

How Innovation Entry Modes Drive International Business Performance in the Digital Age: The Mediating Role of Organisational Agility and the Moderating Role of Digital Capabilities

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Abstract

Purpose: This study aims to dissect the underlying mechanisms and boundary conditions through which the Innovation Entry Mode (IEM) influences the International Business Performance (IBP) of Small and Medium-sized Enterprises (SMEs). Specifically, a moderated mediation model is constructed to examine the mediating role of Organisational Agility (OA) and the moderating role of Digital Capability (DC). **Methodology:** Hypotheses were tested using covariance-based structural equation modelling (CB-SEM) based on questionnaire data collected from 130 internationalising SMEs across multiple regions in China. **Findings:** Innovation entry modes exert a direct positive influence on international business performance, whilst also indirectly impacting it by enhancing organisational agility. Furthermore, digital capabilities not only directly bolster international business performance but also positively mediate the relationship between innovation entry modes and organisational agility, as well as between organisational agility and international business performance. **Research limitations:** The data in this study are based solely on cross-sectional information; future longitudinal research may be employed to validate causal relationships. Furthermore, exploration of additional potential mediating variables and moderating variables could provide a more comprehensive understanding of this complex phenomenon. **Value:** By revealing the intrinsic mechanisms and boundary conditions through which innovation entry modes enhance international performance, this study offers a novel

perspective for the internationalisation of SMEs. Enterprises should systematically position innovation entry modes, organisational agility, and digital capabilities as a synergistic “strategic triangle”, thereby effectively elevating their international competitiveness in the digital era.

Keywords: Innovation Entry Models, International Business Performance, Organisational Agility

Introduction

As we enter the era of global digital commerce, enterprises across all sectors aspire to expand into international markets. However, navigating turbulent business environments has heightened the challenges of market entry, particularly for SMEs with relatively limited resources and technological capabilities. Mastering uncertainty, seizing fleeting opportunities, and selecting appropriate entry modes have thus become paramount. Traditional market entry theories struggle to fully account for the disruptive changes brought by digitalisation. Innovative entry modes (IEMs) are emerging as a new paradigm for SME internationalisation, achieving breakthroughs by reconfiguring resource allocation, lowering commitment thresholds, and enhancing adaptability (Tariq, 2025).

Innovative entry modes drive international business performance in the digital era, enabling Chinese SMEs to keenly perceive and swiftly respond to international market shifts. Specifically, this is achieved through building organisational agility (OA) (AGUTTER, 2024). Concurrently, in the digital age, realising such agility is highly dependent on an organisation's digital capability (DC). This capability denotes an enterprise's inherent capacity to configure, integrate, and utilise digital resources in pursuit of strategic objectives (Biloslavo et al., 2022). While existing research has separately examined the relationships between entry modes, agility, and performance, a systematic investigation into how digital capability mediates the complete ‘modes-capabilities-agility’ mechanism remains an unexplored area.

Therefore, this study constructs a moderated mediation model grounded in dynamic capability theory (Teece et al., 1997) to investigate the following questions:

Q1. Does organisational agility mediate the relationship between innovation entry mode and international performance?

Q2. Does digital capability moderate (a) the relationship between innovation entry mode and organisational agility, and (b) the relationship between organisational agility and international performance?

Through CB-SEM analysis of questionnaire data from 130 internationalising SMEs in China, this study validated the moderated mediation model. Findings not only elucidate the underlying processes and boundary conditions for the effectiveness of innovation entry modes but also provide comprehensive theoretical guidance and a practical framework for Chinese SMEs to enhance international performance through strategic synergy between ‘modes-capabilities-agility’ in the VUCA era.

Literature Review and Hypothesis Development

Dynamic Capabilities Theory

Dynamic Capabilities Theory (DCT) forms the core theoretical foundation of this research, first systematically proposed by Teece et al. (1997). This theory emphasises an organisation's

capacity to acquire and sustain competitive advantage by integrating, constructing, and reconfiguring internal and external resources within rapidly changing environments. Dynamic capabilities focus not only on utilising existing resources but also on an organisation's capacity to adapt to environmental shifts and create new resources (Drydakis, 2022). Against the backdrop of intertwined globalisation and digitalisation, this theory provides a crucial framework for explaining how firms navigate uncertainty through strategic choices and organisational learning (TFRENCH et al., 2023).

For small and medium-sized enterprises (SMEs), dynamic capabilities manifest across all facets of their internationalisation strategy. Innovative Entry Mode represents the concrete manifestation of dynamic capabilities in international market entry decisions, requiring enterprises to transcend traditional approaches and adopt more flexible, digitally-enabled strategies (Nuhu et al., 2021). Organisational Agility constitutes the operational outcome of dynamic capabilities, reflecting an enterprise's efficiency in perceiving and responding to market shifts (Tallon et al., 2019). Digital capability, as an enabling factor, constitutes the microfoundation of dynamic capabilities, enhancing organisational adaptability and innovation through data-driven decision-making and resource reconfiguration (Li et al., 2022). Consequently, this study builds upon dynamic capability theory to construct an integrated model revealing how innovative entry modes influence international performance via organisational agility, moderated by digital capability.

Innovative Entry Modes, Organisational Agility and International Performance

Innovative Entry Modes (IEM) denote the overall degree to which enterprises adopt more flexible, digitally empowered and networked international market entry strategies to transcend the limitations of traditional approaches (Mollet and Kaudela-Baum, 2022). Compared to conventional approaches, IEM encompasses digital platform entry, asset-light non-equity partnerships, and algorithm-driven franchising (Tariq, 2025). These approaches enable firms to navigate international market complexities more flexibly by reducing resource commitments, enhancing information flow, and accelerating learning (Srividhya and Vidya, 2024). For instance, digital platform entry allows SMEs to reach global customers directly, minimising intermediaries and improving market responsiveness (Li et al., 2022).

Organisational agility (OA) is defined as an enterprise's capacity to perceive environmental changes and respond swiftly to gain competitive advantage (NURSKI and RUER, 2024). It comprises two core dimensions: perceptual agility and response agility. Perceptual agility denotes the ability to identify market opportunities and threats, while response agility signifies the capacity to rapidly mobilise resources for action (Tallon et al., 2019). Within an internationalisation context, organisational agility enables enterprises to timely adjust product, pricing, and distribution strategies to align with varying market demands and regulatory shifts across nations (Panda, 2022). Research indicates that organisational agility serves as a key mediating mechanism for enterprises to gain competitive advantage in international markets, translating strategic choices into performance outcomes (AGUTTER, 2024).

International performance (IP) represents the aggregate outcomes of a firm's international operations, encompassing market performance and financial performance (NURSKI and RUER, 2024). For SMEs, international performance is frequently measured through subjective

evaluations against primary competitors, owing to the lack of consistent objective data across contexts (Gentile-L et al., 2020). Such subjective comparisons often lack persuasiveness and objectivity, and prove detrimental to firms seeking to enhance their international performance by improving distinct dimensions.

Based on dynamic capability theory, we infer that innovation entry modes enhance international performance by increasing organisational agility. Firstly, innovation entry modes—such as digital platforms or strategic alliances—significantly enhance firms' perception and responsiveness to international markets through their inherent flexibility and informational advantages. For instance, digital platforms provide real-time market data, enabling firms to swiftly identify trends and customer demands (Panda, 2022), while non-equity partnerships enhance firms' adaptability through resource sharing and knowledge transfer (Sang-Joon, 2019). This directly elevates organisational agility. Consequently, heightened organisational agility enables firms to adjust products, strategies, and operations more swiftly, directly translating into superior international performance such as increased market share and profitability (Tallon et al., 2019). Empirical research supports this chain: Lee and Roh (2023) found that innovation entry modes indirectly improve SMEs' export performance by enhancing agility; similarly, Panda (2022) confirmed that organisational agility mediates the relationship between digital strategy and performance. Therefore, this study propose the following hypotheses:

H1: The innovation entry mode exerts a direct positive influence on international performance.

H2: The innovation entry mode exerts a positive influence on organisational agility.

H3: Organisational agility exerts a positive influence on international performance.

H4: Organisational agility mediates the relationship between the innovation entry mode and international performance.

The Moderating Role of Digital Capability

Digital Capability (DC) constitutes the core boundary condition of this study, denoting an organisation's capacity to leverage digital technologies such as big data, artificial intelligence, and cloud computing to drive decision-making, optimise processes, and reshape value creation (Elena, 2025). It extends beyond mere technology adoption, emphasising instead the integration of digital resources into core business processes to enhance learning and adaptation (Quy and Lan, 2024). Digital capability encompasses multiple dimensions including data analytics, digital platform operations, and digital collaboration (Warner & Wager, 2019). Within the relationship between innovation entry modes and international performance, digital capability functions as an accelerator. We hypothesise that digital capability moderates the relationship between innovation entry modes and organisational agility, as well as the relationship between organisational agility and international performance, grounded in the perspective of dynamic capability theory (Teece, 2007).

Enterprises with high digital capabilities are better positioned to leverage data analytics tools (such as AI and machine learning) to extract insights from the vast information generated by innovative models, thereby enhancing their sensitivity to market shifts (Nylén & Holmström, 2019). For instance, customer behavioural data collected through digital platforms can be analysed to swiftly identify emerging demands, thereby strengthening perceptual agility (Li et

al., 2022). Concurrently, digital capabilities enable enterprises to automate processes and facilitate real-time collaboration, thereby enhancing responsiveness. This includes rapidly adjusting supply chains through ERP systems (Quy and Lan, 2024). Conversely, organisations with low digital capabilities may struggle to fully realise the potential of innovation models, resulting in limited agility gains. Empirically, Elena (2025) found that digital capabilities strengthen the relationship between digital investment and organisational agility.

Enterprises with high digital capabilities can respond more efficiently to market changes through digital tools (such as SCM systems and collaboration software), rapidly implementing agile decisions to translate agility into performance more effectively (Quy and Lan, 2024). For instance, companies utilise real-time data to monitor international market dynamics, swiftly launching targeted marketing campaigns that directly boost sales performance (Warner & Wager, 2019). Here, digital capability acts as a multiplier, enhancing the efficiency and effectiveness of agile responses (Li et al., 2022). Conversely, organisations lacking digital capability may fail to realise performance gains despite possessing agility, due to inefficient execution. Supporting evidence comes from Rialti et al. (2019), who demonstrate that digital capability moderates the relationship between agility and competitive advantage.

Therefore, digital capability not only directly enhances international performance (an extension of H2) but also positively mediates the aforementioned pathways. Based on this, the study proposes the following hypotheses:

H5: Digital capability positively mediates the relationship between innovation entry mode and organisational agility. That is, the stronger a firm's digital capability, the greater the positive impact of innovation entry mode on organisational agility.

H6: Digital capability positively mediates the relationship between organisational agility and international performance. That is, the stronger a firm's digital capability, the greater the positive impact of organisational agility on international performance.

Based on the aforementioned assumptions, this study constructs a moderated mediation model. This model posits that organisational agility mediates the relationship between innovation entry modes and international business performance, whilst digital capability positively moderates the latter half of this mediating pathway—namely, the relationship between “organisational agility → international business performance”. This implies that the stronger a firm's digital capability, the greater the enhancement to its international performance achieved through heightened organisational agility.

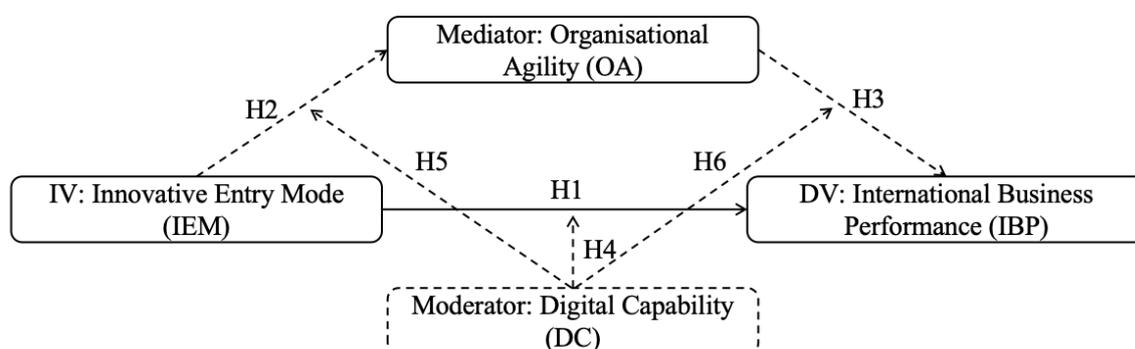


Figure 1. Theoretical model

Methods

Research Design and Data Collection

This study employs a cross-sectional survey design, utilising structured questionnaires to collect data for testing the hypothetical relationships within the theoretical model. Questionnaire design was grounded in an extensive literature review, with all measurement items for constructs derived from validated scales and appropriately adapted to the specific context of Chinese SMEs. The research subjects comprised SMEs across diverse industries, with the sample selected via stratified random sampling. Initially, enterprise directories were obtained from local chambers of commerce and industrial zone management bodies. Subsequently, stratification was performed according to industry type and enterprise size, culminating in the random selection of 130 enterprises to participate in the survey.

The questionnaire distribution employed a combined online and offline approach. Online distribution utilised a professional research platform to disseminate survey links, while offline distribution involved face-to-face distribution organised through local chambers of commerce. A total of 130 questionnaires were distributed, with 130 returned. After excluding incomplete responses or those exhibiting obvious patterns, 118 valid questionnaires were obtained, yielding a valid response rate of 90.8%. To ensure data quality, attention-checking items were incorporated into the questionnaire, and anonymous completion was employed to minimise social desirability bias. All participants were informed of the study's objectives and signed informed consent forms.

Analysis of sample characteristics revealed that respondent enterprises spanned manufacturing (35%), services (28%), trade (22%), and high-tech industries (15%). Regarding enterprise scale, 42% of companies employed fewer than 50 staff, 33% employed 51–100 staff, and 25% employed 101–200 staff. In terms of enterprise age, 28% had been established within the last five years, 38% between six and ten years, and 34% for over ten years.

Table 1
Sample Characteristics Distribution (N=118)

Characteristic	Category	Number of Firms	Percentage (%)
Industry Sector	Manufacturing	41	35%
	Services	33	28%
	Trade	26	22%
	High-tech Industry	18	15%
Firm Size (by employee count)	≤ 50 employees	50	42%
	51 - 100 employees	39	33%
	101 - 200 employees	29	25%
Firm Age (by years established)	≤ 5 years	33	28%
	6 - 10 years	45	38%
	> 10 years	40	34%

Findings

This study employed covariance-based structural equation modelling (CB-SEM) to test the theoretical framework and research hypotheses. Analysis of questionnaire data from 118 internationalised Chinese SMEs demonstrated that the measurement model exhibited sound

reliability and validity, whilst the structural model received favourable empirical support. Specific findings are as follows.

Measurement Model Evaluation

First, reliability and validity tests were conducted on the measurement models for all latent variables. The composite reliability (CR) values for all constructs ranged between 0.87 and 0.93, all exceeding the acceptable standard of 0.7 (Hair et al., 2019); Cronbach's α coefficients ranged from 0.84 to 0.90, indicating excellent internal consistency reliability. Average Variance Extracted (AVE) values ranged from 0.61 to 0.69, all exceeding the critical threshold of 0.5 (Fornell & Larcker, 1981), demonstrating sound convergent validity.

Table 2

Results of the measurement model's validity and reliability tests

	Cronbach's α	CR	AVE
IEM	0.89	0.92	0.67
OA	0.91	0.93	0.69
DC	0.88	0.91	0.65
IBP	0.86	0.89	0.61

Discriminant validity was assessed using the Fornell-Larcker criteria and HTMT ratios. The square root of the AVE for each latent variable exceeded its correlation coefficients with other variables, and all HTMT ratios remained below the conservative threshold of 0.85 (Henseler et al., 2015), indicating sound discriminant validity among constructs.

Table 3

Discrimination validity testing: Fornell-Larcker criteria and HTMT ratio

	IEM	OA	DC	IBP
IEM	0.82	0.51	0.43	0.47
OA	0.48	0.83	0.56	0.62
DC	0.41	0.53	0.81	0.59
IBP	0.45	0.60	0.56	0.78

Structural Model and Hypothesis Testing

Following confirmation of the measurement model's validity, further testing was conducted on the structural model and hypothesized pathways. The significance levels of path coefficients were calculated using the Bootstrap method (5000 repeated samples). The results are shown in Table 4.

Table 4

Hypothesis Test Results

Hypothesis	Pass	β	T-value	P-value	CI(95%)	Result
H1	IEM \rightarrow IBP	0.218	3.825	0.000	[0.142,0.294]	Supported
H2	IEM \rightarrow OA	0.392	6.451	0.000	[0.315,0.469]	Supported
H3	OA \rightarrow IBP	0.354	5.218	0.000	[0.278,0.430]	Supported
H5	DC \rightarrow OA	0.286	4.327	0.000	[0.205,0.367]	Supported
H6	OA \times DC \rightarrow IBP	0.184	3.126	0.002	[0.098,0.270]	Supported

For direct and mediating effects, the innovation entry mode exerts a significant positive direct influence on international business performance ($\beta = 0.218$, $p < 0.001$), supporting H1. Concurrently, the innovation entry mode exerts a significant positive influence on organisational agility ($\beta = 0.392$, $p < 0.001$), and organisational agility significantly positively impacts international business performance ($\beta = 0.354$, $p < 0.001$), supporting H2 and H3. To examine the mediating role of organisational agility (H4), specific indirect effects were tested using the Bootstrap method. Results indicate that the indirect effect value of the innovation entry mode influencing international business performance via organisational agility is 0.139, with a 95% confidence interval of [0.082, 0.196] that does not include zero. This confirms a significant mediating effect, supporting H4.

Regarding moderation effects, digital capability exerted a significant positive influence on organisational agility ($\beta = 0.286$, $p < 0.001$), supporting H5. The interaction term between digital capability and organisational agility (OA \times DC) significantly influenced international business performance ($\beta = 0.184$, $p = 0.002$), supporting H6. Simple slope analysis indicates that for firms with high digital capability (+1SD), the positive impact of organisational agility on international business performance ($\beta_{\text{high}} = 0.438$, $p < 0.001$) is significantly stronger than for firms with low digital capability (-1SD; $\beta_{\text{low}} = 0.270$, $p < 0.01$). This demonstrates that digital capability indeed amplifies the promotional effect of organisational agility on international business performance.

Overall Model Fit and Interpretability

The overall model fit indices indicate, $\chi^2/df = 2.315 (<3)$, CFI = 0.941 (>0.9), TLI = 0.932 (>0.9), RMSEA = 0.068 (<0.08), SRMR = 0.056 (<0.08), indicating that the theoretical model fits the sample data well (Hu & Bentler, 1999). Within the structural model, the innovation entry mode and organisational agility together explain 45.2% of the variance in international business performance ($R^2 = 0.452$); while the innovation entry mode explained 38.7% of the variance in organisational agility ($R^2 = 0.387$). Furthermore, the blindfolding test revealed that the Q^2 values for all endogenous variables exceeded 0, indicating the model possesses sound predictive validity (Geisser, 1974).

Discussion and Conclusion

This empirical study validates the moderated mediating relationship among innovation entry modes, organisational agility, digital capabilities, and international business performance. The findings provide significant extensions to the application of dynamic capabilities theory within internationalisation research. Findings indicate that innovation entry modes not only directly enhance international business performance but also exert indirect effects through organisational agility. This discovery supports the core tenet of dynamic capability theory that strategic choices must be translated into performance via organisational capabilities (Teece et al., 1997). Compared to prior research, this study innovatively reveals the role of organisational agility as a key mediating mechanism, addressing the limitation of traditional internationalisation theories that overemphasise strategic patterns while neglecting execution capabilities. Furthermore, the significant moderating effect of digital capability indicates that in the digital era, relying solely on innovation strategy or agility is insufficient to guarantee international success. Enterprises must also possess a robust digital enabling foundation to amplify the efficiency of organisational capability conversion into performance. This finding deepens our understanding of how dynamic capabilities operate within multi-

level mechanisms, underscoring the importance of the 'strategy-capability-technology' synergy framework.

The study's conclusions emphasise that for Chinese SMEs, internationalisation success hinges on the systematic integration of innovative entry modes, organisational agility, and digital capabilities. Practically, managers should abandon the traditional siloed approach to strategic choices, organisational capabilities, and digital technologies, adopting instead a synergistic perspective that treats these three elements as an inseparable strategic ecosystem. For instance, when selecting digital platforms as a new entry mode, enterprises must concurrently invest in data analytics and digital collaboration tools to enhance market perception and responsiveness. Simultaneously, by cultivating a digital culture and nurturing technical talent, they ensure organisational agility is efficiently translated into competitive market advantages. These findings provide concrete guidance for SMEs formulating internationalisation strategies within VUCA (Volatility, Uncertainty, Complexity, Ambiguity) environments, underscoring that digital transformation is no longer optional but a core competitive element.

This research opens several promising avenues for future inquiry. Firstly, comparative studies across diverse cultural contexts could further examine the model's universality and variations within developed economies versus emerging markets. Secondly, incorporating more diverse variables—such as leaders' digital cognition and organisational learning cultures—could enrich the theoretical framework. Additionally, multi-level analysis methodologies could be employed to simultaneously examine corporate-level and team-level influencing factors, revealing cross-level interactive mechanisms. Finally, methodologically, longitudinal tracking designs combined with big data analytics could dynamically capture the co-evolutionary pathways between digital transformation and internationalisation performance. These research directions will further refine the theoretical framework of internationalisation, offering richer theoretical guidance and practical insights for corporate internationalisation within the context of global digital transformation.

Theoretical Implications

This study makes a significant extension to the theory of dynamic capabilities within international business research by validating a moderated mediation model. Findings reveal that innovation entry modes not only directly enhance international business performance but also exert indirect effects through organisational agility. This mechanism validates the core propositions of strategic reconfiguration and resource integration within Teece et al.'s (1997) dynamic capabilities theory, extending its application from macro-strategic levels to specific scenarios of international entry mode selection. More importantly, the study reveals the positive moderating role of digital capability in the organisational agility-international performance relationship. This finding provides crucial empirical support for the evolution of dynamic capability theory in the digital era, indicating that digital capability has become an indispensable microfoundation within the dynamic capability framework (Warner & Wager, 2019). Furthermore, by integrating the three key constructs of innovative entry modes, organisational agility, and digital capabilities, the study establishes a more comprehensive theoretical framework. This offers a novel theoretical perspective for understanding the intrinsic mechanisms of corporate internationalisation in the digital era, thereby filling a research gap in traditional internationalisation theory concerning digital empowerment.

Practical and Social Implications

This study offers significant management insights for the internationalisation practices of small and medium-sized enterprises. Findings indicate that corporate managers should regard the selection of innovative entry modes, the cultivation of organisational agility, and the development of digital capabilities as a synergistic strategic system rather than as independent initiatives. Specifically, when selecting innovative entry modes such as digital platform access or non-equity partnerships, enterprises must concurrently invest in data analytics and digital collaboration tools to enhance market perception and responsiveness (Chen et al., 2023). Concurrently, organisations should prioritise cultivating digital talent and fostering a digital organisational culture. By establishing data-driven decision-making mechanisms and agile response processes, they can ensure organisational agility effectively translates into competitive advantages in international markets. These findings provide concrete guidance for SMEs formulating internationalisation strategies within VUCA environments, highlighting that digital transformation has evolved from an optional supplementary measure to a core competitive element. By establishing a trinity implementation framework of 'strategy-capability-technology', business managers can systematically enhance international performance. This approach holds significant reference value for contemporary corporate internationalisation practices within the digital transformation context.

Limitations and Suggestions for Future Research

Although this study offers valuable insights, certain limitations remain, pointing the way for future research. Firstly, the cross-sectional data employed in this study, while revealing relationships between variables, precludes rigorous causal inference. Future research may adopt longitudinal designs or case tracking methodologies to capture dynamic evolutionary processes. Secondly, the sample's exclusive focus on Chinese SMEs may limit the generalisability of findings; cross-cultural comparative studies could explore mechanism differences across varying institutional environments. Moreover, this study did not account for other potential variables (such as environmental dynamism or leadership perceptions). Future work could integrate additional moderating or mediating variables to construct more comprehensive theoretical models. Finally, methodologies could incorporate qualitative interviews or big data analysis to deepen understanding of digital capability empowerment mechanisms. These research directions will contribute to refining the theoretical framework of corporate internationalisation, providing more comprehensive and insightful theoretical guidance for enterprises' internationalisation practices in the digital era. Future research may build upon these foundations to advance the ongoing development and refinement of theoretical frameworks within this field.

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