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Digital Transformation and Long-Term Financial Sustainability: The Role of Strategic Agility

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Abstract

The current research investigated the impact of digital transformation on long run financial sustainability, mediated through strategic agility, as per the Dynamic Capabilities Theory (DCT). A quantitative, explanatory, cross-sectional design was used and the data were gathered from 320 managerial respondents of manufacturing, banking, telecommunications, healthcare, information technology, and service companies who had implemented digital transformation projects within the last five years. The questionnaire was designed after expert review and a pilot study of 35 participants and used a structured questionnaire based on multi-item scales validated internationally. The proposed relationships were examined by Covariance-Based Structural Equation Modeling (CB-SEM) using AMOS 29 software, confirmatory factor analysis was used to test the measurement model, and bias-corrected bootstrapping was used to test mediation. The reliability and convergent and discriminant validity of the measurement model were satisfactory and the fit indices of the structural model were acceptable. Digital transformation was identified as a significant and positive predictor of long-term financial sustainability and strategic agility was a partial mediator. The results show that having a high level of digital capability is not enough to achieve sustainable financial success without at the same time developing the responsiveness and adaptive decision-making that lies behind strategic agility. Beyond its empirical linkages between digital sensing, seizing, and reconfiguring capacities and sustainable financial outcomes via an agility-based pathway, the study contributes to the Dynamic Capabilities Theory, and provides practical insights for managers wanting to turn digital investments into sustained financial resilience.

Introduction

Organizations are now competing in a world of fast-changing technologies, rising customer expectations and greater global competition, and digital transformation has become a critical business issue, not a side-issue in information technology. It is now recognized not as a singular technology adoption moment, but as a process that involves byproducts involving digital technology-induced disruptions that force organizations to change their value creation journeys, architectures and capacities (Vial, 2019). Other firms have invested significant resources in transforming their business activities, decision-making processes and consumer interactions with their firms through digitalization, and believe that such investments will lead to higher and, importantly, sustainable financial results (Verhoef et al., 2021; Bharadwaj et al., 2013).

In spite of the size of this investment, the link between digital transformation and long-term financial results is not sure. A large amount of evidence shows short-term efficiency gains and revenue impacts of digitalization, but less research investigates whether these benefits are translated into long-term financial resilience, stable profitability and long-lasting competitive advantages over time (Nadkarni & Prügl, 2021). This is a crucial gap, as digital strategies are often not successful in achieving their strategic objectives, not due to technological limitations, but because of the lack of coordination and

responsiveness among the various stakeholders (Warner & Wäger, 2019; Hess et al., 2016). In other words, digital transformation could be the key to sustainable finance but may not be enough.

Dynamic Capabilities Theory (DCT) provides a suitable perspective to deal with this gap. According to DCT, organisations do not have to own valuable resources to achieve a sustainable competitive advantage, they need the ability to sense opportunities and threats, make prompt decisions and restructure resources and routines to meet the changing environment (Teece, 2007). Digital technologies increase an organization's sensing and seizing capability, and strategic agility, as a construct, better describes an organization's strategic sensitivity, collective commitment, and resource fluidity in its response to change (Doz & Kosonen, 2010). Strategic agility has been suggested as a key mechanism for transforming digital and other dynamic capabilities into performance outcomes, but has been relatively under-researched as an explicit link between digital transformation and long-term financial sustainability (Weber & Tarba, 2014; Fitzgerald et al., 2014).

In this study, long-term financial sustainability is defined as an organization's ability to remain profitable, financially resilient and competitive in the longer term, which is not just short-term profit (Ortiz-de-Mandojana & Bansal, 2016). The difference is significant because companies with digital projects that are mostly for efficiency benefits may not consider the adaptive routines needed to maintain their performance as technologies, competitors and customers' expectations change over time (Matt et al., 2015). This is because there is both a theoretical and a practical basis to understanding the impact of digital transformation on sustainable financial results, and how it works to achieve these results.Theoretically and practically relevant because digital transformation has a fundamental impact in emerging and transition economies, where the use of information technology is actively growing and where the volatility of institutions and markets is significant (Kraus et al., 2021).

Based on this reasoning, the present study has three goals: first, to explore the direct impact of digital transformation on long-term financial sustainability; second, to explore the impact of digital transformation on strategic agility; and third, to test the mediating role of strategic agility between digital transformation and long-term financial sustainability. The study addresses these calls by expanding the focus on the adoption of digital technologies to understanding the organizational mechanisms that transform digital capability into bottom-line financial outcomes (Vial 2019; Warner and Wäger 2019).

Literature Review

Dynamic Capabilities Theory

Dynamic Capabilities Theory (DCT) builds upon the resource-based view of the firm that valuable, rare, and difficult-to-imitate resources lead to sustained competitive advantage (SCA) (Barney 1991), by explaining how firms can gain a sustainable competitive advantage in the face of fast change in their environment. Dynamic capabilities are the firm's ability to integrate, develop and reconfigure existing and acquired competences for dealing with the evolving environments, as defined by (Teece et al., 1997). Teece later broke this down into three microfoundational capacities: sensing opportunities and threats; seizing opportunities in the context of appropriate business models and investment decisions; and transforming or reconfiguring the firm's asset base or structures. Eisenhardt and Martin (2000) also defined dynamic capabilities as discernable, teachable organisational processes, a definition which has served to provide operationalisation of the construct in various organizational environments.

Further research has expanded DCT into the entrepreneurial and digital domains. In environments of uncertainty, dynamic capabilities are especially important because being the first to be able to reconfigure resources is a key factor in survival and growth for firms (Zahra et al., 2006). The connection between dynamic capabilities and business model design followed with Teece (2018) who explicitly tied the two together, claiming that business model design is essential for maintaining competitive advantage, even when the firm possesses superior resources. This theoretical pathway grounds the conceptualisation of digital transformation as a first-order digital capability, strategic agility as a reconfiguration capability and long-term financial sustainability as a sustained performance outcome within a unified framework of the dynamic capabilities theory.

Digital Trends in Business

Digital transformation is described as a process that seeks to enhance an entity by major changes to its properties through the use of a combination of information, computing, communication and connectivity technologies (Vial, 2019). This definition extends beyond the term digitisation or digitalisation, which is simply the introduction of digital tools, and captures the shift towards digital transformation as the process of changing the organization. Bharadwaj et al. (2013), also believe that the digital business strategy should not be a mere operational enabler, but a combined strategic approach of IT and business strategy.

Empirical and conceptual studies have identified various organizational outcomes of digital transformation such as new value creation opportunities (Matt et al., 2015; Weill & Woerner, 2015), business model innovation, and new customer engagement opportunities. In a qualitative study of incumbent firms, Warner and Wäger (2019) defined the microfoundations of dynamic capabilities as the activities at the micro level that firms engage in to develop their digital competence: digital scanning, digital learning, and agile working, with agility as one of the key mechanisms of successful digital renewal. The results of (Matarazzo et al., 2021) also substantiate that the digital transformation was the source of customer value creation in small and medium enterprises mainly via the dynamic capabilities that it enabled, not just by itself. However, as warned by Hess, Matt, Benlian and Wiesböck (2016), digital transformation strategies often fall short of expectations because they are not seen as a tool for organizational and strategic change, but rather as a technological project. And this is definitely what this study focuses, since the mechanism between digital transformation and enduring financial results is directly linked.

Strategic Agility

Strategic agility is the ability of an organization to continuously change and adapt its strategic direction in its main business functions, which consists of strategic sensitivity, collective leadership commitment and resource fluidity (Doz & Kosonen, 2010). According to Weber and Tarba (2014), strategic agility involves decision making speed, resource flexibility and quicker perception and reaction to environmental changes compared to other competitors. Sull (2009) also views organizational agility as a capability that enables organizations to identify and exploit opportunities faster than their competitors, stating that agility is now a differentiating factor for the high performing organizations in unstable markets, and that scale and efficiency are not enough to distinguish them.

The concept of agility has been strongly associated with digital capability in information systems research. This suggests that enterprise agility is facilitated by the digitization of processes and infrastructure that augment the organization's ability to sense and respond, and Ravichandran (2018) concluded that while IT competence has direct efficiency benefits, it mostly enhances innovation capacity, which consequently enhances agility. (Rachinger et al., 2019) expanded this thought to the field of business model innovation and identified five drivers of business model innovation that are strongly influenced by digitalization and are related to the agility of decision making processes. Collectively, this literature suggests that strategic agility is not a side effect of digital transformation, but rather a transitional organisational capability in which digital investment is transformed into strategic and operational agility.

Digital Transformation, Strategic Agility and Long-Term Financial Sustainability

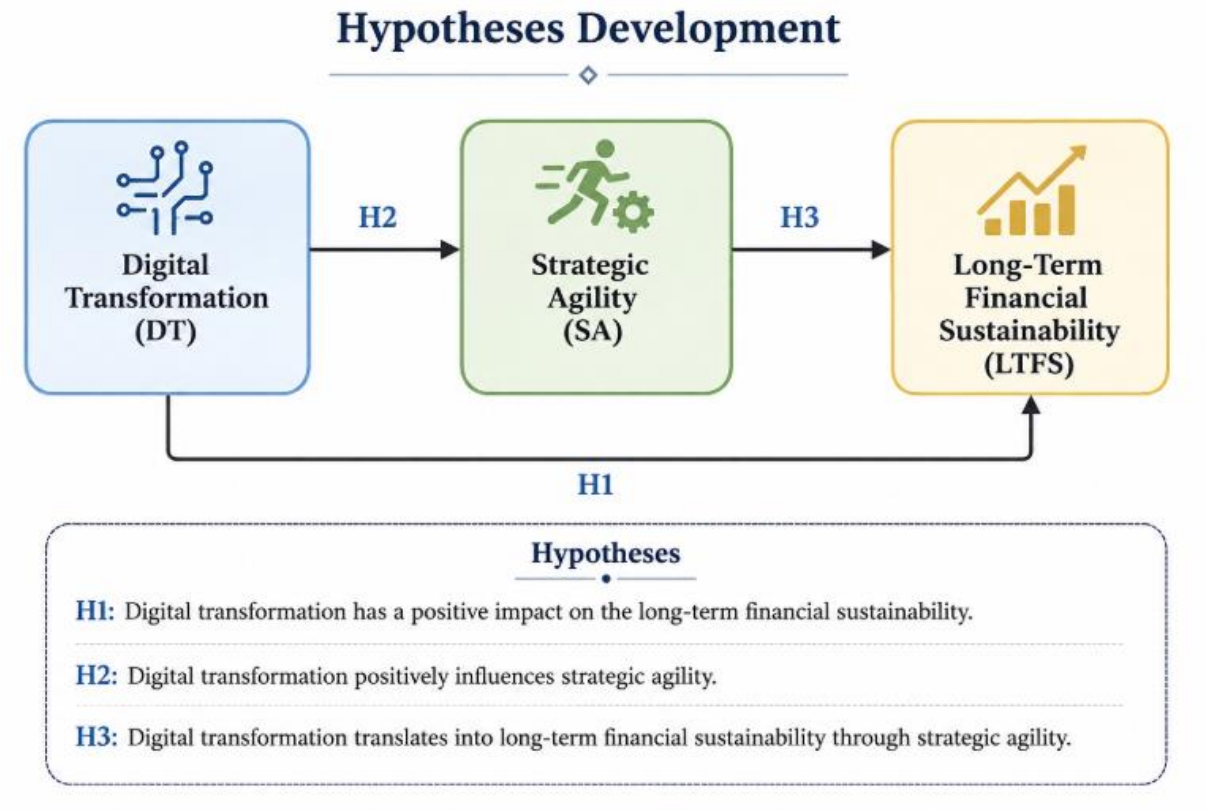
Financial sustainability has come into focus as an indicator that is different from short-term financial performance (Ortiz-de-Mandojana & Bansal, 2016), referring to long-term goals such as sustained profitability, financial resilience, and sustainable competitive advantage. In line with the reconfiguration logic of DCT, Schaltegger and Wagner (2011) observed that firms do not need to optimize their current practices and capabilities, but must continuously rethink and renew them in order to achieve sustainable performance. Chesbrough (2010) also suggests that business model innovation, not just technology, is frequently the limiting factor for generating sustainable financial returns from innovation investments, thus confirming the theoretical premise that the financial returns from digital investments are likely to be sustained by organizational mechanisms, like strategic agility, and not just digital capability.

Drawing from the above mentioned literature on digital transformation, Nadkarni and Prügl (2021) conclude that empirical research on the direct impact of digital transformation on the performance of the firm yields mixed sizes of effects, and they suggest that this is probably due to the fact that the empirical studies sought to determine the impact of digital transformation without measuring the mediating organizational processes. A similar trend is seen in (Fitzgerld et al., 2014), who found that digitally capable companies that have not yet achieved a high level of leadership buy-in and organisational responsiveness experienced significantly less performance benefits compared to digitally mature companies with high strategic co-ordination. All of these results point to the idea that strategic agility acts as a mediator between digital transformation and the long-term financial sustainability, rather than a direct and straightforward technological route.

Hypotheses Development

The following hypotheses are suggested based on the theoretical considerations and findings presented above:

- **H1:** Digital transformation has a positive impact on the long-term financial sustainability.
- **H2:** Digital transformation positively influences strategic agility.
- **H3:** Digital transformation translates into long-term financial sustainability through strategic agility.



Methodology

Research Philosophy

The study was based on the pragmatic positivist research philosophy which acknowledges that organizational phenomena can be objectively measured, with the aim of solving practical business problems by conducting empirical research. The philosophy was deemed to be appropriate since it studied measurable relationships between the three constructs of Digital Transformation, Strategic Agility and the Long-Term Financial Sustainability, through quantitative data obtained from organizational decision makers. The positivist stance allowed the hypotheses to be tested in an objective way, using statistical modeling, and the pragmatic orientation allowed the study's results to be used to provide actionable suggestions for organizations that are implementing digital transformation initiatives.

Research Approach

The study was conducted using a deductive research methodology, the conceptual framework of which was developed based on the Dynamic Capabilities Theory (DCT) and the existing empirical studies related to digital transformation and strategic management. Based on the theoretical arguments and the findings from previous studies, hypotheses were formulated to test the direct effect of Digital Transformation on Long-Term Financial Sustainability, and the indirect relationship between Digital Transformation and Long-Term Financial Sustainability through the mediator of Strategic Agility. The proposed theoretical relationships were then verified with quantitative evidence.

Research Design

A quantitative type research design of explanatory and cross-sectional design was used to explore the proposed relationships between the study variables. The explanation design was correct as the research aimed to explain the role of digital transformation programs in increasing long-term financial sustainability via strategic agility. The cross-sectional survey design allowed organizational data to be gathered in one specific time period and helped to reduce time and cost. The quantitative approach allowed for the statistical estimation of direct and indirect effects by using the Structural Equation Modeling.

Population and Sampling

The target population is senior managers, middle managers, digital transformation specialists, financial managers, and strategic planning executives of medium to large size companies with a digital transformation project completed within the last five years. These respondents were chosen, because they had firsthand experience of the digitalization path of their organizations, strategic decision making processes, and the effects on their financial results. The sampling technique used was stratified purposive sampling which involved sampling across the different manufacturing sectors, banking, telecommunications, healthcare, information technology and service industries. The eligible respondents were first grouped into industry and then the purposive sampling technique was used for selecting respondents from each industry. For the analysis of the questionnaires, a total of 320 valid questionnaires, which is more than the recommended size of questionnaires to be analyzed by the Structural Equation Modeling method, was used. There were 320 questionnaires that were used and were valid, which is more than the minimum number of questionnaires that are recommended in the analysis using the Structural Equation Modeling method so that the analysis is able to give the desired results.

Data Collection Procedure

Structured questionnaires were used to collect primary data which was adapted from internationally validated measurement instruments. The questionnaire was first sent to academics who are experts in digital business and strategic management to validate its content prior to the full-scale survey. To assess the clarity, reliability and consistency of the survey instrument, a pilot study was conducted with 35 managerial respondents. A few changes were made in the questionnaire, based on the feedback received from the participants. The finalized instrument was sent out through professional business networks, corporate e-mail and internet survey services. Participants were asked to participate voluntarily, and confidentiality, anonymity and informed consent were maintained during data collection. Prior to statistical analysis, completed questionnaires were checked for missing data, inconsistencies in answers, and outliers.

Measurement of Variables

All constructs were assessed by using multi-item scales previously validated in the literature in the field of digital transformation and strategic management. Eight items across the dimensions of digital technology adoption, digitalization of business processes, digital innovation, organization's integration of digital platforms, and digital decision-making were used to measure Digital Transformation. Strategic agility was measured on seven items that indicate the organizational's strategic responsiveness, flexibility, quick decision making, adaptability, responsiveness to innovations and environmental sensing. Long-Term Financial Sustainability was assessed with eight indicators pertaining to sustainable profitability, financial resilience, revenue growth, investment capacity, operational efficiency, resource optimization, long-term competitive advantage and financial stability. The scale used for data collection from the respondents was 7 point Likert scale from 1 (Strongly Disagree) to 7 (Strongly Agree). The seven-point scale was chosen because it offers higher level of sensitivity in the responses and is recommended in managerial and strategic management research.

Data Analysis Technique

The collected data were analyzed using AMOS 29 approach of Covariance Based of Structural Equation Modeling (CB-SEM). CB-SEM was chosen because this study aimed to confirm an existing theoretical model and examine the overall model fit while testing a number of structural relationships. The analysis of the data was carried out in two stages. To evaluate the measurement model, Confirmatory Factor Analysis (CFA) was conducted along with the Fornell–Larcker criterion and Heterotrait–Monotrait Ratio (HTMT) to test the standardized factor loadings, Composite Reliability (CR), Cronbach's alpha, Average Variance Extracted (AVE), Maximum Shared Variance (MSV), and discriminant validity. The following goodness of fit indices were used to assess the model fit: Chi-square/df, Comparative Fit Index (CFI), Tucker–Lewis Index (TLI), Goodness-of-Fit Index (GFI), Root Mean Square Error of Approximation (RMSEA), and Standardized Root Mean Square Residual (SRMR). After establishing the measurement model, the structural model was estimated to investigate and test the direct and indirect relationships between constructs. Bootstrapping (5000 samples) and mediation analysis were performed with bias corrected bootstrapping, and significant standardised path coefficients, confidence intervals and p-values were calculated.

Common Method Bias Assessment

The common method bias was minimized by using procedural and statistical techniques given that all variables were measured with the same survey instrument. Respondents were assured of anonymity, the wording of the items was simplified and construct items were presented in various sections of the questionnaire. The use of Harman's single factor test and the full collinearity variance inflation factor (VIF) was used statistically. Those results showed that none of the factors explained a

large proportion of the variance and all values of the VIF were kept below the recommended threshold, indicating that common method bias was not a major concern.

Results

Respondent Profile

Demographic and organizational data for the 320 respondents who were retained for analysis are summarized in Table 1.

Table 1. Demographic Profile of Respondents (N = 320)

Characteristic	Category	Frequency	Percent
Gender	Male	191	59.7%
	Female	129	40.3%
Age	25–34 years	88	27.5%
	35–44 years	121	37.8%
	45–54 years	79	24.7%
	55 years and above	32	10.0%
Industry	Manufacturing	54	16.9%
	Banking / Financial Services	61	19.1%
	Telecommunications	48	15.0%
	Healthcare	45	14.1%
	Information Technology	58	18.1%
	Services	54	16.9%
Position	Senior Manager	74	23.1%
	Middle Manager	96	30.0%
	Digital Transformation Specialist	58	18.1%
	Finance Manager	52	16.3%
	Strategic Planning Executive	40	12.5%
Experience	Less than 5 years	46	14.4%
	5–10 years	118	36.9%
	11–15 years	98	30.6%
	More than 15 years	58	18.1%

Measurement Model Results

A summary of the standardized factor loadings for confirmatory factor analysis, reliability, and validity of each construct is presented in Table 2 and showed that all standardized factor loadings were above the suggested 0.60 and the reliability statistics and the criterion-related validity statistics for each construct were above the recommended criteria.

Table 2. Reliability and Convergent Validity

Construct	Items	Loading Range	Cronbach's α	CR / AVE
Digital Transformation (DT)	8	0.71–0.86	0.912	0.918 / 0.583
Strategic Agility (SA)	7	0.69–0.84	0.887	0.894 / 0.552
Long-Term Financial Sustainability (LTFS)	8	0.72–0.88	0.923	0.927 / 0.595

The discriminant validity of the constructs was evaluated by the square root of the AVE value on the diagonal lines of the table, which exceeded the correlation values with the other constructs in Table 3, and then the HTMT ratio value was examined in Table 4 for each construct, which turned out to be below the conservative value of 0.85.

Table 3. Discriminant Validity — Fornell–Larcker Criterion

Construct	DT	SA	LTFS
Digital Transformation (DT)	0.764		
Strategic Agility (SA)	0.487	0.743	
Long-Term Financial Sustainability (LTFS)	0.512	0.561	0.771

Table 4. Discriminant Validity — HTMT Ratios

Construct Pair	HTMT Ratio
DT ↔SA	0.542
DT ↔LTFS	0.568
SA ↔LTFS	0.601

The discriminant validity was examined by finding out that each latent construct was empirically distinct from the other constructs by using the Fornell–Larcker criterion. As presented in Table 3 the Average Variance Extracted (AVE) square root for each construct was higher than the correlations with all the other constructs. Specifically, Digital Transformation (0.764) had higher correlations with the other variables than Strategic Agility (0.487) and Long-Term Financial Sustainability (0.512). Similarly, the value of AVE for Strategic Agility (0.743) was higher than its correlation with Long-Term Financial Sustainability (0.561). These results indicated that each construct had more variance with its indicators than with other constructs, which means that it has satisfactory discriminant validity based on the Fornell–Larcker criterion.

Further, the Heterotrait-Monotrait (HTMT) ratio was used to make a more stringent assessment of discriminant validity. All of the HTMT values were below the recommended value of 0.85 (and the more liberal value of 0.90) as shown in Table 4: DT–SA (0.542), DT–LTFS (0.568), and SA–LTFS (0.601). The results suggest that the constructs they measure are conceptually and statistically unique from each other and that there were no problems with discriminant validity. The results of the Fornell–Larcker criterion and the HTMT analysis collectively indicate that the measurement model has enough discriminant validity to use the constructs in the next step of the analysis of the structural model and the hypothesis testing.

Model Fit

The structural model demonstrated a satisfactory fit to the data across all evaluated indices, as reported in Table 5.

Several goodness-of-fit indices were used to assess the goodness of the structural model fit for the observed data. The overall satisfactory fit of the model, as presented in Table 5, suggests that the hypothesized relationships between the constructs of the study are in accord with the simulated data. The obtained chi-square to degrees of freedom ratio (χ^2/df) was 2.14, which is lower than the recommended ratio of 3.00, indicating an acceptable level of model parsimony and suggesting that the difference between the observed and estimated covariance matrices was not large.

Additionally, the goodness of fit indices showed that the model was appropriate. The Comparative Fit Index (CFI) value was 0.951 and the Tucker–Lewis Index (TLI) value was 0.943. Both values were higher than the recommended criterion of 0.90, thus indicating a significantly better fit than the null model and a satisfactory explanation of the relationships between the latent constructs. Likewise, the Goodness of Fit Index (GFI) had a value of 0.912 which was greater than the acceptable value of 0.90, meaning that the model had good fit to the observed covariance structure.

The absolute fit indices also indicated the model fit that was satisfactory. The Root Mean Square Error of Approximation (RMSEA) was 0.059, which is smaller than the maximum recommended value of 0.08, and shows that the model is a good approximation to the population covariance matrix, and that the estimation error was relatively small. Similarly, the Standardized Root Mean Square Residual (SRMR) was 0.048 which is below the recommended SRMR cut-off of 0.08, indicating a small average difference between observed and predicted correlations. In general, the goodness-of-fits of the structural model were satisfactory, as showed in the values of χ^2/df, CFI, TLI, GFI, RMSEA, and SRMR. Based on the results, the proposed theoretical framework is found to be suitable for subsequent hypothesis testing and the interpretation of the structural paths because the model is able to represent the relationships between the variables in the study to an acceptable level.

Table 5. Structural Model Fit Indices

Index	Obtained Value	Recommended Threshold
χ^2/df	2.14	< 3.00
CFI	0.951	> 0.90
TLI	0.943	> 0.90
GFI	0.912	> 0.90
RMSEA	0.059	< 0.08
SRMR	0.048	< 0.08

Structural Path and Mediation Results

Table 6 presents the standardized path coefficients, bootstrapped confidence intervals, and hypothesis testing outcomes for the direct, indirect, and total effects.

Table 6. Structural Path Estimates and Mediation Results

Path	β	S.E.	t-value	p-value	95% CI
DT → LTFS (direct)	0.318	0.052	6.12	< .001	[0.221, 0.412]
DT → SA	0.487	0.049	9.94	< .001	[0.392, 0.579]
SA → LTFS	0.401	0.055	7.29	< .001	[0.298, 0.503]
DT → SA → LTFS (indirect)	0.195	0.031	—	< .001	[0.139, 0.256]
Total effect DT → LTFS	0.513	—	—	< .001	[0.421, 0.601]

The direct impact of digital transformation on long-term financial sustainability was positive and was statistically significant, affirming H1. Digital transformation was also significantly and positively related to strategic agility, supporting H2. The indirect effect of digital transformation on strategic agility as a mediator of long term financial sustainability was large and it excluded zero in the bootstrapped confidence interval; the direct effect was also large and significant even after introducing the mediator. This pattern validates H3 of partial mediation.

Discussion

The results corroborate all three hypotheses and add to the empirical evidence about the impact of digital transformation on long-term financial sustainability. Digital capability creates measurable financial value, mainly due to the efficiency gained, broader market reach and better decision-making infrastructure (Bharadwaj et al., 2013; Verhoef et al., 2021), which is reflected in the significant direct impact of digital transformation on long-term financial sustainability (H1). But the size of the direct effect compared to the total effect suggests that although the effect of digital transformation is direct, it is only part of the effect on financial outcomes in the long term, as noted by Nadkarni and Prügl (2021) that direct digital-performance relationships in the literature are generally low and variable.

The results highlight a strong impact of digital transformation on strategic agility (H2) which supports the qualitative finding by Warner and Wäger (2019) that agile working and digital scanning are core microfoundation activities for developing dynamic capabilities for digital transformation. It is also consistent with the proposition of (Overby et al., 2006) that digitized processes increase organizations' sensing and responding capabilities, and Ravichandran's (2018) conclusion that IT competence makes a difference in making organizations agile, beyond just efficiency, by enabling better innovation and responsiveness.

The main theoretical contribution to the study is the partial mediation result (H3). It says that there are two paths to financial sustainability that are enabled by digital transformation; one direct, probably efficiency and cost-related, and another indirect, probably through the ability to sense the market, make fast decisions and re-allocate resources in response to change. This is similar to Doz and Kosonen (2010) who conceptualize strategic agility as a combination of strategic sensitivity, collective commitment and resource fluidity, and to (Fitzgerald et al., 2014) who find that digitally mature companies with low organizational responsiveness gain less performance than companies with high organizational responsiveness. The results also provide empirical evidence for the sensing-seizing–reconfiguring framework developed by Teece (2007): the sensing and seizing capacity seems to be enhanced directly by digital transformation, whereas the reconfiguring capacity is captured as strategic agility that is the step that brings the digital capability to sustained financial resilience.

The results must be interpreted in light of the wider literature which cautions that digital transformation initiatives often fail as technology initiatives and not as change management projects leading to organizational restructuring (Hess et al., 2016; Matt et al., 2015). However, the partial mediation seen here shows that digital investment is also useful when there is no inherent agility, but that any organization aiming to be maximally financially sustainable would need to actively develop strategic sensitivity and the fluidity of resources that agility entails (Weber & Tarba, 2014; Sull, 2009).

Conclusion

The Digital Transformation and Financial Sustainability relationship is explored in this study, with Strategic Agility as a mediating variable, and within the framework of Dynamic Capabilities Theory. Based on data collected from 320 managerial respondents from six industry sectors and Covariance-Based Structural Equation Modeling, the results showed that digital transformation had both direct and indirect impacts, mediated by agility.

Theoretical Implications

The study advances the Dynamic Capabilities Theory by providing an empirical evidence of the difference between digital transformation and strategic agility in the sense-seizing-reconfiguring logic and how they impact sustained financial performance, as a whole, more than their individual action. It also adds to the digital transformation literature by filling the gap in research identified by Nadkarni and Prügl (2021) on the mediators between digital and performance results.

Practical Implications

For managers and strategic decision makers, the findings indicate that investing in digital transformation should be complemented by a conscious strategy for developing strategic agility that comprises having flexible processes for allocating resources, shorter decision cycles for strategic decisions, and organizational structures that enable quicker reconfiguration. Organisations that implement digital transformation solely through the implementation of technology without the necessary investment in organisational responsiveness will achieve only a fraction of the benefits in terms of financial sustainability that they may be able to realize.

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