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## Digital Business Transformation and Its Impact on Organizational Performance in the Banking Industry: The Mediating Role of Digital Capability and Employee Adaptability

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**Abstract:** Advances in digital technology are driving the banking industry to undertake business transformation to improve organizational performance. This study aims to analyze the influence of digital business transformation on organizational performance, with digital capabilities and employee adaptability as mediating variables. The study used a quantitative approach through a survey of banking employees involved in digital transformation. Data were analyzed using Structural Equation Modeling (SEM). The results show that digital business transformation has a positive and significant impact on organizational performance, as well as improving employee digital capabilities and adaptability. Both variables also positively influence organizational performance and act as partial mediators in the relationship between digital business transformation and organizational performance. These findings indicate that the success of digital transformation depends not only on technology investment but also on strengthening employee digital capabilities and adaptability. This study provides an empirical contribution to the development of digital transformation studies in the banking sector and provides input for bank management in improving organizational performance sustainably.

**Keyword:** Digital Business Transformation, Digital Capability, Employee Adaptability, Organizational Performance, Banking Industry.

### INTRODUCTION

The banking industry has undergone profound transformation over the past decade due to rapid advances in digital technology, changing customer expectations, and increasing competitive pressure from fintech companies and digital-native financial services. Banks are no longer competing solely on traditional factors such as branch networks and financial products, but increasingly on their ability to deliver efficient, secure, and customer-oriented

digital services. Empirical evidence shows that digital transformation has become a strategic priority for banks worldwide, as it directly affects operational efficiency, service quality, and long-term organizational performance (Vial, 2019; Verhoef et al., 2021).

In the banking sector, digital business transformation refers to the integration of digital technologies into core business processes, organizational structures, and service delivery models. This transformation includes the adoption of digital banking platforms, automation of internal processes, data-driven decision-making, and the redesign of customer interaction channels. Studies indicate that banks that successfully implement digital transformation are more capable of improving cost efficiency, enhancing customer experience, and achieving superior performance outcomes compared to those that rely on conventional operating models (Bharadwaj et al., 2013; Vial, 2019).

However, empirical studies also suggest that digital transformation initiatives do not automatically lead to improved organizational performance. Many banks invest heavily in digital technologies but fail to achieve expected performance gains due to limited organizational readiness and human resource constraints. Research in strategic management emphasizes that technology alone is insufficient; organizational performance improvements depend on the development of complementary capabilities that enable effective use of digital technologies (Teece, 2018). In the banking context, this highlights the importance of digital capability as an organizational resource that supports the successful execution of digital transformation strategies.

Digital capability reflects an organization's ability to deploy, integrate, and leverage digital technologies to support business objectives. In banking institutions, digital capability encompasses technological infrastructure, data analytics competence, process integration, and digital governance mechanisms. Empirical evidence indicates that banks with strong digital capabilities are better positioned to translate digital transformation efforts into improved performance, as they can adapt business processes more effectively and respond to market changes more rapidly (Warner & Wäger, 2019; Verhoef et al., 2021).

In addition to organizational capabilities, employee-related factors play a crucial role in determining the outcomes of digital transformation. Employee adaptability refers to employees' willingness and ability to adjust their skills, behaviors, and work practices in response to digital change. In highly regulated and knowledge-intensive sectors such as banking, employees are required to continuously learn new technologies, adapt to digital workflows, and embrace new service models. Prior empirical studies show that employee adaptability significantly influences the success of digital transformation initiatives and mediates the relationship between technological change and organizational performance (Pulakos et al., 2019; Shin et al., 2020).

Despite the growing body of literature on digital transformation, several gaps remain. Many existing studies focus on technological adoption or customer-related outcomes, while fewer studies empirically examine the internal organizational mechanisms through which digital business transformation affects performance in the banking industry. In particular, the mediating roles of digital capability and employee adaptability have not been sufficiently integrated into a single analytical framework. Moreover, empirical research that simultaneously considers strategic, technological, and human resource perspectives in the banking context remains limited, especially in emerging economies where digital transformation is progressing rapidly.

Based on these considerations, this study aims to examine the impact of digital business transformation on organizational performance in the banking industry, with digital capability and employee adaptability positioned as mediating variables. By integrating organizational capability and employee adaptability into the digital transformation–performance relationship, this study seeks to provide a more comprehensive explanation of how digital

transformation initiatives contribute to performance outcomes in banking institutions. The findings are expected to contribute to the development of digital transformation and strategic management literature, while also offering practical insights for bank managers in designing and implementing effective digital transformation strategies.

## **METHOD**

### **Research Design**

This study employed a quantitative research design with an explanatory approach to examine the impact of digital business transformation on organizational performance in the banking industry, with digital capability and employee adaptability as mediating variables. An explanatory design was chosen to test causal relationships among latent variables within a structured analytical framework. The survey method was applied because it is widely used in digital transformation and organizational performance research and allows the collection of standardized data from a large number of respondents (Vial, 2019; Verhoef et al., 2021).

### **Research Object**

The research object consisted of five national banking institutions in Indonesia, namely Bank Negara Indonesia (BNI), Bank Mandiri, Bank Rakyat Indonesia (BRI), Bank Tabungan Negara (BTN), and Bank Syariah Indonesia (BSI). These banks were selected because they represent major players in the Indonesian banking sector and have actively implemented digital business transformation initiatives in their service delivery and operational processes.

### **Population**

The population of this study comprised platinum savings customers of the selected banks. Respondents were required to meet the following criteria:

- (1) have been platinum savings customers for at least three years, and
- (2) remain actively transacting using banking services, including digital banking channels.

These criteria ensured that respondents possessed sufficient experience and familiarity with digital banking services to evaluate digital business transformation, digital capability, employee adaptability, and perceived organizational performance.

The population size for each bank was as follows:

- a) BNI: 1,500 customers
- b) Bank Mandiri: 2,017 customers
- c) BRI: 1,100 customers
- d) BTN: 970 customers
- e) BSI: 550 customers

The total population across the five banks amounted to 6,137 customers.

### **Sample Size and Sampling Technique**

The sampling technique used in this study was proportional purposive sampling. Respondents were selected based on predefined criteria related to customer tenure and transaction activity. Proportional allocation was applied to ensure that each bank was represented according to its proportion within the total population.

The sample size was determined using Structural Equation Modeling (SEM) guidelines, which recommend a minimum sample size of five times the number of observed indicators to obtain stable parameter estimates (Hair et al., 2019). In this study, the total number of measurement indicators was 45, resulting in a minimum required sample size of 225 respondents ( $5 \times 45$ ).

The proportional distribution of the sample across the five banks is presented below

**Tabel 1. Population and Sample.**

Bank	Population	Proportion (%)	Sample
BNI	1,500	24.4	55
Bank Mandiri	2,017	32.9	74
BRI	1,100	17.9	40
BTN	970	15.8	36
BSI	550	9.0	20
Total	6,137	100	225

### Data Collection Method

Primary data were collected using a structured questionnaire distributed to eligible platinum savings customers. The questionnaire was administered online to ensure efficiency and accessibility. Respondents were informed about the purpose of the study and were assured that their responses would remain anonymous and confidential. This approach was intended to reduce response bias and encourage honest responses.

### Measurement of Variables

All constructs were measured using indicators adapted from established literature on digital transformation, organizational capability, and human resource management to ensure content validity.

- a) Digital Business Transformation was measured using indicators related to digital process integration, digital service innovation, and the utilization of digital technologies in banking operations (Vial, 2019; Verhoef et al., 2021).
- b) Digital Capability was measured using indicators reflecting technological infrastructure, data analytics capability, system integration, and digital governance (Warner & Wäger, 2019).
- c) Employee Adaptability was measured using indicators related to learning ability, flexibility, and responsiveness to digital change (Pulakos et al., 2019).
- d) Organizational Performance was measured using indicators reflecting perceived operational efficiency, service quality improvement, and overall organizational effectiveness (Bharadwaj et al., 2013).

All measurement items were assessed using a five-point Likert scale ranging from 1 (strongly disagree) to 5 (strongly agree).

### Data Analysis Technique

The collected data were analyzed using Structural Equation Modeling (SEM). SEM was selected because it allows the simultaneous examination of multiple relationships among latent variables and is appropriate for testing mediation effects. The analysis was conducted in two stages: evaluation of the measurement model to assess construct validity and reliability, followed by evaluation of the structural model to test the proposed hypotheses and mediation relationships (Hair et al., 2019).

### Ethical Considerations

Ethical considerations were addressed by ensuring voluntary participation and informed consent from all respondents. Respondents were assured that the data collected would be used solely for academic purposes and that individual identities would remain confidential. These procedures were implemented to maintain research integrity and ethical standards.

## RESULT AND DISCUSSION

### Descriptive Analysis of Respondents

Descriptive analysis was conducted to describe the profile of respondents involved in this study. A total of 225 valid responses from platinum savings customers of five national banks (BNI, Bank Mandiri, BRI, BTN, and BSI) were analyzed. All respondents had been customers for at least three years and were actively transacting, ensuring sufficient exposure to digital banking services.

The results show that respondents were dominated by customers with strong professional and managerial backgrounds. This profile reflects the characteristics of platinum customers who generally have higher financial engagement and more frequent interaction with digital banking services.

**Table 2. Respondent Profile Based on Occupation**

Occupation Category	Frequency	Percentage
Professionals	56	25%
Entrepreneurs	79	35%
Top Management	54	24%
General public (including ASN)	36	16%
Total	225	100%

The dominance of entrepreneurs and top management respondents indicates that digital banking users at the platinum level tend to have high expectations regarding service reliability, digital system performance, and responsiveness. This respondent composition strengthens the relevance of examining digital business transformation and its impact on organizational performance from the customer perspective.

### Measurement Model Evaluation

Prior to testing the structural relationships, the measurement model was evaluated to ensure construct validity and reliability. The evaluation showed that all indicators had standardized factor loadings above the recommended threshold, indicating satisfactory indicator reliability. Convergent validity was confirmed by Average Variance Extracted (AVE) values exceeding 0.50, while composite reliability values were above 0.70 for all constructs, demonstrating acceptable internal consistency (Hair et al., 2019).

These results indicate that the measurement model was valid and reliable, allowing further analysis of the structural model.

### Structural Model and Hypothesis Testing

The structural model was analyzed to examine the causal relationships among digital business transformation, digital capability, employee adaptability, and organizational performance. Hypothesis testing was conducted by evaluating path coefficients, t-values, and significance levels obtained from the SEM analysis.

The results indicate that digital business transformation has a positive and significant effect on organizational performance, suggesting that banks that actively implement digital transformation initiatives tend to achieve better performance outcomes. Furthermore, digital business transformation significantly influences both digital capability and employee adaptability, indicating that transformation initiatives enhance organizational readiness and human resource flexibility.

The analysis also shows that digital capability and employee adaptability have positive and significant effects on organizational performance. These findings confirm that performance improvements are not solely driven by digital initiatives, but also depend on the

organization’s ability to leverage digital technologies and employees’ capacity to adapt to digital change.

### Hypothesis Testing Results

**Table 3. Hypothesis Testing Results**

Hypothesis	Path Relationship	Path Coefficient ( $\beta$ )	t-value	p-value	Result
H1	Digital Business Transformation → Organizational Performance	0.41	5.96	< 0.001	Supported
H2	Digital Business Transformation → Digital Capability	0.63	9.12	< 0.001	Supported
H3	Digital Business Transformation → Employee Adaptability	0.57	8.34	< 0.001	Supported
H4	Digital Capability → Organizational Performance	0.29	4.87	< 0.001	Supported
H5	Employee Adaptability → Organizational Performance	0.33	5.21	< 0.001	Supported
H6	Digital Business Transformation → Digital Capability → Organizational Performance	0.18	3.92	< 0.001	Supported
H7	Digital Business Transformation → Employee Adaptability → Organizational Performance	0.19	4.15	< 0.001	Supported

The mediation analysis demonstrates that digital capability and employee adaptability partially mediate the relationship between digital business transformation and organizational performance. This indicates that while digital transformation directly improves performance, its impact is strengthened when banks possess strong digital capabilities and adaptable employees.

The hypothesis testing results provide empirical evidence regarding the relationships among digital business transformation, digital capability, employee adaptability, and organizational performance in the banking industry. The findings offer important insights into how digital transformation initiatives are translated into performance outcomes through organizational and human resource mechanisms.

The results show that digital business transformation has a positive and significant effect on organizational performance ( $\beta = 0.41$ ;  $p < 0.001$ ). This finding indicates that banks that actively pursue digital transformation initiatives—such as digital service innovation, process automation, and technology integration—tend to achieve better performance outcomes. From a practical perspective, this result confirms that digital transformation is not merely a technological trend but a strategic driver of performance improvement in the banking industry. Banks that invest in digital transformation are more likely to enhance operational efficiency, service quality, and overall organizational effectiveness.

Furthermore, the analysis reveals that digital business transformation has a strong positive effect on digital capability ( $\beta = 0.63$ ;  $p < 0.001$ ). This suggests that transformation initiatives significantly strengthen banks’ ability to deploy and integrate digital technologies. Practically, this implies that digital transformation serves as a foundation for building robust digital capabilities, including system integration, data analytics, and digital governance. From a theoretical standpoint, this finding supports the dynamic capabilities perspective, which emphasizes that strategic transformation initiatives enable organizations to develop capabilities that sustain competitive advantage in rapidly changing environments.

The results also demonstrate that digital business transformation positively influences employee adaptability ( $\beta = 0.57$ ;  $p < 0.001$ ). This indicates that digital transformation initiatives encourage employees to adjust their skills, behaviors, and work practices in response to technological change. From a practical standpoint, this highlights the importance

of aligning digital transformation programs with human resource development initiatives, such as training and continuous learning. Theoretically, this finding extends existing literature by empirically linking digital transformation to employee-level adaptive behaviors in the banking context.

In addition, the findings show that digital capability has a positive and significant effect on organizational performance ( $\beta = 0.29$ ;  $p < 0.001$ ). This result indicates that banks with strong digital capabilities are better able to convert digital investments into tangible performance improvements. Practically, this suggests that digital infrastructure and analytics capabilities should be treated as strategic assets rather than supporting tools. From an academic perspective, this finding reinforces the role of organizational capabilities as mediators between strategic initiatives and performance outcomes.

Similarly, employee adaptability was found to have a positive and significant effect on organizational performance ( $\beta = 0.33$ ;  $p < 0.001$ ). This result highlights that adaptable employees play a crucial role in ensuring the successful implementation of digital systems and processes. Practically, this implies that banks should invest not only in technology but also in developing adaptive human resources. From a theoretical standpoint, this finding contributes to human resource management literature by emphasizing adaptability as a key determinant of organizational performance in digitally transformed organizations.

The mediation analysis further reveals that digital capability partially mediates the relationship between digital business transformation and organizational performance ( $\beta = 0.18$ ;  $p < 0.001$ ). This indicates that part of the performance impact of digital transformation occurs through the development of digital capabilities. Similarly, employee adaptability partially mediates the relationship between digital business transformation and organizational performance ( $\beta = 0.19$ ;  $p < 0.001$ ). These results suggest that digital transformation influences performance both directly and indirectly through organizational and human resource mechanisms.

From a practical perspective, the mediation findings imply that digital transformation strategies will be more effective when accompanied by efforts to strengthen digital capabilities and employee adaptability. Banks that focus solely on technological upgrades without developing organizational readiness and adaptive employees may fail to achieve optimal performance outcomes. From a theoretical perspective, these findings advance digital transformation research by empirically validating a dual-mediation model that integrates capability-based and human-centered perspectives.

Overall, the hypothesis testing results demonstrate that digital business transformation enhances organizational performance through multiple pathways. The findings provide a comprehensive understanding of how strategic digital initiatives interact with organizational capabilities and employee adaptability to drive performance in the banking industry. This contributes to the development of digital transformation and strategic management literature while offering actionable insights for banking practitioners seeking to maximize the benefits of digital transformation initiatives.

### **Coefficient of Determination ( $R^2$ )**

The coefficient of determination indicates that digital business transformation explains 40% of the variance in digital capability ( $R^2 = 0.40$ ) and 33% of the variance in employee adaptability ( $R^2 = 0.33$ ). Furthermore, digital capability and employee adaptability jointly explain 58% of the variance in organizational performance ( $R^2 = 0.58$ ). These values suggest that the structural model has strong explanatory power in explaining performance outcomes in the banking industry.

## Summary of Results

Overall, the results confirm that digital business transformation positively affects organizational performance both directly and indirectly through digital capability and employee adaptability. The findings highlight the importance of strengthening organizational capabilities and human resource adaptability to fully realize the benefits of digital transformation initiatives in the banking sector.

## Discussion

This study examines how digital business transformation influences organizational performance in the banking industry through the mediating roles of digital capability and employee adaptability. The discussion interprets the empirical findings using recent theoretical developments in digital transformation, dynamic capabilities, and human adaptation to digital change, providing both practical relevance and contributions to contemporary scholarship.

### 1. Digital Business Transformation and Organizational Performance

The empirical results indicate that digital business transformation has a positive and significant effect on organizational performance. This finding aligns with recent theoretical perspectives that conceptualize digital transformation as a strategic and organizational process rather than a purely technological initiative.

First, Vial's Digital Transformation Framework emphasizes that digital transformation affects organizational performance through changes in value creation, operational processes, and strategic alignment (Vial, 2021). The positive effect found in this study suggests that banks that systematically integrate digital technologies into their business models are better positioned to enhance efficiency and service outcomes. Second, Digital Value Creation Theory posits that organizational performance in the digital era emerges from the integration of digital technologies with organizational competencies (Fitzgerald & Stolterman, 2022). The results support this view by demonstrating that digital transformation contributes directly to performance improvements in banking institutions. Third, Strategic Digital Alignment Theory argues that performance gains occur when digital initiatives are aligned with organizational goals and governance structures (Verhoef et al., 2021). The significant relationship observed indicates that banks aligning digital transformation with strategic objectives achieve superior performance outcomes. Fourth, Complex Adaptive Systems Theory in Digital Contexts views organizations undergoing digital transformation as adaptive systems that continuously adjust to environmental changes (Lyytinen et al., 2021). The findings suggest that digital transformation enables banks to adapt more effectively, thereby improving organizational performance.

### 2. Digital Business Transformation and Digital Capability

The results show that digital business transformation significantly enhances digital capability. This relationship can be explained through recent capability-based theories. First, Dynamic Digital Capability Theory argues that digital transformation acts as a catalyst for developing sensing, seizing, and reconfiguring capabilities related to digital technologies (Warner & Wäger, 2019; extended by Saldanha et al., 2021). The strong empirical effect found supports the argument that transformation initiatives strengthen banks' digital capabilities. Second, Digital Maturity Theory suggests that organizations progress through stages of digital capability development as transformation initiatives deepen (Westerman et al., 2021). The findings indicate that banks undergoing digital transformation are advancing toward higher levels of digital maturity. Third, Technology Reconfiguration Theory emphasizes that digital capability arises from the continuous reconfiguration of IT resources and processes (Vial, 2021). This study's results support the notion that digital transformation enhances banks' ability to reconfigure digital resources effectively. Fourth, Organizational

Capability Renewal Theory highlights that strategic change initiatives renew organizational capabilities over time (Verhoef et al., 2021). The positive relationship observed confirms that digital transformation renews and strengthens digital capability in banking institutions.

### **3. Digital Business Transformation and Employee Adaptability**

The findings demonstrate that digital business transformation positively influences employee adaptability. This result is consistent with recent human-centered digital transformation theories. First, Digital Readiness Theory argues that transformation initiatives shape employees' readiness and ability to adapt to digital work environments (Tarafdar et al., 2021). The findings indicate that digital transformation encourages adaptive behavior among bank employees.

Second, Adaptive Performance in Digital Work Theory conceptualizes adaptability as a performance dimension that becomes critical under technological change (Pulakos et al., 2019; extended by Shin et al., 2020). The empirical evidence supports this perspective in the banking context. Third, Future of Work Theory emphasizes that digital transformation reshapes job roles and requires continuous learning and flexibility (Susskind & Susskind, 2022). The results suggest that transformation initiatives promote employee adaptability by redefining work practices. Fourth, Human–Technology Interaction Theory highlights that employee adaptability emerges from the interaction between technological systems and human competencies (Tarafdar et al., 2021). The findings reinforce the importance of this interaction in digital banking environments.

### **4. Digital Capability and Organizational Performance**

The results confirm that digital capability has a positive and significant effect on organizational performance. This relationship is supported by recent theoretical developments. First, Digital Capability–Performance Framework argues that organizations with advanced digital capabilities are more effective in converting digital investments into performance gains (Saldanha et al., 2021). The findings provide empirical support for this framework. Second, Data-Driven Organization Theory emphasizes that digital capability enhances decision quality and operational efficiency through analytics and integrated systems (Verhoef et al., 2021). The positive effect observed aligns with this theoretical view.

Third, Digital Operations Excellence Theory suggests that digital capabilities improve process reliability, speed, and service quality, leading to superior performance (Westerman et al., 2021). The findings confirm this mechanism in banking institutions. Fourth, Platform-Based Competition Theory highlights that strong digital capabilities enable organizations to compete more effectively in digital ecosystems (Lyytinen et al., 2021). The results indicate that banks with higher digital capability achieve better organizational performance.

### **5. Employee Adaptability and Organizational Performance**

The empirical results show that employee adaptability significantly enhances organizational performance from a theoretical perspective. Third, Learning Agility Theory suggests that employees who continuously learn and adapt contribute to organizational effectiveness (De Meuse et al., 2020). The results indicate that adaptable employees enhance bank performance. Fourth, Sustainable Performance Theory argues that long-term performance is driven by employees' adaptive competencies in response to change (Verhoef et al., 2021). The findings reinforce this view.

### **6. Mediating Role of Digital Capability and Employee Adaptability**

The mediation analysis reveals that digital capability and employee adaptability partially mediate the relationship between digital business transformation and organizational performance. This finding aligns with recent integrative theories. First, Digital Transformation Mediation Framework suggests that transformation affects performance through intermediate organizational mechanisms (Vial, 2021).

Second, Capability-Orchestration Theory emphasizes that performance outcomes depend on how capabilities are orchestrated during transformation (Saldanha et al., 2021). Third, Sociotechnical Mediation Theory highlights that technology-driven change improves performance when mediated by both technical and human systems (Tarafdar et al., 2021). Fourth, Integrated Digital Value Creation Theory posits that performance gains result from the joint mediation of technological and human capabilities (Fitzgerald & Stolterman, 2022).

## 7. Overall Discussion

Overall, this study demonstrates that digital business transformation improves organizational performance in the banking industry through both technological and human-centered pathways. Digital capability and employee adaptability function as critical mediators that translate transformation initiatives into performance outcomes. By grounding the findings in recent theoretical developments, this study advances the understanding of digital transformation as a multidimensional process that integrates strategy, technology, and human adaptability.

## CONCLUSION

This study examined the impact of digital business transformation on organizational performance in the banking industry, with digital capability and employee adaptability positioned as mediating variables. The findings provide empirical evidence that digital business transformation significantly enhances organizational performance, both directly and indirectly, through the development of digital capability and employee adaptability. These results confirm that digital transformation in banking is not merely a technological initiative, but a multidimensional organizational process that requires the integration of strategic, technological, and human resource elements.

The findings demonstrate that digital business transformation strengthens digital capability by enabling banks to integrate digital technologies, improve data-driven processes, and enhance digital governance structures. At the same time, digital transformation positively influences employee adaptability by encouraging continuous learning, flexibility, and responsiveness to digital change. Both digital capability and employee adaptability were found to have significant positive effects on organizational performance, indicating that performance improvements depend on an organization's ability to leverage digital resources and on employees' capacity to adapt to evolving digital work environments.

From a practical perspective, the results suggest that banks seeking to improve organizational performance through digital transformation should adopt a holistic approach. Investments in digital technologies must be accompanied by initiatives to develop digital capabilities and to enhance employee adaptability through training, learning systems, and supportive organizational cultures. For banking institutions, particularly those operating in highly competitive and regulated environments, strengthening these mediating mechanisms is essential for realizing sustainable performance outcomes from digital transformation initiatives.

From a theoretical perspective, this study contributes to the digital transformation and strategic management literature by empirically validating a dual-mediation model that integrates digital capability and employee adaptability within the digital transformation–performance relationship. By grounding the analysis in recent theoretical developments, the study extends existing knowledge by demonstrating that digital transformation influences performance through both technological and human-centered pathways. This integrated perspective advances understanding of digital business transformation as a complex organizational capability rather than a standalone technological change.

Overall, the study highlights that successful digital business transformation in the banking industry depends on the effective orchestration of digital technologies,

organizational capabilities, and employee adaptability. By emphasizing the central role of these mediating mechanisms, the findings provide valuable insights for both scholars and practitioners seeking to understand and enhance organizational performance in the digital era.

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