

Artificial Intelligence and Its Role in Enhancing Productivity and Cost Efficiency in Business Organizations

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Abstract

Artificial Intelligence (AI) has become a transformative force in contemporary business organizations by reshaping how productivity and cost efficiency are achieved. The rapid adoption of AI-driven technologies such as automation, machine learning, advanced analytics, and intelligent decision-support systems has enabled firms to optimize operations, enhance workforce effectiveness, and reduce operational costs. AI facilitates the automation of routine and repetitive tasks, allowing human resources to be redirected toward higher value-added activities such as innovation, strategic planning, and customer engagement. At the same time, AI-powered data analytics improves the speed, accuracy, and quality of managerial decision-making across functional areas including supply chain management, marketing, finance, and human resource management. From a cost-efficiency perspective, AI contributes to labor cost optimization, efficient resource allocation, energy management, and improved capital expenditure decisions, thereby strengthening overall organizational performance. Despite these benefits, AI adoption also introduces challenges related to workforce transformation, governance, data security, ethical considerations, and technological integration. A conceptual examination of existing literature suggests that the productivity and cost-efficiency gains from AI are closely interlinked and mutually reinforcing. Realizing the full potential of AI requires strategic alignment, effective change management, and robust governance frameworks. When implemented responsibly, AI can serve as a critical enabler of sustainable competitiveness and long-term value creation in business organizations.

Keywords: Artificial Intelligence, Business Productivity, Cost Efficiency, Automation, Data-Driven Decision Making, Organizational Performance, Digital Transformation.

Introduction

As businesses increasingly adopt artificial intelligence (AI), the capabilities and allure of machine-assisted productivity deepen. Each AI scenario arguably enhances productivity and, consequently, lowers costs. Productivity and cost efficiency serve as complementary cornerstones for competitive success. AI enables lower-cost workforce scaling by augmenting the output of existing personnel without massive personnel augmentation or reallocation. AI finds a broad range of applications across industries, companies, and functions, leading many companies to continue rapid adoption despite challenging economic and business circumstances. AI's overall impact and benefits derive from multiple productivity- and cost-efficiency-enhancing mechanisms offered by many underlying technology components (Mitra, A., & Sharma, S., 2020). The trajectories of AI and productivity exhibit a long-established upward trend. The capability and

scope of AI and AI-enabled tools adopting generative pre-trained transformer (GPT) models and other information media inflection points continue to expand. Yet low-cost generative text-to-image, text-to-video, and text-to-3D modeling applications signal both continued momentum and the probable arrival of a significant generative AI inflection point. The corresponding uncertainty about anticipated productivity and cost-efficiency impact remains pervasive, particularly across companies and sectors. (Jones, 2018)

Automated tasks and enhanced decision making through the visibility of data are two attributes universally recognised as drivers of productivity. What is often overlooked is how these same attributes are the bases for substantially lowering costs. A conceptual distinction helps disentangle productivity and cost efficiency. Productivity relates input to throughput: for example, sales per employee. Cost efficiency relates input to outcome: for example, labour cost per operational dollar. While many focus solely on productivity metrics, AI can profoundly influence the cost-efficiency per dollar spent on inputs such as labour (Sekhani, R., & Kedia, S. 2021). A diversified energy portfolio, along with energy-efficient manufacturing, enhances overall productivity while simultaneously reducing energy bills. Resource performance metrics such as operational utility, which tracks service delivery relative to installed equipment capacity, offer the potential for substantially lower maintenance costs.

AI Technologies Driving Productivity

Artificial Intelligence (AI) technologies are significantly enhancing productivity across various sectors (Zapke, 2019). AI-driven automation improves supply chain management, logistics, and warehouse operations, while Robotic Process Automation (RPA) streamlines HR and payroll processes. AI advances autonomous vehicles and boosts healthcare imaging solutions, and voice assistants like Siri and Alexa transform customer interactions. The adoption of AI is supported by extensive research and case studies demonstrating its potential to generate economic benefits and foster growth. Evidence suggests that AI can help firms increase productivity and achieve cost-efficient operations (Bessen et al., 2018).

(i) Automating Routine Tasks: AI technologies can facilitate productivity improvements by freeing human resources from labor-intensive, routine activities. Organizations can reallocate or redeploy these resources to tasks that have higher value-added potential, including customer engagement and innovation. Two widely adopted AI technologies Robotic Process Automation (RPA) and Conversational Platforms help organizations eliminate or reduce time spent on routine tasks in processes that require data-handling. RPA software programs govern and automate multi-step tasks that span multiple digital systems or applications, while conversational platforms enhanced with Natural Language Processing (NLP) interpret speech or text and can proactively provide data or guidance. These platforms interact with humans via text or spoken language, enabling them to fulfil tasks and minimize human involvement (Rizk et al., 2020).

Machine learning techniques are also used to facilitate data-driven decision making in more complex analysis. Many organizations already endorse this AI use case, particularly in domains such as finance, customer promotion, and supply chain operations (Tredinnick, 2016).

(ii) Data-Driven Decision Making: Equally important is AI's ability to synthesize vast amounts of data and information to accelerate, improve, and enhance the quality of organizational decision-making, a process that involves dialog between humans and machines. The tremendous ability of AI to process and analyze massive amounts of structured, semi-structured, and unstructured data enables data-driven decision-making on a foundation built on this broader analytical capability (Raj Shrestha et al., 2020). Such data-driven decisions use external knowledge

and organizational performance data to improve choice outcomes, while AI-enhanced decision support focuses on processing information to extract insights, generate predictions, and foster intelligence.

Organizations seek to augment decision-making processes across the value chain strategy, product planning, design, production, operation, marketing, sales, support, and human resources in diverse industries such as technology, health care, retail, and finance (Kerzel, 2020). For example, leading online platforms such as Uber and Airbnb employ advanced algorithms to inform consumers about changes in supply and demand, enabling better strategic planning and operational choices and increasing productivity. Data-driven decision-making is critical for management, marketing, design, sales, and supply, while AI-powered augmentation improves choice quality, timeliness, speed, and market share. Information flows continuously along the customer interface, and holistic data-driven platforms that leverage big data represent an essential source of competitive advantage for digital firms.

(iii) Advanced Analytics and Forecasting: Several studies suggest that professional forecasters typically regard few variables, if any, as invariant over time; forecasts are adjusted in response to changes in information, with consideration given to a wide range of variable combinations, and non-linearity is acknowledged. Despite these attributes, business-cycle-specific econometric models remain the prevalent tool for generating forecasts. The literature indicates that neural networks can outperform these models. Obtaining time-series rich enough to allow for this superiority is difficult for many companies, which often possess forecast horizons beyond the traditional business cycle; therefore, neural networks are more relevant in such contexts. Yet numerous applications and theoretical analyses indicate that even this criterion is too lax for rejecting the null; evidence of improvement in generality across application areas appears stronger than straightforward evidence of better performance. The empirical evidence available to date allows at best for a weak conclusion about relative performance in business forecasting (Jain, V. 2020).

Expanded databases enable considerable enhancement of empirical analysis across multiple fields, for example, macroeconometric modelling offers great attraction, yet the literature documenting technical and operational lessons relevant to AI adoption remains very limited. During the early 1980s, a government firm prepared a major national report on computer-aided learning; the six-person research team focused primarily on a critical review of progress in education and training other than Vocational Education Training (VET). All members received research grants and enjoyed high demand for consulting work, so an informal survey was made of over 1,000 labour-force experts. The results consistently delivered the same stark conclusion: reliance on VET, both in higher education and emphasising low academic skills, constrained the development of the education sector.

AI-Driven Cost Efficiency Mechanisms

Artificial Intelligence (AI) is emerging as a promising approach to driving organizational cost efficiency and reforming organizations. The following AI-driven mechanisms support labor cost management, optimize resource allocation, improve energy efficiency, and influence capital expenditure decisions. AI technologies enable organizations to manage labor costs while enhancing workforce utilization. AI tools can perform basic tasks and handle simpler queries, allowing employees to focus on higher value-added activities and opening up new work opportunities. AI agents interact with employees through natural language interfaces, reducing the need for staff in customer support functions. Leading organizations such as Alibaba, Amazon, and KFC have deployed AI Agents to respond to inquiries, thereby improving customer

satisfaction and expanding service coverage. AI capitalizes on the growing digitization of work and supports the redesign of work processes, enabling organizations to optimize human involvement and specifying when and how staff or agents should be engaged (Soni et al., 2019).

AI-powered tools facilitate optimal asset allocation and utilization by recommending the best locations for equipment, buildings, and workforce investment based on real-time monitoring of asset usage and other data. These recommendations extend beyond location to the quantity, type, and timing of investment. In an advanced stage of deployment, such tools continually monitor the quantity and coverage of investments while analyzing demand trends to make macro-level recommendations regarding future requirements. They may also alert organizations when existing assets are underutilized or nearing obsolescence. Recommendation engines consider a multitude of operating variables to identify the investments most likely to generate the highest returns, thus maximizing capital efficiency. According to Zapke, leading AI applications for investment recommendations include those from companies like Square, Stripe, and Xero (Zapke, 2019).

AI solutions serve as a global intelligence system that monitors and manages energy resources across the supply chain. Data from energy meters, process controls, machine sensors, and inventory offers insights into energy consumption and indicates time and resource requirements for energy-intensive processes. Deep learning automatically detects patterns and trends in energy utilization, enabling precise forecasting of future needs. Tracking of energy consumption at diversified organizational levels further informs evaluations of energy-saving technologies by calculating return on investment and the impact on overall demand. Even in early introduction stages, these systems can deliver considerable energy savings by directing resources toward the most effective initiatives. AI systems equipped with additional capability can propose investment recommendations for energy-saving technologies or even automatically plan energy workflows, permitting extensive resource savings.

(i) Labor Cost Management and Optimization: Labor costs represent a substantial portion of organizations' total operating expenses. Consequently, managing and optimizing labor costs and work hours play an integral role in improving productivity and achieving cost efficiency. AI solutions enable organizations to intelligently analyze and optimize labor costs. Managerial decisions impacting workforce cost structures often rely on imperfect and incomplete information and sometimes lack market benchmarks or wider context. AI can leverage existing internal data or augment these data sets with publicly available information to enhance decision quality. Specific examples of AI-driven labor cost optimization and efficiency strategies include improvements to the scheduling of shift patterns, analysis of financial exposure and work hours incurred on project tasks that are out of scope, rationalization of labor shifts to ensure appropriate coverage on complementary product lines, and guidance of customer conversations by retail staff to introduce additional product ranges (Thejan Amarasinghe et al., 2023).

AI can perform similar cost and hour analyses. Analyzing various workloads and existing use patterns of labor-intensive operations enables organizations to build a capability matrix for functions commonly supported by interns or contractors. Supplemented with qualitative assessments of internal employees' capabilities, the matrix assists in assessing transitions to alternative work models or identifying potential candidate employees. Investment appraisal represents a further common area where detailed examinations of capital transactions and related contracts are required to evaluate ongoing committed expenditure and residual future obligations. AI-enabled decision-support tools can analyze the financial impacts of investments to help organizations rethink earlier decisions and optimize resource allocation on further evolution by reallocating capital toward projects with more attractive return profiles (ENGH et al., 2018).

(ii) Resource Allocation and Utilization: Business processes frequently fail to achieve targeted objectives due to inefficient resource allocation and task assignments. Misalignments between resources and tasks lead to degraded outcomes, increased delays, and suboptimal costs. Certain task properties are crucial for determining the most appropriate resources. For instance, selecting the correct technical skill, required by the task, is essential to guarantee completion (Pufahl et al., 2021).

(iii) Energy Efficiency and Sustainability: Energy accounts for approximately 30% of operational costs across sectors like real estate, manufacturing, and transportation. AI-driven approaches to energy consumption analysis enable precise measurements for curtailment strategies, identifying excess consumption hotspots and ensuring smooth production changes without violating energy guidelines. For instance, a leading energy supplier analyzes client operations and energy monitoring system outputs, predicting major consumption peaks and recommending operational program adjustments to optimize energy use within production or other operational constraints (Pachot & Patissier, 2022).

(iv) Capital Expenditure and ROI Considerations: Artificial intelligence (AI) enables organizations to execute strategic and investment projects faster and with greater return on investment (ROI). Investments that utilize AI for such projects realize expansive gains in productivity relative to conventional approaches. AI generates comparable payback on expenditure of operating expenses, or 'opex', and on AI-relevant capital expenditures related to such projects. Consequently, organizations that continuously invest in integrated or modular projects and simultaneously adopt AI strategies that automate procedures and enhance analytics further capitalize on ROI opportunities (Brozović, 2019).

Organizational Implications

Business organizations are required to pay attention to the risks and required adjustments for effectively introducing AI technologies and tools into their existing operations. AI technologies change the demand for work and types of work, although they are not considered comparably disruptive as electricity or personal computers did in previous generations. Organizational leadership becomes essential in coordinating ongoing workforce transitions as rising levels of innovation in machine capabilities, computing power, and digitization combine to enable AI to perform activities of a broader type. Firms are advised to articulate a vision for managing ongoing workforce change and prioritize seeking employees who can help frame the AI strategy, as mismatched AI initiatives create friction and impede progress. Governance implications for AI deployment include designing procedures, checking mechanisms, leadership responsibilities at board and senior management level, creating and supporting internal norms, and training of employees.

The introduction of AI offers opportunities to improve performance and resilience, although the risks presented may not be regarded as business-critical in the immediate term. Since the workforce and customers are still adjusting to earlier technologies, it is prudent to devote time and effort to examine the full potential and risks of AI. None of the consequences of AI deployment of value limits remain fully understood and decision-making regarding AI deployment therefore becomes difficult (Kerzel, 2020).

(i) Change Management and Workforce Transformation: AI technologies have the potential to enhance workforce productivity, but success requires addressing many managerial and organizational challenges, especially change management and workforce transformation (Fenwick et al., 2024). Organizations face two primary tasks: (1) managing changing employee-

employer relationships due to machine-generated or machine-recommended tasks and (2) enabling and empowering people to adapt to decision-making and task-shifting in ways that help them thrive further or progress to new roles (Hughes et al., 2019). AI-driven technology diffusion has already transformed roles and shifted some lower-wage, lower-skill assignments to extra-organizationally-sourced gig workers or other firms (Brynjolfsson et al., 2023). Organizations may need to rethink recruiting, development, and retention strategies for whole functions, such as specific managerial or marketing roles being more effectively executed elsewhere with assistance or augmentation rather than full person-hours. Workers who occupy roles with machine assistance that facilitate the most dramatic organizational productivity improvements stand to benefit.

(ii) Governance, Compliance, and Ethics: Digital transformation initiatives triggered the introduction of new regulations on privacy and data protection strongly impacting business activities worldwide. Highly influential in the digital arena and collecting data to implement AI initiatives, Google and other leaders of the digital economy are obliged to comply with data protection regulations such as the European Union General Data Protection Regulation (GDPR) (Schneider et al., 2020). Protecting user data while delivering AI-powered products requires design, development, maintenance, and evolution in line with these regulations. Both corporate and IT governance practices evolve accordingly and AI governance has been introduced as a new research domain (Papagiannidis et al., 2023).

AI governance addresses the coordination of people, processes and digital technologies associated with AI adoption, development and deployment. Regulations and guidelines steer organizations in their governance practices. Following a thorough review of the literature, Papagiannidis et al. highlighted five core pillars of AI governance essential for maintaining compliance, managing risks, enforcing ethical principles, driving strategic objectives and improving organizational effectiveness. They also identified the barriers to their implementation. Bringing efficiency through the automation of repetitive and cognitively simple processes, machine learning, an AI subfield, can further shorten lead times, which indirectly affects the resource cost profile and has considerably helped weather the energy price surge. AI, mainly in the form of machine learning, supports also accuracy of trend-p

(iii) Data Governance and Security: A strong and clear governance framework centered around values increases the likelihood of deriving overall value from AI investments (Papagiannidis et al., 2023). Organizations are advised to implement mechanisms that ensure AI and analytics remain firmly embedded in their governance framework. This includes clarifying how data are managed as strategic assets, yet a growing percentage of organizations either lack a clear data governance framework for AI or are unaware of the governance frameworks in place. Clear governance frameworks can help organizations work towards establishing effective initiatives that are still at an early stage. Data Governance and Security remain among the five governance categories highlighting the fundamental need to standardize and safeguard data ownership. Data governance is imperative for organizations to fully leverage the

Challenges, Risks, and Mitigation Strategies

Artificial intelligence (AI) is spreading through the entire economy and starting to benefit many sectors. When deployed correctly, AI can enhance productivity and reduce costs. However, its speed of adoption is uneven because of limits in skills, data, existing technology, and organizational readiness. Given that AI offers such large potential economic gains, the obstacles to its widespread use are concerning. Organizations seeking to augment productivity improvements and cost savings by adopting AI face technical and social challenges. Improved speed and

capabilities in data processing and coding help meet the technical hurdles. The social issues can be addressed through communication, change-management programs, and workforce-training systems corresponding to the nature of the organization (Papagiannidis et al., 2023).

(i) Technical and Integration Challenges: Artificial Intelligence (AI) offers benefits in business but has technical difficulties during deployment. Efficiency improvements relate to the difficulty of modelling specific processes and integrating trained models into existing systems. For instance, manufacturing requires modelling processes of production lines and manufacturing systems. Still, overall systems consider order processing, inventory management, supplier and customer management. AI modelling does not work well at system level because AI deals with narrow specific problems, and requires extensive empirical information. AI-based applications, e.g. robots, speech recognition, machine vision, often requires additional system integration (Kerzel, 2020). Even when valuable AI capabilities are acquired, these may not be properly leveraged afterwards by the organisation (Soni et al., 2019). AI is highly data-driven, and the quality of input data determines the performance and applicability extent. Using biased data leads to accuracy deterioration on general cases. Furthermore, overmodelling of specific cases causes failure in off-situation.

Cloud-based software dominates the delivery of commercial AI applications, facilitating user interaction from various channels. Adoption of AI technology poses challenges in adapting and integrating these capabilities as major barriers (Bessen et al., 2018). Most of the tasks within an organisation are not automated, and routine tasks remain abundant despite current AI pass-in AI systems. Significant data transformations occur without AI during operational activities. For cost efficiency, workforce expansion is necessary in most early AI installation scenarios. AI installation complicates the procedure of continual learning. Systems require continual, on-going, incremental learning trained on accumulated input. Existing systems have not been designed to accept feedback on knowledge aspects or massive redundant operations, inhibiting continual learning.

(ii) Social and Ethical Considerations: Machines and programs are shaping societies at an ever-growing pace. Consequently, response to issues of ethics regularly appear ambitious, merely collecting considerations already included in various treaties (C. Müller, 2020) or extending mindsets for responsible technology acquisition; see by way of example growing calls throughout enterprises in pursuit of attractive sufficiency levels: solution sustainability, monitoring socially responsible supply chains, and sustainable sourcing of natural resources (Giralt Hernández, 2024). Even when bearing scope through legacy pre-occupations convert seemingly appropriate either misfit or over-extended. So contemplated needs remain desirable but typically wilfully neglected.

(iii) Dependency, Bias, and Reliability: Artificial Intelligence systems are becoming omnipresent in business settings. Indeed, companies increasingly leverage AI systems to complement, augment, and in certain cases, fully replace human analytical efforts (Hughes et al., 2019). Although AI can aid personal productivity, it can also impede efficiency when systems become too central to how one works or dominate the decision-making process. The latter concern has been labelled as dependency bias. Accordingly, dependency bias arises when employees rely on AI-generated insights rather than applying their own judgment and expertise (Schemmer et al., 2022).

Because of the relative ease with which historical data can be processed, richly analyzed, and presented, reliance on AI systems to automate analytical tasks has the potential to inadvertently de-skill workers' critical capabilities. In particular, historical analyses derived from AI systems may become circulated widely, supplanting the original modellers' interpretations and longitudinal perspectives and biasing future modelling. One, therefore, risks presenting tools as

technological friends that are reliable, trustworthy, and free of bias; rather one must regard them as occasionally helpful but often misleading. In short, the line between assistance and reliance is an important distinction.

Future Direction

Artificial Intelligence (AI) plays a pivotal role in shaping the future of work and socioeconomic development. AI-related technologies are evolving at an unprecedented rate, making precise predictions about future developments challenging. Nevertheless, it is plausible to foresee that intelligent robots will coexist with humans in everyday environments, constituting humanity's first direct encounter with alien intelligence. Consequently, AI concepts continue to penetrate various domains, including technology, medicine, banking, and education (Zovko, 2018). Industrial revolutions have historically impacted economic activities, jobs, and the organization of work in general. Conventional machines replaced human physical labor, whereas computers established digital offices. Intelligent robots capable of high-level thinking are likely to enter the workforce during the fourth industrial revolution. Various macro-environmental factors continue to shape future organizational activities. According to system methodology, many organizations are gradually moving toward the visionary stage. Intelligent capital, including AI and associated technologies (e.g., big data, IoT, AR/VR, 3D printing, and digital twins), represents a significant macro trend influencing business ecosystems. Industries such as technology, education, healthcare, and manufacturing are under pressure to undergo extensive changes shortly.

Conclusion

As the historical productivity growth dynamic appears increasingly at risk, the urgency to achieve productivity enhancement through all possible means is on the rise. AI technology emerges as a leading candidate, offering the potential to rejuvenate productivity growth and, as a corollary, via cost efficiencies to contribute to the recovery of margins and overall health of businesses. A systematic survey of how AI technology drives productivity gains and cost efficiencies within organizations has pointed to several direct mechanisms at work. Broadly, the following interrelated productivity-enhancing channels have emerged automation of routine tasks, enabling data-driven decision making, advanced analytics and forecasting, and intelligent process automation. Similarly, cost efficiencies enabled by AI technologies are catalyzed through the direct channels of labor cost management and optimization, resource allocation and utilization, energy efficiency and sustainability, as well as capital expenditure and return-on-investment considerations.

The clarification of the productivity and cost efficiency frameworks not only facilitates deeper understanding of the augmented productivity-driving mechanisms of AI technologies but also makes it easier to assess and quantify their impact. In parallel, broad-based AI deployment amplifies the urgency for organizations to attend to change-management considerations in human-AI interactions in general and workforce consequences in particular. Well-managed workforce migration to higher-value work and escalation of collaboration between humans and AI agents in operations, products, and market approaches is fundamental to realizing the productivity and cost-efficiency potential, supporting agile adaptation of activities, strategies, and relationships to disruption.

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