

## Article

# Leadership as a Capability Builder: The Mediating Role of Organizational Digital Readiness in Digital Strategy Adoption

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**Abstract:** Public-sector organizations continue to announce digital agendas, but many of them do not succeed in turning this commitment into a digital strategy that is actually adopted. This paper examines what happens between leadership intent and strategic digital action, and interprets it through dynamic capabilities theory. The argument is that transformational leadership does not produce digital strategy adoption directly. It operates earlier in the sequence, by building organizational digital readiness, and readiness is what transmits the effect to adoption. The study used survey responses from 164 managers and employees in Iraqi public institutions, analysed through regression-based path analysis with bias-corrected bootstrapping (5,000 resamples). The results were consistent with this argument: leadership predicted readiness ( $a = 0.42$ ,  $p < .001$ ), readiness predicted adoption when leadership was controlled ( $b = 0.60$ ,  $p < .001$ ), and the indirect effect through readiness (0.25; 95% CI [0.147, 0.373]) accounted for about 40% of the total effect of leadership on adoption. The rival specification was also tested. When readiness was specified as a boundary condition instead of a transmitting mechanism, the interaction term was not significant ( $p = .89$ ), so the moderating specification received no support in this sample. Readiness therefore behaved as a mediator, and not as a moderator, of the leadership–adoption relationship. In practical terms, investment in infrastructure, digital skills, and a change-accepting culture is not a precondition for leadership to have an effect; it is the mechanism through which leadership produces results.

**Keywords:** Transformational Leadership; Digital Strategy Adoption; Organizational Digital Readiness; Dynamic Capabilities; Public Sector.

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## 1. Introduction

Governments face continuous pressure to digitalize: to redesign services around digital channels, open their data, and demonstrate the technological agility that citizens now expect [2, 39, 49]. The pressure is largely shared, but the response is not. Under broadly similar external demands, some organizations convert digital ambition into a working strategy, while others move much more slowly [35, 47]. Which organizational factors explain this difference is a question with both theoretical and practical importance.

Leadership is the factor most frequently proposed as an explanation, and there are good reasons for this. Transformational leadership in particular appears repeatedly as an antecedent of digital change [6, 12, 14, 29, 52]. However, the literature is more confident about the existence of this relationship than about how it operates. Leadership is linked to broad digital outcomes, but the pathway between them is usually left unspecified, a point already raised by [34] and [6], among others. An observed association does not explain the mechanism through which leadership may influence digital outcomes.

Organizational digital readiness—an organization's resource, technical, competency, and cultural preparedness to absorb digital change [28, 32]—is the construct most often nominated to fill this gap. It is also where the literature divides. One group of studies treats readiness as a mediator: a capability that leadership develops, which then carries leadership intent into strategic action [18, 34, 45]. Another group treats it as a moderator: a condition that is already present and that strengthens or weakens the effect of leadership, rather than something leadership creates [3]. These two specifications are not interchangeable. A mediating readiness is built by leaders, while a moderating readiness is simply present or absent. For managers who try to act on this literature, the difference has clear practical consequences.

To our knowledge, the two specifications have not yet been compared directly within a single study. Until such a comparison is made, readiness continues to play inconsistent theoretical roles across studies, and the question of how leadership translates into digital adoption remains open. This is the gap addressed here.

The study is framed through dynamic capabilities theory [17, 46], which divides organizational adaptation into three stages: sensing opportunities, seizing them by mobilizing capacity, and reconfiguring accordingly. In the present framework, transformational leadership performs the sensing function. Organizational digital readiness is the seizing capacity that leadership builds. Digital strategy adoption is the reconfiguration that follows. This "leader–capability–action" sequence implies mediation. At the same time, we estimated the moderation alternative in the same sample so that the data could indicate which specification receives more support.

The study makes three contributions. First, it provides a mechanism-level account of how leadership produces digital strategic action, replacing an asserted link with an explicit pathway. Second, it addresses the functional-form question concerning readiness, and shows that in this sample readiness transmits leadership effects rather than conditioning them. Third, the contribution is contextual: dynamic capabilities thinking is applied to public-sector digitalization in an emerging economy, a setting in which the theory is frequently cited but rarely tested with leadership and organizational capability in the same model.

## **1.1 Literature Review**

### **1.1.1 Digital transformation in the public sector**

A recurring theme in recent work on public-sector digital transformation is that the main constraints are internal. Bureaucratic inertia, legacy systems, and cultural resistance to change appear more consistently as reasons why governments do not reach their digital objectives than funding gaps or external pressure [2, 7, 39]. In addition, when digital capability improves government performance, the effect is seldom direct; it usually passes through intermediate states such as organizational agility [9, 36, 53]. Cross-sector comparisons indicate the same pattern: organizational factors predict digital adoption success better than environmental or technological factors do [35, 47]. Taken as a whole, this literature places internal organizational processes at the centre of where further theoretical and empirical work is needed.

### **1.1.2 Transformational leadership and digital outcomes**

Transformational leadership is defined by four behavioural dimensions—idealized influence, inspirational motivation, intellectual stimulation, and individualized consideration [10, 11, 13]—and this profile is well suited to digital change. Digital transformation requires sustained voluntary effort, tolerance of uncertainty, and discretionary energy that cannot be obtained through directives alone. The available evidence supports this view. Transformational leadership leads to outcomes mostly through indirect paths. It influences IT adoption by promoting shared leadership structures [12]. It encourages behavior by boosting empowerment, psychological safety, knowledge sharing and commitment to change [4, 8, 25, 27, 31, 50, 55]. It also affects

sustainability-related outcomes by creating conditions rather than giving direct orders [41]. A leadership style that works by creating conditions should be modelled in that way. Digital strategy adoption—the extent to which an organization formulates, resources, and embeds a coherent digital direction, as distinct from simply purchasing technology [6]—is the kind of distal outcome that such a mediated pathway would be expected to produce.

### 2.3 Organizational digital readiness as a mediator or moderator

Organizational digital readiness refers to how prepared an organization is to absorb and act on digital opportunities across resource, technical, competency, and cultural dimensions [28, 32]. Its content is not strongly contested, since studies broadly agree on these components [30, 32]. Its theoretical role, however, is treated differently across studies. A large body of work treats readiness as a capacity that leadership develops over time and that subsequently enables adoption, which implies mediation [18, 24, 43, 48, 51]. A smaller and separate strand treats it as a pre-existing boundary condition, that is, a moderator that determines whether leadership is effective [3]. These are not two formulations of the same idea. They are different claims about how organizations function, and they lead managers towards different decisions. Under the mediation view, readiness is a capability that leaders can help develop, and adoption follows from it. Under the moderation view, readiness is a contextual condition that sets the effectiveness of leadership without being produced by leadership. The two specifications have rarely been placed in direct competition, and this is what makes it useful to examine both within a single empirical framework.

#### 1.1.3 Dynamic capabilities as the theoretical engine

Dynamic capabilities theory provides a basis for choosing between the two accounts. In Teece's formulation [46], extended by Eisenhardt and Martin [17], organizational adaptation proceeds through three stages: sensing opportunities in the environment, seizing them by mobilizing and deploying resources, and transforming by reconfiguring structures and routines. Managerial cognition and action are placed at the beginning of this process [33]. The constructs of this study correspond to these stages. Transformational leadership performs the sensing function by scanning the environment, identifying digital opportunities, and communicating their urgency to the organization. Organizational digital readiness represents the seizing capacity, that is, the resource, technical, competency, and cultural assets that allow an organization to commit to an opportunity once it has been sensed [5, 42]. Digital strategy adoption is the transforming action that follows from this commitment. Because seizing presupposes sensing and precedes transforming, this sequence provides theoretical grounds for expecting readiness to mediate the relationship between leadership and digital strategy adoption. Emerging public-sector evidence is consistent with this ordering [1, 5, 21, 54], although direct tests against the moderation alternative remain scarce.

#### 1.1.4 Hypotheses

**H1.** Higher transformational leadership is associated with greater digital strategy adoption [6, 12, 27].

**H2.** Transformational leadership shows the same positive link with organizational digital readiness [24, 45, 18].

**H3.** Where organizational digital readiness is higher, so is digital strategy adoption [35, 28, 43].

**H4.** Organizational digital readiness mediates the leadership–adoption relationship, whereas the moderating specification is not supported [34, 45, 18].

## 2. Materials and Methods

### 2.1 Research design and context

A cross-sectional survey was appropriate for the aim of this study, which was to compare competing theoretical specifications—mediation against moderation—rather than to establish temporal precedence or to track causal dynamics over time. Respondents were drawn from public-sector organizations in Iraq: universities and higher-education bodies, ministries, and other government institutions, all of which are settings where leadership, readiness, and digital strategy are current operational concerns. The design follows accepted practice in theory-testing mediation research in organizational behaviour [6, 34, 45], and its limits for stronger causal claims are acknowledged in the Discussion. Data collection followed standard ethical procedures: participation was voluntary and anonymous, informed consent was obtained before the substantive items, and no personally identifying information was retained.

### 2.2 Sampling frame and data-collection procedure

The questionnaire was administered as an anonymous online instrument, distributed through official institutional contacts using purposive sampling and institutional referral. The target respondents were managers and professional staff, that is, employees for whom leadership, digital readiness, and strategy adoption are meaningful at the department or unit level of 215 returned questionnaires, 51 were removed through three sequential screens: non-consent, failure on an embedded attention-check item, and invariant straight-line responding across all items. The available evidence matches this idea because there were 164 cases giving a retention rate of 76.3 percent. The sample was mostly male with 149 men and 15 women and many were in education 84, out of 164. The sample included people in positions from non-supervisory professional staff, 78 people to department directors.

### 2.3 Measures and operationalization

All constructs were measured using five-point Likert scales with 1 meaning strongly disagree and 5 meaning strongly agree. Leadership was assessed using twelve items. These items covered four dimensions: idealized influence, inspirational motivation, intellectual stimulation and individualized consideration. The items were adapted from Avolio and Bass [10] and Carless et al. [13]. Strategy adoption was measured with seven items covering the formulation, resourcing, and embedding of a coherent organizational digital direction [6]. Organizational digital readiness was measured with nine items across resource, technical, competency, and cultural preparedness [28, 32]. Items taken from English-language sources were subjected to independent forward and back translation by two bilingual specialists, followed by a small pilot test before the main data collection. Table 1 presents the operationalization.

**Table 1.** Construct Operationalization

| Construct (items)                | Dimensions                                                                                                           | Sample adapted item                                                       | Source   |
|----------------------------------|----------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------|----------|
| Transformational leadership (12) | Idealized influence; inspirational motivation; intellectual stimulation; individualized consideration (3 items each) | "My manager articulates a clear and inspiring vision for our department." | [10, 13] |
| Digital strategy adoption (7)    | Formulation, resourcing, embedding of a coherent digital                                                             | "Our department has a clear and stated digital strategy."                 | [6]      |

| Construct (items)                    | Dimensions                                             | Sample adapted item                                                                      | Source   |
|--------------------------------------|--------------------------------------------------------|------------------------------------------------------------------------------------------|----------|
|                                      | direction                                              |                                                                                          |          |
| Organizational digital readiness (9) | Resource; technical; competency; cultural preparedness | "Our department has the technical infrastructure needed to adopt new digital solutions." | [28, 32] |

## 2.4 Data screening and composite construction

After the consent and completeness screen, no data were missing. Univariate checks were satisfactory, with skewness and kurtosis within  $\pm 1$ , and no multivariate outliers were identified. Each construct was represented as a unit-weighted composite, calculated as the arithmetic mean of its items. This approach avoids the sample-size requirements of latent-variable estimation at  $N = 164$  while remaining consistent with accepted practice for composite-based path analysis [20]. Inspection of the residuals confirmed linearity and homoscedasticity, and all variance inflation factors were well below the 3.3 threshold, so multicollinearity was not a problem.

## 2.5 Common method and procedural remedies

Single-source self-report data are always exposed to common method variance [38]. Two types of remedy were applied. Procedurally, anonymity was assured, the item blocks for the predictor, the mediator, and the outcome were placed under separate section headings, and an attention-check item was included in the instrument. Statistically, we applied Harman's single-factor test and Kock's [26] full-collinearity assessment, in which a VIF above 3.3 indicates problematic common method bias.

## 2.6 Analytical strategy and statistical power

The analysis was conducted in two stages. The first stage examined the measurement model: Cronbach's alpha and composite reliability for internal consistency (threshold 0.70), average variance extracted for convergent validity (threshold 0.50), and the Fornell-Larcker criterion [19] together with the heterotrait-monotrait ratio [23] for discriminant validity (HTMT cutoff 0.85). The second stage tested the four hypotheses in a regression-based path-analytic framework consisting of three OLS equations. The indirect effect (the  $a \times b$  path) was estimated with a bias-corrected bootstrap of 5,000 resamples [22]. In addition, the rival moderation specification was tested by regressing adoption on leadership, readiness, and their mean-centred product term, corresponding to PROCESS Models 4 and 1, respectively [22]. A Monte Carlo power analysis with 20,000 replications [40] indicated power of approximately 0.99 to detect the indirect effect at  $\alpha = .05$ , which is above the conventional 0.80 threshold.

## 3. Results

### 3.1 Descriptive statistics and correlations

Table 2 reports the descriptive statistics and the inter-construct correlations. All three constructs were rated above the scale midpoint, which indicates a fairly digitally active sample rather than one starting from a uniformly low baseline. All pairs of constructs were positively and significantly correlated ( $p < .001$ ), and the distributional diagnostics were satisfactory, with skewness and kurtosis within  $\pm 1$  and no multivariate outliers.

**Table 2.** Descriptive Statistics and Correlations

| Construct                      | M    | SD   | 1    | 2 | 3 |
|--------------------------------|------|------|------|---|---|
| 1. Transformational leadership | 3.70 | 0.85 | —    |   |   |
| 2. Digital strategy adoption   | 3.46 | 0.86 | 0.62 | — |   |

|                                     |      |      |      |     |   |
|-------------------------------------|------|------|------|-----|---|
| 3. Organizational digital readiness | 3.36 | 0.80 | 0.45 | .72 | — |
|-------------------------------------|------|------|------|-----|---|

Note. N = 164. All three correlations are significant at  $p < .001$ .

### 3.2 Measurement model

The measurement model was psychometrically sound (Table 3). Cronbach's alpha and composite reliability exceeded 0.70 for all three constructs, and average variance extracted exceeded 0.50 in each case, which meets the conventional thresholds for internal consistency and convergent validity respectively. Discriminant validity was also satisfactory. For each construct, the square root of the AVE exceeded its shared variance with the other constructs [19], and all HTMT ratios were below 0.85, the highest being 0.78 between readiness and adoption [23]. These results indicate that the three constructs are empirically distinct, although correlated.

**Table 3.** Reliability and Convergent Validity

| Construct (items)                    | $\alpha$ | CR    | AVE   |
|--------------------------------------|----------|-------|-------|
| Transformational leadership (12)     | 0.963    | 0.968 | 0.715 |
| Digital strategy adoption (7)        | 0.943    | 0.954 | 0.746 |
| Organizational digital readiness (9) | 0.925    | 0.939 | 0.630 |

### 3.3 Common method bias

Harman's single-factor test produced four factors, with the first explaining 51% of the variance. This is marginally above the commonly cited threshold and therefore warrants some caution [38]. The full-collinearity approach gave more reassuring results [26]: the outer-model VIFs for the constructs were 1.63, 2.73, and 2.09, and the inner-model VIF was 1.25, all below the 3.3 cut-off. On balance, common method bias does not appear to be a serious threat to the substantive findings.

### 3.4 Hypothesis tests and deciding on the functional form

The findings are shown in Table 4. Transformational leadership had a link with adopting a digital strategy in the overall effect equation ( $c = 0.63$ ,  $p < .001$ ) which supports H1. Leadership was also a positive predictor of how ready an organization was for digital change ( $a = 0.42$ ,  $p < .001$ ) which supports H2. Readiness predicted adoption when leadership was kept the  $b = 0.60$ ,  $p < .001$  which supports H3. The indirect effect through readiness was significant because the bootstrap confidence interval did not include zero ( $a \times b = 0.25$ ; 95% CI [0.147 0.373]) and it made up 40% of the overall effect. The direct path was still important ( $c' = 0.38$ ,  $p < .001$ ) which shows mediation instead of full mediation matching H4. Together leadership and readiness explained 63% of the change in adoption ( $R^2 = 0.63$ ). The test for moderation had an outcome: the leadership-by-readiness interaction was 0.007 ( $p = .89$ ) which gives no support for the moderating part of the model, in this group.

**Table 4.** Structural Paths, Mediation, and the Competing Moderation Test

| Path                                                  | Coefficient | p / 95% CI     | Result       |
|-------------------------------------------------------|-------------|----------------|--------------|
| a: Leadership $\rightarrow$ Readiness                 | 0.42        | $p < .001$     | H2 supported |
| b: Readiness $\rightarrow$ Adoption                   | 0.60        | $p < .001$     | H3 supported |
| c': Direct effect (Leadership $\rightarrow$ Adoption) | 0.38        | $p < .001$     | —            |
| c: Total effect (Leadership $\rightarrow$ Adoption)   | 0.63        | $p < .001$     | H1 supported |
| $a \times b$ : Indirect effect (mediation)            | 0.25        | [0.147, 0.373] | H4 supported |

|                                      |       |         |                        |
|--------------------------------------|-------|---------|------------------------|
| Leadership × Readiness (interaction) | 0.007 | p = .89 | Moderation<br>rejected |
|--------------------------------------|-------|---------|------------------------|

#### 4. Discussion

##### 4.1 From association to mechanism: leadership as the sensing function of capability building

The findings support the view that organizational digital readiness mediates the relationship between transformational leadership and digital strategy adoption rather than moderating this relationship. In the perspective adopted here, readiness is conceptualized as a capability developed through leadership rather than as an external condition that determines the strength of the leadership effect. The non-significant interaction term is therefore consistent with the mediation model tested in this study, and it reflects what the theoretical framework would anticipate rather than an unexplained null result.

##### 4.2 Why readiness transmits rather than conditions the leadership effect

**Resource dependence.** In constrained settings, public organizations treat digital readiness as a general prerequisite rather than as a discretionary advantage [5, 37]. When a capacity is broadly scarce and organizations are competing to obtain it, it tends to operate as a main-effect driver of outcomes rather than as a contingency that differentiates between otherwise similar organizations. Without seizing resources, leadership has nothing to convert into adoption, and once those resources are available, they transmit the leadership effect at a similar rate across different levels of leadership quality. This pattern is consistent with mediation rather than moderation.

**Institutional homogeneity.** Government organizations in emerging economies operate under strong coercive and normative isomorphism [15]. Rules, procedures, and performance standards are largely common across institutions, so there is limited room for idiosyncratic leadership enactment. A moderation effect requires meaningful variance in how the moderator operates across units. When isomorphic pressure reduces that variance, genuine moderation may not be detectable statistically even if the mediating pathway remains intact. This does not mean that readiness never moderates. It suggests that in institutionally homogeneous settings its moderating role tends to be overshadowed by its mediating role.

**Planning horizon and managerial discretion.** In public bureaucracies, which are characterized by multi-year planning cycles and centralized approvals, leadership shapes digital outcomes gradually, through accumulated organizational capacity rather than through rapid contingent amplification [21, 33]. When leadership intent reaches adoption only after budgetary approval, committee sign-off, and institutional mandate, what matters is the stock of readiness that leadership has built over time rather than any short-term moderation of leadership returns by the current level of readiness. This structural feature of government organizations favours the mediating specification.

##### 4.3 Reconciling divergent findings and locating the contribution

These results are consistent with studies in which readiness, or comparable organizational capacities, mediates the relationship between leadership antecedents and digital adoption or transformation outcomes [5, 18, 45, 54]. They also correspond to the broader public-sector pattern in which dynamic capabilities and agility transmit organizational drivers rather than condition them [1, 9]. They do not agree with the moderating account [3]. We do not claim that the moderating specification is incorrect in all settings, since it may hold in sectors with greater institutional heterogeneity, stronger market competition, or wider leadership discretion. The claim is more limited: when both specifications are estimated side by side in the same design, the mediating one receives stronger support, and it does so for reasons that the theory can explain. One further point

should be noted. The mediation is partial, since leadership retains a direct path to adoption in addition to its effect through readiness. This is consistent with the view that leaders also influence adoption by other means, such as legitimation, vision articulation, and the direct shaping of strategic intent [12, 50], and it suggests that these parallel pathways deserve separate examination in future work.

## 5. Conclusion

The main conclusion of this study is that organizational digital readiness performs substantial mediating work in the relationship between transformational leadership and digital strategy adoption. Public organizations that budget for leadership and for readiness as two separate inputs may therefore be overlooking an important connection, since the two are empirically linked through a mediating organizational capability. Recognizing this link has implications for what is measured, what is funded, and what leaders in digitally ambitious public institutions are expected to deliver.

### 5.1 Practical and policy implications

**Governments.** National digital transformation programs usually fund technology procurement and leadership training as two parallel line items. The mediation result suggests that they should instead be funded in sequence, because leadership development is most effective when it is accompanied by investment in the capacity layer—infrastructure, interoperable systems, and workforce digital skills—through which leadership can act. Program evaluations should reflect this and count readiness gains as outcomes, not only the amount of technology deployed.

**Universities and higher-education bodies.** Deans and department heads may complete every available leadership development program and still find it difficult to translate that training into digital strategy if the surrounding readiness has not developed at the same pace. Development programs for academic leaders should therefore be combined with platform integration, digital training for academic staff, and deliberate work on a culture that treats experimentation and change as legitimate rather than threatening.

**Public organizations.** Readiness assessment needs to be reframed. The relevant question is not whether the organization is ready to begin before leadership acts, but how much readiness its leadership has produced so far. This treats readiness as a continuing measure of leadership effectiveness rather than as a threshold that leadership must wait for.

**HR and organizational development functions.** If leadership and readiness are empirically linked through a mediating capability, this has implications for how both are evaluated. Competency frameworks, performance appraisals, and development programs for public-sector leaders should include readiness-building—measurable gains in digital infrastructure, skills, and organizational culture—as an explicit leadership responsibility rather than assigning it to a separate organizational development workstream.

### 5.2 Limitations and future research

Several limitations should be taken into account when interpreting these conclusions. The cross-sectional design does not allow dynamic causal inference. Leadership may build readiness over time, and readiness may in turn influence which kinds of leadership an organization selects and retains, and these reciprocal processes cannot be observed in a single snapshot. The data are also single-source and self-reported. The procedural and statistical remedies reduced the common method concern without eliminating it, and future studies using objective readiness audits or multi-informant designs would provide a firmer basis for these findings. The sample is sufficient for the hypotheses tested but modest in size, predominantly male, concentrated

in higher education, and drawn from a single national context. The results may therefore not transfer directly to other sectors, governance traditions, or countries at different stages of digital development.

Three directions for future research can be suggested. The first is longitudinal: cross-lagged panel designs would allow the accumulation of readiness to be observed directly, and would test whether leadership-induced readiness in one period predicts adoption in the next. The second is to extend the mediation model by adding parallel or serial mediators such as organizational agility, absorptive capacity, or digital culture [9, 16, 21, 44], so that the full path from leadership to adoption can be mapped rather than examined through readiness alone. The third is to reintroduce moderation at the second stage, through designs that examine whether institutional pressure, resource munificence, or leadership tenure condition the readiness-to-adoption link while readiness continues to mediate the leadership effect. Such designs could reconcile the mediating and moderating accounts within a single and more realistic causal structure.

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