

Integrating Digital and Entrepreneurial Leadership: A Framework For SME Performance In Emerging Economies

Mohamed Suhaimi Yusof¹*

¹Faculty of Business and Accounting, Universiti Poly-Tech Malaysia
Corresponding author: suhaimi@uptm.edu.my

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ABSTRACT

Small and medium sized enterprises are central to economic development in emerging economies, yet their performance remains constrained by limited digital readiness, fragmented innovation capability, and restricted access to strategic resources. This article develops a conceptual framework that explains how the integration of digital leadership and entrepreneurial leadership can enhance SME performance in dynamic and uncertain environments. Drawing on contemporary literature in digital transformation, entrepreneurial orientation, and strategic management, the study argues that performance outcomes are shaped by the interaction between leadership capability, digital adoption, innovation processes, and strategic agility. Digital leadership is positioned as a driver of technological alignment and organisational transformation, while entrepreneurial leadership facilitates opportunity recognition, proactive decision making, and value creation. The analysis identifies key challenges, including uneven technology adoption, weak leadership capability, and structural constraints in emerging markets, which limit the effectiveness of digital initiatives. By integrating these perspectives, the study demonstrates that SMEs achieve stronger performance when digital transformation is combined with entrepreneurial action and supported by innovation capability. The proposed framework contributes to theory by offering a more holistic explanation of SME performance and provides practical implications for policymakers and business leaders seeking to strengthen competitiveness, resilience, and sustainable growth.

Keywords: *Digital, Entrepreneurial, Leadership, Innovation, Performance*

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INTRODUCTION

Small and medium-sized enterprises are widely recognised as important contributors to employment, innovation, income generation, and inclusive economic development, especially in emerging economies. In many developing markets, SMEs operate as the backbone of local entrepreneurship because they create business opportunities, support community livelihoods, and encourage market participation among groups that may have limited access to formal employment. However, SME growth is often constrained by limited financing, weak managerial capabilities, low technological readiness, and difficulty competing with larger firms. The World Bank highlights that SMEs remain central to jobs and economic activity but continue to face a major financing gap across emerging market and developing economies (World Bank, 2024). Similarly, IFC notes that SMEs account for a substantial share of global businesses and employment, yet many remain unable to realise their full growth potential due to structural and resource limitations (IFC, 2024). These realities make SME performance an important research area, particularly when examining how leadership can strengthen competitiveness, innovation, and long-term business survival.

Digital transformation has become a major strategic priority for SMEs because it changes how firms communicate with customers, manage operations, access markets, and respond to uncertainty. Digitalisation allows SMEs to reduce transaction costs, improve access to information, strengthen supplier communication, and participate more effectively in wider markets (OECD, 2021). However, SMEs often lag behind larger firms in digital adoption due to financial constraints, skill shortages, low awareness, and limited internal resources (OECD, 2024). This shows that digital transformation is not only a technology issue but also a leadership issue. Leaders must understand how to select relevant technologies, build digital confidence among employees, and align digital tools with business strategy. Clemente Almendros et al. (2024) emphasise that digital transformation plays an important role in SME success, but many SMEs fail because they do not manage the process effectively. Therefore, SME performance in emerging economies increasingly depends on leaders who can translate digital opportunities into practical business value.

Digital leadership has emerged as a relevant leadership concept because it explains how leaders guide organisations through technology-driven change. Unlike traditional leadership approaches that focus mainly on supervision, coordination, and control, digital leadership requires leaders to develop digital vision, encourage technological learning, support innovation, and create an organisational culture that accepts change. Imran et al. (2025) found that digital leadership contributes to SME sustainability through the mediating role of digital transformation, suggesting that leaders influence performance not merely by adopting technology but by shaping how technology is used inside the organisation. Similarly, Al Issa and Omar (2025) examined digital leadership in SMEs and showed that digital capability and innovation culture are important mechanisms linking leadership to innovation performance. These findings indicate that digital leadership is especially important in emerging economies where SMEs may lack formal digital infrastructure and require stronger managerial guidance. Therefore, digital leadership can be understood as a strategic capability that enables SMEs to improve efficiency, innovation, adaptability, and sustainable performance.

Entrepreneurial leadership is also important for SME performance because SMEs usually operate in uncertain markets where leaders must identify opportunities, make fast decisions, mobilise limited resources, and encourage innovative behaviour. Entrepreneurial leadership combines opportunity-seeking, risk awareness, creativity, proactivity, and strategic influence. Kim (2024) found that digital capabilities improve entrepreneurial performance among SMEs and that entrepreneurial leadership strengthens the relationship between digital fluency, opportunity capability, and performance. This suggests that entrepreneurial leadership not only motivates employees but also helps firms convert digital knowledge into market opportunities. Alshahrani (2024) further shows that entrepreneurial orientation is linked to SME performance through innovation-related mechanisms, while Arif et al. (2025) highlight the importance of entrepreneurial ecosystems in driving SME performance, innovation, and growth. In emerging economies, entrepreneurial leadership becomes more valuable because SMEs often face resource scarcity, intense competition, and unstable market conditions. Strong entrepreneurial leaders can help SMEs remain alert to opportunities, restructure business models, and build competitive advantage.

Although digital leadership and entrepreneurial leadership are often studied separately, SME performance in emerging economies requires an integrated view of both leadership dimensions. Digital leadership helps SMEs understand and implement digital transformation, while entrepreneurial leadership helps SMEs identify opportunities and convert change into business growth. When these two forms of leadership are combined, SMEs are better positioned to develop digital

capabilities, strengthen innovation culture, improve market responsiveness, and enhance performance outcomes. Borah et al. (2022) show that social media usage and innovation capabilities can support sustainable SME performance, which indicates that digital tools only become meaningful when firms possess the capability to use them strategically. Romero (2025) also explains that SME digital transformation functions as an innovation process that affects products and processes. These studies suggest that digital transformation should not be treated as a narrow technical investment. Instead, it should be connected to leadership behaviour, entrepreneurial opportunity recognition, organisational learning, and innovation capability. This article therefore, positions integrated digital and entrepreneurial leadership as a framework for improving SME performance.

Emerging economies provide a particularly important context for this discussion because SMEs in these markets often face stronger institutional, financial, and technological challenges than firms in advanced economies. Limited access to capital, uneven digital infrastructure, skills gaps, and regulatory complexity can restrict SME growth. The World Bank (2024) reports that access to finance remains one of the main barriers for SMEs in emerging markets and developing economies, while OECD (2021) stresses that digitalisation can help SMEs access finance, training, recruitment channels, government services, and wider markets. However, these benefits are not automatic. SMEs need leaders who can manage constraints, evaluate digital investments, and develop organisational readiness. Ammeran et al. (2025) found that digital strategy, technical capability, and managerial capability significantly influence SME digitalisation in Malaysia, showing that leadership and management capability are central to transformation success. Therefore, emerging economies require leadership models that are sensitive to local constraints while still supporting competitiveness, innovation, and sustainable growth.

Recent studies increasingly show that leadership characteristics influence how firms respond to digital transformation and environmental uncertainty. Tuyen et al. (2025) found that CEO confidence, education, and forward-looking leadership characteristics affect enterprise digital transformation in Vietnam. This is relevant because SMEs in emerging economies often depend heavily on owner-managers or top leaders who directly shape strategic decisions. Agustin et al. (2026) also found that entrepreneurial leadership supports SME international performance through strategic agility and network capability, especially under environmental dynamism. These findings indicate that leadership influences SME performance through several pathways, including digital readiness, strategic flexibility, innovation capability, network building, and organisational learning. Hariyani et al. (2025) further argue that leadership plays an important role in sustainable digital transformation because leaders must connect digital vision with sustainability goals, competitiveness, and change management. Thus, integrated leadership is needed to help SMEs respond to technological disruption while maintaining strategic direction and long-term performance.

The importance of integrated leadership is further strengthened by the increasing pressure on SMEs to pursue sustainability, resilience, and innovation at the same time. SMEs are no longer evaluated only through financial performance, but also through their ability to adapt, innovate, survive disruption, and contribute to broader economic and social development. Imran et al. (2025) demonstrate that digital leadership supports SME sustainability through digital transformation, while Zaki (2025) shows that sustainable innovation in SMEs can be strengthened through strategy and advanced technological approaches. Rehman et al. (2025) also emphasise that SMEs require innovation and strategic capability to support growth and sustainability. These studies suggest that SME performance should be understood as a multidimensional outcome that includes financial growth, operational efficiency, innovation performance, market competitiveness, and long-term resilience. For this reason, leadership research must move beyond isolated leadership styles and examine how leaders combine digital capability with entrepreneurial action to produce stronger SME outcomes in emerging economies.

Despite the growing literature on digital transformation, entrepreneurial orientation, and SME performance, there remains a need for a clearer framework that integrates digital leadership and entrepreneurial leadership in one analytical model. Existing studies provide useful evidence on digital leadership, digital capability, entrepreneurial leadership, innovation culture, strategic agility, and SME sustainability, but many of these discussions remain fragmented. Kim (2024) connects digital capabilities with entrepreneurial performance, while Imran et al. (2025) link digital leadership with SME sustainability. Al Issa and Omar (2025) link digital leadership to innovation performance, and Agustin et al. (2026) link entrepreneurial leadership to international performance. However, fewer studies explain how digital and entrepreneurial leadership can jointly operate as complementary leadership capabilities for SME performance in emerging economies. This gap is important because SMEs need leaders who can think digitally and act entrepreneurially. Therefore, this article introduces an integrated framework that explains how digital leadership and entrepreneurial leadership can strengthen SME performance through digital capability, innovation culture, strategic agility, and opportunity-driven transformation.

LITERATURE REVIEW

Contemporary research on SME performance highlights leadership as a critical capability that integrates digital transformation with opportunity-driven strategies, particularly in emerging economies where firms face resource constraints and institutional challenges. Digital transformation has been widely recognised as a driver of efficiency, innovation, and competitiveness, yet its success depends on leadership that can align technological initiatives with organisational goals and foster an adaptive culture (Imran et al., 2025; OECD, 2025). In parallel, entrepreneurial leadership supports opportunity recognition, strategic agility, and proactive decision making, enabling SMEs to respond effectively to uncertainty and market changes (Kim, 2024; Agustin et al., 2026). Empirical evidence suggests that SME performance is influenced by the interaction between digital capability, innovation processes, and leadership direction rather than isolated factors (Merín Rodigáñez et al., 2025). This indicates the need for an integrated perspective that combines digital and entrepreneurial leadership to better explain SME performance outcomes in dynamic and evolving business environments.

Digital Leadership and SME Transformation

Digital leadership refers to leaders' ability to guide organisations through technological change by developing a digital vision, fostering digital learning, and aligning technology adoption with strategic objectives. In the SME context, digital leadership is especially important because many smaller firms lack specialised departments, formal digital strategies, and strong internal technological capabilities. Therefore, owners and managers often become the main drivers of digital transformation. Recent research shows that digital leadership can improve SME sustainability by encouraging digital transformation and strengthening the organisation's ability to respond to changing market demands (Imran et al., 2025). This view is consistent with broader evidence that SME digitalisation can improve productivity, innovation, market access, and competitiveness, although adoption remains uneven due to limited resources, skills gaps, and financial constraints (OECD, 2025; World Bank, 2024). Digital leadership, therefore, provides the managerial direction needed to convert digital tools into business value rather than treating technology as a separate operational investment.

The literature also shows that digital leadership affects SME transformation through internal capabilities, organisational culture, and employee readiness. Al Issa and Omar (2025) found that digital leadership contributes to SME innovation performance by fostering digital capabilities and an innovation culture. This suggests that technology alone does not lead to performance improvements unless employees understand, accept, and use digital tools in meaningful ways. Similarly, Merín Rodigáñez et al. (2025) argue that CEO expertise, digital expertise, external connectivity, and empowering leadership influence digital transformation in innovative SMEs. These findings are relevant to emerging economies because SME leaders often make most strategic decisions directly and must personally influence digital adoption. The OECD (2024) also reports that the digital gap between SMEs and larger firms continues to widen, even as adoption of digital tools increases. Therefore, the role of leadership is not only to purchase technology but also to develop digital readiness, reduce resistance, and build confidence in digital processes.

Entrepreneurial Leadership and Opportunity-Driven SME Performance

Entrepreneurial leadership explains how leaders influence organisations through opportunity recognition, innovation orientation, proactiveness, calculated risk-taking, and resource mobilisation. This leadership style is highly relevant for SMEs because smaller firms normally operate with limited resources and must compete through flexibility, creativity, and fast decision-making. In emerging economies, entrepreneurial leadership becomes even more important because firms often face unstable market conditions, weak institutional support, and strong competitive pressure. Kim (2024) shows that digital capabilities can improve entrepreneurial performance among SMEs and that entrepreneurial leadership strengthens the effect of digital fluency and opportunity capability. This means that entrepreneurial leadership helps SMEs transform knowledge and technology into practical business opportunities. Arif et al. (2025) also show that entrepreneurial ecosystems support SME performance, innovation, and growth. These studies indicate that entrepreneurial leadership is

not only a personal leadership style but also a strategic capability that helps SMEs identify opportunities and improve competitiveness.

Entrepreneurial leadership is also closely connected with strategic agility, networking capability, and international performance. Agustin et al. (2026) found that entrepreneurial leadership strengthens SME international performance through strategic agility and network capability, especially under environmental dynamism. This is important because SMEs in emerging economies frequently need to adapt quickly to changes in customer behaviour, technology, regulation, and market access. Adomako et al. (2022) similarly explain that firm-level capabilities influence strategic agility and international performance among SMEs in emerging economies. These findings show that entrepreneurial leadership supports performance by helping firms sense opportunities, reconfigure resources, and respond to market turbulence. In this sense, entrepreneurial leadership provides the behavioural and strategic foundation for SME growth. It encourages leaders to act beyond routine management and to develop opportunity-driven business models that can survive uncertainty and competition.

Digital Transformation, Innovation Capability, and SME Performance

Digital transformation is increasingly discussed as a major driver of SME performance because it changes how firms manage operations, communicate with customers, innovate products, and deliver services. However, the literature shows that the performance effects of digital transformation are often indirect and depend on organisational capabilities. Merin Rodigáñez et al. (2024) found that digital transformation improves SME performance through business model innovation, particularly among innovative SMEs. This indicates that digital transformation becomes more valuable when it supports new ways of creating, delivering, and capturing value. Bilal et al. (2025) also show that technological, organisational, and environmental factors influence digital transformation and SME innovative performance in developing economies. These findings suggest that SMEs require more than basic digital adoption. They need leaders who can connect digital tools with innovation capability, business model redesign, and customer value creation. Therefore, digital transformation should be understood as a strategic process rather than a technical upgrade.

Innovation capability is a central mechanism linking leadership, digital transformation, and SME performance. SMEs that develop innovation capability are better able to improve products, processes, services, and market responsiveness. Wang et al. (2025) found that digitalisation enhances innovation performance through dynamic relationships within organisational systems. Meier et al. (2025) also explain that SME digital transformation contributes to competitiveness through multiple perspectives, including organisational capability and strategic change. In addition, studies on SME innovation during uncertain conditions show that digital capability, digital orientation, and innovation can positively influence SME performance (Guo et al., 2020; Wang et al., 2025). These findings support the argument that SME performance depends on the interaction between leadership, digital capability, innovation culture, and strategic execution. Without the capability for innovation, digital tools may remain underused. With strong leadership, however, digital transformation can become a pathway to efficiency, competitiveness, and long-term resilience.

Integrating Digital and Entrepreneurial Leadership for SME Performance

The integration of digital leadership and entrepreneurial leadership provides a stronger theoretical foundation for understanding SME performance in emerging economies. Digital leadership explains how leaders guide technology adoption and digital transformation, while entrepreneurial leadership explains how leaders identify opportunities, mobilise resources, and drive innovation under uncertainty. When integrated, these leadership dimensions help SMEs become both technologically capable and opportunity-oriented. This integration is important because digitalisation without entrepreneurial action may only improve operational efficiency, while entrepreneurship without digital capability may limit scalability and competitiveness. The OECD (2025) emphasises that SME digitalisation can unlock competitiveness by helping firms access new markets and improve operational efficiency. However, these benefits require managerial capability, strategic alignment, and organisational readiness. Therefore, an integrated leadership framework can explain how SMEs transform digital resources into innovation, agility, and sustainable performance.

Recent literature supports the need for an integrated framework because leadership, digital capability, innovation, and agility are often connected but studied separately. Imran et al. (2025) link digital leadership to SME sustainability via digital transformation, while Agustin et al. (2026) link entrepreneurial leadership to international performance through strategic agility and network capability. Merín Rodigáñez et al. (2025) further show that CEOs' dynamic managerial capabilities influence digital transformation, while Adomako et al. (2022) demonstrate that strategic agility improves international performance in emerging-economy SMEs. These studies collectively suggest that SME performance is shaped by multiple leadership-related pathways. However, a fragmented approach may fail to explain how leaders simultaneously manage technology, opportunity, innovation, and uncertainty. Therefore, integrating digital and entrepreneurial leadership offers a more complete explanation of SME performance by connecting digital vision with opportunity creation, strategic agility, innovation capability, and resilience.

ISSUES IN INTEGRATING DIGITAL AND ENTREPRENEURIAL LEADERSHIP FOR SME PERFORMANCE IN EMERGING ECONOMIES

Digital and entrepreneurial leadership have become increasingly important for SME performance, particularly in emerging economies where firms face stronger constraints in finance, skills, technology, and market access. Although the literature shows that digital transformation can improve efficiency, innovation, and competitiveness, many SMEs still struggle to convert digital adoption into measurable business performance. This problem occurs because technology use alone does not guarantee strategic value unless leaders are able to align digital tools with business objectives, employee capability, and opportunity recognition. Recent studies indicate that SME performance depends on the interaction between digital capability, entrepreneurial leadership, innovation culture, and strategic agility rather than one isolated factor (Kim & Jin, 2024; Merín-Rodrigáñez et al., 2024; Bilal et al., 2025). However, several unresolved issues remain in integrating digital and entrepreneurial leadership. These issues include weak digital readiness, limited leadership capability, fragmented innovation practices, and structural barriers in emerging economies. The following section discusses four major issues that directly affect the proposed framework for SME performance.

Limited Digital Readiness and Uneven Technology Adoption among SMEs

One major issue affecting SME performance is limited digital readiness, especially among firms operating in emerging economies. Digital transformation is often presented as a pathway to productivity, innovation, and competitiveness, yet many SMEs struggle to adopt digital technologies effectively due to financial constraints, inadequate infrastructure, limited digital skills, and low organisational readiness. The OECD (2025) reports that SME digital maturity remains uneven, even in advanced economies, suggesting the challenge is likely to be more serious in emerging markets. Similarly, the World Bank (2024) highlights that SMEs in emerging markets and developing economies face a large financing gap, which limits their ability to invest in digital tools, skilled workers, and process improvement. This creates a performance gap between SMEs that can use digital technology strategically and those that adopt digital tools only at a basic operational level. As a result, digital transformation becomes fragmented, reactive, and poorly connected to long-term business strategy.

This issue is important because digital adoption does not automatically produce better SME performance. Merín-Rodrigáñez et al. (2024) found that digital transformation improves SME performance when it is supported by business model innovation, meaning that digital tools must be connected to value creation and strategic renewal. Bilal et al. (2025) also show that technological, organisational, and environmental factors influence SME digital transformation and innovative performance in developing economies. These findings indicate that SMEs need internal readiness before digital transformation can deliver meaningful outcomes. Without proper leadership, digital investments may become underused, disconnected from customer needs, or unable to support innovation. Therefore, limited digital readiness is not only a technological issue but also a strategic leadership issue. SME leaders must understand how to evaluate digital needs, prioritise investment, support employee learning, and connect technology adoption with entrepreneurial opportunities. This issue

creates a strong justification for integrating digital leadership with entrepreneurial leadership in SME performance research.

Weak Leadership Capability in Managing Digital Transformation

A second issue concerns weak leadership capability in managing digital transformation. Many SMEs are led by owner-managers who possess strong practical business experience but may lack the digital knowledge, strategic planning skills, or transformational leadership capability required to manage technology-driven change. Digital leadership requires more than the ability to use digital tools. It involves creating a digital vision, encouraging experimentation, managing resistance, supporting employee learning, and aligning digital change with organisational goals. Imran et al. (2025) found that digital leadership supports SME sustainability through digital transformation, while Al Issa and Omar (2025) show that digital leadership improves innovation performance through digital capability and innovation culture. These studies suggest that leadership capability is a central condition for successful SME transformation. However, when leaders lack digital confidence or strategic direction, SMEs may adopt technology without clear objectives, leading to poor integration, employee confusion, and limited performance gains.

Leadership capability is also important because digital transformation requires leaders who are forward-looking and willing to make strategic decisions under uncertainty. Tuyen et al. (2025) found that CEO confidence, education, and forward-looking characteristics significantly influence enterprise digital transformation in Vietnam. This evidence indicates that leadership characteristics affect whether firms move beyond routine operations toward more advanced transformation. In SMEs, this issue becomes more serious because strategic authority is often concentrated in a small number of leaders. If these leaders are not digitally competent, the whole organisation may fail to develop digital readiness. Kahveci (2025) also shows that SME digital transformation depends on interconnected enablers rather than single factors, meaning that leaders must coordinate technology, people, processes, and strategy. Therefore, weak leadership capability creates a serious barrier to SME performance. It prevents digital transformation from becoming a strategic process and limits SMEs' ability to compete in fast-changing markets.

Insufficient Integration between Entrepreneurial Leadership and Innovation Capability

A third issue is the insufficient integration between entrepreneurial leadership and innovation capability. Entrepreneurial leadership is important because it helps SMEs recognise opportunities, act proactively, mobilise limited resources, and respond to market changes. However, many SMEs still treat innovation as an informal or occasional activity rather than a structured capability. This creates a gap between entrepreneurial intention and actual innovation performance. Kim and Jin (2024) found that digital capabilities improve entrepreneurial performance in SMEs, with opportunity capability acting as an important mechanism. This means that entrepreneurial leadership must be supported by the ability to identify, evaluate, and exploit opportunities. Agustin et al. (2026) also show that entrepreneurial leadership improves SME international performance through strategic agility and network capability. These findings indicate that entrepreneurial leadership needs to be connected with innovation processes, digital capability, and external networks. Without this integration, SMEs may show entrepreneurial ambition but fail to convert ideas into sustainable performance.

This issue is especially relevant in emerging economies because SMEs frequently operate in uncertain environments where innovation is necessary but difficult to sustain. Adomako et al. (2022) found that firm level capabilities influence strategic agility and international performance among SMEs in emerging economies. This suggests that entrepreneurial leadership alone is not enough unless firms possess internal capabilities that allow them to adapt and innovate. Wang et al. (2025) further argue that digitalisation can support innovation performance, but the outcome depends on dynamic organisational relationships. Therefore, SMEs must connect entrepreneurial leadership with digital tools, employee creativity, learning routines, and customer insight. When

innovation capability remains weak, entrepreneurial leadership may become reactive rather than strategic. Leaders may identify opportunities but lack the systems needed to develop new products, improve services, or redesign business models. This issue supports the need for a framework that integrates digital leadership and entrepreneurial leadership as complementary forces for SME innovation and performance.

Structural Constraints in Emerging Economies and the Leadership Performance Gap

A fourth issue concerns structural constraints in emerging economies that create a leadership performance gap for SMEs. Unlike large firms, SMEs usually have limited access to financing, skilled labour, technology infrastructure, professional networks, and formal advisory support. These constraints reduce their ability to invest in digital transformation and innovation. The World Bank (2024) reports that SMEs in emerging markets and developing economies face a financing gap of approximately US\$5.7 trillion, which affects their ability to grow, innovate, and create employment. The IFC also identifies access to finance as a major obstacle for MSMEs in emerging markets and developing economies. These structural barriers mean that SME leaders must make strategic decisions under conditions of scarcity. Even when leaders understand the importance of digital transformation and entrepreneurial innovation, they may lack the resources needed to implement change effectively. This creates a gap between leadership intention and actual performance outcomes.

Structural constraints also affect the way SMEs respond to shocks, market instability, and technological disruption. The OECD (2024) explains that SME digitalisation can help firms manage shocks and transitions, but many SMEs remain constrained by capability gaps, resource limitations, and uneven access to digital tools. ERIA (2024) also highlights the importance of sustainable growth and digitalisation for ASEAN SMEs, indicating that regional policy environments continue to play a key role in SME development. These findings show that leadership effectiveness cannot be separated from context. In emerging economies, SME leaders must not only manage internal change but also navigate external barriers such as weak institutions, uncertain regulations, financing limitations, and digital divides. Therefore, the leadership performance gap occurs when leaders are expected to deliver digital transformation and entrepreneurial growth without sufficient ecosystem support. This issue strengthens the argument that SME performance requires an integrated leadership framework that considers both internal capability and external constraints.

INTEGRATING DIGITAL AND ENTREPRENEURIAL LEADERSHIP FOR SME PERFORMANCE

The issues identified in this article show that SME performance in emerging economies cannot be explained through digital adoption alone. A more convincing explanation requires attention to leadership capability, entrepreneurial behaviour, innovation processes, and contextual constraints. Digital readiness, leadership competence, innovation capability, and structural limitations are interconnected conditions that shape how SMEs transform resources into performance outcomes. Recent studies suggest that digital leadership improves SME innovation and sustainability when it is supported by digital capability, innovation culture, and organisational transformation (Imran et al., 2025; Al Issa & Omar, 2025). At the same time, entrepreneurial leadership strengthens strategic agility, network capability, and opportunity recognition, which are necessary for SMEs operating under uncertainty (Kim & Jin, 2024; Agustin et al., 2026). Therefore, the discussion argues that digital and entrepreneurial leadership should be viewed as complementary capabilities. Digital leadership provides technological direction, while entrepreneurial leadership converts technological change into opportunity, innovation, and competitive advantage. This integrated view is particularly relevant in emerging economies where SMEs face resource scarcity, financing barriers, and uneven digital infrastructure.

Digital Readiness as a Leadership-Driven Capability

Limited digital readiness remains one of the most important barriers affecting SME performance. Many SMEs adopt digital tools for basic functions such as online communication, payment systems, and social media marketing, but they often fail to integrate these tools into broader business models. OECD (2025) reports that SME digital maturity remains uneven

across firms, suggesting that technology access does not automatically create competitiveness. This supports the argument by Vial (2019), who explains that digital transformation requires organisational change rather than isolated technology adoption. In SMEs, digital readiness depends heavily on leadership because leaders decide whether digital tools are used only for daily operations or developed into a strategic capability. When leaders lack digital vision, adoption becomes fragmented and short term. However, when leaders understand digital transformation as a business renewal process, technology can support better decision making, customer engagement, process efficiency, and innovation. This means that digital readiness should be discussed as a leadership driven organisational capability rather than a purely technical condition.

The relationship between digital readiness and SME performance is also shaped by resource constraints. SMEs in emerging economies often face limited access to finance, shortage of digital talent, and weak infrastructure, making digital transformation more difficult than in large firms. The World Bank (2024) highlights that financing remains a major obstacle for SMEs in emerging market and developing economies. This financial limitation affects the ability of SMEs to invest in digital systems, employee training, cybersecurity, and data analytics. Bilal et al. (2025) found that technological, organisational, and environmental conditions influence SME digital transformation and innovation performance in developing economies. This finding supports the view that readiness must be understood across multiple dimensions, including technology availability, employee capability, managerial commitment, and market pressure. Digital leadership becomes important because leaders must prioritise limited resources, select appropriate digital tools, and build internal confidence. Therefore, SME leaders must make strategic choices that balance affordability, usability, and long term value creation.

Leadership Capability and the Management of Digital Transformation

The issue of weak leadership capability shows that digital transformation is not only a matter of technology but also a matter of managerial direction. Digital leadership requires leaders to communicate a clear vision, encourage learning, manage resistance, and connect digital initiatives with business objectives. Imran et al. (2025) found that digital leadership supports SME sustainability through digital transformation, while Al Issa and Omar (2025) show that digital leadership influences innovation performance through digital capability and innovation culture. These findings indicate that leaders influence both the technical and behavioural sides of transformation. This is consistent with dynamic capability theory, which argues that firms must sense opportunities, seize them, and reconfigure resources to remain competitive (Teece, 2007). In SMEs, leaders are often directly involved in decision-making, resource allocation, and employee supervision. Therefore, leadership capability is a central factor in whether digital transformation produces meaningful performance improvements or remains a superficial adoption exercise.

Leadership capability also determines how SMEs manage organisational resistance and employee readiness. Digital transformation frequently changes work routines, decision-making patterns, and customer interaction methods. Employees may resist digital systems if they feel unprepared, excluded, or uncertain about the benefits. Kane et al. (2019) argue that digital maturity depends not only on technology but also on talent, culture, and leadership. Matarazzo et al. (2021) similarly found that digital transformation in SMEs requires changes in market orientation, customer interaction, and managerial mindset. These arguments suggest that digital leadership must create psychological readiness and operational clarity. Leaders need to explain why digital change matters, provide appropriate training, and involve employees in implementation. Without these efforts, digital transformation may increase confusion rather than improve performance. Thus, digital leadership should be understood as a practical capability for aligning people, processes, and technology to support organisational learning and performance growth.

Entrepreneurial Leadership, Innovation Capability, and Strategic Agility

Entrepreneurial leadership addresses how SMEs translate digital transformation into innovation and opportunity. Digital tools may improve access to information, customers, and markets, but performance improvement depends on whether leaders can identify opportunities and act strategically. Kim and Jin (2024) show that digital capabilities improve entrepreneurial performance when supported by opportunity capability. Agustin et al. (2026) found that entrepreneurial

leadership improves SME international performance through strategic agility and network capability. These findings indicate that entrepreneurial leadership transforms digital resources into market action. This is especially important in emerging economies where SMEs cannot depend only on financial strength or large scale operations. Instead, they must compete through speed, creativity, customer understanding, and flexible responses. Entrepreneurial leaders help firms explore new products, redesign services, develop partnerships, and enter new markets. Therefore, entrepreneurial leadership complements digital leadership by ensuring that technology is not merely adopted but used to create new forms of value.

Innovation capability functions as the bridge between leadership and SME performance. Without innovation capability, entrepreneurial ideas may remain informal and digital technologies may remain underused. Merín Rodigáñez et al. (2024) found that digital transformation improves SME performance through business model innovation, indicating that digital change becomes valuable when it supports new ways of creating and delivering value. Wang et al. (2025) also suggest that digitalisation can strengthen innovation performance when organisational systems support dynamic interaction. This supports the view of Nambisan et al. (2017), who argue that digital technologies reshape entrepreneurship by enabling new forms of innovation and value creation. In SMEs, innovation capability may involve product improvement, service redesign, digital marketing, customer relationship management, or operational process enhancement. Entrepreneurial leadership is needed to motivate experimentation, while digital leadership provides the technological direction. Therefore, integrated leadership enables SMEs to move from basic adoption toward innovation based performance improvement.

Strategic agility further strengthens the connection between entrepreneurial leadership and performance. SMEs in emerging economies operate in environments affected by inflation, changing customer behaviour, digital competition, supply chain disruption, and regulatory uncertainty. Strategic agility allows SMEs to adjust quickly without losing strategic focus. Adomako et al. (2022) found that firm level capabilities influence strategic agility and international performance among SMEs in emerging economies. Agustin et al. (2026) also showed that strategic agility mediates the relationship between entrepreneurial leadership and international performance. These findings suggest that leadership improves performance by enabling SMEs to sense change, reallocate resources, and respond faster than competitors. Digital leadership supports agility by improving access to data and communication tools, while entrepreneurial leadership supports agility by encouraging proactive action and opportunity exploitation. Therefore, SME performance improves when leaders combine digital intelligence with entrepreneurial judgement. This integrated capability is especially valuable in markets where uncertainty is high and resources are limited.

CONTEXTUAL CONSTRAINTS AND THE NEED FOR AN INTEGRATED LEADERSHIP FRAMEWORK

The discussion of structural constraints shows that SME leadership cannot be separated from the wider environment. Emerging economies often face barriers such as limited access to financing, limited institutional support, digital divides, skill shortages, and uneven market infrastructure. These constraints affect SMEs' ability to implement digital transformation and pursue entrepreneurial growth. The World Bank (2024) identifies access to finance as a persistent barrier for SMEs, while OECD (2025) emphasises that SME digitalisation requires support in skills, cybersecurity, platform access, and digital maturity. This means that SME leaders must operate under conditions more restrictive than those faced by larger firms or firms in advanced economies. Integrated leadership is therefore necessary because leaders must simultaneously manage internal capability and external limitations. Digital leadership helps firms use available technologies effectively, while entrepreneurial leadership helps firms overcome constraints through opportunity recognition, networking, and adaptive strategies.

An integrated leadership framework also provides a stronger explanation of SME performance by connecting multiple theoretical perspectives. The resource-based view suggests that firms gain an advantage from valuable, inimitable resources (Barney, 1991), while dynamic capability theory explains how firms adapt these resources in changing environments (Teece, 2007). Research on entrepreneurial orientation highlights proactivity, innovativeness, and risk-taking as drivers of firm performance (Lumpkin & Dess, 1996). Digital transformation research adds that digital

technologies reshape business models, processes, and customer value (Vial, 2019; Kraus et al., 2022). When combined, these perspectives suggest that SME performance depends on both digital resources and entrepreneurial action. Digital leadership develops the firm's technological and cultural readiness, while entrepreneurial leadership activates opportunity seeking and strategic renewal. Therefore, the proposed framework is theoretically meaningful because it integrates leadership behaviour, digital capability, innovation capability, and strategic agility into one performance explanation.

The integration of digital and entrepreneurial leadership also contributes to the practical understanding of SME development. Many SME policies focus on financing, digital infrastructure, and training, but these interventions may have limited impact if leadership capability is weak. SME leaders must understand not only which technologies are available but also how they can support customer value, operational improvement, and market expansion. OECD (2025) shows that SMEs differ significantly in digital maturity, meaning that a one-size-fits-all approach may not work for all firms. Similarly, Bilal et al. (2025) show that digital transformation depends on technological, organisational, and environmental conditions. These findings suggest that SME support programmes should include leadership development, digital strategy training, innovation coaching, and entrepreneurial capability building. For business owners, the implication is clear. Digital tools should not be adopted merely because they are popular. They should be selected and implemented according to business goals, customer needs, employee capability, and growth strategy.

Strengthening SME Performance through Integrated Digital and Entrepreneurial Leadership in Emerging Economies

The discussion on current issues highlights that SMEs in emerging economies face interconnected challenges related to digital readiness, leadership capability, innovation integration, and structural constraints. Addressing these challenges requires a coordinated and strategic response that goes beyond isolated interventions. Leadership must be positioned as a central mechanism to align digital transformation with entrepreneurial action, enabling SMEs to translate technological adoption into measurable performance outcomes. Recent studies emphasise that SME success depends on the ability to combine digital capability, innovation processes, and strategic agility within a coherent leadership framework (Imran et al., 2025; Kim & Jin, 2024). Furthermore, the OECD (2025) and the World Bank (2024) underscore the need for capability development, digital skills enhancement, and institutional support to improve SME competitiveness. Therefore, this section proposes a set of strategic suggestions that directly respond to the identified issues, focusing on leadership development, digital capability enhancement, innovation integration, and ecosystem support. These suggestions aim to provide both a theoretical contribution and a practical direction for improving SME performance in emerging economies.

Strengthening Digital Leadership Capability through Structured Development

A primary recommendation is to develop structured digital leadership capabilities among SME owners and managers. The issue of weak leadership capability indicates that many SMEs adopt digital tools without a clear strategic direction, resulting in limited performance improvement. Digital leadership must be developed as a formal capability that includes digital awareness, strategic thinking, data-driven decision-making, and change management. Imran et al. (2025) demonstrate that digital leadership supports SME sustainability through digital transformation, while Al Issa and Omar (2025) highlight its role in enhancing innovation performance. These findings suggest that leadership development programmes should focus not only on technical skills but also on strategic alignment and organisational transformation.

Practical implementation can involve targeted training programmes, executive education, and digital mentoring initiatives designed specifically for SMEs. Governments and institutions can collaborate with universities and industry experts to provide customised digital leadership modules. Ahmad (2025) emphasises that leadership training significantly improves organisational adaptability and decision quality in SMEs. In addition, Zarah et al. (2025) argue that leadership capability development is essential for digital transformation success in emerging markets. Therefore, structured leadership development can help SME leaders understand how to prioritise digital investments, manage organisational change, and build a culture that supports innovation and continuous learning.

Enhancing Digital Readiness and Strategic Technology Adoption

Improving digital readiness is essential for ensuring that SMEs can effectively utilise digital tools to enhance performance. The issue of uneven digital adoption shows that many SMEs remain at a basic level of digital maturity, limiting their ability to compete in technology driven markets. OECD (2025) highlights that SMEs require support in digital skills, cybersecurity, and platform usage to improve competitiveness. Similarly, the World Bank (2024) identifies financial constraints as a major barrier to digital investment. Therefore, improving digital readiness requires both internal capability development and external support mechanisms.

SMEs should adopt a phased approach to digital transformation, starting with foundational technologies and gradually progressing toward more advanced systems such as data analytics and digital platforms. Bilal et al. (2025) show that digital transformation outcomes depend on technological, organisational, and environmental factors, indicating that SMEs must align technology adoption with internal capacity. Zainuddin et al. (2025) further emphasise that digital readiness improves organisational efficiency and innovation performance. To support this process, policymakers should provide financial incentives, grants, and digital infrastructure development to reduce the cost burden for SMEs. By improving digital readiness, SMEs can enhance operational efficiency, customer engagement, and market access, thereby strengthening overall performance.

Integrating Entrepreneurial Leadership with Innovation Capability

Another important suggestion is the integration of entrepreneurial leadership with structured innovation capability. The issue of insufficient integration of innovation indicates that SMEs often possess entrepreneurial intention but lack the systems needed to translate ideas into performance outcomes. Entrepreneurial leadership must therefore be supported by formal innovation processes, including product development, service improvement, and business model redesign. Kim and Jin (2024) show that opportunity capability mediates the relationship between digital capability and entrepreneurial performance, while Agustin et al. (2026) demonstrate that entrepreneurial leadership improves SME performance through strategic agility and network capability.

To address this issue, SMEs should establish internal mechanisms that support innovation, such as cross-functional teams, idea evaluation processes, and customer feedback systems. Wang et al. (2025) highlight that innovation performance is strengthened by dynamic organisational interaction, suggesting that SMEs must create environments that encourage collaboration and learning. Zulkifli et al. (2025) further argue that SMEs in emerging economies need structured innovation strategies to remain competitive. Educational institutions and industry bodies can support SMEs by providing innovation training, facilitating research collaborations, and offering access to new technologies. By integrating entrepreneurial leadership with innovation capability, SMEs can transform digital resources into a competitive advantage and sustainable growth.

Strengthening Institutional and Ecosystem Support for SME Development

The final recommendation focuses on strengthening institutional and ecosystem support to reduce structural constraints faced by SMEs in emerging economies. The discussion shows that leadership effectiveness is influenced not only by internal capability but also by external conditions such as access to finance, infrastructure, and policy support. The World Bank (2024) reports a significant financing gap for SMEs, while OECD (2025) highlights the need for policy frameworks that support digital transformation and innovation. Therefore, improving SME performance requires coordinated efforts from governments, financial institutions, and industry stakeholders.

Policy interventions should include improved access to financing, development of digital infrastructure, and support for entrepreneurial ecosystems. Rehman et al. (2025) emphasise that SMEs require innovation and strategic capability to support sustainable growth, while Zafar et al. (2025) highlight the importance of ecosystem support in enhancing SME

resilience. Governments can also promote public-private partnerships to provide training, mentoring, and technology transfer opportunities for SMEs. Additionally, regulatory frameworks should be simplified to reduce administrative burdens and encourage business growth. By strengthening the external environment, SMEs can better leverage internal leadership capabilities to achieve performance outcomes.

Overall, these suggestions provide a comprehensive response to the issues identified in the study. Strengthening digital leadership, improving digital readiness, integrating entrepreneurial leadership with innovation capability, and enhancing ecosystem support collectively contribute to SME performance in emerging economies. These recommendations align with current research that emphasises the importance of leadership, digital transformation, and innovation in driving organisational success. By implementing these strategies, SMEs can improve competitiveness, resilience, and long-term sustainability in increasingly complex and dynamic business environments.

CONCLUSION

The study demonstrates that SME performance in emerging economies is strongly influenced by firms' ability to integrate digital transformation with entrepreneurial leadership practices. The analysis across all sections shows that digital adoption alone does not guarantee improved performance outcomes. Instead, the effectiveness of digital initiatives depends on how leaders align technological capability with opportunity recognition, innovation processes, and strategic agility. Digital leadership provides the direction for technological integration and organisational change, while entrepreneurial leadership enables SMEs to transform these capabilities into competitive advantage, market responsiveness, and long-term sustainability. This integrated perspective offers a more comprehensive explanation of SME performance compared to traditional approaches that examine leadership dimensions separately.

The findings also highlight several persistent challenges that continue to constrain SME growth, including limited digital readiness, weak leadership capability, fragmented innovation practices, and structural barriers such as restricted access to finance and infrastructure. These challenges are interconnected and require coordinated solutions rather than isolated interventions. Leadership emerges as a central mechanism in addressing these issues, as it shapes organisational culture, guides transformation processes, and supports innovation-driven behaviour. SMEs that develop both digital and entrepreneurial leadership capabilities are better positioned to adapt to environmental changes, improve operational efficiency, and enhance overall competitiveness. This reinforces the importance of leadership as a strategic organisational resource that influences both internal capability development and external performance outcomes.

From a theoretical standpoint, the study contributes by integrating digital transformation, entrepreneurial leadership, dynamic capability, and resource-based perspectives into a unified framework. This integration addresses the gap in existing literature where these concepts are often examined independently. The proposed framework explains how SME performance is shaped through the interaction of leadership capability, digital readiness, innovation capability, and contextual conditions. This provides a more holistic understanding of how SMEs operate in complex and uncertain environments, particularly in emerging economies where constraints are more pronounced.

From a practical perspective, the study emphasises the need for SME leaders to move beyond basic digital adoption and focus on strategic implementation that supports innovation and the creation of opportunities. Continuous learning, capability development, and organisational alignment are necessary to ensure that digital transformation delivers meaningful value. Policymakers and supporting institutions also play a crucial role in enhancing SME performance by improving access to finance, strengthening digital infrastructure, and providing leadership development programmes that combine digital and entrepreneurial competencies. These efforts can help SMEs overcome structural limitations and improve their ability to compete in dynamic markets.

Overall, strengthening SME performance requires an integrated leadership approach that combines digital capability with entrepreneurial action. This approach enables SMEs to respond effectively to technological change, market uncertainty, and resource constraints while building resilience and sustaining long term growth. Future research may extend this

framework by examining additional mediating factors such as network capability, organisational learning, and ecosystem support to further enhance understanding of SME performance in emerging economies.

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CONFLICT OF INTEREST

The author declares no conflicts of interest regarding the publication of this article. The author confirms that this study was conducted independently and without any financial, commercial, or personal relationships that could have influenced the research findings, analysis, or interpretation presented in this study.

AUTHOR CONTRIBUTION STATEMENT

Author 1, Mohamed Suhaimi Yusof, solely contributed to the conceptualization, framework development, literature review, analysis, writing, editing, and final approval of the manuscript.

ETHICS STATEMENT

This article is a conceptual study developed through the analysis and synthesis of existing literature related to digital leadership, entrepreneurial leadership, innovation capability, and SME performance in emerging economies. All references, theories, and scholarly sources used in this study were properly acknowledged and cited in accordance with accepted academic and publication ethics. The study did not involve human participants, confidential organisational information, or primary data collection requiring formal ethical approval.

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