Exploring The Relationships Between Dynamic Capabilities, Digital Transformation, and IT-Business Alignment

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***Abstract*—Business and IT alignment is crucial to business organizations, navigating digital transformation, leveraging dynamic capabilities, facilitating smooth integration of digital technologies, and creating competitive added value in managing digital. Nevertheless, there is no literature discussing the influence of dynamic capabilities in doing business and IT alignment through digital transformation in managing digital business. The objective of the research is to explore and ensure the full impact of the digital transformation construction in bringing business and IT alignment together with every indicator of the effects of dynamic capacity with the availability and readiness to manage a digital business—convergence triangulation research method with explanatory design through follow-up explanation. The research population was taken from all the digital businesses that had run them for at least five years. 198 of the 238 respondents completed the questionnaire online through Google Forms using a random sampling technique with a response rate of 83.19%. The Likert scale is used to process and analyze data using the SEM-PLS method. The results of the research showed it turns out that the assumption of managing digital business is very resistant to the need to harmonize business and IT from the influence of digital transformation is not proven at all, and the existence of the linkage of dynamic capabilities in carrying out the alignment of business and IT.**

Keywords—IT-Business Alignment, Digital Transformation, Dynamic Capabilities, Digital Businesses.

I. INTRODUCTION

Information technology's (IT) growth is becoming increasingly significant for all. The existence of IT has led to a fundamental transformation of business processes towards digital disruption. This change is marked by the emergence of various digital technology innovations that are increasingly competitive and demanding preparedness and the availability of dynamic capabilities to undertake the digital transformation process, effectively harmonizing business and IT [1]. Several studies have identified the importance of doing business and IT alignment, ensuring key areas for business performance success, enhancing executive understanding of IT importance, and increasing efficiency and competitive advantage [2, 3, 4]. Aligning business with IT is essential to creating value in an organization's internal and external processes by prioritizing IT investments according to needs, improving customer experience, simplifying operating systems, facilitating effective communication, and optimizing inter-departmental decision-making. While business and IT alignment is not a new concept, it is vital to carry out the process of digital transformation to a sustained competitive advantage for any industry [5].

Digital transformation refers to a change in how operate, innovate, and interact with customers through IT. In this context, business alignment and IT become a strong foundation for creating effective digital transformation strategies. This is because business and IT alignment allows for an easy understanding of customer and market needs in greater depth [6] and identifies new opportunities in the digital world. Aligning and IT is vital for business organizations, especially in navigating digital transformation, leveraging dynamic capabilities, and creating competitive added value. By integrating IT with business structures, companies can improve operational efficiency and innovate to meet challenges and opportunities in the digital age [7]. IT accelerates business processes, improves service quality, optimizes availability and utilization of information resources, and is prepared to manage risks associated with implementing digital transformation. Digital transformation, on the other hand, is using digital technology to fundamentally change the way operate, deliver value, and interact with customers. There is a strong link between digital transformation and dynamic capabilities [8]. Digital transformation provides the foundation and resources for organizations to develop and enhance dynamic capacities. Running a business with strong dynamic abilities is better prepared to embrace and drive digital transformation initiatives. Dynamic capabilities play an important role in digital transformation, enabling organizations to respond effectively to disruptions triggered by new digital technologies [9].

Several empirical studies from previous studies also showed that dynamic capabilities play an important and influential role in improving the performance and agility of a company's business [10, 11]. Dynamic capabilities enable all business organizations to create a competitive advantage proactively. The ability of a business to adapt and respond quickly to any changes in its environmental dimensions.

These changes can include digital technology advances, market fluctuations, and shifts in customer preferences. In addition, dynamic capabilities can enhance the ability of organizations to innovate and develop IT service products. Similarly, business and IT alignment significantly impacts the smoothness of digital transformation [12, 13]. However, several previous research findings have revealed gaps where no literature discusses the influence of dynamic capacity to do business and IT alignment in managing digital business.

Research is interesting, considering that dynamic capabilities can help cope with any change in the digital transformation process [8]. The dynamic capability enables processes to adapt sustainably through sensing environmental change, taking advantage of opportunities, and continuously transforming business organizational resources and capability. Interestingly, IT ownership is not seen as an important element in the dynamic capacity framework, where IT generally plays an important role and is relatively small [9]. Although it can be said that the availability of dynamic capabilities has a conceptual basis with a broader perspective and a focus on IT functions. One of the answers is that it enables the perspective to build and maintain a competitive advantage in managing a digital business that is always interrupted by digital transformation [14]. Nevertheless, the frequently occurring conditions show that many companies and IT departments still do not function optimally in the face of the challenge of digitalization. This event would not have happened without the unprecedented alignment process between IT functions and business needs, and it is becoming a sustainable challenge. To meet the challenges of digital transformation, IT functions change from internal organization and new forms of collaborative activities and coordination with business departments [13, 15]. The reality of most previous research findings has not been seen, and attempts have been made to explore the relationship between the interaction of dynamic capability, digital transformation, and business and IT alignment processes in managing digital data more effectively.

Such a condition is also emphasized and reinforced by several previous studies [16, 17, 18], which are still rarely found or have not explicitly stated that dynamic capabilities will always affect carrying out digital transformation. There is a connection between the business process and IT alignment. This state of affairs indicates that these structures tend to be ignored and are not considered one of the crucial dimensions that can fluidize managing a digital business. This statement reflects the gap or novelty associated with research over the years, where the average hasn't balanced the alignment of business and IT with digital transformation and the linkage with dynamic capabilities. This innovation is also an important contribution to managing and increasing the productivity of digital business growth.

The research problem formula is the presumed linkage to ensure that the business and IT alignment process in managing a digital business is not independent of the direct or indirect influence of the dynamic capabilities mediated by the digital transformation construction and each indicator. The statement of the problem formula corresponds to the purpose of the research, which is to explore and ensure the full impact of the construction of digital transformations in carrying out business and ICT alignments with each indicator of the impact of dynamic capacity with the readiness to manage digital business. This goal is crucial given the growing business situation and digital competition in meeting all their needs.

II. Literature Review

A. Dynamic Capabilities

Dynamic capacities are an organization's ability to integrate internal and external capabilities to update organizational performance and cope with rapidly changing environments with readiness to respond to opportunities to improve operational efficiency and innovation. This context refers to the mindset that drives change, strategic decision-making, and organizational processes by manipulating resources into opportunities for new value creation [20]. Dynamic capability is closely related to the ability of organizations to use IT to transform patterns of change in market demand. Companies must have a sustained competitive advantage by reconfiguring the resource base in response to changing environmental conditions [21]. This view suggests that IT-supported dynamic capabilities can enhance and create shared value for its customers by facilitating the rapid re-configuration of all resources and competencies.

B. Digital Transformation

Digital transformation can be understood as changing the way and mechanisms companies use digital technology to develop new digital business models that can help create and deliver more value for companies [23]. Digital Transformation has become necessary for companies to face the direction of networking and intelligence, improve quality and efficiency, and re-form competitiveness. This condition refers to integrating digital technology into all business areas, resulting in a fundamental change in managing and delivering value to customers [16]. Digital transformation not only replaces manual processes with technology but transforms organizational culture and thinking by maximizing the power of digital technology. It encompasses sensing, organizing, and restructuring organizations by creating an environment that supports sustainable innovation and adaptation [25]. Furthermore, digital transformation is driven by the need to adapt to the digital age and meet market demands.

C. IT-Business Alignment

Business and IT alignment is a strategic concept emphasizing the importance of synergies between business and IT to competitive advantage and operational efficiency. This alignment is important because it enables companies to maximize the value of their IT investments, ensure that IT infrastructure and services support business needs, and enable rapid response to market changes [26]. It can enhance the ability of companies to innovate, provide better customer service, reduce operating costs, increase flexibility, and utilize market opportunities effectively [27]. Companies that can align IT with their can adapt faster to market segmentation and technology changes, enabling them to remain competitive and relevant. Business and IT alignment constructs include the process of strategic IT and business alignments; business plans reflect IT plans, and IT plans reflect business plans [28].

III. Research Method

The research phase begins with an explanation of the background, a review of the literature, the formula and limitations of the problem, the formulation of hypotheses, the collection, the analysis of data, the results, and the drawing of conclusions [29]. The research process combines convergent triangulation models and explains the analysis results [30]. Research populations have operated in the West Kalimantan region for over five years. Given that time frame, a digital business venture can describe and show the results of every type of venture. The study collected 198 of a total of 238 respondents with a response rate of 83.19% between July and December 2023. The timing is considered sufficiently representative to describe the mechanisms of running a digital business venture. The questionnaire was disseminated electronically using monkey survey tools with purposive sampling techniques.

The data is processed using a Likert scale with scores ranging from very disagreeable (score 1) to very agreed (scale 6). Given that the ordinal value in calculating the Likert Scale can eliminate the tendency factor of doubt, this approach can make the data more accurate and give confidence and assurance of certainty [31]. The list of questionnaires is generated by combining several previous studies and accompanied by several adjustments to different conditions, times, and locations of the study. Moreover, each questionnaire used has been tested accurately and credibly. Research method and analysis using structural equation modeling (SEM) with a partial least square (PLS) approach. The SEM-PLS phase consists of conceptual modeling, algorithm analysis methods, bootstrapping, pattern diagram models, model evaluation, conclusion drawings, and recommendations [31]. Spread the data by performing bootstrapping techniques so there's no problem on the normal side. The next step is a process of in-depth interviews with five leaders who run a digital business without making any distinctions about the type of business. The five key informants are determined using an exclusive and inclusive approach. Then, it ends with a feedback process, which reaffirms all the analysis results of each path coefficient value related to the relationship between dynamic capacity building, digital transformation, and business and IT alignment.

Testing the research model hypothesis to explore and ensure that all the influences and relationships between dynamic capabilities, digital transformation, and business and IT alignment positively impact managing digital business growth. The coverage of the research hypothesis consists of H1: dynamic capabilities have a positive influence on doing digital transformation; H2: dynamic capacity has a positive impact on doing business and IT alignment; H3: dynamic ability has a positive influence on doing business alignments and IT mediated by the construction of digital transformations. All of these hypothesis tests are used to assess the extent to which dynamic capacity construction positively impacts both directly and indirectly, with involvement being an important factor in winning market competition. The influence of each construction with its respective indicators shows the strengths and weaknesses of relationships that ultimately represent managing a digital business.

IV. Result and Discussion

The mechanism of the output analysis process begins with a path analysis. Then, an estimate is made using the PLS algorithm and the bootstrapping process to obtain optimal data distribution values in meeting normality assumptions. This approach applies bootstrapping techniques using algorithms that can generate resampling values in relatively large amounts with resampler-with-replacement methods. This approach is especially useful when you do not have a lot of data or want to make inferences about populations without making strong and complete assumptions about data distribution. The calculation of each resampling contains a set of randomly selected and irregular lines derived from an original set of data in each line, which can be performed by re-sampling [31]. This technique is useful when limited data or population distribution is unknown precisely. Refer to the SEM-PLS method, which consists of several exogenous and endogenic latent variables that have indicator composition: (a) dynamic capacity designs covering indicators sensing (DC1), seizing (DC2), and reconfiguring (DC3); (b) digital transformation and construction covering sensor indicators (DT1), organizational (DT2) and organizational restructuring (DT3); and (c) business and IT alignment construction includes indicators of strategic IT and business coordination processes (BITA1), business plans reflecting IT plans (BITA2), and IT plans reflected business plans. (BITA3).

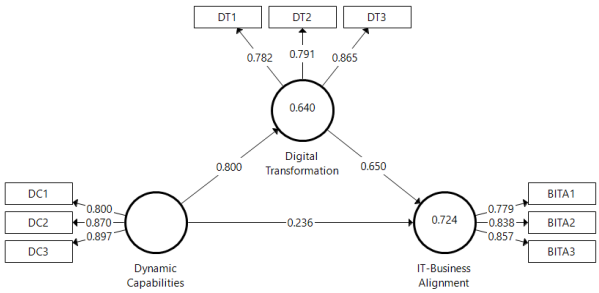

Fig. 1. Research Path Diagram

Next, conducting validity tests, the validity testing process involves two main steps, including convergent validity and discriminatory validity. Convergence validity is tested through the Average Variance Extracted (AVE) approach and composite reliability, ensuring that indicators that measure the same latent variable have high correlation values. While validity discriminates, different latent variables measure different constructions, which are usually tested using the Fornell-Larcker criteria to ensure that different latent variables measure different constructions. The AVE value measures the variance obtained from each structure and then compares it with the variances due to measurement errors. This value represents the convergence validity coverage content and means a latent variable can explain more than half the average variation for each indicator. The external model and data processing results show the influence of each structure represented by the research path diagram model (see Figure 1). The validity test is then performed to determine the convergent values, and the discriminant validity refers to the AVE values referring to the Fornell-Larcker criteria. The acquisition of this value will indicate the coverage of all convergent validities of the average indicator.

The outer model processing results show the impact of each structure. Based on the calculation of the path coefficient, it turns out the entire value is > 0.70. This indicates that the relationship between latent constructions in structural models is significant, and the constructions strongly influence each other. Table I shows all the results of the discriminatory validity tests of each construction. The discriminatory values are tested using the Fornell-Larcker test tool. Table II shows the reliability and validity test results based on the calculations of the Composite Reliability (CR), Cronbach's Alpha (CA), and AVE values. The determinations are the calculated values of CR > 0.80, Cronbach Alpha > 0.70, and the AVE value > 0.50 [31]. All these values must be met to obtain good reliability and validity values. This ensures that every constructor can explain the indicator.

TABLE I. DISCRIMINANT VALIDITY

Fornell-Larcker Criterion	DT	DC	BITA
Digital Transformation (DT)	0.813		
Dynamic Capability (DC)	0.800	0.857	
IT-Business Alignment (BITA)	0.839	0.757	0.825

TABLE II. RELIABILITY AND VALIDITY OF CONSTRUCTS

Fornell-Larcker Criterion	CA	rho_A	CR	AVE
Dynamic Capability (DC)	0.744	0.755	0.854	0.662
Digital Transformation (DT)	0.817	0.823	0.892	0.734
IT-Business Alignment (BITA)	0.767	0.779	0.865	0.681

The next step is to perform internal regression analysis using the bootstrap method using SmartPLS v.1.1.3.2.8 software. This program allows any calculation of bootstrap values and parameter significance for each construct tested using t-score calculation results. The acquisition of the t value is crucial to test whether there is any relationship between the respective research constructs. Suppose the result of the calculation obtains a statistical t-value > 1.96 (z-score = 1.96 with a 95% confidence interval (CI)). In that case, this value reflects very significantly with a probability value < 0.05 and to calculate the t-value [31]. Next, the test value of the line's significance coefficient shows all the sample's original values, and t-statistics obtained positive values. The relationship between the constructs has t-statistic values > t-table (see Table III).

TABLE III. PATH SIGNIFICANCE TEST

Fornell-Larcker Criterion	Original Sample (O)	T-Statistic (|O/STDEV|)	P-Values
Digital Transformation → IT-Business Alignment	0.650	0.071	0.000
Dynamic Capabilities → Digital Transformation	0.800	0.025	0.000
Dynamic Capabilities → IT-Business Alignment	0.236	0.085	0.005

This condition reflects a positive and significant value relationship, which means that exogenous constructions have influences and relationships with endogenous ones. This condition represents that carrying out the business and IT alignment process requires a close correlation between dynamic capacity building and digital transformation in managing a digital business (see Figure 1). Based on the significance test, the path coefficient shows all the acceptable and specific hypotheses H3 represents a novelty (see Table III), where there is no empirical research that substantially explores the influence or relationship of dynamic capabilities in doing business and ICT alignments mediated by digital transformations. Previous research averages are more accurate regarding the link between dynamic capabilities or the alignment of business and IT with digital transformation in improving company performance [5, 6, 7, 8, 19, 22]. This condition can simultaneously be a scientific contribution, where it turns out the long-standing assumption that managing a digital business is very resistant to the need to reconcile business and IT from the influence of digital transformation is not proven at all.

The next step is to calculate the value of R Square. This R Square value tests the Goodness of Fit (internal) model, and the R Square-Adjusted calculation results show the digital transformation and IT-Business Alignment values of 0.639 or 63.9% and 0.721 or 72.1%, respectively. This value reflects both structures affected by dynamic capabilities, and the calculation of R square predictive relevance shows a value of 0.899 (89.9%). So, the research model reflects excellent results and is suitable for predicting other dependent variable values that have not been observed in this study model. While constructions outside of this research model influence the rest. Further, the line significance test showed that the original sample had positive values with line coefficients of 0.650, 0.800, and 0.236. All values reflect where they increasingly intersect or have a stronger influence on dynamic capabilities, and digital transformation will increasingly require interaction and connectivity to carry out business and IT alignment as well as digital transformations in managing various digital business enterprises. Likewise, the influence and indirect relationship of the dynamic capacity in carrying out business alignments and IT through Digital transformation gains a path coefficient value of 0.520 (see Table IV). This value is higher and stronger than without going through Digital Transformation.

TABLE IV. INDIRECT EFFECTS

Specific Indirect Effects	Path Coefficient
Dynamic Capabilities → Digital Transformation → IT-Business Alignment	0.520

Further linkages between latent variable constructions show that the influence of dynamic capacity plays an important role in performing digital transformation with a line coefficient value of 0.800. In this context, the dynamic capability is crucial in enabling companies to utilize digital technologies effectively and sustainably to implement digital transformation. Managing a digital business with highly dynamic capabilities tends to be more successful in implementing significant digital change and improving operational efficiency, product innovation, and customer satisfaction. This condition is not independent of the loading factor values of each dynamic capacity construction indicator of 0.800 (DC1), 0.870 (DC2), and 0.897 (DC3). These capabilities are crucial in digital transformation as they enable organizations to adapt quickly, adopt new

technologies, and develop innovative solutions. The highest track coefficient values lie in reconfiguring (DC3), covering business process restructuring, adopting new digital technologies, updating digital business models, and redesigning workflows to enhance efficiency and responsiveness to changes in digital transformation. While the DC1 and seizing indicators are not very different. This situation reflects that running a digital business can anticipate change and has a pattern of service standardization, digital skills, the availability of infrastructure, and a supportive digital work culture. This finding is no different from previous research [8, 17, 19, 20, 22], which rather reinforces that conducting digital transformation in managing and implementing digitization is significantly influenced and has a strong relationship with dynamic capabilities.

Then this research model also shows that there is a novelty related to the linkage of dynamic capabilities in doing business and IT alignment. This condition is important given that no previous research has discussed dynamic capacity with business and ICT alignments and more to the direction of IT strategy [13]. However, it must also be understood that coordination activities are not an endpoint but a journey of continuous adaptation and change. This fact shows that the magnitude of dynamic capacity's influence on business and IT alignment only yields a line coefficient value of 0.236 (see Figure 1). This state of affairs represents that in business and IT, alignment does not have much to do with the influence of dynamic capabilities. The context of these statements can be structural and cultural factors, such as organizational structure and cross-functional collaboration culture, playing an important role in ensuring that business and IT teams can work together effectively. Visionary leadership and good IT governance are crucial in defining policies, procedures, and strategic directions supporting coordination. Moreover, integrated business and IT processes, information systems that enable transparency and effective exchange of information, and adequate resources and skills are critical to the success of this alignment. The effectiveness of communication and collaboration between teams cannot be overlooked either because, without close communication and cooperation, even strong dynamic capabilities may not be enough to overcome existing barriers. Therefore, the need for innovation and adaptation remains supported by a conducive organizational environment and various other factors for business and IT alignment. This fact is not independent of the loading factor value of each indicator. The lowest value of 0.779 is in business and IT alignment, which does not differ far from the other indicators of 0.838 and 0.857.

The last of the network of connections between dynamic capabilities and the alignment of business and IT is of influence and indirect connections through digital transformation. This construction is vital in connection with the application of digital technology in accommodating all document processing towards data digitization through cloud computing technology infrastructure in providing virtual services for day-to-day operational activities. The track coefficient value obtained from digital transformation's influence and direct relationship between doing business and IT alignment shows a relatively high result of 0.650 (see Figure 1). The success of digital transformation does not depend on the availability and readiness of a combination of digital technology, computing, communication, and co-activity [5, 6, 7]. The influence and indirect relationship between dynamic capabilities and business and IT alignment mediated by the implementation of digital transformation shows a highly representative track coefficient value of 0.520 (see Figure 1). This value is still higher when compared to the impact and direct relationship of dynamic capacity construction in carrying out business and ICT alignments. This event demonstrates that the construction of digital transformation is crucial and always needed to establish collaboration and suitability of doing business and IT alignment. On the side of the load value, the highest factor is 0.865, located on the organization restructuring indicator (DT3), and the lowest is 0.779 on the sensor indicator (DT1). This finding is an important guideline given that in conducting digital transformation, the process of organizational restructuring must take precedence to align business and IT.

This situation suggests managing digital is more successful in implementing the structural changes needed to support digital transformation than proactively identifying changes and opportunities in the business environment. In other words, while sensing is an important initial step in the transformation process, the ability to reorganize and reshape organizational structures plays a more important role in determining the success of digital transformation. This may be because restructuring directly affects a digital business's operational efficiency and responsiveness to IT change. In contrast, sensing relies more on digital data analysis and interpretation capabilities that may not be fully optimized for fulfilling the organization's digitalization.

Feedback will then be provided to get a more accurate result from the previous analysis. Through the focus group discussion, all the same questions are returned to the five informants that have already been prepared. Average delivered digital transformation constructs enable aspects and mechanisms of managing a digital business with the ability to harmonize business and IT. Working processes and collaborations become simpler, and decisions can be made faster. Moreover, digital transformations enable real-time collection and analysis of digital data. This research has a limitation: cross-sectional data does not allow for assessment of the cause-and-effect direction between the indicators and dimensions of the three structures and is still limited to one geographical region. However, it does not close the possibility that it can be applied in other regions.

V. Conclusion and Future Research

The construction of the business and IT alignment has a positive relationship and significantly affects dynamic capabilities directly and indirectly through digital transformation. However, the values of the trail coefficients showed that digital transformations have a stronger influence than directly influenced dynamic capacities in how digital business is managed. The statement reaffirms that the construction of digital transformation plays an important role in establishing collaboration and suitability of doing business and IT alignment. So, managing a digital business has a very close relationship and always requires the link between business alignments and IT and the impact of digital transformation. The research could be continued by more detailed classification of each segment of the digital business type and product, adding to the number of respondents

running more digital business enterprises without distinction between old and new, and not only limited to one particular geographical region and in addition to using cross-sectional data calculations also taking into account longitudinal data.

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