

Artificial Intelligence Adoption and Organizational Effectiveness: The Sequential Mediating Roles of Digital Transformation, Strategic Agility, and Innovation Capability with the Moderating Effect of Top Management Support

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ABSTRACT

Artificial intelligence (AI) has become a game-changer in the world of business and is a key driver of corporate transformation in today's context. AI technologies are becoming more popular as aids for businesses to make decisions, boost efficiency and effectiveness. But, the application of AI does not always have a direct impact on the effectiveness of organizational functioning, and it requires some internal organizational mechanisms. The field of study examines the role of artificial intelligence in improving organizational effectiveness, considering the mediating variables of digital transformation, strategic agility and innovation capability as well as the moderating variable of top management support. AI tools play a vital role in harnessing the latest technologies when businesses are in the process of digital transformation. Digital transformation increases the ability to respond and be flexible, facilitates strategic agility, strengthens the innovation capacity and in the end improves the effectiveness of the organisation. This connection can be amplified and reinforced by the leadership and commitment of high-level management that can set direction, resources and leadership. This study was an explanatory research using quantitative approach and data was collected from the managers/executives of the organizations that have adopted AI. Data collection is used through dealing with structured questionnaire, which has been developed according to the valid scales. Purposes sampling is used in the selection of the respondents where respondents with know-how are selected. The data are analyzed by SmartPLS that involved measurement model assessment, structural model evaluation, sequential mediation testing, and interaction and bootstrapping techniques. The study contributes to the field of Digital Transformation and Strategic Management that offers a useful explanation of how the use of AI can help organizations be more effective through the use of sequential organizational capabilities.

Keywords: AI Adoption, Digital Transformation, Strategic Agility, Innovation Capability, Top Management Support, Organizational Effectiveness, Structural Equation Modeling

INTRODUCTION

Artificial Intelligence (AI) has become one of the most impactful innovations that is transforming business operations, processes and structures in the modern digital age. AI technologies are being widely embraced by organizations in a variety of industries, with the aim of boosting productivity, making better decisions, and gaining an advantage over their rivals. The application of AI also involves using intelligent systems that can perform cognitive tasks such as prediction, automation, and decision-making, based on data (Russell & Norvig, 2020). AI is an important enabler technology along with the growing digitization of the organization for long-term effectiveness (Brynjolfsson & McAfee, 2017).

Organizational effectiveness is a measure by which an organization achieves its goals in an efficient use of resources, innovative and adaptable ways. It includes financial performance, operational efficiency, innovation outcomes and strategic responsiveness (Richard et al., 2009). In today's rapidly evolving world, digital skills and capability are vital to organizational effectiveness to meet technological disruptions.

One of the biggest results of the use of AI is digital transformation. It is defined by the use of digital technologies in all aspects of the business, how it operates and how it creates value (Vial, 2019). AI is propelling digital transformation, from streamlined processes to optimized data analysis and connectivity between organizational systems. Therefore, digital transformation is seen as one of the main components of boosting the efficiency of organizations.

Another must-have skill resulting from digital transformation is strategic agility. It is regarded as the ability of a system to sense changes, respond quickly and configure its resources efficiently in the environment (Doz & Kosonen 2010). To operate and maximize value in an era defined by AI, organisations need to be continually agile to evolving market and technology sentiment. Making decisions quickly, and quickly responding is one of the strategic agilities that is critical to maintaining the competitiveness of companies.

Innovation goes hand in hand with digital transformation and strategic agility. It is the ability of an organization to develop and utilize new ideas, products, services and processes (Damanpour, 1991). AI tools can enhance the innovative abilities by providing advanced analytics, predicting the results of ideas, and automating repetitive tasks, which helps fuel creativity and experimentation. The ability to do this over time is likely to be more likely in companies that excel at innovation.

This framework is well supported by the top management. It is a measure of senior leaders' involvement, commitment and support for technological and strategic efforts (Wang et al., 2012). Without support from the top management, the adoption of AI and the digital transformation journey might be at risk if resources are scarce, commitment to change is lacking and the understanding of how these changes fit into the company strategy is not robust.

It can be seen that the impact of AI implementation on the success of an organization is multidimensional, and it is not easy to explain exactly how it impacts and for better or worse. Organizational processes, such as the digital transformation, agility and capability to innovate, are necessary to make AI technology effective. These are linear and designed to be transformative of investment in technology to the resulting performance.

To drive this change, the first step is digital transformation by infusing AI into the systems of an organization. This is first achieved through digital transformation where AI is embedded in systems. It allows data flow, process automation and system integration that is crucial for strategic responsiveness. Vial (2019) believed that this digital transformation is not just a technological transformation, but also an organizational and cultural one.

Organisations can adapt to change swiftly thanks to strategic agility, which is the outcome of digital transformation. Dynamic capabilities such as sensing and seizing opportunities were important to sustain competitive advantage, according to Teece (2007). AI-driven digital systems enable businesses to be agile and responsive.

The last step of the sequential model is innovation capability. It reflects an organization's ability to take agility and generate meaningful innovations. Innovation is one of the key for a dynamic environment to be sustainable as cited by O'Reilly and Tushman (2013). AI fosters innovation by helping to analyze data, experiment, and rapidly prototype ideas.

While the usage of AI has been a subject of numerous studies, most of this research has focused on the effects of AI on performance outcomes. There has been a lack of research on the role of AI in the sequential process of digital transformation, strategic agility and innovation capability on organizational effectiveness. This is a large void in literature.

Furthermore, the moderating effect of top management support is not often taken into account in AI adoption studies. But the buy-in of leadership is essential in driving technological initiatives in relation to the organizational strategy and making them successful.

This study will draw on the dynamic capabilities theory which is used to explain how organisations are 'combinations and re-combinations of internal capabilities' (Teece, 2007, p. 8) to adapt to the changing environment. Digital transformation, strategic agility and innovation capability are organizational dynamic capabilities that drive performance while AI is a technological capability.

The current study aims to explore the relationship between organizational effectiveness and the use of AI for the mediation of the digital transformation, strategic agility, and innovative ability of the organization, moderated by the support of top management (TM). Data collection from managers and executives is conducted using structured questionnaires and analysis is done using the software program "SmartPLS.

The outcome of this study is expected to contribute to the knowledge pool by providing an all-encompassing framework that brings into perspective AI adoption and its associated organizational impact, which will feature multi-layered approaches as well as leadership practices.

LITERATURE REVIEW

Artificial intelligence (AI) is a technology that has the potential to completely change the game in business, business models, and organizational structure in many sectors. Adopting AI involves putting intelligent systems into use that can carry out cognitive tasks like learning, reasoning, prediction, and decision making (Russell & Norvig, 2020). The usage of AI technologies is becoming more common in the modern-day companies to optimize business processes and to analyze customer behavior and so for strategic decisions making (Brynjolfsson & McAfee, 2017).

Organizational effectiveness is a complex construct that refers to the achievement and efficiency of an organization in its objective. This covers financial results, business efficiency, innovation results and the ability to adjust to changes in the environment (Richard et al., 2009). In the digital economy, the organization's effectiveness depends more and more on the possibility to embed the latest technologies in the business processes, including AI.

One of the main outcomes of adopting of AI is digital transformation. It is the application of digital technologies in every aspect of business, hence changing the way in which organisations deliver value (Vial, 2019). AI is helping to drive digital transformation by providing automation, improved data analysis, and enhanced connectivity among systems (Hanelt et al., 2021).

Strategic agility is also a crucial organizational skill that is cultivated in digitally transformed organization. It's about organisations' sensing and reacting capabilities and the ability to reconfigure resources effectively and quickly (Doz & Kosonen, 2010). Teece (2007) has argued that dynamic capabilities such as opportunity sensing and seizing are important in today's rapidly evolving business landscape for gaining or sustaining competitiveness.

Digital transformation is closely related to Innovation capability, as is Strategic agility. It is the ability of an organization to create and implement those products, services and processes that add value (Damanpour, 1991). Innovation capacity is enhanced by AI in making predictions, automating workflows and experimenting with data (O'Reilly & Tushman, 2013).

Support from top management is an important medium. Top management support plays a key moderating role in the technology adoption and organizational change. It's high level management devotion, engagement, and leadership towards strategic efforts / efforts to be devoted (Wang et al., 2012). When the upper management provide the proper support, it is easier to allocate resources, minimize resistance to change and cause technology and organizational objectives to meet.

The impact of AI on digital transformation can be interesting, and it can drive processes toward digitization while allowing them to be more efficient in making decisions (Vial, 2019). But digital transformation is not enough without enhanced strategic agility, however. For organizations to be able to adapt to the evolution of technology and market, they must be able to respond rapidly to changes.

Utilising real-time information through digital transformation can boost strategic agility, foster more well-informed decisions in less time, and boost organisational responsiveness (Teece, 2007). Having agility looks favorable when one is faced with uncertainties and seize opportunities as they present themselves in a business situation.

By boosting strategic agility, innovation capability is further bolstered. Agile companies are more flexible, can experiment with different things and therefore are more innovative (Weber & Tarba, 2014). Maintaining competitive advantage in a dynamic environment is one of the key factors where innovation capability is important (O'Reilly & Tushman, 2013).

The sequential dynamics of Digital transformation, Strategic agility and Innovation capability provide a holistic view of the effect of AI adoption on the effectiveness of the organisation. This sequential pathway outlines how technological use is manifested through organisational capabilities to strategic outcomes.

Although there is increasing interest in the use of AI, most studies focus on the impact of AI on performance outcomes, rather than on internal organizational processes. Few empirical studies have focused on the role of AI on organizational effectiveness via sequential mediators like digital transformation, strategic agility, and innovation capability.

Moreover, the moderating effect of top management support has not been sufficiently investigated in this regard. Implementing AI and the commitment of leaders to make it a reality are therefore essential and an effective link between technological and organizational capabilities must be established.

Dynamic capabilities theory is used as an excellent theoretical framework for this research. According to Teece (2007) every organisation needs to continually integrate, develop and reorder existing in-house assets to respond to the environment's shifts. Technology capability (AI), strategic agility capability and innovation capability are organizational dynamic capabilities.

AI adoption translates into optimal use of data-based insights and predictive analytics for an organization's decisions (Davenport & Ronanki, 2018). However, the impact of AI depends on how organizations use AI in their processes and organizations.

The organization's culture and change readiness are also very connected to digital transformation. Digital organizations (Hanelt et al., 2021) are more likely to successfully implement AI technologies and to achieve better performance results.

Innovation capability is fundamental for the success of organizations in the future. Companies with a high capacity for innovation have a better chance of dealing with the uncertainty of the environment and technological change (Damanpour, 1991).

It takes strategic agility to be both explorative and opportunities exploitative - to be innovative AND operationally efficient (O'Reilly & Tushman, 2013). This equilibrium is essential in AI-driven contexts where swift change is crucial.

Having strong top management support is crucial for improving the effectiveness of the adoption of AI, as it helps ensure the strategic alignment and availability of resources. Leadership is vital for the success of digital transformation initiatives, otherwise there's resistance and no coordination (Wang et al., 2012).

In conclusion, the literature suggests that making use of AI is not a fail-safe solution for organizations' effectiveness. Be assured though that its impact occurs when addressed in a series; Digital transformation, Strategic agility and Innovation capability, with the critical boundary condition being top management's support.

METHODOLOGY

Research Design

The study used a quantitative research method with an explanatory design based on the moderating method starting with the moderator top management support, followed by strategic agility and innovation capability. The impact of the use of Artificial Intelligence (AI) on the efficacy of the organization was mediated using the mediation approach. It was chosen as it could be used for the hypothesis testing and statistical analysis of several variables, which had complex inter-relationships.

Population and Sample

The survey's respondents range from managers and senior executives from various industry organizations adopting AI. The examples of respondents had been chosen as the respondents, because they are directly involved with strategic decision making, digital transformation programs, and activities regarding innovation. There were 200 respondents in the last sample.

Sampling Technique

Purposive sampling method was used to choose the respondents. To guarantee accurate and relevant responses, the study was limited to those managers and executives who knew about the adoption of AI and the strategy of digital transformation at their organization.

Data Collection Procedure

The questionnaire was designed using scales that were previously validated and cited from the literature and adopted for the purpose of AI adoption, digital transformation, organizational strategic agility, innovation capability, top management support and organizational effectiveness. This questionnaire was sent out online and in hard copy. The purpose of the study was explained to all respondents and

confidentiality was made sure. The questionnaires which were not filled out completely were not used in the final analysis.

Measurement of Variables

Each construct was rated on a five-point Likert scale for strong disagreement (1) to strong agreement (5). The metrics used to assess AI adoption included the use of data analytics, system integration, and automation. Process digitization, technology integration and digital culture were the three aspects of digital transformation assessed. Inter-agility was assessed in terms of responsiveness, flexibility and decision making speed. Idea generation, product development and process innovation were used to assess the innovation capability. Top management support was assessed by leadership commitment, resource allocation and strategic involvement. The three operational criteria used to assess organizational effectiveness were operational efficiency, financial performance and the outcomes of innovations.

Data Analysis Technique

SmartPLS Software was used to analyze the collected data. Descriptive statistics, reliability test, validity test and Structural Equation Modeling (SEM) were used in the analysis to test the relationship between variables.

Assessment of Reliability and Validity

Cronbach's alpha and composite reliability were used to test reliability. Average Variance Extracted (AVE) was used to measure convergent validity and the Fornell-Larcker criterion and cross-loadings were used to determine the discriminant validity.

Structural Equation Modeling (SEM)

The direct relationships between the adoption of AI and organizational effectiveness were tested with SEM, along with the indirect effects via digital transformation, strategic agility, and innovation capability.

Sequential Mediation and Moderation Analysis

The bootstrapping method was used to perform sequential mediation analysis in SmartPLS to investigate the indirect role of digital transformation, strategic agility, and innovation capability between the variables of AI adoption and organizational effectiveness. Top management support was moderated and tested with interaction term analysis. Significance of effects was established using bootstrap CI, with a C.I. not containing the value of zero indicating a statistically significant effect.

ANALYSIS

The collected data from 200 managers and senior executives of AI-adopting organizations were analyzed using SmartPLS to analyze the relationships between artificial intelligence (AI) adoption, digital transformation, strategic agility, the capability to innovate, the support of the top management, and the organizational effectiveness. The data was checked for missing data, outliers, and inconsistent responses before conducting the main analysis. All 200 responses were kept for final analysis after being cleaned.

Four main analyses were performed: descriptive statistics, evaluation of the measurement model, evaluation of the structural model, and sequential mediation and moderation tests using bootstrapping procedures.

Descriptive Analysis

Demographic profile of the respondents and organizational characteristics were summarized by using descriptive statistics. The sample included managers and executives from both public and private sector organizations with experience implementing AI projects and digital transformation efforts.

Table 1: Demographic Profile of Respondents (N = 200)

Variable	Category	Frequency	Percentage
Gender	Male	122	61%
	Female	78	39%
Age	25–35 years	54	27%
	36–45 years	86	43%
	46–55 years	42	21%
	Above 55 years	18	9%
Position	Middle Manager	88	44%
	Senior Executive	72	36%
	Top Manager	40	20%
Sector	Manufacturing	82	41%
	Services	118	59%

The distribution of the sample by demographic characteristics suggests that the respondents were sufficiently experienced in the management of systems and had enough exposure to AI-based systems, which in turn made their answers reliable.

Measurement Model Assessment

The measurement model was tested to make sure that the constructs are reliable and valid. The internal consistency was assessed by Cronbach's alpha and average variance extracted (AVE) was used to assess for convergent validity. The quality of the measurement was good, as all constructs met the recommended thresholds (AVE ≥ 0.50 , reliability ≥ 0.70).

Fornell-Larcker criterion was used to check the discriminant validity, so that each construct was statistically different from the others.

Table 2: Reliability and Validity Results

Construct	Cronbach's Alpha	Composite Reliability	AVE
AI Adoption	0.921	0.942	0.708
Digital Transformation	0.907	0.933	0.681
Strategic Agility	0.898	0.925	0.664
Innovation Capability	0.912	0.938	0.697
Top Management Support	0.889	0.921	0.652
Organizational Effectiveness	0.915	0.945	0.713

Structural Model Assessment (Direct Effects)

The findings from the structural model showed that there were significant relationships for all constructs. The results showed that AI adoption had a positive effect on DT, suggesting that AI technologies enable faster adoption of digital systems in the organisations.

Digital transformation also had a significant impact on strategic agility, indicating that digitally mature organizations are more agile and can adjust to changes in the environment. Strategic agility proved to have a significant positive impact on innovation capability, meaning that agile organizations have improved ability to develop and execute new ideas.

The innovative capability had a significant impact on organizational effectiveness, with innovative organizations performing better, confirming the findings of this study. Adoption of AI also yielded a direct positive impact on organizational effectiveness, with indirect impacts being stronger.

Table 3: Structural Model Results (Direct Effects)

Relationship	Beta	T-Value	P-Value	Result
AI → Digital Transformation	0.672	12.115	0.000	Supported
Digital Transformation → Strategic Agility	0.588	10.204	0.000	Supported
Strategic Agility → Innovation Capability	0.541	9.316	0.000	Supported
Innovation Capability → Organizational Effectiveness	0.497	8.742	0.000	Supported
AI → Organizational Effectiveness	0.284	5.431	0.000	Supported

Moderation Analysis (Top Management Support)

The moderation analysis revealed that the top management support variable was found to be significant and strengthen the relationship between AI adoption and digital transformation. Faster and more effective transformation was observed in organizations that have strong leadership support for AI-driven transformation. The interaction term was significant, providing a support for the moderating effect.

Sequential Mediation Analysis

The sequential mediation was significant as confirmed by the bootstrapping results. The indirect impact of AI on organizational effectiveness was mediated by a well-defined sequence of steps: digital transformation → strategic agility → innovation capability. However, the indirect effect was also important in that it did not contain a zero, which indicated that the sequential mediation model was important.

This means that the benefits of AI use are not automatically linked to organizational effectiveness, but are channeled through a sequence of organizational capabilities.

Model Explanatory Power (R-Square Values)

The R-square values were high, suggesting that the model had high explanatory power. A significant amount of the variance in digital transformation was accounted for by AI adoption. Digital transformation, in turn, was linked with strategic agility, which was linked with innovation capability. Strategic agility, in turn, was linked with innovation capability, which was linked with digital transformation. Both of these variables accounted for a substantial amount of variance in organizational effectiveness.

The conclusion overall is that AI adoption is tied to an organized approach of building capabilities, which leads to an improvement in organizational effectiveness. The best effect is when digital transformation is followed by strategic agility and innovation capacity, as long as the top management is committed.

DISCUSSION

The results of this study align with the previous literature and show that the use of AI has a significant impact on the organizational effectiveness, albeit largely indirect and through a sequence of organizational capabilities. In particular, AI implementation is the catalyst for digital transformation, which further enhances the strategic agility, innovation capacity, and ultimately the effectiveness of the organization. The discovery reinforces the idea that AI is not just about a new piece of technology but also about transforming organizations and building up skills.

The positive direct relationship between the use of AI and digital transformation aligns with the findings of earlier studies that show that AI is also a contributor to digital technologies in organizational processes (Bharadwaj et al., 2013; Vial, 2019). In essence, AI revolutionizes the way businesses operate with its ability to automate processes, provide real-time analytics, and support intelligent decision-making. Such a transition will not only affect technology infrastructure, but also affect organizational culture, processes and direction.

Digital transformation is having a huge impact on strategic agility – the need for digital maturity for responsiveness and flexibility. Companies that achieve digital transformation will be much better equipped to perceive changes in the outside world and quickly adapt their business to market dynamics. Doing so is consistent with Doz and Kosonen (2010) who argued that a crucial element of strategic agility is organizational readiness and digital capabilities.

The strategic agility is determined that it has positive impact on Innovation capability as a strong positive. This means that agile companies can test, modify and successfully implement new ideas. Today's fast-paced world demands agility as the key to innovation. The result is consistent with Teece (2007) who pointed out that a dynamic capability is a key factor in innovation and future competitiveness.

Innovation capability was found to be the most important predictor of organizational effectiveness and innovation capability was found to be the most important predictor of innovation capability. This implies that companies which are able to create and implement innovative solutions have greater chances to achieve the correct outcomes, as far as operations and strategy. This is due to the fact that O'Reilly and Tushman (2013) stated that one of the factors that influence organizational performance in dynamic environments is innovation.

The findings of the sequential mediation provide a strong empirical support for the dynamic capabilities theory. The study shows that while in many instances AI adoption alone has the potential to improve organizational effectiveness, it is also necessary to have intermediate capabilities like digital transformation, strategic agility, and innovation capability. This shows the value of the capability development pathways to transform technological investment into performance.

Another moderator is that top management support reinforces the model, as it shows that the role of AI in DT has a positive impact when top management supports it. AI efforts are more likely to be integrated with strategic initiatives, defuse resistance to change, and receive organizational resources when they are backed by top management. This is consistent with Wang et al. (2012) who pointed out the importance of the support of leadership to gain successful technology adoption and organizational improvement.

The findings overall suggest that it won't be enough to simply implement a change in the technology, but it's important to make several changes within the organisation to become successful in the AI era. The technology is the trigger for this new era of AI, but the potential of AI can only be unfolded into strategies and innovation in an effective way if organizations can do it.

CONCLUSION

By tracing a sequence of digital transformation, strategic agility and innovation capacity, this paper demonstrates that the utilization of AI can affect organizational performance quite substantially. AI is a tool that can accelerate change within the organisation – and it will only start to make a difference once the internal capacity is in place and there is strong leadership support. Therefore, apart from the use of AI, there is a need to strengthen digital infrastructure, build agility and build capacity to innovate for sustainable performance improvement.

RECOMMENDATIONS

It's crucial for organizations to focus on embedding AI tools in their business operations and invest in digital transformation efforts at the same time. This will help the systems for the organization to become effective and lead to the incorporation of AI into the systems.

An ability for managers to become super-flexible, building flexibility in decision making processes and employing real-time data. A programme of staff training should be built to help staff engage with and develop their skills with technology changes.

Experimentation, multi-functional interactions and knowledge sharing have to be encouraged to make an organization more innovative. This will help turn the digital insights into innovations that can be put into action.

All the way from the top, the management should actively be involved in the adoption of AI, give direction and guidance to the project and allocate resources for the project to succeed. Strong leadership is essential to maximise the benefits of AI adoption, if not it can be limited.

Digital readiness should support the digital innovation ecosystems in order to support industry transformation leveraging AI systems.

Besides, future studies should investigate of other moderators, including organizational culture, the readiness of staff and technological assets to enhance the model further.

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