

Organisational Structure, Decision-Making and the Rise of AI

Business Administration Fundamentals

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Abstract

Organisational structure has long rested on classical principles of hierarchy, span of control, and the distribution of authority between centralised and decentralised decision points. This report investigates how the growing use of artificial intelligence (AI) in everyday decision-making is unsettling these classical foundations. It uses the work of Fayol, Weber and Mintzberg as a theoretical baseline, and applies Shrestha, Ben-Menahem and von Krogh's (2019) framework of human–AI decision architectures as an analytical lens. Drawing on recent industry examples — including large-scale reductions of management layers at organisations such as Amazon, Meta, GitLab, Block and Cloudflare, Haier's Rendanheyi micro-enterprise model, and algorithmic management practices at Uber — the report examines how AI-supported systems are reshaping formal authority, the role of middle managers and knowledge workers, and the pace of organisational decision cycles. The analysis finds that AI does not remove the classical logic of structure so much as it changes the cost of coordination, pushing many organisations toward flatter, faster, but also more heavily monitored and less transparent forms of authority. The report closes with a balanced approach for retaining clear accountability while allowing organisations to benefit from faster, data-informed decisions.

Introduction

Business administration has traditionally rested on a small set of durable ideas about how organisations should be arranged: who reports to whom, how many people one manager can realistically oversee, and whether decisions are made close to the top of the hierarchy or pushed outward to those nearest the work. These ideas, developed across a century of management thought from Fayol's principles of administration through Weber's model of bureaucracy to Mintzberg's typology of organisational configurations, continue to shape how most companies are drawn on an organisational chart today. Yet the rapid diffusion of artificial intelligence into planning, forecasting, scheduling, performance monitoring and even hiring decisions is placing new pressure on these classical assumptions. Where authority, coordination and control once depended almost entirely on layers of human managers relaying information up and down a chain of command, AI-enabled systems can now aggregate real-time data, generate recommendations, and in some cases execute decisions directly, without a manager acting as an intermediary.

This report investigates how business administration fundamentals around organisational structure, authority and decision-making are evolving as organisations adopt AI systems. It has five aims. First, it outlines the key classical ideas of organisational structure — hierarchy, span of control, and centralisation versus decentralisation — and the original rationale behind each. Second, it examines how AI-supported decision systems, automation and real-time data are altering formal authority, coordination and the speed of decisions. Third, it explores the implications of this shift for middle management, knowledge workers and the distribution of power within the firm. Fourth, it draws on case illustrations from industry to show how different organisations have responded structurally to AI adoption, and with what results. Finally, it

proposes a balanced approach that preserves clear accountability while allowing organisations to benefit from faster, data-informed decision-making.

The report is structured as a detailed project report. Following this introduction, a literature review situates classical structural theory alongside contemporary research on AI-supported and algorithmic decision-making. A short methodology section explains the approach taken. The findings and analysis section then examines the effects of AI on hierarchy, span of control and centralisation in turn, supported by contemporary organisational examples. A discussion section considers the opportunities and risks this shift creates, before the report concludes with practical recommendations for managers and organisations.

Literature Review

Classical Foundations of Organisational Structure

Classical management theory provides the vocabulary that business administration still uses to describe structure. Weber's model of bureaucracy proposed that large organisations achieve efficiency and fairness through a clear hierarchy of offices, formalised rules and a defined division of labour, with authority attached to a position rather than to the individual who happens to hold it (Weber, 1947). Fayol added to this the idea of unity of command and a clear scalar chain, arguing that coordination depended on decisions flowing predictably through defined reporting lines. Mintzberg (1979) later refined this thinking into a five-part model of organisations comprising the strategic apex, the middle line, the operating core, the technostructure and support staff, showing how the relative importance of each part varies by organisational form — for example, the middle line is most prominent in divisionalised organisations, while the operating core dominates professional bureaucracies such as universities and law firms.

Two structural variables sit at the centre of this classical thinking: span of control and centralisation. Span of control refers to the number of subordinates a single manager can effectively supervise, and is shaped by the complexity of the task, the physical dispersion of workers, the manager's capacity to delegate, the amount of interaction required between manager and staff, and the skill and motivation of the workforce (OpenStax, 2019). Centralisation describes the degree to which formal decision authority is concentrated at the top of the organisation. Centralised structures allow senior managers to maintain tight financial control and a broad view of operations but can slow responsiveness and limit the development of decision-making skills further down the hierarchy; decentralised structures push authority toward those closest to the customer or the problem, trading some central control for speed and local responsiveness (OpenStax, 2019). These trade-offs were designed for an environment in which information could only travel as fast as people could gather, interpret and relay it — an assumption that AI-enabled systems now directly challenge.

AI and Organisational Decision-Making

A growing stream of research examines how AI is reshaping the way organisational decisions are made rather than simply automating individual tasks. Shrestha, Ben-Menahem and von Krogh (2019) propose an influential framework comparing human and AI-based decision-making along five dimensions: the specificity of the decision search space, the interpretability of the process and outcome, the size of the alternative set considered, decision-making speed, and replicability. Based on these differences, they identify three structural arrangements through which human and AI decision-making can be combined within an organisation: full delegation of a decision to AI, a hybrid sequential arrangement in which decisions pass between human and AI, and an aggregated arrangement in which human and AI inputs are combined into a single decision. Their central

argument is that AI does not simply replace human decision-makers but changes where, in the organisational structure, particular kinds of decisions are best located — a direct challenge to the classical assumption that decision rights should sit with a manager at a defined point in the hierarchy.

Other researchers have examined the organisational consequences of this shift. A systematic review by Trunk et al. (2020) concludes that organisational structures are simultaneously the foundation for successful AI integration and something that AI integration itself reshapes, with the strategic purpose behind an AI deployment influencing both the type of system chosen and where in the structure it is located. This body of work suggests that organisational structure and AI adoption evolve together rather than one simply following from the other.

Algorithmic Management and the Question of Accountability

A related and more critical literature examines what happens when AI systems do not merely support a manager's decision but substantially perform the managerial function itself, a practice generally referred to as algorithmic management. Research on Uber, whose dispatch, routing, pricing and performance-rating systems coordinate several million drivers with very little direct human supervision, illustrates both the appeal and the risk of this model. Möhlmann and Zalmanson's (2017) study of Uber drivers in New York and London found that although algorithmic coordination gave workers a sense of flexibility, it also produced feelings of surveillance and dehumanisation, since the constant, one-directional flow of performance data left little room for the trust-based relationships that a human manager could traditionally build with staff. Wiener, Cram and Benlian (2023) extend this line of enquiry by examining how gig workers judge the legitimacy of algorithmic control, finding that perceived fairness depends heavily on the transparency of the system and the availability of human recourse when the algorithm gets

something wrong. Together, this literature signals a central tension that runs through the rest of this report: AI can coordinate very large numbers of people with remarkable speed and consistency, but it does so by concentrating authority in a system that is often opaque, difficult to appeal to, and harder to hold accountable than a named human manager.

Methodology / Approach

This report uses a qualitative, literature-based approach appropriate to a conceptual business administration assignment of this kind. It combines three sources of evidence. First, foundational management texts (Weber, Fayol, Mintzberg) are used to establish the classical structural concepts of hierarchy, span of control and centralisation against which AI-related change can be assessed. Second, peer-reviewed and practitioner research on AI-enabled and algorithmic decision-making (including Shrestha et al., 2019; Möhlmann & Zalmanson, 2017; and Wiener et al., 2023) is used to understand how researchers currently theorise the relationship between AI and organisational authority. Third, contemporary industry reporting on organisational restructuring — including workforce and management-layer data from public companies between 2022 and 2026, and detailed case material on Haier's Rendanheyi model — is used to ground the conceptual analysis in observable organisational practice. Case organisations were selected because they represent contrasting structural responses to AI adoption: aggressive flattening driven by cost and speed (Amazon, Meta, GitLab, Block, Cloudflare, Target), a long-standing radical decentralisation model that pre-dates but has been reinforced by digital platforms (Haier), and algorithmic coordination of a large distributed workforce (Uber). This comparative case approach allows the report to move beyond a single narrative of AI-driven flattening and to examine the varying structural responses and their consequences for accountability, coordination and workforce experience.

Findings and Analysis

Hierarchy and the Shrinking Middle Line

The clearest structural effect of AI adoption observed across recent industry practice is a reduction in the number of management layers, particularly at the middle line identified in Mintzberg's (1979) model. Between May 2022 and May 2025, manager headcount at publicly listed companies fell by 6.1 percent, with organisations including Meta, Amazon, Google, Intel and Estée Lauder citing AI-driven efficiency as a reason for cutting large portions of their management workforce (Lepaya, 2026). A 2026 survey of 15,000 professionals by Korn Ferry found that 41 percent of respondents said their organisation had reduced management layers in the preceding year (Success, 2026). Individual cases illustrate the mechanism behind these figures. GitLab restructured its research and development function into dozens of smaller, more autonomous units and used AI agents to automate internal reviews and approvals, explicitly aiming to bring leaders "closer to the work" (FourWeekMBA, 2026). Cloudflare's chief executive described the roughly one-fifth of the workforce affected by a 2026 restructuring as concentrated among coordination and reporting functions, retaining what he termed the organisation's "builders" (FourWeekMBA, 2026). Amazon's 2026 corporate layoffs were explicitly framed by its chief executive as an effort to make the company leaner, with cuts concentrated in office and management roles rather than operational ones (Okoone, 2026).

This pattern is consistent with the theoretical logic set out by Shrestha et al. (2019): where a decision has a well-specified search space, a large but comparable set of alternatives, and benefits from speed and replicability — such as routing a task, approving routine expenditure, or scheduling a shift — AI systems are well suited to full or near-full delegation, removing the need for a human middle manager to perform that coordinating function. A Harvard Business School

study of more than 50,000 software developers found that access to an AI coding assistant increased individual coding activity by five percent while reducing project-management activity by ten percent, as enhanced autonomy reduced the need for coordination with managers and peers (Wealth Strategies Journal, 2025). This finding lends empirical support to the theoretical claim that AI changes not only how a decision is made but where in the hierarchy it needs to be made at all.

Span of Control and the Changing Cost of Coordination

Classical theory holds that span of control is constrained by the amount of interaction and feedback required between a manager and their staff, and by the manager's capacity to delegate effectively (OpenStax, 2019). AI-enabled systems directly loosen this constraint by absorbing much of the routine coordination, status-reporting and monitoring work that historically limited how many people one manager could oversee. Analysts describe this as dissolving the core function of middle management, which has traditionally involved passing decisions down, passing status up, and coordinating laterally across teams — functions that AI agents are now able to perform directly (FourWeekMBA, 2026). Where this reasoning holds, organisations should be able to widen spans of control considerably without the loss of coordination that would previously have resulted. However, the evidence on this point is mixed. Reporting from the small-business services sector suggests that AI has freed up existing managers' time because employees increasingly turn to AI tools rather than a manager for routine questions (Axios, 2026), which supports a genuine widening of practical span of control. Yet other research cautions that flattening can backfire data cited from payroll platform Gusto found that industries with a higher ratio of managers to staff tend to have higher, not lower, worker productivity, and junior employees in particular continue to need the mentorship and contextual judgement that only a close relationship with a human manager can provide (Axios, 2026). This suggests that AI reduces the coordination cost that limited span of

control under classical structures but does not remove the developmental and pastoral functions that the same structures also served.

Centralisation, Decentralisation and the Distribution of Power

AI adoption is pulling organisations toward centralisation and decentralisation simultaneously, depending on which part of the decision process is examined. On one hand, AI systems concentrate the technical authority to set the rules, weights and thresholds that drive automated decisions in a small technostructure of data scientists and engineers, echoing Mintzberg's (1979) observation that standardisation of work processes tends to centralise formal power within the technostructure even as it appears to decentralise day-to-day operating decisions. On the other hand, once an AI system is trained and deployed, it can push real-time decision authority outward to operating staff who no longer need to escalate routine judgement calls to a manager, a pattern of decentralisation consistent with classical theory's view that decentralisation increases when frontline workers have the skill, information and confidence to act (OpenStax, 2019).

Implications for Middle Management and Knowledge Workers

First, the population of professionals in classic middle-management roles — those whose job was substantially to aggregate information, monitor performance and relay decisions — faces genuine displacement risk; middle managers accounted for 29 percent of corporate layoffs in 2024, and one industry forecast suggested that around one-fifth of companies would use AI to remove more than half of their middle-management layer by 2026. Second, for knowledge workers who remain, the nature of the job is shifting from producing and reporting information toward supervising, interpreting and, where necessary, overriding AI-generated recommendations, a change that commentators increasingly describe as remaining managers becoming effective supervisors of AI systems rather than of people alone (Fortune, 2026). This has structural implications beyond

headcount: if early-career professionals historically built managerial judgement by performing exactly the coordination and reporting tasks that AI now automates, organisations that flatten aggressively risk breaking the informal pipeline through which future leaders were trained (Fortune, 2026), a long-term cost that is easy to overlook when flattening decisions are justified purely on the basis of short-term efficiency.

Discussion

Read together, these findings suggest that AI is not replacing the classical logic of organisational structure so much as changing its underlying economics. Hierarchy, span of control and centralisation were all originally calibrated to the cost and speed of moving information through human channels; when that cost falls sharply because a system can aggregate, analyse and in some cases act on information directly, the classical variables shift in response, typically toward flatter hierarchies, wider spans of control and a decision authority that is simultaneously more centralised at the level of algorithm design and more decentralised at the level of day-to-day execution. This is not, however, an unambiguous improvement. The case evidence shows at least three recurring risks that organisations need to manage deliberately rather than treat as an automatic by-product of adopting AI.

The first risk is the bundling problem: the coordination, reporting and monitoring tasks that AI performs well are, in most real management roles, bundled together with translation, mentorship and conflict-resolution tasks that AI performs poorly, and cutting a management layer to capture the first set of savings often removes the second set of benefits at the same time (Algeria tech, 2026). The second risk is an accountability gap of the kind documented in the Uber literature, where decision execution is pushed outward to the point of customer contact while the rules

governing that execution remain centralised in a system that is neither visible nor contestable to those affected by it (Möhlmann & Zalmanson, 2017; Wiener et al., 2023). The third risk is a talent-pipeline gap, in which flattening removes the entry-level coordination work through which junior staff historically developed the judgement needed for more senior roles, a cost that only becomes visible several years after the restructuring decision is made (Fortune, 2026).

Against these risks, the report's case evidence also points to conditions under which AI-supported restructuring works well. Haier's experience suggests that decentralisation supported by AI and shared data platforms can succeed at scale when it is accompanied by genuine delegation of profit-and-loss accountability to small, cohesive units, rather than simply removing supervisory layers while leaving decision rights unchanged (Hamel & Zanini, 2018). This points to a practical conclusion for managers: the structural choice is not simply whether to flatten, but how deliberately the organisation redesigns accountability, escalation paths and development opportunities while it removes layers of hierarchy.

Conclusion and Recommendations

This report set out to examine how business administration fundamentals around organisational structure, authority and decision-making are evolving as organisations adopt AI systems. The classical concepts of hierarchy, span of control and centralisation remain directly relevant, but AI has changed the underlying cost structure on which those concepts were built, enabling organisations to flatten hierarchies, widen spans of control and redistribute decision authority more quickly than at any point since the information-technology-driven flattening of the 1980s. Case evidence from organisations including Amazon, Meta, GitLab, Block, Cloudflare, Target, Haier and Uber shows a genuinely mixed picture: AI-supported restructuring can deliver faster decisions

and lower coordination costs, but it can also weaken accountability, strip out mentorship pathways, and shift power toward opaque algorithmic systems that employees experience as unfair when transparency and recourse are absent.

Based on this analysis, the report proposes the following practical principles for managers seeking to integrate AI into organisational structure while preserving clear accountability and long-term organisational capability.

- Separate coordination tasks from developmental tasks before flattening a layer of management and design a deliberate substitute — such as structured mentoring or rotational assignments — for whatever mentorship function is lost.
- Match the degree of decision delegation to the decision type, using frameworks such as Shrestha et al.'s (2019) human–AI decision architectures to decide, case by case, whether a decision should be fully delegated to AI, handled sequentially between human and AI, or aggregated, rather than delegating uniformly across an entire function.
- Preserve a clear, named point of human accountability and appeal for any decision that materially affects an employee or customer, even where the underlying recommendation is generated algorithmically, to close the accountability gap observed in algorithmic management research.
- Pair decentralisation of execution with genuine delegation of authority and resources, following the Rendanheyi principle that accountability, autonomy and reward should move together rather than pushing decision-making outward while retaining approval rights centrally.

- Monitor structural change against long-term measures of productivity and capability, not only short-term cost savings, given evidence that higher management ratios are sometimes associated with higher, not lower, workforce productivity.

Taken together, these recommendations suggest that the organisations best placed to benefit from AI are not necessarily those that flatten fastest, but those that redesign structure, authority and accountability together, treating AI as a tool that changes where and how classical management functions are performed rather than as a substitute for the underlying purpose those functions were designed to serve.

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Appendices

Appendix A: Classical Structural Concepts vs. AI-Enabled Shift

Classical Concept	Original Rationale	Observed AI-Enabled Shift
Hierarchy / middle line (Mintzberg, 1979)	Converts strategic direction into tasks and procedures via layers of managers	Middle-management layers reduced; AI agents absorb coordination and reporting tasks (Lepaya, 2026; FourWeekMBA, 2026)
Span of control	Limited by task complexity and the interaction required between manager and staff	Widened as AI absorbs routine monitoring and status-reporting, though mentorship needs remain (Axios, 2026)
Decentralisation	Pushes authority to those closest to the problem for speed and responsiveness	Execution decentralised to point of AI-supported contact; extreme case in Haier's micro-enterprises (Hamel & Zanini, 2018)