

Artificial Intelligence–Driven Business Model Innovation: Strategic Transformation in the Digital Economy

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Abstract

Artificial Intelligence has emerged as a very significant tool in modern-day economies that aid in enhancing the growth and development of businesses. In fact, many businesses use AI technologies to automate and enhance processes and make better decisions in relation to various business activities. Besides being useful as a technology advancement, AI is also proving itself useful in transforming the business models. This process of transformation is referred to as Business Model Innovation. By applying AI, the firms are able to develop better insights about their customers, predict trends in the markets, and develop new digital services.

AI Business Model Innovation allows firms to overcome conventional practices. In other words, AI fosters the emergence of customized services, subscriptions, digital platforms, and other innovations. Nonetheless, only using AI is not sufficient for firms to innovate. The strategic utilization of AI along with its integration into the company's organizational structure is needed. In case the firm is agile and able to respond to changes, it can benefit from applying AI. In such a way, strategic agility intensifies the effect of AI on the innovation outcomes. Lastly, innovative processes driven by AI positively influence the performance of companies.

Keywords: Artificial Intelligence, Business Model Innovation, Strategic Transformation, Digital Economy, Strategic Agility

Introduction

The unprecedented pace of AI development is transforming the economy of the world, reconfiguring the way businesses operate and compete by generating, delivering, and extracting value through innovative means. AI solutions like machine learning, natural language processing, predictive analytics, and robotic process automation have moved from being novel technologies to core capabilities deeply integrated into key organizational functions (Brynjolfsson & McAfee, 2017; Davenport & Ronanki, 2018). As digital technologies become pervasive across different sectors, companies not only have to implement AI but also change their business models to stay competitive (Teece, 2018). The digital economy revolves around platforms,

data analytics, personalized algorithms, and scalable digital infrastructure (Nambisan et al., 2019). This scenario positions AI as a tool that increases operational efficiency while promoting strategic change (Clauss, 2017; Foss & Saebi, 2017). The examples of Amazon, Alibaba, and Netflix show how AI-based analysis, recommendations, and automation facilitate innovative revenue streams, subscription models, and highly personalized customer experience. Thus, AI not only drives competition through technological innovation but also creates new opportunities for BMI (Clauss, 2017; Foss & Saebi, 2017).

Business Model Innovation is described as radical modifications to how firms generate, distribute, and extract value (Zott & Amit, 2010). As opposed to product innovation, business model innovation involves altering the firm's value proposition, revenue model, customer interactions, and cost structure. Such reconfiguration can be achieved via Artificial Intelligence technologies by leveraging data-enabled services, creating predictive maintenance models, implementing servitization strategies, and improving the platform ecosystem (Ransbotham et al., 2017). Nevertheless, despite rapid development and integration of AI within organizations, there are many difficulties when turning technological initiatives into long-term strategic changes (Bughin et al., 2018). From the standpoint of theory, the interaction between AI and business model innovation can be described based on the Resource-Based View (RBV) and Dynamic Capabilities Theory. According to the RBV, firms achieve competitive advantage as a result of using valuable, rare, inimitable, and non-substitutable resources (Barney, 1991). Capabilities of the firm related to AI include. However, resources are not enough by themselves. The Dynamic Capabilities Theory stresses the importance of being able to perceive opportunities, exploit them, and restructure organizations accordingly (Teece, 2007). In environments where artificial intelligence is used, dynamic capabilities allow businesses to incorporate AI into their strategic thinking and process design.

In addition, existing research on the topic seems to focus more on developed countries and sectors where advanced technologies play an essential role, which is why there is a gap when it comes to applying knowledge about AI use in business models to developing countries and other industries (Nambisan et al., 2019).

Research Objectives

1. To assess the influence of AI adoption on Business Model Innovation.
2. To study the influence of business model innovation on firm performance.
3. To empirically test the mediation effect of BMI on AI adoption-performance relationship.
4. To assess the moderation effect of strategic agility on AI adoption-BMI relationship.
5. To understand the strategic change processes through which AI influences business model innovation.

Hypotheses Development

- H_1 : AI adoption positively influences Business Model Innovation.
- H_2 : Business Model Innovation positively influences firm performance.
- H_3 : Business Model Innovation mediates the relationship between AI adoption and firm performance.
- H_4 : Strategic agility positively moderates the relationship between AI adoption and Business Model Innovation.

Review of Literature

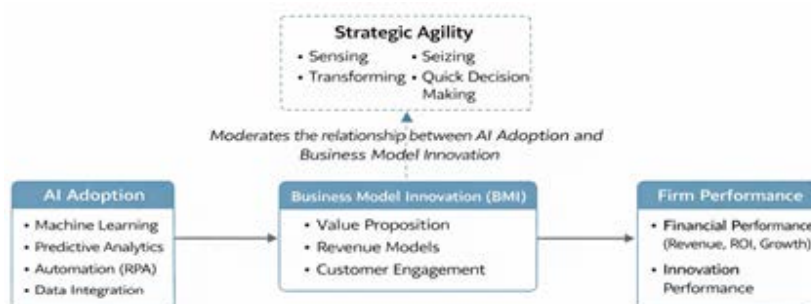
As stated by Agarwal & Brem (2025), the advent of AI business ecosystems represents new ways of value capture via adaptive algorithmic governance. The research indicates that AI transforms the nature of interfirm relationships and competitiveness due to its application as predictive intelligence in the context of value networks. As per Gupta & George (2025), the ability of firms to turn their technology investment into competitive advantage depends on the AI maturity architecture. They emphasize the need for moving beyond operational automation toward embedding the use of AI within strategic levels. Kraus et al. (2025)

addressed AI-driven entrepreneurship and platformization. In this sense, these scholars have proven that AI utilization by firms leads to a change in the core business logic, making data monetization an essential part of the new business model. AI provides scalability and allows firms to transform themselves into platforms. Li and Atuahene-Gima (2025) stressed that AI allows for ambidexterity as it is able to improve operational efficiencies and explorations at the same time. According to their results, AI helps companies make incremental changes and conduct experiments, and therefore helps organizations restructure themselves efficiently in a dynamic environment. Mikalef et al. (2024) considered AI capability as a higher-order dynamic capability that facilitates the enhancement of sensing, seizing, and transforming capabilities. In their study, it was found that AI improves strategic renewal through better decision-making intelligence, resource coordination, and innovation effectiveness. Verhoef et al. (2024) showed that digital transformation through artificial intelligence changes the way of ecosystem positioning and platform strategies. They contended that artificial intelligence impacts how companies can make, deliver, and retain value by changing digital interfaces, customer engagement processes, and competition. Wamba et al. (2024) proved that AI-based analysis is a key source of strategic flexibility and organizational success due to innovation-driven factors. This research clearly demonstrated that companies capable of using advanced analytics within their operations have better capabilities in terms of flexibility, effectiveness, and innovations. Zhang and Chen (2024) examined AI-based subscription plans and concluded that algorithmic personalization considerably helps with retaining customers and generating revenue through appropriate monetization techniques. Their study shows that value extraction techniques are made more efficient through prediction and recommendations offered by AI tools. Dwivedi et al. (2023) The panel discussion was centered around governance structures for the deployment of responsible AI, highlighting the relationship between ethical AI usage and innovative business models. Transparency, accountability, and compliance were identified as crucial elements for building trust and driving responsible digital transformation. Foss and Saebi (2023) AI is seen as having the potential to cause architectural change in the business model of the architecture itself, not evolutionary change. This is because AI enables firms to structurally change their value creation process through reconfiguring activities, sources of income, and market positioning.

Research Gap

- Integration Gap: Few models empirically integrate AI implementation, BMI, strategic agility, and performance measures.
- Mechanisms Gap: Little investigation on how the sensing and seizing capabilities via AI facilitate business model transformation.
- Moderation Gap: Undervalued contribution of strategic agility in enhancing AI-BMI associations.
- Methodological Gap: Dominance of single-method quantitative approaches; dearth of mixed-methods studies.
- Emerging Economy Gap: Lack of empirical studies in rapidly digitizing emerging economies.

Conceptual Framework



Brief Description of Components

- AI Adoption: Degree of integration of AI technologies within analytics, automation, decision making, and customer interaction processes.
- Innovation of Business Models: Change in: Value Proposition, Value Creation Process, Revenue and Cost Structures.
- Strategic Agility (Moderator Variable): Flexibility in aligning strategies and resource allocation to respond to technological shifts.
- Strategic Transformation: Shift in structure and culture triggered by innovation with AI technologies.
- Performance of Firm: Evaluated based on financial performance, innovation performance, and competitive advantage.

Research Design

This study adopts a Sequential Explanatory Mixed-Method Design (QUAN → QUAL → Integration). Justification for Mixed Method:

1. Complexity of AI-Driven Transformation: AI-Driven BMI includes quantifiable structural linkages (quantitative) and intricate organizational processes (qualitative).
2. Complementarity: Quantitative data supports hypothesis testing through statistical methods. Qualitative data offers explanations for mechanisms and provides context.
3. Triangulation: Improves internal validity and theoretical strength.
4. Expansion: Qualitative insights go beyond statistical modelling to incorporate leadership, organizational culture, and governance issues.

Phase I – Quantitative Approach – Sample size of 350 organizations adopting AI technology using structured Likert scale questionnaire that assesses adoption of AI, business model innovation, strategic agility, and organizational performance; analysis includes reliability test, CFA, SEM, mediation and moderation.

Phase II – Qualitative Approach – Semi-structured interviews with 15-20 senior executives using thematic analysis and pattern matching.

Integration: Joint Display and Meta-inference Synthesis. The study expands RBV, dynamic capabilities, and BMI theory.

Qualitative and Quantitative

Findings: This section discusses the results obtained from the study, which include quantitative findings on the associations between AI adoption, Business Model Innovation, strategic agility, and firm performance, as well as qualitative findings that reveal the underlying transformation processes.

Quantitative Findings

Sample Characteristics

The quantitative survey covered 342 companies involved in digitally-intensive sectors like IT services (28%), manufacturing (22%), retail and e-commerce (18%), financial services (17%), and healthcare (15%). Participants were largely senior managers (46%), innovation managers (28%), and IT managers (26%). Approximately 63% companies had adopted moderate-to-high AI use, while 37% were early adopters of AI. Breakdown by firm size indicated:

- 34% Small Enterprises
- 41% Medium Enterprises
- 25% Large Enterprises

Measurement Model Assessment

Reliability and Validity

- The Cronbach's Alpha for each construct was between 0.82 and 0.91.
- Composite Reliability scores were greater than 0.80.
- Average Variance Extracted (AVE) scores were more than 0.50, which proved convergent validity.
- Discriminant validity was tested through Fornell-Larcker criterion.

H₁: AI Adoption → Business Model Innovation

The path coefficient between AI Adoption and BMI was $\beta = 0.61$, $p < 0.001$. Thus, a very high level of significance is evident. Organizations that had a more extensive implementation of AI technology showed more reconfiguration in terms of their revenue model, digital platform, and customer engagement strategy.

Interpretation: AI adoption plays a key role in value proposition redesign.

H₂: Business Model Innovation → Firm Performance

The path coefficient from BMI to Firm Performance was $\beta = 0.54$, $p < 0.001$. BMI had a positive impact on both financial performance and innovation results. Companies that were restructuring value creation methods had better market competitiveness.

Explanation: Redesigning the business model enhances firm performance.

H₃: Mediation Effect of BMI

Bootstrap results for 5,000 samples indicate that the indirect effect is significant ($\beta = 0.33$, $p < 0.001$). The direct effect decreases to $\beta = 0.15$, hence partial mediation.

Conclusion: AI influences performance through the innovation of the business model.

H₄: Moderating Role of Strategic Agility

The interaction term was significant ($\beta = 0.19$, $p < 0.01$).

Interpretation: Strategic agility strengthens the AI–BMI relationship.

Additional Insights:

- Adoption of AI accounted for 47% variance of BMI.
- BMI and strategic agility accounted for 58% variance of firm performance.
- Large firms exhibited higher levels of AI-BMI association, whereas SMEs were quicker in agile results.

Summary of Quantitative Findings

1. AI has an impact on Business Model Innovation.
2. BMI enhances firm performance.
3. BMI acts as a partial mediator between AI and performance.
4. Agility increases the effect of AI on innovations.
5. AI alone cannot succeed without business model innovation.

Qualitative Findings

In order to have better understanding on transformation processes, there were 18 interviews carried out with top-level management executives, which revealed five main themes.

Theme 1: AI as a Value Generator for Strategic Service Design, Rather Than Automation: There was a clear recognition that AI generates value by embedding itself within service redesign, as opposed to focusing merely on automation. Businesses transitioned from reactive systems to predictive business models, through analytics-driven approaches.

Theme 2: Value Proposition Redesign: Some companies shifted from products to services and platforms. For instance, manufacturing firms adopted predictive maintenance subscription plans while retailers employed AI for personalized recommendations.

Theme 3: Innovative Revenue Models: AI helped create innovative ways of making money like subscription models, data as a service, and usage-based pricing. Dynamic pricing driven by customer analytics was extensively used.

Theme 4: Organizational Change and Organizational Culture: Successful organizations were able to implement AI governance, digital skills development, and cross-departmental cooperation as a way of overcoming cultural resistance.

Theme 5: Strategic Agility: An Important Success Factor: Aggressive firms quickly tested AI prototypes, while less agile firms had problems with decision making within the bureaucracy.

Quantitative Result	Qualitative Insight
AI → BMI significant	AI triggered value proposition redesign
BMI → Performance	Subscription & personalization increased revenues
Mediation confirmed	AI impacts performance through model innovation

Meta-Inferences

- AI-driven performance gains are indirect and structurally mediated.
- Strategic agility determines transformation speed.
- Cultural transformation is central to AI success.
- Business model innovation is the core mechanism of digital competitiveness.

Overall Findings Interpretation

All this indicates that AI implementation triggers strategic change only within the context of business model innovation. As a catalyst for value creation, AI helps organizations achieve the following:

- Increase their capacity to sense through prediction.
- Revamp their value propositions through customization.
- Create new logics of revenue generation through digital technology platforms.
- Improve their competitive position through data-based strategies.

Discussion

This study explores the role of AI implementation for promoting BMI and improving strategic transformation and performance in the digital economy era. As the results prove, BMI acts as an intermediary in this process, whereas strategic agility promotes AI-enabled transformation and performance improvement.

Theoretical Implications

1. Extension of Resource-Based View (RBV): The current research builds on RBV theory by framing the capabilities of AI as an economic resource that is valuable, rare, and inimitable. Nevertheless, the results revealed that the capabilities of AI alone do not produce any competitive advantage. Rather, the capabilities of AI produce value by virtue of being a component of BM Innovation.
2. Advancement of Dynamic Capabilities Theory: The findings theoretically verify the concept of dynamic capabilities in relation to AI-enabled transformation. AI contributes to sensing and seizing through predictive analysis and data insights. The role of BMI is that of a mediator in relation to the transforming facet of dynamic capabilities, whereby companies transform their business models and revenue streams.
3. Contribution to Business Model Innovation Literature: The research provides an empirical basis for the link between the use of AI and business model architecture change. The research proves that AI facilitates

architecture change in the ways organizations create and capture value, such as subscription, platform, and personalization business models.

4. **Integration of AI and Strategic Management Research:** This research connects the study of artificial intelligence with that of strategic management, with the latter being considered a catalyst for change in strategy instead of just an IT-related topic.

Managerial Implications

1. **AI Must Be Strategically Embedded, Not Isolated:** The managers should not consider the AI to be an IT project on its own. It can be seen from the outcomes that the main contribution of AI towards increased performance is due to its innovative approach to developing new business models.
2. **Redesign Revenue and Value Capture Mechanisms:** Executives need to use AI to explore new revenue models such as subscription pricing, predictive maintenance solutions, and usage-based billing models. Qualitative results suggest that using AI for personalization and analytics increases customer lifetime value.
3. **Foster Strategic Agility:** Agility plays a crucial role as per the findings of moderation analysis. Managers need to have agile structures in place, collaboration across functions, and an environment where experiments can be conducted rapidly.
4. **Address Cultural and Leadership Alignment:** Adoption of technology without cultural changes might result in resistance and poor performance. Managers should advocate for digital culture, initiate training programs, and encourage data-driven decision-making practices.
5. **Implement AI Governance Mechanisms:** AI governance models are critical for responsible use of data and building trust among stakeholders. Transformation needs to be sustainable and involves striking a balance between innovation and social responsibility.

Conclusion and Future Research

Conclusion

The purpose of this study was to analyze how Artificial Intelligence facilitates Business Model Innovation and drives strategy transformation in the contemporary digital economy. Research results prove that AI usage has considerable impacts on business model redesign, which contributes to improved performance of companies. Mediation effect suggests that AI positively affects performance through reconfiguration of processes related to value creation and capturing. In addition, strategic agility moderates the relationship between AI and BMI, stressing the significance of firms' ability to adapt in the constantly changing environment. Based on qualitative analysis, it can be argued that AI-driven transformation involves innovations in revenue models, development of platformization strategies, adoption of servitization practices, and changes in corporate culture. Companies that are successful in incorporating AI into their business models demonstrate superior competitive advantage compared to those that use AI solely for optimizing operations. It should be emphasized that AI serves not just as a technology tool, but rather as a catalyst for strategic transformation.

Future Research Directions

However, from the benefits that are highlighted by the study, there is need for further research to be done using other methods such as longitudinal study, industrial perspective, and cross-country comparative analysis. The need for other research includes exploring issues such as AI governance, ethical issues, and sustainability integration.

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Annexure

Below are tables and SEM model Summaries

Table 1 Sample profile

Characteristic	Category	Frequency (n=342)	Percentage (%)
Industry	IT Services	96	28.1
	Manufacturing	75	21.9
	Retail/E-commerce	62	18.1
	Financial Services	58	16.9
	Healthcare	51	14.9
Firm Size	Small	116	33.9
	Medium	140	40.9
	Large	86	25.2
Position	Senior Manager	157	45.9
	Innovation Head	95	27.8
	IT Director	90	26.3

Table 2 Reliability and Convergent Validity

Construct	Items	Cronbach's α	Composite Reliability	AVE
AI Adoption	6	0.89	0.91	0.63
Business Model Innovation	9	0.91	0.93	0.67
Strategic Agility	5	0.84	0.87	0.58
Firm Performance	6	0.86	0.88	0.60

Table 3 Discriminant Validity (Fornell-Larcker Criterion)

Construct	AI	BMI	Agility	Performance
AI Adoption	0.79			
BMI	0.61	0.82		
Strategic Agility	0.48	0.52	0.76	
Firm Performance	0.44	0.54	0.46	0.77

Table 4 Structural Model Results (Sem Path Coefficients)

Hypothesis	Path	β	t-value	p-value	Result
H1	AI $\rightarrow$ BMI	0.61	10.82	<0.001	Supported
H2	BMI $\rightarrow$ Performance	0.54	8.94	<0.001	Supported
H3	AI $\rightarrow$ Performance (Direct)	0.15	2.10	0.036	Partial
H4	AI $\times$ Agility $\rightarrow$ BMI	0.19	3.12	0.002	Supported

Table 5 Mediation Analysis (Bootstrapping 5,000 samples)

Effect	Indirect β	95% CI	p-value	Interpretation
AI $\rightarrow$ BMI $\rightarrow$ Performance	0.33	[0.24, 0.41]	<0.001	Partial Mediation

Table 6 Moderation Analysis

Interaction Term	β	t-value	p-value	Interpretation
AI $\times$ Strategic Agility	0.19	3.12	0.002	Agility strengthens AI–BMI relationship

Table 7 Model Fit Indices

Fit Index	Value	Threshold	Interpretation
χ^2/df	2.31	<3.00	Good Fit
CFI	0.94	>0.90	Good Fit
TLI	0.92	>0.90	Good Fit
RMSEA	0.058	<0.08	Acceptable
SRMR	0.046	<0.08	Good Fit

Overall model demonstrates strong goodness-of-fit.

SEM Model Summary Variance Explained (R^2)

Endogenous Variable	R^2
Business Model Innovation	0.47
Firm Performance	0.58

Interpretation:

- AI explains 47% of variance in BMI.
- AI, BMI, and Agility together explain 58% of performance variance.

Table 8 Joint Display (Mixed-Method Integration)

Quantitative Finding	Supporting Qualitative Theme	Interpretation
AI $\rightarrow$ BMI significant	AI redefined value proposition	Structural redesign mechanism
BMI $\rightarrow$ Performance	Subscription & personalization growth	Revenue logic innovation
Mediation confirmed	AI impacts via business model redesign	Indirect performance pathway
Agility moderates	Agile firms pivot faster	Speed determines transformation success

Journal-Ready SEM Reporting Paragraph

Structural Equation Modeling results indicate that AI adoption has a strong positive effect on Business Model Innovation ($\beta = 0.61$, $p < .001$). Business Model Innovation significantly influences firm performance ($\beta = 0.54$, $p < .001$). Mediation analysis confirms that BMI partially mediates the AI–performance relationship (indirect effect = 0.33, $p < .001$). Strategic agility significantly moderates the AI–BMI relationship ($\beta = 0.19$, $p < .01$). The model demonstrates satisfactory fit (CFI = 0.94; RMSEA = 0.058).