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Digital Transformation Capability as a Boundary Condition Linking Employee Empowerment and Internal Service Quality to Performance General Insurance Firms

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Abstract

This study tests an explanatory model of performance in Indonesian general insurance firms by positioning employee empowerment and internal service quality as organizational resources and digital transformation capability as both a main effect and a boundary condition. The framework integrates the resource-based view, dynamic capabilities view, and service-profit chain. Cross-sectional data from 200 managerial respondents were analyzed using PLS-SEM in SmartPLS 3. The measurement model met indicator reliability, convergent validity, and discriminant validity requirements; substantive construct loadings ranged from 0.778 to 0.879, AVE from 0.660 to 0.714, and the maximum HTMT was 0.575. The model explained 54.5% of the variance in company performance. Employee empowerment (beta = 0.287), internal service quality (beta = 0.314), and digital transformation capability (beta = 0.281) had positive and significant effects on performance. Digital transformation capability also strengthened the effects of employee empowerment (interaction beta = 0.186) and internal service quality (interaction beta = 0.243). The findings indicate that the value of employee discretion and internal service support increases when firms can sense digital opportunities, seize them through decisions and investments, and transform processes and data architectures. The study extends capability-based research by identifying digital transformation capability as a boundary condition linking internal resources to performance. Managerially, digital investments should prioritize data access, cross-functional workflows, analytics, and decision mechanisms that amplify empowerment and internal service quality.

Keywords: Employee Empowerment, Internal Service Quality, Digital Transformation Capability, Company Performance

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INTRODUCTION

The general insurance industry sits at the intersection of capital resilience and growth pressure. Indonesian regulatory data cited in the source manuscript show that aggregate risk-based capital for general insurance and reinsurance substantially exceeded the statutory minimum in 2026, while premium growth contracted. This contrast indicates that capital adequacy does not automatically generate growth, service quality, claims efficiency, or competitive advantage. General insurers must convert internal resources into operational and market capabilities that respond to changing customer behavior, cost pressure, transparency requirements, and technology-based competition (OJK, 2025, 2026; Sulivyo et al., 2019).

Digital transformation is part of this structural change. Across the insurance value chain, digital technologies shape underwriting, distribution, premium collection, claims handling, fraud detection, after-sales service, and regulatory reporting. Yet transformation should not be reduced to the number of systems or digital channels. It involves changes in strategy, structure, processes, skills, and value-creation mechanisms (Vial, 2019; Verhoef et al., 2021). Systematic reviews similarly show that digital transformation alters organizational logic and requires cross-functional adaptation (Hanelt et al., 2021; Zhu et al., 2021). The strategic question is therefore not whether a firm owns technology, but whether it can sense digital opportunities, seize them through decisions and investment, and transform its resource base.

Insurance nevertheless remains a people-intensive service business. Customers evaluate credibility through information accuracy, claims speed, promise consistency, employee competence, data security, and problem resolution. Employee empowerment and internal service quality are therefore pivotal internal resources. Empowerment supplies discretion, information, competence, meaningfulness, and impact (Bowen & Lawler, 1992; Spreitzer, 1995; Seibert et al., 2011). Internal service quality ensures that units, systems, and colleagues provide reliable, responsive, assuring, empathetic, and adequate support (Parasuraman et al., 1988; Fadil et al., 2016).

Prior evidence generally links empowerment to adaptive behavior and performance, but its effects may weaken when formal delegation is not supported by data, tools, competence, or cross-functional coordination. Kanjanakan et al. (2023) show that differences between managerial empowerment practices and employees' actual experience can alter behavioral outcomes. In a digitally intensive environment, decision authority may therefore produce greater value when the organization has the capability to supply real-time information, analytics, collaboration platforms, and executable workflows.

A similar contingency applies to internal service quality. The service-profit chain positions internal quality as the foundation of employee productivity, external service

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value, customer loyalty, and growth (Heskett et al., 1994). Lin et al. (2021) link service climate and internal service quality to service-oriented behavior, while Elibol (2024) identifies digital transformation as an important mechanism in the ISQ-employee performance relationship. However, research has more often treated digitalization as an antecedent or mediator than as a boundary condition that changes the strength with which internal service quality is converted into firm performance.

This gap is consequential because firms with comparable empowerment and internal service quality can achieve different outcomes when their digital transformation capabilities differ. High-capability firms can connect employee discretion and internal support to real-time data, shorter decision paths, risk analytics, and omnichannel processes. Low-capability firms may remain constrained by legacy systems, fragmented information, and manual procedures. This reasoning is consistent with the dynamic capabilities view, which emphasizes sensing, seizing, and transforming as mechanisms for renewing the resource base (Teece, 2007; Warner & Wäger, 2019).

The study integrates the resource-based view, dynamic capabilities view, and service-profit chain in a contingency model of Indonesian general insurance performance. It asks whether employee empowerment, internal service quality, and digital transformation capability improve performance and whether digital transformation capability strengthens the two internal-resource pathways. The study contributes by shifting the digitalization debate from technology adoption to the organizational capability that activates human and internal-service resources.

LITERATURE REVIEW

Integrative Theoretical Foundation

The resource-based view argues that sustained advantage originates in resources that are valuable, rare, difficult to imitate, and organized for exploitation (Barney, 1991). In general insurance, employee knowledge, decision authority, coordination routines, and internal service standards are intangible resources that competitors cannot easily reproduce as a complete system. Employee empowerment represents the organization's use of human resources, whereas internal service quality represents the support system through which those resources operate across functions.

The RBV is relatively static when it focuses only on resource possession. The dynamic capabilities view explains how organizations integrate, build, and reconfigure competencies under environmental change (Teece, 2007). Warner and Wäger (2019) apply this logic to digital transformation through digital sensing, seizing, and transforming. Sensing involves recognizing technological, customer, market, and regulatory changes; seizing involves prioritization, investment, and solution development; and transforming involves reconfiguring processes, structures, culture, roles, and data architecture. Digital

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transformation capability is therefore modeled as the adaptive capability that governs how effectively internal resources become performance outcomes.

The service-profit chain provides a service-specific mechanism. High-quality internal support improves employee capability and productivity, which in turn enhances external service value, customer loyalty, growth, and profitability (Heskett et al., 1994). Service-dominant logic offers a compatible view by treating value creation as resource integration within service interactions (Vargo & Lusch, 2008). This is particularly relevant to insurance, where underwriting, marketing, customer service, finance, information technology, and claims jointly shape the customer experience.

The three perspectives perform complementary roles: the RBV identifies the strategic resources, the service-profit chain explains how internal resources flow toward customer and financial outcomes, and the dynamic capabilities view identifies the adaptive condition under which that flow becomes stronger. Their integration supports a moderated model and avoids the assumption that high-quality resources generate identical outcomes at every level of digital readiness.

Employee Empowerment

Employee empowerment is a state in which employees possess decision authority, access to information, competence, meaningfulness, and a belief that their actions affect work outcomes. Structural empowerment emphasizes delegated authority, information, resources, and organizational support (Bowen & Lawler, 1992), whereas psychological empowerment emphasizes meaning, competence, self-determination, and impact (Spreitzer, 1995). In insurance service encounters, both forms are needed: employees require room to decide as well as the confidence and capability to make accurate decisions.

Empowerment is especially valuable in situations that require rapid response and customization. Employees who understand their decision boundaries can resolve policy questions, escalate claims appropriately, repair information failures, and coordinate solutions without excessive hierarchy. The meta-analysis by Seibert et al. (2011) documents positive attitudinal and performance consequences at the individual and team levels. However, empowerment without accurate data, digital skills, clear procedures, or cross-functional support may remain symbolic rather than operational (Kanjanakan et al., 2023; Susananto et al., 2023).

Internal Service Quality

Internal service quality refers to the quality of services delivered by organizational units, systems, and colleagues to internal customers. Adapted from the SERVQUAL tradition, it covers tangibles, reliability, responsiveness, assurance, and empathy

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(Parasuraman et al., 1988; Fadil et al., 2016). In insurance, these attributes appear in the accuracy of underwriting information, the reliability of applications, the speed of claims coordination, the competence of supporting units, and their willingness to understand operational needs.

Internal quality is the infrastructural foundation of external quality. A customer-facing employee cannot deliver a reliable experience when policy information is inconsistent, systems are unavailable, or interdepartmental handoffs fail. The service-profit chain therefore predicts that stronger internal support increases employee productivity and external service value (Heskett et al., 1994). Lin et al. (2021) similarly show that service climate and internal service quality shape service-oriented behavior.

Digital Transformation Capability

Digital transformation capability is the organizational ability to continuously renew customers' experiences, operations, and business models through coordinated sensing, seizing, and transforming activities. It differs from IT assets or digital intensity because the same technology investment can generate different outcomes when firms differ in strategic awareness, execution discipline, and reconfiguration capacity (Vial, 2019; Verhoef et al., 2021). In insurance, DTC involves interpreting digital and regulatory signals, prioritizing investments, integrating data, redesigning workflows, and changing roles and governance.

Prior research links digital capability and digital innovation to organizational performance (Khin & Ho, 2019), while insurance-specific work shows that transformation spans infrastructure, platforms, and applications (Liu et al., 2024). Evidence from Indonesian insurers also relates digital business transformation and ambidexterity to sustainable performance (Nasution et al., 2025). These studies establish the direct value of digital capability but leave its boundary role less developed.

Insurance Company Performance

Insurance company performance is multidimensional. Financial measures capture profitability and efficiency, market measures capture premium growth and competitive position, customer measures capture satisfaction and retention, and service measures capture the speed, accuracy, and reliability of delivery (Venkatraman & Ramanujam, 1986; Kaplan & Norton, 1996). A broad performance construct is appropriate because digital transformation and internal service resources can improve some outcomes before their effects appear in accounting results.

HYPOTHESES DEVELOPMENT

Employee Empowerment and Performance

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From the resource-based view, employee knowledge, discretion, and problem-solving authority can constitute valuable organizational resources when they are embedded in systems that allow the firm to exploit them (Barney, 1991). Structural empowerment supplies access to authority, information, resources, and support (Bowen & Lawler, 1992), while psychological empowerment strengthens employees' sense of meaning, competence, self-determination, and impact (Spreitzer, 1995). Together, these conditions encourage employees to take ownership of service problems and align individual judgment with organizational goals.

In general insurance, timely judgment is critical in underwriting, claims, policy administration, and customer recovery. Empowered employees can respond to unusual cases, coordinate across functions, and resolve customer problems without excessive escalation, thereby reducing delays and improving service consistency. Meta-analytic evidence links empowerment to favorable attitudes and performance at individual and team levels (Seibert et al., 2011; Hermaen et al., 2024; Kustiawan, Cahyadi, et al., 2022; Kustiawan, Marpaung, et al., 2022), although mismatches between formal empowerment practices and employees' lived experience can weaken its behavioral value (Kanjanakan et al., 2023). When empowerment is substantive, these mechanisms should translate into stronger market, customer, financial, and service outcomes.

H1: Employee empowerment positively affects insurance company performance.

Internal Service Quality and Performance

Internal service quality represents the reliability, responsiveness, assurance, empathy, and adequacy of support that organizational units provide to one another (Parasuraman et al., 1988; Fadil et al., 2016). The service-profit chain argues that superior internal service conditions improve employee capability and productivity, which in turn raise external service value, customer loyalty, growth, and profitability (Heskett et al., 1994). Thus, ISQ is not merely an administrative condition; it is an operational resource that enables customer-facing and specialist employees to perform consistently.

In general insurance, underwriting, claims, finance, marketing, customer service, and IT are highly interdependent. Accurate information, dependable systems, rapid handoffs, and competent internal assistance reduce rework, information loss, processing delays, and service failures. Evidence that service climate and ISQ foster service-oriented employee behavior further supports this mechanism (Lin et al., 2021). Because these improvements affect both efficiency and the quality of customer outcomes, stronger ISQ should be reflected in the firm's market, customer, financial, and service performance.

H2: Internal service quality positively affects insurance company performance.

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Digital Transformation Capability and Performance

Dynamic capabilities theory explains why technology produces value only when the firm can sense changes, seize opportunities through coordinated decisions and investments, and transform its resource base (Teece, 2007). In the digital context, this capability involves strategic awareness, rapid experimentation, data integration, organizational redesign, and continuous renewal rather than the simple acquisition of IT assets (Vial, 2019; Warner & Wäger, 2019; Verhoef et al., 2021). DTC therefore improves the firm's ability to adapt its operating model to changes in customers, competitors, and regulation.

For general insurers, DTC can connect underwriting, distribution, premium collection, claims, fraud detection, and regulatory reporting, thereby improving speed, traceability, decision quality, and scalability. Empirical studies link digital capability and digital innovation to organizational performance (Khin & Ho, 2019; Mustakman et al., 2025; Ramadhan et al., 2024; Sandhi et al., 2024), while insurance research documents the performance relevance of digital infrastructure, platforms, applications, and ambidextrous transformation (Liu et al., 2024; Nasution et al., 2025). These mechanisms indicate that DTC should have a direct positive effect on multidimensional insurance company performance.

H3: Digital transformation capability positively affects insurance company performance.

Moderating Effect on the Empowerment-Performance Relationship

The performance effect of empowerment is unlikely to be uniform across different levels of digital capability. Delegated authority creates potential value, but employees can exercise it effectively only when they have timely information, analytical support, connected communication channels, and workflows capable of executing their decisions. The empowerment literature warns that a gap between managerial practices and employees' actual experience can dilute intended outcomes (Kanjanakan et al., 2023). DTC can narrow this gap by making information and organizational support accessible at the point of action.

From a dynamic capabilities perspective, sensing provides employees with visibility into customer and operational changes, seizing converts insight into prioritized action, and transforming removes process and structural constraints (Teece, 2007; Warner & Wäger, 2019). In an insurer with high DTC, employee discretion can therefore produce faster claims handling, better exception management, and more adaptive service. In a low-DTC firm, the same discretion may be constrained by legacy systems, fragmented data, and manual approvals. DTC is consequently expected to amplify, rather than merely accompany, the effect of empowerment on performance.

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H4: Digital transformation capability strengthens the positive effect of employee empowerment on insurance company performance

Moderating Effect on the Internal-Service-Performance Relationship

The translation of ISQ into company performance also depends on the firm's ability to standardize and scale internal support. The service-profit chain assumes that internal quality reaches customers through employees and operating processes (Heskett et al., 1994). However, reliable and responsive support may remain localized when knowledge, data, service standards, and interdepartmental handoffs are not digitally integrated. DTC allows these elements to be embedded in shared workflows, dashboards, knowledge systems, and data architectures.

Prior research shows that ISQ shapes service-oriented behavior (Lin et al., 2021) and that digital transformation operates as an important mechanism within the ISQ-employee performance relationship (Elibol, 2024). Related evidence also indicates that ICT can alter the strength of service-related pathways to organizational performance (Chikazhe et al., 2023). In general insurance, higher DTC should make internal services more consistent across units and channels, reduce coordination friction, and accelerate the conversion of support quality into customer, operational, and financial outcomes. Accordingly, DTC should strengthen the positive ISQ-performance relationship.

H5: Digital transformation capability strengthens the positive effect of internal service quality on insurance company performance

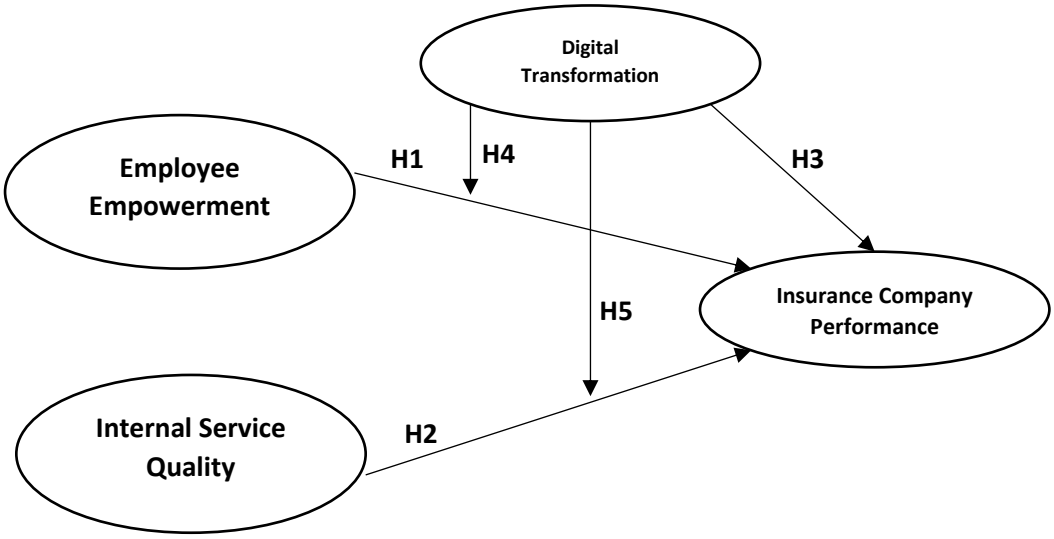


Figure 1. Research Framework

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METHODOLOGY

The study adopted a positivist, quantitative, explanatory-predictive, and cross-sectional design. Primary data were collected through a structured self-administered questionnaire among managers of Indonesian general insurance firms licensed and supervised by the Indonesia Financial Services Authority. The observation and analysis unit was the managerial respondent, treated as an informed key informant with access to human-resource practices, service processes, digital initiatives, and performance indicators.

The target population comprised lower-, middle-, and upper-level managers in Indonesian general insurance firms. Purposive sampling was appropriate because no complete individual sampling frame was available and respondents needed specific organizational knowledge. Eligibility required employment in a general insurance firm, at least a supervisory or equivalent coordination role, a minimum of two years' tenure, involvement in service, claims, underwriting, marketing, operations, IT, risk, or planning, and familiarity with unit or firm performance. The instrument contained 40 substantive items. The operational minimum of five respondents per item yielded 200 observations, which corresponded to the valid analysis sample.

All constructs were measured on five-point Likert scales (1 = strongly disagree; 5 = strongly agree). Employee empowerment comprised 10 items capturing decision authority, information access, competence, meaningfulness, and impact. Internal service quality comprised 12 items reflecting tangibles, reliability, responsiveness, assurance, and empathy. Digital transformation capability comprised eight items covering digital sensing, seizing, and transforming. Insurance company performance comprised 10 items covering market, customer, financial, and service outcomes. All indicators were specified reflectively at the construct level. The planned adaptation protocol included translation-back translation, expert content-validity review, cognitive interviews, and a pilot test; the final submission should add the assessors, pilot sample, and item-revision record because these details were not included in the analysis export.

Table 1. Construct Operationalization

Construct	Content domain	n	Primary sources
Employee empowerment	Decision authority; information; competence; meaningfulness; impact	10	Spreitzer (1995); Bowen & Lawler (1992); Seibert et al. (2011)
Internal service quality	Tangibles; reliability; responsiveness; assurance; empathy	12	Parasuraman et al. (1988); Fadil et al. (2016); Lin et al. (2021)

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Digital transformation capability	Digital sensing; digital seizing; digital transforming	8	Warner & Wäger (2019); Khin & Ho (2019); Liu et al. (2024)
Insurance company performance	Market; customer; financial; service performance	10	Venkatraman & Ramanujam (1986); Kaplan & Norton (1996)

The questionnaire was distributed online through company contacts, professional associations, and managerial networks. Participation was voluntary and anonymous. The screening protocol covered missing values, duplicates, implausible completion times, straight-lining, contradictory response patterns, and outliers; the supplied export contained 200 observations and no missing-value marker. Procedural remedies for common method bias included neutral wording, anonymity, psychological separation of predictors and outcomes, and the assurance that no answer was objectively correct. The export did not contain the process metadata required to reproduce a non-response-bias test or full-collinearity assessment; consequently, neither result is claimed.

The model was estimated with PLS-SEM in SmartPLS 3 (Ringle et al., 2015). Reflective measurement assessment examined outer loadings, Cronbach's alpha, rho_A, composite reliability, AVE, the Fornell-Larcker criterion, and HTMT (Henseler et al., 2015; Hair et al., 2019, 2022). The structural assessment examined inner VIF, path coefficients, BCa confidence intervals, R-squared, adjusted R-squared, f-squared, and SRMR. The supplied output used basic bootstrapping with 500 subsamples, a two-tailed test, and alpha = 0.05. Moderation was estimated using product terms that preserved all main effects. Conditional point estimates were calculated at -1 SD, the mean, and +1 SD of DTC. Because the export did not include Q-squared, PLSpredict, or conditional-effect confidence intervals, those results are not claimed.

RESULT AND DISCUSSIONS

Result

The analysis file contained 200 valid observations and 40 substantive indicators. All indicators used a 1-5 response range, and the analyzed file contained no missing-value marker. Construct scores were summarized as unweighted means of their respective items. Internal service quality had the highest mean (M = 3.431), followed by digital transformation capability (M = 3.409), employee empowerment (M = 3.399), and insurance company performance (M = 3.365). The dispersion of the composite scores provided sufficient variability for estimating the structural and interaction effects.

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Table 2. Construct-Level Descriptive Statistics

Construct	n	Mean	SD	Minimum	Maximum
Employee empowerment	10	3.399	0.985	1.000	5.000
Internal service quality	12	3.431	1.011	1.167	5.000
Digital transformation capability	8	3.409	1.017	1.000	5.000
Insurance company performance	10	3.365	0.918	1.200	5.000

Note: N = 200. Construct scores are item means on a 1-5 Likert scale; values are rounded to three decimals.

All outer loadings for the substantive constructs exceeded the 0.708 benchmark. Insurance company performance exhibited the lowest loading range (0.778-0.851), whereas digital transformation capability ranged from 0.811 to 0.879. Thus, each indicator displayed satisfactory indicator reliability, and no item required removal solely on statistical grounds.

Table 3. Reliability and Convergent Validity

Construct	n	Loading range	Alpha	rho_A	CR	AVE
Employee empowerment	10	0.798-0.873	0.951	0.955	0.958	0.696
Internal service quality	12	0.812-0.854	0.959	0.960	0.964	0.690
Digital transformation capability	8	0.811-0.879	0.943	0.944	0.952	0.714
Insurance company performance	10	0.778-0.851	0.943	0.943	0.951	0.660

Note: CR = composite reliability; AVE = average variance extracted.

Cronbach's alpha, rho_A, and composite reliability indicated very strong internal consistency, while AVE values between 0.660 and 0.714 established convergent validity. Composite reliability ranged from 0.951 to 0.964, slightly above the frequently used upper guideline of 0.950. These values do not undermine reliability, but they raise the possibility of semantically similar items. Future scale refinement should therefore assess whether a shorter instrument can retain adequate domain coverage.

Discriminant validity was satisfactory. All HTMT ratios among the substantive constructs were well below 0.850; the largest value was only 0.575 for employee

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empowerment and insurance company performance. The Fornell-Larcker criterion yielded the same conclusion because each construct's square root of AVE exceeded its correlations with the remaining constructs.

Table 4. Heterotrait-Monotrait Ratios (HTMT)

Construct	EE	ISQ	DTC	ICP
Employee empowerment	-			
Internal service quality	0.542	-		
Digital transformation capability	0.536	0.495	-	
Insurance company performance	0.575	0.539	0.546	-

Note: EE = employee empowerment; ISQ = internal service quality; DTC = digital transformation capability; ICP = insurance company performance.

Structural collinearity was not problematic. Inner VIF values for predictors of insurance company performance ranged from 1.479 to 1.667, well below 3. Outer VIF values ranged from 2.168 to 3.802 and remained below the tolerance threshold of 5, although the highest indicators merit attention in subsequent instrument refinement.

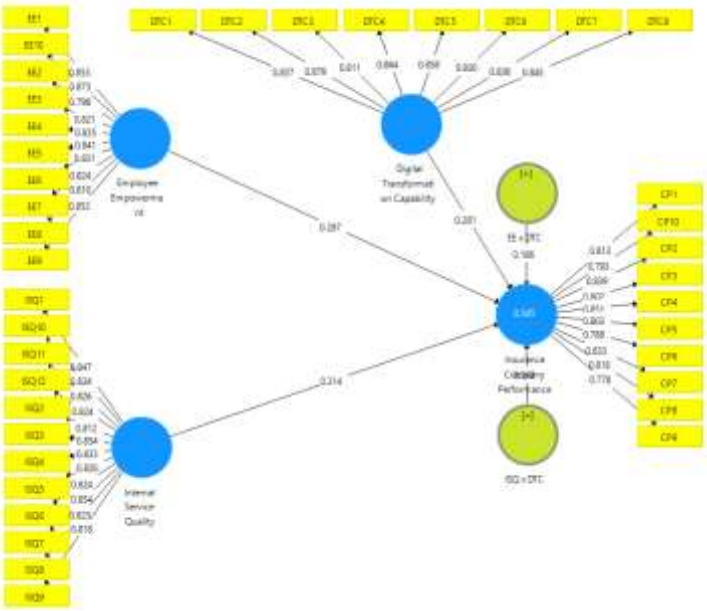


Figure 2. PLS Algorithm Results
Source: SmartPLS 3 output; authors' analysis.

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The model explained 54.5% of the variance in insurance company performance (R-squared = 0.545; adjusted R-squared = 0.533), indicating moderate explanatory power for a multidimensional organizational outcome. The estimated-model SRMR was 0.044, indicating low standardized residuals. The NFI of 0.878 is reported descriptively and is not treated as a stand-alone global-fit test for PLS-SEM.

All three direct effects were positive and significant. Internal service quality was the strongest direct predictor (beta = 0.314, t = 5.423, p < 0.001), followed by employee empowerment (beta = 0.287, t = 4.772, p < 0.001) and digital transformation capability (beta = 0.281, t = 4.610, p < 0.001). The 95% BCa bootstrap confidence intervals for these paths excluded zero. Their effect sizes were small, with internal service quality approaching the conventional medium-effect threshold (f-squared = 0.138). These findings supported H1-H3.

Both interaction effects were also positive and significant. Employee empowerment x digital transformation capability yielded beta = 0.186 (t = 3.220, p = 0.001, 95% BCa CI [0.079, 0.303]), while internal service quality x digital transformation capability yielded beta = 0.243 (t = 3.865, p < 0.001, 95% BCa CI [0.121, 0.361]). Their effect sizes were 0.043 and 0.072, respectively. Although small, these interaction effects are substantively meaningful because they represent systematic changes in the slopes of the focal relationships. H4 and H5 were therefore supported.

Table 5. Hypothesis Testing Results

H	Path	Beta	t	p	95% BCa CI	f-squared	Decision
H1	EE -> ICP	0.287	4.772	<0.001	[0.156, 0.396]	0.114	Supported
H2	ISQ -> ICP	0.314	5.423	<0.001	[0.205, 0.437]	0.138	Supported
H3	DTC -> ICP	0.281	4.610	<0.001	[0.166, 0.404]	0.118	Supported
H4	EE x DTC -> ICP	0.186	3.220	0.001	[0.079, 0.303]	0.043	Supported
H5	ISQ x DTC -> ICP	0.243	3.865	<0.001	[0.121, 0.361]	0.072	Supported

Note: N = 200; 500 bootstrap subsamples; two-tailed test; alpha = 0.05. Confidence intervals are bias-corrected and accelerated (BCa).

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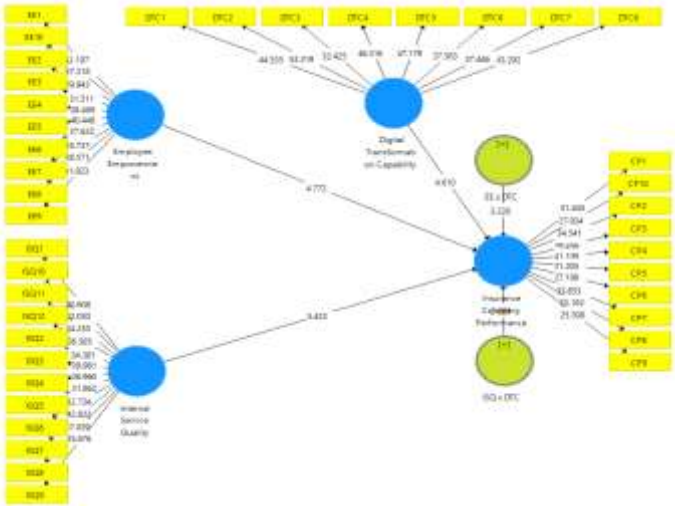


Figure 3. Structural Model Bootstrapping Results
Source: SmartPLS 3 output; authors' analysis.

Conditional effects were calculated at low (-1 SD), mean, and high (+1 SD) levels of digital transformation capability. The point-estimate slope of employee empowerment on performance increased from 0.101 at low DTC to 0.287 at mean DTC and 0.473 at high DTC. The pattern was even stronger for internal service quality: the slope increased from 0.072 to 0.314 and 0.557. Empowerment and internal service quality therefore remained positively related to performance across the three DTC levels, but their benefits accelerated as the firm's ability to sense, seize, and transform digitally increased.

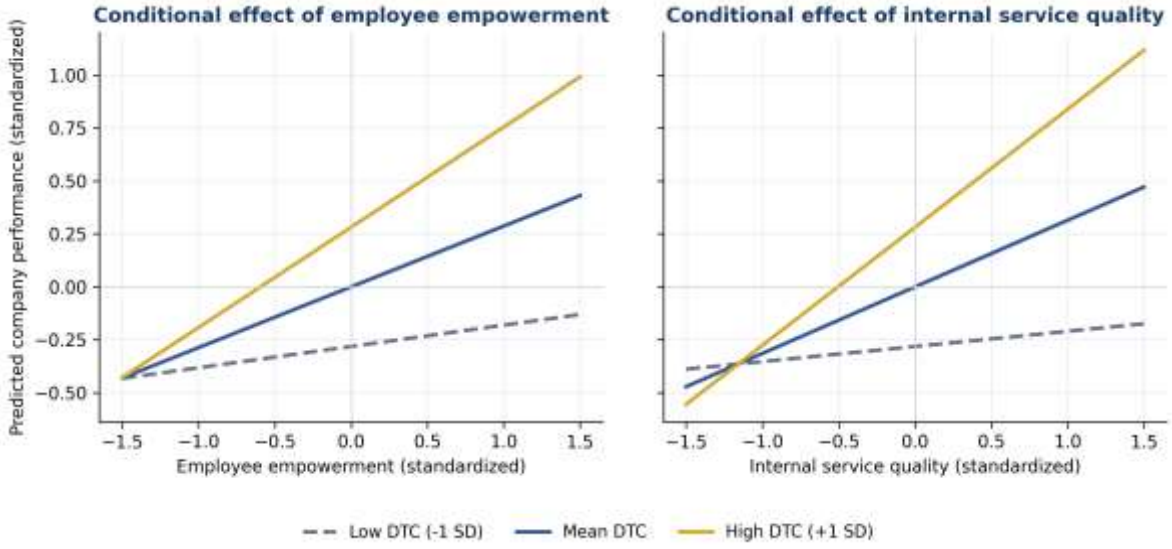


Figure 4. Simple-Slope Plots of the Moderating Effects
Source: Authors' calculations based on the PLS-SEM coefficients.

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DISCUSSIONS

Support for H1 indicates that employee empowerment is not merely a human-resource practice; it is a mechanism of value creation in general insurance firms. When managers and employees possess discretion, information, competence, meaningfulness, and a sense of impact, the organization can shorten response cycles, improve problem resolution, and reduce information loss across hierarchical levels. This finding is consistent with the meta-analysis by Seibert et al. (2011) and extends Kanjanakan et al. (2023): empowerment that is genuinely experienced can be converted into organizational outcomes when decision latitude is accompanied by usable resources.

Support for H2 demonstrates that the quality of internal service relationships is a foundation of firm performance. In insurance, one unit's output becomes another unit's input; underwriting accuracy, claims speed, policy-information consistency, technology support, and financial responsiveness are interdependent. The comparatively strongest ISQ coefficient accords with the service-profit chain (Heskett et al., 1994), whereby high-quality internal support lowers operational friction and enables consistent external service value. The result also aligns with Lin et al. (2021) but extends the outcome from employee service behavior to multidimensional firm performance.

Support for H3 confirms that digital transformation capability has strategic value in its own right. This effect should not be interpreted as an automatic return from technology expenditure. DTC captures the organizational ability to recognize opportunities, mobilize decisions and investments, and reconfigure processes and data architectures. The finding is consistent with the dynamic capabilities view (Teece, 2007; Warner & Wäger, 2019) and with evidence linking digital capability and innovation to performance (Khin & Ho, 2019; Nasution et al., 2025). In insurance, these capabilities can integrate underwriting, distribution, premium collection, claims, fraud detection, and regulatory reporting into faster and more traceable decision flows.

The study's central contribution lies in the support for H4 and H5. The positive interactions show that DTC strengthens the conversion of internal resources into performance. Theoretically, this result connects the resource-based view and the dynamic capabilities view. Employee empowerment and internal service quality are valuable resources, but their potential remains partly unrealized when information systems are fragmented, data are not available in real time, workflows remain manual, and cross-functional change is difficult to execute. DTC supplies the sensing, seizing, and transforming mechanisms through which these resources can be coordinated, replicated, and scaled.

The EE x DTC interaction indicates that discretion has a greater effect when decisions are supported by data visibility, analytics, collaboration platforms, and explicit process architecture. In a low-capability setting, empowerment may remain formal

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delegation. Under high DTC, employees can use their discretion to resolve customer and operational problems more quickly. The simple slopes reinforce this interpretation: the point-estimate slope at high DTC was nearly five times the corresponding slope at low DTC.

The ISQ x DTC interaction was larger than the empowerment interaction in both coefficient and effect size. Digital capability may therefore be particularly important for scaling internal service quality. Service standards can be embedded in workflows, dashboards, knowledge bases, and handoff mechanisms; reliability, responsiveness, assurance, empathy, and digital/tangible support can then be delivered more consistently across branches and channels. This result complements Elibol (2024), who positioned digital transformation within the ISQ-performance relationship, and Chikazhe et al. (2023), who showed that ICT can change the strength of relationships involving service strategy and performance.

An R-squared of 0.545 indicates that the three main effects and two interactions account for a meaningful share of performance variance. Nevertheless, the small effect sizes underscore that general insurance performance also depends on capitalization, portfolio risk, competition, macroeconomic conditions, governance, distribution capability, and regulation. Statistical significance should therefore not be translated into a claim that digital capability or empowerment alone determines performance.

The very high construct reliability also requires a balanced interpretation. Strong consistency supports measurement quality, but composite reliability above 0.950 may signal overlapping item meanings. For international reporting, indicator retention should be defended through content validity and domain breadth rather than reliability alone. Replication with a more parsimonious scale would help establish whether the structural estimates remain stable when item redundancy is reduced.

CONCLUSION

First, the study extends the resource-based view by demonstrating that the value of human and internal-service resources is contingent. Resource possession is insufficient; the capability to reconfigure and amplify those resources shapes their outcomes. Second, the study positions digital transformation capability as a boundary condition rather than only an antecedent or mediator. This position helps explain why firms with similar empowerment and internal-service quality can display different performance levels. Third, integrating the service-profit chain with the dynamic capabilities view shows that the internal-to-external value pathway can be strengthened by a digital capability that connects data, decisions, and cross-functional processes.

Insurance executives should manage empowerment and digital transformation as a complementary portfolio. Delegated authority should be paired with data access,

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explicit decision rights, analytics training, and digital escalation routes. Digital investment should also target internal service bottlenecks, not merely customer-facing applications. Policy-and-claims data integration, cross-functional workflows, knowledge bases, service-level monitoring, and exception dashboards can magnify the effect of ISQ on customer and financial outcomes. Finally, performance systems should connect internal leading indicators, such as handoff time and first-contact resolution, to lagging indicators such as retention, claims-handling efficiency, premium growth, and customer satisfaction.

A practical sequence follows from the findings: map recurrent decision delays; identify the data and authority needed by frontline personnel; select the internal processes that generate the greatest friction; embed service standards in workflows; and monitor whether higher digital capability actually increases the returns to empowerment and ISQ. This sequence prevents digital transformation from becoming a technology project detached from value creation.

For regulators and industry associations, the findings support a digitalization agenda that emphasizes interoperability, data governance, competence, and process accountability rather than the mere presence of digital channels. Digital-maturity guidance can incorporate sensing, seizing, and transforming indicators and link them to internal service quality. Capability-building programs for medium-sized insurers may also prevent digital capability gaps from widening disparities in claims quality, transparency, and consumer protection.

Several limitations qualify the findings. First, the cross-sectional, single-source design constrains causal inference and may be affected by common method variance. Longitudinal designs, panel data, or combinations of managerial perceptions and objective firm records are needed. Second, purposive sampling and 200 observations limit statistical generalization to the entire industry. Future research should use a more systematic firm-level sampling frame, account for respondents nested within firms, and test local versus joint-venture insurers through MICOM and multigroup analysis.

Third, the supplied export used 500 bootstrap subsamples. The BCa intervals supported all conclusions, but contemporary PLS-SEM reporting commonly uses a larger number. Before journal submission, the model should be re-estimated with at least 5,000 and preferably 10,000 subsamples to assess the stability of standard errors and confidence intervals. Fourth, the output did not contain Q-squared or PLSpredict results; out-of-sample predictive performance could therefore not be evaluated and is not claimed here.

Fifth, the very high reliability coefficients call for explicit item-redundancy assessment. Future studies can compare first-order and higher-order specifications, evaluate measurement invariance, and develop shorter scales that retain the content domains of empowerment, ISQ, DTC, and performance. Finally, additional boundary

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conditions such as organizational ambidexterity, data governance, digital culture, environmental turbulence, and regulatory capability may explain further variation in the resource-performance conversion process.

This study shows that employee empowerment, internal service quality, and digital transformation capability directly improve insurance company performance in a sample of 200 managerial respondents from Indonesian general insurance firms. Digital transformation capability also strengthens the effects of empowerment and internal service quality on performance. With an R-squared of 0.545, the model indicates that performance emerges not from technology ownership or isolated internal practices, but from the organization's ability to integrate discretion, internal service support, data, and process change. The study's central contribution is to identify digital transformation capability as a boundary condition that activates the value of internal resources. For managers, the strategic message is straightforward: digital transformation should be designed to improve decision quality and internal coordination, not simply to add channels or devices.

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