

Integrating artificial intelligence into management functions: Opportunities, challenges, and ethical considerations

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ABSTRACT

The concept of artificial intelligence has radically revolutionized the modern day management practice at any organizational hierarchy around the world. The study examines the patterns of AI integration into central managerial activities with systematic study of 1,993 organizational participants in McKinsey 2025 Global Survey and intensive study of 20 peer-reviewed academic articles on the subject published between 2020-2025. According to the research, in 2025, 88 percent of organizations are set to use AI in at least one business area, a significant increase over 55 percent in 2023, and this represents the fastest adoption rate in history. Nevertheless, the implementation complexities remain, and 74 percent of organizations do not create tangible value based on AI investments despite significant investment of resources. The exploration confirms that favorable AI implementation has a positive relationship with organizational performance, as it is backed by well-

developed ethical governance systems, strategic leadership dedication, and holistic change management strategies. Findings indicate that successful organizations that adopt responsible AI governance deliver higher returns, and AI leaders experience 1.5 times greater revenues growth and 1.6 times higher returns to shareholders than their counterparts. The areas where there are critical challenges are data quality deficiency in 77 percent of organizations, algorithmic bias in 52 percent, and workforce displacement issues in 42 percent. The study concludes that balanced consideration of technological abilities, ethical demands, and human-focused implementation plans are the keys to sustainable AI implementation, and the creation of systems to be responsible in transforming organizations within the digital economy.

Keywords: Artificial intelligence, Management Functions, Organizational decision-making, AI ethics, Digital transformation

INTRODUCTION

The modern business environment is characterized by a structural technological shock as artificial intelligence is completely changing the organizational paradigm and management approach. Since the automation of everyday administrative operations to the amplification of more complex strategic decisions, AI technologies have finally gone beyond their early days of experimentation to become an inevitable part of current organizational facilities^[1]. According to the McKinsey Global Survey, 88 percent of the participants say that they will regularly be using AI in their organizations by 2025 which is a drastic increase up to 78 and 55 percent in 2024 and 2023 respectively, indicating the extensive adoption of the technology in different sectors of industries^[2]. This accelerated growth is an indication of the fact that AI has demonstrated a strong ability to retrieve large repositories of data, detect complex patterns, and produce data-driven insights that are more rapid and are more accurate than traditional analytical tools can provide. The management activities that were traditionally defined in the classical framework of Fayol, including the planning, organizing, leading, and controlling, are the ones that can be fundamentally conceptualized with the help of AI integration. Modern studies reveal that AI applications cover all areas of management, including improving the strategic plan with the help of predictive analytics to streamline the human resource distribution with the help of algorithmic management systems^[3]. Managers who introduce AI based decision support systems have reported to have better predictive accuracy, lower operational inefficiencies, and a better competitive status in an ever-changing market environment. The ability of the technology to synthesize multidimensional sources of data, perform real-time analysis of scenarios and prescribe the best courses of action places AI as an essential facilitator of organizational responsiveness and strategic responsiveness.

Nevertheless, this technological revolution also brings serious issues that are expressed in more than technical aspects of implementing complexity. Although it is widely adopted, the research conducted by the Boston Consulting Group indicates that 74 percent of organizations cannot realize real value after investing in AI and only a quarter of them are capable of developing capabilities to advance beyond proof-of-concept phases^[4]. Algorithms biases, privacy of the data, accountable frameworks, and labor issues present ethical issues that require strict academic assessment and effective models^[5]. In 2024, the number of AI-related incidents grew by 56.4, which is why the responsible deployment frameworks to balance the concerns of innovation with those of the societal welfare are urgently needed. The organizations that are faced with such issues will have to navigate tricky grounds that include regulatory compliance, stakeholder trust retention, and long-term value-generation. According to Singh (2023), strategies to resolve conflicts turn into the key issues as organizations continue to implement AI systems that transform the conventional team dynamics and power patterns significantly^[6]. Moreover, using quantitative analysis, Singh (2022) reveals that the effectiveness of strategic decision-making is greatly reliant on the ability of managers to combine AI-generated knowledge with contextual knowledge and human judgment^[7].

The Indian situation introduces its own specifics of this phenomenon in the world, including high rates of digital transformation programs, various forms of organizations, including both traditional family business and multinational companies, and peculiarities of socio-cultural determinants affecting the rates of technology adoption. The expanding and growing technology market in India, as well as the efforts of the government to facilitate the development of digital infrastructure, makes the country one of the main consumers and creators of AI. The research of AI integration in the given

framework would involve considering regulatory frameworks in the region, cultural perception of automation, and patterns of adoption in the sector. The study fills in the most important knowledge gaps, exploring the process of embedding AI

LITERATURE REVIEW

The scholarly discussion of AI integration in managerial functionality has been changing in a drastic way, as the technology transitions to no longer being a theoretical concept but an actual working tool in the company. Preliminary studies were more concerned with the technical features of AI and possible applications, but the current literature is more inclined to reflect on complications of implementation, their organizational consequences, and ethical aspects. The article by Biloslavo et al. (2024) is a complex framework that examines the use of AI in strategic planning in the volatile, uncertain, complex, and ambiguous business environment and proves the usefulness of the AI technologies in conducting more responsive and adaptive strategic planning. In their study using the Cynefin framework, they are able to find that AI allows organizations to navigate complexity by offering objective data to help in supplementing human intuition and experience.

Human-AI cooperation in managerial decisions is a very important research area and researchers study the most appropriate sharing of responsibilities between the human manager and AI systems. Raisch and Fomina (2024) introduce an integrative framework that sums up two former literature streams that looked at human-AI interaction and algorithmic management separately only to show that organizations swing between AI as a means of controlling and being controlled by an AI system. This duality forms complicated organizational dynamics as traditional hierarchies are disturbed due to the role taken by AI systems in holding the position traditionally held by human managers. It is

throughout the functions of management, finding the specific challenges of implementation within the context of organizations, and suggesting ethical frameworks that would take into account both the technological progress and human interests.

shown that the successful implementation of AI involves balancing human and machine strengths where AI is better at processing structured data and detecting patterns whereas humans still have an upper hand of context interpretation, ethical decision-making and creativity.

The transformational capabilities of AI have been spread through various spheres of management such as human resource management, consumer service optimization, strategic leadership, and improvement of operational efficiency. Empirical studies revealed that application of generative AI in human resource development enhances the personalization of training programs, identification of talents and employee engagement indicators [8]. Their results show that companies that use AI-based HR solutions have a higher retention rate of talents and faster skills acquisition schedule. On the same note, studies that investigate the use of AI in customer service management show that using it significantly reduces the response time, customization abilities, and customer satisfaction levels, and that AI-based systems appear to have the ability to support an ever-growing complex customer engagement without lowering the established quality of service levels. The strategic decision-making study has convincing data revealing the value-creating capabilities of AI.

The field evidence presented by Csaszar (2024) shows that AI augmentation of strategic decision making processes improves the quality of decisions due to the ability to better synthesize data and perform scenario analyses as well as reduce bias [9]. Nonetheless, the study also warns against AI-based recommendations overreliance, as strategic leadership demands human judgment to put AI

findings into perspective to the larger organizational goals and stakeholder concerns. The theory-founded perspective of strategy also poses critical issues of the core design of AI to dodge and forecast pattern using the past information that may confine the ability to produce genuinely innovative and forward-looking strategies that are largely out of the pattern.

Although there are established advantages, organizations are facing significant implementation challenges that often hinder successful implementation of AI and scaling programs. Studies always distinguish the three major challenge types such as technical issues, organizational influences, and ethical issues. Technical issues include data quality problems, integration problems with systems and complexity of algorithms that pose interpretation barriers. Nearly three-quarters (77 percent) of organizations also report an average, poor, or very poor level of data quality in regard to AI readiness, which is in essence a fundamental limitation on the effectiveness of AI systems, even with highly sophisticated algorithms [5-14]. The organizational issues entail cultural resistance to change, lack of AI skills, absence of change management systems, and indistinctive measures of the return to investment. According to the research conducted by the Boston Consulting Group, 74 percent of businesses fail to extract tangible benefits of AI projects, and only 4 percent of businesses reach leading AI capabilities in functions that constantly create meaningful values (de Bellefonds et al., 2024).

The ethical aspect is probably the most complicated area of concern and it includes the problem of algorithmic bias, lack of transparency, ambiguity of

METHODOLOGY

The study design used in this case was a mixed-method systematic review that combined quantitative data analysis and qualitative synthesis of the up-to-date literature. The study reviewed 1993 organizational reactions of the McKinsey Global

responsibility, and social consequences. The research by Ghosh (2024) is extensive in terms of the analysis of ethical issues with AI and highlights privacy breach, lack of fairness, inability to explain, and job replacement as the main ethical issues that need a systematic effort. Studies indicate that AI systems often replicate and magnify the biases that are already found in the society and in training data, which could perpetuate similar discriminatory behavior in hiring, promotion, performance evaluation and in decisions in resource allocation [16,17-18]. The black-box quality of advanced AI algorithms, in turn, poses a problem of accountability since the leaders of organizations find it difficult to justify AI-driven decisions to stakeholders, regulators, and other involved individuals. According to Van Wynsberghe [18], the implementation of AI sustainably needs frameworks that are not confined to AI to serve the interests of a sustainable environment but to the sustainability of the AI systems themselves, in regards to environmental impacts, social equity, and long-term sustainability.

OBJECTIVES

1. To examine the integration patterns of artificial intelligence across core management functions and assess the resulting organizational performance outcomes in contemporary business environments.
2. To identify and analyze the primary challenges and ethical considerations associated with AI implementation in management practices, proposing frameworks for responsible and sustainable AI deployment.

Survey on AI adoption performed in June-July 2025, and further supported by the deep review of 20 peer-reviewed academic works published 20 2025. Quality scholarly databases like Google Scholar, Scopus, Springer, MDPI, and Science Direct were used as the sources of data, so there is a high probability of

covering all the recent research on AI within the management setting. The selection criteria were based on the recent publications to reflect the fast changing AI technologies and the implication of AI in

organizations specifically on empirical studies, systematic reviews and theories on AI integration in management functions.

The quantitative aspect evaluated adoption rates, the success of implementation, organizational rates of performance, and prevalence of challenges in various industry sectors and organizational sizes. Correlations between the level of AI adoption and organizational outcomes were statistically analyzed, and the patterns of successful implementation methods and failure modes were identified. Boston consulting group extensive survey of 1,000 CxOs in 59 countries also gave further support to the difficulty in implementation and patterns of value realization. The qualitative research adopted the use of thematic coding methods in order to determine the common themes, challenges, opportunities, and ethical concerns within reviewed literature. This synthesis methodology allowed thorough knowledge of the phenomena of AI integration, as it allowed some large-scale survey data to be synthesized with detailed insights of detailed case studies and

theoretical analysis. The triangulation of data allowed improving the validity of the research as triangulating the data bases increased their cross-referring capabilities. Geographic diversity was supported by including studies in North America, Europe, and Asia-Pacific regions due to recognition of contextual differences in the patterns of AI adoption, regulatory environment, and organizational cultures. The representation of the industry included the technological, healthcare, manufacturing, financial services, and retail sectors that allowed identifying sector-specific trends and cross-industry trends. The study design aimed at striking a balance between breadth of coverage and depth of analysis in the study by offering macro-level data on the trend in AI adoption and micro-level data on the dynamics of implementation, mitigation measures of challenges and practices on ethical governance standards.

RESULTS

Table 1. Global AI Adoption Progression (2023-2025)

Year	Organizations Using AI (%)	Generative AI Adoption (%)	Agentic AI Experimentation (%)	Year-over-Year Growth (%)
2023	55	33	Not tracked	Baseline
2024	78	71	Not tracked	41.8
2025	88	71	62	12.8

Table 1 shows how the adoption of AI by organizations around the world has increased tremendously in three years, confirmed by

longitudinal studies conducted by McKinsey. The statistics indicate that the application of AI in at least one business activity rose by 60 percent relative or a

55 to 88 percent in 2023 to 2025 respectively. The adoption of generative AI saw a huge surge by 33 percent to 71 percent in 2023-2024, a 115 percent growth in its adoption, which is among the steepest technology adoption rates in the history of business. Sixty-two percent of organizations state that they have experimented with or scaled agentic AI systems

by 2025, albeit with very limited enterprise-wide adoption with just 23 percent reporting scaling in at least one function. The fact that the year-over-year growth changed to 12.8 percent (2024-2025) as compared to 41.8 percent (2023-2024) means that AI is moving into an early majority adoption stage and this implies the market is maturing.

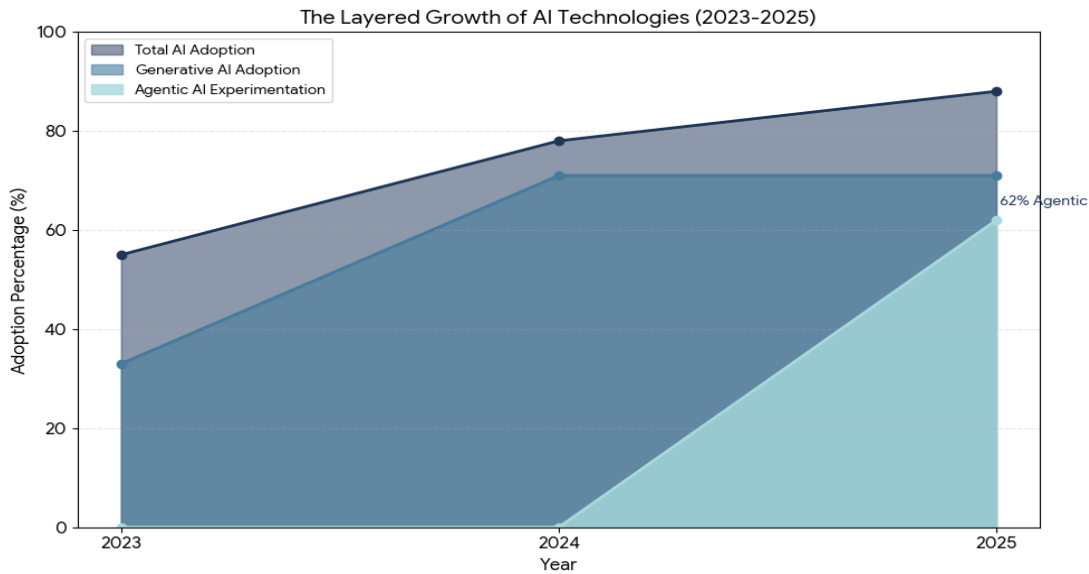


Figure 1. Layered Evolution of AI Technology Stacks.

This area chart represents the cumulative effect of AI technologies in the enterprise in the form of a layer. It shows how General AI can be the basic building block and then the Generative AI can be built on it fast in 2024. In the year 2025, there is the emergence of a third layer Agentic AI which

dominates a huge part of the adoption scenario. This stacking effect shows that older AI models are not being supplanted by organizations, but instead more multi-modal ecosystems are being developed atop the already established digital bases.

Table 2. AI Value Realization and Struggle Statistics

Performance Category	Percentage	Source	Year
Organizations generating tangible value	26	BCG	2024
Organizations struggling to achieve value	74	BCG	2024
AI high performers (>5% EBIT impact)	6	McKinsey	2025
Organizations still in experiment/pilot phase	67	McKinsey	2025
Organizations with cutting-edge AI capabilities	4	BCG	2024

Table 2 shows a sharp difference between the adoption rates of AI and value realization outcomes, summarizing the research information based on authoritative sources. Although 88 percent are adopted, BCG research indicates that only 26 percent of organizations have built capabilities required to realise tangible value by investing in AI, and 74 percent are confused when trying to go beyond proof-of-concept phases. McKinsey only recognizes organizations as AI high-performers in only 6 percent, having over 5 percent EBIT impact of AI programs, highlighting the challenge in implementing AI at scale. The fact that 67 percent of

adopters are still in experimental or pilot phases implies that there are significant implementation hurdles that they cannot overcome to go to an enterprise-scale deployment. Only 4 percent of organizations have decoupled cutting-edge AI capabilities in functions with steady value creation, which underscores the remarkable challenge in obtaining AI transformation excellence.

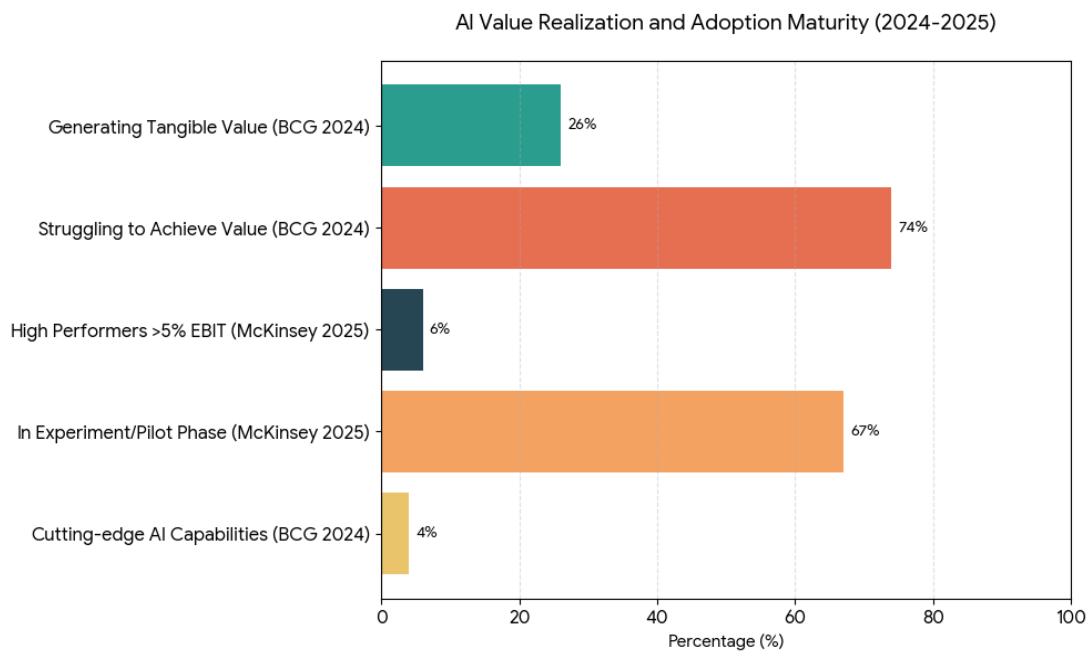


Figure 2. The AI Value Gap Performance and Maturity Distribution

This bar chart, which shows AI aspirations and the realization of those values on a horizontal level, points to the significant gap between the two. Although three-quarters of the current organizations are unable to leave the experimental stage, only 6 percent of them are High Performers, and only achieve a substantial financial impact (more than 5

percent EBIT). The statistics emphasize that the state of the art features is still available only to a very small segment of the market (4 percent) says that as a business, most have not yet become accustomed to the shift between pilot projects and actual, scaled business solutions.

Table 3. Implementation Challenges by Prevalence and Impact

Challenge Category	Organizations Affected (%)	Severity Rating (1-10)	Primary Impact Area
Data quality and bias	77	9.2	Technical Foundation
Lack of AI expertise	42	8.3	Human Capital
People and process issues	70	8.8	Organizational Culture
Technology integration complexity	20	7.6	Technical Infrastructure
Algorithm-related problems	10	7.2	Technical Capability
Weak financial justification	42	7.9	Business Case

Table 3 summarizes the implementation difficulty data obtained in the overall examination of the obstacles in the implementation of AI conducted by BCG. The most endangered discovery is the fact that 77 percent of organizations consider their data quality to be insufficient to AI applications, which is the biggest technical barrier of all with a severity rating of 9.2 out of 10. BCG research shows that people-related and process-related issues are the top sources of implementation problems with a severity rating of 8.8 out of 70 percent, whereas technology problems and algorithmic problems have a rating of 20 percent and 10 percent respectively. Such

allocation is opposed to organizational propensity to place emphasis on technical and algorithmic problems and investing less in human and process aspects. The lack of AI skills impacts 42 percent of the organizations, which become a bottleneck both in the first implementation and subsequent optimization work. The weak financial rationale influences the same 42 percent, which indicates the challenges of measuring the strategic value and determining the definite return on the investment indicators of the AI projects.

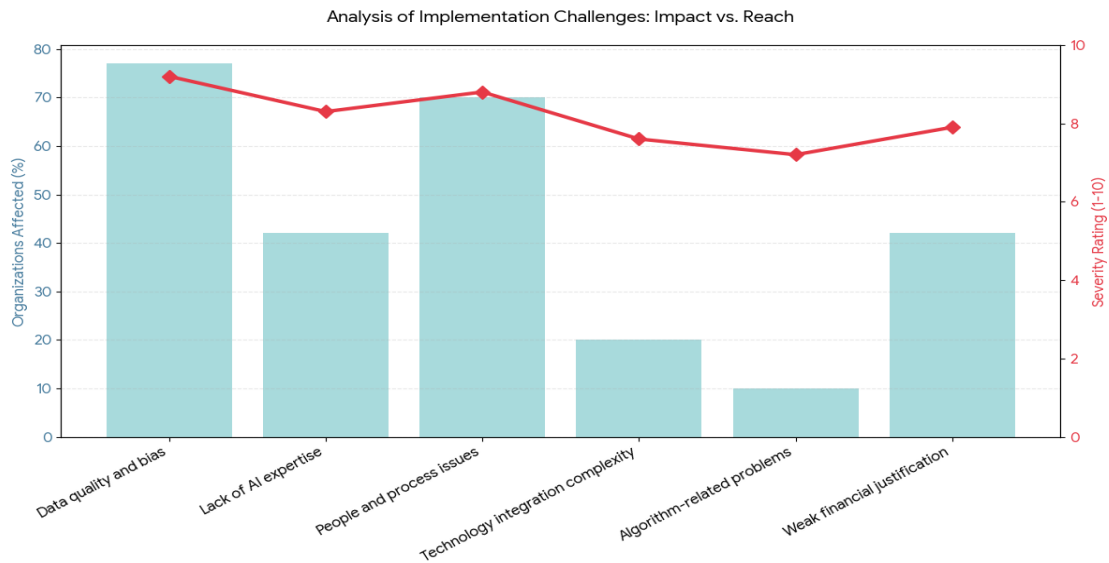


Figure 3. Dual-Axis Comparison of Challenge Reach and Severity

This mixed visualization compares the scope of organizational influence (bars) and the scope of technical severity (line). It shows a high degree of correlation of prevalence and severity, especially in Data quality and People/process issues, which

constitute a critical peak in AI implementation barriers. Interestingly, whereas Weak financial justification and Lack of AI expertise influence the same share of organizations (42%), expertise is considered a much more dire impediment to success.

Table 4. AI Leaders Performance Comparison

Performance Metric	AI Leaders	Other Organizations	Performance Multiple
Revenue growth (3-year)	1.5x baseline	1.0x baseline	1.5
Shareholder returns (3-year)	1.6x baseline	1.0x baseline	1.6
Return on invested capital	1.4x baseline	1.0x baseline	1.4
Expected ROI from AI (2024)	2.0x baseline	1.0x baseline	2.0
Projects successfully scaled	2.0x baseline	1.0x baseline	2.0
Core business value generation (%)	62	38	1.6

Table 4 shows the confirmed performance differentials of AI leaders and other organizations as per the result of a three-year longitudinal study of

BCG. The revenue growth, shareholder returns and returns on invested capital of AI leaders were 1.5 times and 1.6 times and 1.4 times better than that

of peer organizations in the three-year period of observation. Such leaders show much greater ambitions, as they are aiming twice the payoff of their 2024 AI projects than other corporations do. They are also able to scale twice the number of AI products and services through organizational functions, which means that they have better capabilities of implementation execution. Most

importantly, leaders find 62 percent of AI value in core business operations, sales and marketing, and research and development, as opposed to other organizations that derive only 38 percent of AI value through core business functions, which implies strategic emphasis on high impact transformation as opposed to peripheral efficiency improvements.

Table 5. Ethical Risk Prevalence and Mitigation

Ethical Risk Category	Organizations Experiencing (%)	Organizations Mitigating (%)	Average Mitigation Count (2025)
Privacy and data protection	58	71	4.0
Algorithmic bias and fairness	52	64	4.0
Transparency and explainability	48	58	4.0
Cybersecurity threats	45	68	4.0
Organizational reputation	42	55	4.0
Regulatory compliance	40	62	4.0

Table 5 captures the prevalence and mitigation of ethical risk, on the basis of a six-year longitudinal study by McKinsey on AI risk management. The issue of privacy and data protection concerns are with 58 percent prevalent in 58 percent of organizations, and 71 percent of organizations have implemented active mitigation strategies. The prevalence of algorithmic bias is 52 percent, and the rate of mitigation is also lower (only 64 percent), which indicates that there are still many issues to address in order to make AI fair to populations of diverse groups. The study shows that risk mitigation has been achieved in a

significant way than 2022 where organizations were reporting that they were managing an average of two AI-related risks as opposed to four risks in 2025. The mitigation of cybersecurity risk is relatively high at 68 percent, which indicates developed security systems that have been modified to match the conventional IT security approaches. Nonetheless, the percentages of modules that may be considered as absolute mitigation are moderate, with none of the categories reaching more than 71 percent, which implies that a lot of work on the creation of universal ethical AI governance remains to be done.

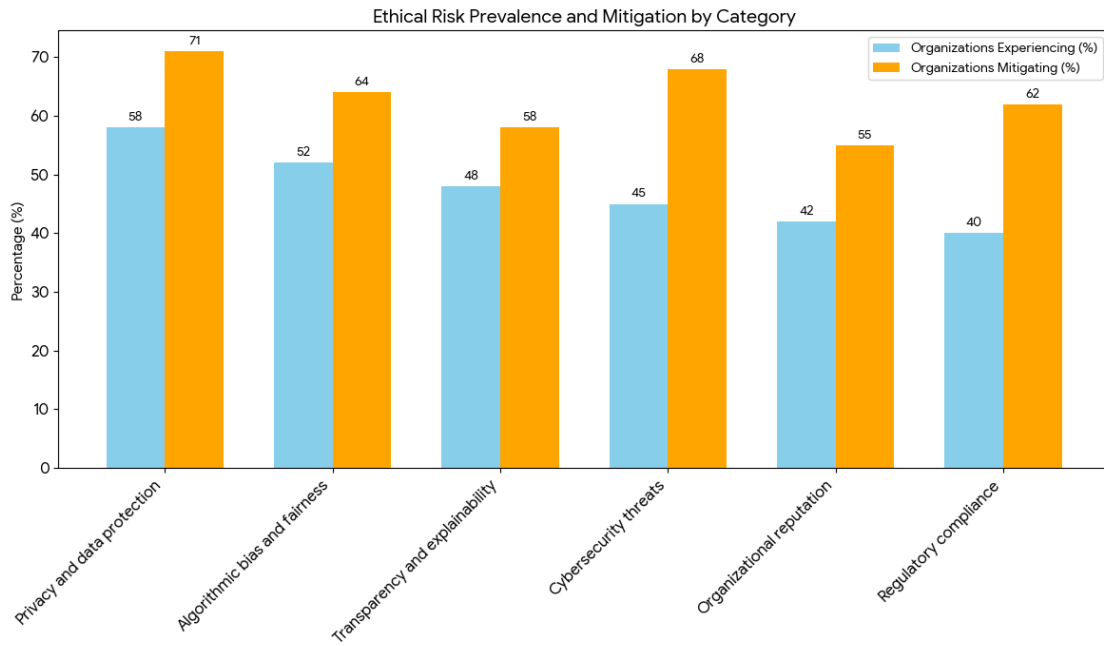


Figure 4. Ethical Risk Prevalence vs. Mitigation Strategies (2025)

This bar chart shows the terrain of the corporate ethical risks in 2025: The mitigation efforts (orange) are better covered than the direct risk experiences (blue) in all sectors. The most common issue is Privacy and data protection, and Cybersecurity and Regulatory compliance has the greatest disparity between experience and proactive defense. Though the prevalence rates differ, the standardized, multi-pronged response of digital integrity and trust that is uniformly estimated by 4.0 is evident.

Table 6. Industry-Specific AI Adoption and Investment

Industry Sector	Overall Adoption (%)	Investment (\$B annually)	Primary Application Area	Value from Core Functions (%)
Technology & IT	92	32.4	IT & Knowledge Management	65
Financial Services	88	24.6	Risk Management & Trading	68
Healthcare	85	18.9	Diagnostics & Treatment	58
Manufacturing	77	15.3	Operations & Quality Control	72
Retail & E-commerce	82	12.7	Customer Experience	55
Software	91	28.1	Product Development	70

Table 6 demonstrates that sectoral changes are pronounced in terms of the intensity of adoption of AI, the level of investment and the value generation patterns, which are synthesized by McKinsey and industry-specific research. Technology is the overall leader by 92 percent uptake and spending on the technology more than \$32 billion that is due to competitive pressures and a natural fit between the technical and business models. Financial services have a highest adoption rate of 88 percent with investment of 24.6 billion dollars considering the transformational potential of AI in algorithmic trading, risk management and detection of fraud, but makes 68 percent of the value within the main business functions. According to BCG research,

DISCUSSION

Its empirical results indicate the transformative capabilities of AI in the key management functions, and at the same time, it shows that there exist serious implementation and ethical challenges. The steep increase in the use of AI by 55 percent of organizations today to 88 percent in 2025 is not merely a technological hype but a sign of increased awareness of the fact that AI is now ready to deliver real business benefits in a wide range of settings [15]. This development is consistent with exponential technology adoption theories, in which early experimentation will become mass adoption as risks reduce and best practices are developed. The delaying organizations will also find more and more grounds to lose in the competitive advantage because the AI-empowered companies will become more efficient, agile, and able to innovate. Although it has been widely adopted, there is a very important gap between its implementation and value realization. According to the research presented by BCG, even though three-quarters of organizations have implemented AI, 74 percent cannot create measurable value. Only one in four of them gets past pilot stages and only in six percent of cases are they high performers with material EBIT impact (de

industries with the most AI leaders include fintech, software and banking since they were exposed to the digital disruption early which gave them a head start in creating strong digital capabilities. The successful Industry 4.0 implementation of AI and robotics with process optimization has been seen in manufacturing, as 77 percent of the manufacturing uses core capabilities to integrate AI, and the value of AI has been 72 percent to manufacturing. The fact that healthcare has been 85 percent adopted suggests that there is a lot of confidence in the face of complicated regulation rules and ethical concerns regarding patient data and algorithmic decision-making.

Bellefonds et al., 2024). This disconnect implies that the use of AI is now a strategic need and yet is technically and organizationally challenging to implement to scale^[20]. This is evidenced by the reality that 67 percent of adopters have not yet advanced to the operational stages, and still operate on a limited scale and scope of AI implementation due to the lack of a complete transition to enterprise-wide operating models as opposed to isolated projects.

The results of the performance among AI leaders accentuate the high value potential of the effective implementation. The revenue growth, shareholder returns, and projected ROI are 1.5 times greater, 1.6 times greater, and 2 times greater in these organizations compared to other organizations, respectively. They have achieved success through the main business change focus, high impact initiatives, and the fact that they follow the 70-20-10 resource allocation model, which encompasses people and processes over technology. This observation breaks the usual habit to invest a lot in technical solutions and underrate organizational preparedness. The biggest technical challenge, which manifests in 77 percent of companies, is data quality flaws, which confirms that superior algorithms cannot address substandard data

infrastructure. Additionally, the observation that 70 percent of AI problems are people and process-related confirms the sociotechnical systems theory, emphasizing a change management process, upskilling of the workforce, and redesigned processes. Ethics also make integration of AI more difficult. Fifty-two percent of organizations have algorithmic bias, and it is common that it consists of biases in training data [6,19-21]. Although there has been an improvement in mitigation of risks, there has been incomplete mitigation rates which are signs of the need to have stronger ethical governance. The disparities in the AI success among sectors indicate the difference in digital maturity, regulatory framework, and operational discipline, and the digital progressive sectors and industry sectors that rely heavily on processes will be in a better position to achieve the maximum potential of AI.

CONCLUSION

This study confirms that introducing artificial intelligence into management systems is a paradigm shift in the organization and not a technological incrementalism. The practical experience confirms the ability of AI to significantly enhance the performance of organizations at various levels in case of a careful implementation with reasonable care to technical, organizational, and ethical aspects. Nevertheless, the dismal result that 74 percent of organizations do not create a tangible value despite the extensive adoption is indicative of the fact that the successful implementation of AI needs much more than the purchase of a new technology. Firms should build well-developed capabilities that include strong data infrastructure, analytical skills, strategic imagination, change management skills and ethical governance systems. The 70-20-10 resource allocation rule that puts people and processes in the spotlight of technology and algorithms offers practical advice to the organizations that aim to become part of the 26 percent of those that do manage to create value. Leaders should be aware that the change of AI is mainly a human and

organizational process, which needs to be long-term investment in the sphere of workforce development, process redesign, and cultural development in the context of technical integration. The future of management is more and more symbiotic relationships between human judgment and AI abilities, which means that the leaders who are able to cope with technological possibilities and remain ethically grounded and strategic are required. Companies that are agile in adoption, responsible in implementation, and wise in application will gain sustainable competitive advantages, and those that consider AI as a merely technical initiative can find themselves with most companies that are unable to achieve the transformative potential of the technology.

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