predictor, indicating that continuous innovation is a critical differentiator in digital environments. This finding contributes to the literature by reinforcing the argument that competitive advantage is increasingly shaped by an organization's ability to generate and implement adaptive innovations rather than relying solely on technological investments. In this context, IT Capability serves as an enabling foundation, while innovation capability determines how effectively these technological resources are transformed into value-creating activities.

The significant role of Dynamic Digital Workplace Policy further advances the discussion by emphasizing the importance of governance and flexibility in digital transformation. While prior studies often overlook policy as a strategic capability, this research demonstrates that adaptive policies directly influence Organizational Performance by aligning technological systems with human resource practices. This highlights a novel insight that digital transformation success is not purely technology-driven but is strongly dependent on institutional and managerial readiness to support evolving work structures.

Importantly, the mediation effect of Employee Performance reveals that the impact of dynamic capabilities on Organizational Performance is largely indirect and human-centered. This finding strengthens the theoretical foundation of dynamic capability theory by confirming that resource reconfiguration only generates value when effectively operationalized through employees. In emerging economies such as Indonesia, where digital maturity varies across organizations, this study contributes a contextual perspective by showing that incremental and adaptive transformation strategies are more effective than rapid disruption. Consequently, the study offers both theoretical advancement and practical implications by positioning human capital as the central mechanism linking digital capability development to sustainable organizational performance and innovation-driven growth aligned with SDG 9.

5. MANAGERIAL IMPLICATIONS

The findings of this study provide strategic guidance for managers and decision-makers in navigating digital workplace transformation. Organizations should prioritize not only the development of IT infrastructure but also the integration of dynamic innovation practices and adaptive digital policies as a unified strategy. Investment in digital technologies must be complemented by continuous employee upskilling programs to ensure effective utilization of systems and tools. Additionally, managers should institutionalize innovation through structured mechanisms such as idea management platforms, cross-functional collaboration, and incentive systems that encourage creative problem-solving. The results also highlight the importance of flexible digital workplace policies, including hybrid work models and responsive governance frameworks, to enhance employee engagement and organizational agility. From a strategic perspective, organizations in emerging markets should adopt a phased and adaptive transformation approach, aligning technological capability with human capital readiness. By positioning employee performance as the central driver of value creation, managers can

ensure that digital transformation initiatives lead to sustainable organizational performance and innovation-driven growth, while also contributing to broader development goals such as SDG 9.

6. CONCLUSION

The findings of this study demonstrate that IT Capability, Dynamic Innovation Capability, and Dynamic Digital Workplace Policy significantly enhance employee performance, which in turn positively affects overall organizational performance. Among these, IT Capability exerts the strongest influence on employee productivity, highlighting the critical role of robust technological infrastructure in accelerating task completion and operational efficiency. Dynamic Innovation Capability and adaptive workplace policies further reinforce these outcomes by fostering a culture of creativity and flexible work arrangements, enabling organizations to respond effectively to dynamic market conditions and digital transformation demands. Employee Performance was found to mediate these relationships, confirming that technological and innovation resources generate organizational impact primarily through enhanced human capital effectiveness.

The practical implications of this research emphasize that organizations, such as PT. Wisma Berkah Sejahtera, should prioritize integrated digital infrastructure development, continuous employee skill enhancement, and adaptive policy frameworks to optimize performance outcomes. Strategically, the study contributes to the understanding of dynamic capabilities within emerging market contexts, showing how technology, innovation, and flexible policies jointly drive organizational success. Beyond organizational performance, the research also aligns with Sustainable Development Goal (SDG) 9, illustrating that strengthening digital capabilities contributes to resilient industrial systems, innovation-driven growth, and sustainable economic development.

Despite these contributions, the study has limitations. The research focused on a single organization within Indonesia, which may limit generalizability to other sectors or countries with different levels of digital maturity. Additionally, the model did not include other potential moderating factors such as organizational culture, leadership style, or employee engagement, which could further influence performance outcomes. Future research is recommended to explore cross-industry comparisons, incorporate longitudinal designs to capture dynamic changes over time, and examine additional contextual variables that may interact with IT, innovation, and policy capabilities to enhance both employee and organizational performance.

7. DECLARATIONS

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Conceptualization: KK; Methodology: KK; Software: KK; Validation: KK and AZ; Formal Analysis: KK and AZ; Investigation: KK; Resources: WE; Data Curation: WE; Writing Original Draft Preparation: KK and AZ; Writing Review and Editing: KK and WE; Visualization: KK; All authors, KK, AZ, and WE, have read and agreed to the published version of the manuscript.

7.3. Data Availability Statement

The data presented in this study are available on request from the corresponding author.

7.4. Funding

The authors received no financial support for the research, authorship, and/or publication of this article.

7.5. Declaration of Conflicting Interest

The authors declare that they have no conflicts of interest, known competing financial interests, or personal relationships that could have influenced the work reported in this paper.

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