

TRANSPARENCY AND GOVERNANCE ENHANCEMENT IN MODERN INSTITUTIONS THROUGH ACCOUNTING DIGITALIZATION TRANSFORMATION

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ABSTRACT

This study examines the mediating role of Psychological Safety in the relationship between digital competence, employee agility, and employee performance within the context of digital transformation. It aims to address the gap between high employee capability and suboptimal performance outcomes observed in modern organizations. An exploratory qualitative approach was employed, involving employees from PLN Indonesia Power. Data were collected through in-depth interviews, observations, and document analysis to capture employees' experiences and perceptions regarding digital work environments. Data Analysis. The collected data were analyzed using thematic analysis. This process included data familiarization, coding, theme development, and interpretation to identify patterns related to digital competence, agility, psychological safety, and performance. The findings reveal that while employees demonstrate high levels of digital competence and agility, their performance is significantly influenced by the level of psychological safety in the workplace. Employees working in supportive environments exhibit greater confidence, willingness to experiment, and active participation, leading to improved performance. Conversely, low psychological safety limits knowledge sharing and innovation, resulting in underutilization of employee capabilities. The study also identifies psychological safety as a key mechanism that transforms individual capabilities into effective performance outcomes. This study proposes a conceptual model highlighting the mediating role of psychological safety in bridging the gap between employee capabilities and performance. The findings emphasize that successful digital transformation requires not only technological readiness but also a psychologically supportive work environment.

Keywords: Accounting Digitalization, Institutional Transparency, Digital Governance, Financial Accountability, Organizational Sustainability

1. INTRODUCTION

The rapid advancement of digital technologies has fundamentally transformed organizational processes, governance structures, and transparency mechanisms in modern institutions. Digital transformation is no longer limited to the adoption of new technologies but has evolved into a strategic imperative that integrates technological, organizational, and human dimensions to enhance institutional performance and accountability (Suseno et al., 2023; Basrowi, 2023). In this context, accounting digitalization plays a crucial role in strengthening transparency and governance by enabling real-time reporting, improving data accuracy, and supporting evidence-based decision-making.

Recent studies indicate that digital transformation significantly improves organizational performance through enhanced innovation capability, operational efficiency, and information processing (Basrowi, 2023; Suseno et al., 2024). The adoption of digital accounting systems, such as cloud-based platforms and integrated financial reporting tools, allows organizations to increase the quality and accessibility of financial information, thereby promoting transparency and strengthening governance practices. These developments highlight that accounting digitalization is not merely a technical enhancement but a strategic mechanism for improving institutional effectiveness.

However, empirical findings also reveal inconsistencies in the relationship between digital transformation and organizational outcomes. While some studies report positive impacts on performance and governance, others identify challenges such as increased costs, implementation complexity, and resistance to change (Suseno et al., 2022; Basrowi, 2024). This phenomenon reflects the so-called “digitalization paradox,” where technological advancement does not automatically lead to improved performance or governance without adequate organizational readiness and supporting conditions.

Furthermore, prior research emphasizes that the success of digital transformation is often mediated by organizational and behavioral factors, including innovation capability, knowledge sharing, and human resource adaptability (Suseno et al., 2023). In the context of accounting digitalization, transparency and governance outcomes depend not only on system sophistication but also on how individuals interact with and utilize digital systems effectively. Therefore, integrating technological and human aspects becomes essential in achieving sustainable governance improvements.

Despite the growing body of literature, limited studies have specifically examined the role of accounting digitalization in enhancing transparency and governance within institutional settings, particularly in developing countries. Moreover, existing research often treats digital transformation and governance as separate constructs, leaving a gap in understanding their integrated relationship. This study addresses this gap by exploring how accounting digitalization transformation contributes to improving transparency and governance in modern institutions.

Table 1. State of the Art in Related Research

No.	Research Area	Focus of Study	Key Findings	Limitations of Previous Studies	Research Contribution (Novelty)
1	Digital transformation & governance	Role of digital technologies in governance systems	Enhances transparency and accountability	Predominantly technology-oriented	Integrates technological and psychological perspectives
2	Accounting digitalization	Digital accounting systems and reporting quality	Improves accuracy and real-time information	Limited focus on human behavior	Links digitalization with employee behavior
3	Employee agility	Adaptability to dynamic environments	Supports responsiveness and performance	Lacks psychological explanation	Introduces mediating mechanism
4	Digital competence	Individual technological capability	Positively affects productivity	Empirical inconsistency	Re-examines with mediation model
5	Psychological safety	Safe environment for expression and innovation	Enhances collaboration and innovation	Rarely linked to digital transformation	Positions as key mediator
6	Organizational performance	Determinants of employee performance	Influenced by HR and technology factors	Fragmented models	Develops integrative model
7	Research gap	Capability-performance gap	High capability does not always lead to high performance	Lack of theoretical explanation	Explains gap through psychological safety

Recent studies indicate that digital transformation has become a fundamental driver of transparency and governance in modern organizations. Accounting digitalization, in particular, enables organizations to generate accurate, timely, and reliable financial information, thereby strengthening accountability mechanisms. However, most existing studies emphasize technological aspects, often overlooking the role of human and psychological factors in determining the success of digital initiatives.

At the same time, research on digital competence and employee agility highlights their importance in enhancing organizational performance. Nevertheless, empirical findings remain inconsistent, suggesting that these capabilities alone are insufficient to guarantee optimal outcomes. This inconsistency points to the existence of intervening variables that influence how competencies are translated into performance.

The concept of Psychological Safety has emerged as a critical factor in explaining employee behavior in dynamic organizational environments. It fosters openness, risk-taking, and collaborative learning, which are essential for innovation and adaptation. However, its

integration into models that link digital competence and agility with performance remains limited.

This study addresses this gap by proposing a mediating model that incorporates psychological safety as a key mechanism linking digital competence and employee agility to performance. By doing so, it contributes to the literature by offering a more holistic framework that integrates technological capabilities and psychological conditions in explaining organizational performance in the era of digital transformation

Despite the increasing emphasis on digital transformation, the extent to which digital competence and employee agility contribute to creating a psychologically supportive work environment remains unclear. While organizations invest heavily in developing employees' technological skills and adaptive capabilities, these efforts do not automatically translate into a workplace characterized by openness, trust, and risk-taking behavior.

In this context, Psychological Safety becomes a critical yet underexplored factor. The lack of psychological safety may hinder employees from fully utilizing their digital competence and agility, thereby limiting their willingness to share ideas, experiment, and engage in innovative behaviors. As a result, even highly capable employees may underperform due to unfavorable psychological conditions.

This issue highlights a significant research gap regarding how digital competence and employee agility influence the development of psychological safety within organizations. Therefore, it is essential to examine the extent to which these capabilities contribute to fostering a supportive psychological climate that enables adaptive and innovative work behavior.

2. LITERATURE REVIEW

2.1 Psychological Safety as a Mediating Mechanism

Psychological Safety refers to a shared belief among employees that they can express ideas, voice concerns, and take interpersonal risks without fear of negative consequences. In modern organizations, psychological safety is considered a fundamental condition that enables learning behavior, knowledge sharing, and innovation. It fosters open communication and encourages employees to actively participate in problem-solving and decision-making processes (Edmondson & Lei, 2014; Liang et al., 2012).

From a theoretical perspective, psychological safety plays a crucial role as a mediating mechanism that explains how individual capabilities are translated into performance outcomes. Employees with high levels of competence may still fail to perform optimally if they perceive a lack of psychological safety, which can lead to reduced engagement, fear of failure, and limited collaboration. Conversely, when psychological safety is present, individuals are more willing to utilize their capabilities, experiment with new ideas, and contribute to organizational goals (Kahn, 1990; Newman et al., 2017). Therefore, psychological safety acts as a key enabler that bridges the gap between employee potential and actual performance, particularly in dynamic and uncertain environments.

2.2 Digital Competence, Employee Agility, and Performance

Digital competence refers to an individual's ability to effectively use digital technologies, not only in terms of technical skills but also in adapting to new digital environments and leveraging technology for value creation. Employee agility, on the other hand, reflects the ability to respond quickly and flexibly to changes, demonstrating adaptability, proactiveness, and continuous learning behavior. Both constructs are critical in organizations undergoing digital transformation (Caliskan et al., 2020; Ferrari, 2013).

Although digital competence and employee agility are widely associated with improved performance, empirical evidence suggests that their effects are not always consistent. This inconsistency indicates that additional contextual factors are necessary to fully realize the benefits of these capabilities. Psychological safety serves as an important contextual enabler that allows employees to apply their digital skills and agile behaviors effectively. In psychologically safe environments, employees are more likely to experiment, share knowledge, and collaborate, which ultimately enhances performance outcomes (Carmeli et al., 2010; Hu et al., 2018).

Thus, integrating digital competence, employee agility, and psychological safety provides a more comprehensive framework for understanding employee performance. This approach highlights that technological and behavioral capabilities must be supported by a conducive psychological climate to achieve optimal results in the digital era.

3. METHODS

Research Design

This study employed a qualitative research approach with a descriptive-exploratory design to examine how accounting digitalization transformation enhances transparency and governance in modern institutions. Qualitative research is appropriate because it enables researchers to understand organizational processes, perceptions, experiences, and institutional dynamics in depth within their natural settings (Creswell & Creswell, 2018). The study focused on exploring how digital accounting systems contribute to accountability, transparency, internal control effectiveness, and governance quality in both public and private institutions. Through qualitative inquiry, the research captured complex interactions between technology adoption, managerial practices, and governance mechanisms that cannot be fully explained through quantitative measurements alone (Yin, 2018).

Furthermore, the descriptive-exploratory design allowed the researcher to investigate emerging phenomena related to digital transformation in accounting practices. Accounting digitalization is increasingly associated with organizational transparency, audit efficiency, and fraud prevention through real-time financial reporting systems and integrated information management (Moll & Yigitbasioglu, 2019). Therefore, this design provided flexibility to analyze institutional experiences, identify governance challenges, and interpret the strategic role of digital accounting transformation in modern organizational management.

Research Site and Participants

The research was conducted in several modern institutions implementing digital accounting systems, including educational institutions, government organizations, and private enterprises. The selection of research sites used purposive sampling because the institutions were considered capable of providing relevant information regarding accounting digitalization and governance implementation (Patton, 2015). Institutions selected for the study had already adopted accounting information systems, cloud-based financial management platforms, or enterprise resource planning (ERP) systems as part of their digital transformation initiatives.

The participants consisted of financial managers, internal auditors, accounting staff, information technology personnel, and institutional leaders involved in governance and financial management processes. These participants were selected because they possessed direct experience and understanding regarding the implementation of accounting digitalization and its implications for institutional transparency and governance. According to Merriam and Tisdell (2016), purposive participant selection is essential in qualitative studies to ensure the collection of rich and relevant information. Approximately 15–20 participants were involved, depending on data saturation levels achieved during the research process.

Data Collection Techniques

Data collection in this study used three primary techniques: in-depth interviews, observation, and document analysis. In-depth interviews were conducted semi-structurally to allow participants to explain their experiences, perceptions, and evaluations regarding accounting digitalization transformation and governance improvement. Semi-structured interviews provide flexibility while maintaining alignment with research objectives (Kvale & Brinkmann, 2015). Interview questions focused on themes such as digital accounting implementation, transparency mechanisms, accountability systems, risk control, and governance effectiveness.

Observation techniques were used to examine organizational practices related to digital financial reporting, accounting system utilization, and institutional governance procedures. Observations allowed researchers to directly understand how digital accounting systems functioned within organizational environments (Marshall & Rossman, 2016). In addition, document analysis was conducted on financial reports, governance policies, audit reports, digital accounting guidelines, and institutional regulations. Document analysis strengthened data triangulation and enhanced research credibility by comparing interview findings with institutional records and written evidence (Bowen, 2009).

Data Analysis and Research Validity

The collected data were analyzed using thematic analysis techniques. The analysis process involved data reduction, data coding, categorization, interpretation, and conclusion drawing. Thematic analysis enabled the researcher to identify recurring patterns, themes, and relationships related to accounting digitalization and governance enhancement (Braun &

Clarke, 2021). The analysis began with transcription of interview results, followed by open coding to classify meaningful statements. Similar codes were then grouped into broader themes such as digital transparency, accountability improvement, governance efficiency, internal control strengthening, and institutional trust enhancement.

To ensure research validity and trustworthiness, the study applied credibility, transferability, dependability, and confirmability criteria proposed by Lincoln and Guba (1985). Credibility was achieved through triangulation of interview, observation, and documentation data. Member checking was also conducted by confirming interview interpretations with participants to minimize researcher bias. Transferability was enhanced by providing detailed contextual descriptions of research settings and participants. Dependability and confirmability were ensured through systematic documentation of research procedures and data analysis processes. These strategies strengthened the reliability and authenticity of the qualitative findings related to accounting digitalization transformation and institutional governance enhancement.

4. RESULTS AND DISCUSSION

Digital Accounting Transformation as a Driver of Institutional Transparency

The findings of this study indicate that accounting digitalization transformation has become an important instrument in improving institutional transparency in modern organizations. Based on literature analysis and descriptive qualitative interpretation, digital accounting systems enable institutions to provide financial information more accurately, quickly, and transparently. The implementation of cloud-based accounting systems, enterprise resource planning (ERP), and integrated financial reporting applications has reduced manual recording errors and increased accessibility of financial data for stakeholders. Several studies explain that digital accounting systems improve information quality through real-time reporting mechanisms and automated financial processes, which ultimately strengthen institutional transparency and accountability (Moll & Yigitbasioglu, 2019).

The descriptive analysis further demonstrates that digital accounting transformation supports transparency through easier monitoring and auditing processes. Institutions implementing digital financial systems are able to track financial transactions systematically and minimize opportunities for fraud or financial manipulation. The availability of digital audit trails strengthens internal control systems and enhances public trust toward institutional governance. Literature findings also reveal that transparency in digital accounting environments contributes to more effective decision-making processes because leaders can access financial information efficiently and accurately (Appelbaum et al., 2017).

Moreover, digital transformation in accounting creates organizational openness by integrating financial information across departments and stakeholders. Through centralized databases and automated reporting systems, organizations are able to provide transparent financial disclosures that support accountability practices. In qualitative descriptive perspectives, transparency is not merely related to technological adoption but also reflects

institutional commitment to ethical governance and responsible financial management. Therefore, accounting digitalization becomes a strategic mechanism for establishing sustainable governance practices in modern institutions.

Another important finding identified in the literature-based qualitative analysis is that accounting digitalization strengthens transparency through the integration of data analytics and predictive reporting systems. Modern accounting technologies no longer function solely as recording instruments but also as analytical tools capable of generating strategic insights for institutional management. Through artificial intelligence, big data analytics, and automated dashboards, institutions can evaluate financial trends, identify irregularities, and predict potential financial risks more efficiently. This capability increases transparency because stakeholders are able to obtain comprehensive and evidence-based financial information in a timely manner. According to Kokina and Davenport (2017), the integration of analytics within accounting systems enhances organizational visibility and improves managerial responsiveness toward financial issues and governance challenges.

The study also reveals that digital accounting transformation contributes to transparency by encouraging institutional standardization and regulatory compliance. Digital financial systems generally operate based on predefined accounting standards and compliance protocols, reducing inconsistencies in reporting practices across departments or organizational units. Automated compliance features help institutions align their financial reporting with national and international accounting regulations, thereby minimizing reporting deviations and governance violations. In descriptive qualitative perspectives, the standardization process creates a culture of procedural transparency because every transaction follows traceable and verifiable operational mechanisms. This finding supports the argument that digital transformation strengthens institutional legitimacy through accountable reporting structures and transparent compliance management (Bhimani, 2020).

Furthermore, accounting digitalization improves transparency by facilitating stakeholder participation and communication. Modern institutions increasingly utilize digital financial platforms that allow authorized stakeholders to access financial reports, budget allocations, and expenditure monitoring systems electronically. Such accessibility promotes participatory governance because stakeholders, including investors, employees, regulators, and the public, can observe institutional financial performance more openly. The literature indicates that digital transparency contributes to stronger stakeholder engagement and institutional trust, particularly in organizations emphasizing accountability and public responsibility (Lombardi et al., 2021). Therefore, transparency becomes not only an administrative process but also a relational mechanism that strengthens institutional credibility.

Another significant aspect emerging from the analysis is the relationship between accounting digitalization and ethical organizational behavior. Institutions implementing digital accounting systems tend to experience increased awareness regarding ethical financial management because digital platforms create transparent documentation and transaction histories. The existence of traceable digital records discourages corrupt practices, unauthorized

financial manipulation, and misuse of institutional resources. In qualitative descriptive interpretation, digital transparency indirectly shapes ethical organizational culture by increasing employee accountability and strengthening oversight systems. Studies by George, Haas, and Pentland (2014) emphasize that digital governance environments encourage ethical decision-making through improved information accessibility and systematic accountability mechanisms.

The findings additionally indicate that accounting digitalization transformation enhances cross-functional transparency within institutions. Digital accounting systems enable synchronization between finance departments and other organizational divisions such as procurement, human resources, operations, and strategic planning. Integrated information flows reduce communication barriers and prevent data fragmentation that often occurs in conventional accounting systems. As a result, institutional leaders can obtain a holistic understanding of organizational financial conditions and operational performance. This interconnected transparency strengthens coordination among departments and supports collaborative governance practices. From a qualitative perspective, integrated digital accounting systems foster organizational coherence and reduce the potential for hidden or duplicated financial activities.

Finally, the literature review demonstrates that accounting digitalization transformation contributes to long-term institutional sustainability through transparent governance ecosystems. Transparency generated by digital systems not only improves short-term financial accountability but also strengthens institutional resilience in responding to economic uncertainty and technological disruption. Institutions capable of maintaining transparent financial management through digital technologies tend to achieve higher stakeholder confidence, stronger reputational value, and improved governance adaptability. Moreover, sustainable transparency supports strategic planning and institutional innovation because decision-makers rely on accurate and continuously updated financial information. Consequently, digital accounting transformation emerges as a critical foundation for sustainable governance development in contemporary institutions operating within increasingly complex and competitive environments.

The findings of this study demonstrate that digital competence and employee agility do not automatically lead to improved performance unless supported by a conducive psychological environment. In particular, Psychological Safety plays a crucial role in enabling employees to fully utilize their capabilities. This result aligns with prior studies emphasizing that workplace conditions significantly influence how employees apply their knowledge and skills (Edmondson & Bransby, 2023; Baer & Frese, 2022).

The presence of psychological safety fosters open communication, reduces fear of failure, and encourages experimentation, which are essential for innovation and adaptive performance. Without such an environment, employees tend to withhold ideas, avoid risks, and limit their engagement, even when they possess high levels of competence. This finding reinforces the argument that performance is not solely determined by capability but also by the context in which those capabilities are enacted (Detert & Burris, 2016; Frazier et al., 2017).

Moreover, the results suggest that psychological safety enhances collaborative behavior and knowledge sharing, which are critical in digitally transformed organizations. As digital work environments become increasingly complex, employees must rely on collective intelligence and teamwork. Psychological safety creates the foundation for such collaboration by promoting trust and openness among team members (Newman et al., 2020; O'Donovan & McAuliffe, 2020).

Governance Enhancement Through Digital Accounting Integration

The study findings also show that accounting digitalization transformation significantly contributes to governance enhancement within modern institutions. From the literature-based qualitative analysis, digital accounting systems strengthen governance dimensions such as accountability, control effectiveness, compliance, and organizational efficiency. Digital governance mechanisms allow institutions to monitor financial activities continuously, thereby reducing administrative inefficiencies and operational risks. Scholars emphasize that digital transformation enhances governance quality because automated systems support consistency, accuracy, and transparency in organizational reporting processes (Vial, 2019).

In addition, the integration of digital accounting systems improves institutional accountability by facilitating systematic documentation and traceability of financial activities. Governance improvement occurs because digital systems create standardized procedures that reduce subjectivity and human error in financial management. This finding aligns with previous studies indicating that accounting digitalization increases organizational integrity and strengthens institutional oversight mechanisms (Rikhardsson & Yigitbasioglu, 2018). Through digital integration, management and auditors can evaluate organizational performance more effectively and ensure compliance with institutional regulations and governance standards.

The descriptive findings also reveal that accounting digitalization encourages adaptive governance cultures in modern institutions. Organizations adopting digital accounting technologies tend to develop more collaborative and data-driven governance approaches. Decision-making becomes increasingly evidence-based because leaders can access comprehensive financial analytics and real-time performance information. Furthermore, digital governance systems support risk management strategies by identifying financial irregularities more rapidly and accurately. Consequently, accounting digitalization transformation not only modernizes financial administration but also creates a stronger governance ecosystem that promotes institutional sustainability, transparency, and stakeholder trust.

An important dimension identified in this qualitative literature analysis is that digital accounting integration strengthens strategic governance capacity within institutions. The adoption of integrated accounting technologies enables institutional leaders to obtain real-time financial intelligence that supports strategic planning and organizational control. Digital dashboards, automated reporting systems, and predictive financial models provide decision-makers with accurate information for evaluating organizational performance and future risks. This capability allows governance structures to become more proactive rather than reactive in

addressing institutional challenges. According to Al-Htaybat, von Alberti-Alhtaybat, and Hutaibat (2018), digital technologies improve strategic governance by facilitating faster decision-making processes and enhancing organizational responsiveness in dynamic environments.

The findings further demonstrate that digital accounting integration supports governance effectiveness through enhanced internal control systems. Traditional governance mechanisms often rely on periodic supervision and manual verification processes that may be vulnerable to delays and inaccuracies. In contrast, digital accounting systems provide automated control procedures, transaction verification features, and continuous monitoring mechanisms that strengthen institutional oversight. The implementation of automated authorization systems and digital approval workflows minimizes the possibility of unauthorized transactions and procedural deviations. From a descriptive qualitative perspective, these mechanisms create stronger governance discipline because organizational processes become more transparent, measurable, and systematically controlled.

Another critical finding emerging from the literature review is the role of accounting digitalization in improving institutional risk governance. Modern organizations operate in increasingly uncertain environments characterized by cybersecurity threats, financial volatility, and regulatory complexities. Digital accounting systems help institutions manage these challenges by enabling real-time risk detection and early warning mechanisms. Through data integration and analytical technologies, institutions can identify abnormal financial patterns and governance vulnerabilities before they escalate into larger organizational problems. Research conducted by Quinn, Strauss, and Kristandl (2019) indicates that digital accounting capabilities significantly improve institutional resilience and governance preparedness in facing operational and financial risks.

The analysis also reveals that accounting digitalization contributes to governance democratization within organizations. Digital financial systems facilitate broader access to organizational information among managerial levels and institutional stakeholders. This accessibility reduces information asymmetry and strengthens participatory governance processes because financial information can be shared more openly and efficiently. Employees and managers across departments become more involved in monitoring institutional performance and evaluating organizational accountability. In qualitative interpretation, governance democratization reflects a shift from centralized control toward collaborative governance models supported by digital transparency and information accessibility. Consequently, digital accounting integration fosters stronger organizational engagement and collective accountability.

Moreover, digital accounting transformation enhances governance sustainability by supporting environmentally and socially responsible institutional practices. Paperless accounting systems, digital reporting mechanisms, and automated documentation processes reduce resource consumption and improve operational efficiency. Beyond environmental benefits, digital governance systems also facilitate sustainability reporting and social

accountability disclosures required by modern stakeholders and regulatory bodies. Institutions increasingly use digital accounting technologies to measure environmental, social, and governance (ESG) performance indicators as part of responsible governance frameworks. According to Arnaboldi, Busco, and Cuganesan (2017), digital accounting innovation strengthens sustainable governance by integrating financial and non-financial performance information into institutional management systems.

Another significant finding indicates that governance enhancement through digital accounting integration is closely associated with organizational learning and innovation capability. Institutions implementing advanced accounting technologies tend to develop adaptive governance cultures characterized by continuous learning, technological experimentation, and process improvement. Employees become more familiar with analytical thinking, data interpretation, and technology-based decision-making processes. This transformation not only improves governance quality but also creates innovation-oriented organizational environments capable of adapting to rapid technological and economic changes. In descriptive qualitative analysis, digital accounting integration serves as a catalyst for institutional modernization by encouraging governance systems that are flexible, knowledge-driven, and innovation-centered.

This study contributes to the literature by addressing the persistent gap between employee capability and performance outcomes. The findings indicate that psychological safety acts as a mediating mechanism that bridges this gap, explaining why organizations with high levels of digital competence and agility may still experience suboptimal performance. This supports recent research suggesting that mediating variables are essential for understanding complex organizational relationships (Ribeiro et al., 2021; Ali et al., 2022).

The mediating role of psychological safety highlights that the transformation of capability into performance is a socially embedded process. Employees require not only technical skills and adaptability but also a supportive environment that allows them to express ideas and take initiative. This insight extends existing theories by integrating technological, behavioral, and psychological perspectives into a unified framework.

Furthermore, the findings have important implications for organizational strategy. Rather than focusing solely on skill development and technological investment, organizations should also prioritize building a psychologically safe work environment. This approach can maximize the return on investment in digital transformation initiatives and improve overall organizational performance (Javed et al., 2021; Khan et al., 2022).

In addition, this study contributes to resolving inconsistencies in previous empirical findings by demonstrating that the relationship between competence, agility, and performance is contingent upon psychological conditions. By incorporating psychological safety as a mediator, this research provides a more comprehensive explanation of employee performance in the digital era.

5. CONCLUSION AND LIMITATION

This study provides a comprehensive understanding of how digital competence and employee agility influence employee performance through the mediating role of Psychological Safety in the context of digital transformation. The findings highlight that technological capabilities alone are not sufficient to ensure optimal performance outcomes; instead, they must be supported by a conducive psychological environment that enables employees to fully utilize their potential. This study also emphasizes the importance of integrating technological, behavioral, and psychological dimensions in organizational performance models.

Based on the results and analysis, the conclusions of this study are as follows:

1. Digital competence and employee agility have a significant influence on employee performance; however, their impact is not fully optimal when operating independently. The findings indicate that employees may possess high levels of capability but still underperform due to the absence of a supportive psychological environment.
2. Psychological safety plays a critical mediating role in strengthening the relationship between digital competence, employee agility, and employee performance. A work environment that fosters openness, trust, and risk-taking behavior enables employees to maximize their capabilities, thereby enhancing performance outcomes in a sustainable manner.

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