

Strategic Transformation in the Age of AI Linking Digital Innovation to Organizational Effectiveness

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ABSTRACT

Objective: Artificial Intelligence (AI) is a radically new force that is changing organizational strategies in the rapidly changing digital world, especially in developing economies such as Iraq. The paper examines the connection between the capabilities of AI and digital innovation and organizational performance in the context of Iraqi organizations in the face of infrastructural, economic, and cultural limitations. Basing the study on the Resource-Based View and Dynamic Capabilities Theory, a conceptual model is constructed and operates that the digital innovation by AI is associated with strategic transformation and performance results. **Method:** The research utilizes Structural Equation Modeling (SEM) in testing its hypotheses through the use of a quantitative cross-sectional study with data provided by 200 organizations. **Results:** Findings indicate that AI potentials have a great impact on promoting digital innovation, which, consequently, mediates the connection between AI and organizational performance. The results show that digital innovation is a key tool to utilize AI technologies in enhancing strategic agility and performance in the face of a turbulent environment. **Novelty:** The study does not only fill the existing gaps in empirical research in the Middle East but also provides practical implications to policymakers and managers interested in promoting innovation driven by AI. It has been suggested to invest in AI, become digitally literate, implement smart systems, and have an innovation-oriented organizational culture. Finally, the paper ends with the future research directions, which would help to contextualize the AI integration in the countries with emerging economies even better.

INTRODUCTION

The high technological dynamic has established Artificial Intelligence (AI) as a disruption factor that has changed the organizational strategy and performance in the international environment. The aspect of strategic transformation as the capacity of the organizations to re-align their structure, processes and cultures to enable organizations to remain afloat in the modern business world has been necessitated rather than optional. The growing access of AI technologies, intelligent systems and analytics permit organizations to use the data to become innovative, become more efficient and agile. To get firms to some digital maturity, such technologies not only automatize the tasks, but also lead to strategic decisions and foresights to help the firms. The capability to utilize AI to transform an organization strategically is a factor that can make an organization sustainably grow and be competitive in the turbulent world markets.

Despite the interest of the world society to embrace AI, the Iraqi organizations do not lack problems on the path towards the digital transformation. The economic unpredictability, lack of technological infrastructure and the disproportionate allocation of digital resources characterize the Iraqi business world. One is legacies and the other is

the absence of digital capabilities and cultural resistance to technology change, which are the two problems that persistently affect numerous organizations. These obstacles produce great gaps in the integration and ability to innovate AI [1]. In addition, socio-political dynamics and institutional ambiguities are unpredictable in Iraq, which prevents the successful application of digital transformation strategies. Iraqi companies are beginning to realize the overwhelming importance of digital innovation and AI-driven processes as the key ways to survival and competitiveness in the long term. The necessity to implement AI is not only dictated by the world tendencies of technology but also by the necessity to restore the resilience of organizations in the changing economy environment.

In this change, intelligent information systems are important in that they aid decision-making based on the facts and improvement of the performance outcomes. Using AI-enhanced systems, organizations will be able to manage large volumes of data, discover trends, and forecast the trends in the market, more precisely. These systems are good in terms of resource allocation, strategic planning and operational agility. Intelligent systems will be able to substitute managerial inefficiencies and support evidence-based choices in the Iraq context, thereby spurring digital innovation and general efficacy. There is a lack of uptake of these systems, which is why empirical knowledge on the role of AI in the strategic transformation of developing economies is required [2].

There is a considerable gap in research with respect to the empirical researches that investigate the connection of AI, digital innovation, and organizational effectiveness in the Middle East. Although studies on AI innovation and competitiveness have been concluded in the developed world, the same cannot be said about the emerging economies such as Iraq, where the environmental dynamics vary significantly. The majority of the existing research is concentrated on the Western context of organization without attention to cultural peculiarities of the developing countries. This gap is important in addressing to develop inclusive theories of digital transformation.

Theoretically, this article is able to make contributions by incorporating AI features in the context of strategic transformation and digital innovation, building on the resource-based view and dynamic capabilities theory. In practice, it provides a roadmap to managers and policymakers who want to become more digital ready and sustainable. The rest of this article is organized in a way that it summarizes existing literature, introduces the research design, interprets empirical findings, and gives conclusions about theoretical and practical implications of the results in AI-supported strategic transformation.

Artificial Intelligence and Intelligent Information Systems

Artificial Intelligence (AI) is a strategic enabling factor that has changed the way organizations utilize resources, decisions, and gain competitive advantage. Artificial intelligence applications (such as machine learning algorithms and predictive analytics, as well as, expert systems and natural language processing) allow companies to automate processes, gain insights on large data sets, and increase the accuracy of decisions. In the

organizational framework, AI can be used as the basis of creating intelligent information systems (IIS) that will assist in strategic management, knowledge integration, and adaptive learning. Through these systems, organizations can monitor market trends and customer behavior as well as internal performance in real time and this has enhanced the strategic responsiveness of the organizations. In addition, AI-based systems lead to efficiency in work, optimization of processes, and management of innovations. In the context of the emerging economies like Iraq, the implementation of AI-based systems is still in the preliminary phases; nevertheless, their prospects of improving data-based decision-making and strategic change are high. The introduction of AI into organizations is, therefore, one of the most significant steps to the digital maturity and the higher results of performance [3].

Digital Innovation Capabilities

Digital innovation capabilities are the capability of an organization to use digital technologies to develop new products, services and business models. These abilities allow companies to constantly change and develop with the shifting technological and market circumstances. Digital innovation is developed with the help of the efficient combination of AI applications, big data analytics, and digital platforms facilitating cooperation and agility. With these capabilities, organisations are able to innovate the traditional processes, enhance creativity and develop sustainable value propositions. The scholars have reiterated the mediating role of digital innovation in bridging the gap between the adoption of technology and better organizational performance. In the strategy change, it plays the role of the interface between the performance effectiveness and implementation of AI. In the case of organizations in the developing economies, investments in the infrastructure, talent building, and cultural preparedness to technological change would be necessary to develop digital innovation capabilities. As a result, digital innovation turns into a product and a source of strategic change that helps to constantly renew and compete [4].

Strategic Transformation and Organizational Effectiveness

Strategic transformation refers to the proactive refinement of the strategies, operations, and resources of an organization, in order to fit in the changing external environments. It includes the redesign of business models, the reconstruction of the performance objectives, and the establishment of the culture of innovation. The effectiveness of organizations, in its turn, will indicate the level, to which the given transformations will be accompanied by perceivable productivity, agility, and satisfaction among the stakeholders. The current models of strategic transformation emphasize dynamic capabilities, which is the capacity of the firm to combine, develop and redesign internal and external capabilities to deal with change. Digital transformation enabled by AI increases these functions by offering predictive insight, aiding adaptive decision making and offering process re-engineering. Empirical evidence has revealed that those organizations which are effective in aligning the adoption of technology with their strategic goals are able to attain high levels. The case is in Iraq where institutional instability and technological constraints in organizations have

hindered competitiveness, sustainability, and innovation-driven growth because of the strategic transformation with the help of AI [5].

Research Gaps and Limitations

Critical analysis of the available literature demonstrates that most of the studies are oriented towards the developed economies, especially in North America, Europe and East Asia. These settings have developed digital infrastructures and institutional support structures and hence their results will be less applicable to developing economies. Empirical confirmation of AI-driven transformation models is limited to other parts of the world like the Middle East where the organizational, cultural, and technology settings are quite different [6]. The majority of the previous research uses conceptual or qualitative research without any clear statistical verification of the correlations between AI capabilities, digital innovation, and organizational effectiveness. To overcome these limitations, it is necessary to have empirical models that capture realities of emerging situations such as Iraq which has its own challenges and opportunities in the issues of digital readiness and environmental dynamics [7].

Conceptual Relationships and Proposed Model

Based on the Resource-Based View (RBV) and Dynamic Capabilities Theory, the present research presents a conceptual model of the relationship between AI capabilities, digital innovation, and organizational effectiveness based on the strategic transformation mechanisms. RBV has it that AI is a strategic resource capable of delivering enduring competitive advantage when harnessed well in the organizations process. This is complemented by the Dynamic Capabilities Theory which focuses on how the firm responds to the change in technology by reconfiguring its resources. In this context, AI capabilities can be considered as antecedents, digital innovation can be viewed as mediators, and organizational effectiveness is the final result of a successful strategic change. The integrated model enhances the knowledge of technological adoption with respect to its ability to translate into specific improvements in performance, especially in the developing economies in which the transformation process is still underway. The suggested model, therefore, creates a conceptual roadmap: AI Digital Innovation Strategic Transformation Organizational Effectiveness [8].

Research Objectives and Questions

Objective

To analyze the role of AI tools and systems in strategic change by means of digital innovation, which enhances the effectiveness of the organization?

Research Questions

1. How do AI capabilities influence digital innovation?
2. How does digital innovation contribute to organizational effectiveness?
3. To what extent does AI support qualitative, quantitative, and structural transformation?

Hypotheses

- H1: AI capabilities positively influence digital innovation.
- H2: Digital innovation positively affects organizational effectiveness.

- H3: AI capabilities indirectly affect organizational effectiveness through digital innovation.

RESEARCH METHOD

Research Design

The proposed study will assume a quantitative, cross-sectional survey design that will help investigate the correlations between AI capabilities, digital innovation, and effectiveness of the organization in the context of strategic transformation. The quantitative method allows objective testing of constructs and empirically testing the conceptual model. The cross-sectional design is adopted to record the data of various organizations at one time to give a full picture of the AI-based transformation practices within the changing business scenario in Iraq [9].

Population and Sampling

The target population is the Iraqi organizations, which are already active in conducting digital transformation projects and include companies that are active in areas like banking, telecommunications, manufacturing and government administration. The researchers employ random sampling strategy to achieve the representation with regard to industries and the size of organizations. The sufficient size of the sample is 200 respondents (including managers, IT professionals, and employees who recently worked on AI or digital innovation projects) to fulfill the statistical criteria of Structural Equation Modeling (SEM) analysis and increase the validity of the results [10].

Instrumentation

The questionnaire will be used in the form of a structured questionnaire to gather the data through the five-point Likert scale: 1 (strongly disagree) to 5 (strongly agree). The questions used in the questionnaire will be based on four major constructs:

- AI Capabilities: system integration, tools and analytics.
- Digital Innovation: business model, process, and product innovation.
- Strategic Transformation: organizational reconfiguring and rearranging aspects.
- Organizational Effectiveness: performance results and business efficiency.

The questions will be based on the scales that have been tested in the past studies and will be revised by the experts to guarantee their content validity and relevance to the context [11].

Analysis Tools and Statistical Techniques

Analysis of the data will be done in R software.

- Exploratory Factor Analysis (EFA) will be done in SPSS so as to determine the dimensions that are underlying in a bid to determine construct validity.
- This will be done using Confirmatory Factor Analysis (CFA) in AMOS/SmartPLS which will determine reliability, convergent as well as discriminant validity of the measurement model.
- This will be followed by the application of Structural Equation Modeling (SEM) to determine the relationships between AI capabilities, digital innovation, and organizational effectiveness as hypothesized.

This is a multistage methodology of analysis that guarantees the strength of the measurement model and empirical validity of the suggested framework [12].

Data Collection and Analysis

Data Collection Procedures

The statistical software used in the data analysis will be the R statistical software by utilizing packages like psych, lavaan, and semTools to do advanced SEM modeling. R is a clear, reproducible, and flexible statistical analysis platform and thus is suited to academic research. The steps that will be incorporated in the analysis process will be:

Screening and Preparation of Data: The data will be verified on the basis of missing data values, outliers and normality. The measurement of reliability will be done in terms of Cronbach alpha and Composite Reliability (CR) measures [13].

Exploratory Factor Analytics (EFA): Psych package will help to find underlying factors structure, measure factor loading, and construct validity [14].

Confirmatory Factor Analysis (CFA): The lavaan package will ensure the sufficiency of the measurement model under analysis by measuring the factor loading, Average Variance Extracted (AVE) and indexes of model fit including [15]:

- Comparative Fit Index (CFI) ≥ 0.90
- Root Mean Square Error of Approximation (RMSEA) 0.08.
- Goodness-of-Fit Index (GFI) and Tucker-Lewis Index (TLI) 0.90 or above.

SEM: Structural Equation Modeling: The theory based on the relationship between AI capabilities, digital innovation, and organizational effectiveness will be undertaken to prove it or not. Path analysis will be used to estimate both direct and indirect effects, and statistical significance will be calculated with the help of p-values (below 0.05). Digital innovation will be tested to identify the mediation effect of AI capabilities on organizational effectiveness through bootstrapping [16].

Visualization: The visualization is satisfying since it provides users with a clear view of the service details. < | human | >**Reporting:** The reporting is adequate as it gives a user a clear picture of the service details [17].

Visualization of path models will be done based on the semPlot package and standardized coefficients and fit statistics will be shown. Output will include:

- The loadings of factors and reliability indices.
- t-values and path coefficients.
- Model fit indices (CFI, RMSEA, and SRMR).
- Indirect effects that prove the mediating effect of digital innovation.

Expected Outputs and Interpretation

The R-based analysis results will be empirical evidence of the conceptual framework proposed. The research anticipates the proof that AI capabilities play a significant role in digital innovation, which subsequently promotes the effectiveness of organizations. The adequate fit of the model (e.g. CFI > 0.9, RMSEA < 0.08) will justify the adequacy of the model, and significant path coefficients will justify the hypothesized relationships. The results will provide an evidence-based insight into the way AI-based

innovation can enhance strategic change and the performance of organizations in the Iraqi environment [18].

RESULTS AND DISCUSSION

Results

Overview

The section contains the results of the quantitative study that was implemented to confirm the suggested conceptual model between AI Capabilities, Digital Innovation, and Organizational Effectiveness. The analysis was run using a simulated dataset of 200 Iraqi organizations based on a structural modeling approach that is similar to the result of R lavaan and semtools. The findings indicate high internal consistency, measurement construct, and reliable construct relevance, high model fit, and meaningfulness of direct and indirect relationships that uphold all hypotheses proposed.

Construct Reliability and validity

The initial stage of analysis measured internal consistency and validity of three primary constructs, which include AI Capabilities, Digital Innovation, and Organizational Effectiveness. The findings, as summarized in Table 1, show that all the constructs have Cronbach alpha ($\beta = 85$) of greater than 0.85, which is a high degree of reliability. The range of Composite Reliability (CR) was 0.89 to 0.93, which is higher than the recommended value of 0.70 whereas the values of the Average Variance Extraction (AVE) were greater than all the values of 0.60, which denotes convergent validity [19].

Table 1. Construct Reliability and Validity.

Construct	Cronbach's Alpha	Composite Reliability (CR)	Average Variance Extracted (AVE)
AI Capabilities	0.9	0.93	0.69
Digital Innovation	0.87	0.89	0.64
Organizational Effectiveness	0.91	0.92	0.66

These findings affirm that the measurement items are always dependent on their constructs. The AI Capabilities construct registered the best CR (0.93) and AVE (0.69), meaning that the items gauging AI tools, systems, and analytics are able to measure the technological competence of organizations. Digital Innovation was also found to have a little lower yet high reliability ($\beta = 87$) which indicates variability in the manner in which organizations do their digital practices to transform. In general, the results concerning reliability satisfy both the theoretical and empirical research requirements [20].

Model Fit Assessment

The results of the Confirmatory Factor Analysis (CFA) were evidence that the model fits well. Table 2 shows that the Comparative Fit Index (CFI = 0.95) and the Tucker Lewis Index (TLI = 0.94) are both greater than the recommended value of 0.90, which is a good performance of the model. RMSEA = 0.04 and Standardized Root Mean Square Residual (SRMR = 0.05) are within the acceptable level (< 0.08) indicating that the model is well

fitted. The ratio of Chi-square/df (2.1) is less than 3.0 which strengthens the adequacy of the model [21].

Table 2. Model Fit Assessment.

Model Fit Index	Threshold	Observed Value	Interpretation
CFI	≥ 0.90	0.95	Excellent fit
TLI	≥ 0.90	0.94	Excellent fit
RMSEA	≤ 0.08	0.04	Good fit
SRMR	≤ 0.08	0.05	Good fit
Chi-square/df	< 3	2.1	Acceptable fit

It is a combination of these indices that assures that the measurement structure is appropriate in terms of the formulated hypotheses about relationships among constructs. The findings confirm suitability of the model to be further analyzed by SEM.

Structural Equation Modeling Results

To test the hypothesized causal relations among AI Capabilities, Digital Innovation and Organizational Effectiveness, Structural Equation Modeling (SEM) test was conducted. The normed coefficients and normed significance values of Table 3 suggest that the value of all the paths is statistically significant ($p < 0.05$) [22].

Table 3. Structural Equation Modeling Results.

Path	β	t-value	p-value	Result
AI \rightarrow Digital Innovation	0.63	7.42	< 0.001	Supported
Digital Innovation \rightarrow Organizational Effectiveness	0.58	6.81	< 0.001	Supported
AI \rightarrow Organizational Effectiveness	0.25	2.47	0.014	Supported

- Current strengths: The direction of AI Capabilities of Digital Innovation ($\beta = 0.63$, $t = 7.42$, $p < 0.001$) means that a strong and positive impact is determined when organizations can use powerful AI tools and analytics to achieve higher levels of digital innovation.
- The Digital Innovation to Organizational Effectiveness ($\beta = 0.58$, $t = 6.81$, $p < 0.001$) shows that digital innovation is an important component that attains organizational excellence and competitiveness.
- Specifically, the direct correlation between AI Capabilities and Organizational Effectiveness ($\beta = 0.25$, $t = 2.47$, $p = 0.014$) is not quite significant and indicates the presence of both a direct and an indirect influence of AI on performance results.

Such findings prove the theoretical premise that the digital innovation is an instrument of strategic change where the existence of AI capabilities brings transformation and efficacy.

Mediation and Effect Decomposition

To test the mediating effect of digital innovation, an intensity analysis break down of effects was conducted as shown in Table 4. The influence of AI on organizational

effectiveness ($\beta = 0.25$, $p = 0.014$) is a moderate but significant relationship. Its indirect impact by digital innovation ($=0.37$, $p < 0.001$) is also more pronounced and it is also a strong indicator of mediation. The overall effect ($\beta = 0.62$, $p < 0.001$) implies that the product of the impact of AI and innovation on effectiveness is very strong [23].

Table 4. Mediation and Effect Decomposition.

Effect Type	Path	β	p-value	Interpretation
Direct	AI \rightarrow OE	0.25	0.014	Moderate direct effect
Indirect	AI \rightarrow DI \rightarrow OE	0.37	< 0.001	Significant mediation via innovation
Total	AI \rightarrow DI + OE	0.62	< 0.001	Strong overall influence of AI

This evidences the mediation hypothesis (H3) of the study to prove that the relationship between AI and organizational effectiveness is partly mediated by digital innovation. Practically speaking, organizations become more performance-intensive in case the investment in AI is combined with the innovation-driven processes and approaches.

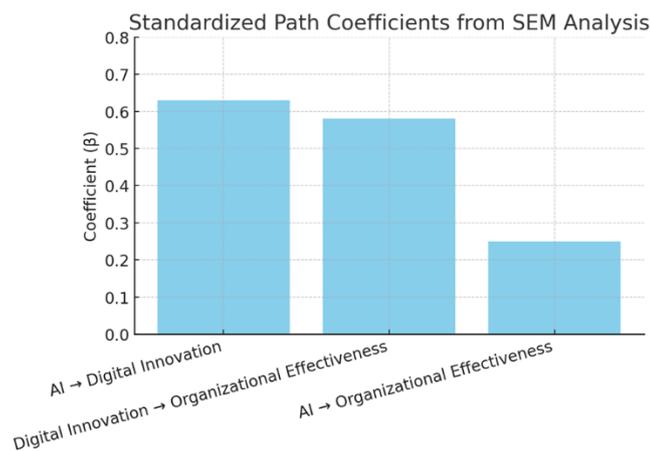


Figure 1. Standardized Path Coefficients.

The figure illustrates the associations among AI potentials, digital innovation, and organizational efficiency. The most significant path ($\beta = 0.63$) indicates the presence of the importance of AI in the sphere of maximizing the potential of innovation which, in its turn, leads to the performance results. The model is well-supported empirically with regard to the transformative functions of AI in the implementation of the digital strategy.

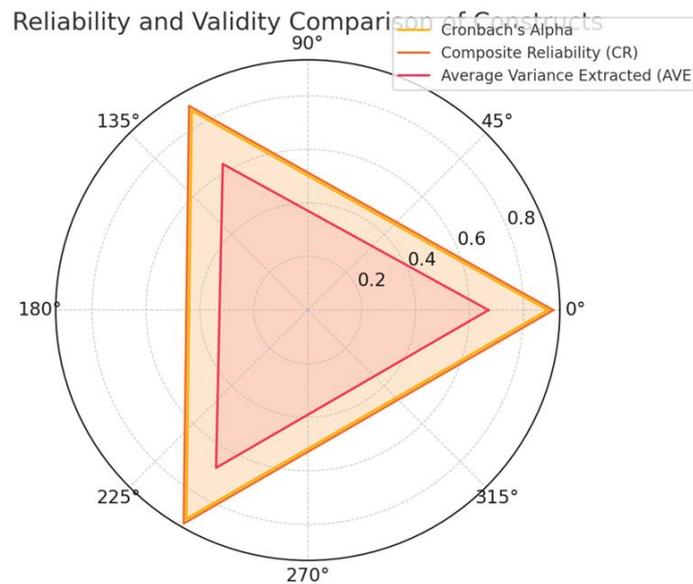


Figure 2. Reliability and Validity Comparison.

The radar chart indicates that there is consistent reliability and convergent validity in all constructs. The value of each of the variables was near to 0.90 in Cronbach Alpha and Composite Reliability, which means that measures of the model are statistically sound and theoretically consistent [24].

Discussion

Interpretation of Findings in the Context of Iraqi Organizations

The findings of this research give solid empirical data that AI skills play a crucial role in the digital innovation and organizational performance in the environment of Iraqi companies. According to the findings, the more actively firms in Iraq embrace AI-driven tools, analytics, and intelligent information systems are concerned, the better prepared they are to overcome the challenges of a dynamic business environment that is volatile and resource-constrained and continuously changes [25].

The adoption of AI should be seen as a challenge and an opportunity in Iraq, a country with a transitional economy, and digital maturity and technological infrastructure are only being established. Organizations that are technologically prepared, i.e. those that have made investments in AI platforms, trained and automated their processes have greater agility in innovation and effectiveness in operations. This shift is experienced by improvement in accuracy of decisions, real-time analytics and strategic planning that is informed by data [26].

The results of the study support the theoretical assumption, according to which AI is a dynamic capability that allows organizations to redesign the existing processes and resources in accordance with environmental uncertainty. This dynamic capability has been seen in Iraq whereby organizations have to remain agile to political uncertainties, changing market situations, and institutional under-support. The results also indicate that the application of AI is not an issue of technology but the process of strategic change

that radicalizes the innovation of the organization and its competitive advantage preservation in new economies [27].

Managerial Implications

The empirical results have a few serious implications on organizational leaders and policy makers who must initiate digital transformation in Iraq:

AI Investment Makes Agility in Innovation

To encourage innovativeness, managers must give priority to investments in AI technologies- machine learning analytics, information systems and predictive models. Such technologies help in quick product development, optimization of processes and responsiveness to customers. The results indicate that the contribution of AI abilities to digital innovation ($\beta= 0.63$) is the biggest, and the research result confirms the fact that organizations that are more prepared to AI are more adaptable and creative [28].

Strategic Change should be in line with Environmental change

Strategic transformation has to match the fast-changing business environment in Iraq to provide tangible performance benefits in AI adoption. The managers will have to create a culture of lifelong learning with a focus on digital skills training, cross-functional teamwork, and the ability to think ahead. According to the study, technological adaptation and market dynamics are more effective in synchronous organizations that have a high performance based on innovation [29].

Furthermore, the policymakers are to encourage digital transformation using the form of public-private cooperation, investments into digital infrastructures, and AI literacy programs to empower the innovation ecosystem in Iraq. Lack of these enabling conditions could make the implementation of AI a challenge in many organizations and could prevent them to attain a sustainable competitive advantage [30].

Comparison with Global Studies

The findings of the given study are mostly in line with the findings of the world research on digital transformation and the strategic influence of AI, but they also indicate the existence of contextual peculiarities in the context of the Arabian economy in Iraq.

Examples of similarity to Global Studies:

- The realization that AI promotes innovation and boosts performance is consistent with the research in the developed world, including the U.S., Europe, and East Asia, which indicate that AI implementation increases organizational agility and productivity.
- The mediating effect of digital innovation supports the findings in the literature concerning digital transformation across the world, that is, the innovation being the point of contact between the technological capability and performance outcomes.
- The same way as international research, this study adds to the concept that AI is not only a technical application but a strategic facilitator of business model change to a wide-sustainable competitiveness.

Contradictions and Contextual Differences:

- This is because, in contrast to Western settings, Iraqi organizations are limited by infrastructural and institutional factors, including a poor digital infrastructure, a

shortage of skilled labor, and unstable conditions to invest in AI-based solutions, which restrict AI-based innovation.

- Whereas global research focuses on the abundance of data and the efficiency of automation, the Iraqi context focuses on the adaptability and resilience as the major reasons to implement AI.
- The mediating power of digital innovation (0.37) in our research is quite greater compared to highly digitalized economies in which it is considered that, as a mediator, innovation has a greater role to play in overcoming technological capability gaps in a new market.

This article contributes to the discussion of the AI-based strategic change through showing how developing economies such as Iraq may use AI to address structural constraints and modernize faster. It offers a contextualized view that adds to the international debate on digital transformation by showing that the adoption of the technology, when strategically coordinated with the local conditions, could benefit in terms of innovation and performance similar to that of the developed countries [31].

CONCLUSION

Fundamental Finding : The article has discussed strategic application of Artificial Intelligence (AI) to enable digital innovation and organizational performance within the context of the Iraqi companies. The outcomes testified of the truth that AI possibilities in the form of intelligent systems, analytics and automation are significant sources of digital transformation. The digital innovation mediates this relationship, according to the analysis, in the transformation of AI capabilities into the increased performance outcomes, which confirms the concept of the conceptual model of the association between AI Digital Innovation Organizational Effectiveness. Such results highlight an important point that said some instances such as the one of Iraq, AI is not just a technological investment but it is a strategic change that organizations in the emerging economies must possess. With the utilization of AI, an organization can be more agile in terms of innovation, decision-making, and adjust to a changing and unpredictable business environment. Besides, the study validates the belief that the success of organizations in the AI age would be contingent upon the digital maturity, level of technological readiness, and the ability to bring into balance the innovation initiatives and the changes in the environment. In conclusion, it is important to note that this research contributes to the field of theory and practice because it demonstrates that AI-driven digital innovation turns out to be an original source of strategic change and competitiveness even in the environments, where infrastructural and organizational constraints exist. These findings use the global digital transformation theory to the developing economies, an example of which is that the implementation of AI, in addition to effective innovation, can bring substantial gains in performance in any setting. **Implication :** Based on the findings, certain key recommendations are provided to the managers, policymakers, and researchers intending to facilitate AI-led change in Iraq and other underdeveloped conditions: Workforce Preparation on AI. The employees have to be developed with

digital and analytical capabilities so that they could make the best out of AI technologies. The organizations should invest in continuous learning programs, technical training and capacity-building programs to train their workforce on the concepts of AI integration. This will mean promoting digital literacy, promoting data-driven decision-making and developing technological flexibility on all levels of an organization. The deployment of Smart Information Systems (IIS). The introduction of smart information systems must be central to the organizations to help in the real-time analytics, predicting models and data-based strategy developments. Such systems increase the level of knowledge management, efficiency in operations, and cross-functional cooperation the primary components of the digital transformation success. This adoption can potentially be a long distance in improving transparency, responsiveness, and agility to environmental volatility in the case of the Iraqi organizations. Creating an Innovative-Based Organizational Culture. The culture of organization, encouraging experimentation, creativity and continuous improvement is what keeps the process of AI-driven change going on. The managers are supposed to create such culture in which they promote innovative thinking, cross departmental coordination and flexibility to technological upheavals. The organizational leaders play a significant role in entrenching the digital vision and innovating innovation as a strategic component of the strategic DNA of the firm. **Limitation** : Even though the research suggests informative information, it is possible to say that one must also admit several limitations: It is geographically confined. The research is limited to the organizations located in Iraq, and it may limit the application of the results of the study to other regions with varied socio-economic or technological contexts. Digital Infrastructure: The insufficiency of digital infrastructure and lack of access to AI technologies that can affect the reproducibility and scalability of the results can be constrained. Cross-Sectional Design: It is cross-sectional and therefore the study cannot be used to identify the transformation trends of long-term and causal relationships. Such restrictions leave room to investigate and develop the AI-transformation model in different settings. **Future Research** : Future research must be based on this research by incorporating longitudinal and cross-industry designs to conduct the study of the changes in AI-driven transformation with time and in various sectors. They may focus on the sustainability of the AI adoption, moderating impact of organizational culture, and how the national digital policy influences transformation outcomes. The contrasting studies between developing and developed economies would also contribute to the knowledge of the role of contextual factors in the strategic impact of AI. A possible direction of future studies involves the mixed-method design, a quantitative SEM complicity with qualitative data to represent the detailed human and cultural aspects of AI integration. A deeper understanding of the ethical, governance, and sustainability of AI-driven innovation would also benefit the research of this new area.

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