

## **Examining the Relationship between Transformational Leadership and Dynamic Capability to the Adoption of Digital Marketing in Consumer Shopping Good Firms**

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### **ABSTRACT**

The topic of digital marketing has been studied from various perspectives by scholars in recent years as an effect of Internet usage advances. The Internet has also fundamentally changed the paradigm of today's business communications, altered the way in which information is shared, and set an enormous influence on marketing strategy. There are prior studies on the relationship between leadership type and new technology adoption, as well as dynamic capability and new technology adoption. Most of these studies have confirmed that there is a significant correlation between both transformational and dynamic capabilities to new technology adoption, of which most emphasized the adoption of the Internet or e-commerce. While previous studies have confirmed the relationship amongst those variables, this paper investigates empirically in one cohesive research model on the relationship between transformational leadership and digital marketing adoption, dynamic capability and digital marketing adoption, and dynamic capability as a mediating variable on the relationship between transformational leadership and digital marketing adoption. Furthermore, this research uniquely studies consumer shopping goods in the context of Indonesia. The survey was undertaken in Greater Jakarta, Indonesia, with 215 firms in the field of consumer shopping goods. The outcome reveals that there is a direct impact of dynamic capability to digital marketing adoption, but to the contrary, there is an indirect impact between transformational leadership and digital marketing adoption. This study also finds that the relationship between transformational leadership and digital marketing adoption is fully mediated by the dynamic capability of the firms.

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**Keywords:** Digital Marketing, Dynamic Capability, Transformational Leadership, Technology Acceptance

**JEL Classification:** M10, M31

## INTRODUCTION

Scholars have studied the digital marketing topic from various perspectives in recent years as a result of Internet usage advances. The Internet has also fundamentally changed the paradigm of today's business communications, altered the way in which information is shared, and set an enormous influence on marketing strategy. As a result, businesses compete in two universes, the traditional and virtual arenas.

There are various definitions of digital marketing, and so far a consensus on the elements included in this term has not been found. Chaffey & Chadwick (2015) described it as the application of the Internet and related digital technologies in conjunction with traditional communication to achieve marketing objectives. Others define it as the selling of products or services using digital channels to reach consumers, and recommend that digital marketing extends beyond internet marketing. In practice, the definition is developed over time due to the new element(s) added in internet marketing scope. Internet marketing practitioners suggest that the elements are a website, email marketing, social media marketing, public relations, online advertising, search engine marketing, directories and listings, development, design, research, strategy, branding, and content. While there are numerous elements in digital marketing, they can be assembled based on Segmentation, Targeting, and Positioning (STP) and the 4Ps marketing mix. Websites, email marketing, social media marketing, public relations, online advertising, and search engine marketing can be categorized as Promotion. Websites, directories, and listings can be classified as Place/distribution, and the remaining can be grouped as the analytical process for defining STP and developing the right product and pricing.

From all perspectives, the digital marketing approach has made a tremendous change in the way businesses market their products and services because the Internet gives access to a wider market regardless of the size of the company or business, and it has fundamentally changed the paradigm of business communications. Elliot *et al.* (2005) highlighted that the Internet leads to a new business model of interaction in building new business and participation in the electronic marketplace. Businesses use Internet sites to communicate with their customers and prospective customers with the same cost and easily in a single country (Hofman & Novak, 1996).

In Indonesia, while penetration of the Internet has increased significantly in the past few years, there is a gap between the Internet penetration in Indonesia and the utilization of the Internet by the business community in their marketing activities. The application of e-commerce or online retail business in Indonesia is less than 1% of the total retail transactions, which is significantly lower compared to other developed countries. As described earlier, other countries are at a level between 5%-7%. A similar instance is indicated for Indonesia's digital advertising spend, which was less than 10% of total advertising spending in 2015, a significant gap from the global standard of over 25%.

It can be reiterated that a big portion of businesses in Indonesia are not exploited in a

substantial way, using digital marketing in their marketing activities. At the outset, this raises concerns about Indonesia's businesses participants competitiveness in a global framework. Thus, it is essential to measure digital marketing adoption in Indonesia firms to understand their Internet application in the marketing field.

This digital marketing paradigm has an intense impact on marketing strategy. While marketing strategy is a set of integrated decisions and actions (Day, 1990), it is concerned with decisions relating to market segmentation and targeting, and the development of a positioning strategy based on product, price, distribution, and promotion decisions (Corey, 1991; Hunt & Morgan, 1995; Kotler, 1994). All these efforts are to achieve a company's marketing objectives and meet the value requirements of its customers (Gray & Cravens, 1999; Varadarajan & Clark, 1994) in the firm. The firm itself is led by people or leaders who determine its direction, and leadership is essential in this type of organization. Leadership is defined as those managerial activities that influence subordinates to attain the organization's goals, including the marketing strategy. This study focuses on the transformational leadership style as one variable affecting digital marketing adoption, as the leaders are required to inspire the team to doing tasks that are outside the norms or non-traditional marketing efforts.

The intense competitive landscape in the business world requires businesses to adjust quickly. One appropriate approach to face the competition and environmental changes quickly is the application of dynamic capability (Teece *et al.*, 1997; Wang & Ahmed, 2007; Helfat *et al.* 2007; Barreto, 2010). Therefore, one of the antecedents examined for digital marketing adoption in this study is also the dynamic capability.

The adoption of digital marketing, with emphasis on the shopping goods industry, has rarely been studied by scholars in the past despite the characteristics and requirements of its consumers corresponding with the Internet or digital marketing capabilities. Shopping goods, based on Bucklin (1965), are goods that take a lot of time and proper planning before buying; in this case, the consumer does many comparisons based on various parameters such as cost, brand, style, and comfort. He further explained that consumers' motivation is due to incomplete consumer knowledge about a product. Frequent changes in price, style, or product technology cause consumer information to become outdated; therefore, customers require new searches for the product. Some examples of shopping goods are clothing items, televisions, home appliances, footwear, home furnishings, and jewelry (Murphy & Enis, 1986).

The area of this research is Greater Jakarta, Indonesia. The massive growth in Internet usage in this particular region, driven by the smartphone, makes this study exciting. Greater Jakarta is a metropolitan area with a population of approximately 28 million, or 11.2% of Indonesia's population (estimated 250 million in 2014). Although it is only 11.2% of Indonesia's population, Greater Jakarta contributed approximately 23% of Indonesia's GDP of USD \$3.5 billion in 2014 ([www.bps.go.id](http://www.bps.go.id)). Greater Jakarta is known as the trendsetter of Indonesia, including any trend related to the Internet. The total number of Internet users in this area is about 42.8% of the Internet users in 40 big cities in Indonesia (APJII, 2012). Therefore, Greater Jakarta is considered a critical area in Indonesia for the development of Internet-related fields, including digital marketing.

The source of current low-level adoption of digital marketing can be from the firm itself, i.e., the leaders and/or the team. Therefore, the research objectives are to evaluate the impact

of transformational leadership on digital marketing adoption, to examine the impact of dynamic capabilities on digital marketing adoption, and to assess whether dynamic capability is the mediating variable on the relationship between transformational leadership and digital marketing adoption.

A review of extant academic literature reveals that so far no attempt has been made to explore digital marketing adoption in an emerging country consumer shopping goods context. Similarly, studies on a cohesive model on transformational leadership, dynamic capability, and digital marketing have also been largely overlooked as potential research contexts. While there are prior studies that have explored the relationship amongst transformational leadership, dynamic capability, and digital marketing adoption, no research has been found that assesses the holistic correlation of those variables. Moreover, the study of consumer shopping goods in the Indonesia context could be considered the novelty of this research.

## REVIEW OF LITERATURE

There are prior literatures that studied the relationship between the dynamic capability of the firm and information technology or new technology adoption. For the field of digital marketing as a new technology, most of them were focused on e-commerce. The same circumstance is in the leadership field as the antecedent of new technology adoption.

### **Transformational Leadership**

For decades, scholars have studied theories of leadership. Leadership can be defined as those managerial activities that influence subordinates to strive willingly to attain the goal of the organization (Terry, 1960; Weinbach, 1994 in Hur, 2008). The role adopted by the leader determines the innovativeness of the business (Connon, 1985). Unless the leader has the drive to innovate, it is unlikely that other members of the business can expedite the adoption of technology information.

One theory that emphasizes leadership is the transformational and transactional leadership theory by Bass (1990). Transactional theory stresses the importance of the relationship between leader and follower, focusing on the mutual benefit when the leader delivers recognition in return for the commitment of the followers. In transformational theory, the role of leadership has the vision and implements the transformation in the organization.

Transformational leadership in the firm, as the focus of this study, might influence the use of digital marketing, as the leaders are required to inspire the team to do tasks outside the norm or non-traditional marketing effort. On a digital marketing strategy, a firm needs to sell through non-traditional ways or outside the norm, so its organization needs to adopt strategies, business models, and cultures that provide them with a better fit in the modern digital environment. The role of leaders is to be agents of change who energize employees and direct them to a new set of values and behaviors. Furthermore, Bass (1990) described transformational leadership as a form of leadership in which the leader is able to expand and improve working interest subordinates; a leadership system in which the leaders are capable of triggering sensitivity and acceptance of the vision, mission, and objectives of the company; and leadership in which

leaders have control over their subordinates so that the subordinates are able to explore their potential for the improvement of their respective companies. He asserted that transformational leaders develop the attributes of charisma, intellectual stimulation, and individual consideration within their subordinates. This type of leadership leads by inspiring and stimulating followers and creating highly absorptive and motivating visions (Bass, 1985; Bass *et al.*, 1987; Burns, 1978; Conger, 1989; Conger *et al.*, 2000; House, 1977; Kark *et al.*, 2003; Lowe *et al.*, 1996; Podsakoff *et al.*, 1990).

According to Robbins (2001), transformational leaders are leaders who can inspire employees to prioritize the progress of the organization rather than personal interests, give proper attention to employees, and change the consciousness of their employees. This type of leadership also motivates followers to do more (Bass, 1985) by increasing the level of awareness about the importance of their followers and asking the followers to put the interests of the organization above personal interest. Lieven *et al.* (1997) had a similar opinion, but more directed towards the individual perspective of the leader, which they generate performance by instilling pride, communicate in private, facilitate creative thinking, and provide inspiration.

Based on those opinions, it can be summarized that transformational leadership can develop significant organizational change and act as change agents, motivate the team, and raise loyalty among followers, introduce a new image, and commitment to the future (Kinicki & Kreitner, 2008; Noorshahi & Yamani, 2008), which is required for adoption of new technologies or new approaches, i.e., a digital marketing strategy.

There are four dimensions of transformational leadership as explained by Bass and Avolio (2010), which are individualized consideration, intellectual stimulation, inspiration motivation, and idealized influence. There are previous researches that study the relationship between leadership and dynamic capability. There are contrasting views, however. One group agreed that leadership style determines the adoption of new technology, including the use of digital marketing approach (Connon, 1985; Al Qirim, 2005; Ghandour *et al.*, 2007; Neufeld *et al.*, 2007; Scupola, 2004). Another group has the view that there is an indirect impact between transformational leadership on the adoption of new technology (Schepers *et al.*, 2005).

On the relationship between transformational leadership and digital marketing adoption, based on the literature review so far and Koryak *et al.*'s (2015) finding, there is very little research addressing how leaders can help a firm to develop dynamic capabilities. Koryak *et al.* (2015) suggested further empirical research on this subject. Therefore, this research focuses on this subject.

## **Dynamic Capability**

Dynamic capability is the extension of a resource-based view (RBV). Barney (1991) argued that businesses that possessed resources that were valuable, rare, inimitable, and non-substitutable would attain competitive advantage and sustain these benefits over time, which in turn would improve performance. Teece & Pisano (1994) extended RBV into a dynamic capabilities framework to explain the combinations of competences and resources that could be developed and deployed. They also defined dynamic capability as the subset of the competencies and capabilities that allow a firm to create new products and respond to changing market

circumstances. To respond to the changing market circumstances, the firm needs to have the ability to integrate, build, and reconfigure internal and external competences or to create, extend, or modify its resource base (Helfat *et al.*, 2007), purposely created (Winter, 2003) with the manner envisioned and deemed appropriate by its principal decision maker (Zahra *et al.*, 2006). This capability is a strategic routines by which firms can achieve new resource configurations as markets emerge, collide, split, evolve, and die (Eisenhardt & Martin, 2000). It is an activity through which the organization modifies its operating routines to achieve effectiveness in a systematic manner (Zollo & Winter, 2002).

There are four dimensions of dynamic capabilities, which are sensing capabilities, learning capabilities, integrating capabilities, and reconfiguring capabilities. Tushman and Anderson (1986), Henderson and Clark (1990), and Teece *et al.* (1997) studied that changes related to technology shifts are normally hard to effectively address. Digital marketing trends are the changes in business environments and can be seen by corporations as new opportunities to expand the market and to respond in an effective manner to be able to compete in this global economy.

This study combines integrating and reconfiguring capabilities dimensions, with the reason those are viewed as one integrated action. After learning, the organization needs to integrate them to shape new competences (Iansiti & Clark, 1994; Amit & Schoemaker, 1993). Moreover, the implementation of the configurations of functional competences needs effective coordination of various tasks and resources, including the synchronization of different activities (Collis, 1994, Helfat & Peteraf, 2003). Teece *et al.* (1997) suggested that the shortage of effective coordination to combine various resources for technological changes results in overwhelming effects on incumbent firms' competitive positions in a market.

### **Digital Marketing Adoption**

Arthur (1996) pointed out that marketing through internet/digital marketing has the ability to broaden and diversify markets at a very low marginal cost. Imber and Betsy-Ann (2000) defined digital marketing as “the process of building and maintaining customer relationships through online activities to facilitate the exchange of ideas, products, and services that satisfy the goals of both buyers and sellers”. Other scholars, namely Wilkie & Moore (2007), described marketing as “the activity, set of institutions and process for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large”.

Williams (1999) suggested that internet technologies can increase small firms's ability to compete with other companies both locally and nationally, create the possibility and opportunity for more diverse people to start a business, offer a convenient and easy way of doing business transactions, and offer inexpensive ways for small business to compete with larger firms.

Marketing activities are related to market segmentation, targeting, and positioning strategy based on product, price, place, and promotion (4Ps) (Corey, 1991; Hunt & Morgan, 1995; Kotler, 1994). This marketing mix is a set of controllable, tactical marketing tools that work together to achieve a company's objectives (McCarthy, 1960; Barlon, 2006; Bitner & Booms, 1981). In the context of digital marketing, Internet ability can adapt to new needs: product, with the introduction of co-design with customers; price, with higher levels of transparency; place, with the creation of new ways to reach customers; and promotion (Peattie, 1997).

The theory used in this paper for measuring the adoption of digital marketing is the Unified Theory of Acceptance and Use of Technology (UTAUT), which was introduced by Venkatesh *et al.* (2003). Based on research conducted by Venkatesh (2003), he suggested three elements that play an important role as direct determinants of UTAUT on behavior intention, which are performance expectancy, effort expectancy, and social influence. Moreover, one factor, which is facilitating conditions, is the direct determinant to use behavior.

David *et al.* (1989) defined performance expectancy as the degree to which an individual believes that using a system will help them attain gain in job performance. Venkatesh *et al.* (2003) stated that effort expectancy is the degree of ease related to the use of a particular system. Social influence is the level at which a person perceives the importance of others' beliefs that they should use the new system (Venkatesh *et al.*, 2003). These three constructs lead to behavior intention of using new technology. Moreover, behavior intention is the factor that influences use behavior. Facilitating conditions in the framework directly impact behavior, which is defined as the degree to which a person believes that an organizational and technical infrastructure exists to support the system use (Venkatesh *et al.*, 2003).

### Framework and Hypotheses

This paper is built based on previous pieces of literature on digital marketing adoption from the perspective of transformational leadership and dynamic capability. The framework in Figure 1 is based upon the correlation between transformational leadership and dynamic capability of the firm as the antecedents and has a positive influence on the adoption of digital marketing strategy. It also studies the dynamic capability variable as the mediating factor between transformational leadership to digital marketing adoption.

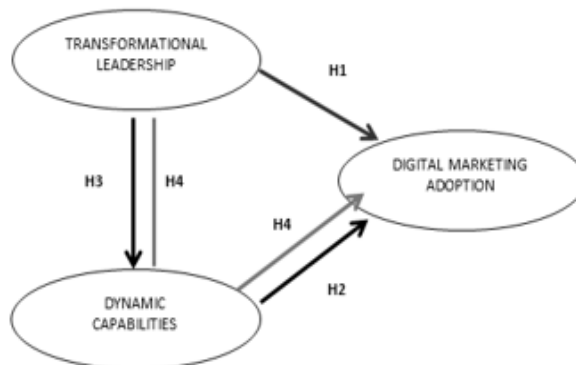


Figure 1. Research Framework

### Transformational Leadership and Digital Marketing Adoption

The use of digital marketing provides an opportunity for businesses to expand and to improve their efficiency and effectiveness, and to further gain competitive advantage. The leader is important in this approach, as they are the main decision maker and shape the future of the business. The role is adopted by the leader, which then determines the innovativeness of the

business and the adoption of digital marketing (Connon, 1985; Al Qirim, 2005; Ghandour *et al.*, 2007; Neufeld *et al.*, 2007; Scupola, 2004). In previous researches, there is strong evidence that transformational leaders expedite the adoption of new technology or, in this case, digital marketing. Therefore, the first hypothesis is:

*H1: Transformational Leader has positive influence on the adoption of digital marketing.*

### **Dynamic Capability and Digital Marketing Adoption**

Dynamic capability is the competency of a firm to respond to changing market circumstances. Changes in the world because of the Internet have forced firms to adopt it. In the marketing field, Internet/digital marketing provides an opportunity for businesses to expand and to improve their efficiency and effectiveness. The relationship between dynamic capability and digital marketing has been studied by scholars and it has been found that there is a significant influence of organization dynamic capability to digital marketing adoption (Hou & Chien, 2010; Hsu & Wang, 2010; Lin *et al.*, 2009; Liao *et al.*, 2009). Therefore, the second hypothesis is:

*H2: Dynamic capability has a positive influence on the adoption of digital marketing.*

### **Transformational Leadership and Dynamic Capability**

There are a few prior studies that have investigated the relationship between transformational leadership and dynamic capability. The closest relationship that can be found is the study by Khan *et al.* (2009) regarding the influence of transformational leadership on the organization. Their findings indicate the significant impact of transformational leadership to organization innovation. Adapted from this finding, the third hypothesis is:

*H3: Transformational leadership has a positive influence on dynamic capability of a firm.*

### **Transformational Leadership, Dynamic Capability, and Digital Marketing Adoption**

H2 and H3 indicate that dynamic capability is the mediating variable of the effect of transformational leadership on firm performance. Therefore, the fourth hypothesis is:

*H4: The positive influence of transformational leadership on digital marketing adoption is mediated by business model innovation.*

## **RESEARCH METHODOLOGY**

### **Methods**

Unit analysis of this research is a company or firm that sells shopping goods in the Greater Jakarta area. Shopping goods companies based on the Government of Indonesia classifications are:

- Clothing and apparel
- Shoes and leather goods
- Computer and electronic
- Furniture



The total number of companies under medium and large business in Indonesia that operate under these classification, based on the Indonesia Statistical Bureau (BPS), is 23,592. In the area of Greater Jakarta, the total number in this classification is 3,526. The focus of this study is medium to large companies, since this size of businesses is considered to have a decent marketing budget and the potential to expand its market.

Using the sampling technique, we randomly took 500 company names in the Greater Jakarta area chosen from the Ministry of Trade list under this industry category. From the list, the questionnaires were distributed by email and hardcopy. The returned and accepted questionnaires are 215; therefore, this study used a 215 sample size. Sekaran and Bougie (2013) proposed the rule of thumb that the sample size larger than 30 and less than 500 are appropriate for most research. Therefore, it is believed that 215 samples are sufficient. The respondents were executives, such as Commissioners, Presidents, Directors/CEOs, Director/ Board of Management, Vice Presidents, General Manager, Senior Manager, Division Head levels, and other senior personnel who are believed to have a good balance of knowledge on both company strategy and marketing matters.

The data of this research was gathered through questionnaires. Questionnaires related to the variables were employed using the Likert rating scale (1 to 6), while questionnaires related to the company information were provided with multiple choice list.

Table 1. Company Information

	Respondent	%
<b>Business Focus</b>		
Clothing and Apparel	125	58.14
Leather Goods	36	16.74
Computer and Electronics	18	8.37
Furniture and Accessories	36	16.75
<b>Total Asset</b>		
<IDR 500 million	16	7.44
IDR 500 million-IDR 10 billion	34	15.81
IDR 10 billion-IDR 180 billion	88	40.93
>IDR 180billion	10	4.65
N/A	67	31.17
<b>Number of Employees</b>		
20 – 50	179	83.35
50 – 100	33	15.35
100 – 300	3	1.30
> 300	0	0
<b>Digital Marketing Activity</b>		
Advertisement	46	21.39
Sales (e-commerce)	87	40.46
Advertisement and Sales	54	25.12
Never	28	13.03

Source: Questionnaires

For the purpose of the questionnaires, the questions for Transformational Leadership were adapted and modified from the MLQ (Multifactor Leadership Questionnaire) and then translated and summarized in nine questions in the Indonesian language and grouped into three dimensions (individualized consideration, inspirational motivation, and intellectual stimulation). For dynamic capabilities, it used three dimensions explained earlier (sensing capabilities, learning capabilities and integrating, and reconfiguring capabilities). Moreover, as for the adoption of digital marketing, the questionnaire used three dimensions from UTAUT that leads behavior intention only (performance expectancy, effort expectancy, and social influence).

Data analysis uses Structural Equation Modeling (SEM) that is a multivariate analysis method that has the capability of measuring each underlying latent construct or variable using Confirmatory Factor Analysis (CFA) and assessing the paths of the hypothesized relationships between the constructs (Wijanto, 2015).

SEM analysis in this research used a two-stage approach, which consists of:

#### 1. Analyzing Measurement Model

The purpose of this first stage is to estimate the measurement model to get a valid and reliable measurement model.

##### a. Overall Model Fit

Information about the fit between the data and model can be obtained from the Goodness of Fit Index (GOFI).

Table 2. The Criteria of Goodness of Fit Index

GOFI	Description	The Good GOFI Criteria
p-Value	Value-p	$p\text{-Value} \geq 0,05$
RMSEA	Root Mean Square Error Approx.	$RMSEA \leq 0,08$
NNFI	Non-Norm Fit Index	$NNFI \geq 0,90$
CFI	Comparative Fit Index	$CFI \geq 0,90$
IFI	Incremental Fit Index	$IFI \geq 0,90$
SRMR	Standardized Root Mean Residual	$SRMR \leq 0,05$
GFI	Goodness Of Fit Index	$GFI \geq 0,90$

##### b. Analyzing Validity

Validity is the degree to which a measure accurately represents what it is supposed to measure. An indicator or observed variable is valid measurement of a latent variable or construct, if the Standardized Factor Loading of Observed Variable on Latent Variable (SFL)  $\geq 0,50$  and t-value of the SFL  $\geq 1,96$ .

##### c. Analyzing Reliability

Reliability is the degree to which the observed variable measures the “true” value and is “error free”. More reliable measures will show greater consistency than less reliable measures. Measuring reliability in SEM uses composite reliability measure and variance extracted measure.

## 2. Analyzing Structural Model

In the second stage, CFAs from the first stage were added to the structural model to produce a hybrid model. This hybrid model will be estimated and analyzed for:

- a) Overall fit of the model using GOFI.
- b) Statistical significance test of the path coefficient. (The path coefficient is significant if its t-value  $\geq 1,96$ .)

## RESULTS

Transformational Leadership (TL) is the second order of latent variables that consists of three first order variables: TLC, TLM, and T LS. The measurement model of these first order variables reveals that they are a perfect fit, and the CFA for these first order variables shows good reliability. The CFA analysis of the observed variables of each of first order latent variable reveals good validity.

Dynamic Capability (DC) is the second order of latent variables that consists of three first order variables: DCI, DCC, and DCS. The measurement model of these first order variables reveals that they are a perfect fit, and the CFA for these first order variables shows good reliability. The CFA analysis of observed variables of each of first order latent variable reveals good validity

Digital Marketing Adoption (DM) is the second order of latent variables that consists of three first order variables: DMP, DME, and DMS. The measurement model of these first order variables reveals that they are a perfect fit, and the CFA for these first order variables shows good reliability. The CFA analysis of the observed variables of each of first order latent variable reveals good validity

The structural model analysis is conducted to determine whether a research hypothesis is accepted or not. For the significant test of the research model hypotheses, the t-value statistic measurement is used.

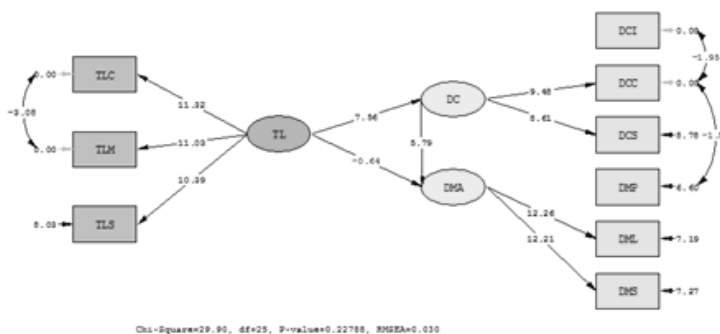


Figure 2. Structural Model (t-value)

Using the parameters of Table 1, all GOFI of the final structural model fulfill the standard value of good fit. Therefore, it can be concluded that the research structural model has a good overall fit.

## DISCUSSION

Based on Figure 2, the structural model analysis results can be summarized in Table 3:

Table 3. Summary of Structural Model Analysis

Path	t value	Standardize Coefficient	Conclusion
TL → DMA	-0.64	-0.07	Not Significant
DC → DMA	5.79	0.73	Significant
TL → DC	7.56	0.65	Significant
TL → DC → DMA	4.69	0.45	Significant

The hypotheses testing in this research relates to the impact of transformational leadership, dynamic capability, and digital marketing adoption. The hypotheses testing was processed using SEM Lisrel 9.2, and the summary of the hypotheses and test results are described in Table 4:

Table 4. Significance Test Results on Structural Model

Hypotheses	Conclusion
H <sub>1</sub> : TL has positive and direct impact on DMA	H <sub>1</sub> is rejected, data does not support model
H <sub>2</sub> : DC has positive and direct impact on DMA	H <sub>2</sub> is accepted, data support model
H <sub>3</sub> : TL has positive and direct impact to DC	H <sub>3</sub> is accepted, data support model
H <sub>4</sub> : DC has a full mediating effect on the relationship between TL and DMA	H <sub>4</sub> is accepted, data support model

As is shown in Table 4, the hypotheses testing indicated that three out of the four hypotheses are accepted, as they all have a t value of >1.96. The outcome of the test of H1 shows there is an insignificant impact of transformational leadership on digital marketing adoption. The result is consistent with the study of Schepers *et al.* (2005), which stated that there is an indirect impact between transformational leadership and the adoption of new technology.

The test result for H2 demonstrates the role of dynamic capability in digital marketing adoption. This result is in line with Hou and Chien (2010), Hsu and Wang (2010), Lin *et al.* (2009), and Liao *et al.* (2009).

The test result for H3 also reveals that there is a significant impact of transformational leadership on the dynamic capability of the firm, which is in support of study by Khan *et al.* (2009).

Also, this study demonstrates that dynamic capability has a full mediating effect on the influence of transformational leadership on digital marketing adoption (H4).

## CONCLUSIONS

This paper developed a theoretical framework that can guide a firm's decision to introduce the adoption of digital marketing. The framework focused on linking transformational leadership and dynamic capability relevant to digital marketing adoption. By applying the research framework to a large data set gathered from questionnaires distributed to 215 shopping goods

firms in Greater Jakarta, Indonesia, the study showed that the framework can explain the relationship between transformational leadership, dynamic capability, and digital marketing adoption. The fact that three of four empirical findings are consistent with previous studies and one empirical finding supported one non-consensus view demonstrates that this research provides a useful perspective for assessing the factor of digital marketing adoption.

This study revealed that there is a significant impact of dynamic capability on digital marketing adoption, and there is a significant impact of transformational leadership on the dynamic capability of the firm. The dynamic capability of the firm itself has a full mediating effect on the influence of transformational leadership on digital marketing adoption. Furthermore, the results showed an insignificant impact of transformational leadership on digital marketing adoption.

With the increasing importance of the Internet driven by smartphone penetration in Indonesia, a digital marketing approach is an increasingly important strategy within a firm. This study provides companies with guidance on what elements in the organization should be developed to ensure the effective use of digital marketing. On the use of the digital marketing approach in a firm, the transformational leader is required to inspire and motivate the team to use digital marketing; however, the firm needs to assess the readiness of the organization, in this case, whether the organization has dynamic capability. If not, the firm must be transformed and developed so that it has capability to integrate, build, and reconfigure internal and external competencies.

Furthermore, e-commerce portal/platform companies, digital marketing agencies, and policymakers can use this research to educate and support local businesses for digital marketing usage in a structured fashion, since it provides insight on the issues of these firms in adopting it. Furthermore, for government entities, in light of developing an e-commerce roadmap, it would be beneficial, in parallel, to set up a special task force to educate companies/SMEs in how to use 360 degrees of digital marketing to get the most benefit of it. Such education can be through training, information centers (physical, call center, or web based), or an interactive website.

## **LIMITATION OF THE STUDY**

First, this research was limited geographically. The location of the sample of respondents was in Greater Jakarta, Indonesia. Future research avenues can focus on other areas that may have a different internet infrastructure than Greater Jakarta.

Second, the empirical analysis of this study was only based on firms that sell consumer shopping goods products. Despite this, the paper has carefully chosen the characteristics and requirements of its consumers that corresponded with the Internet or digital marketing capabilities. Future research can investigate other categories of sub-classification of goods/consumer goods or other industries that have different characteristics from shopping goods.

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