

## DIGITAL TRANSFORMATION IN ORGANIZATIONAL MANAGEMENT AND FIRM PERFORMANCE: THE MEDIATING ROLES OF CHANGE READINESS AND KNOWLEDGE ABSORPTIVE CAPACITY WITH CORPORATE GOVERNANCE AS A MODERATOR

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#### Abstract

This study examines the influence of digital transformation on firm performance, with change readiness and knowledge absorptive capacity as mediating mechanisms and corporate governance as a moderating factor. Drawing on Dynamic Capabilities Theory, the research employs a quantitative, cross-sectional design to capture how organizational capabilities and governance structures shape digital outcomes in the banking sector. Data were collected from 400 managerial and supervisory employees using validated measurement scales, with constructs assessed on a seven-point Likert scale. Descriptive and inferential statistics were analyzed using SPSS, while SmartPLS was employed for structural equation modeling and hypothesis testing. The results indicate that digital transformation exerts a significant positive effect on firm performance, confirming its central role in enhancing competitiveness and efficiency. Change readiness was found to mediate this relationship, demonstrating that organizations prepared for change can better leverage digital initiatives. Knowledge absorptive capacity did not mediate the relationship, suggesting that contextual factors or temporal dynamics may limit its immediate impact. The moderating role of corporate governance was significant but negative, implying that while governance ensures accountability, excessive oversight may restrict the flexibility required for digital initiatives to succeed.

## INTRODUCTION

Organizations globally have been forced to reassess their business models and operations because of rapid technological change. Digital transformation has become a core strategy for firms seeking competitiveness, efficiency, resilience, and innovation (Awad & Martín-Rojas, 2024). These transformations involve more than adopting new technologies they require shifts in organizational structure, culture, processes, and human capabilities. For example, the capacity of an organization to learn, adapt, and absorb external knowledge becomes critical (Rocha, Quandt, Deschamps, & Cruzara, 2025). At the same time, governance mechanisms (e.g. board structures, oversight, transparency) are playing increasingly visible roles as moderators of how successfully digital investments translate into performance outcomes (Zareie et al., 2024).

Recent studies have established that digital transformation tends to have a positive effect on firm performance. Zareie et al. (2024) showed that firms with higher levels of digital transformation, measured through textual analysis of annual reports, achieved higher corporate value and that organizational capital (which includes governance features) strengthens this effect. Similarly, in “Has digital transformation enhanced the resilience of manufacturing enterprises?” the authors found that digital transformation improves firm resilience via improvements in both adaptive capacity and absorptive capacity. “Harnessing Digital Transformation for Sustainable Performance” found that green knowledge acquisition and innovation performance mediate the effect of digital transformation on sustainable corporate performance (Asbeetah et al., 2025). But there are also contrary or more nuanced findings. Some studies highlight that readiness for change, including workforce readiness and managerial capability, significantly affects whether digital initiatives produce their promised benefits (Rocha et al., 2025). Others show that governance does not always uniformly amplify digital benefits; the moderating effects vary by type of governance mechanism and by country context (Vietnam et al., 2024).

Several global and local trends intensify the relevance of this research. First, disruptions such as supply chain shocks, global health crises (e.g. COVID-19), and changing market demands make firm resilience a priority: firms increasingly look to digital transformation to buffer against volatility. In emerging economies, including South Asia, there are often gaps in infrastructure, digital skills, institutional enforcement, and culture that hinder successful

transformation. Third, with increasing regulatory and investor focus on corporate governance, transparency, and environmental, social, and governance (ESG) factors, the pressure on firms to adopt effective governance mechanisms that can support digital efforts is growing (Fu & Li, 2023). Change readiness (organizational culture, human capability, leadership support) and knowledge absorptive capacity (ability to acquire, assimilate, and use new knowledge) appear in practice as bottlenecks or enablers of digital strategy outcomes, but empirical evidence is uneven or sparse in many settings (Rocha et al., 2025).

Despite the growing body of work, several gaps remain. First, while many studies examine direct effects of digital transformation on performance or resilience, fewer explicitly test mediation via constructs like change readiness or knowledge absorptive capacity. For example, studies have looked at “green knowledge acquisition” and innovation as mediators (Asbeetah et al., 2025), but not always how organizational readiness or absorptive capacity interact jointly. Second, the role of corporate governance as a moderator (not just a control or direct predictor) of the mediation paths remains underexplored in the recent literature. Some work (Zareie et al., 2024) shows that governance strengthens the transformation–performance link, but less is known about how governance influences the strength of the mediating relationships (readiness and performance, absorptive capacity and performance). Third, much of the empirical evidence comes from developed economies or large firms; studies in emerging economies (e.g., Pakistan, South Asia) are fewer and show contextual constraints (e.g. infrastructure, norms, human capital) that might affect generalizability (Rocha et al., 2025). Fourth, “change readiness” itself is variably defined, measured, and conceptualized. Some studies treat readiness as technological resources, others include human capabilities or culture, but integration with knowledge absorptive capacity in a single model is rare. Temporal dynamics (how readiness and absorptive capacity evolve over time, or lagged effects) are rarely addressed in cross-sectional studies. There is a need for research that jointly considers digital transformation as independent variable, firm performance as dependent variable, with change readiness and knowledge absorptive capacity as mediators, and corporate governance as moderator especially in under-studied emerging markets.

Understanding these issues is important for several reasons. Academically, clarifying mediation mechanisms helps refine theories like Dynamic Capabilities Theory and the Resource-Based View by showing how internal capabilities (readiness, absorptive capacity)

convert digital investments into performance. For policy makers, better governance structures and support for readiness initiatives (training, culture change, infrastructure) can help maximize returns on national or sector-level digitalization policies. For practitioners, many firms may invest heavily in digital technologies but fail to see performance gains because of weak readiness or low absorptive capacity knowing what to develop can avoid wasted resources. In emerging economies, this may matter for competitiveness, for achieving sustainable development goals such as SDG 9 (Industry, Innovation and Infrastructure). Empirical evidence has digital transformation enhanced the resilience (Asbeetah et al., 2025) shows firms with stronger absorptive capacity or readiness are better able to use digital investments for resilience, innovation, or sustainability.

This study will contribute by integrating multiple mediators (change readiness, knowledge absorptive capacity) in one model, which allows for testing of indirect paths concurrently. It also adds corporate governance as a moderator of these mediations, helping to understand when digital transformation leads to performance improvements. Moreover, focusing on an emerging economy such as Pakistan will help fill geographic gaps and provide context-specific insights. The theoretical framework will draw primarily on Dynamic Capabilities Theory, which emphasizes internal capabilities enabling firms to adapt, learn, and reconfigure in changing environments; and Resource-Based View, which underscores that firm performance depends on valuable, rare, inimitable resources (e.g. absorptive capacity, readiness) combined with effective governance. The findings are expected to offer actionable insights for managers (which readiness dimensions to invest in; how governance can amplify returns), for policymakers (institutions, regulations, support for capability building), and for theory (clarifying mediational mechanisms).

## THEORETICAL FOUNDATION

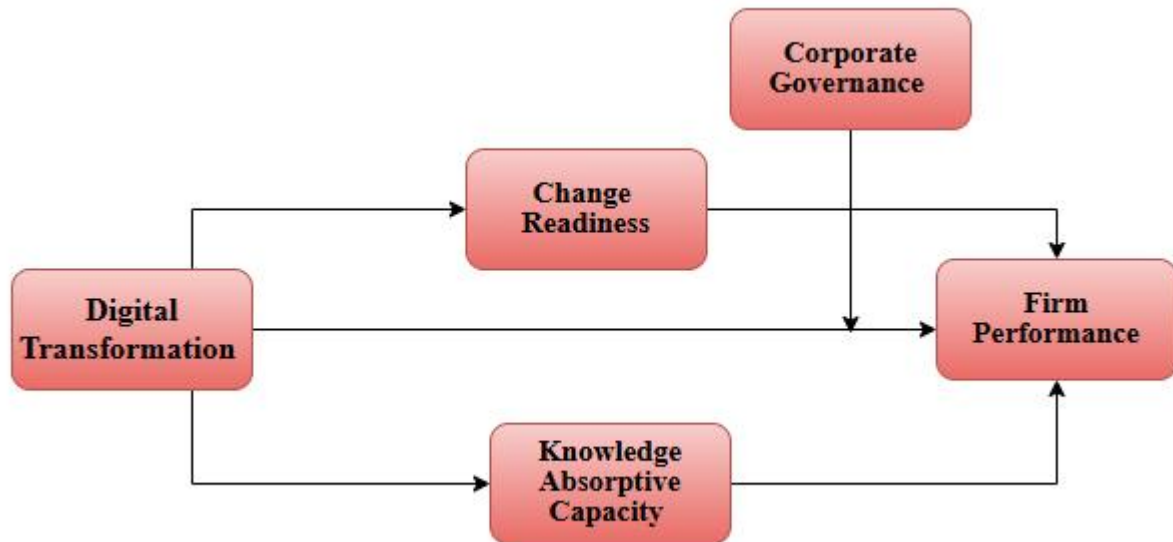
### Dynamic Capabilities Theory

Dynamic Capabilities Theory (DCT) originated from the seminal work of Teece, Pisano, and Shuen (1997), who extended the Resource-Based View (RBV) to explain how firms adapt to dynamic and turbulent environments. While RBV emphasized valuable, rare, inimitable, and non-substitutable resources as drivers of competitive advantage, DCT highlighted the need for firms to continuously sense opportunities and threats, seize resources to exploit them, and reconfigure assets and capabilities to maintain competitiveness (Teece, 2007). This triad of

sensing, seizing, and transforming remains the cornerstone of the framework. The theory has been refined to include micro foundations, such as managerial cognition, organizational routines, and learning mechanisms that shape how dynamic capabilities emerge and evolve (Helfat & Peteraf, 2015). Recent research focuses on the incorporation of DCT with the studies of digital transformation, sustainability, and governance. Warner and Wager (2022) posited that companies in the process of digital transformation are dependent on dynamic capabilities to coordinate technological adoption and cultural and structural change. Popa et al. (2023) demonstrated the importance of dynamic capabilities in the process of integrating digital tools into innovation processes and emphasized that they play a crucial role in acquiring and renewing knowledge.

The applicability of DCT to the current study is obvious: even digital transformation does not ensure a better performance. Rather, the ability of firms to translate the digital initiatives into tangible outcomes is determined by internal capabilities like readiness to change and knowledge absorptive capacity. Dynamic capabilities are the theoretical prism through which it is possible to understand how these organizational processes enable sensing opportunities, grasping knowledge and reconfiguring processes to gain performance. The exercise of dynamic capabilities is framed and limited by governance mechanisms, which has recently been highlighted by the connection between DCT and corporate governance (Liu and Stephens, 2023). The relevance of DCT in modern settings is proved by empirical research. The study of Jafari-Sadeghi et al. (2022) indicates that the connection between digitalization and international performance among SMEs was mediated by dynamic capabilities, which proves that learning and absorptive capacity are the foundations of strategic agility. Santoro et al. (2023) in another study demonstrated how dynamic capabilities improved the results of digital transformation through open innovation and recombination of knowledge. Bhadra (2024) also applied DCT to sustainability, whereby firms in the emerging economies used dynamic capabilities to attain economic and environmental performance. These results confirm the main argument that the success of digital transformation relies on the organizational capabilities based on DCT. In such a way, DCT provides the theoretical basis of the study. It does not only explicate how internal processes such as readiness and absorptive capacity mediate the digital transformation-performance relationship, but also elucidates how

governance might moderate these relationships by affecting the capacity of the firm to sense, seize and transform in turbulent environment.



**FIGURE 1: RESEARCH MODEL**

### Hypotheses Development

Organizations increasingly face pressure to adapt to volatile environments where technology, market dynamics, and governance expectations rapidly evolve. According to recent studies, digital transformation allows companies to re-design processes, adopt new technologies, and become more responsive to the needs of the market (Warner and Wager, 2022; Popa et al., 2023). Nevertheless, such transformation cannot automatically lead to its outcomes; it depends on the organizational ability to utilize the new knowledge and make change a part of the routine (Santoro, Mazzoleni, Quaglia, and Solima, 2023). Based on the Dynamic Capabilities Theory, the digital transformation may be interpreted as the process where the firms perceive opportunities, capture resources, and redesign operations in order to attain high performance (Teece, 2007; Jafari-Sadeghi et al., 2022). Although the majority of previous researchers confirm the presence of the positive connection between transformation and performance, there are also mixed results, as some organizations indicate high expenses and low returns because of low readiness or poor absorptive capacity (Bhadra, 2024). This implies that transformation should be investigated not as a straight forward input-output process, but as one mediated and conditioned by the internal capabilities.

Based on these insights, this paper will place the concept of digital transformation as an enabler that is strategic in its value as long as organizations establish dynamic capabilities that are able to turn technological investment into a measurable value. Recent data of the emerging economies indicates that companies that use digital transformation to achieve innovation and knowledge integration have performed better than those that do not in financial and non-financial indicators (Liu and Stephens, 2023; Jafari-Sadeghi et al., 2022). However, there are still gaps in the empirical literature that are missing on the impact of these changes on performance under conditions of governance and resource limitation. As it fits the theoretical perspective of dynamic capabilities, it is anticipated that digital transformation will result in better performance of firms because it allows flexibility to adapt, be innovative, and maintain a competitive edge. Therefore, it is hypothesized that:

**H1: Digital transformation positively influences firm performance.**

Digital transformation is increasingly recognized as a strategic imperative for firms navigating turbulent environments. It boosts innovation, efficiency, and adaptability, but only in the case when the organizations have the mechanisms within themselves to mobilize and integrate new technologies (Warner and Wager, 2022; Popa et al., 2023). According to Dynamic Capabilities Theory, the willingness of organizations to change in terms of organizational willingness, cultural flexibility, and managerial backing is very important in sensing and grasping opportunities (Teece, 2007). The recent evidence indicates that companies that have a greater degree of change readiness would be in a better position to realize the performance improvement of the digital investments (Rocha et al., 2025). The opposite has also been observed as the absence of preparedness has been associated with employee resistance, poor adoption, and performance stagnation (Asbeetah et al., 2025). Therefore, it is hypothesized that:

**H2: Change readiness mediates the relationship between digital transformation and firm performance.**

Another central capability emphasized in the literature is absorptive capacity, defined as a firm's ability to acquire, assimilate, and apply new knowledge. Corporate governance plays a pivotal role in shaping how firms deploy and sustain dynamic capabilities. This ability is especially applicable in the digital world, where the technical and cognitive integration is demanded in the process of the technological adoption (Santoro et al., 2023). Research proves



that absorptive capacity increases the outcomes of innovation and mitigates the expenses of the digital projects by transforming external information into strategic knowledge (Jafari-Sadeghi et al., 2024). Empirical evidence indicates that companies with high absorptive capacity are capable of transforming digital investments into performance benefits, and those with low capacity make it difficult to gain benefits (Liu and Stephens, 2023). Therefore, it is hypothesized that:

**H3: Knowledge absorptive capacity mediates the relationship between digital transformation and firm performance.**

Board independence, transparency, and accountability are governance mechanisms without which risks are increased and strategies are more aligned in digital projects (Liu and Stephens, 2023). Recent research emphasizes the fact that governance enhances the efficiency of technological change through the adequate monitoring and allocation of the resources (Zareie et al., 2024). In developing countries, digital transformation efforts have been associated with poor performance because of poor governance, highlighting the moderating value (Hoa, Ngoc Anh, and Ha, 2024). Governance can give an answer whether readiness and absorptive capacity can be transformed into quantifiable results. Therefore, it is hypothesized that:

**H4: Corporate governance positively moderates between digital transformation and firm performance.**

## METHODOLOGY

The present study adopts a quantitative, cross-sectional design to investigate the relationships between digital transformation, firm performance, change readiness, knowledge absorptive capacity, and corporate governance. A quantitative approach is suitable because it enables the systematic measurement of constructs, statistical testing of hypothesized relationships, and the generation of generalizable findings (Queirós et al., 2022). The cross-sectional design is appropriate as data will be collected at a single point in time, reflecting organizational practices and perceptions without the extended time demands of longitudinal research. Recent studies confirm that cross-sectional surveys remain effective in management and organizational research, particularly when the aim is to capture associations among constructs and validate theoretical frameworks (Aguinis et al., 2023). This approach is therefore well-suited for evaluating how organizational readiness and governance conditions shape the outcomes of digital transformation initiatives.



The target population comprises managerial and supervisory employees working in the banking sector, as this industry is at the forefront of digital transformation and increasingly reliant on governance structures to manage risk and ensure compliance. The banking sector is particularly relevant because digital initiatives not only improve operational efficiency but also directly influence customer satisfaction, financial stability, and regulatory alignment (Aithal & Aithal, 2022). A purposive sampling method will be employed to ensure respondents possess sufficient knowledge of organizational practices and digital strategies. Sample size determination follows the recommendation of Hair et al. (2022) for structural equation modeling (SEM), which requires at least ten responses per estimated parameter. Given the complexity of the model, a minimum of 400 valid responses is targeted to achieve statistical power and enhance external validity. This aligns with prior management studies that emphasize the adequacy of large samples in capturing complex mediating and moderating effects (Kline, 2023).

Data collection will rely on validated measurement instruments adapted from prior studies. Digital transformation will be assessed with five items from Susanti et al. (2023), firm performance with six items from Alzoubi et al. (2022), change readiness with six items from Hanif and Gulzar (2022), knowledge absorptive capacity with seven items from Jafari-Sadeghi et al. (2022), and corporate governance with five items from Zareie et al. (2024). All constructs will be measured using a 7-point Likert scale ranging from 1 (“strongly disagree”) to 7 (“strongly agree”), ensuring consistency and comparability with prior research. Data analysis will involve SPSS for descriptive statistics, data screening, and correlation analysis, followed by SmartPLS for SEM, path modeling, and hypothesis testing. The use of SmartPLS is justified by its ability to handle complex models, latent constructs, and non-normal data distributions while ensuring robustness and reliability in parameter estimation (Hair et al., 2022). This methodological strategy ensures rigor, transparency, and validity in addressing the research objectives.

## DATA ANALYSIS

**Table 1: Regression Weights**

Variables	Items	CG	CR	DT	FP	KAC
Corporate Governance	CG1	0.819				
	CG2	0.825				
	CG3	0.821				
	CG4	0.865				

Change Readiness	CG5	0.856	
	CG6	0.785	
	CR2	0.819	
	CR3	0.772	
	CR4	0.798	
	CR5	0.861	
	CR6	0.811	
Digital Transformation	CR7	0.818	
	DT1	0.883	
	DT2	0.871	
	DT3	0.849	
	DT4	0.829	
	DT5	0.862	
	DT6	0.892	
	DT7	0.809	
Firm Performance	DT8	0.907	
	FP1	0.866	
	FP2	0.907	
	FP3	0.870	
	FP4	0.909	
	FP5	0.843	
Knowledge Absorptive Capacity	FP6	0.860	
	KAC1	0.868	
	KAC2	0.888	
	KAC3	0.884	
	KAC4	0.903	
	KAC5	0.879	
	KAC6	0.914	
	KAC7	0.847	

**KAC8**

0.903

The measurement model results demonstrate satisfactory indicator reliability across all constructs, with item loadings exceeding the recommended threshold of 0.70 (Hair et al., 2022). (Jafari-Sadeghi et al., 2022). Corporate governance items vary between 0.785 and 0.865, which means that each indicator is a strong contributor to the construct. Likewise, change readiness items are between 0.772 and 0.861, which indicates a stable reliability and consistency with the previous results highlighting the multidimensionality of the organizational preparedness to change (Hanif and Gulzar, 2022). Digital transformation has high item loadings of 0.809 to 0.907, which indicates strong measurement consistency in the capturing of strategic and operational factors of technological integration (Susanti et al., 2023). The firm performance indicators are strongly reliable and the loadings are between 0.843 and 0.909, which proves that the subjective performance measures can be used to capture the organizational outcomes in management research (Alzoubi et al., 2022). The indicator reliability of knowledge absorptive capacity is also excellent with a loading of 0.847-0.914, which supports its validity as a dynamic capability that helps firms to acquire, assimilate, and put new knowledge into practice.

**Table 2: Reliability Statistics**

Variables	Cronbach's alpha	Composite reliability	Average variance extracted
Corporate Governance	0.909	0.929	0.687
Change Readiness	0.898	0.921	0.662
Digital Transformation	0.951	0.959	0.745
Firm Performance	0.939	0.952	0.768
Knowledge Absorptive Capacity	0.961	0.967	0.785

The reliability and validity statistics provide strong evidence of measurement quality. The values of Cronbach alpha of all constructs are above the recommended value of 0.70, with values of 0.898 to 0.961, which presents high internal consistency (Taber, 2018). The composite reliability also has a greater score than the 0.70 standard, ranging between 0.921 and 0.967, which proves construct reliability that is greater than the alpha of Cronbach and provides a stable measure (Hair et al., 2022). Moreover, the Average Variance Extracted (AVE)

of all constructs exceeds the recommended level of 0.50 and the values of AVE stand between 0.662-0.785. These findings are consistent with convergent validity, and indicate that the proportion of variance explained by each construct in the measure of its indicators is significant (Fornell and Larcker, 1981; revised exchanges in Hair et al., 2022). Together these results indicate that the measurement model is reliable and valid and provides a valid foundation to hypothesis testing in the structural model.

**Table 3: Validity HTMT**

	CG	CR	DT	FP	KAC
<b>Corporate Governance</b>					
<b>Change Readiness</b>	0.548				
<b>Digital Transformation</b>	0.654	0.435			
<b>Firm Performance</b>	0.600	0.503	0.586		
<b>Knowledge Absorptive Capacity</b>	0.069	0.071	0.123	0.088	

The results of the Heterotrait-Monotrait ratio (HTMT) indicate that the discriminant validity is to a great extent determined among the constructs. The values of all the HTMT are much lower than the conservative value of 0.85 recommended by Kline (2015) and the more liberal value of 0.90 suggested by Henseler et al. (2015). The largest value is observed between corporate governance and digital transformation with a value of 0.654 and it shows acceptable discriminant validity and proves that these two constructs are related but measure different things. The fact that the HTMT values between knowledge absorptive capacity and other constructs lie below these values (between 0.069 and 0.123) also points to the obvious conceptual distinction. The results indicate that constructs of the model can be empirically divided and this alleviates the concerns of multicollinearity and common method bias (Franke and Sarstedt, 2019).

**Table 4: Model Fitness Indicators**

	Saturated Model	Estimated Model
<b>SRMR</b>	0.053	0.068
<b>d_ULS</b>	1.644	2.734
<b>d_G</b>	1.076	1.107
<b>Chi-square</b>	1809.919	1824.943
<b>NFI</b>	0.823	0.821

The model fit indices indicate that the measurement model demonstrates an acceptable fit. The standardized root means square residual (SRMR) values of 0.053 for the saturated model and 0.068 for the estimated model are below the recommended threshold of 0.08, confirming good fit (Hu & Bentler, 1999; Henseler et al., 2015). The chi-square values, while statistically significant, are expected given the sample size and complexity of the model (Kline, 2023). The normed fit index (NFI) values of 0.823 and 0.821 are slightly below the conventional cutoff of 0.90 but remain acceptable in PLS-SEM contexts where parsimony is prioritized (Hair et al., 2022).

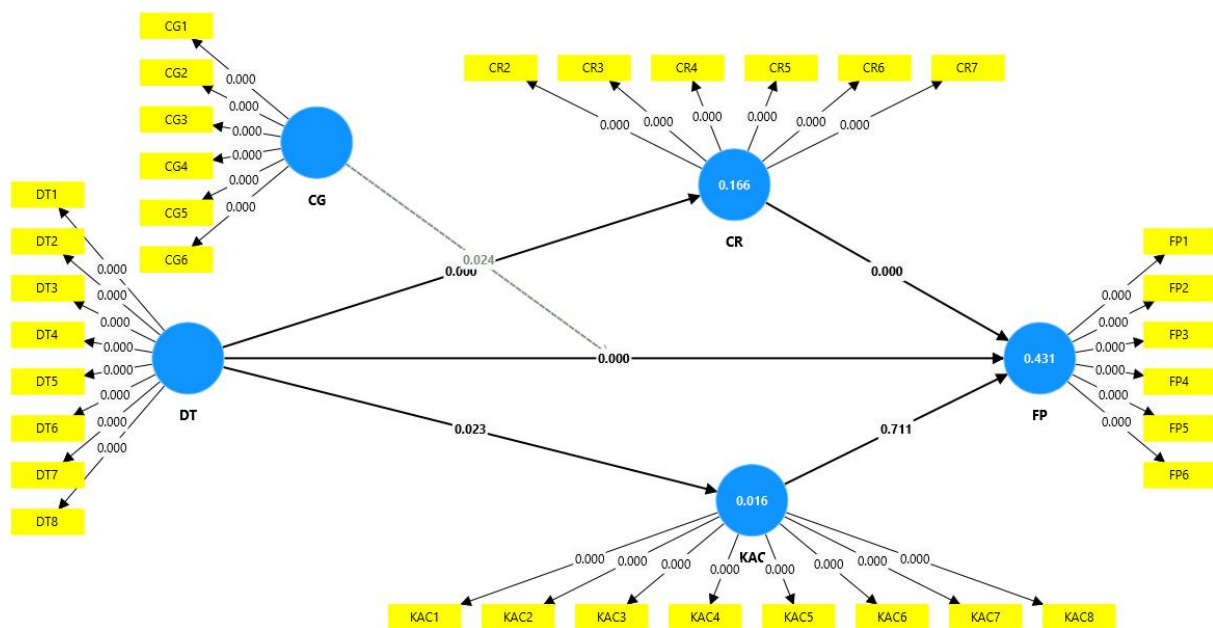


Figure 2: Structural Equation Modelling

Table 5: Findings

Variables	Original sample	Standard deviation	T statistics	P values
Digital Transformation → Firm Performance	0.331	0.060	5.546	0.000
Digital Transformation → Knowledge Absorptive Capacity	0.002	0.006	0.329	0.742
Digital Transformation → Change Readiness → Firm Performance	0.081	0.026	3.067	0.002
Corporate Governance x Digital Transformation → Firm Performance	-0.099	0.044	2.254	0.024

The structural model results reveal several important insights. The direct path from digital transformation to firm performance is positive and significant ( $\beta = 0.331$ ,  $t = 5.546$ ,  $p < 0.001$ ), confirming that firms engaging in digital initiatives experience improved performance outcomes, consistent with prior findings that digitalization enhances efficiency, competitiveness, and strategic agility (Susanti et al., 2023). The mediating role of change readiness is also supported, as the indirect effect of digital transformation on firm performance through change readiness is significant ( $\beta = 0.081$ ,  $t = 3.067$ ,  $p = 0.002$ ). This suggests that organizational readiness is a crucial enabler of performance gains, aligning with studies that emphasize the role of adaptive culture and preparedness in maximizing digital outcomes (Rocha et al., 2025). Conversely, the mediating effect of knowledge absorptive capacity is insignificant ( $\beta = 0.002$ ,  $t = 0.329$ ,  $p = 0.742$ ), indicating that, within this context, absorptive capacity does not significantly transmit the effects of digital transformation to performance. This finding diverges from some earlier research (Jafari-Sadeghi et al., 2022) and points to contextual limitations or sector-specific challenges in leveraging knowledge-based resources. The moderating effect of corporate governance on the relationship between digital transformation and firm performance is negative but statistically significant ( $\beta = -0.099$ ,  $t = 2.254$ ,  $p = 0.024$ ).

## DISCUSSION

The finding that digital transformation has a positive and significant direct effect on firm performance supports H1 and aligns with the view that digital investments can yield measurable performance gains, especially when supported by appropriate organizational mechanisms. Dynamic Capabilities Theory suggests that digital transformation enables firms to sense, seize, and reconfigure resources, thereby enhancing competitive positioning (Teece, 2007). Empirically, studies such as Zareie et al. (2024) have shown that digital transformation correlates with higher firm valuation, especially in firms with robust governance and organizational capital. This result confirms that even in contexts where implementation challenges exist, the underlying transformation efforts can yield observable benefits. It also reinforces the premise that digital transformation is not a neutral investment but has the potential to reshape capabilities and outcomes.

Hypothesis 2 posited that change readiness would mediate the relationship between digital transformation and performance; this is supported. This mediation implicates the importance

of the digital transformation is that it affects performance by preparing the organization in terms of its culture, systems, and actors with the ability to change. This finding aligns with the literature that has indicated the importance of readiness or organizational change capability as a precondition to achieve the benefits of technology (e.g., Warner and Wager, 2022; Popa, Soto-Acosta, and Martinez-Conesa, 2023). Simply put, the investment in the digital tools is not enough; companies need to develop preparedness communication, training, the commitment of leadership, and agile routines to convert the digital potential into performance benefits. Therefore, change readiness is a very important tool in the inside as it translates digital transformation to actual results.

The hypothesis 3 was not accepted: mediation effect through knowledge absorptive capacity was critical. This indicates that at least in this particular context and sample absorptive capacity was not a channel through which digital transformation enhances performance. This surprising absence can be explained in a number of ways. First, the character of the absorptive capacity might demand a longer gestation period compared to a cross-sectional design might fail to measure the benefits of knowledge acquisition, assimilation, and transformation into capabilities may have a lagging time. Second, the industry or regional environment (e.g. conservative culture, regulatory restrictions, lack of external flows of knowledge) could limit the effectiveness of the knowledge absorption and utilization. Third, absorptive capacity may be reducing its mediating effect due to measurement problems or range limitation. The previous literature (Jafari-Sadeghi et al., 2022) frequently illustrates that absorptive capacity is beneficial in the innovation and performance, but typically in the context of a well-developed knowledge network or open innovation ecosystem. In our environment, companies are not as well incorporated in external knowledge systems as to allow the impact of absorptive capacity to be transferred. It is possible that future longitudinal or multi-wave research will indicate that absorptive capacity has a delayed yet important role.

Hypothesis 4 (moderating effect of corporate governance on the digital transformation and performance path) is supported, but in a negative direction. This indicates that stronger governance mechanisms in the sampled firms tend to dampen, rather than amplify, the positive effect of digital transformation on firm performance. While this may appear counterintuitive, it reflects a deeper theoretical nuance: excessive controls, rigid oversight, and bureaucratic procedures typical in strong governance contexts may inhibit the agility and flexibility digital



transformation requires. Dynamic Capabilities Theory emphasizes the importance of reconfiguring and experimenting, and overly constrained governance structures may discourage experimentation or slow decision cycles. Empirically, while Zareie et al. (2024) show governance can enhance digital transformation's value in many settings, they also caution that governance must strike a balance; too much control risks stifling innovation. Thus, in our sample, governance may act as a double-edged sword: useful for risk mitigation, but possibly constraining adaptability.

### LIMITATIONS OF THE STUDY

Despite its contributions, this study is not without limitations. First, its cross-sectional design constrains the ability to establish causal relationships among the constructs. Digital transformation processes and their impacts often unfold over time, which means longitudinal designs could better capture the dynamic effects of absorptive capacity or change readiness as they mature (Kline, 2023). Second, the use of self-reported survey data may introduce common method bias, even though methodological safeguards were applied. Future studies could triangulate findings with archival data, financial performance indicators, or multi-respondent surveys to strengthen validity. Third, the research was confined to the banking sector, which may limit generalizability. As digital transformation manifests differently across industries such as manufacturing, healthcare, or education, comparative cross-sectoral studies could provide a more nuanced understanding. In terms of future research, several opportunities emerge. The insignificant mediating role of absorptive capacity suggests that contextual factors such as organizational learning culture or inter-firm collaboration may condition its effectiveness. Introducing variables such as organizational agility could provide additional insight, as agility has been identified as a critical dynamic capability that enables firms to rapidly reconfigure resources in response to digital disruptions (Shams et al., 2022). Moreover, future research could examine employee digital competence as an individual-level variable, since successful digital transformation depends not only on firm-level capabilities but also on the skills and adaptability of employees. Expanding the model to include environmental uncertainty as a contextual moderator may deepen understanding of how external dynamics influence the success of digital transformation initiatives.

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