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Strategic Transformation Of Traditional Weaving Msmes In The Digital Era: Integrating Leadership, Dynamic Capabilities, And The Moderating Role Of Organizational Agility In Enhancing Competitive Advantage

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Abstract

This study explores the strategic transformation of traditional weaving MSMEs in the digital era, focusing on the integration of leadership, dynamic capabilities, and the moderating role of organizational agility in enhancing competitive advantage. In the context of MSMEs, particularly those in West Nusa Tenggara (NTB). The research examines how leadership agility, dynamic capabilities, and organizational agility synergize to drive competitiveness. Utilizing a quantitative approach, the study surveys 100 weaving MSMEs using purposive sampling, with data analyzed via SmartPLS 4. Findings reveal that leadership significantly impacts organizational agility, while dynamic capabilities, although influential, do not directly affect competitive advantage. However, organizational agility plays a crucial role in moderating both leadership and dynamic capabilities' effects on competitive advantage. This study provides valuable insights into the factors that enhance the competitive positioning of MSMEs in the digital economy and offers practical implications for policy-making and managerial practices.

Keywords: Leadership, Dynamic Capabilities, Organizational Agility, Competitive Advantage, MSMEs

INTRODUCTION

In an era of increasingly massive digital disruption, strategic transformation has become an urgent necessity for Micro, Small, and Medium Enterprises (MSMEs) to survive and grow. The rapid adoption of digital technologies such as cloud computing, artificial intelligence, and big data has fundamentally changed how organizations operate

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and compete. However, many MSMEs still struggle to align their business strategies with technological developments, ultimately affecting their long-term competitiveness (Gyamerah et al., 2025) . These challenges are not only technical but also structural and leadership-related, requiring a more comprehensive approach to strategic transformation.

One of the key aspects of strategic transformation in the digital era is adaptive and transformative leadership. Leadership that is responsive to change and capable of inspiring innovation within the organization has been proven to be a critical success factor in the digital transformation of MSMEs. A study by (Delioglu & UysaL, 2023) indicates that agile leadership facilitates the integration of new technologies with internal capabilities, thereby creating a flexible and innovative organizational environment. This underscores that leadership is an inseparable element in the digital transformation process of MSMEs.

In addition to leadership, dynamic capabilities also play a vital role in the process of strategic transformation. These capabilities include an organization's ability to identify opportunities (sensing), seize opportunities (seizing), and reconfigure resources (transforming) to respond to changes in the business environment. Research by (Amin & Asif Khan, 2024) emphasizes that dynamic capabilities serve as a critical foundation for innovation, operational efficiency, and the strategic adaptation required in the digital era. When MSMEs are able to build and manage these capabilities effectively, they can enhance their agility in facing market uncertainty.

Organizational agility serves as a crucial bridge between internal capabilities and external demands. Agile organizations are able to anticipate market changes, respond quickly, and implement innovative solutions efficiently. In the context of MSMEs, agility is especially vital, as limited resources must be offset by speed and flexibility in decision-making. A study by Feng & Rani (2024) confirms that agility supported by dynamic capabilities enhances an organization's adaptability in facing digital disruption.(Feng et al., 2024)

However, a research gap still exists in understanding the integration of leadership, dynamic capabilities, and organizational agility as a systemic whole that drives the competitive advantage of MSMEs. Most of the literature discusses these variables separately, without deeply exploring their interdependence and integrative mechanisms. Yet, studies such as the one conducted by (Pelletier et al., 2025) indicate that the combination of dynamic IT capabilities and strategic leadership significantly enhances organizational agility, which in turn accelerates digital transformation.

Therefore, this study aims to develop a conceptual framework that integrates the roles of leadership, dynamic capabilities, and organizational agility in driving the strategic transformation of MSMEs in the digital era. By focusing on the causal and synergistic

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relationships among these three variables, the study is expected to contribute theoretically to the strategic management literature and offer practical implications for the sustainable development of MSMEs. As emphasized by (Albannai et al., 2024), digital leadership that can build sensing, seizing, and transforming capabilities is a key catalyst for successful digital transformation. Agile leadership can enhance organizational agility in SMEs, while dynamic capabilities, although not directly influencing agility, remain crucial in supporting rapid innovation and adaptation to market dynamics (Anik & Kusumawati, 2023). Therefore, the combination of effective leadership, dynamic capabilities, and organizational agility can be a key factor in improving competitive advantage in the digital era.

The problems observed among MSMEs in West Nusa Tenggara (NTB) include the lack of leadership readiness to adopt digital technology with a visionary approach, limited dynamic capabilities to respond to rapid market changes, and weak organizational agility in executing strategic adaptation. Many MSME actors still operate conventionally and lack the understanding and capacity to effectively perform sensing, seizing, and transforming opportunities. This situation is further exacerbated by the lack of digital leadership training and insufficient innovation-supporting infrastructure, making it difficult for them to compete amid the pressures of globalization and digital disruption.

Given this background, an integrative examination of leadership, dynamic capabilities, and organizational agility becomes crucial to provide a comprehensive understanding of strategies for enhancing the competitive advantage of MSMEs in the digital context. It is hoped that the findings from this study will not only enrich academic discourse but also serve as a foundation for policy making and relevant managerial practices in an ever evolving digital era.

THEORETICAL REVIEW

Resource-Based View (RBV)

The Resource-Based View (RBV) is a strategic management approach that emphasizes that sustainable competitive advantage comes from a company's unique, hard-to-imitate, and highly valuable internal resources (Bertram, 2016). This concept was first introduced by Wernerfelt (1984) and further popularized by (Barney, 1991) through the VRIN framework (Value, Rarity, Inimitability, Non-substitutability).

The Resource-Based View is used to analyze a company's assets, expertise, and capabilities that form the strategic advantage, including enhancing the company's strategic (Lubis, 2022). RBV can also help public organizations, such as hospitals, map the relationship between resources, capabilities, and public value to improve service effectiveness and efficiency (Kosiol et al., 2023). Several researchers highlight the limitations of the Resource-Based View in explaining market dynamics and the interaction

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between resources. RBV has been used to analyze strategies of multinational companies (Beamish & Chakravarty, 2021), and to improve corporate governance through the integration of RBV principles (Monson, 2024).

Competitive Advantage

The concept of competitive advantage was formally popularized by Michael E. Porter in his seminal work *Competitive Advantage: Creating and Sustaining Superior Performance* (1985). Competitive advantage refers to a firm's ability to achieve and sustain a superior position compared to its competitors over the long term. Porter (1985) argued that competitive advantage can be attained through product differentiation, cost leadership, and market focus. In the context of MSMEs, however, this approach must be adapted due to limitations in resources and operational scale. Porter asserted that competitive advantage arises from the value a firm is able to create for its customers, either through lower cost (cost leadership) or through product or service differentiation (Bredrup, 1995).

Sustainable competitive advantage, in this context, refers to the uniqueness of resources, competencies, and capabilities that are difficult to imitate and enable firms to achieve superior long-term performance(Sokhan & Popovskyi, 2023). A study by (Ferreira & Coelho, 2020)highlights that dynamic capabilities, such as the ability to innovate, absorb technology, and reconfigure business models, are critical for MSMEs to gain a competitive edge. In highly competitive markets, the capacity for continuous innovation becomes a significant differentiator for MSMEs. This aligns with the findings of (Liu & Yang, 2020a), who note that competitive advantage is idiosyncratic that is, unique and difficult to replicate when it is built on the distinctiveness of the organization.

Leadership

leadership has evolved from transactional models to more humanistic and strategic models. In a study by (Xiaoli et al., 2025), leadership is seen as a key catalyst in improving the performance of small and medium-sized enterprises, especially when mediated by organizational culture Transformational leadership encompasses characteristics such as idealized influence, inspirational motivation, individualized consideration, and intellectual stimulation, all of which can enhance organizational innovation and adaptability (Vinayagam Dr., 2024). Transformational leadership has been proven to support organizational learning and agility, particularly in the context of SMEs and the public sector (Chang et al., 2023). Leadership in the context of SMEs refers to the ability of leaders to guide the organization toward clear goals, inspire teams, and make sound decisions in the face of competition. Effective leadership plays a crucial role in enhancing the performance and competitiveness of SMEs. Leaders who apply

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transformational leadership styles can increase motivation and performance among team members, which in turn improves the competitive position of SMEs (Samoedra, 2019)

Leadership plays a crucial role in creating and sustaining agility within organizations. Various studies have indicated that transformational and transactional leadership styles have a significant impact on organizational agility, whereas laissez-faire leadership does not show a meaningful influence (Akkaya & Tabak, 2020). Moreover, the concept of leadership agility emphasizes that agile leadership involves strategic thinking capabilities, operational flexibility, and emotional maturity to lead amid the complexities of modern business (Joiner, 2019). A recent systematic study also identified that leadership agility directly contributes to the development of a work culture that supports innovation, collaboration, and continuous learning key elements of organizational agility (Tandon et al., 2024). Further confirmed that agile leadership significantly enhances organizational agility by improving organizational culture and employee motivation. This highlights that efforts to build organizational agility cannot be separated from adaptive and progressive leadership development strategies (Arifin & Purwanti, 2023).

Dynamic Capabilities

Dynamic capabilities refer to an organization's ability to integrate, build, and reconfigure internal and external resources to address rapid and complex environmental changes. These capabilities enable MSEs to adapt and innovate sustainably. Dynamic capabilities refer to an organization's ability to proactively respond to environmental changes through three core processes: sensing, seizing, and reconfiguring(Teece, 2007). In the MSME (Micro, Small, and Medium Enterprises) sector where market dynamics and resource constraints are prevalent this capability is crucial for maintaining competitiveness. Dynamic capabilities enable MSMEs to enhance organizational agility in the face of uncertainty and market shifts, particularly through rapid and adaptive decision-making (Peteraf et al., 2016) .

An empirical study by (Qaisar & Akkaya, 2021) on MSMEs in Turkey and Malaysia revealed that dynamic capabilities significantly contribute to improving organizational agility. Furthermore, in crisis contexts such as the pandemic, dynamic capabilities have also proven effective in strengthening crisis preparedness and organizational agility among MSMEs (Idrissi et al., 2022). The development of capabilities such as organizational learning, technology adoption, and flexible resource management must be directed toward fostering innovation to enhance agility. This study emphasizes the importance of reinforcing an innovative and collaborative culture in optimizing the role of dynamic capabilities within the MSME environment (Astuti et al., 2024).

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Organizational Agility

In this relationship, organizational agility serves as a critical moderation. A study by (Yamin & Murwaningsari, 2023) revealed that both transformational leadership and digital technology directly contribute to agility, which in turn enhances overall organizational performance. This suggests that agility is not merely an outcome of the other two variables but also a key connector in achieving successful organizational transformation.

Leadership agility has been found to significantly correlate with entrepreneurial resilience, which serves as a fundamental basis for competitive advantage in the MSME sector. When leaders are able to respond swiftly and accurately to disruption, organizations become more agile and adaptive. In a study by (Kiranantawat & Ahmad, 2023) leadership agility was identified as a vital driver of organizational creativity, which in turn influences sustainable innovation in MSMEs. Therefore, leadership must go beyond traditional transactional or transformational models to include adaptive and learning-oriented approaches. (Aityassine et al., 2024) empirically demonstrated that leadership agility is strongly associated with the resilience of entrepreneurs, reinforcing its critical role in sustaining competitive advantage.

Dynamic capabilities refer to an organization's ability to respond to, adapt, and reconfigure resources to achieve competitive advantage. (Saputra et al., 2024) highlighted that the integration and reconfiguration capacities of MSMEs are key to attaining competitiveness in the digital era. (Adhiatma et al., 2023) found that dynamic capabilities stem from the synergy between information technology and adaptive leadership. The ability to absorb, internalize, and apply knowledge becomes a crucial pathway to building competitive advantage. (Mata et al., 2024) asserted that dynamic capabilities contribute meaningfully to competitive advantage when supported by strategic agility. Similarly, (Idolor et al., 2023) emphasized the importance of strategic capabilities in strengthening the position of MSMEs amid dynamic business environments. These capabilities are not static, but must continuously evolve to remain relevant and effective.

Empirical findings from (Qaisar & Akkaya, 2021) revealed that organizational agility plays a moderating role that enhances the relationship between dynamic capabilities and business performance, highlighting the importance of agility in transforming capabilities into tangible outcomes. (Yi & Woon Kim, 2025)Underscored the role of organizational learning in amplifying the positive effects of IT capabilities on agility. In the MSME context, agility emerges as a product of continuous learning in response to environmental and technological shifts. (Ahmed et al., 2022) positioned organizational agility as a critical moderating variable in the relationship between digital platform

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capability and MSME competitive advantage suggesting that digital platforms alone will not deliver value unless the organization is agile enough to implement them effectively.
H1: Leadership has a positive and significant effect on Organizational Agility.
H2: Dynamic Capabilities have a positive and significant effect on Organizational Agility.
H3: Leadership has significant effect on Competitive Advantage.
H4: Dynamic Capabilities has significant effect on Competitive Advantage.
H5: Organizational Agility has significant effect on Competitive Advantage.
H6: Organizational Agility moderating the effect of Leadership on Competitive Advantage.
H7: Organizational Agility moderating the effect of Dynamic Capabilities on Competitive Advantage.

We present figure 1 depicting the phenomena in the competitive advantage MSMEs

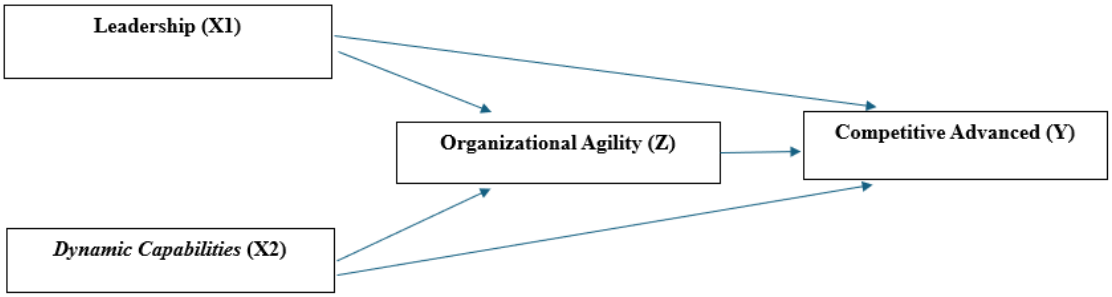


Figure 1. Conceptual Framework

RESEARCH METHOD

This study employs a quantitative approach using a survey method. The quantitative approach is appropriate for measuring the influence between variables and for testing the formulated hypotheses. The survey method was utilized to collect relevant data directly from respondents, namely weaving MSMEs in West Nusa Tenggara (NTB) that implement the integration of leadership and dynamic capabilities, with the moderating role of organizational agility in shaping competitive advantage.

The research focuses on weaving MSMEs in West Nusa Tenggara Province (NTB), specifically in Bima City and Bima Regency. The sample consists of 100 weaving MSMEs, selected using purposive sampling techniques. In this research context, several sample selection criteria were applied, including: weaving MSMEs that have been operating for at least three years, and those that are capable of innovating in the production process with a focus on sustainability, such as the ability to consistently produce at least five traditional motifs.

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Data were collected using a structured questionnaire developed based on validated measurement scales employed in previous studies. Measurement items for the leadership variable were adapted from literature (Adhiatma et al., 2023) and (Aityassine et al., 2024). Meanwhile, the dynamic capabilities variable was developed with reference to the frameworks proposed by (Teece, 2007) and (Kiranantawat & Ahmad, 2023). As for organizational agility, its indicators were based on conceptual models used by (Yi & Woon Kim, 2025), (Qaisar & Akkaya, 2021) and (Liu & Yang, 2020) and As for Competitive Advantage, its indicators were based on conceptual models used by (Porter, 1985) and (Zhu et al., 2023). All constructs were measured using a five-point Likert scale, ranging from 1 (strongly disagree) to 5 (strongly agree), to reflect respondents' attitudes and evaluations.

The data were analyzed using SmartPLS 4, which enabled the researchers to evaluate the extent to which the measurement items reflected their intended constructs, as well as to examine the relationships among those constructs. This approach helped uncover the strength and direction of the proposed relationships while also considering the role of organizational agility as a moderating variable. The findings of this study are expected to provide practical insights for weaving MSME actors in West Nusa Tenggara (NTB) in understanding the factors that shape competitive advantage in markets highly influenced by aspects of leadership, dynamic capabilities, and organizational agility.

RESULTS

1. Evaluation of the Measurement Model (*Outer Model*)

a. Testing *Convergent Validity*

The parameter used for testing convergent validity is the factor loading value. The results of the validity test indicate that several indicators within a construct in the measurement model meet the required criteria (Hair, 2019) . This can be observed from the fact that each indicator within a construct differs from those in other constructs and clusters around its respective construct, with a factor loading value greater than 0.7. As shown in Figure 2, there are several indicators with a factor loading value below 0.7. Therefore, these indicators must be removed or eliminated. The indicators that were removed are L4, L6, L8, DC4, OA3, OA4, CA6 and CA8

Average Variance Extracted (AVE) measures the average variance captured by the construct from its indicators. An accepted AVE value is greater than 0.50, indicating that more than half of the indicator's variance can be explained by the construct being measured.

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The results of the outer model evaluation can be seen in the following figure:

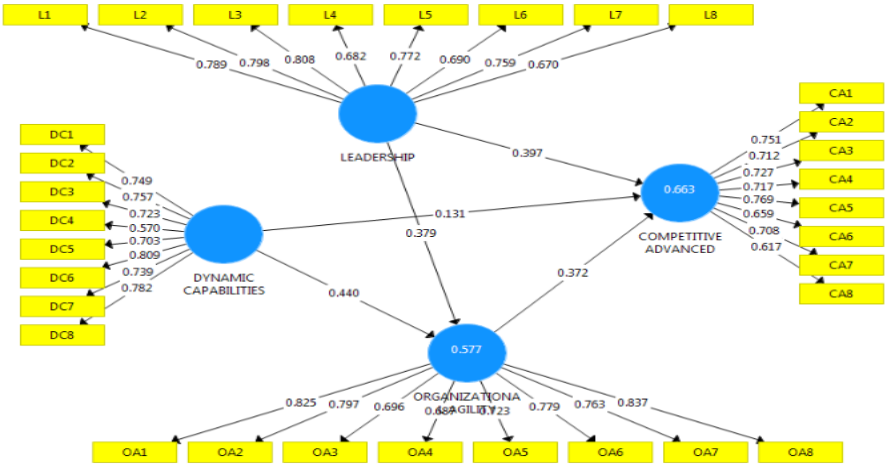


Figure 1 Evaluation of the Model (Outer Model) Stage I

The test results after several indicators were removed can be seen in Figure 2 below:

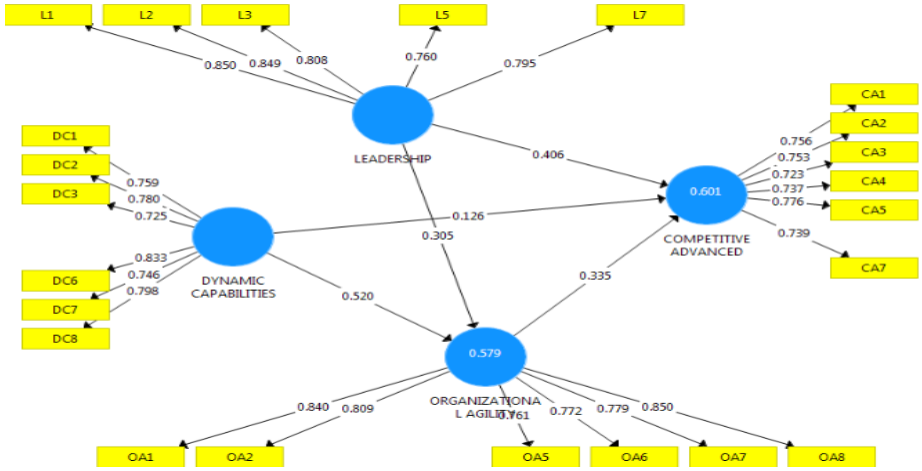


Figure 2. Evaluation of the Model (Outer Model) – Phase II

Based on the results of the PLS Algorithm analysis in Phase II shown in Figure 2 above, it indicates that the loading factor values of all indicators for each variable are above 0.7. This means that all indicators for each variable in this study have met the requirements for convergent validity.

b. Disrciminant Validity

Discriminant validity with reflective indicators can be tested by examining the cross-

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loading values, where the correlation between an indicator and its corresponding latent variable must be greater than its correlation with other latent variables. Fornell-Larcker Criterion: Discriminant validity is considered to be established in this method if the square root of the AVE for each construct exceeds the correlation between that construct and the other constructs. The test results demonstrate that the square root of the AVE for each construct is higher than the correlation between the construct and the other constructs, suggesting that the variables are Leadership, Dynamic Capabilities, Organizational Agility dan Competitive Advantage have good discriminant validity**.**

Table 1. Discriminant Validity

Variable	**Average variance extracted (AVE)**	**Rule of Thumbs**
Competitive Advantage	0,559	0,50
Leadership	0,661	0,50
Dynamic Capabilities	0,600	0,50
Organizational Agility	0,644	0,50
Source:Data processed (2025)		

AVEmeasures the average variance that indicators contribute to their respective constructs. An AVE value greater than 0.50 is considered acceptable, suggesting that more than half of the variance in the indicators is explained by the construct being measured. Additionally, if the AVE for each construct exceeds 0.50, it means that the indicators account for most of the variance of the construct being assessed (Hair, 2019)

c. Composite Reliability

Composite reliability is used to determine the extent to which a measurement instrument maintains accuracy and consistency over time. Instrument reliability is indicated by composite reliability and Cronbach's alpha values greater than 0.70.

Table 2 Composite Reliability dan Cronbach's Alpha

Variable	*Composite Reliability*	*Cronbach Alpha*	Description
Competitive	0,884	0,842	Reliabel
Advantage Leadership	0,900	0,866	Reliabel
Dynamic Capabilities	0,907	0,871	Reliabel

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Organizational Agility	0,916	0,889	Reliabel

Source: Data processed (2025)

2. Evaluation Model Structural (*Inner Model*)

The inner model is evaluated using the R Square value for the endogenous latent constructs, which is used to assess the ability of exogenous variables to explain the variance of the endogenous variables. The R Square values can be seen in Table 3 below:

Table 3 Coefficient of Determination (R^2) Values

Construct	R^2
Competitive Advantage	0,601
Organizational Agility	0,579

Source: Data processed (2025)

The table above shows that the R^2 value for the latent construct Competitive Advantage is 0.601, which means that the variables Leadership and Dynamic Capabilities influence Competitive Advantage by 60.1%, while the remaining 39.9% is influenced by other variables not examined in this study. The table also indicates that the R^2 value for the latent construct Organizational Agility is 0.579, meaning that Leadership and Dynamic Capabilities affect Organizational Agility by 57.9%, while 42.1% is influenced by other unexamined variables.

Hypothesis Testing

The evaluation of the structural model (inner model) aims to predict the relationships between variables or latent constructs. The hypothesized relationships in this study involve the effect of Leadership, Dynamic Capabilities on Competitive Advantage, with Organizational Agility acting as a moderating variable.

To test the hypotheses, the values from the estimate for path coefficients (path coefficient values) are used, where the t-statistic is compared with the t-table value. A hypothesis is accepted if the *t-statistic* value is greater than the t-table value (1.66).

Another method for determining whether the hypothesis is supported is by examining the *p-value* and comparing it with the significance level set in this study, which is a one-tailed test with a 5 percent alpha (0.05). If the *p-value* is less than 0.05, the hypothesis is considered supported.

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The results of the estimate for path coefficients analysis (path coefficient values) can be seen in Table 4 below.

Table 4 Values Path Coefficients

Variable/ Construct	*Original Sample* (O)	T-*Statistics*	P *Values*	Description
Leadership - Organizational Agility	0,305	*2,798*	*0,005*	Significant / Accepted
Dynamic Capabilities - Organizational Agility.	0,520	*4,776*	*0,000*	Significant / Accepted
Leadership - Competitive Advantage	0,406	*4,650*	*0,000*	Significant / Accepted
Dynamic Capabilities - Competitive Advantage.	0,126	*1,401*	*0,161*	Not Significant / Rejected
Organizational Agility - Competitive Advantage	0,335	*3,393*	*0,001*	Significant / Accepted
Leadership - Organizational Agility - Competitive Advantage	0,102	*2,020*	*0,043*	Significant / Accepted
Dynamic Capabilities - Organizational Agility - Competitive Advantage	0,174	*2,783*	*0,005*	Significant / Accepted

Source: Data processed (2025)

Based on the test results in Table 4, the variable Leadership shows a path coefficient value of 0.305 and a t-statistic value of 2.798, which is greater than the t-table value (1.66). Furthermore, the p-value is less than 0.05 (0.005 < 0.05), indicating that Leadership has a significant influence on Organizational Agility in traditional weaving MSMEs. (H1 is accepted). This study shows that leadership agility has a positive and significant influence on organizational agility. Adaptive, flexible leaders who are capable of making effective decisions enhance the organization's ability to respond to change swiftly and innovatively. This finding is consistent with previous research (Akkaya & Tabak, 2020) and (Arifin & Purwanti, 2023)

The Dynamic Capabilities variable has a path coefficient of 0.520 and a t-statistic value of 4.776 (> 1.66), with a p-value of 0.000 < 0.05, indicating that Dynamic Capabilities significantly affect Organizational Agility in halal MSMEs. (H2 is accepted).

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Research shows that dynamic capabilities significantly enhance organizational agility, especially when mediated by information technology capabilities. Abilities such as sensing, seizing, and reconfiguring strengthen the organization's agility in adapting to change and uncertainty. This result aligns with prior studies (Alshaar & Alkshali, 2024) and (Awwad et al., 2022)

For the Leadership variable, the path coefficient is 0.406 and the t-statistic value is 4.650 (> 1.66), with a p-value of 0.000 < 0.05, showing that Leadership significantly influences Competitive Advantage in traditional weaving MSMEs. (H3 is accepted). Strategic leadership has a strong and significant influence on sustainable competitive advantage. Among various approaches, behavior-focused leadership exerts the greatest impact on competitive advantage, outperforming other strategies such as constructive thinking. This finding is in line with previous research (Kartika, 2024) and (Faeq, 2022)

For the Dynamic Capabilities variable, the path coefficient is 0.126, but the t-statistic value is 1.401 (< 1.66) and the p-value is 0.161 > 0.05, indicating that Dynamic Capabilities do not have a significant influence on Competitive Advantage in traditional weaving MSMEs. (H4 is rejected). Not all contexts demonstrate a significant influence of dynamic capabilities on competitive advantage. Their effectiveness depends on external conditions, organizational structure, and other mediating factors. Several researchers have argued that although dynamic capabilities are theoretically considered a source of competitive advantage, their effectiveness in practice is limited by context dependency, path dependency, and challenges in empirical measurement. These limitations raise doubts about the generalizability of their benefits. This finding supports previous research (Tuschke & Buellet, 2020) and (Mehta & Kaur, 2017)

The Organizational Agility variable shows a path coefficient of 0.335, a t-statistic of 3.393 (> 1.66), and a p-value of 0.001 < 0.05, indicating that Organizational Agility significantly affects Competitive Advantage in traditional weaving MSMEs. (H5 is accepted). Organizational agility has a significant and positive relationship with competitive advantage. Agility enables firms to respond to market changes swiftly and effectively. Several studies have indicated that various dimensions of agility—strategic, structural, technological, and cultural—play a crucial role in strengthening sustainable competitive advantage. This finding supports previous research (Al-Nsour, 2021) and (Herachwati & Ashari, 2023)

For the moderated relationship between Leadership and Competitive Advantage through Organizational Agility, the path coefficient is 0.102, the t-statistic is 2.020 (> 1.66), and the p-value is 0.043 < 0.05, indicating that Leadership significantly affects Competitive Advantage as moderated by Organizational Agility in traditional weaving MSMEs. (H6 is accepted). Organizational agility plays a crucial role as a bridge between transformational leadership and sustainable competitive advantage. Leadership that

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fosters innovation and adaptability enhances organizational agility, which ultimately contributes to strengthening competitive advantage. Leadership agility serves as the foundation for developing organizational agility, which in turn drives improved performance and competitive advantage especially in navigating digital transformation within the SME sector. This finding supports previous research (Olexová & Boateng, 2023) and (Probojakti et al., 2024)

For the moderated relationship between Dynamic Capabilities and Competitive Advantage through Organizational Agility, the path coefficient is 0.174, the t-statistic is 2.783 (> 1.66), and the p-value is 0.005 < 0.05, indicating that Dynamic Capabilities significantly affect Competitive Advantage as moderated by Organizational Agility in traditional weaving MSMEs. (H7 is accepted). Organizational agility plays a vital role in strengthening the influence of dynamic capabilities on competitive advantage. Several studies have shown that dynamic capabilities enhance organizational agility, and together, they contribute to improved competitive performance. Agility acts as a bridging mechanism that translates dynamic capabilities into tangible outcomes in the form of competitive advantage. This finding is also supported by prior studies (Gyemang & Emeagwali, 2020), (Koronios & Baskarada, 2018) and (Amin & Asif Khan, 2024).

Finally this study emphasizes the interrelationship between agile leadership, dynamic capabilities, and organizational agility in enhancing the competitive advantage of weaving SMEs in the digital era. Agile leadership improves responsiveness and flexibility, enabling quick adaptation to market changes. Dynamic capabilities support innovation and adaptation, strengthening the competitive position of weaving SMEs in a rapidly evolving business environment.

DISCUSSION

Adaptive and visionary leadership plays a pivotal role in driving change and innovation within MSMEs. Transformational leaders are capable of inspiring transformation, directing the vision of digitalization, and cultivating an organizational culture that fosters continuous learning and collaboration. A study by (Probojakti et al., 2025) found that transformational leadership can enhance competitive advantage indirectly through increased organizational agility.

Dynamic capabilities such as sensing (identifying opportunities), seizing (capturing opportunities), and reconfiguring (restructuring resources) enable MSMEs to adapt to market changes. (Amin & Asif Khan, 2024) emphasized that dynamic capabilities play a critical role in fostering innovation, organizational agility, and digital transformation, all of which ultimately strengthen competitive advantage.

Organizational agility both mediates and moderates the relationship between leadership and dynamic capabilities in influencing competitive advantage. In the MSME

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context, agility reflects the organization's ability to respond rapidly to technological, market, and regulatory changes. A study by (Gyemang & Emeagwali, 2020)demonstrated that organizational agility strengthens the effect of dynamic capabilities on competitive performance in the telecommunications industry a finding that is highly relevant for weaving MSMEs already implementing digital practices.

The synergy between leadership, dynamic capabilities, and organizational agility provides a robust strategic framework for MSMEs. Leadership drives strategic orientation, dynamic capabilities ensure adaptability, and agility serves as the operational mechanism for implementing change swiftly. This integrative model has been examined across various industry contexts and proven effective in achieving sustainable competitive advantage (Koronios & Baskarada, 2018)

For MSMEs in Indonesia, adopting this integrative strategy requires digital leadership training, the development of an innovative organizational culture, and the establishment of flexible work systems. Furthermore, support from the government and digital ecosystems including marketplaces, fintech platforms, and digitalization training must be aligned to create an environment conducive to agility and dynamic capabilities. (Utami et al., 2024) affirmed that leadership agility and innovation significantly contribute to enhancing MSMEs' competitiveness in the digital era.

CONCLUSION AND FURTHER STUDY

In conclusion, this study emphasizes the interrelationship between agile leadership, dynamic capabilities, and organizational agility in enhancing the competitive advantage of weaving SMEs, particularly in the context of the digital era. Agile leadership plays a crucial role in improving organizational responsiveness and flexibility, enabling weaving SMEs to quickly adapt to market changes. Dynamic capabilities, while not directly influencing organizational agility, support rapid innovation and adaptation, allowing weaving SMEs to remain competitive in a rapidly evolving business environment. The combination of these elements strengthens the position of weaving SMEs, providing the necessary tools to succeed in the digital economy.

For future research, it would be valuable to explore the specific pathways through which dynamic capabilities influence organizational agility and competitive advantage in SMEs. Additionally, studying the role of digital transformation in shaping leadership styles and its interaction with organizational capabilities will offer further insights into how SMEs can optimize their strategies for success. Future studies could also explore sector-specific nuances in the relationship between leadership, capabilities, and agility, focusing on industries experiencing significant digital disruption. By expanding the scope of research and examining other potentially influential variables, future studies can provide more comprehensive guidance for organizations in leveraging leadership and dynamic

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capabilities to strengthen their competitiveness in the increasingly competitive global market.

ETHICAL DISCLOSURE

All respondents, in this case traditional weaving MSME actors, provided written informed consent prior to participation. They were informed about the purpose of the study, the voluntary nature of their participation, their right to withdraw at any time, and the confidentiality of their responses.

CONFLICT OF INTERESTS

The authors declare no conflict of interest.

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