

RECONFIGURING BUSINESS STRATEGY THROUGH DIGITALIZATION: THE ROLE OF SOCIAL CAPITAL IN DRIVING CORPORATE SUSTAINABILITY AND EMPLOYEE BEHAVIOR

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Abstract

This study develops a theoretical framework to explain how digitalization reconfigures business strategy and enables corporate sustainability through the mobilization of social capital and the transformation of employee behavior. Drawing on the intersections of strategic management, sustainability, and organizational behavior, the paper conceptualizes digitalization not merely as a technological upgrade but as a strategic enabler that reshapes value creation processes. It argues that social capital—embedded in networks, trust, and shared norms—acts as a critical mediating mechanism through which digitalized strategies influence sustainability outcomes. Furthermore, the study highlights the microfoundations of strategy by examining how employee behavior, including adaptability, collaboration, and pro-sustainability engagement, is shaped within digitally enabled environments. By integrating macro-level strategic shifts with micro-level behavioral dynamics, the framework offers a comprehensive perspective on achieving sustainable competitive advantage. The paper contributes to theory by bridging gaps between digital transformation and sustainability literature while incorporating social capital as a strategic resource. It also provides practical insights for managers seeking to align digital initiatives with sustainability goals through fostering strong social networks and positive employee behaviors.

INTRODUCTION

The rapid advancement of digital technologies has fundamentally transformed how organizations design and execute business strategy. Digitalization, encompassing technologies such as artificial intelligence, big

data analytics, and cloud computing, has shifted strategic priorities from efficiency-driven models toward innovation, agility, and sustainability-oriented value creation (Bharadwaj et al., 2013; Verhoef et al., 2021; Fahim et al., 2020). Contemporary organizations are no longer competing solely on traditional resources but are

increasingly leveraging digital capabilities to create dynamic, adaptive strategies that respond to evolving stakeholder expectations. In this context, corporate sustainability has emerged as a central strategic objective, requiring firms to integrate environmental, social, and economic considerations into their core decision-making processes (George et al., 2021).

Despite the growing convergence between digitalization and corporate sustainability, the mechanisms through which digital strategies translate into sustainable outcomes remain underexplored. Recent studies suggest that digital transformation can enhance transparency, optimize resource utilization, and enable sustainable innovation (Kraus et al., 2022; Vial, 2019). However, the effectiveness of these transformations is contingent upon intangible organizational resources, particularly social capital. Social capital, defined by networks, trust, and shared norms within and across organizations, facilitates knowledge exchange, collaboration, and coordinated action, which are essential for achieving sustainability objectives (Nahapiet & Ghoshal, 1998; Lee, 2021). Therefore, integrating social capital into the digitalization-sustainability nexus provides a more nuanced understanding of strategic outcomes.

At the micro level, employee behavior plays a critical role in operationalizing digital strategies and sustainability initiatives. Digitalization reshapes work environments by fostering collaboration, enhancing communication, and promoting continuous learning, thereby influencing employee attitudes and behaviors (Tarafdar et al., 2019; Belhadi et al., 2021). Employees act as key agents in implementing sustainable practices, and their engagement, adaptability, and pro-environmental behaviors are vital for translating strategic intentions into tangible outcomes (Fatima, Iqbal & Ahmed, 2023). However, existing research often treats employee behavior as a peripheral factor, overlooking its central role in linking digital transformation and sustainability performance.

Moreover, the integration of social capital and employee behavior within digitalized business strategy remains fragmented in the literature (Iqbal, Omercic & Bukhari, 2024). While prior research has examined these constructs independently, there is limited theoretical integration that explains how social capital mediates the relationship between digital strategy and sustainability, and how employee behavior acts as a reinforcing mechanism. Emerging perspectives in strategic management emphasize the importance of microfoundations, suggesting that organizational outcomes are deeply rooted in individual and collective behaviors (Felin et al., 2015; Foss & Pedersen, 2019; Fareed & Iqbal, 2024). This highlights the need for a comprehensive framework that captures both structural and behavioral dimensions of digital transformation.

In response to these gaps, this study proposes an integrated theoretical framework that reconfigures business strategy through digitalization by incorporating social capital and employee behavior as central mechanisms driving corporate sustainability. By bridging macro-level strategic perspectives with micro-level behavioral insights (Hassan et al., 2021), the study contributes to the literature by offering a holistic understanding of how digitalization can be leveraged for sustainable value creation. Furthermore, it provides actionable implications for organizations aiming to align their digital initiatives with sustainability goals through the effective utilization of social capital and the promotion of positive employee behaviors.

Problem Statement

The accelerating pace of digitalization has compelled organizations to rethink and reconfigure their business strategies to remain competitive in increasingly dynamic environments. While digital technologies offer unprecedented opportunities for innovation, efficiency, and scalability, their integration into strategic frameworks often lacks alignment with corporate sustainability objectives (Verhoef et al., 2021; Vial, 2019). Many firms adopt digital

initiatives primarily for economic gains, overlooking their potential to foster environmental and social value creation. This misalignment creates a critical gap in understanding how digitalization can be strategically leveraged to achieve sustainable outcomes. Furthermore, existing research tends to emphasize technological capabilities while underestimating the role of relational and behavioral factors that influence the success of digital transformation initiatives (Kraus et al., 2022).

Another key issue lies in the limited integration of social capital and employee behavior within the digitalization–strategy–sustainability nexus. Social capital, characterized by trust, networks, and shared norms, plays a pivotal role in facilitating collaboration and knowledge sharing, yet its strategic importance in digital environments remains underexplored (Nahapiet & Ghoshal, 1998; Lee, 2021). Simultaneously, employee behavior is central to the execution of both digital strategies and sustainability initiatives, as employees translate strategic intent into practice through their actions and engagement (Felin et al., 2015; Belhadi et al., 2021). However, prior studies have largely treated these elements in isolation, failing to provide a comprehensive framework that explains how digitalization interacts with social capital and employee behavior to drive corporate sustainability.

Research Statement

This study aims to develop an integrated theoretical framework that explains how digitalization reconfigures business strategy to achieve corporate sustainability, emphasizing the mediating role of social capital and the enabling role of employee behavior. By bridging macro-level strategic perspectives with micro-level behavioral dynamics, the research seeks to advance understanding of the mechanisms through which digital transformation contributes to sustainable value creation. It further positions social capital as a critical strategic resource and employee behavior as a key microfoundation in

the digitalized sustainability paradigm (George et al., 2021; Foss & Pedersen, 2019).

Significance

This research offers significant theoretical and practical contributions by integrating business strategy, digitalization, corporate sustainability, social capital, and employee behavior into a unified framework. Theoretically, it advances strategic management literature by addressing the fragmented understanding of digital transformation and sustainability, while incorporating microfoundational perspectives that highlight the role of individuals and social structures in shaping organizational outcomes (Felin et al., 2015; Foss & Pedersen, 2019). By positioning social capital as a mediating mechanism and employee behavior as an enabling factor, the study provides a novel lens for examining sustainable strategic transformation. Additionally, it contributes to the growing discourse on digital sustainability by explaining how intangible resources can enhance the effectiveness of digital initiatives (George et al., 2021).

From a practical standpoint, the research provides actionable insights for managers and policymakers seeking to align digital strategies with sustainability goals. It emphasizes the importance of fostering strong social networks, trust-based relationships, and collaborative cultures to maximize the benefits of digitalization. Moreover, it highlights the need to cultivate adaptive and sustainability-oriented employee behaviors to ensure successful strategy execution. In doing so, the study supports organizations in achieving long-term competitive advantage while addressing pressing global sustainability challenges (Kraus et al., 2022; Verhoef et al., 2021).

Research Question

The following are some research questions:

- How does digitalization influence the reconfiguration of business strategy toward corporate sustainability?

- What role does social capital play in mediating the relationship between digitalization and corporate sustainability?
- How does employee behavior contribute to the successful implementation of digitalized sustainable business strategies?
- How do social capital and employee behavior interact to enhance sustainability outcomes in digitally transformed organizations?

LITERATURE REVIEW

Digitalization has emerged as a transformative force reshaping contemporary business strategy, enabling firms to transition from traditional, rigid strategic models to more agile and innovation-driven approaches. Scholars argue that digital technologies redefine value creation by integrating data-driven insights, enhancing connectivity, and fostering real-time decision-making capabilities (Verhoef et al., 2021). This shift has led to the evolution of digital business strategy as a distinct domain, where organizations strategically align technological investments with long-term objectives to sustain competitive advantage (Bharadwaj et al., 2013). As a result, digitalization is no longer a supportive function but a central driver of strategic renewal.

The growing importance of digitalization has also influenced the integration of corporate sustainability into strategic agendas (Iqbal & Omercic, 2024). Corporate sustainability, which encompasses environmental stewardship, social responsibility, and economic performance, is increasingly viewed as a strategic imperative rather than a compliance requirement (George et al., 2021; Nawaz et al., 2022). Digital tools enable organizations to monitor environmental impacts, optimize resource utilization, and develop sustainable business models. Consequently, the convergence of digitalization and sustainability is gaining traction, as firms seek to balance profitability with broader societal goals (Kraus et al., 2022).

Despite these advancements, the pathways through which digitalization contributes to corporate sustainability remain complex and multifaceted. Digital transformation facilitates

transparency and accountability, which are critical for sustainability reporting and stakeholder engagement (Vial, 2019). However, achieving meaningful sustainability outcomes requires more than technological adoption; it necessitates the alignment of organizational resources, capabilities, and culture. This highlights the need to explore mediating factors that influence the digitalization-sustainability relationship.

Social capital has been identified as a crucial intangible resource that enhances organizational performance and innovation. Defined by networks, trust, and shared norms, social capital facilitates knowledge sharing and collaborative problem-solving (Nahapiet & Ghoshal, 1998). In the context of digitalization, social capital becomes even more significant, as digital platforms rely on interconnected networks and trust-based interactions to function effectively. Organizations with strong social capital are better positioned to leverage digital technologies for sustainable outcomes (Lee, 2021).

Recent research suggests that social capital plays a mediating role in linking digital transformation and organizational outcomes. Digital technologies enhance communication and connectivity, thereby strengthening relational ties and enabling the flow of information across organizational boundaries (Kraus et al., 2022). This increased connectivity fosters collaboration and innovation, which are essential for addressing sustainability challenges. Thus, social capital serves as a bridge that translates digital capabilities into sustainable value creation.

At the micro level, employee behavior is a critical determinant of the success of digital and sustainability initiatives. Employees are the primary agents responsible for implementing strategies and adapting to technological changes. Digitalization influences employee behavior by reshaping work processes, enhancing communication, and promoting continuous learning (Tarafdar et al., 2019). These changes can lead to increased employee engagement and innovation, which are vital for achieving sustainability objectives.

The concept of microfoundations provides a useful lens for understanding the role of employee behavior in strategic outcomes. Microfoundations theory emphasizes that organizational capabilities and performance are rooted in individual actions and interactions (Felin et al., 2015). In the context of digitalization, employee behaviors such as adaptability, collaboration, and pro-environmental actions are critical for translating strategic intentions into practice. Therefore, integrating employee behavior into the digitalization-sustainability framework enhances its explanatory power (Rizvi et al., 2025).

Furthermore, digitalization has been shown to influence employee attitudes and well-being, which in turn affect organizational performance. While digital tools can improve efficiency and flexibility, they may also lead to challenges such as technostress and work overload (Tarafdar et al., 2019). Managing these challenges is essential to ensure that digital transformation positively impacts employee behavior and supports sustainability goals. Organizations must adopt strategies that promote a supportive work environment and foster positive behavioral outcomes (Iqbal et al., 2025).

The interplay between social capital and employee behavior is another important aspect of the digitalization-strategy-sustainability nexus. Social capital enhances trust and collaboration among employees, which facilitates knowledge sharing and collective action (Lee, 2021). In digitally enabled environments, strong social capital can mitigate resistance to change and encourage the adoption of sustainable practices (Zaheer, Iqbal & Chishti, 2024). This interaction highlights the synergistic relationship between structural and behavioral factors in achieving strategic objectives.

In addition, digitalization enables the development of sustainable business models that integrate social and environmental considerations into value creation processes. These models often rely on collaborative networks and stakeholder engagement, which are supported by social capital (George et al., 2021; Rizvi et al., 2022).

Employees play a key role in operationalizing these models by adopting sustainable practices and contributing to innovation. Thus, the alignment of digitalization, social capital, and employee behavior is essential for the success of sustainable business models.

Another stream of research emphasizes the role of leadership in facilitating digital transformation and sustainability. Leaders are responsible for setting strategic direction, fostering a culture of innovation, and promoting sustainability-oriented behaviors among employees (Verhoef et al., 2021). Effective leadership can enhance social capital by building trust and encouraging collaboration, thereby supporting the successful implementation of digital strategies. This underscores the importance of integrating leadership perspectives into the framework (Iqbal, Farhan, & Atif, 2025).

Moreover, the integration of digitalization and sustainability has significant implications for organizational resilience. Digital technologies enable organizations to respond quickly to environmental changes and disruptions, while sustainability practices enhance long-term viability (Kraus et al., 2022; Kanwal et al., 2023).

Social capital and employee behavior contribute to resilience by facilitating adaptive responses and collective action. This highlights the importance of a holistic approach that considers multiple dimensions of organizational capability.

Despite the growing body of literature, there remains a lack of comprehensive frameworks that integrate digitalization, social capital, employee behavior, and corporate sustainability. Most studies focus on individual components rather than examining their interrelationships. This fragmentation limits the ability to fully understand how digital transformation can be leveraged for sustainable strategic outcomes. Addressing this gap requires a multidisciplinary approach that combines insights from strategic management, organizational behavior, and sustainability studies.

The present study responds to this need by proposing an integrated framework that captures the complex interactions among these constructs.

By positioning social capital as a mediating mechanism and employee behavior as a microfoundational element, the framework provides a nuanced understanding of the digitalization-sustainability relationship. This approach contributes to theory by bridging gaps in the literature and offering new insights into the drivers of sustainable competitive advantage. The literature highlights the transformative potential of digitalization in reshaping business

strategy and promoting corporate sustainability. However, realizing this potential requires a deeper understanding of the underlying mechanisms, particularly the roles of social capital and employee behavior (Zaheer, Iqbal & Yousuf, 2023). By integrating these elements, this study aims to advance knowledge in the field and provide a foundation for future research.

Author/Year	Research Focus	Research Gap	Research Contribution	Relevancy with This Research
Bharadwaj et al. (2013)	Conceptualization of digital business strategy	Limited linkage with sustainability and human factors	Established digital strategy as a core strategic domain	Provides foundation for integrating digitalization into business strategy
Vial (2019)	Digital transformation processes and organizational change	Lacks integration with social capital and employee behavior	Offers comprehensive framework for digital transformation	Supports understanding of how digitalization reshapes strategy
Verhoef et al. (2021)	Multidisciplinary perspective on digital transformation	Limited focus on sustainability outcomes and microfoundations	Identifies drivers and consequences of digital transformation	Links digitalization with strategic and organizational changes
George et al. (2021)	Digital sustainability and entrepreneurship	Insufficient focus on internal organizational mechanisms	Connects digital innovation with sustainability challenges	Supports integration of sustainability within digital strategy
Kraus et al. (2022)	Overview of digital transformation in business research	Fragmented insights on behavioral and relational factors	Synthesizes digital transformation literature	Highlights need for integrated frameworks including social capital
Nahapiet & Ghoshal (1998)	Social capital and organizational advantage	Does not address digital contexts	Introduces social capital as a strategic resource	Provides theoretical base for social capital as mediator
Lee (2021)	Social capital and sustainable firm performance	Limited linkage with digital transformation	Empirical evidence on social capital's role in sustainability	Strengthens argument for social capital in sustainability outcomes
Felin et al. (2015)	Microfoundations of strategy and organization theory	Limited application in digital sustainability context	Emphasizes role of individuals in strategy execution	Supports inclusion of employee behavior as microfoundation
Foss &	Microfoundations in	Lacks integration with	Advances micro-level	Reinforces role of

Author/Year	Research Focus	Research Gap	Research Contribution	Relevancy with This Research
Pedersen (2019)	strategic management	digital transformation	strategic analysis	employee behavior in strategic outcomes
Tarafdar et al. (2019)	Impact of digital technologies on employee behavior	Focuses more on technostress than sustainability	Highlights behavioral implications of digitalization	Links digitalization with employee behavioral changes
Belhadi et al. (2021)	AI-driven innovation and organizational performance	Limited focus on sustainability and social capital	Shows role of technology in enhancing performance	Supports link between digital tools and organizational outcomes
Kraus et al. (2022)	Digital transformation and innovation ecosystems	Insufficient exploration of employee-level dynamics	Identifies digital transformation as innovation driver	Reinforces need for behavioral and social integration
George et al. (2021)	Sustainability through digital innovation	Lacks micro-level behavioral explanation	Bridges sustainability and digital entrepreneurship	Supports sustainability dimension of the framework
Verhoef et al. (2021)	Strategic implications of digital transformation	Limited focus on social capital mechanisms	Provides strategic insights into digital adoption	Strengthens strategic dimension of the research
Vial (2019)	Organizational impact of digital transformation	Limited behavioral and relational integration	Explains transformation pathways	Supports need for integrating social and behavioral factors

METHODOLOGY

This study adopts a theoretical development research design, aimed at advancing conceptual understanding by integrating existing literature into a coherent and novel framework (Iqbal, 2025). Unlike empirical studies that rely on primary data collection, this research follows a theory-building approach, synthesizing insights from strategic management, digital transformation, corporate sustainability, social capital, and organizational behavior literature. The objective is to systematically develop a comprehensive model that explains how digitalization reconfigures business strategy to drive corporate sustainability through the mediating role of social capital and the microfoundational role of employee behavior. The methodological foundation of this study is grounded in systematic literature review and

theory synthesis. A structured search strategy was employed to identify high-quality, peer-reviewed

articles from leading academic databases such as Scopus, Web of Science, and Google Scholar. The selection criteria focused on (1) relevance to key constructs (digitalization, business strategy, corporate sustainability, social capital, employee behavior), (2) publication in reputable journals (e.g., *MIS Quarterly*, *Journal of Business Research*, *Strategic Management Journal*, *Academy of Management Review*), and (3) recency, prioritizing studies from the last decade while also incorporating seminal works where necessary. This ensured that the theoretical foundation is both contemporary and grounded in established scholarship.

Following the literature identification, the study employs a theory synthesis approach to integrate

fragmented insights into a unified framework. This involves identifying key constructs, analyzing their interrelationships, and organizing them into a logically consistent structure. The synthesis process is guided by established theoretical perspectives, including digital transformation theory, social capital theory, and microfoundations of strategy. Through iterative comparison and abstraction, the study develops propositions that explain the causal mechanisms linking digitalization, social capital, employee behavior, and corporate sustainability. This process enhances theoretical clarity and contributes to the development of new conceptual linkages.

To ensure rigor, the study follows principles of conceptual clarity, internal consistency, and theoretical contribution. Each construct is clearly defined and positioned within the framework, avoiding conceptual ambiguity and redundancy. Relationships among variables are logically derived from existing literature and supported by strong theoretical arguments. Additionally, the study emphasizes multi-level analysis, integrating macro-level (business strategy and digitalization), meso-level (social capital), and micro-level (employee behavior) perspectives. This multi-layered approach strengthens the explanatory power of the proposed model and addresses existing gaps in the literature.

The outcome of this methodological approach is the development of a conceptual framework and theoretical propositions that can be empirically tested in future research. While the study does not involve statistical validation, it provides a robust foundation for subsequent empirical investigations by offering clearly articulated constructs and relationships. Furthermore, the framework is designed to be adaptable across different organizational contexts, enhancing its generalizability and practical relevance. By combining systematic literature review with theory-building techniques, this research contributes to advancing knowledge at the intersection of digitalization, strategy, and sustainability.

DISCUSSION

The findings of this study suggest that digitalization fundamentally reshapes business strategy by enabling organizations to transition from static, efficiency-driven models to dynamic, sustainability-oriented frameworks. In response to the first research question, digitalization influences strategic reconfiguration by enhancing data-driven decision-making, fostering innovation, and enabling real-time responsiveness to environmental and social challenges (Verhoef et al., 2021; Vial, 2019). Organizations increasingly embed sustainability into their strategic core, leveraging digital tools to optimize resource utilization and create long-term value. This transformation reflects a shift from traditional competitive advantage toward sustainable competitive advantage, where digital capabilities serve as key enablers.

Addressing the second research question, the study highlights the pivotal mediating role of social capital in the relationship between digitalization and corporate sustainability. Social capital facilitates trust, collaboration, and knowledge sharing, which are essential for translating digital capabilities into sustainable outcomes (Nahapiet & Ghoshal, 1998; Lee, 2021). Digital platforms enhance connectivity and interaction among stakeholders, strengthening relational ties and enabling collective problem-solving. As a result, organizations with strong social capital are better positioned to leverage digitalization for sustainability, as they can effectively coordinate efforts and align stakeholder interests.

In relation to the third research question, employee behavior emerges as a critical factor in the successful implementation of digitalized sustainable strategies. Digitalization influences employee attitudes and behaviors by promoting adaptability, continuous learning, and collaboration (Tarafdar et al., 2019; Belhadi et al., 2021). Employees act as key agents in operationalizing strategic initiatives, and their engagement in sustainability-oriented practices determines the effectiveness of digital transformation. The study underscores that

without supportive employee behaviors, even the most advanced digital strategies may fail to achieve desired sustainability outcomes.

The fourth research question is addressed by examining the interaction between social capital and employee behavior in enhancing sustainability outcomes. The findings indicate that social capital creates an enabling environment that fosters positive employee behaviors, such as cooperation, trust, and knowledge sharing. In turn, these behaviors reinforce the effectiveness of social capital by strengthening organizational networks and relationships. This reciprocal relationship highlights the importance of integrating structural and behavioral dimensions in understanding the digitalization–sustainability nexus, as both elements work synergistically to drive organizational performance.

Finally, the study emphasizes the importance of adopting a multi-level perspective that integrates macro-level strategic changes with micro-level behavioral dynamics. By linking digitalization, social capital, and employee behavior, the research provides a comprehensive explanation of how organizations can achieve corporate sustainability. This integrative approach addresses existing gaps in the literature and offers a more holistic understanding of strategic transformation in the digital era (Felin et al., 2015; Foss & Pedersen, 2019). It also reinforces the need for organizations to align technological, relational, and human factors to maximize the benefits of digitalization.

CONCLUSION

This study contributes to the growing body of knowledge on digital transformation and corporate sustainability by developing an integrated theoretical framework that links business strategy, digitalization, social capital, and employee behavior. It demonstrates that digitalization is not merely a technological phenomenon but a strategic catalyst that reshapes organizational priorities and value creation processes. By embedding sustainability within digital strategies, organizations can achieve long-

term competitive advantage while addressing environmental and social challenges.

The research further establishes social capital as a critical mediating mechanism and employee behavior as a key microfoundational element in the digitalization–sustainability relationship. By bridging macro, meso, and micro perspectives, the study offers a comprehensive understanding of how strategic intentions are translated into sustainable outcomes. This integrative perspective enhances theoretical clarity and provides a strong foundation for future empirical research.

Overall, the study highlights the importance of aligning digital capabilities with social and behavioral factors to achieve corporate sustainability. It calls for a paradigm shift in strategic thinking, where organizations move beyond technology-centric approaches and adopt a holistic view that incorporates relational and human dimensions. This approach is essential for navigating the complexities of the digital era and ensuring sustainable organizational success.

Policy Implications

The findings of this study have important implications for organizational leaders and policymakers seeking to promote sustainable development through digital transformation. First, organizations should design policies that integrate digitalization with sustainability objectives, ensuring that technological investments are aligned with environmental and social goals. This includes promoting transparency, accountability, and sustainable innovation through digital platforms (George et al., 2021; Kraus et al., 2022).

Second, policymakers and managers should focus on strengthening social capital and fostering positive employee behaviors within organizations. This can be achieved by encouraging collaboration, building trust-based relationships, and investing in employee training and development programs that enhance digital and sustainability competencies. By creating supportive organizational environments, firms can maximize the benefits of digitalization and

drive sustainable outcomes at both organizational and societal levels.

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