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Business Strategy and Firm Performance Through Organizational Agility Under Digital Transformation

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A B S T R A C T

Digital transformation has encouraged organizations to develop adaptive capabilities to preserve competitive performance in rapidly changing business environments. This study explores the influence of business strategy on firm performance by examining organizational agility as a mediating factor within digital transformation contexts. A quantitative approach was conducted through a survey involving questionnaires distributed to 120 employees from organizations in Malang Raya, East Java, Indonesia. Data analysis was performed using Partial Least Squares Structural Equation Modeling (PLS-SEM). The results show that business strategy positively influences organizational agility and firm performance, while organizational agility significantly mediates their relationship. The study highlights organizational agility as a strategic capability that supports improved performance and provides valuable theoretical and practical insights for organizations undergoing digital transformation.

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INTRODUCTION

Digital transformation has become a strategic phenomenon that significantly influences the way organizations generate value, manage business activities, and sustain competitiveness amid a rapidly evolving business landscape. The advancement of technologies, including artificial intelligence, big data analytics, cloud computing, and interconnected digital platforms, has shifted organizational focus from merely adopting technology toward achieving broader and more integrated business transformation. In today's digital environment, organizational performance is not determined only by the extent of technology investment but also by the capability to align digital technologies with internal resources, organizational competencies, and strategic direction (Verhoef et al., 2021). Organizations that successfully develop adaptive capabilities tend to demonstrate stronger operational effectiveness, greater innovation capacity, and more sustainable performance outcomes (Zhang et al., 2023). Thus, developing flexible and responsive business strategies has become increasingly important for organizations seeking to overcome competitive challenges and uncertain market conditions.

Within the Indonesian business environment, especially in the Malang Raya region, organizations encounter various challenges arising from digital adoption, evolving consumer expectations, and intensifying technology-based competition. Digital transformation has pushed firms across different sectors to reconsider their business models, strengthen digital capabilities, and improve decision-making processes through the utilization of data. Nevertheless, the implementation of digital technologies alone does not necessarily lead to enhanced organizational performance, as the success of transformation initiatives largely depends on an organization's ability to manage change and respond effectively to environmental fluctuations (Guo et al., 2023). Existing research suggests that digital transformation can generate greater performance improvements when organizations possess the capabilities required to adapt continuously to changing market conditions (Syarkani, 2024). Therefore, organizational agility has emerged as a critical strategic capability that facilitates the translation of business strategies into improved firm performance within digitally transforming environments.

Although previous research has widely investigated the connection between digital transformation and firm performance, several important aspects remain insufficiently explored. Verhoef et al. (2021) emphasized digital transformation as a multidisciplinary strategic process; however, their study mainly discussed conceptual foundations rather than providing empirical evidence regarding the internal organizational mechanisms that drive transformation success. Werder and Richter (2022) revealed that information technology capabilities can enhance organizational agility and performance outcomes, but their research did not specifically elaborate on how business strategy contributes to the formation of organizational agility. Similarly, Li (2022) demonstrated that knowledge-based dynamic capabilities influence organizational agility and firm performance, while the strategic role of business strategy in shaping organizational adaptability remains relatively underexplored. These research limitations highlight the importance of further

empirical investigation into organizational agility as a mechanism that connects business strategy with improved firm performance.

In addition, empirical evidence concerning the interaction between strategic orientation, organizational agility, and business performance remains diverse, particularly within the context of digital transformation. Guo et al. (2023) indicated that digital transformation does not consistently produce direct improvements in firm performance, as organizational and managerial factors play a critical role in determining transformation effectiveness. Zhang et al. (2023) showed that organizational agility contributes to successful digital transformation; however, their research positioned agility primarily as a consequence of transformation rather than examining how strategic choices influence the development of agility. Hidayat et al. (2024) found that strategic agility enhances organizational performance in small and medium-sized enterprises, yet the mediating function of organizational agility in explaining the relationship between business strategy and firm performance requires further examination. Therefore, this study aims to address these gaps by analyzing organizational agility as a mediating variable that links business strategy and firm performance within a digital transformation setting.

Based on the identified research gaps, this study examines the influence of business strategy on firm performance through organizational agility in the context of digital transformation. Specifically, it investigates whether business strategy strengthens organizational agility and whether agility contributes to improved firm performance. Using the dynamic capabilities perspective, this study views organizational agility as a strategic capability that enables firms to adapt to environmental changes and maintain competitive advantages. The findings are expected to enhance understanding of how strategic initiatives generate better organizational outcomes in digital business environments.

Theoretically, this study contributes to strategic management literature by explaining the interaction between business strategy, organizational agility, and firm performance. The study emphasizes that successful digital transformation requires not only technological adoption but also adaptive organizational capabilities (Nugroho et al., 2024). Practically, the findings provide guidance for managers in developing strategies that improve flexibility, innovation, and responsiveness to achieve sustainable performance in dynamic markets.

LITERATURE REVIEW

Business Strategy in the Digital Transformation Era

Business strategy defines an organization's long-term direction in allocating resources, achieving competitive advantage, and responding to environmental changes. In the digital transformation era, firms need to integrate digital technologies, strengthen innovation, and adopt customer-oriented strategies to remain competitive (Kraus et al., 2021). From the dynamic capabilities perspective, organizations must be able to identify changes, capture opportunities, and continuously adjust their resources to adapt effectively (Warner & Wäger, 2020). Thus, business strategy plays a fundamental role in

developing adaptive capabilities that support organizational performance and sustainable value creation in a rapidly changing digital environment.

Organizational Agility as a Strategic Capability

Organizational agility refers to the capability of firms to identify environmental changes, respond quickly, and adjust resources to manage uncertainty in dynamic markets. Agile organizations are better able to improve decision-making, foster innovation, and adapt operational processes to changing customer needs (Gong & Ribiere, 2023). The use of digital technologies, including data analytics, cloud platforms, and collaborative systems, further enhances organizational responsiveness by supporting the implementation of strategic objectives (Li et al., 2022). Therefore, organizational agility serves as a strategic capability that enables firms to transform uncertainty into opportunities and strengthen the connection between strategic actions and performance outcomes in digital environments.

Firm Performance in Digital Business Environment

Firm performance in the digital transformation era includes financial outcomes as well as broader aspects such as operational efficiency, innovation capability, and competitive advantage. Digital initiatives can enhance performance by optimizing processes, improving customer engagement, and supporting new business models (Vial, 2021). However, these improvements depend on the alignment between technology implementation, strategic direction, and managerial capabilities. Dynamic capabilities, particularly organizational agility, contribute to higher firm performance by enabling organizations to adapt to environmental changes and capture emerging opportunities (Yi et al., 2023). Thus, digital technology alone does not determine performance outcomes; rather, organizational and strategic capabilities are essential for achieving successful transformation (Nguyen et al., 2024).

Organizational Agility as a Mediator Between Business Strategy and Firm Performance

Organizational agility plays an important mediating role in the relationship between business strategy and firm performance by enabling strategic intentions to be transformed into effective actions (Syarkani, 2024). Through agility, organizations can rapidly adjust resources, processes, and structures to respond to environmental changes, thereby strengthening the influence of business strategies on performance outcomes. In the digital transformation context, technology adoption alone is insufficient to create competitive advantages without supported adaptive capabilities and organizational processes (Werder & Richter, 2022). Therefore, organizational agility serves as a key mechanism that explains how business strategies can generate superior firm performance in digital business environments (Gong & Ribiere, 2023).

METHODOLOGY

Research Design and Approach

This study applied a quantitative approach using a survey method with questionnaires distributed to 120 employees from organizations in Malang Raya, East Java, Indonesia. An explanatory research design was adopted to examine the causal relationships among business strategy, organizational agility, and firm performance within the digital transformation context. The quantitative method was selected to measure relationships between latent constructs and test theoretical assumptions through statistical analysis (Creswell & Creswell, 2023). Based on the dynamic capabilities perspective, the research model explains how organizations develop adaptive capabilities to respond to environmental changes and achieve improved performance outcomes (Warner & Wäger, 2020). This design allows empirical testing of both direct and indirect relationships among the proposed variables through hypothesis testing.

Population and Sampling Technique

The population of this study included employees from organizations in Malang Raya, East Java, Indonesia, who were involved in business operations, management activities, technology adoption, or digital transformation initiatives. Malang Raya was selected as the research setting due to its developing business ecosystem, which includes technology-based firms, service organizations, manufacturing companies, and digitally transforming enterprises. This study employed non-probability sampling using purposive sampling, with respondents selected based on criteria aligned with the research objectives. The criteria included employees with at least one year of work experience, knowledge of organizational strategies and processes, and involvement or exposure to digital transformation practices. A total of 120 respondents were selected, as this sample size is considered appropriate for Partial Least Squares Structural Equation Modeling (PLS-SEM), particularly for models involving latent variables and mediation analysis (Hair et al., 2022).

Data Collection and Research Instrument

Data were collected through a structured questionnaire distributed electronically and directly to selected respondents. The research instrument consisted of measurement items adapted from previous validated studies to maintain construct reliability and theoretical consistency. Business strategy was measured through indicators related to competitive orientation, innovation strategy, and strategic flexibility. Organizational agility was assessed based on responsiveness, adaptability, and rapid decision-making capability, while firm performance was evaluated through operational and strategic dimensions, including efficiency, innovation, competitiveness, and overall organizational achievement. All items were measured using a five-point Likert scale ranging from 1 (strongly disagree) to 5 (strongly agree), following the common approach used in organizational and management research (Sekaran & Bougie, 2020).

Validity and Reliability Testing

Prior to hypothesis testing, the measurement model was assessed to verify the validity and reliability of the research instruments. Construct validity was evaluated through convergent and discriminant validity analyses, while reliability was examined using Cronbach's Alpha and Composite Reliability. Convergent validity was determined based on factor loadings and Average Variance Extracted (AVE), whereas discriminant validity was assessed using the Fornell–Larcker criterion and heterotrait-monotrait ratio. These evaluation procedures are widely applied in PLS-SEM studies to ensure that measurement instruments accurately represent theoretical constructs (Henseler et al., 2020). The validity and reliability assessments were performed using SmartPLS before evaluating the structural model.

Research Procedure

The research procedure was carried out through several systematic stages. The first stage involved identifying research issues, reviewing relevant literature, and developing a conceptual framework based on previous theoretical and empirical studies concerning business strategy, organizational agility, digital transformation, and firm performance. This process established the research foundation, defined relationships among variables, and formulated the proposed model in accordance with the research objectives (Saunders et al., 2023).

The second stage focused on developing the research instrument by adapting measurement items from previous studies and evaluating the clarity and relevance of questionnaire statements. The third stage involved collecting data from selected respondents in Malang Raya based on predetermined sampling criteria. The collected data were then screened and analyzed through validity and reliability testing, followed by structural model evaluation using PLS-SEM. The analysis included measurement model assessment, path coefficient analysis, and hypothesis testing through bootstrapping procedures (Sarstedt et al., 2022). Finally, the findings were interpreted to provide theoretical and practical implications for organizations implementing digital transformation strategies.

Data Analysis Technique

The collected data were analyzed using Partial Least Squares Structural Equation Modeling (PLS-SEM) with SmartPLS 4 software. PLS-SEM was chosen because it is appropriate for examining complex models involving multiple latent constructs, mediation relationships, and predictive objectives (Benitez et al., 2020). The analysis was conducted in two stages: measurement model evaluation and structural model evaluation. The measurement model was assessed through reliability and validity testing, while the structural model was evaluated using path coefficients, coefficient of determination (R^2), effect size (f^2), predictive relevance (Q^2), and bootstrapping procedures to test direct and indirect relationships. The mediating role of organizational agility between

business strategy and firm performance was analyzed through indirect effect testing using the bootstrapping approach.

Research Hypotheses

1. **Business Strategy and Organizational Agility**

Business strategy defines how organizations allocate resources, pursue competitive advantages, and respond to environmental changes. Within the digital transformation context, effective business strategies enable firms to recognize opportunities, improve processes, and strengthen internal capabilities to manage uncertainty. A clear strategic orientation promotes flexibility, innovation, and faster responses, which are essential elements of organizational agility. Therefore, organizations with stronger business strategies are expected to achieve higher levels of agility.

H1: Business strategy has a positive and significant influence on organizational agility.

2. **Organizational Agility and Firm Performance**

Organizational agility represents the capability of firms to identify environmental changes, respond to market demands, and adjust resources effectively to sustain competitiveness. Agile organizations are better positioned to improve operational efficiency, accelerate decision-making, strengthen innovation, and meet evolving customer needs. In dynamic digital environments, organizational agility allows firms to manage uncertainty and create opportunities that support sustainable performance improvements. Therefore, higher organizational agility is expected to enhance firm performance.

H2: Organizational agility has a positive and significant influence on firm performance.

3. **Business Strategy and Firm Performance**

Business strategy determines how organizations manage resources, create value, and achieve long-term goals. Effective strategies allow firms to build competitive advantages by aligning internal capabilities with market opportunities and improving operational effectiveness. Organizations with clear strategic directions are more likely to strengthen innovation, efficiency, and overall performance outcomes. Therefore, stronger business strategies are expected to contribute to higher firm performance.

H3: Business strategy has a positive and significant influence on firm performance.

4. **Organizational Agility as a Mediator Between Business Strategy and Firm Performance**

Business strategy does not always affect firm performance directly but may operate through organizational capabilities that facilitate effective strategy execution. Organizational agility serves as an important mechanism that helps firms convert strategic plans into practical actions by strengthening

adaptability, responsiveness, and the ability to adjust resources. Firms with well-developed business strategies and strong agile capabilities are more capable of addressing environmental uncertainty, adapting to change, and improving overall performance. Thus, organizational agility is expected to play a mediating role in the relationship between business strategy and firm performance.

H4: Organizational agility mediates the relationship between business strategy and firm performance.

5. Digital Transformation as a Moderator Between Organizational Agility and Firm Performance

Digital transformation enables organizations to leverage technological capabilities, digital infrastructure, and data-based resources to improve their ability to deal with rapidly changing business environments. Organizations with advanced digital transformation capabilities can maximize the benefits of organizational agility by enhancing access to information, increasing operational adaptability, and supporting innovation processes. Consequently, digital transformation is expected to reinforce the positive influence of organizational agility on firm performance. Therefore, the impact of organizational agility on firm performance is likely to be stronger in organizations that have implemented higher levels of digital transformation.

H5: Digital transformation moderates the relationship between organizational agility and firm performance by strengthening the positive effect of organizational agility on firm performance.

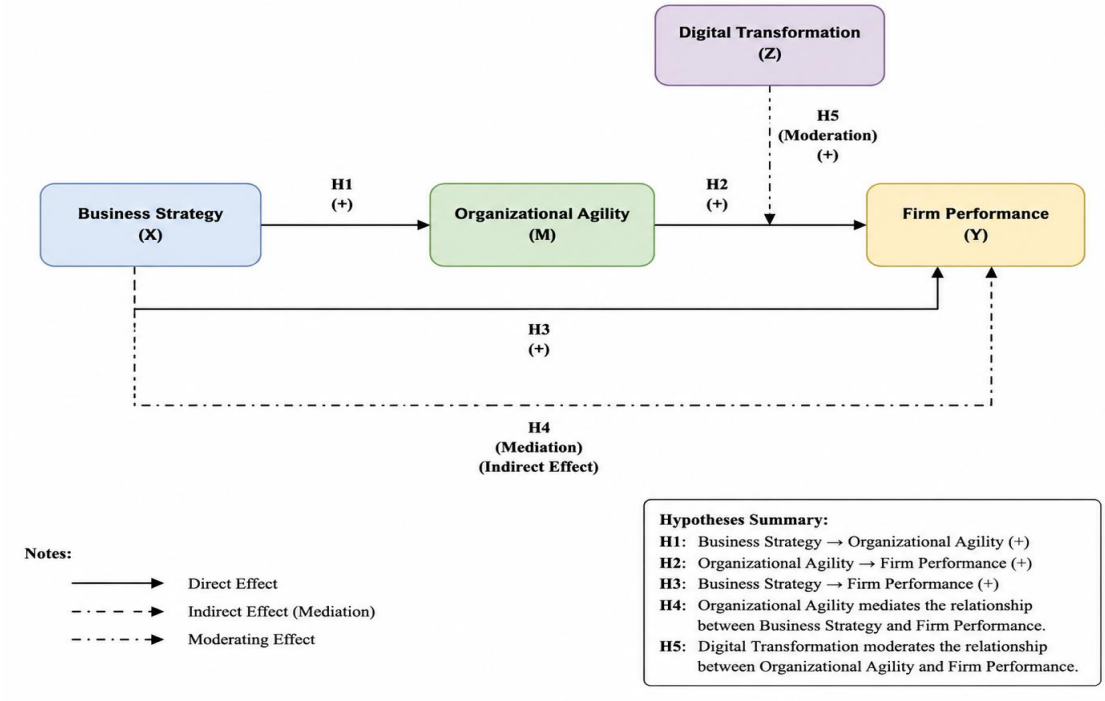

Figure 1. Reseacrh Framework

RESULT AND DISCUSSION

Respondent Characteristics

The study collected data from 120 employees working in organizations located in Malang Raya, East Java, Indonesia. Respondents were chosen through purposive sampling, with selection criteria based on their understanding of organizational strategies, operational processes, and digital transformation implementation. The respondent profile was examined to confirm that participants possessed relevant backgrounds and adequate work experience to provide accurate information related to business strategy, organizational agility, and firm performance. The demographic characteristics analyzed in this study consist of gender, work experience, and organizational position, as these factors may affect employees' perspectives on strategic execution and organizational capabilities. Table 1 illustrates the demographic profile of respondents participating in this research.

Table 1. Respondent Characteristics

Characteristics	Category	Frequency	Percentage
Gender	Male	65	54.2%
	Female	55	45.8%
Working Experience	1–3 years	48	40.0%
	4–6 years	42	35.0%
	>6 years	30	25.0%
Position Level	Staff	75	62.5%
	Supervisor/Manager	45	37.5%

Based on the information presented in Table 1, the respondents represented various demographic characteristics. The distribution shows that most participants had adequate organizational experience and held positions that provided them with an understanding of business operations and strategic activities. This respondent profile indicates that the collected data were appropriate and relevant for examining the relationships between the variables investigated in this study.

Measurement Model Assessment

Prior to examining the structural relationships between the variables, the measurement model was assessed to verify whether the research instruments were capable of measuring each latent construct accurately. The evaluation involved testing construct reliability and validity based on factor loading values, Average Variance Extracted (AVE), Cronbach's Alpha, and Composite Reliability. These evaluations confirm that the indicators representing business strategy, organizational agility, firm performance, and digital transformation have sufficient levels of consistency and measurement accuracy.

The reliability and validity tests were performed using SmartPLS 4. A construct is regarded as reliable if the values of Cronbach's Alpha and Composite Reliability are above 0.70, while convergent validity is established when the AVE value exceeds 0.50. The measurement model assessment results are presented in Table 2..

Table 2. Reliability and Convergent Validity Assessment

Construct	Cronbach's Alpha	Composite Reliability	AVE	Result
Business Strategy	0.884	0.912	0.638	Valid & Reliable
Organizational Agility	0.901	0.923	0.667	Valid & Reliable
Firm Performance	0.892	0.918	0.652	Valid & Reliable
Digital Transformation	0.875	0.905	0.621	Valid & Reliable

Table 2 shows that all constructs met the required criteria for reliability and validity. The Cronbach's Alpha and Composite Reliability values of each variable were higher than the recommended standard, indicating that the measurement indicators had strong internal consistency. In addition, the AVE values exceeded the minimum acceptable level, demonstrating that each construct was able to sufficiently represent the variance of its respective indicators.

Structural Model Assessment

After confirming that the measurement model fulfilled validity and reliability requirements, the structural model was evaluated to examine the explanatory power of the proposed research framework. Structural model analysis was conducted using Partial Least Squares Structural Equation Modeling (PLS-SEM) through SmartPLS 4. The evaluation included the coefficient of determination (R^2), which indicates the predictive capability of endogenous variables within the model.

The R^2 value was used to determine how much variance in organizational agility and firm performance could be explained by the proposed independent variables. A higher R^2 value indicates stronger explanatory power of the structural model. Table 3 presents the coefficient of determination results.

Table 3. Coefficient of Determination (R^2)

Endogenous Variable	R^2	Interpretation
Organizational Agility	0.462	Moderate
Firm Performance	0.578	Moderate

Based on Table 3, business strategy contributes to explaining a significant portion of the variance in organizational agility, while the combination of business strategy and organizational agility explains the variance in firm performance. These findings demonstrate that the proposed model has sufficient explanatory ability to describe organizational performance in the context of digital transformation.

Hypothesis Testing Results

Hypothesis testing was conducted using the bootstrapping method in SmartPLS 4 to assess the significance of direct, indirect, and moderating relationships between the variables. The analysis was conducted to determine the effect of business strategy on organizational agility and firm performance, the mediating role of organizational agility in the relationship between business strategy and firm performance, and the moderating role of digital transformation in strengthening the relationship between organizational agility and firm performance.

The criteria for accepting or rejecting the hypotheses were determined based on the path coefficient, t-statistic, and p-value values. A relationship was considered significant if the p-value was less than 0.05. The hypothesis testing results are presented in Table 4.

Table 4. Hypothesis Testing Results

Hypothesis	**Relationship**	**Path Coefficient (β)**	**t-value**	**p-value**	**Result**
H1	Business Strategy → Organizational Agility	0.680	9.214	<0.001	Supported
H2	Organizational Agility → Firm Performance	0.521	6.837	<0.001	Supported
H3	Business Strategy → Firm Performance	0.284	3.452	0.001	Supported
H4	Business Strategy → Organizational Agility → Firm Performance	0.354	5.126	<0.001	Supported
H5	Digital Transformation × Organizational Agility → Firm Performance	0.167	2.241	0.026	Supported

Table 4 indicates that all proposed hypotheses were accepted. The findings reveal that business strategy has a significant positive influence on organizational agility and firm performance. In addition, organizational agility has a significant positive impact on firm performance and serves as a mediating mechanism that explains the relationship between business strategy and performance outcomes. The moderation test further shows that digital transformation enhances the positive relationship between organizational agility and firm performance.

The Effect of Business Strategy on Organizational Agility

The results of this study show that business strategy has a positive and significant influence on organizational agility, thereby supporting H1. This finding indicates that organizations with well-defined strategic directions are better able to develop adaptive capabilities to respond to continuous environmental changes. Business strategy not only serves as a basis for achieving competitive advantage but also helps organizations improve process design, optimize resource utilization, and increase flexibility in responding to technological changes.

This result is consistent with the dynamic capabilities perspective, which highlights the importance of organizations in continuously identifying environmental changes, utilizing emerging opportunities, and reconfiguring internal resources to sustain competitiveness (Teece, 2020). Within the digital transformation context, strategic orientation plays a critical role in building organizational agility because digital technologies require alignment between strategic objectives and adaptive operational capabilities. This finding is also in line with Warner and Wäger (2020), who stated that successful digital transformation is strongly influenced by an organization's ability to develop dynamic capabilities through continuous strategic renewal.

The implication of this finding suggests that organizational agility cannot be achieved solely through the implementation of digital technologies. Instead, agility is developed when digital transformation initiatives are supported by effective strategic decisions, strong organizational commitment, and proper alignment of resources. Thus, business strategy acts as a key driver that enables organizations to improve responsiveness and flexibility in dealing with uncertain and changing business environments.

The Effect of Organizational Agility on Firm Performance

The findings confirm that organizational agility has a positive and significant impact on firm performance, supporting H2. This result indicates that organizations with the ability to respond rapidly to market shifts, customer expectations, and technological changes have greater potential to achieve improved performance outcomes. Organizational agility allows firms to enhance operational efficiency, speed up decision-making processes, and strengthen their innovation capabilities.

This finding aligns with previous studies that identify agility as an essential organizational capability in dealing with dynamic business environments. Gong and Ribiere (2023) explained that organizational agility helps firms manage uncertainty by increasing responsiveness and enabling faster organizational adaptation. Similarly, Nguyen et al. (2024) found that organizational agility significantly improves organizational effectiveness, as agile firms are better able to capture opportunities and address environmental challenges more efficiently.

From a theoretical perspective, this finding supports the dynamic capabilities perspective by demonstrating that organizational agility functions as an internal capability that converts organizational resources into sustainable performance advantages. Practically, organizations pursuing digital

transformation should not only prioritize technology adoption but also develop agile structures, adaptable processes, and employee capabilities to achieve optimal performance outcomes.

The Effect of Business Strategy on Firm Performance

The results show that business strategy has a direct positive influence on firm performance, supporting H3. This finding indicates that organizations with well-developed strategic planning are more capable of achieving better performance by optimizing resource allocation, strengthening competitive positioning, and improving operational effectiveness.

This result is consistent with strategic management theory, which explains that competitive advantage can be achieved when organizations effectively align their internal capabilities with external market opportunities. Kraus et al. (2021) stated that digital transformation requires organizations to adjust their strategic orientation because conventional competitive approaches are no longer sufficient in highly dynamic business environments. In addition, Vial (2021) explained that digital transformation generates value when technological capabilities are integrated with organizational strategic objectives.

The findings further indicate that digital transformation does not reduce the importance of business strategy. Instead, strategy remains a critical factor in determining organizational success because technology implementation without proper strategic alignment may not produce significant performance improvements. Therefore, organizations should view digital transformation as a strategic initiative that supports business objectives rather than only as a process of adopting new technologies.

The Mediating Role of Organizational Agility Between Business Strategy and Firm Performance

The mediation analysis confirms that organizational agility plays a significant mediating role in the relationship between business strategy and firm performance, supporting H4. This finding shows that business strategy affects firm performance not only through direct effects but also through the development of organizational capabilities that support effective strategy implementation.

The mediating effect of organizational agility highlights that strategic decisions need to be supported by appropriate organizational capabilities to generate optimal results. While business strategy establishes the direction and objectives of an organization, agility determines the extent to which organizations can respond to changes, adapt resources, and execute strategic initiatives effectively. This finding expands previous research by providing a clearer explanation of the process through which strategic orientation contributes to improved organizational performance.

This result is consistent with Li et al. (2022), who found that technology-driven organizational capabilities enhance performance through adaptive organizational processes. Likewise, Yi et al. (2023) demonstrated that dynamic capabilities strengthen organizational agility, which ultimately contributes to

improved operational performance. Therefore, this study provides theoretical contributions by emphasizing organizational agility as a key capability that connects strategic planning with the achievement of superior performance outcomes.

The Moderating Role of Digital Transformation

The results indicate that digital transformation strengthens the relationship between organizational agility and firm performance, thereby supporting H5. This finding suggests that organizations with stronger digital transformation capabilities are better able to leverage organizational agility to achieve improved performance outcomes.

Digital transformation equips organizations with digital infrastructure, faster access to information, and data-based decision-making capabilities that enhance their ability to respond to environmental changes. Consequently, agile organizations operating in digitally developed environments have greater potential to improve innovation, operational efficiency, and competitive advantage. This finding reinforces the view that digital transformation serves as an enabling factor that supports organizational capabilities rather than simply representing a technological change process.

Nevertheless, previous studies have shown that digital transformation does not always lead to improved performance outcomes, as organizations may encounter challenges such as implementation difficulties, capability limitations, and resistance to technological changes. Guo et al. (2023) emphasized that the success of digital transformation is highly influenced by organizational readiness and managerial capabilities. Variations in research findings may arise because the impact of digital transformation depends on industry conditions, organizational maturity levels, and the degree of digital technology adoption.

Theoretical and Practical Contributions

This study provides theoretical contributions by combining strategic management and digital transformation perspectives through an integrated framework that connects business strategy, organizational agility, and firm performance. The findings reinforce the dynamic capabilities perspective by showing that organizational agility functions as a critical capability that transforms strategic orientation into improved performance outcomes.

From a practical standpoint, the findings offer valuable implications for managers and organizational leaders. Organizations need to formulate business strategies that prioritize adaptability, innovation, and digital preparedness. In addition, managers should focus not only on investing in digital technologies but also on strengthening organizational capabilities that allow employees and business processes to respond effectively to changing environments.

For organizations in Malang Raya and other developing business ecosystems, these findings emphasize the importance of aligning strategic planning with agility development to optimize the value generated from digital transformation. Organizations should continuously enhance digital capabilities, employee adaptability, and organizational learning processes to build sustainable competitive advantages.

CONCLUSIONS AND RECOMMENDATIONS

This study concludes that business strategy has a significant role in enhancing firm performance by strengthening organizational agility within the digital transformation context. The findings indicate that business strategy positively affects organizational agility and firm performance, while organizational agility functions as a strategic capability that mediates the relationship between strategic orientation and organizational outcomes. Moreover, digital transformation enhances the impact of organizational agility on firm performance by allowing organizations to effectively utilize digital resources, increase responsiveness, and improve adaptability. These findings emphasize that successful digital transformation requires more than technological adoption; it also depends on strategic alignment and organizational capabilities that enable continuous adaptation.

Based on these findings, organizations are encouraged to develop business strategies that prioritize flexibility, innovation, and digital preparedness. Managers should enhance organizational agility through adaptive business processes, employee capability improvement, and effective resource utilization to optimize the advantages of digital transformation. Future managerial approaches should position digital transformation as a strategic effort that supports organizational goals rather than simply as a technology implementation process. For organizations in Malang Raya and other similar emerging business environments, the integration of strategic planning and agility development can contribute to sustainable competitiveness and continuous improvement in long-term performance.

FURTHER STUDY

Future research is encouraged to extend this study by exploring other factors that may affect the relationship between business strategy, organizational agility, and firm performance. Subsequent studies may include variables such as digital leadership, organizational culture, innovation capability, employee digital competence, and technology readiness to develop a more comprehensive understanding of the factors contributing to successful digital transformation. Furthermore, future research may utilize longitudinal approaches and involve broader samples across various regions and industries to enhance the generalizability of the findings. Comparative research involving different organizational sectors may also provide deeper insights into how digital transformation capabilities shape organizational agility and performance under diverse environmental conditions.

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