



Digital Transformation Strategies: Impact on Business Innovation and Organizational Effectiveness

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Abstract

Small and medium-sized enterprises (SMEs) are vital to the national economy, yet many Spanish SMEs have not fully realized their potential. To thrive in today's dynamic environment, it is essential for managers to adopt more effective strategies. Among these, digital transformation strategy has emerged as a key source of competitive advantage. Managers are therefore encouraged to strengthen their digital capabilities, which can foster innovation and enhance organizational effectiveness. While prior research has explored the relationship between digitalization and organizational performance, few studies have examined its distinct effects on the economic, human resources, and internationalization dimensions. Drawing on the Input-Mediator-Output framework, this study aims to uncover the mechanisms through which digital transformation strategy contributes to organizational effectiveness. Specifically, it investigates (1) the direct impact of digital transformation strategy on the three dimensions of effectiveness in SMEs, and (2) the mediating role of business innovation in these relationships. To test our hypotheses, we randomly selected SMEs operating in Spain from the 2022 INE database, using the SABÍ database developed by Faedpyme (2023) as a reference. After filtering, data from 1,113 SMEs were analyzed. We employed partial least squares structural equation modeling (PLS-SEM) using SmartPLS 4.0.9.9, a robust method that allows for the simultaneous estimation of direct and mediated effects among variables. The results indicate that digital transformation strategy positively influences all three dimensions of organizational effectiveness: economic performance, human resources, and internationalization. Moreover, business innovation was found to partially mediate these relationships, suggesting that SMEs can enhance their effectiveness by aligning their digital strategies with innovation-driven initiatives.

Keywords: Digital Transformation Strategy, Business Innovation, Organizational Effectiveness, SMEs