Effect of Strategic Planning, Business Innovation, Digital Transformation, and Organisational Agility on Competitive Advantage of Modern Service Companies in West Java

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Submitted:
JULY 2025

Accepted:
SEPTEMBER 2025

ABSTRACT

The increasingly dynamic business environment compels modern service companies to continuously strengthen their competitive advantage. Despite extensive studies on strategic and digital capabilities, empirical research that simultaneously integrates strategic planning, business innovation, digital transformation, and organisational agility—particularly within the modern service sector—remains limited. This study aims to examine the effects of these four strategic factors on the competitive advantage of modern service companies in West Java Province. This research adopts a quantitative causal approach using a survey method. Data were collected from 134 managers of modern service companies across financial services, tourism, transportation, education, and information and communication technology sectors. The data were analysed using Partial Least Squares–Structural Equation Modeling (PLS-SEM) with SmartPLS software. The results indicate that strategic planning, digital transformation, and organisational agility have positive and significant effects on competitive advantage. Conversely, business innovation exhibits a significant negative effect, suggesting that innovation initiatives that are not strategically aligned or organisationally prepared may undermine competitiveness in service-oriented firms. The model demonstrates strong explanatory power, with the independent variables jointly explaining a substantial proportion of the variance in competitive advantage. This study contributes to strategic management literature by providing empirical evidence on the differentiated roles of strategic, digital, and organisational capabilities in shaping competitive advantage within the modern service sector. Practically, the findings highlight the importance of prioritising strategic clarity, adaptive capability, and purposeful digitalisation, while managing innovation selectively to ensure alignment with organisational readiness and market needs.

Keywords: strategic planning; business innovation; digital transformation; organisational agility; competitive advantage; modern service companies

JIMKES

Jurnal Ilmiah Manajemen Kesatuan
Vol. 13 No. 5, 2025
pp. 4121 - 4138
IBI Kesatuan
ISSN 2337 – 7860
E-ISSN 2721 – 169X
DOI: 10.37641/jimkes.v13i5.3873

ABSTRAK

Lingkungan bisnis yang semakin dinamis menuntut perusahaan jasa modern untuk terus memperkuat keunggulan kompetitifnya. Meskipun berbagai studi telah membahas kapabilitas strategis dan digital, penelitian empiris yang secara simultan mengintegrasikan perencanaan strategis, inovasi bisnis, transformasi digital, dan kelincahan organisasi dalam konteks sektor jasa modern masih terbatas. Penelitian ini bertujuan untuk menganalisis pengaruh keempat faktor tersebut terhadap keunggulan kompetitif perusahaan jasa modern di Provinsi Jawa Barat. Penelitian ini menggunakan pendekatan kuantitatif dengan desain kausal melalui metode survei. Data dikumpulkan dari 134 manajer perusahaan jasa modern yang mencakup subsektor jasa keuangan, pariwisata, transportasi, pendidikan, serta teknologi informasi dan komunikasi. Analisis data dilakukan menggunakan Partial Least Squares–Structural Equation Modeling (PLS-SEM) dengan bantuan perangkat lunak SmartPLS. Hasil penelitian menunjukkan bahwa perencanaan strategis, transformasi digital, dan kelincahan organisasi berpengaruh positif dan signifikan terhadap keunggulan kompetitif. Sebaliknya, inovasi bisnis berpengaruh negatif dan signifikan, yang mengindikasikan bahwa inisiatif inovasi yang tidak selaras dengan arah strategis dan kesiapan organisasi justru dapat melemahkan daya saing perusahaan jasa. Model penelitian memiliki daya jelas yang kuat, di mana variabel independen secara bersama-sama mampu menjelaskan proporsi variasi yang besar terhadap keunggulan kompetitif. Secara teoretis, penelitian ini memperkaya literatur manajemen strategis dengan menunjukkan peran diferensial kapabilitas strategis, digital, dan organisasi dalam membentuk keunggulan kompetitif sektor jasa modern. Secara praktis, temuan ini menegaskan pentingnya kejelasan arah strategis, kemampuan adaptif, serta digitalisasi yang terarah, sekaligus perlunya pengelolaan inovasi secara selektif agar selaras dengan kesiapan organisasi dan kebutuhan pasar.

Kata kunci: Perencanaan Strategis; Inovasi Bisnis; Transformasi Digital; Kelincahan Organisasi; Keunggulan Kompetitif; Perusahaan Jasa Modern

INTRODUCTION

Today's highly dynamic business landscape changes require service companies to be able to adapt strategically in the face of increasingly intense competition (Quansah et al., 2022). The phenomenon of globalisation, accelerated advances in digital technology, and increased consumer expectations have driven a fundamental transformation in the service sector (Van Veldhoven & Vanthienen, 2022a). In West Java Province, the service sector is experiencing higher competitive pressures as wider market access opens up due to the penetration of digital technology (Statistics Indonesia, 2024). Many service companies, especially in modern service subsectors such as financial, tourism, transport, education, and information and communication technology (ICT) services, face serious challenges in maintaining business sustainability (P. Li et al., 2023). These challenges include weak strategic planning, low innovation capabilities, delays in adopting digital transformation, and a lack of organisational agility in responding to market dynamics (J. Zhang et al., 2025). This research has become very urgent because the integration of mature strategic planning, sustainable business innovation, adaptive digital transformation, and high organisational agility is believed to be key factors in creating competitive advantages for service companies in this era of disruption (Probojakti et al., 2025a). Without strengthening these factors, service companies in West Java risk being left behind in competition in regional, national, and international markets.

The selection of the services sector in West Java Province as the object of research is based on the dominant contribution of this sector to regional economic growth. Based on data from the Central Bureau of Statistics (2024), the services sector in West Java contributes more than 50% to the Gross Regional Domestic Product (GRDP), with the main subsectors including financial services, tourism services, education services, transportation services, and information and communication technology services. Unlike

the manufacturing sector, which relies on physical assets and mass production processes, the modern service sector focuses more on the quality of human resources, technology mastery, and service innovation speed as a source of excellence (Schiavone et al., 2023). In addition, the characteristics of West Java people who tend to be consumptive, technologically literate, and a rapidly growing service market are differentiating factors compared to other regions (Chen et al., 2022). Service companies in West Java urgently need to be more agile, innovative, and able to optimise technology to compete sustainably. Therefore, this research focuses on modern service subsectors that are relevant to the development of the digital economy and the growth of service-based markets.

Conceptually, a company's competitive advantage is not only determined by external factors, but is more influenced by the organization's internal strength (Tukirin, 2023a). Strategic planning, business innovation, digital transformation, and organisational agility are crucial internal factors in shaping competitive advantage (Musa & Enggarsyah, 2025a). Strategic planning serves as an organisational roadmap in setting the direction and priorities for achieving long-term goals (Gandrita, 2023). Business innovation plays a role in updating products, services, and business models that can create added value (Ambarwati et al., 2025). Digital transformation is an accelerator to increase operational efficiency, expand market reach, and improve customer interactions (Annisa & Sutjipto, 2025; Hokmabadi et al., 2024). Meanwhile, organisational agility allows companies to quickly adapt to changes in the uncertain business environment (Mrugalska & Ahmed, 2021; Musa & Enggarsyah, 2025a; Syamil et al., 2025). The interaction of the four variables is believed to strengthen each other and significantly influence competitive advantage, especially in the service sector, which is oriented towards service speed and customer experience.

Some previous studies have discussed some of the variables in this study. However, most studies are still limited to the manufacturing sector or have not integrated all variables in one research framework. (Annisa & Sutjipto, 2025; Prihandono et al., 2024) for example, proved the effect of digital transformation on competitive advantage in the manufacturing sector in Central Java, but did not explore the service sector. (Hasidi et al., 2024; Yildiz & Aykanat, 2021) focused on business innovation on financial performance, but did not include organisational agility variables. Meanwhile, research by (F. Li et al., 2021) shows that strategic planning can improve company performance, but the research is limited to large-scale manufacturing companies. In addition, research on the simultaneous influence of the four variables on competitive advantage in the modern service sector, especially in West Java Province, is still minimal. This condition indicates a research gap that needs to be filled.

Based on the exposure of these gaps, this study offers novelty by examining the simultaneous influence of strategic planning, business innovation, digital transformation, and organisational agility on the competitive advantage of modern service companies in West Java. This research is expected to contribute academically to developing literature in strategic management, especially in the context of modern services in the digital era. From the practical side, this research can be a reference for the management of service companies in designing business strategies that are more adaptive and oriented towards competitive advantage. Specifically, this study aims to empirically examine the direct and indirect effects of strategic planning, business innovation, digital transformation, and organisational agility on competitive advantage, to provide applicable strategic recommendations for modern service companies in the West Java region.

Although prior studies have examined strategic planning, business innovation, digital transformation, and organisational agility in relation to firm performance and competitive advantage, existing research remains largely fragmented. Most studies investigate these variables in isolation or focus predominantly on manufacturing sectors and large-scale firms, providing limited insight into the dynamics of modern service companies. Empirical studies that simultaneously integrate these four strategic capabilities into a single framework, particularly within regional service-sector contexts,

remain scarce. From a theoretical perspective, such integration is crucial because competitive advantage in modern service firms is increasingly shaped by the synergy between clear strategic direction, adaptive organisational capability, effective digital utilisation, and well-aligned innovation practices. The absence of alignment among these capabilities may lead to unintended outcomes, including innovation efforts that fail to enhance competitiveness. From a practical standpoint, an integrated understanding of these factors is essential for managers to avoid overemphasising innovation or digitalisation without sufficient strategic coherence and organisational readiness.

Addressing this gap, the present study develops and empirically tests an integrative model examining the simultaneous effects of strategic planning, business innovation, digital transformation, and organisational agility on the competitive advantage of modern service companies in West Java. This study contributes to strategic management literature by extending empirical evidence within the service sector context and offers practical insights for managers and policymakers in designing more coherent, adaptive, and sustainable competitive strategies.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Strategic planning is an organization's formal process to direct long-term goals, anticipate the dynamics of the external environment, and optimally manage internal resources to achieve competitive advantage (Restuputri et al., 2024; Tukirin, 2023b). Strategic planning provides a framework for management in determining business priorities, managing risks, and adjusting the company's direction to increasingly rapid market changes (Puglieri et al., 2022). In the context of a service industry that relies heavily on customer interactions, strategic planning plays a vital role in ensuring companies can adapt service models to changing market preferences (Kaur et al., 2022). (Shahul Hameed et al., 2022) assert that effective implementation of strategic planning improves the efficiency of business processes and contributes to strengthening the competitive performance of service companies. Furthermore, service companies that consistently carry out the strategic planning process are considered more resilient in the face of competitive pressures and more adaptive to technological dynamics and changes in consumer behaviour.

Business innovation is a series of organisational processes that create and implement new ideas to produce products, services, and business models that can create added value (Ambarwati et al., 2025; Bresciani et al., 2021a). In the service sector, innovation is not only limited to product development, but includes service process innovation, customer interaction innovation, and technology-based business model development (Andreini et al., 2022). Service organisations with high innovation capabilities can more easily adapt to market demands, increase customer loyalty, and create sustainable competitive advantages (Hajar et al., 2022). In addition, (Farida & Setiawan, 2022a) found that business innovation contributes significantly to the company's long-term growth, especially by encouraging service differentiation that is difficult for competitors to imitate. Business innovation also acts as a catalyst in accelerating the organisational transformation process towards a more competitive direction in the digital era.

Digital transformation is a fundamental process that involves comprehensive changes to business models, internal processes, and customer interaction patterns through digital technology (Van Veldhoven & Vanthienen, 2022b). Digital transformation in the service sector allows companies to speed up service times, improve service accuracy, and create a more personalised and responsive customer experience (Aldoseri et al., 2024). Adopting technologies such as artificial intelligence, big data analytics, Internet of Things (IoT), and digital platforms is key to transforming the service sector in the modern era (Agarwal et al., 2024). Companies that successfully integrate digital technology into their business models have a more decisive competitive advantage regarding operational efficiency, market reach, and customer satisfaction(Dymitrowski & Mielcarek, 2021). Digital transformation is not just about modernising technological infrastructure, but

includes changing organisational culture to be more innovative and adaptive in the face of market disruption.

Organisational agility is defined as the ability of a company to quickly and effectively adapt its strategy, structure, and business processes in response to the dynamics of the external environment (Kismono et al., 2024). In the service sector, organisational agility is key in responding to changing customer needs, disruptive technological developments, and market uncertainty (Musa & Enggarsyah, 2025b). Research by (Susanty et al., 2024) confirms that agile organisations are more capable of creating adaptive advantage, namely the ability to read market opportunities and adjust proactively. Organisational agility also strengthens the resilience of businesses in the face of crises and market disruptions(AlQahtani et al., 2025). Organisational agility encourages accelerated decision-making, increased cross-functional collaboration, and high flexibility in developing strategies relevant to the changing needs of the service market.

Competitive advantage is when an organisation has unique capabilities that competitors do not easily imitate to maintain superior business performance continuously (Farida & Setiawan, 2022b; Rezeki et al., 2025). Competitive advantage is derived from a combination of resources that are valuable, rare, inimitable, and difficult to replace (VRIN Resources) (Amaya et al., 2024). In the service sector, competitive advantage is highly dependent on service differentiation, continuous innovation, speed of service, and mastery of digital technology that provides a superior customer experience (Olubiyi, 2024a). Modern service companies combining business innovation, digital transformation, and organisational agility will find building a sustainable competitive advantage easier (Probojakti et al., 2025b). In addition, in the digital era, competitive advantage is no longer just static, but dynamic, where the company's ability to continuously learn and adapt is the main differentiating factor.

Strategic Planning and Competitive Advantage

Strategic planning is a systematic process carried out by organisations to set long-term goals by considering various internal and external factors that affect the (Gandrita, 2023). Through effective strategic planning, companies can optimally manage resources, set development priorities, and develop adaptive measures relevant to business environment changes (Alsharari, 2024). In the context of the service sector, strategic planning serves as a guide for companies in creating value-added services, building uniqueness that is difficult to imitate by competitors, and strengthening the company's capabilities in the face of market pressure (Su et al., 2024). Research by (Farida & Setiawan, 2022b) revealed that the implementation of strategic planning effectively contributes to the company's competitive advantage through improving service efficiency, service quality, and strengthening differentiation. **H1: Strategic planning has a positive effect on competitive advantage.**

Business Innovation and Competitive Advantage

Business innovation is one of the primary keys for companies to maintain business continuity and gain a competitive advantage in a competitive market (Andreini et al., 2022). In the modern service sector, innovation is not only limited to product development, but also includes service process innovation, business models, and improved customer interaction (Bresciani et al., 2021b). Research conducted by (Kandampully et al., 2023) states that service companies that can create sustainable innovations have higher competitiveness through increasing service value and forming stronger customer relationships. In addition, (L. Li et al., 2025) found that business innovation significantly contributes to competitive advantage because it can create differentiation and expand market share. **H2: Business innovation has a positive effect on competitive advantage.**

Digital Transformation and Competitive Advantage

Digital transformation is a fundamental process of integrating digital technology into an organisation's business processes, leading to improved service performance and

creating new value for customers (Probojakti et al., 2025a). The application of digital technology in the service sector positively accelerates services, increases operational efficiency, and improves customer experience (Olubiyi, 2024b). Digital transformation also allows service companies to adapt quickly to changing customer preferences and highly dynamic market conditions (Khuntia et al., 2024). Research by (Malik et al., 2025) shows that service companies optimally adopting digital transformation will have a more decisive competitive advantage because they can provide responsive, personalised, and innovative services. **H3: Digital transformation has a positive effect on competitive advantage.**

Organisational Agility and Competitive Advantage

Organizational agility is the company's ability to adapt quickly and effectively to the dynamics of the business environment, both in the decision-making process and strategy adjustments (Kismono et al., 2024). In a service sector characterised by a high degree of uncertainty, organisational agility plays a central role in enhancing a company's ability to react proactively to changes in market demand, technological developments, and competitive challenges (Jaafar et al., 2025). Agile organisations can anticipate business opportunities faster, thus creating a sustainable competitive advantage (Franco et al., 2024). Research by (Goraya et al., 2024) also shows that organisations with a high level of agility have better resilience and superior service performance than rigid companies. **H4: Organisational agility has a positive effect on competitive advantage.**

Simultaneous Relationship of Strategic Planning, Business Innovation, Digital Transformation, and Organisational Agility to Competitive Advantage

In the strategic management literature, competitive advantage is influenced by a single variable and synergy from various internal organisational elements (Satar et al., 2025). Service companies that integrate strategic planning, business innovation, digital transformation, and organisational agility simultaneously are predicted to create a more sustainable competitive advantage. The synergy between these variables allows companies to operate more adaptively, innovatively, and responsively in responding to market dynamics (Agyapong et al., 2024; Mata et al., 2024). Strategic collaboration of these four internal factors is believed to increase internal efficiency and sustainably increase customer value. Based on this theoretical basis, the following hypothesis is:

H5: Strategic planning, business innovation, digital transformation, and organisational agility simultaneously have a positive effect on competitive advantage.

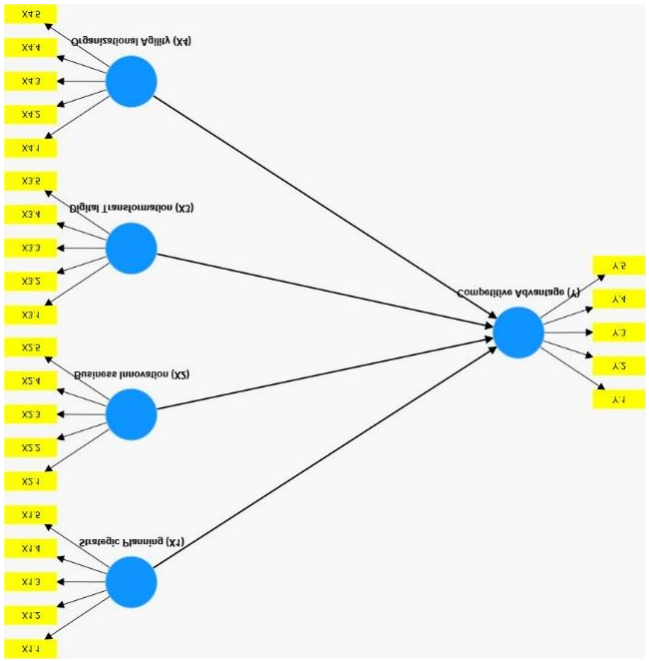

Figure 1. Conceptual Framework of Interrelationships Between Variables

METHODS

This study employs Partial Least Squares–Structural Equation Modeling (PLS-SEM) as the primary analytical technique due to its suitability for predictive-oriented research and its ability to handle complex models involving multiple latent constructs and indicators. PLS-SEM is particularly appropriate for this study because the research objective focuses on explaining and predicting competitive advantage rather than confirming an established theory. Additionally, PLS-SEM does not require strict assumptions of multivariate normality and is well-suited for moderate sample sizes, making it an appropriate choice given the sample size of 134 respondents and the model's structural complexity. Given that the data were collected using a single self-administered questionnaire, the potential for common method bias (CMB) was carefully considered. To mitigate this issue procedurally, respondents were assured of anonymity and confidentiality, and questionnaire items were clearly structured to reduce evaluation apprehension. Statistically, Harman's single-factor test was conducted as an initial diagnostic approach. The results indicate that no single factor accounted for the majority of the variance, suggesting that common method bias is unlikely to pose a serious threat to the validity of the findings.

Data were collected using a survey method through a structured questionnaire, allowing for efficient reach and standardized responses from a broad range of participants (F. Hair Jr et al., 2014). The data analysis in this study employs Structural Equation Modeling (SEM) using the Partial Least Squares (PLS) approach, facilitated by SmartPLS software. In addition to primary data obtained through surveys, the study incorporates secondary data from scientific journals, company reports, and statistical publications from the Central Statistics Agency (BPS, 2024) to strengthen the research context and background.

This research was conducted in West Java Province, targeting companies within the modern service sector, which includes financial services, tourism, transportation, education, and information and communication technology (ICT), as defined by BPS (2024). The study population comprises all firms operating in this sector within the region. A purposive sampling method was used based on the following criteria: (1) the company operates within the modern service sector, (2) has a dedicated management or strategic planning unit, and (3) has been in operation for a minimum of three years.

The sample was determined using a purposive sampling technique with 134 respondents as managers or strategic division leaders of modern service companies in West Java. This number meets the minimum SEM-PLS criteria of 5-10 times the number of research indicators (F. Hair Jr et al., 2014). Because there are 25 research indicators, the sample size of 134 is considered to have met the minimum standards of the SEM-PLS measurement model.

RESULTS

In SmartPLS data analysis, the assessment of the outer model involves three key criteria: convergent validity, discriminant validity, and composite reliability. Convergent validity for measurement models with reflective indicators is evaluated by examining the correlation between each item score and the underlying construct, as estimated by the PLS algorithm. A reflective indicator is considered to have strong convergent validity if its loading exceeds 0.70, indicating that the item reliably represents the intended construct.

The results of the analysis using SmartPLS, as presented in Table 1, indicate that the outer model meets the criteria for convergent validity. All indicators show loading factor values greater than 0.70, demonstrating strong correlations between the constructs and their respective indicators. Therefore, the modified measurement model can be considered to have achieved satisfactory convergent validity.

Discriminant validity is assessed to confirm that each latent variable represents a distinct concept, clearly differentiating it from other variables. A model demonstrates good discriminant validity when each indicator's loading on its own latent variable is

higher than its loadings on all other latent variables. The results of the discriminant validity test are as follows:

Table 1. Outer Loadings (Measurement Model)

Construct	Business Innovation (X2)	Competitive Advantage (Y)	Digital Transformation (X3)	Organizational Agility (X4)	Strategic Planning (X1)
X1.1					0,823
X1.2					0,856
X1.3					0,871
X1.4					0,869
X1.5					0,807
X2.1	0,851				
X2.2	0,883				
X2.3	0,892				
X2.4	0,892				
X2.5	0,848				
X3.1			0,849		
X3.2			0,888		
X3.3			0,902		
X3.4			0,897		
X3.5			0,846		
X4.1				0,822	
X4.2				0,886	
X4.3				0,821	
X4.4				0,799	
X4.5				0,827	
Y.1		0,858			
Y.2		0,849			
Y.3		0,892			
Y.4		0,884			
Y.5		0,775			

Source: Data Processing with PLS, 2025

Table 2. Discriminant Validity Value (Fornell- Larcker)

	Business Innovation (X2)	Competitive Advantage (Y)	Digital Transformation (X3)	Organizational Agility (X4)	Strategic Planning (X1)
Business Innovation (X2)	0,873				
Competitive Advantage (Y)	0,945	0,853			
Digital Transformation (X3)	0,975	0,949	0,877		
Organizational Agility (X4)	0,984	0,955	0,970	0,832	
Strategic Planning (X1)	0,988	0,964	0,976	0,984	0,846

Source: Data Processing with PLS, 2025

To further ensure discriminant validity and address the potential limitations of the Fornell–Larcker criterion, this study additionally employed the Heterotrait–Monotrait ratio (HTMT) as recommended in recent PLS-SEM literature. HTMT values below the threshold of 0.90 indicate that the constructs are empirically distinct. The results show that all HTMT values among the latent constructs are below the recommended cut-off value, confirming that discriminant validity is satisfactorily established and that each construct captures a unique conceptual domain.

The validity and reliability of a construct can be evaluated through its reliability coefficient and the Average Variance Extracted (AVE). A construct is considered to demonstrate strong reliability when its reliability score reaches at least 0.70, and the AVE exceeds 0.50, indicating sufficient internal consistency and convergent validity.

Table 3. Composite Reliability Value

Construct	Cronbach's alpha	Composite reliability (rho_a)	Composite reliability (rho_c)	Average variance extracted (AVE)
Business Innovation (X2)	0,922	0,923	0,941	0,763
Competitive Advantage (Y)	0,905	0,906	0,930	0,727
Digital Transformation (X3)	0,925	0,925	0,943	0,769
Organizational Agility (X4)	0,888	0,889	0,918	0,691
Strategic Planning (X1)	0,900	0,901	0,926	0,715

Source: Data Processing with PLS, 2025

Based on the results presented in Table 3, all constructs satisfy the reliability requirements, as evidenced by composite reliability scores exceeding 0.70 and AVE values above 0.50, aligning with established threshold standards. The evaluation of the inner model, or structural model, is conducted to assess the relationships among constructs, the significance levels of those relationships, and the R-square values of the dependent variables. This assessment involves examining the R-square values to determine the explanatory power of the model, conducting t-tests, and analyzing the significance of the structural path coefficients.

Figure 2. The tested structural model

Source: Data Processing with PLS, 2025

In evaluating the model using Partial Least Squares (PLS), the process begins with examining the R-square values for each dependent latent variable. These values reflect the model's explanatory power. Table 4 presents the R-square estimation results as generated through SmartPLS analysis.

Table 4. R-Square value

	R-square	Adjusted R-square
Competitive Advantage (Y)	0,938	0,936

Source: Data Processing with PLS, 2025

Table 4 reveals that the R-square value for the *Competitive Advantage* variable is 0.938, indicating that 93.8% of the variance in *Competitive Advantage* can be explained by

Strategic Planning, *Business Innovation*, *Digital Transformation*, and *Organizational Agility*. The remaining 6.2% is attributed to the influence of other variables not included in the model.

To assess potential multicollinearity issues in the structural model, inner Variance Inflation Factor (VIF) values were examined for all predictor constructs. Following the recommended threshold, inner VIF values below 5.0 indicate the absence of critical collinearity concerns. The results demonstrate that all inner VIF values are within acceptable limits, suggesting that multicollinearity does not pose a threat to the stability and interpretability of the structural path estimates.

Table 5. Direct Effect (Partial)

Construvt	Original sample (O)	Sample average (M)	Standard deviation (STDEV)	T statistic (|O/STDEV|)	P values	Alpha	Conclusion
Business Innovation (X2) -> Competitive Advantage (Y)	-0,610	-0,607	0,204	2,990	0,003	0.05	Affected Negative Significant
Digital Transformation (X3) -> Competitive Advantage (Y)	0,257	0,260	0,080	3,197	0,001	0.05	Significant Positive Influence
Organizational Agility (X4) -> Competitive Advantage (Y)	0,365	0,376	0,174	2,098	0,036	0.05	Significant Positive Influence
Strategic Planning (X1) -> Competitive Advantage (Y)	0,956	0,940	0,204	4,683	0,000	0.05	Significant Positive Effect

Source: Data Processing with PLS, 2025

Table 5 presents the outcomes of the partial test, indicating that all examined variables have P values below the 0.05 threshold, signifying statistically significant effects. The analysis reveals that Strategic Planning exerts a strong and positive influence on Competitive Advantage, with a path coefficient of 0.956 and a highly significant t value of 4.683 (P = 0.000). Conversely, Business Innovation demonstrates a significant yet negative effect on Competitive Advantage, as reflected by a path coefficient of -0.610 and a t value of 2.990 (P = 0.003). Meanwhile, Organizational Agility contributes positively and significantly to Competitive Advantage, supported by a coefficient of 0.365 and a t value of 2.098 (P = 0.036). Lastly, Digital Transformation also shows a significant positive impact, with a coefficient of 0.257 and a t value of 3.197 (P = 0.001). These findings collectively underscore the importance of adaptive and strategic organizational capabilities in fostering competitive advantage, while also highlighting the nuanced role of innovation within this dynamic.

Table 6. Effect Size (f square)

Cosntruct	f-square
Business Innovation (X2) -> Competitive Advantage (Y)	0,109
Digital Transformation (X3) -> Competitive Advantage (Y)	0,045
Organizational Agility (X4) -> Competitive Advantage (Y)	0,055
Strategic Planning (X1) -> Competitive Advantage (Y)	0,270

Source: Data Processing with PLS, 2025

Effect size (f square) is used to evaluate the specific impact of independent variables on the prediction of the dependent variable. This measurement is done by looking at changes in the R Square value after certain independent variables are removed from the model. F

square is interpreted **as $f^2 < 0.02$** → very small effect (not significant), **$0.02 \leq f^2 < 0.15$** → small effect, **$0.15 \leq f^2 < 0.35$** → medium effect, **$f^2 \geq 0.35$** → large effect.

Based on the data presented in the table, the effect sizes of the studied variables on Competitive Advantage can be interpreted through the F Square values. Strategic Planning demonstrates a medium effect on Competitive Advantage, with an F Square value of 0.270, suggesting that it plays a substantial role in enhancing a firm's competitive position. In contrast, Business Innovation, with an F Square value of 0.109, shows only a small effect, indicating that its contribution to Competitive Advantage is limited. Similarly, Organizational Agility and Digital Transformation display small effect sizes, with F Square values of 0.055 and 0.045 respectively, implying that while they have statistically significant relationships with Competitive Advantage, their practical impact is relatively minor. These findings highlight that among the variables analyzed, Strategic Planning emerges as the most influential in driving competitive success, whereas the others, though relevant, offer more modest contributions in comparison.

DISCUSSION

Strategic Planning on Competitive Advantage

The results of this study indicate that strategic planning has a positive and significant effect on competitive advantage. This finding suggests that modern service companies with a clear strategic direction that can determine long-term priorities and allocate resources optimally tend to have more substantial competitiveness amid dynamic business competition. This is in line with the opinion of (Puglieri et al., 2022), which explains that strategic planning provides direction for the organisation, improves internal coordination, and facilitates adaptation to the dynamics of the business environment.

This finding is reinforced by the results of (Al-Dhaafri & Alosani, 2022), which shows that strategic planning significantly increases the competitive advantage of manufacturing companies in the Middle East. Similar results were also found by (Alrub & Sánchez-Cañizares, 2025), which confirmed that consistent strategic planning can improve the company's competitive position through increased efficiency and clarity of business direction.

In contrast, there are previous studies that show different results. Industries with high rates of change, strategic planning that is too rigid can inhibit the flexibility of the company and slow down the innovation process (Shahzad et al., 2025). Research by (Gnizy & Asseraf, 2024) also mentioned that strategic planning only has a minor impact if an agile organisational culture and adaptive execution capabilities do not accompany it.

The research context can explain the difference in these results. Research by (Sahoo & Kumar, 2024; Wang et al., 2025) focuses more on the traditional manufacturing industry or sectors highly affected by market volatility. Meanwhile, this study focuses on the modern service sector, where clarity of strategic direction is the key to managing services oriented towards customer satisfaction. This research contributes originality by proving that in the context of the modern service sector, strategic planning still plays a dominant role in building competitive advantage, as long as it is balanced with flexible implementation.

Business Innovation on Competitive Advantage

This study found that business innovation negatively and significantly affects competitive advantage. This result is not in line with the general view. Still, it can be understood that innovations made without a clear strategic direction, organisational readiness, or a good market understanding can burden the company financially and cause disorientation in business processes. This result is consistent with the research of (Andreini et al., 2022), which states that poorly managed innovation can be a risk, especially for small and medium-sized companies, due to the high uncertainty and costs involved.

Research by (Farida & Setiawan, 2022b) also supports this finding, concluding that radical innovation often fails to drive competitive advantage when companies cannot

absorb and manage changes arising from these innovations. On the other hand, the results of this study are not in line with the research of (Farida & Setiawan, 2022a), which states that business innovation, whether in the form of product, process, or organisational innovation, significantly increases competitive advantage, especially in the manufacturing sector. Research by (Anastasios, 2024) also shows that business innovation can accelerate competitive advantage if managed systematically and integrated with market needs.

The characteristics of the modern service sector can explain the difference in the results of this study. In the service sector, consistency in service quality determines customer loyalty. Innovations that are too frequent or irrelevant can lead to customer dissatisfaction because they disrupt expectations of service stability. This research reinforces the finding that innovation must be purposeful and synchronised with customer needs in the service sector to contribute positively to competitive advantage.

Organizational Agility on Competitive Advantage

The results of this study indicate that organisational agility has a positive and significant effect on competitive advantage, although the effect is in the small category. This shows that the organisation's ability to adapt quickly to changes in the external environment contributes to the company's competitiveness, especially in the face of market dynamics and changing customer needs. This result is in line with the findings of (Kismono et al., 2024), who explained that organisational agility enables faster decision making and more effective adaptation of business processes. This finding is also reinforced by (Marjerison et al., 2022), who state that agile organisations can better anticipate competitor disruption and capture market opportunities earlier than rigid organisations. However, the results of this study are not in line with studies from (Mrugalska & Ahmed, 2021; Musa & Enggarsyah, 2025a), which state that agility without a strong governance process can lead to strategic disorientation, execution inconsistency, and failure to achieve long-term goals.

The industry context can explain this difference in findings. This research focuses on modern service companies that are required to adjust more quickly to customer desires, while maintaining service stability. Agility in the service sector serves as a tactical complement in service customisation, not as a key driver of competitive strategy. This differs from technology-based industries that rely on agility as the primary source of competitive advantage.

Digital Transformation on Competitive Advantage

The results of this study reveal that digital transformation has a significant positive effect on competitive advantage, although the effect is relatively small. This finding shows that adopting digital technology helps modern service companies improve operational efficiency, accelerate services, and enrich the customer experience. This research is in line with the findings of (X. Zhang et al., 2023), which explains that digital transformation allows companies to be more responsive to customer needs through technology integration. The study of (Verhoef et al., 2021) also supports this study, stating that digital transformation drives competitive advantage by creating new business models, strengthening customer interactions, and digitising service processes.

Conversely, the results of this study are not in line with the findings of (Fernandez-Vidal et al., 2022), which states that digital transformation is often ineffective in increasing competitiveness if an adaptive organisational culture does not support it. According to research by (Gökalp & Martinez, 2022), digital transformation can lead to over-investment, internal disruption, and loss of focus on customer value if not appropriately planned.

This difference in results can be understood because this research was conducted on modern service companies in West Java, which are still in the intermediate stage of digital adoption and are not yet fully implementing digital transformation holistically. Therefore, digital transformation is a supporting factor for competitive advantage but has not yet become the main driver. This study makes an empirical contribution by showing that digitalization complements competitive strategy in the context of regional service markets, not as a primary driver as in studies focusing on multinational companies.

The negative and significant effect of business innovation on competitive advantage offers an important theoretical implication that challenges the dominant view in strategic management literature, which generally assumes innovation as a universal driver of competitiveness. This finding suggests that innovation does not automatically translate into competitive advantage, particularly when it is not strategically aligned with organisational capabilities and service delivery consistency. From a theoretical standpoint, this result extends the resource-based and dynamic capability perspectives by highlighting the contingent nature of innovation outcomes, where the effectiveness of innovation depends on its alignment with strategic planning, digital readiness, and organisational agility rather than its mere presence.

This finding is especially relevant within the context of modern service companies in Indonesia, where service quality stability, relational trust, and operational reliability play a more critical role than radical or frequent innovation. Unlike manufacturing sectors, service firms in emerging economies often operate under resource constraints, varying levels of digital maturity, and heterogeneous customer expectations. In such contexts, innovation initiatives that are premature, poorly governed, or misaligned with organisational readiness may disrupt service routines, increase operational complexity, and ultimately weaken competitive positioning. Therefore, the results underscore that for Indonesian modern service firms, competitive advantage is more effectively achieved through coherent strategic direction, gradual and purposeful digital transformation, and adaptive organisational practices, rather than aggressive innovation strategies alone.

CONCLUSION

This study reveals that the competitive advantage of modern service firms in West Java is shaped by four key factors: strategic planning, business innovation, digital transformation, and organizational agility. Among these, strategic planning emerges as the most influential driver, highlighting the importance of structured and forward-looking decision-making in effectively allocating resources and responding to environmental changes. While digital transformation and organizational agility also show positive effects, their impact is more modest. Interestingly, business innovation has a negative influence, suggesting that without clear direction or alignment with market needs, innovation efforts may hinder rather than help competitiveness. These findings emphasize the need for an integrated approach—where strategy, adaptability, technology, and innovation work together to enhance a firm's ability to compete in a dynamic service environment.

Theoretically, this research contributes to the growing body of literature on competitive advantage within the service sector. It provides empirical support for the combined influence of strategic planning, agility, digital transformation, and innovation, while also highlighting that their effects can differ based on sector-specific conditions and organizational maturity. This adds valuable nuance to strategic management theory in service contexts.

Practically, the study offers clear guidance for service firm leaders. Strategic planning should be treated as the foundation for competitiveness. Innovation must be managed with clear objectives and customer relevance. Organizational agility should be fostered through adaptive culture and flexible operations, while digital transformation should be pursued holistically, ensuring both technology and human readiness are addressed.

This research is subject to certain limitations. It focuses solely on modern service firms in West Java, limiting the generalizability of the findings to other sectors or regions. Only four variables were analyzed, excluding other potentially important factors such as leadership, organizational culture, or human capital. Additionally, the study uses a cross-sectional approach, capturing data at a single point in time without observing long-term trends.

Future research should broaden the scope to include diverse sectors and geographic regions. Incorporating variables like leadership and culture could provide a more comprehensive view of competitiveness. Longitudinal studies are also recommended to

better understand how these dynamics evolve over time and influence sustained competitive advantage.

From a policy perspective, the findings of this study provide important implications for regional policymakers, particularly provincial and municipal governments in West Java, in designing strategies to strengthen the competitiveness of the modern service sector. The strong role of strategic planning suggests that public policies should move beyond short-term digital adoption programs and instead support service firms in developing structured, long-term strategic capabilities. Regional governments can facilitate this by providing strategic management training, advisory programs, and institutional support that help service companies align innovation and digital initiatives with clear business roadmaps.

Furthermore, the positive yet modest impact of digital transformation and organisational agility indicates that policy interventions should focus not only on technological infrastructure development but also on enhancing organisational readiness and human capital. For the development of digitally based service sectors in West Java, policymakers should prioritize programs that integrate digital skills development, change management, and organisational adaptability alongside technology subsidies. This includes targeted incentives for gradual digital transformation, sector-specific digital platforms, and regulatory frameworks that encourage experimentation while maintaining service quality and reliability. By adopting a more integrated policy approach that combines strategic capability building, digital readiness, and governance of innovation, regional authorities can foster a more sustainable and resilient digital service ecosystem in West Java.

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