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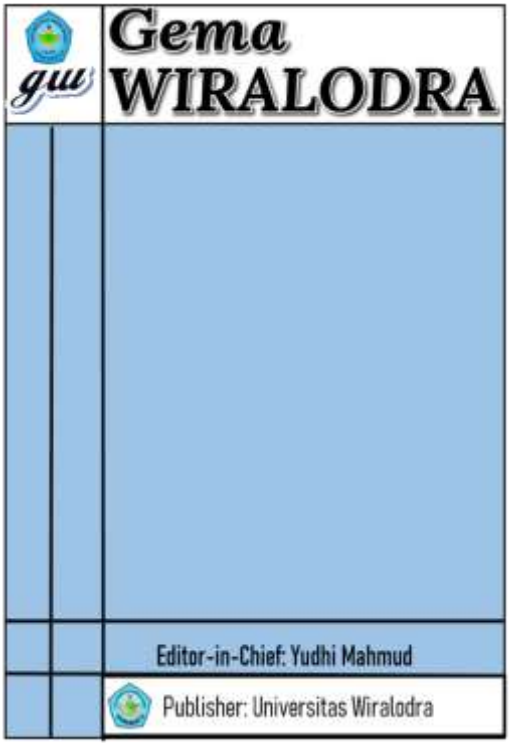

The Effect of Digital Transformation on Branch Performance Through Strategic Capabilities and Execution Capabilities in The Indonesian Banking Sector

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Orginal Article

The Effect of Digital Transformation on Branch Performance Through Strategic Capabilities and Execution Capabilities in The Indonesian Banking Sector

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ABSTRACT
This study seeks to analyze the impact of digital transformation on branch performance, taking into account the mediating roles of strategy and execution skills within the Indonesian banking sector. A quantitative methodology utilizing Partial Least Squares–Structural Equation Modeling (PLS-SEM) was implemented. Data were gathered from 204 responders representing bank branches that have adopted digital banking services. The research instrument consisted of four primary constructs, with indicators confirmed using measurement and structural model assessments to guarantee reliability and validity. The findings demonstrate that digital transformation significantly influences both strategy and execution skills, although does not directly impact branch performance. Moreover, execution capabilities substantially impact branch performance and serve as the principal mediating mechanism connecting digital transformation to branch performance, while strategic capabilities do not demonstrate a major mediating function. These findings emphasize that enhancements in branch performance within digital banking are significantly contingent upon an organization's capacity to proficiently implement strategies, rather than only on strategic planning or the integration of digital technologies.

Keywords: Digital Transformation, Strategic Capabilities, Execution Capabilities, Branch Performance.

1. Introduction

The transformation of the business environment driven by advances in digital technology has compelled organizations to undertake fundamental adjustments in the way they operate and compete. Digitalization not only affects technical and operational aspects but also reshapes value creation processes, decision-making mechanisms, and relationships between organizations and customers. In the banking industry, these changes occur intensively as banks are required to remain efficient, responsive, and innovative amid increasingly dynamic customer demands and intensifying competition. Consequently, digital transformation has become a key strategic agenda that determines the sustainability and competitiveness of modern banking institutions (Brunner *et al*., 2023; Menchini *et al*., 2022).

The adoption of digital technology in Indonesia's banking sector has intensified in tandem with the increasing public dependence on digital financial services. Banks have systematically incorporated digital technologies into their operations to improve service efficiency, diminish procedural intricacies, and broaden customer access to financial goods. The execution of digital transformation does not inherently yield consistent performance enhancements across organizational divisions. This signifies that mere technological investment is inadequate; instead, the efficacy of digital transformation is largely contingent upon the organization's internal preparedness and capacity to navigate change (Schreieck *et al*., 2021; Witts & Davies, 2024).

One organizational unit significantly affected by digital transformation is the bank branch. Although the traditional role of branches as transaction centers has declined due to the shift toward digital channels, branches continue to serve strategic functions, including

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consultative services, relationship management, and business development. In the digital banking era, branches operate as hybrid service hubs that integrate face-to-face interactions with digital technologies. Therefore, branch performance remains a crucial indicator of digital transformation success, reflecting the bank's ability to redefine and optimize branch roles in response to digital disruption (Jacobides *et al*., 2018; Azmi *et al*., 2020; Brunner *et al*., 2023).

Notwithstanding the strategic significance of branches within the digital banking ecosystem, empirical research investigating digital transformation at the branch level is still comparatively scarce. Previous studies on digital transformation in banking have primarily concentrated on firm-level outcomes, including overall bank performance, organizational innovation, and technology adoption at the institutional level (Schreieck *et al*., 2021; Menchini *et al*., 2022). Although these studies offer significant insights into the implementation of digital transformation strategies by banks, they frequently neglect the translation of these initiatives into performance outcomes at operational units, like as branches, where customer interactions and service delivery take place. Consequently, there is a paucity of empirical evidence concerning the methods by which digital transformation affects branch-level performance, especially via internal organizational capabilities. This gap indicates the necessity for additional research on the operationalization of digital transformation activities and their translation into quantifiable performance enhancements at the branch level.

Nonetheless, discrepancies in branch performance among banks indicate that digital transformation does not intrinsically result in ideal outcomes. The literature on strategic management highlights that technology creates value solely when underpinned by suitable organizational competencies. According to the Resource-Based View and Dynamic Capabilities frameworks, organizational effectiveness in a digital context relies on the firm's capacity to effectively cultivate and utilize internal capabilities (Teece, 2020). In this context, strategic competencies denote the organization's ability to devise adaptive strategic directions, synchronize long-term aims with digital environmental dynamics, and integrate resources cohesively. These competencies facilitate the integration of digital transformation into a comprehensive value-generating strategy agenda, rather than operating as standalone technological efforts (Menchini *et al*., 2022).

However, well-formulated strategies alone do not guarantee performance improvement without effective implementation. Execution capabilities therefore represent a critical organizational mechanism that bridges strategic planning and operational realization. Execution capabilities reflect the organization's ability to translate strategic intent into coordinated actions through cross-functional collaboration, managerial alignment, control systems, and consistent implementation at the branch level. In digital banking, where branches serve as primary execution points for transformation initiatives, execution capabilities play a pivotal role in ensuring that digital strategies are operationalized effectively in daily service activities (Radomska, 2018; Witts & Davies, 2024).

Based on these considerations, the relationship between digital transformation and branch performance is inherently complex and shaped by internal organizational mechanisms. Digital transformation acts as a triggering factor that stimulates the development of strategic and execution capabilities. These capabilities subsequently function as mediating mechanisms that determine whether digital initiatives translate into measurable branch-level performance outcomes. Without adequate strategic direction and execution strength, digital transformation risks remaining at the level of technological adoption without delivering substantive performance gains.

Accordingly, this study examines the effect of digital transformation on branch performance by positioning strategic capabilities and execution capabilities as mediating

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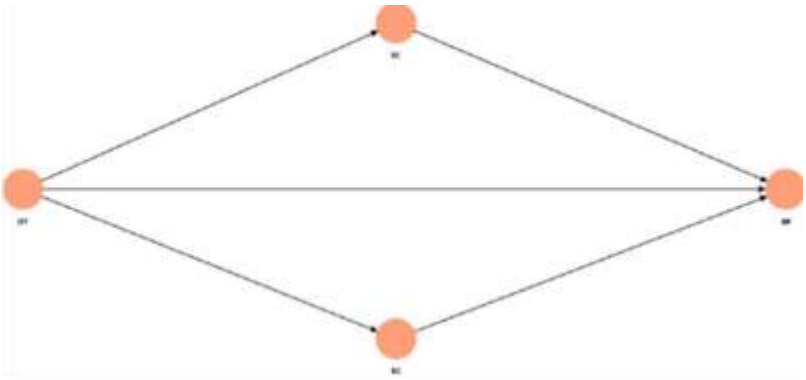
variables within the Indonesian banking context. By integrating the Resource-Based View and Dynamic Capabilities perspectives, this research argues that sustainable branch performance in the digital era is not determined solely by the extent of technology adoption, but by the organization's ability to design adaptive strategies and execute them effectively. The findings are expected to contribute empirically to the digital banking literature and provide practical insights for banking management in managing digital transformation initiatives oriented toward enhancing branch performance.

Figure 1
Research Model



The conceptual framework delineates the causal relationship between digital transformation and branch performance, presenting strategy and execution capabilities as mediating mechanisms inside the business. The concept asserts that the execution of digital transformation does not inherently enhance branch performance; instead, it primarily affects the organization's capacity to develop adaptive strategies and to apply such plans proficiently at the operational level. By enhancing strategic and execution capabilities, digital transformation can yield lasting enhancements in branch performance that fit with organizational goals. This study formulates hypotheses to investigate the causal links among variables and elucidate the functions of strategic and execution capabilities as internal mechanisms connecting digital transformation to branch performance.

Based on the conceptual framework, the research hypotheses are formulated as follows:
Direct Effects
H1: Digital transformation has a positive and significant effect on strategic capabilities.
H2: Digital transformation has a positive and significant effect on execution capabilities.
H3: Digital transformation has a positive and significant effect on branch performance.
H4: Strategic capabilities have a positive and significant effect on branch performance.
H5: Execution capabilities have a positive and significant effect on branch performance.
Indirect Effects (Mediation)
H6: Digital transformation has a positive and significant effect on branch performance through strategic capabilities.
H7: Digital transformation has a positive and significant effect on branch performance through execution capabilities.

2. Methods

This study adopts a positivist paradigm with a quantitative research design to examine the causal relationships among variables formulated in the research model. A quantitative approach is employed as it enables systematic and measurable testing of relationships among

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constructs through statistical analysis based on numerical data (Creswell & Creswell, 2018; Saunders *et al*., 2019). This research is explanatory in nature, with the primary objective of explaining how digital transformation influences branch performance through the strengthening of strategic capabilities and execution capabilities.

This study utilizes both primary and secondary data. Primary data were gathered by the dissemination of structured questionnaires to respondents chosen according to established criteria and administered online. Secondary data were utilized as supplementary information, sourced from banks' annual reports, official publications of the Financial Services Authority, and other pertinent documentation materials to augment the contextual comprehension of the study.

The factors analyzed consist of digital transformation as the independent variable, strategic capabilities and execution capabilities as mediating variables, and branch performance as the dependent variable. All constructs were assessed on a five-point Likert scale, with values ranging from 1 (strongly disagree) to 5 (strongly agree). Measurement indicators for each variable were derived from previously verified studies extensively utilized in strategic management and digital banking. A summary of the conceptual definitions, dimensions, and indicators of each variable is presented in Table 1.

Table 1
Variable Operationalization

Variable	Conceptual Definition	Dimensions
	Transformation (DT)	
Digital Transformation (DT)	The utilization of digital technologies to enhance efficiency, foster innovation, and strengthen organizational competitiveness (Barquin & Vinayak, 2015; Stoeckli *et al*., 2018).	Strategic planning; Technological integration; Human resource readiness; Customer-centered digitalization
Strategic Capabilities (SC)	The organization's ability to formulate and adjust strategies in response to changes in the digital environment (Menchini *et al*., 2022).	Strategic planning; Strategic adaptability; Innovation capacity; Resource alignment
Execution Capabilities (EC)	The organization's capacity to translate strategies into effective operational practices (Radomska, 2018).	Strategy implementation alignment; Managerial support; Operational coordination; Monitoring and feedback

The study population comprises all bank branches in Indonesia that have implemented digital banking services. The unit of analysis is defined at the organizational level, namely bank branches, while the unit of observation consists of branch managers or structural officers who

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possess a comprehensive understanding of the strategic and operational aspects of branch activities. Respondents were selected using a purposive sampling technique, which allows the researcher to choose participants who possess relevant knowledge and experience related to the research topic (Saunders *et al*., 2019). The inclusion criteria for respondents were defined as follows:

(1) individuals holding managerial or supervisory positions at bank branches, such as branch managers, operational managers, or equivalent structural officers;
(2) having direct involvement in the implementation or supervision of digital banking services at the branch level;
(3) possessing at least two years of working experience in branch operations to ensure adequate familiarity with branch strategic and operational processes; and
(4) being involved in performance monitoring, evaluation, or decision-making activities within the branch.

These criteria were established to ensure that respondents have sufficient knowledge and practical experience to provide reliable assessments of digital transformation initiatives, strategic capabilities, execution processes, and branch performance.

The sample size was determined based on the requirements of Partial Least Squares Structural Equation Modeling (PLS-SEM). The results of the power analysis, with a significance level of 5% and a statistical power of 95%, indicate that a minimum of 194 respondents is required, which is considered sufficient to test the research model and hypotheses (Hair *et al*., 2021).

Data analysis was conducted using the Partial Least Squares Structural Equation Modeling (PLS-SEM) approach with the assistance of SmartPLS software. The analytical procedure involved evaluating the measurement model to assess construct validity and reliability, followed by testing the structural model to examine causal relationships and mediating effects among variables. Hypothesis acceptance was determined based on path coefficient values and p-values at a 5% significance level (Hair *et al*., 2021; Sarstedt *et al*., 2022)

3. Results and Discussion

This study involved 204 respondents drawn from bank branches across Indonesia that have implemented digital banking services. The respondents consisted of branch managers, operational supervisors, and branch officers who are directly involved in operational activities, policy implementation, and strategy execution at the branch level. Their involvement in day-to-day operational processes enables them to provide informed assessments regarding the implementation of digital transformation initiatives as well as the development of strategic and execution capabilities within their branches. Consequently, the responses obtained in this study reflect practical insights from individuals who actively participate in the operationalization of digital strategies in the banking sector.

Measurement Model Evaluation (Outer Model)

The evaluation of the measurement model (outer model) was performed to verify that the latent constructs in this study were precisely measured by their corresponding indicators. This phase sought to evaluate the validity and reliability of the measurement tools prior to analyzing the interrelationships among variables in the structural model. The outer model evaluation encompassed convergent validity, discriminant validity, and construct reliability to verify that each indication consistently and accurately reflected the desired construct. The outcomes of the measurement model assessment provided the basis for the ensuing structural model analysis.

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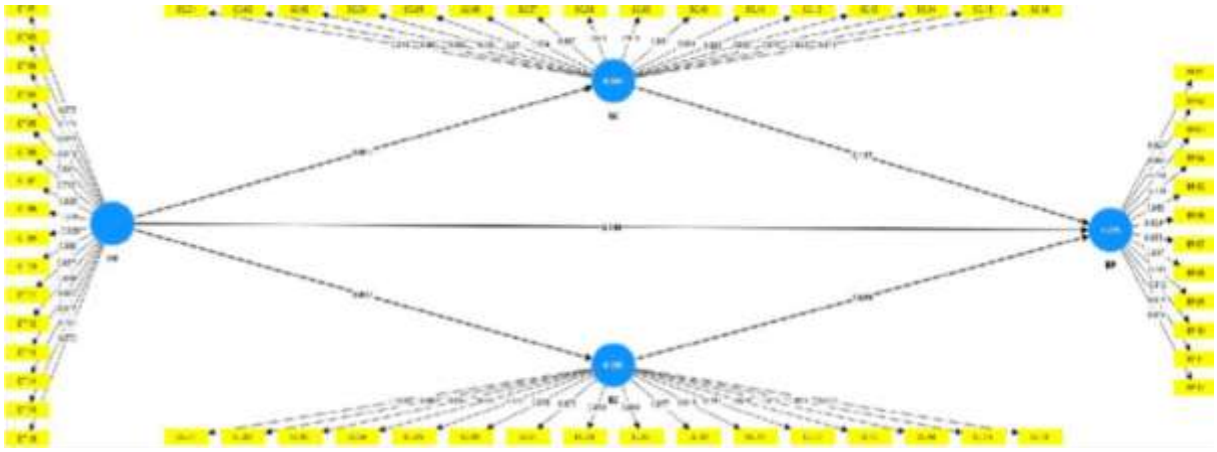
Figure 2
PLS-SEM Algorithm



Convergen Validity

Convergent validity testing was conducted to assess the extent to which the indicators appropriately reflect their respective latent constructs, as evaluated through loading factor values and Average Variance Extracted (AVE). Indicators are considered valid when they demonstrate sufficient correlations with the constructs they are intended to measure. The results of the convergent validity assessment for all constructs are presented in Table 2.

Table 2
Loading Factor and AVE

Construct	Number of Indicators	Loading Factor	AVE
Digital Transformation (DT)	16	0,743 – 0,893	0,715
Branch Performance (BP)	12	0,812 – 0,864	0,709
Strategic Capabilities (SC)	16	0,816 – 0,931	0,763
Strategy Execution (EC)	16	0,811 – 0,912	0,758

Based on Table 2, all indicators demonstrate loading factor values ranging from 0.743 to 0.931, which exceed the recommended threshold of 0.70. This indicates that each indicator contributes substantially to explaining its respective construct. Furthermore, the Average Variance Extracted (AVE) values for all constructs are above 0.50, meaning that more than half of the variance of the indicators is explained by their underlying latent variables. These results confirm that the measurement items adequately represent the constructs of digital transformation, strategic capabilities, execution capabilities, and branch performance. Therefore, the model satisfies the requirements of convergent validity and can be considered appropriate for further structural analysis.

Discriminant Validity

Discriminant validity testing was performed to ensure that each construct in the research model is empirically distinct from the others. The assessment was conducted using cross-loading analysis and the heterotrait–monotrait ratio (HTMT). The cross-loading results indicate that each indicator loads highest on its intended construct, thereby meeting the discriminant validity criterion. The HTMT analysis was subsequently employed as an additional confirmation, with the results presented in Table 3.

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Table 3
Heterotrait–Monotrait Ratio (HTMT) Results

Construct	BP	DT	EC	SC
BP	—			
DT	0,779	—		
EC	0,866	0,85	—	
SC	0,794	0,829	0,889	—

As shown in Table 3, all HTMT values are below the recommended threshold of 0.90, indicating that the constructs in the model are empirically distinct from one another. The highest HTMT value is observed between strategic capabilities and execution capabilities, which is theoretically reasonable because both constructs relate to internal organizational capabilities. Nevertheless, the value remains within the acceptable range, confirming that the constructs capture different conceptual dimensions. These results indicate that the measurement model satisfies discriminant validity requirements and that each construct represents a unique concept within the research framework.

Reliability

Reliability testing was conducted to evaluate the internal consistency of the indicators used to measure each construct in the study. Reliability was assessed using two main parameters, namely Cronbach's Alpha and Composite Reliability, to ensure that the indicators consistently and reliably capture the intended constructs. A summary of the reliability test results for all constructs is presented in Table 4.

Table 4
Reliability Test Results

Construct	Cronbach's Alpha	Composite Reliability
Digital Transformation (DT)	0,973	0,976
Branch Performance (BP)	0,963	0,967
Strategic Capabilities (SC)	0,979	0,981
Strategy Execution (EC)	0,979	0,980

Based on Table 4, all constructs exhibit Cronbach's Alpha and Composite Reliability values well above the recommended threshold of 0.70, indicating strong internal consistency among the measurement indicators. The high reliability values suggest that the indicators within each construct consistently measure the same underlying concept and produce stable responses across respondents. This result confirms that the measurement instruments used in this study are reliable and suitable for examining the relationships among constructs in the structural model.

Structural Model Evaluation (Inner Model)

The structural model evaluation was conducted to examine the relationships among latent constructs formulated in the research hypotheses. This analysis aimed to assess the direction, magnitude, and significance of the relationships between variables through path coefficient estimation and the bootstrapping procedure. The results of the structural model testing are illustrated in the following figure.

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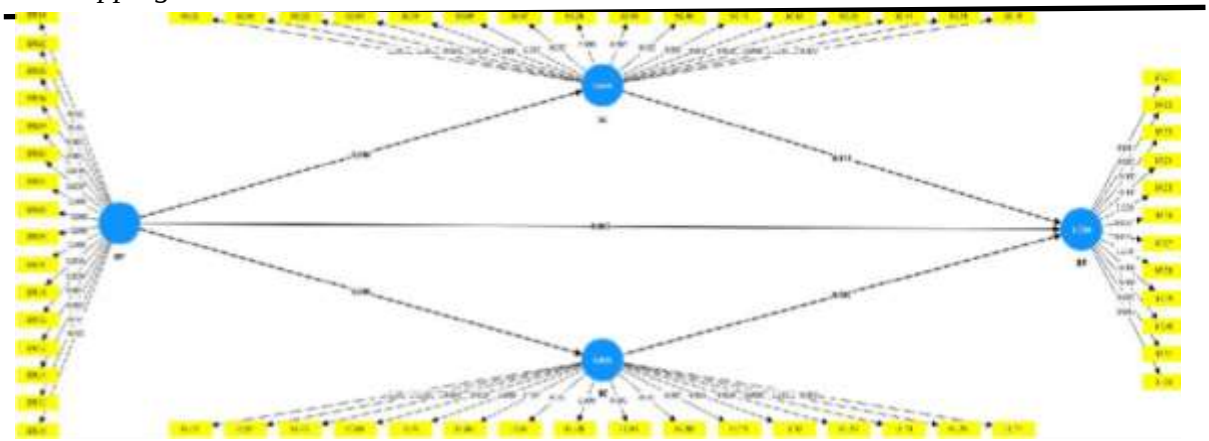
Figure 3
Boostrapping Model



F Square

The effect size (f-square) analysis was performed to determine the magnitude of contribution of each exogenous variable in explaining the endogenous variables within the structural model. The f-square value indicates the strength of the influence exerted by a predictor construct on the affected construct. The results of the f-square analysis are presented in Table 5.

Table 5
F-Square Results

Relationship	f-square Value	Category
Digital Transformation → Branch Performance	0,022	Kecil
Digital Transformation → Execution Capabilities	2,257	Besar
Digital Transformation → Strategic Capabilities	1,976	Besar
Execution Capabilities → Branch Performance	0,269	Sedang
Strategic Capabilities → Branch Performance	0,01	Sangat kecil

The f-square results in Table 5 indicate varying levels of effect size among the relationships in the structural model. Digital transformation demonstrates a large effect on both strategic capabilities and execution capabilities, indicating that digital initiatives play a crucial role in strengthening internal organizational capabilities. This finding suggests that the adoption of digital technologies stimulates organizational learning, strategic adaptation, and improvements in operational coordination.

Meanwhile, execution capabilities show a moderate effect on branch performance, implying that the ability to implement strategies effectively contributes meaningfully to improving branch outcomes. In contrast, digital transformation and strategic capabilities exhibit relatively small direct effects on branch performance. This pattern suggests that the influence of digital transformation on branch performance is largely indirect and occurs primarily through the organization's ability to execute strategies effectively.

R Square

The coefficient of determination (R-square) was used to assess the extent to which exogenous variables explain the variance of endogenous variables in the structural model. In addition, the adjusted R-square values are reported to confirm the consistency of the model's

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explanatory power while accounting for the number of predictor constructs involved. The R-square results are presented in Table 6.

Table 6
R-Square Results

Endogenous Variable	R-square	R-square Adjusted
Branch Performance (BP)	0,726	0,722
Execution Capabilities (EC)	0,693	0,691
Strategic Capabilities (SC)	0,664	0,662

The R-square values presented in Table 6 indicate that the structural model has substantial explanatory power. Specifically, the model explains 72.6% of the variance in branch performance, suggesting that digital transformation, strategic capabilities, and execution capabilities collectively provide strong explanatory insight into branch-level performance outcomes. In addition, the model explains 69.3% of the variance in execution capabilities and 66.4% of the variance in strategic capabilities, indicating that digital transformation plays a significant role in shaping these organizational capabilities. The similarity between R-square and adjusted R-square values further indicates that the model is stable and not overly influenced by the number of predictor variables.

Q Square (Predictive Relevance)

The Q-square (Q^2) test was conducted to evaluate the predictive relevance of the structural model in explaining endogenous constructs. Q^2 values were obtained using the blindfolding procedure, where values greater than zero indicate that the model has adequate predictive relevance. The results of the Q^2 analysis are presented in Table 7.

Table 7
Q-Square Results

Variable	Q^2
Branch Performance (BP)	0,502
Execution Capabilities (EC)	0,519
Strategic Capabilities (SC)	0,493

Based on Table 7, all endogenous variables exhibit positive Q^2 values, indicating that the structural model possesses good predictive relevance. The highest Q^2 value is observed for execution capabilities, followed by branch performance and strategic capabilities. These findings suggest that the predictor constructs in the model provide meaningful information in predicting internal organizational capabilities and branch-level performance. Therefore, the proposed model demonstrates adequate predictive relevance and is appropriate for hypothesis testing.

Path Coefficient

Path coefficient analysis was conducted to examine the direction and significance of the relationships among variables in the structural model. The analysis employed a bootstrapping procedure to obtain path coefficients (β), t-statistics, and p-values. A summary of the results for the hypothesized relationships is presented in Table 8.

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Table 8
Path Coefficient Results

Relationship	β	p-value	Remark
Digital Transformation → Branch Performance	0,148	0,065	Not significant
Digital Transformation → Execution Capabilities	0,832	0,000	Significant
Digital Transformation → Strategic Capabilities	0,815	0,000	Significant
Execution Capabilities → Branch Performance	0,619	0,000	Significant
Strategic Capabilities → Branch Performance	0,117	0,111	Not significant

The path coefficient data displayed in Table 8 indicate numerous significant insights concerning the links among the components. Initially, digital transformation demonstrates a substantial and noteworthy impact on both strategic and execution capabilities. This signifies that the integration of digital technologies prompts firms to formulate adaptive plans while concurrently enhancing their capacity to execute those strategies at the operational level.

The direct impact of digital transformation on branch performance is not statistically significant. This discovery indicates that the advantages of digital transformation are not inherently achieved at the branch level. Digital projects must prioritize enhancing the organization's internal capabilities prior to achieving quantifiable performance enhancements.

Moreover, execution capabilities exert a considerable influence on branch performance, signifying that the efficacy of strategy implementation is pivotal in shaping branch-level results. Conversely, strategic capabilities exhibit no substantial direct impact on branch performance, indicating that the mere formulation of strategies is inadequate unless those strategies are adeptly implemented into operational practices.

Specific Indirect Effect

An study of specific indirect effects was performed to ascertain the indirect influences of exogenous variables on endogenous variables via mediating constructs. This research seeks to elucidate the internal processes that connect causal links inside the structural model, namely the functions of strategic capabilities and execution capabilities as mediators. The outcomes of the indirect effect analysis are displayed in Table 9.

Table 9
Specific Indirect Effect Results

Mediation Path	β	p-value	Remark
Digital Transformation → Strategic Capabilities → Branch Performance	0,095	0,108	Not significant
Digital Transformation → Execution Capabilities → Branch Performance	0,515	0,000	Significant

Based on Table 9, the mediation path through strategic capabilities does not show a significant indirect effect on branch performance. This finding indicates that the ability to formulate and adjust strategies alone is insufficient to transmit the impact of digital transformation into tangible improvements in branch performance. In contrast, the mediation path involving execution capabilities is statistically significant and exhibits a relatively large coefficient. This result confirms that an organization's capability to effectively implement strategies serves as the primary mechanism through which digital transformation influences branch performance. Thus, execution capabilities function as a key mediator in ensuring that

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digital transformation initiatives are converted into optimal branch-level performance outcomes.

Hypothesis Testing

Hypothesis testing was conducted to evaluate the significance of the relationships among variables in the structural model by referring to the path coefficients, t-statistics, and p-values obtained through the bootstrapping procedure. A hypothesis is considered supported if the p-value is less than 0.05. A summary of the hypothesis testing results is presented in Table 11.

Table 11
Hypothesis Testing Results

	Hypothesis	p-value	Decision
H1	Digital Transformation → Strategic Capabilities	0,000	Supported
H2	Digital Transformation → Execution Capabilities	0,000	Supported
H3	Digital Transformation → Branch Performance	0,065	Not supported
H4	Strategic Capabilities → Branch Performance	0,111	Not supported
H5	Execution Capabilities → Branch Performance	0,000	Supported
H6	Digital Transformation → Strategic Capabilities → Branch Performance	0,108	Not supported
H7	Digital Transformation → Execution Capabilities → Branch Performance	0,000	Supported

According to Table 11, the findings demonstrate that digital transformation positively and significantly influences strategy and execution capabilities, hence corroborating H1 and H2. The direct impact of digital transformation on branch performance is statistically insignificant, resulting in the rejection of H3. This conclusion indicates that digital transformation alone is inadequate to directly improve branch performance without the reinforcement of internal capabilities. Moreover, strategic competencies do not demonstrate a substantial impact on branch performance, leading to the dismissal of H4. Conversely, execution skills exhibit a positive and large impact on branch performance, hence corroborating H5. This outcome underscores that the efficacy of strategy execution is more pivotal than strategy design by itself. The mediation path through strategic capabilities does not exhibit statistical significance; hence, H6 is unsupported. In contrast, the mediation pathway via execution skills exhibits a substantial effect, corroborating H7. These findings affirm that execution capabilities are the principal method by which digital transformation is converted into enhanced branch performance in the realm of digital banking.

The results of this study demonstrate that digital transformation positively and significantly impacts strategy and execution capabilities, although does not directly affect branch performance. This outcome indicates that digital transformation does not inherently enhance branch performance without the concurrent enhancement of internal organizational capacities. Moreover, strategic capabilities do not exhibit a substantial direct influence on branch performance, whereas execution capabilities show a favorable and significant effect. The examination of indirect impacts reveals that the mediation path via execution capabilities is statistically significant, whereas mediation through strategic capabilities is not. The data suggest that branch success in digital banking is predominantly influenced by an organization's capacity to implement plans effectively, rather than by the development of those strategies alone.

These findings align with previous research highlighting the significance of internal competencies as the principal mechanism for translating digital transformation into

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organizational success. Bharadwaj et al. (2013) and Verhoef et al. (2021) contend that digital transformation reconfigures organizational strategy formulation and execution, hence enhancing organizational capacities. The current findings corroborate those of Schreieck et al. (2021) and Brunner et al. (2023), emphasizing that proficient strategy execution is essential for improving the performance of banking operational units. Furthermore, the discovery that execution capabilities mediate the connection between digital transformation and branch performance reinforces the dynamic capabilities framework posited by Teece (2020), which underscores the significance of an organization's capacity to effectuate adaptive changes in fluctuating environments.

Nonetheless, certain findings of this study diverge from prior research that identifies strategic talents as a direct determinant of organizational performance. Numerous prior research indicate that strategic competencies can significantly impact performance, especially in reasonably stable corporate situations. The disparity in results suggests that in the rapidly evolving landscape of digital banking, where technological advancements occur swiftly, strategic capabilities centered on planning and long-term alignment may be inadequate for directly improving branch performance.

These findings indicate that enhancing branch performance in digital banking necessitates a heightened focus on the organization's ability to implement plans consistently and cohesively. Digital transformation initiatives must be complemented by the enhancement of operational procedures, decision-making frameworks, and workforce preparedness to guarantee that established plans are properly implemented at the branch level.

4. Conclusion

This study concludes that digital transformation plays an important role in strengthening internal organizational capabilities in the banking sector, particularly strategic capabilities and execution capabilities. However, digital transformation does not demonstrate a direct effect on branch performance. This finding indicates that the adoption of digital technologies and system changes does not automatically lead to improved branch performance without adequate internal mechanisms. Furthermore, strategic capabilities are not found to have a direct influence on branch performance, whereas execution capabilities show a positive and significant effect. These results confirm that branch performance in digital banking is more strongly determined by the effectiveness of strategy execution rather than by strategy formulation alone.

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6. Declarations

Author Contribution : Author 1: Conceptualization, Writing - Original Draft, Editing and Visualization; Author 2: Writing - Review & Editing, Formal analysis, and Methodology; Author 3: Validation and Supervision (https://www.elsevier.com/authors/policies-and-guidelines/credit-author-statement). Funding Statement: This research was funded by the director general of Strengthening Research and Development with the Ministry of Research, Technology and Higher Education of the Republic of Indonesia for supporting and funding this research. Conflict of Interest: The authors declare no conflict of interest. Additional Information: Additional information is available for this paper.

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