Organizational Inertia, Digital Capabilities, Digital Transformation, and Firm Competencies

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Organizational Inertia, Digital Capabilities, Digital Transformation, and Firm Competencies

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Abstract

Research Aims: This research aims to investigate the impact of organizational inertia on digital capabilities and digital transformation to optimize firm competencies.

Design/Methodology/Approach: The dataset was produced through a quantitative survey of 125 firms in Indonesia using the Structural Equation Model (SEM) to analyse the data.

Research Findings: The results of this study indicate that organizational inertia indirectly impacts firm competencies through digital capabilities and digital transformation. Organizational inertia impacts digital capabilities, not digital transformation, whereas digital capabilities impact digital transformation and a firm’s competencies.

Theoretical Contribution/Originality: This study contributes to the literatures on organizational behaviour and strategic management by investigating the impact of organizational inertia on the success of digital transformation and its impact on firm competencies.

Managerial Implication in the South East Asian context: The research findings embrace digital transformation practices by enhancing firms' digital capabilities, particularly in digital transformation response, digital opportunity identification, innovative digital technology product development, acquisition, and mastering state-of-the-art digital technologies.

Research Limitation & Implications: The findings of this study reflect the conditions of numerous enterprises operating in several industry sectors in Indonesia during the chaotic post-COVID-19 pandemic period. Furthermore, the survey respondents constitute various firms with various digital transformation implementation levels.

Keywords: Inertia, Digital Capabilities, Digital Transformation, Firm Competencies
INTRODUCTION

Digital disruption has altered the globe and transformed entire industry sectors. The impact of digital technology on enterprises' external environments in terms of competition and customer expectations is changing all the time (Hess et al., 2016; Kane, 2019). In practice, digital technologies have disrupted all industries by allowing firms to get novel sustainable business strategies for the firm's temporary benefits (Tsiavos & Kitsios, 2022). Firms that are unable to adapt to the new digital environment will almost certainly fail and become victims of "digital Darwinism," in which established firms may go out of business. Only enterprises that are attentive to and flexible to digital developments can thrive in this competitive environment (Schwartz, 2001).

Furthermore, the post-COVID-19 pandemic environment puts pressure on businesses to accelerate their digital transformation (Blackburn et al., 2020). In response to this new reality, firms have actively managed their digital transformation, and both business practitioners and academics are growing more interested in the digital transformation issue (Tsiavos & Kitsios, 2022). Although there is a wide and diverse body of literature on digital transformation, there is no agreement on what it is and what it comprises (Warner & Wäger, 2019). Digital transformation is described as organizational change brought about and modified by the widespread adoption of digital technology (Hanelt et al., 2021), while Perkin and Abraham (2017) argue that a "digital native organization" is one that has "grown up in, with, and through digital technologies."

Digital transformation is more than just technology; it is a strategy and governance that involves altering the entire enterprise. For a major transformation, it necessitates fundamental and complete reform. Without a doubt, digital transformation is a multifaceted process that begins with recognising the need for digital transformation, is followed by a comprehensive digital strategy, and the identification of any potential hurdles (Tsiavos & Kitsios, 2022). However, according to Liu et al. (2011), managing digital transformation may be problematic. As a result, a firm must be prepared for its resources and competencies, such as digital capabilities (Khin & Ho, 2018). The purpose of this research is to look at the impact of organizational inertia on digital capabilities and digital transformation in order to optimise firm competencies.
LITERATURE REVIEW

Organizational Learning, Organizational Capabilities, Organizational Resources, and Organizational Inertia

One of the most significant barriers to digital transformation is inertia (Vial, 2019). In the body of knowledge on digital transformation, the term "inertia" is commonly used to describe employee reluctance or impediments that develop during organization’s transformation journeys (Schmid, 2019; Vial, 2019). Organizational inertia is described as resistance to change based on previous experiences and behaviours (Vial, 2019; Haskamp et al., 2021). The importance of route dependence as a limiting factor for digital technology innovation is underscored by the importance of inertia, where existing resources and capabilities can function as barriers to disruption (Vial, 2019).

Organizational learning, organizational capabilities, and organizational resources are some of the antecedents of inertia, according to Haskamp et al. (2021). Organizational learning refers to an organization’s ability to learn and acquire new information. The present ability of the organization to learn and acquire new information has been cited as a source of inertia (Liao et al., 2008; Haskamp et al., 2021). Organizational capabilities refer to an organization’s ability to complete a coordinated set of tasks while employing its resources to achieve a specific result (Konopik et al., 2022). The absence of specific organizational capabilities has been identified as a source of inertia (Tripsas, 2009; Töytäri et al., 2017; Vial, 2019; Haskamp et al., 2021).

Organizational resources, according to Barney (2001), are the firm's (tangible and intangible) assets that a corporation employs to establish and carry out plans for boosting production or marketing effectiveness for target customers. Existing resources, such as supply chains, industrial networks, and sales networks, have been identified as sources of inertia (Liang et al., 2017; Vial, 2019; Haskamp et al., 2021). Firms were unable to implement the consequences of new IT/IS are due to resource constraints (Liang et al., 2017). Because of the implementation of new IT/IS, some businesses may lose their current competencies and market positions (Shekhar Mishra & Saji, 2013; Hong & Kim, 2020). Clients, for example, require that these organizations continue to use current technologies and systems (Liang et al., 2017). Furthermore, some businesses may not gain from investing in novel IT-related processes (Saji & Nair, 2010).
This research looks at the relationship between organizational inertia and organizational learning, capabilities, and resources. As a result, the following hypotheses can be proposed as the first, second, and third:

H1: Organizational learning has a positive impact on organizational inertia.

H2: Organizational capabilities have a positive impact on organizational inertia.

H3: Organizational resources have a negative impact on organizational inertia.

Organizational Inertia, Digital Transformation, and Digital Capabilities

Digital transformation is viewed as an intentional response to the rapid industrial and societal changes generated by new digital technology (Vial, 2019). Digital transformation is defined as the use of new digital technologies such as artificial intelligence, mobile, blockchain, cloud, and Internet of Things (IoT) technologies to enable significant business improvements such as improving customer experience, streamlining operations, or developing new business models (Warner & Wäger, 2019). Firms undergoing a digital transformation must overcome major challenges as well as a variety of inertial variables (Haskamp et al., 2021). According to practitioner studies, 70% of digital transformation programs fail to meet their objectives due to "organizational inertia from deeply ingrained behaviors" (Forth et al., 2020). Recent empirical research on organization’s digital transformation journeys supports this, finding organizational inertia as a significant impediment to digital transformation mastery (Soto Setzke, 2020; Schmid, 2019; Vial, 2019). Furthermore, various empirical studies suggest that inertia plays an important role in the digital transformation. According to a recent study by Airikkala (2021), organizational inertia has a detrimental impact on digital transformation.

In today's intensely competitive environment, effective idea generation using digital technology has become critical for organizational survival (Nambisan et al., 2019). The ability of a corporation to manage digital technology for the development of new goods is referred to as its digital capability (Khin & Ho, 2018). The incumbent corporation, on the other hand, is having trouble establishing new digital capabilities (Vial, 2019; Warner & Wäger, 2019). When new technology is viewed as a threat to the firm's basic principles, problems arise, resulting in inertia from numerous sources (Tripsas, 2009).

The purpose of this study is to better understand the influence of organizational inertia on digital transformation and digital capabilities. As a result, we propose the following:

H4: Organizational inertia has a negative impact on digital transformation.

H5: Organizational inertia has a negative impact on digital capabilities.
**Digital Capabilities, Digital Transformation, and Firm Competencies**

Although managing digital transformation might be difficult, capability and resource readiness are critical (Wang et al., 2021). According to Carcary et al. (2016), an organization needs to develop multiple talents across a wide variety of domains, which may differ depending on the industry and business demands. According to Westerman et al. (2012), 77% of respondents highlighted a lack of skills as a hindrance to digital transformation. They argue that digital skills must go beyond traditional IT to include specialised technologies like social media and mobile, as well as the analytical talents required to extract value from massive datasets.

The ability of a firm to manage digital technology for the purpose of generating new goods is referred to as its digital capabilities (Khin & Ho, 2018). Through digital transformation, businesses are progressively leveraging digital capabilities to better their business models, operational procedures, and consumer experiences (Westerman et al., 2012). According to a recent study (Rupeika-Apoga et al., 2022), digital capabilities immediately enhance digital transformation. Firms are becoming more aware of the importance of adapting their operations, strategies, and routines to meet the challenges provided by the "new normal" (Loureiro et al., 2021). Firms have begun to use digital tools to streamline and increase the efficiency of their procedures in order to preserve business continuity. Thus, the development in popularity of digital capabilities can be attributed to a dynamic and unstable environment (Zhen et al., 2021).

Previous research has shown that digital innovation moderates the impact of digital capabilities on firm performance, positively affecting both financial and non-financial performance. Other research indicates that digital capabilities make a firm more adaptable and save money (Drnevich & Croson, 2013). However, a lack of data makes determining how firm strengths and digital capabilities interact challenging. As a result, our research aims to address this void by researching the impact of digital capabilities on the competencies of digital organizations. Therefore, our research looks into the impact of digital capabilities on digital transformation and firm competencies. As a result, the sixth and seventh hypotheses are:

H6: Digital capabilities have a positive impact on digital transformation.

H7: Digital capabilities have a positive impact on firm competencies.

**Digital Transformation and Firm Competencies**

The impact of digital transformation is mostly measured at the organizational level (Vial, 2019). Without question, digital transformation is a powerful instrument that businesses may employ to establish and maintain competitive advantages in the digital era (Bharadwaj et al., 2013; Svahn et al., 2017). Because IT helps organizational activities, firms first attempt to boost
operational efficiency or cut costs through digital transformation (Björkdahl, 2020; Melrose et al., 2021). A favourable relationship exists between digital transformation and process-based operating performance, as well as a U-shaped relationship between digital transformation and profit-oriented financial performance (Guo & Xu, 2021).

Other research indicates that digital transformation improves numerous firm activities, including supply chains, sales, and services (Hansen & Sia, 2015; Yeow et al., 2018; Qiu et al., 2021). According to a survey of worldwide corporations conducted by Capgemini Consulting, digital transformation has significantly enhanced financial measures such as revenue, profitability, and market value (Westerman & Bonnet, 2015). However, there is a paucity of evidence to demonstrate a link between digital transformation and a firm's competencies. Ritter (2006) defined firm competencies as "high-level routines (or collections of routines) that confer upon an organization’s management a set of decision options for producing significant outputs of a specific type, in conjunction with its implementing input flows."

The purpose of this study is to investigate the impact of digital transformation on firm competencies. As a result, we hypothesise:

H8: Digital transformation has a positive impact on firm competencies.

![Research Model](image)

**Figure 1. Research Model**

**RESEARCH METHOD**

This is a descriptive study using a deductive method that begins by considering related theories, creates hypotheses relevant to the research issue, and tests hypotheses using a research strategy that employs primary data from surveys or questionnaires. This research uses quantitative methodologies. The questionnaire was launched in two stages: the first was for piloting to
determine if any further improvements to the measurements were required, and the second was for data collection using a modified or refined questionnaire to respondents in the targeted population, excluding the pilot respondents. Data collected and evaluated using statistical tools will be used to evaluate each construct. This study's target sample is a diversified management level of respondents who worked in various organizations operating in several industry sectors in Indonesia (staff/officer level, junior management, middle management, and senior management team). From May 16th through June 15th, 2022 (the post-COVID-19 pandemic), an empirical investigation was done.

Table 1. Variable Measurement

<table>
<thead>
<tr>
<th>Variables</th>
<th>Measurements</th>
<th>References</th>
</tr>
</thead>
<tbody>
<tr>
<td>Organizational Learning</td>
<td>Knowledge Acquisition</td>
<td>Jiménez-Jiménez &amp; Sanz-Valle (2011)</td>
</tr>
<tr>
<td></td>
<td>Knowledge Distribution</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Knowledge Interpretation</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Organizational Memory</td>
<td></td>
</tr>
<tr>
<td>Organizational Capabilities</td>
<td>Surprise &amp; Crisis Anticipation Ability</td>
<td>Ouakouak et al. (2013)</td>
</tr>
<tr>
<td></td>
<td>New Ideas Generation Ability</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Fast Strategic Decision Ability</td>
<td></td>
</tr>
<tr>
<td>Organizational Resources</td>
<td>Material Resources</td>
<td>Hong &amp; Kim (2020)</td>
</tr>
<tr>
<td></td>
<td>Technology Resources</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Financial Resources</td>
<td></td>
</tr>
<tr>
<td>Organizational Inertia</td>
<td>Socio-Technical Inertia</td>
<td>Schmid (2019)</td>
</tr>
<tr>
<td></td>
<td>Economic Inertia</td>
<td>Haag (2014)</td>
</tr>
<tr>
<td></td>
<td>Political Inertia</td>
<td></td>
</tr>
<tr>
<td>Digital Capabilities</td>
<td>Digital Technology Acquisition</td>
<td>Khin &amp; Ho (2018)</td>
</tr>
<tr>
<td></td>
<td>Digital Opportunities Identification</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Digital Transformation Response</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Mastering State-of-The-Art Digital Technology</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Innovative Digital Technology Product Development</td>
<td></td>
</tr>
<tr>
<td>Digital Transformation</td>
<td>Supporting New Commercial Activities</td>
<td>Chu et al. (2019)</td>
</tr>
<tr>
<td></td>
<td>Business Process Integration</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Supporting Communication of Commercial Information</td>
<td></td>
</tr>
<tr>
<td>Firm Competencies</td>
<td>Production Competencies</td>
<td>Izadi et al. (2018)</td>
</tr>
<tr>
<td></td>
<td>Sales &amp; Marketing Competencies</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Informational Competencies</td>
<td></td>
</tr>
</tbody>
</table>

This study employs a Google Forms questionnaire, which was disseminated to respondents who were requested to participate in the survey by providing the questionnaire's URL to them via WhatsApp, yielding 125 valid respondents. To evaluate survey data, this study used structural equation modelling (SEM) with LISREL software. Hair et al. (2019) propose SEM as a statistical model that can explain correlations between numerous variables better than existing regression or multivariate methodologies. SEM is most used when the study's model includes numerous
variables. According to the references, several measurements are used to measure all variables (Table 1.).

RESULTS AND DISCUSSION

Table 2. Summary Result of Hypotheses Testing

<table>
<thead>
<tr>
<th>No</th>
<th>Hypotheses</th>
<th>β</th>
<th>t-Value</th>
<th>Remarks</th>
<th>Conclusion</th>
</tr>
</thead>
<tbody>
<tr>
<td>H1</td>
<td>Organizational Learning has a negative impact on Organizational Inertia</td>
<td>0.05</td>
<td>0.18</td>
<td>Insignificant</td>
<td>Not Supported</td>
</tr>
<tr>
<td>H2</td>
<td>Organizational Capabilities have a negative impact on Organizational Inertia</td>
<td>-0.01</td>
<td>-0.02</td>
<td>Insignificant</td>
<td>Not Supported</td>
</tr>
<tr>
<td>H3</td>
<td>Organizational Resources have a positive impact on Organizational Inertia</td>
<td>-0.03</td>
<td>-0.24</td>
<td>Insignificant</td>
<td>Not Supported</td>
</tr>
<tr>
<td>H4</td>
<td>Organizational Inertia has a negative impact on Digital Transformation</td>
<td>-0.07</td>
<td>-1.08</td>
<td>Insignificant</td>
<td>Not Supported</td>
</tr>
<tr>
<td>H5</td>
<td>Organizational Inertia has a negative impact on Digital Capabilities</td>
<td>-0.21</td>
<td>-2.53</td>
<td>Significant</td>
<td>Supported</td>
</tr>
<tr>
<td>H6</td>
<td>Digital Capabilities have a positive impact on Digital Transformation</td>
<td>0.73</td>
<td>6.78</td>
<td>Significant</td>
<td>Supported</td>
</tr>
<tr>
<td>H7</td>
<td>Digital Capabilities have a positive impact on Firm Competencies</td>
<td>0.42</td>
<td>3.56</td>
<td>Significant</td>
<td>Supported</td>
</tr>
<tr>
<td>H8</td>
<td>Digital Transformation has a positive impact on Firm Competencies</td>
<td>0.29</td>
<td>2.43</td>
<td>Significant</td>
<td>Supported</td>
</tr>
</tbody>
</table>

Result

There are eight tested hypotheses; four hypotheses are supported (H5, H6, H7, H8), and four hypotheses are not supported (H1, H2, H3, H4). The summary result of the hypotheses testing are shown in Table 2. The four hypotheses of our study are firmly supported by our data (t-value >= 1.96). The first is that organizational inertia has a significant negative impact on digital capabilities (H5); Second, digital capabilities have a significant positive impact on digital transformation (H6); Third, digital capabilities have a significant positive impact on firm competence (H7); Fourth, digital transformation has a significant positive impact on firm competencies (H8). Interestingly, four hypotheses are not supported (t-value < 1.96). The model shows that organizational inertia is not impacted by organizational learning (H1), organizational capabilities (H2), and organizational resources (H3), and organizational inertia does not impact digital transformation.
Discussion

Our research addresses the interaction between organizational learning, organizational capabilities, organizational resources, organizational inertia, digital capabilities, digital transformation, and firm competencies. Our final research model states that: (1) organizational learning has no impact on organizational inertia; (2) organizational capabilities have no impact on organizational inertia; (3) organizational resources have no impact on organizational inertia; and (4) organizational inertia has no impact on digital transformation; however, (5) organizational inertia has a positive impact on digital capabilities; (6) digital capabilities have a positive impact on digital transformation, and (7) digital capabilities has a positive impact on firm competencies, and (8) digital transformation has a positive impact firm competencies.

The results of this study show that the best way to overcome organizational resistance to digital transformation and maintain firm competencies in the face of disruption from the digital age depends on a firm's digital capabilities. In these challenging times, these capabilities are crucial for a firm's ability to effectively explore and exploit digital technologies for environmental sustainability.

It is in line with Lukito et al. (2022), digital technology integration, along with operational agility, digital culture, and digital leadership, is one of the key elements in a digital transformation, as opposed to just an IT upgrade. In order to adapt to changing technology, organizational culture must adopt a digital mindset. Additionally, digital capabilities can be utilised to manage the best use of technology resources for the process of digital transformation and innovation, claim Cohen et al. (2017).

Our research demonstrates how organizational inertia negatively impacts digital capabilities. It supports Warner & Wäger (2019), Vial (2019), and Nambisan (2017). We found that through digital transformation, digital capabilities enhance firm competencies. Both Westerman et al.
(2012) and Rupeika-Apoga et al. (2022) are supported this. Additionally, the study reveals that organizational inertia has little bearing on digital transformation. From a practical standpoint, the government, acting as the regulator, has mostly forced the firm's digitalisation and internal adjustments during the post-COVID-19 pandemic in Indonesia. Therefore, external causes often serve as the driving force behind change processes. In this situation, the firm's high level of internal resistance may not necessarily be detrimental to the success of the digital transformation.

The study also found that organizational learning has no effect on inertia within organizations. Our findings may be consistent with those of Liao et al. (2008), who demonstrate that organizational inertia influences organizational learning rather than the other way around. During the COVID-19 pandemic, managers have compelled employees to perform digital work. Although it initially presents challenges in the form of organizational inertia, it eventually turns into a learning exercise for adapting to the digital work environment. In order to develop a firm's competitive advantage, digital innovation is increasingly based on improving knowledge absorption (Rahman & Siswowiyanto, 2018).

According to our findings, organizational capabilities have little effect on organizational inertia. It may support the findings of Larsen and Lomi (2002) that organizational inertia and capacities function as dynamic accumulation processes. Organizational inertia (resistance to change) is determined by organization’s size, age, capabilities, and a change threshold that is unique to each firm. Organizational capacities function as a ‘dynamic of routines’ represented by the evolutionary mechanism of variation, selection, and retention. Change generates disparities, which are subsequently turned into performance, and performance, in turn, converts routines into capabilities via the learning process. Organizational inertia hinders the emergence of new capabilities by slowing the learning rate and lowering performance in the end. Managerially, the digital work environment's higher organizational inertia may impair organizational capacities.

Furthermore, this study discovered that organizational resources had little effect on organizational inertia. In practice, the firm's digital transformation and internal changes during the COVID-19 pandemic are largely compelled by external factors such as pandemic legislation and protocols. Pre-existing resources are not highlighted as sources of inertia in this case.
MANAGERIAL IMPLICATIONS IN THE SOUTH EAST ASIAN CONTEXT

In the context of Southeast Asia, our study makes a practical contribution from a business standpoint to dealing with digital disruption. Policymakers and firm executives may be the principal recipients of the study's practical consequences. Because our study establishes a link between digital capabilities and digital transformation, its practical significance for policymakers lies in the potential application of its findings to kickstart the process of digital transformation among businesses by enhancing their digital capabilities, particularly in digital transformation response, digital opportunity identification, innovative digital technology product development, digital technology acquisition, and ma Despite the overall positive trend toward digitalisation, the digital skills of employees in various areas remain relatively low.

Recommendations for firm managers to innovate and establish sustainability include harnessing the benefits of digital transformation for businesses, such as enabling new commercial activities, business process integration, and commercial information sharing. Learning new technological skills is critical for successful digital transformation. However, this is insufficient. Employees must be encouraged to put their skills to use to create new opportunities. They require a digital mindset as well as the establishment of a culture of continuous learning, as well as the acceleration of adoption and the alignment of digital systems. Firms should, however, use more digital technologies such as cloud computing and artificial intelligence, which provide a variety of new solutions for diverse industries, especially given their recent increase in availability. Firms that invest in digital technology can improve their competence and performance by focusing on digital capabilities.

The study's findings can assist firm managers in understanding why investment in specific areas is required to improve digital capabilities. The practical application for firm managers is to persuade them that more advanced digital capabilities are the potential for survival and strengthening corporate competencies, not just a transitory fad.

THEORETICAL IMPLICATIONS

This study gives new evidence showing organizational inertia is not influenced by organizational learning, organizational competencies, or organizational resources, which contradicts prior empirical investigations by Haskamp et al. (2021). This study hence delivers a novel finding that organizational inertia has no substantial impact on digital transformation, which contradicts earlier research by Schmid (2019), Soto Setzke (2020), Vial (2019), and Forth (2020). Nevertheless, our findings support prior research by Nambisan (2017), Vial (2019), and Warner & Wäger (2019).
that organizational inertia has a negative influence on digital capabilities. This study also demonstrates that digital capabilities have a favorable impact on digital transformation, which adds to previous research by Rupeika-Apoga et al. (2022). Finally, this study reveals that digital transformation and digital capabilities have a favorable impact on business competencies.

The findings of this study reflect the conditions of numerous enterprises operating in several industry sectors in Indonesia during the chaotic post-COVID-19 pandemic period. Furthermore, the survey respondents represent a diverse range of businesses at varying stages of digital transformation implementation. As a result, the results solely represent firms under those unique circumstances. However, when the study is conducted in normal settings and in different nations, the results may differ. Future studies on organizational inertia and digital transformation could include firms with the same level of digital transformation implementation and in the same industry sector. Future research should also investigate the function of the TMT (Top Management Team) in strengthening digital capabilities and digital transformation, as digital capabilities are critical for digital transformation.

CONCLUSION

This study sheds light on the relationships between organizational inertia, digital capabilities, digital transformation, and firm competencies. It implies that in the digital disruption era, firms must first secure their digital capabilities in order to achieve firm competencies through digital transformation. We discovered that digital capabilities are critical in the development of firm competencies (production, sales and marketing, and informational competencies). In this study, digital capabilities include identifying digital opportunities, responding to digital transformations, acquiring digital technology, mastering cutting-edge digital technology, and developing new digital technology products. Nonetheless, we propose that the firm overcome organizational inertia, which includes political, socio-technical, and economic inertia, in order to build its digital capabilities.

The findings of our study also suggest that organizational inertia itself has little bearing on digital transformation, which includes integrating business processes, supporting commercial information communication, and supporting new commercial activities. This is because the study was conducted in the tumultuous post-COVID-19 pandemic period, which acted as a catalyst for each organization and its employees to change with little resistance.
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