

# Digital Transformation on Competitive Advantage through Customer Experience in Indonesian Companies

*Effect of Digital Transformation on Competitive Advantage*

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## **ABSTRACT**

*Despite the rapid growth of digital transformation in Indonesia, many firms still face challenges such as limited digital literacy, unequal infrastructure, and high implementation costs, which hinder their ability to fully leverage technology to enhance customer experience and achieve a competitive advantage. Drawing on Dynamic Capability Theory, this research examines how digital transformation initiatives influence competitive advantage through enhanced customer experience in the context of a developing economy. The data for this research were collected using an online questionnaire of 350 managers and business leaders from Indonesian companies that have implemented digital transformation initiatives. The sampling criteria included companies with at least one digital transformation initiative implemented in the past two years and respondents with direct involvement in digital transformation programs. Using structural equation modeling for analysis, this study's results reveal that digital transformation positively influences both directly and indirectly to competitive advantage through customer experience mediation. The findings of this study indicate that customer experience takes a significantly mediating role in translating digital transformation efforts into competitive advantages. Furthermore, the research demonstrates that despite implementation challenges in developing countries, companies can successfully leverage digital transformation to enhance their competitive position through improved customer experience.*

**Keywords:** *Customer Experience, Competitive Advantage, Digital Transformation, Dynamic Capability Theory, Indonesian Companies.*

## **ABSTRAK**

*Meskipun pertumbuhan transformasi digital yang pesat di Indonesia, banyak perusahaan masih menghadapi tantangan seperti literasi digital yang terbatas, infrastruktur yang tidak merata, dan biaya implementasi yang tinggi, yang menghambat kemampuan mereka untuk memanfaatkan teknologi sepenuhnya untuk meningkatkan pengalaman pelanggan dan mencapai keunggulan kompetitif. Berdasarkan Teori Kemampuan Dinamis, penelitian ini mengkaji bagaimana inisiatif transformasi digital memengaruhi keunggulan kompetitif melalui peningkatan pengalaman pelanggan dalam konteks ekonomi yang sedang berkembang. Data untuk penelitian ini dikumpulkan menggunakan jajak pendapat online terhadap 350 manajer dan pemimpin bisnis dari perusahaan Indonesia yang telah menerapkan inisiatif transformasi digital. Kriteria pengambilan sampel mencakup perusahaan dengan setidaknya satu inisiatif transformasi digital yang diterapkan dalam dua tahun terakhir dan responden dengan keterlibatan langsung dalam program transformasi digital. Menggunakan pemodelan persamaan struktural untuk analisis, hasil*

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*penelitian ini mengungkapkan bahwa transformasi digital berpengaruh positif baik secara langsung maupun tidak langsung terhadap keunggulan kompetitif melalui mediasi pengalaman pelanggan. Temuan penelitian ini menunjukkan bahwa pengalaman pelanggan mengambil peran mediasi yang signifikan secara positif dalam menerjemahkan upaya transformasi digital menjadi keunggulan kompetitif. Selain itu, penelitian ini menunjukkan bahwa terlepas dari tantangan implementasi di negara berkembang, perusahaan dapat berhasil memanfaatkan transformasi digital untuk meningkatkan posisi kompetitif mereka melalui peningkatan pengalaman pelanggan.*

**Kata kunci:** *Pengalaman Pelanggan, Keunggulan Kompetitif, Transformasi Digital, Teori Kemampuan Dinamis, Perusahaan Indonesia.*

## **INTRODUCTION**

Digital transformation has become a critical element in augmenting firms' competitive edge across various industrial sectors (Hermes et al., 2020; Al Mubarak & Hamdan, 2023; Probojakti et al., 2024). By adopting digital technologies, companies can significantly enhance innovation in their products and services, streamline operational processes, and improve efficiency, which collectively contribute to stronger competitive positioning in the global market. Beyond operational improvements, digital transformation also plays a crucial role in shaping consumer experiences, enabling firms to offer more personalized, responsive, and seamless interactions (Nuseir et al., 2023; Agazu & Kero, 2024). This focus on customer-centric innovation not only increases customer satisfaction and loyalty but also allows firms to anticipate and respond to changing market demands more effectively. As organizations continue to integrate advanced technologies such as artificial intelligence, big data analytics, and cloud computing, digital transformation becomes an indispensable driver for sustainable growth, resilience, and long-term competitive advantage across diverse industries.

The growth of Indonesia's digital economy has been accompanied by rising investment. According to data from Indonesia's Coordinating Ministry for Economic Affairs (2022), the nation's digital economy experienced rapid growth, with investments in early 2021 reaching USD 4.7 billion, marking the highest level in the past four years. This surge reflects the increasing confidence of investors in Indonesia's digital ecosystem, driven by the expansion of sectors such as e-commerce, fintech, and digital services. Sectors such as e-commerce, fintech, and digital services have accelerated the adoption of technology, yet challenges such as unequal digital infrastructure, limited digital literacy, and high transformation costs continue to hinder firms in fully realizing its potential. These conditions create a unique setting in which organizations must strategically leverage digital transformation to enhance customer experience while simultaneously overcoming structural barriers, highlighting the critical need for context-specific research in Indonesia.

Positive client experience can improve retention and foster client loyalty, which in turn strengthens companies' competitive position. (Homburg et al., 2017; Rêgo et al., 2022). Research by Nuseir et al. (2023) and Agazu and Kero (2024) indicates that organizations that effectively integrate digital technology into their business strategies tend to have stronger competitive advantages. Nonetheless, there remains a research gap about how digital transformation influences competitive advantage through customer experience, particularly in Indonesian companies. (Dwivedi, 2024). In Indonesia, organizations have numerous hurdles in adopting digital transformation, including insufficient digital literacy and elevated investment costs (Dwivedi et al., 2021; Sulastri, 2023). Nevertheless, certain organizations have effectively utilized digital technology to improve customer experience and attain a competitive advantage.

Several gaps remain to be explored in the existing body of literature. First, although much research has investigated digital transformation in developed countries, there remains limited research exploring its implementation in developing countries, particularly Indonesia (Sulastri, 2023; Dwivedi, 2024). Second, research by Homburg et al. (2017) and Nuseir et al. (2023) showed that they had focused on the obvious correlation

between digital transformation and competitive advantage, with few exploring the mediating mechanism through customer experience. Third, there exists a restricted comprehension of how Dynamic Capability Theory can explain the relationship between digital transformation and a firm's competitive advantage via customer experience in emerging countries (Rêgo et al., 2022; Rezeki et al., 2025). This study aims to address the deficiencies by analyzing the facilitating role of customer experience within the context of the link between digital transformation and competitive advantage within Indonesian enterprises, considering the unique characteristics and specific challenges faced in implementing digital transformation.

## **LITERATURE REVIEW & HYPOTHESIS DEVELOPMENT**

### **Effect of Digital Transformation on Competitive Advantage**

Dynamic Capability Theory explains how organizations can develop, adapt, and modify their resources and capabilities to react to dynamic environmental conditions (Eisenhardt & Martin, 2000; Teece, 2007; Helfat et al., 2009). Dynamic Capability Theory is relevant in understanding how organizations can integrate the utilization of digital technologies to enhance client experience as a manifestation of dynamic capabilities. (Wamba et al., 2015). In this context, digital transformation empowers organizations to swiftly adjust their services to evolving client needs while leveraging digital resources to improve operational efficiency and create unique value that competitors find difficult to imitate (Harmeling et al., 2017; Fabriz et al., 2021).

Digital transformation, defined as the integration of digital technologies into business operations, fundamentally changes how firms function and deliver value to customers (Becker & Jaakkola, 2020; Al Mubarak & Hamdan, 2023). By modernizing business processes, products, operations, and technological infrastructure, firms can drive sustainable innovation that meets evolving client needs (Hermes et al., 2020; Shahi & Sinha, 2021). The adoption of technologies such as artificial intelligence, big data analytics, and cloud computing enhances operational efficiency, enables the development of new business models, and supports personalized service delivery (Wamba et al., 2017; Saura et al., 2020; Garcia-Perez et al., 2023). These capabilities allow organizations to respond more effectively to market fluctuations while optimizing costs and improving customer experiences, thereby strengthening their strategic positioning.

Empirical studies support this relationship, showing that digital transformation significantly influences competitive advantage and that firms implementing digital initiatives are more likely to achieve superior performance relative to competitors (Adisaksana, 2022; Shehadeh et al., 2022). Thus, digital transformation not only enhances operational and service capabilities but also serves as a key driver for achieving and sustaining competitive advantage in dynamic and increasingly digital markets (Appio et al., 2021; Wahdaniah et al., 2023).

H1: Digital transformation has a significant and positive impact on competitive advantage.

### **Effect of Customer Experience on Competitive Advantage**

Competitive advantage refers to a firm's ability to create and sustain a superior market position by offering unique value that is difficult for competitors to replicate (Porter, 2008; Kumar et al., 2023). This advantage can be achieved through strategies such as product or service differentiation, cost efficiency, and responsiveness to market demands (Eisenhardt & Martin, 2000; Yang & Di, 2025). In the context of the digital era, leveraging technology to enhance customer experience, optimize operational processes, and deliver innovative services has become a critical pathway to gaining a competitive advantage (Fabriz et al., 2021; Rust & Huang, 2021; Sulastri, 2023). Sustainable competitive advantage ensures that firms can maintain superior performance over the long term despite dynamic market conditions, allowing them to adapt to changes while continuing to meet customer expectations (Teece, 2007; Shahi & Sinha, 2021).

Customer experience, defined as the cumulative result of all interactions between customers and a brand, encompasses cognitive, affective, emotional, social, and physical responses from the initial discovery of the brand (Havíř, 2019). Customer experience plays a significant role in achieving a competitive advantage. Research indicates that firms focusing on enhancing customer experience can strengthen customer relationships, improve responsiveness, and maintain a market edge (Niguse & Kant, 2025; Assaad et al., 2023). Competencies in Customer Relationship Management (CRM) further enable organizations to systematically address customer needs and deliver value, supporting their strategic positioning against competitors (Lee & Yoo, 2021). Thus, customer experience emerges as a crucial driver of competitive advantage, highlighting the importance of customer-centric strategies in sustaining long-term organizational success.

H2: Customer experience has a significant and positive impact on competitive advantage.

### **Effect of Digital Transformation on Customer Experience**

Digital transformation significantly shapes customer experience by enabling firms to deliver more seamless, personalized, and efficient interactions across various touchpoints (Lemon & Verhoef, 2016; Homburg et al., 2017). Through the integration of digital technologies such as artificial intelligence, big data, and cloud computing, firms can analyze customer behavior and preferences in real time, thereby tailoring services and enhancing engagement (Chen & Prentice, 2024; Kumar & Agrawal, 2024). As noted by Nuseir et al. (2023), digitalization allows companies to provide more responsive and consistent customer journeys, which positively influences satisfaction and loyalty. Similarly, Agarwal et al. (2024) emphasized that digital evolution fosters stronger relationship strategies, particularly in service-oriented industries such as banking.

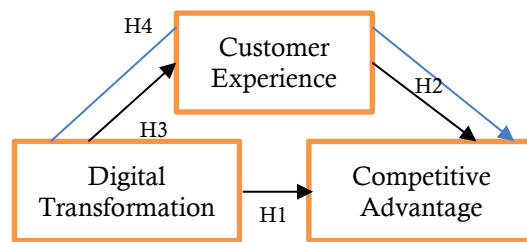
Moreover, digital transformation supports omnichannel experiences that bridge physical and digital interfaces, creating a coherent customer journey (Le & Nguyen-Le, 2020; Rahman et al., 2025). In developing countries like Indonesia, this transformation remains vital for firms to maintain competitiveness amid infrastructural and literacy constraints (Díaz-Arancibia et al., 2024; Dwivedi, 2024). By leveraging dynamic capabilities, organizations can continuously adapt their digital resources to evolving customer expectations (Kowalski et al., 2024; Froehlich et al., 2025)

H3: Digital transformation has a significant and positive impact on customer experience.

### **Customer Experience as Mediator Variable**

Customer experience represents the perceptions formed through customer interactions with companies, encompassing all elements of the client experience, including awareness to loyalty. (Lemon & Verhoef, 2016; Harmeling et al., 2017). This concept encompasses customers' cognitive, emotional, and behavioral reactions to various touchpoints with the company, including products, services, and brand environment (Homburg et al., 2017; Becker & Jaakkola, 2020). Effectively managed Customer Experience can enhance customer satisfaction, loyalty, and lifetime value. Superior client experience has a crucial impact in building a firm's competitive advantage, and satisfied customers who receive unique experiences tend to be more loyal, actively recommend products or services, and show decreased price sensitivity (Appio et al., 2021; Shahi & Sinha, 2021). Furthermore, customer experience is hypothesized to mediate the correlation between digital transformation and competitive advantage, indicating that customer experience represents a crucial mechanism in attaining competitive superiority through digitalization (Saura et al., 2020; Rêgo et al., 2022).

H4: Digital transformation has a significant and positive impact on competitive advantages through customer experience



**Figure 1.** Research Framework

Figure 1 shows that this research framework emphasizes the role of digital transformation as a key factor in shaping customer experience while driving competitive advantage. Digital transformation is not only seen as able to improve efficiency and service quality, but also creates more personalized and valuable interactions for customers, thus contributing to a more positive experience. A good customer experience, in turn, strengthens the competitive position of the organization, as customer satisfaction and loyalty become strategic assets. In addition, customer experience serves as a mediating variable that explains how digital transformation can indirectly strengthen competitive advantage. Thus, this research framework connects digital transformation, customer experience, and competitive advantage in one mutually reinforcing relationship flow.

## RESEARCH METHODS

The research applies an exploratory quantitative approach to investigate the effects, implications, and relationships among variables within a research model. The analysis focuses on independent variables impacting a dependent variable through a mediator. Digital transformation is an independent predictor, while customer experience is a mediator, and Competitive advantage is the dependent variable. The research context involves a quantitative analysis. It is posited that competitive advantage can be enhanced through digital transformation. However, the research aims to demonstrate the indirect effects mediated by customer experience. The research assumption is that improving Digital transformation can generate customer experience, which in turn will lead to a competitive advantage.

The data collection for this project was executed via online questionnaires utilizing the Google Forms platform, distributed to managers and business leaders in Indonesia. The questionnaire was developed based on construct operationalization from previously validated research. Digital transformation variables were measured using indicators adapted from Hermes et al. (2020) and Al Mubarak and Hamdan (2023), encompassing digital technology implementation, business process changes, and digital innovation. Customer experience measurement adopted indicators from Homburg et al. (2017) and Rêgo et al. (2022), covering customers' cognitive, emotional, and behavioral experiences. Meanwhile, competitive advantage was assessed utilizing indicators developed by Shehadeh et al. (2023) and Sulastrı (2023) including differentiation, cost efficiency, and innovation. All assessment items employed a 7-point Likert scale, spanning from 1 (strongly disagree) to 7 (strongly agree).

This research employs a quantitative methodology employing survey techniques for data acquisition. The research population includes Indonesian companies that have adopted digital transformation in their business operations. Sampling was performed via a non-probability sampling approach, using a purposive sampling strategy, in which samples were chosen according to certain criteria aligned with the research objectives (Hair et al., 2017). Research respondents were managers or company leaders with direct understanding and involvement in digital transformation implementation within their organizations.

Sample selection criteria included companies that have implemented at least one digital transformation initiative in the past two years, respondents holding managerial or

leadership positions with a minimum of two years of experience in the company, and respondents directly involved in planning or implementing digital transformation programs. Sample size determination followed Hair et al. (2019) and Shmueli et al. (2019) guidelines, recommending a minimum of 5-10 times the number of indicators for multivariate analysis. With a total of 14 indicators in this study, this research targeted 350 respondents to meet robust statistical analysis requirements. Then, data analysis used Structural Equation Modeling – Partial Least Squares (SEM-PLS).

**RESULTS**

The landscape of digital transformation in Indonesia reveals interesting patterns in adoption across different business segments. The sample used in the study was 350 respondents divided into several demographic backgrounds. Table 1 shows the characteristics of the respondents in this study.

**Table 1.** Demographic Respondent

<b>Demographic Background</b>	<b>Details</b>	<b>Frequency</b>	<b>Percentage (%)</b>
Type of Company	Startup	210	60.00
	Conventional Companies Adopting Digital Transformation	140	40.00
Company Scale	Micro	160	45.71
	Small	130	37.14
	Medium & Large	60	17.15
Technology Adoption Level	Basic (Website & Social Media)	80	22.86
	Intermediate (E-commerce & ERP)	190	54.29
	Advanced (AI, Big Data, Blockchain)	80	22.86
Industry Sector	Retail & E-commerce	290	82.86
	Manufacturing & Logistics	60	17.14

As shown in Table 1, startups constitute the majority (60%) of digitally transformed companies, while traditional businesses that have undergone digital integration represent 40%. The size distribution shows a predominance of smaller enterprises, with micro-enterprises forming 45.71% of the sample, followed by small businesses at 37.14%, while medium and large enterprises comprise 17.15%. This distribution suggests that digital transformation is particularly appealing to smaller businesses, potentially due to the accessibility of affordable digital solutions.

Analysis of technological sophistication reveals three distinct tiers of adoption. Basic digital tools (websites and social media) are utilized by 22.86% of companies, primarily for establishing an online presence. The largest segment (54.29%) employs intermediate technologies, including e-commerce platforms and ERP systems, focusing on operational improvements. Advanced technology adoption, including AI, Big Data, and Blockchain, remains limited to 22.86% of companies, indicating a gradual progression toward sophisticated digital solutions.

Industry-wise distribution shows a significant concentration in Retail & E-commerce (82.86%), reflecting the sector’s digital transformation momentum. The Manufacturing & Logistics sector represents a smaller portion (17.14%), suggesting higher barriers to digital adoption in these industries. These patterns indicate that Indonesia’s digital transformation is primarily driven by small-scale enterprises and startups, with a strong emphasis on e-commerce and operational efficiency rather than advanced technological integration.

Table 2 shows the results of the factor loading test of each indicator on three research variables, namely Competitive Advantage, Customer Experience, and Digital Transformation. All indicators have a loading factor value above 0.70, thus meeting the convergent validity criteria. In the Competitive Advantage variable, the loading factor value ranged from 0.849 to 0.910, with the CAD3 indicator having the highest value (0.910), indicating the strongest contribution in reflecting the construct. For the Customer Experience variable, the loading factor value was between 0.784 and 0.895, with CEP4 being the most dominant indicator (0.895). Meanwhile, the Digital Transformation

variable has a loading factor value between 0.818 and 0.872, with DAT2 showing the largest contribution (0.872). These findings confirm that all indicator items are valid in representing the research construct, so they can be used for further analysis.

**Table 2.** Loading Factor

Variable	Code	Factor Loading
Competitive Advantage	CAD1	0.849
	CAD2	0.897
	CAD3	0.910
	CAD4	0.892
	CAD5	0.879
Customer Experience	CEP1	0.789
	CEP2	0.867
	CEP3	0.866
	CEP4	0.895
	CEP5	0.784
Digital Transformation	DAT1	0.827
	DAT2	0.872
	DAT3	0.822
	DAT4	0.818

**Table 3.** Construct and Validity

Variable	Cronbach's Alpha	Composite Reliability	Average Variance Extracted
Competitive Advantage	0.931	0.948	0.784
Customer Experience	0.896	0.924	0.708
Digital Transformation	0.855	0.902	0.697

As shown in Table 3, the construct validity and reliability testing results indicate that all research variables meet the required criteria. Cronbach's alpha for the three structures surpasses the threshold value of 0.7, with Competitive Advantage showing the highest value (0.931), followed by Customer Experience (0.896), and Digital Transformation (0.855), indicating excellent internal consistency (Hair et al., 2019). Composite Reliability (CR) also demonstrates satisfactory results with values above 0.7, where Competitive Advantage reaches 0.948, Customer Experience 0.924, and Digital Transformation 0.902, confirming high construct reliability (Fornell & Larcker, 1981). Meanwhile, the Average Variance Extracted (AVE) for all structures is above the critical value of 0.5, with Competitive Advantage having the highest value (0.784), followed by Customer Experience (0.708) and Digital Transformation (0.697), demonstrating good convergent validity (Hair et al., 2017). These results demonstrate that the measurement instruments utilized in this study exhibit sufficient validity and reliability levels for subsequent hypothesis testing.

**Table 4.** Validity Discriminant (Fornell-Larcker)

Variable	Competitive Advantage	Customer Experience	Digital Transformation
Competitive Advantage	0.886		
Customer Experience	0.813	0.841	
Digital Transformation	0.730	0.787	0.835

The examination of discriminant validity utilizing the Fornell-Larcker criterion is illustrated in Table 4. It demonstrates that all constructs meet discriminant validity requirements. The square root of the Average Variance Extracted (AVE) for each build is shown by the diagonal values, which exceed its correlations with other constructs, where Competitive Advantage has a value of 0.886, Customer Experience has a value of 0.841, and Digital Transformation has a value of 0.835. The correlation between Digital Transformation and Customer Experience (0.787) is lower than the square root of the Average Variance Extracted (AVE) for each construct, along with the correlations among Digital Transformation and Competitive Advantage (0.730), and Customer Experience and Competitive Advantage (0.813). These results confirm that each construct is distinctly

different from the others and possesses adequate discriminant validity (Fornell & Larcker, 1981; Hair et al., 2019). Therefore, all three constructs in this research model can be used for further analysis as they have met the discriminant validity criteria.

Table 5. Hypothesis Testing

Hypothesis	Path Coefficient	T-Statistics	P-Values	95% Confidence Interval Path Coefficient		F-Square
				Lower	Upper	
H1 Customer Experience → Competitive Advantage	0.627	10.290	0.000	0.505	0.745	0.471
H2 Digital Transformation → Competitive Advantage	0.236	3.534	0.000	0.104	0.369	0.067
H3 Digital Transformation → Customer Experience	0.787	26.613	0.000	0.726	0.841	1.628
H4 Digital Transformation → Customer Experience → Competitive Advantage	0.494	9.539	0.000	0.505	0.745	0.244

Table 5 shows that all hypotheses in this study are supported by empirical data. Customer Experience demonstrates a significantly positive impact on Competitive Advantage ( $\beta = 0.627$ ,  $t = 10.290$ ,  $p < 0.001$ ) with a strong effect ( $f^2 = 0.471$ ). Digital Transformation demonstrates a substantial and beneficial influence on Competitive Advantage ( $\beta = 0.236$ ,  $t = 3.534$ ,  $p < 0.001$ ), albeit with a relatively small effect ( $f^2 = 0.067$ ). The strongest relationship was found between Digital Transformation and Customer Experience ( $\beta = 0.787$ ,  $t = 26.613$ ,  $p < 0.001$ ) with a very large effect ( $f^2 = 1.628$ ). According to the mediation effect, the Customer Experience substantially facilitates the connection between Digital Transformation and Competitive Advantage ( $\beta = 0.494$ ,  $t = 9.539$ ,  $p < 0.001$ ). The 95% confidence interval [0.505, 0.745] excludes zero, hence affirming the importance of the mediation effect. The extent of the mediation effect indicated by the Upsilon V value of 0.244 suggests substantial partial mediation. These findings indicate that the impact of Digital Transformation on a company's Competitive Advantage is partially mediated by Customer Experience, where digital transformation can more effectively enhance competitive advantage when it creates superior customer experience.

Table 6. R Square Test

Variable	R-Square	R-Square Adjusted
Competitive Advantage	0.682	0.680
Customer Experience	0.620	0.618

Table 6 shows that this research model demonstrates good predictive capability, where 68.2% of the variance in Competitive Advantage ( $R^2 = 0.682$ ,  $R^2$  adjusted = 0.680) and 62% of the variance in Customer Experience ( $R^2 = 0.620$ ,  $R^2$  adjusted = 0.618) can be elucidated by the variables in the model. The 95% confidence intervals for all paths do not include zero, confirming the consistency and significance of relationships between parameters in the model.

## DISCUSSION

This research provides several important contributions in addressing existing research gaps. First, regarding the application of digital transformation in developing nations, particularly Indonesia, the findings show that digital transformation has a significantly positive influence on competitive advantage ( $\beta = 0.236$ ,  $t = 3.534$ ,  $p < 0.001$ ), albeit with a relatively small effect ( $f^2 = 0.067$ ). These findings enrich the literature on digital transformation in developing countries by providing empirical evidence that, despite facing various implementation challenges, Indonesian companies can utilize digital transformation to augment their competitive advantage (Dwivedi et al., 2021; Sulastri,

2023). Digital transformation in developing countries operates through several important mechanisms. First, by enhancing total factor productivity and research development intensity, a 1% rise in digital transformation can yield a 0.015% improvement in corporate competitiveness (Sui et al., 2024). Second, through exploitative and exploratory innovation that significantly enhances company performance (Wang et al., 2025). In the SME context, digital strategic orientation directly influences business performance with innovation as a mediating factor (Díaz-Arancibia et al., 2024; Díaz-Pelaez et al., 2024).

Second, this research also contributes to filling the gap regarding the mediating mechanism of customer experience within the context of the link between the digital transformation and a firm's competitive advantage. The analysis reveals a significant partial mediation effect ( $\beta = 0.494$ ,  $t = 9.539$ ,  $p < 0.001$ ) with a  $\nu$  value of 0.244. These findings extend previous theoretical understanding by Nuseir et al. (2023) confirming that customer experience serves as a crucial mechanism linking digital transformation to competitive advantage. This is further evidenced by the strong relationship between digital transformation and customer experience ( $\beta = 0.787$ ,  $t = 26.613$ ,  $p < 0.001$ ,  $f^2 = 1.628$ ), and the significant influence of customer experience on competitive advantage ( $\beta = 0.627$ ,  $t = 10.290$ ,  $p < 0.001$ ,  $f^2 = 0.471$ ).

The mediation analysis confirms that customer experience plays a significant role in linking digital transformation to competitive advantage. Digital transformation enhances customer experience by integrating technologies that strengthen service and interactions, as seen in banking through internet and mobile applications and in omnichannel retail, where channel integration ensures seamless shopping (Le & Nguyen-Le, 2020; Nguyen et al., 2024; Agarwal et al., 2024). Customer experience directly contributes to competitive advantage by boosting loyalty and satisfaction, a relationship evident in services where digital innovation drives performance and in SMEs where customer orientation connects dynamic capacities to competitiveness (Monroy-Osorio, 2024; Mohanty & Dash, 2024). These effects are reinforced by organizational agility and innovation capabilities (Shehadeh et al., 2023; Probojakti et al., 2024).

Within the framework of Dynamic Capability Theory, this study shows that firms in developing countries can build dynamic capabilities through digital transformation. The model demonstrates strong explanatory power, accounting for 68.2% of the variance in competitive advantage ( $R^2 = 0.682$ ) and 62% in customer experience ( $R^2 = 0.620$ ). These results enrich theoretical insights by highlighting how digital transformation fosters dynamic capacities, sensing, seizing, and transforming that help firms adapt to changing environments and create competitive advantage (Rêgo et al., 2022; Albannai et al., 2024; Kowalski et al., 2024). Leadership support further strengthens these capabilities by enhancing strategic depth and market intelligence (Joshi et al., 2024). Digital transformation enables firms to reconfigure resources and processes to meet market needs (Gorina et al., 2023; Kumar & Agrawal, 2024; Froehlich et al., 2024). Evidence from developing countries, particularly China, shows its vital role in sustaining growth and competitiveness, especially for small and non-state-owned enterprises (Fang & Yuan, 2024; Li & Yan, 2024; Sun, 2024). However, success depends on culture, change management, and external conditions, requiring comprehensive strategies. These results align with Sui et al. (2024), who found that digital transformation increases firm competitiveness through innovation intensity. However, unlike their findings in China, the smaller effect size observed in this study suggests contextual constraints specific to Indonesia's digital ecosystem.

The study contributes by extending Dynamic Capability Theory, showing that digital technology and customer experience integration build adaptive capabilities. Customer experience significantly mediates the link between digital transformation and competitive advantage, confirming its role in value creation. In the context of Indonesia, findings demonstrate that digital transformation, despite challenges, still enhances competitiveness. Managers should prioritize initiatives that improve personalization, responsiveness, and seamless services. The strong impact of customer experience on competitive advantage underscores the need to embed customer value in strategies, while

the model's predictive power guides firms to align digital transformation with customer experience for maximum outcomes.

## CONCLUSION

Digital transformation demonstrates a considerable beneficial impact on competitive advantage in Indonesian enterprises. This finding confirms that even in developing countries facing various implementation challenges, digital transformation remains an important driver of competitive advantage. The research validates that companies can leverage digital technologies to enhance their market position despite resource constraints and implementation barriers common in developing economies. Customer experience emerges as a crucial mediating factor between the two important variables, digital transformation and competitive superiority. The strong relationship between digital transformation and customer experience, combined with customer experience's substantial impact on competitive advantage, indicates that digital transformation's effectiveness is significantly enhanced when channeled through improved customer experience. This underscores the significance of customer-centric strategies in digital transformation efforts.

For Indonesian firms, the findings highlight the importance of adopting customer-centric digital strategies. Companies should focus on enhancing personalization, responsiveness, and seamless service experiences to maximize the benefits of digital transformation. From the lens of Dynamic Capability Theory, this study shows that digital transformation catalyzes dynamic capability development in Indonesian firms, linking digital adoption to competitive advantage through enhanced customer experience. The findings stress the importance of customer-centric strategies and demonstrate how firms in developing economies can overcome challenges to leverage digital transformation for sustainable competitiveness. Despite these findings, this study has limitations. The data were collected from Indonesian firms only, which may restrict generalization to other contexts. Moreover, the cross-sectional design limits causal interpretation of the relationships identified. Future research should examine additional factors such as innovation, digital skills, and agility, use longitudinal approaches to track evolving strategies, and expand to cross-country or sectoral comparisons for broader insights.

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