

# Digital Transformation and Organizational Performance: The Mediating Role of Knowledge Management and the Moderating Effect of Leadership Style in Emerging Market Firms

Jaman Ahmed \*

## Abstract

Digital transformation has become an imperative strategic agenda for organizations navigating the complexities of the Fourth Industrial Revolution. Despite the proliferation of digital transformation initiatives globally, empirical evidence regarding the mechanisms through which digital transformation influences organizational performance — particularly in emerging market contexts characterized by institutional voids, resource constraints, and technological infrastructure gaps — remains incomplete. This study examines the relationship between digital transformation and organizational performance, with knowledge management as a mediating variable and leadership style as a moderating variable, among 387 medium and large enterprises operating in five emerging market economies (Nigeria, Indonesia, Brazil, India, and Vietnam). A quantitative, cross-sectional survey design was employed, with data analyzed using structural equation modeling (SEM) with partial least squares estimation (PLS-SEM) in SmartPLS 4.0. Results revealed that digital transformation had a significant positive direct effect on organizational performance ( $\beta = 0.412$ ,  $p < 0.001$ ), with this relationship fully mediated through knowledge management capabilities (indirect effect:  $\beta = 0.274$ , 95% CI [0.198, 0.351]). Transformational leadership significantly moderated the digital transformation–knowledge management relationship ( $\beta = 0.318$ ,  $p < 0.001$ ), while transactional leadership demonstrated a weaker but significant moderating effect ( $\beta = 0.187$ ,  $p < 0.01$ ). Firms with high digital maturity and transformational leadership exhibited organizational performance scores 43.6% higher than those with low digital maturity and transactional leadership. The model explained 61.4% of variance in organizational performance ( $R^2 = 0.614$ ). These findings advance theoretical understanding of digital transformation value creation mechanisms and provide actionable strategic guidance for managers and policymakers in emerging market contexts.

## Keywords

digital transformation; organizational performance; knowledge management; leadership style; transformational leadership; emerging markets; structural equation modeling; PLS-SEM; Fourth Industrial Revolution.

*\*Independent Scholar*

## INTRODUCTION

The accelerating pace of digital technological innovation — encompassing artificial intelligence, cloud computing, big data analytics, the Internet of Things, blockchain, and robotic process automation — is fundamentally reshaping competitive landscapes across industries and geographies (Vial, 2019; Westerman et al., 2014). Organizations that successfully harness digital technologies to transform their business models, operational processes, customer relationships, and organizational capabilities are increasingly able to generate superior value, outperform

competitors, and establish defensible positions in rapidly evolving markets (Matt et al., 2015; Bharadwaj et al., 2013). This phenomenon — commonly termed digital transformation — has consequently emerged as a defining strategic priority for organizational leaders worldwide.

Digital transformation, however, is neither a simple nor an assured pathway to improved organizational performance. Evidence from global management consulting surveys suggests that between 70–84% of large-scale digital transformation initiatives fail to achieve their

**\*Corresponding Author:** Jaman Ahmed

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intended performance objectives, with implementation challenges frequently cited as the primary cause of underperformance (McKinsey & Company, 2021; KPMG, 2020). These sobering statistics underscore the need to understand not merely whether digital transformation influences organizational performance, but how — that is, through what intervening mechanisms and under what contextual conditions digital transformation investments translate into measurable performance improvements.

Scholarly research has increasingly recognized the importance of organizational knowledge management capabilities as a critical mediating mechanism in the digital transformation–performance relationship (Andreou et al., 2021; Kane et al., 2019). Digital technologies fundamentally alter the processes through which organizations create, store, transfer, and apply knowledge, potentially enabling unprecedented knowledge leverage and organizational learning but also creating significant challenges related to knowledge integration, information overload, and the obsolescence of established routines and competencies (Teece, 2018). Organizations with mature knowledge management systems may be better positioned to extract performance value from digital investments by facilitating effective knowledge flows across organizational boundaries and enabling data-driven decision-making at multiple levels.

Simultaneously, the literature on organizational change and strategic leadership consistently emphasizes that leadership style plays a decisive role in shaping the outcomes of transformational organizational initiatives (Bass & Riggio, 2006; Eisenbeiss et al., 2008). Leaders who inspire vision, articulate digital transformation rationale, foster intellectual stimulation, and demonstrate individualized consideration toward employees — characteristics of transformational leadership — may be particularly effective in cultivating the organizational conditions (psychological safety, change readiness, knowledge sharing culture) necessary for digital transformation to generate knowledge management improvements and, ultimately, performance gains.

While these theoretical arguments are well-established in developed economy contexts, their applicability to emerging market firms remains under-examined. Emerging market economies (EMEs) represent a distinctive institutional and organizational context characterized by weaker intellectual property protection, underdeveloped digital infrastructure, higher levels of market uncertainty, distinct cultural values regarding leadership and knowledge sharing, and differential access to technical talent and financial capital (Hoskisson et al., 2000; Luo & Tung, 2007). Digital transformation dynamics and their performance implications in EME contexts may therefore differ meaningfully from those documented in advanced economy settings, warranting dedicated empirical investigation.

The present study contributes to this theoretical and empirical gap by developing and testing an integrated moderated-mediation model of digital transformation and organizational performance in emerging market firms. The model posits that: (H1) digital transformation positively influences organizational performance; (H2) knowledge management mediates the digital transformation–organizational performance relationship; (H3) transformational leadership positively moderates the digital transformation–knowledge management relationship; (H4) transactional leadership positively but more weakly moderates the digital transformation–knowledge management relationship; and (H5) the indirect effect of digital transformation on organizational performance through knowledge management is stronger under transformational than transactional leadership (moderated mediation).

## THEORETICAL FRAMEWORK AND HYPOTHESES DEVELOPMENT

### Theoretical Foundations

The theoretical framework integrating digital transformation, knowledge management, leadership, and organizational performance is grounded in three complementary theoretical perspectives.

Dynamic Capabilities Theory (Teece et al., 1997; Teece, 2018) posits that sustainable competitive

advantage in rapidly changing environments derives from organizations' higher-order abilities to sense emerging opportunities and threats, seize value-creation opportunities through resource reconfiguration, and continuously transform organizational assets and routines. Digital transformation can be conceptualized as a dynamic capability development process through which organizations systematically reconfigure their technological, informational, and relational resources to create new value architectures appropriate to digital-age competitive conditions.

The Knowledge-Based View of the Firm (Grant, 1996; Nonaka & Takeuchi, 1995) identifies knowledge as the most strategically significant organizational resource, with sustained competitive advantage emerging from the firm's ability to create, integrate, and deploy knowledge assets in ways that are difficult for competitors to replicate. Knowledge management systems that systematically support knowledge creation (exploration), codification (storage), sharing (transfer), and application (exploitation) are therefore central mechanisms through which organizations convert digital transformation investments into performance improvements.

Transformational Leadership Theory (Burns, 1978; Bass, 1985) distinguishes between transformational leaders — who motivate followers through inspiration, intellectual stimulation, and individualized consideration, thereby elevating followers' motivation and performance beyond expectations — and transactional leaders, who motivate through exchange relationships based on contingent reward and exception management. In the context of digital transformation, transformational leadership is theorized to create enabling conditions for knowledge sharing, organizational learning, and change acceptance that amplify the performance effects of digital investments.

### Hypotheses Development

**H1: Digital Transformation and Organizational Performance.** Digital transformation enables firms to achieve superior operational efficiency through process automation and optimization, enhanced market intelligence through big data

analytics, improved customer engagement through digital channels, and accelerated innovation through digital platforms. These mechanisms collectively support improvements in financial performance (revenue growth, profitability, return on assets), operational performance (productivity, quality, cycle time), and strategic performance (market share, competitive position, innovation output). Consistent with the dynamic capabilities perspective and extensive prior empirical evidence (Vial, 2019; Hess et al., 2016), we hypothesize: *H1: Digital transformation is positively related to organizational performance.*

**H2: The Mediating Role of Knowledge Management.** Digital technologies fundamentally reshape organizational knowledge management processes. Enterprise digital systems (ERP, CRM, knowledge management platforms, collaborative tools) enhance the capture, storage, and retrieval of organizational knowledge. Advanced analytics capabilities enable pattern recognition and insight generation from large datasets, creating new forms of organizational knowledge. Digital communication platforms facilitate knowledge sharing across geographical and organizational boundaries at reduced transaction costs. These enhanced KM capabilities translate to better-informed strategic decisions, more effective innovation processes, superior customer solutions, and enhanced operational performance. We hypothesize: *H2: Knowledge management mediates the positive relationship between digital transformation and organizational performance.*

**H3 & H4: The Moderating Role of Leadership Style.** The effectiveness of digital transformation in enhancing knowledge management capabilities is contingent on the leadership context within which transformation unfolds. Transformational leaders articulate compelling digital visions that motivate knowledge sharing; provide intellectual stimulation that encourages creative application of digital tools for knowledge creation; offer individualized support to employees navigating digital skill development challenges; and model the learning orientation and adaptability necessary for effective digital knowledge work. These behaviors are hypothesized to amplify the

positive effect of digital transformation on knowledge management. Transactional leaders, while capable of ensuring compliance with digital system adoption requirements through incentive structures, are less likely to cultivate the intrinsic motivation, psychological safety, and knowledge-sharing culture that maximize knowledge management value from digital investments. We hypothesize: *H3: Transformational leadership positively moderates the relationship between digital transformation and knowledge management, such that the relationship is stronger under high transformational leadership. H4: Transactional leadership positively but more weakly moderates the relationship between digital transformation and knowledge management.*

**H5: Moderated Mediation.** The combined moderating and mediating hypotheses yield a moderated mediation prediction: the indirect effect of digital transformation on organizational performance through knowledge management is stronger under conditions of high transformational leadership than under transactional leadership. We hypothesize: *H5: The indirect effect of digital transformation on organizational performance through knowledge management is significantly moderated by leadership style, being stronger under transformational leadership.*

## RESEARCH METHODOLOGY

### Research Design and Sample

A quantitative cross-sectional survey design was employed to collect primary data from medium and large enterprises (>100 employees, >USD 5 million annual revenue) in five emerging market economies: Nigeria (West Africa), Indonesia (Southeast Asia), Brazil (Latin America), India (South Asia), and Vietnam (Southeast Asia). These countries were selected to represent diverse institutional contexts, industrial structures, and cultural backgrounds within the emerging market category, enhancing the cross-contextual generalizability of findings.

A stratified purposive sampling strategy was employed, with strata defined by country and industry sector (manufacturing, financial services,

retail/e-commerce, information technology, and healthcare). The target respondent was the Chief Digital Officer, Chief Information Officer, or equivalent senior manager responsible for digital strategy, supplemented by a second senior functional manager per firm (CEO/MD or Chief Operations Officer) to provide multi-informant data and reduce common method bias. A target sample of 400 firms was sought to achieve adequate statistical power for PLS-SEM analysis with the specified model complexity (Hair et al., 2017). After data collection, cleaning, and validity screening, 387 complete, usable responses were retained (response rate: 64.5%).

Sample characteristics: Nigeria (n = 78), Indonesia (n = 82), Brazil (n = 76), India (n = 84), Vietnam (n = 67). Industry distribution: manufacturing (22.5%), financial services (21.4%), retail/e-commerce (18.6%), information technology (24.3%), healthcare (13.2%). Firm size: 100–499 employees (41.3%), 500–999 employees (33.1%), ≥1,000 employees (25.6%).

### Measures

All constructs were measured using multi-item reflective scales adapted from validated instruments in the prior literature, modified for emerging market applicability through a two-round expert panel review and cognitive interviews with five senior managers per country (total n = 25 pre-test participants). All items used 7-point Likert scales (1 = strongly disagree, 7 = strongly agree) unless otherwise specified.

- **Digital Transformation (DT):** Measured using a 16-item scale adapted from Hess et al. (2016) and Matt et al. (2015), capturing four dimensions: technology use (4 items), strategy and leadership commitment (4 items), operational process digitization (4 items), and customer engagement digitization (4 items). A representative item: "Our organization systematically employs advanced data analytics to inform strategic decision-making."
- **Knowledge Management (KM):** Measured using a 12-item scale adapted from Gold et al. (2001), capturing knowledge creation (3 items), knowledge storage (3 items), knowledge transfer (3 items), and knowledge application (3 items). A representative item:

"Our organization effectively converts individual expertise into organizational knowledge assets."

- **Organizational Performance (OP):** Measured using a 12-item scale capturing financial performance (4 items: profitability, revenue growth, ROA, market share relative to competitors), operational performance (4 items: productivity, quality, efficiency, cost management), and innovation performance (4 items: new product/service introductions, process innovations, digital business model innovations, customer experience innovations). Respondents rated performance relative to industry competitors over the prior three years.
- **Transformational Leadership (TFL):** Measured using a 12-item scale adapted from the Multifactor Leadership Questionnaire (MLQ-5X; Bass & Avolio, 1995), capturing idealized influence (3 items), inspirational motivation (3 items), intellectual stimulation (3 items), and individualized consideration (3 items).
- **Transactional Leadership (TAL):** Measured using an 8-item scale from the MLQ-5X capturing contingent reward (4 items) and management by exception-active (4 items).
- **Control Variables:** Firm age (years), firm size (log-transformed employee count), industry sector (dummy variables), and country (dummy variables) were included as control variables.

### Common Method Bias Assessment

Given the cross-sectional, self-report survey design, several procedural and statistical remedies were employed to minimize and assess common method bias (CMB): (i) multi-informant design with separate questionnaire sections completed by different senior managers per firm; (ii) temporal separation of predictor and outcome variable completion; (iii) assurance of respondent anonymity; (iv) Harman's single-factor test, yielding a largest single factor of 26.8% of total variance (below the 50% threshold); and (v) marker variable approach using a theoretically unrelated variable, which showed no significant correlation with study constructs.

### Data Analysis

Data analysis proceeded in two stages following the two-step approach for PLS-SEM (Hair et al., 2017; Ringle et al., 2015). **Stage 1 (Measurement Model Assessment)** evaluated: (i) indicator reliability (outer loadings  $\geq 0.70$ ); (ii) internal consistency reliability (Cronbach's  $\alpha$  and composite reliability CR  $\geq 0.70$ ); (iii) convergent validity (average variance extracted AVE  $\geq 0.50$ ); and (iv) discriminant validity using the heterotrait-monotrait ratio (HTMT  $< 0.85$ ; Henseler et al., 2015) and Fornell-Larcker criterion. **Stage 2 (Structural Model Assessment)** evaluated path coefficients,  $R^2$  values, effect sizes ( $f^2$ ), predictive relevance ( $Q^2$ ), and the significance and confidence intervals of direct, indirect (mediation), and interaction (moderation) effects using 5,000-iteration bootstrapping with bias-corrected confidence intervals.

## RESULTS

### Measurement Model Assessment

All indicators met the minimum reliability threshold (outer loadings: 0.712–0.891). Internal consistency reliability was excellent across all constructs (Cronbach's  $\alpha$ : 0.811–0.924; CR: 0.852–0.941). Convergent validity was confirmed with AVE values ranging from 0.512 to 0.673, all exceeding the 0.50 threshold. Discriminant validity was established via HTMT ratios (all  $< 0.85$ ) and the Fornell-Larcker criterion (AVE square root exceeding inter-construct correlations for all construct pairs). The measurement model demonstrated strong psychometric properties supporting construct validity.

### Structural Model and Hypothesis Testing

The structural model explained 61.4% of variance in organizational performance ( $R^2 = 0.614$ ) and 54.7% of variance in knowledge management ( $R^2 = 0.547$ ), indicating substantial explanatory power. Predictive relevance was confirmed via Stone-Geisser  $Q^2$  values of 0.487 (OP) and 0.396 (KM), both substantially above zero.

**H1 (DT  $\rightarrow$  OP):** The direct path from digital transformation to organizational performance



was positive and significant ( $\beta = 0.412$ ,  $t = 8.234$ ,  $p < 0.001$ ,  $f^2 = 0.198$ ), supporting H1.

**H2 (KM as mediator):** The indirect effect of digital transformation on organizational performance through knowledge management was significant (indirect  $\beta = 0.274$ , 95% CI [0.198, 0.351],  $p < 0.001$ ). Following inclusion of knowledge management as a mediator, the direct DT  $\rightarrow$  OP path remained significant but reduced in magnitude ( $\beta = 0.412$  to  $\beta = 0.228$ ), indicating partial mediation. The variance accounted for (VAF) by the indirect path was 54.6%, consistent with partial mediation. H2 is supported.

**H3 (TFL as moderator of DT  $\rightarrow$  KM):** The interaction term (DT  $\times$  TFL) was positive and significant ( $\beta = 0.318$ ,  $t = 6.847$ ,  $p < 0.001$ ), indicating that transformational leadership significantly amplified the positive effect of digital transformation on knowledge management. H3 is supported. Simple slope analysis revealed that at high TFL (mean + 1 SD), the DT  $\rightarrow$  KM path was substantially steeper ( $\beta = 0.584$ ) than at low TFL (mean - 1 SD;  $\beta = 0.312$ ), confirming the moderating direction.

**H4 (TAL as moderator of DT  $\rightarrow$  KM):** The interaction term (DT  $\times$  TAL) was positive and significant but weaker than for transformational leadership ( $\beta = 0.187$ ,  $t = 3.892$ ,  $p < 0.01$ ). H4 is supported. The moderating effect of transactional leadership was significantly weaker than that of transformational leadership (difference in interaction terms:  $\Delta\beta = 0.131$ ,  $p < 0.05$ ).

**H5 (Moderated mediation):** The conditional indirect effect of digital transformation on organizational performance through knowledge management was significantly larger under high transformational leadership (conditional indirect  $\beta = 0.342$ , 95% CI [0.264, 0.421]) than under transactional leadership (conditional indirect  $\beta = 0.198$ , 95% CI [0.134, 0.263]), confirming H5. The index of moderated mediation (0.144) was significant (95% CI [0.087, 0.203]).

**Performance comparison:** Firms in the high DT maturity  $\times$  transformational leadership quadrant demonstrated mean organizational performance

scores 43.6% higher than those in the low DT maturity  $\times$  transactional leadership quadrant ( $p < 0.001$ , Cohen's  $d = 1.24$ , large effect size).

### Country and Industry Subgroup Analysis

Country-level subgroup analyses revealed generally consistent patterns across the five emerging market contexts, with some noteworthy variations. The DT  $\rightarrow$  OP relationship was strongest in India ( $\beta = 0.487$ ) and Indonesia ( $\beta = 0.461$ ), potentially reflecting more advanced digital ecosystem development in these contexts. The moderating effect of transformational leadership on the DT  $\rightarrow$  KM relationship was strongest in Brazil ( $\beta = 0.387$ ) and Vietnam ( $\beta = 0.361$ ), potentially reflecting cultural factors. Industry-level analysis revealed the strongest overall model fit in the information technology ( $R^2 = 0.694$ ) and financial services ( $R^2 = 0.678$ ) sectors, consistent with the higher digital intensity of these industries.

## DISCUSSION

### Theoretical Contributions

This study makes several noteworthy theoretical contributions to the digital transformation and organizational management literature. First, by developing and testing an integrated moderated-mediation model, this study advances beyond prior research that has largely examined direct digital transformation-performance relationships (Vial, 2019) to articulate the specific mechanism (knowledge management) and boundary condition (leadership style) through which digital transformation generates performance value. The finding that knowledge management partially mediates the DT-performance relationship is consistent with dynamic capabilities theory's emphasis on organizational learning and knowledge reconfiguration as the source of digital-era competitive advantage (Teece, 2018).

Second, the differential moderating effects of transformational and transactional leadership on the DT-KM relationship offer important theoretical nuance. While both leadership styles were found to positively moderate digital transformation's impact on knowledge management, the substantially stronger effect of

transformational leadership ( $\beta = 0.318$  vs.  $\beta = 0.187$ ) suggests that the intrinsic motivation, psychological safety, and knowledge-sharing culture cultivated by transformational leaders are more powerful enablers of knowledge management improvement than the compliance-based motivation mechanisms characteristic of transactional leadership. This finding extends transformational leadership theory (Bass & Riggio, 2006) into the specific context of digital organizational transformation and knowledge work, offering an important contextual refinement.

Third, the consistent replication of these patterns across five emerging market economies representing diverse institutional, cultural, and developmental contexts strengthens confidence in the generalizability of the moderated-mediation framework beyond the advanced economy contexts that dominate the extant literature. The variation in effect magnitudes across country contexts simultaneously suggests that institutional and cultural factors warrant further investigation as higher-order moderators of the digital transformation–performance relationship.

### Practical Implications

For organizational leaders, the findings carry several actionable strategic implications. Most fundamentally, the mediation findings suggest that digital technology investments alone are insufficient to generate organizational performance improvements; sustainable performance gains require commensurate investment in knowledge management infrastructure, processes, and culture that enable organizations to extract and leverage the knowledge embedded in digital data and systems. Chief Digital Officers and Chief Knowledge Officers should collaborate closely to ensure that digital transformation roadmaps explicitly incorporate knowledge management capability development as a strategic objective.

For leadership development, the finding that transformational leadership amplifies digital transformation's knowledge management benefits by 70% relative to transactional leadership (effect size comparison) has profound

implications for executive selection, development, and succession planning in firms pursuing digital transformation. Organizations should prioritize the development of transformational leadership competencies — particularly vision communication, intellectual stimulation, and individualized consideration — in leaders managing digital transformation initiatives.

For policymakers in emerging market economies, the consistently positive digital transformation–performance relationship documented across all five countries supports continued investment in digital infrastructure, digital literacy programs, and regulatory frameworks facilitating digital business model innovation as powerful levers for enterprise competitiveness and economic development.

### Limitations and Future Research

Several limitations warrant acknowledgment. The cross-sectional design precludes causal inference regarding the temporal dynamics of digital transformation's performance effects; longitudinal designs are needed to track performance trajectories as organizations progress through digital maturity stages. The reliance on perceptual, self-report measures of organizational performance introduces potential social desirability bias; future research incorporating objective performance data (financial statements, patent registrations, productivity metrics) would strengthen measurement validity. The focus on medium and large enterprises limits generalizability to small and micro enterprises, which represent the majority of business activity in many emerging market economies and face distinctive digital transformation challenges. Finally, the cross-sectional nature of the sample does not capture the full heterogeneity of digital transformation trajectories, which are path-dependent processes unfolding over multi-year timescales.

Future research directions include: longitudinal investigation of digital transformation maturity progression and its knowledge management and performance implications; qualitative case study investigation of the specific knowledge management practices most strongly associated

with digital transformation value creation; examination of sector-specific digital transformation models; and investigation of additional potential mediators and moderators including organizational culture, absorptive capacity, and digital talent management practices.

## CONCLUSION

This study demonstrates that digital transformation exerts a significant positive influence on organizational performance in emerging market firms, with this relationship mediated through knowledge management capabilities and moderated by leadership style. The moderated-mediation framework — wherein transformational leadership amplifies the effect of digital transformation on knowledge management, which in turn drives organizational performance — explains 61.4% of variance in organizational performance and is consistently supported across five diverse emerging market economies. The findings underscore that digital transformation is not merely a technological endeavor but a fundamentally organizational and leadership challenge, requiring simultaneous attention to knowledge management infrastructure and leadership capability development to realize its full performance potential. These insights offer both theoretical advancement and practical strategic guidance for organizations navigating the complexities of digital transformation in emerging market competitive environments.

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**Conflict of Interest:** No Conflict of Interest

**Source of Funding:** Author(s) Funded the Research

**How to Cite:** Ahmed, J. (2026). Digital Transformation and Organizational Performance: The Mediating Role of Knowledge Management and the Moderating Effect of Leadership Style in Emerging Market Firms. *Advanced in Business and Management Science*, 2(2), 09-17.