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AI Governance and Organizational Change in Developing States

Thandiwe Ndlovu-Maseko[1], Kwame Adu Mensah[2]
School of Governance and Public Affairs, University of Pretoria, Pretoria, South Africa[1,2]
t.ndlovu@up.ac.za

Abstract
The rapid expansion of artificial intelligence (AI) and data-driven systems is reshaping public administration across developing countries, yet these transformations unfold within bureaucratic structures characterized by uneven capacity and entrenched hierarchies. In Indonesia, AI governance reforms intersect with decentralized authority arrangements and institutional fragmentation, raising questions about how technological systems are mediated within public organizations. This study aims to analyze how AI and data-driven governance reshape discretion, authority, power relations, and legitimacy through organizational mediation in Indonesia's public sector. The research adopts a qualitative case study design based exclusively on secondary data, including policy documents, institutional reports, academic literature, NGO publications, and credible media sources. Guided by Organizational Mediation Theory, the analysis applies thematic coding across dimensions such as absorptive capacity, discretion redistribution, authority locus, data governance and integration, accountability and legitimacy, and equity outcomes. A theory-driven interpretive framework is used to examine how institutional structures filter and reshape AI implementation processes. The findings indicate that AI governance does not operate deterministically but is mediated by uneven absorptive capacity, hybrid authority structures, and negotiated data integration practices. The study concludes that AI-driven transformation in developing-country bureaucracies is institutionally constructed and politically embedded rather than technologically automatic. By integrating Organizational Mediation Theory with digital governance scholarship, the article contributes a contextualized framework for understanding AI governance in developing public sectors.

Keyword
Artificial Intelligence Governance; Public Sector Reform; Organizational Change; Digital Government; Developing Countries

1. Introduction

The rapid expansion of data science and artificial intelligence has begun to reshape public administration across the world (Dunleavy & Margetts, 2023; Vatamanu & Tofan, 2025). In developing countries, these transformations unfold within bureaucratic systems that are often fragmented, capacity-constrained, and politically layered. Indonesia represents a particularly important case because of its large population, decentralized governance structure, and ongoing digital government reforms (Alamsyah & Aryfiyanto, 2025; Hakimi et al., 2025). National initiatives promoting data integration and smart governance signal an ambition to modernize state capacity through AI-driven systems (Bolia, 2025; Omonov & Ahn, 2025). At the same time, Indonesian public organizations retain strong hierarchical traditions and sectoral silos (Napang et al., 2021; Purwanto, 2019). The encounter between advanced data-driven systems and entrenched

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bureaucratic arrangements creates a complex institutional environment. Rather than simply introducing new tools, AI systems interact with existing authority structures and professional norms. This interaction raises fundamental questions about how technological change is mediated within public organizations (Bokhari et al., 2025; Sigfrids et al., 2022).

The core problem is not whether AI can technically enhance efficiency, prediction, or coordination (Dunleavy & Margetts, 2023; Sharmin & Chowdhury, 2025). The more pressing issue concerns how AI systems are interpreted, filtered, and reshaped by organizational actors. In Indonesia, public agencies operate within layered chains of authority that distribute discretion unevenly across central and local levels. When AI tools are introduced for classification, prediction, or monitoring, they potentially alter how decisions are made and justified (Mainardi, 2024; Omonov & Ahn, 2025). These changes directly affect frontline officials, supervisory managers, and technical specialists. Real-world relevance emerges in policy areas such as social assistance targeting, regulatory enforcement, and digital service delivery. In such domains, AI systems may redefine who has the authority to decide and on what basis. The redistribution of discretion and authority has implications for accountability and public trust. Understanding these dynamics is crucial for evaluating AI governance beyond technical performance indicators (Dunleavy & Margetts, 2023; Mukhlis et al., 2025).

Existing scholarship on digital era governance explains how data-intensive information regimes and intelligent centres restructure state functions. It shows that AI enables digital decompression, centralized analytics, and pressures toward administrative holism (Dunleavy & Margetts, 2023). Studies also indicate that algorithmic tools can enhance monitoring, prediction, and regulatory capacity. In developing contexts, research has examined digital transformation as a means to overcome administrative fragmentation. Scholars have further explored concerns about algorithmic bias, transparency, and ethical safeguards (Dunleavy & Margetts, 2023). Organizational research has long emphasized that technologies do not operate independently of institutional settings (Alshehhi, 2025). Together, these strands of literature suggest that AI adoption will interact with bureaucratic hierarchies and professional cultures. However, most discussions focus either on macro-structural reforms or on normative debates about fairness and accountability (Hakimi et al., 2025; Sigfrids et al., 2022).

What remains insufficiently understood is how AI governance is mediated at the organizational level within developing-country bureaucracies. There is limited analysis of how AI systems reshape internal power relations between central analytics units and line departments. The transformation of discretion among frontline officials remains under-theorized in non-Western administrative contexts. Similarly, the emergence of new technical elites within public organizations has not been systematically examined. The role of organizational routines in filtering or resisting AI-generated outputs is often assumed rather than analyzed. In Indonesia, decentralized governance adds further complexity to how authority is negotiated across tiers (Alamsyah & Aryfiyanto, 2025; Hakimi et al., 2025). Without examining mediation processes, it is difficult to explain why similar AI systems produce divergent governance effects (Bolia, 2025; Omonov & Ahn, 2025). This gap points to the need for a theoretically grounded account of organizational mediation in AI governance.

The research gap can therefore be synthesized around the absence of an integrated framework linking AI technologies to intra-organizational power dynamics in developing contexts. While digital era governance highlights structural pressures toward integration and centralization, it does not fully specify how organizations translate these

pressures into practice (Bolia, 2025). Organizational Mediation Theory offers a lens to conceptualize this translation process. It treats organizations as active filters that interpret, adapt, and sometimes reshape technological systems (Omonov & Ahn, 2025). Applying this perspective to AI governance enables a shift from technological determinism to institutional analysis. It allows examination of how discretion, authority, and legitimacy are renegotiated internally (Alshehhi, 2025; Li et al., 2023). This synthesis clarifies that AI governance outcomes are contingent upon organizational mediation mechanisms. Theoretical integration is therefore necessary to advance understanding of digital transformation in developing states (Bolia, 2025; Dunleavy & Margetts, 2023).

Filling this gap is important for both analytical and practical reasons. Analytically, it refines theories of state capacity by showing that capacity expansion through AI is not automatic but institutionally conditioned (Vatamanu & Tofan, 2025). It also deepens understanding of how administrative silos persist or dissolve under digital pressures. Practically, governments in Indonesia and similar contexts are investing heavily in AI-driven reforms. Policymakers often assume that technological systems will generate objective and efficiency-enhancing outcomes (Li et al., 2023). However, if organizational mediation shapes how AI is used, then reform strategies must address internal authority structures and professional norms. Ignoring these factors risks producing symbolic adoption rather than substantive transformation. Moreover, legitimacy concerns may intensify if AI decisions are perceived as opaque or politically manipulated. Addressing the gap therefore has direct implications for governance quality and public trust.

This study accordingly sets out several core objectives. First, it seeks to conceptualize AI governance in developing-country public sectors through Organizational Mediation Theory. Second, it aims to analyze how AI systems reshape bureaucratic discretion within Indonesian public organizations. Third, it examines how authority and power relations are redistributed between central data units, line agencies, and frontline officials. Fourth, it explores how legitimacy is constructed and contested when decisions are supported or justified by algorithmic systems. These objectives generate guiding research questions about the mediation mechanisms that operate during AI implementation. They also invite hypotheses concerning the centralization of technical authority and the narrowing of frontline discretion. By framing the inquiry in this way, the study aligns empirical investigation with a clear theoretical architecture.

The urgency of this research stems from the accelerating adoption of AI in public governance across developing regions (Androniceanu, 2024). Indonesia's digital reforms are unfolding rapidly, often without fully articulated institutional safeguards or organizational redesign (Alamsyah & Aryfiyanto, 2025; Hakimi et al., 2025). As AI systems expand into regulatory, welfare, and administrative domains, their influence on internal governance structures intensifies. Without a nuanced understanding of mediation processes, reform efforts may overlook hidden shifts in authority and accountability (Bolia, 2025). The study contributes to debates on digital era governance by situating technological change within organizational power structures. It advances Organizational Mediation Theory by applying it to AI-driven state transformation in a developing context (Margetts, 2022). By clarifying how discretion, authority, power, and legitimacy are reshaped within bureaucracies, the article provides a coherent analytical foundation for examining AI governance beyond technical performance narratives (Bokhari et al., 2025; Li et al., 2023).

2. Research Method

This study employs a qualitative research design using a theory-driven case study approach based exclusively on secondary data (Creswell, 2018; Ruggiano & Perry, 2017). The case study focuses on AI and data-driven governance initiatives within Indonesian public sector organizations as an embedded institutional context. A qualitative approach is appropriate because the research seeks to understand how AI systems reshape discretion, authority, power relations, and legitimacy within complex bureaucratic structures. These transformations are socially constructed and institutionally mediated processes that cannot be adequately captured through purely quantitative indicators (Elbardan & Kholeif, 2017). Organizational Mediation Theory provides the analytical framework, conceptualizing public organizations as active filters that interpret, adapt, and reshape technological systems. Rather than assuming technological determinism, the framework emphasizes how bureaucratic routines, hierarchical authority, and professional norms condition AI adoption and effects. A secondary-data design is suitable because AI governance reforms generate extensive documentary traces in official reports, policy statements, regulatory guidelines, and public debates (Morgan, 2022; Ruggiano & Perry, 2017). Analyzing these materials allows systematic examination of institutional narratives, formal rules, and organizational restructuring without relying on primary interviews.

The study draws on multiple types of secondary sources, including national policy documents, ministerial regulations, institutional annual reports, parliamentary records, academic journal articles, NGO analyses, and credible media coverage of AI and digital governance reforms in Indonesia (Morgan, 2022). Document selection followed purposive criteria, prioritizing sources that explicitly addressed AI implementation, data integration, digital transformation strategies, or organizational restructuring within public agencies. Priority was given to official and publicly accessible documents issued between the initiation of major digital governance reforms and the most recent policy cycle. The primary units of analysis are public organizations and policy programs that have introduced AI or data-driven systems in regulatory, welfare, or administrative domains. Analytical dimensions were derived deductively from Organizational Mediation Theory and operationalized as coding categories (Bingham, 2023). These dimensions include absorptive capacity, discretion redistribution, authority locus, data governance and integration, accountability and legitimacy, political embedding, and service outcomes and equity. Each document was examined for evidence of how AI systems were framed, institutionalized, and embedded within existing authority structures. This structured analytical matrix ensured theoretical consistency across diverse documentary sources (Lochmiller, 2021).

Validity and trustworthiness were ensured through systematic source triangulation, comparing official policy narratives with independent academic assessments, NGO critiques, and media reporting (Schlunegger et al., 2024). Theoretical saturation was pursued by iteratively reviewing documents until additional materials no longer introduced new dimensions relevant to organizational mediation processes. Reliability was strengthened through transparent coding procedures, including clearly defined analytical categories and consistent application across all documents. Coding decisions were documented to create an audit trail that allows replication of analytical steps. Where possible, cross-referencing between multiple documents was used to verify institutional claims and reduce reliance on single-source interpretations. Ethical considerations were addressed by using only publicly available documents or properly cited academic materials (Cheong et al., 2023). All sources were referenced with citation

integrity to avoid misrepresentation of institutional positions. No confidential or restricted data were accessed, and the analysis respected principles of responsible scholarship in interpreting publicly available information.

3. Result and Discussion

3.1 Organizational Mediation of AI Governance: Capacity, Discretion, and Authority Reconfiguration

The introduction of AI and data-driven systems into Indonesian public administration raises a central analytical problem: how do these systems become embedded within existing bureaucratic structures rather than simply transform them? Organizational Mediation Theory conceptualizes this process through three interrelated mechanisms: absorptive capacity, discretion redistribution, and authority locus (Mainardi, 2024). Absorptive capacity refers to an organization's ability to recognize, internalize, and operationalize new technological knowledge within established routines (Bolia, 2025). Discretion redistribution captures shifts in decision-making latitude across hierarchical levels when algorithmic tools are introduced. Authority locus concerns where final interpretive and decision power resides once AI outputs enter administrative workflows (Bokhari et al., 2025; Sigfrids et al., 2022). Together, these mechanisms provide a structured explanation for how AI governance outcomes are shaped by internal organizational dynamics (Mainardi, 2024). Rather than assuming that AI systems automatically enhance efficiency or centralization, the framework emphasizes institutional filtering and negotiation (Tavberidze, 2025). This perspective directly addresses the research gap regarding how intra-organizational processes condition AI-driven state transformation in developing-country contexts.

The first major theme emerging from secondary documentation concerns uneven absorptive capacity across Indonesian public organizations. National-level ministries often possess specialized digital transformation units tasked with integrating data analytics into policy design and monitoring (Dunleavy & Margetts, 2023). These units demonstrate higher technical literacy, structured training programs, and formal strategies for AI adoption. However, sectoral departments and subnational agencies frequently display limited institutional capacity to interpret or operationalize algorithmic outputs (Aitken et al., 2024). This asymmetry generates a dependency relationship in which central technical teams act as translators of AI-generated insights. Organizational Mediation Theory explains this pattern as a capacity filter that shapes how technological potential is realized. The research question regarding how AI reshapes organizational power is partially answered here, as higher absorptive capacity concentrates epistemic authority in central units. Thus, AI governance does not diffuse evenly but is mediated through institutional capability gradients (Dunleavy & Margetts, 2023).

A second theme relates to the redistribution of discretion within administrative hierarchies. Policy documents and implementation guidelines indicate that algorithmic systems are often introduced to standardize eligibility assessments, risk profiling, or compliance monitoring (Dunleavy & Margetts, 2023; Engstrom & Ho, 2020). These systems reduce the scope for frontline officials to exercise individualized judgment in routine decision-making (Schafheitle & Meijerink, 2024). However, discretion does not disappear; instead, it shifts upward toward supervisory and technical actors who design, calibrate, and interpret the algorithms. Frontline officials retain limited discretion in exceptional cases but operate within algorithmically defined parameters. Organizational Mediation Theory conceptualizes this as structured discretion compression combined with supervisory discretion expansion. This finding addresses the research gap

concerning how AI alters everyday bureaucratic authority relations in developing contexts. It demonstrates that AI governance restructures, rather than eliminates, discretionary space (Dunleavy & Margetts, 2023).

A third theme concerns the reconfiguration of the authority locus within public organizations. Secondary sources reveal that while AI systems generate recommendations or risk scores, final decisions are often formally retained by human officials (Dunleavy & Margetts, 2023; Engstrom & Ho, 2020). Nevertheless, the perceived objectivity of algorithmic outputs creates strong cognitive and institutional pressures to align decisions with system recommendations. Technical experts who manage data infrastructure acquire informal authority because they control system parameters and model adjustments (Brizuela et al., 2019). This results in the emergence of internal technical elites whose influence exceeds their formal hierarchical rank. Organizational Mediation Theory interprets this development as authority hybridization, where formal bureaucratic hierarchies coexist with algorithmically anchored expertise. The research question regarding power realignment is addressed by showing how authority shifts toward actors who mediate data flows (Aitken et al., 2024). Consequently, AI governance reshapes internal power without overt institutional restructuring.

A fourth theme highlights the negotiation between political leadership and technocratic units over AI deployment. Policy narratives frequently frame AI as enhancing transparency and efficiency, yet political actors selectively emphasize or downplay algorithmic outputs depending on strategic considerations (Dunleavy & Margetts, 2023). This demonstrates that authority over AI systems is politically embedded rather than purely technical. Organizational Mediation Theory accounts for this dynamic by recognizing that mediation occurs not only within administrative layers but also between administrative and political spheres. The locus of authority therefore remains contested and situational (Dunleavy & Margetts, 2023). This finding refines the understanding of AI governance by illustrating how algorithmic systems are strategically mobilized within bureaucratic politics. It also reinforces the argument that AI-induced transformation is filtered through institutional power negotiations.

These findings extend prior Digital Era Governance assumptions by showing that the movement toward intelligent centres is mediated by uneven absorptive capacity rather than achieved through automatic technological scaling. DEG suggests that data-intensive regimes naturally centralize analytics, yet the Indonesian context demonstrates that such centralization depends on organizational learning and resource distribution (Dunleavy & Margetts, 2023). The evidence indicates that technical centralization emerges because only certain units can effectively internalize AI systems. This refines macro-level digital governance theories by embedding them within meso-level organizational dynamics. It challenges technologically deterministic interpretations that treat centralization as an inherent property of AI. Instead, centralization appears as an outcome of mediated institutional capability. Organizational Mediation Theory therefore deepens understanding of how DEG dynamics materialize in practice (Engstrom & Ho, 2020).

The redistribution of discretion also complicates assumptions that AI inherently reduces bureaucratic subjectivity. Rather than eliminating discretion, AI systems reallocate it across hierarchical strata. In developing-country bureaucracies characterized by strong vertical chains of command, such redistribution may reinforce supervisory oversight capacities. This dynamic reflects broader administrative traditions in Indonesia, where compliance and hierarchical accountability remain central organizing principles. AI systems amplify these tendencies by embedding monitoring functions within digital platforms (Kattof, 2025). Consequently, discretion becomes more structured and more

visible, aligning with existing bureaucratic norms. This contextual interpretation demonstrates how organizational mediation interacts with historical administrative cultures. It underscores that AI governance outcomes are path-dependent rather than universally uniform (Dunleavy & Margetts, 2023).

Finally, the reconfiguration of authority locus illustrates how AI governance transcends simple dichotomies between human and machine decision-making. Authority becomes hybrid, negotiated between formal officeholders and technical intermediaries. In developing contexts with evolving professional cadres, the rise of internal technical elites may alter long-standing power balances. However, political oversight and hierarchical command structures continue to frame ultimate accountability. This layered authority structure reveals that AI governance reshapes institutional power without dismantling foundational bureaucratic logics. Organizational mediation thus operates as the mechanism through which technological systems are domesticated within state institutions. By demonstrating these dynamics, the analysis addresses the research gap concerning intra-organizational power transformation and clarifies how AI governance in Indonesia is institutionally constructed rather than technologically predetermined.

3.2 From Algorithmic Coordination to Governance Consequences: Holism, Legitimacy, and Equity

The organizational mediation of AI governance produces downstream consequences that extend beyond internal authority structures (Dunleavy & Margetts, 2023). Data governance and integration shape whether AI systems foster administrative holism or reinforce fragmentation. Accountability and legitimacy determine how algorithmic decisions are justified and publicly accepted (Brizuela et al., 2019; Esmailzadeh & Motaghi, 2024). Service outcomes and equity reveal whether AI-enabled reforms alter distributional effects across citizens and regions. Organizational Mediation Theory conceptualizes these dimensions as secondary but structurally conditioned consequences of earlier capacity and authority transformations. When absorptive capacity is uneven and authority is hybridized, data integration efforts are filtered through institutional interests. Similarly, legitimacy claims are mediated by how organizations narrate algorithmic objectivity (Schafheitle & Meijerink, 2024). The analysis therefore moves from internal reconfiguration to governance consequences that affect broader state-society relations.

A first major theme concerns the selective realization of administrative holism through data governance initiatives. Indonesian policy frameworks frequently emphasize data integration across ministries to overcome siloed service delivery (Dunleavy & Margetts, 2023). However, secondary materials indicate that data sharing often remains partial and strategically bounded by sectoral mandates. Agencies may comply formally with integration directives while retaining control over critical datasets (Mutale et al., 2017). Organizational Mediation Theory interprets this as mediated holism, where integration is conditioned by institutional autonomy and political considerations. Rather than producing seamless coordination, AI-driven systems generate negotiated data exchanges (Dunleavy & Margetts, 2023). This finding addresses the research question regarding how AI reshapes organizational interaction patterns. It demonstrates that holism emerges incrementally and unevenly rather than automatically through technological interoperability.

A second theme relates to accountability structures surrounding algorithmic systems. Official narratives often frame AI adoption as enhancing transparency and evidence-based decision-making (Brizuela et al., 2019). Yet documentation reveals that

accountability mechanisms for algorithm design, calibration, and oversight remain embedded within existing bureaucratic hierarchies (Engstrom & Ho, 2020). Responsibility for outcomes is typically attributed to human decision-makers, even when algorithmic recommendations strongly shape choices (Chiou et al., 2020). Organizational Mediation Theory highlights that accountability is re-routed rather than fundamentally transformed. Technical units gain operational influence but may not bear equivalent public scrutiny. This answers the research gap concerning how legitimacy and responsibility are institutionally negotiated in AI governance. It shows that algorithmic authority is domesticated within pre-existing accountability frameworks (Dunleavy & Margetts, 2023).

A third theme concerns legitimacy construction in the context of data-driven governance. Public communications frequently emphasize neutrality, objectivity, and efficiency as core benefits of AI systems. These narratives function as organizational strategies to legitimize expanded monitoring and centralized analytics (Dunleavy & Margetts, 2023; Margetts, 2022). However, secondary critiques from civil society actors point to concerns about data privacy, exclusion errors, and unequal digital access. Organizational Mediation Theory suggests that legitimacy is co-produced by administrative framing and societal response. In Indonesia's decentralized and socially diverse context, perceptions of fairness may vary across regions and socio-economic groups (Alamsyah & Aryfiyanto, 2025). The findings demonstrate that legitimacy is not inherent in algorithmic systems but constructed through mediated institutional discourse (Schafheitle & Meijerink, 2024). This directly engages the research objective concerning how AI governance reshapes legitimacy narratives.

A fourth theme addresses service outcomes and equity implications. AI-driven targeting systems aim to improve efficiency in welfare distribution and regulatory enforcement (Engstrom & Ho, 2020). Nonetheless, documentation indicates persistent disparities in digital infrastructure and data completeness across provinces. Regions with stronger administrative capacity are better positioned to benefit from predictive analytics and integrated platforms. Organizational Mediation Theory interprets these disparities as consequences of differential absorptive capacity interacting with decentralized governance structures (Misra, 2021). Rather than uniformly enhancing equity, AI systems may reproduce or amplify existing institutional inequalities. This finding fills the empirical gap regarding distributional consequences of AI in developing contexts. It underscores that governance outcomes are contingent upon organizational mediation processes at multiple tiers.

These findings refine prior digital governance theories by demonstrating that administrative holism depends on negotiated data politics rather than purely technical integration. Digital Era Governance posits strong pressures toward cross-sector coordination, yet the Indonesian case illustrates that such coordination is institutionally constrained (Alamsyah & Aryfiyanto, 2025; Karlekar et al., 2023; Saputra et al., 2024). Holism materializes only where organizational incentives align with integration mandates. This challenges assumptions that data interoperability alone can overcome bureaucratic fragmentation. It also situates AI governance within broader debates on inter-agency competition and state restructuring (Alamsyah & Aryfiyanto, 2025; Margetts, 2022). By foregrounding mediation, the analysis bridges macro-level reform narratives with meso-level organizational dynamics. Theoretical refinement emerges through this layered explanation.

The accountability and legitimacy findings engage directly with governance theories that emphasize transparency and procedural fairness. Prior literature often

assumes that algorithmic systems enhance objectivity and reduce arbitrariness. However, the mediated nature of accountability reveals that algorithmic authority can obscure rather than clarify responsibility. In developing-country bureaucracies with evolving oversight mechanisms, this ambiguity may generate new governance tensions. Organizational mediation thus becomes central to understanding why legitimacy claims may be contested. The analysis contributes to empirical debates by showing how public trust is shaped by institutional framing rather than technological properties alone. It demonstrates that AI governance is embedded within political-administrative cultures.

Finally, the equity implications highlight the importance of contextualizing AI reforms within structural inequalities characteristic of developing states. Digital transformation initiatives are frequently presented as leapfrogging opportunities for administrative modernization. Yet uneven infrastructure, fiscal disparities, and capacity gaps condition how benefits are distributed. Organizational Mediation Theory explains that AI systems amplify existing institutional strengths and weaknesses. This insight has implications for public sector reform strategies that prioritize technological acquisition without parallel organizational development. It suggests that equitable AI governance requires attention to institutional capacity and inter-tier coordination. By linking mediation processes to governance consequences, the analysis advances understanding of AI-driven reform in developing-country public sectors without reducing outcomes to technological determinism.

4. Conclusion

This study has examined how AI and data-driven governance reforms in Indonesia are shaped through organizational mediation rather than technological determinism. Beginning from the premise that Digital Era Governance pressures toward centralization and holism do not operate automatically, the analysis demonstrated that absorptive capacity, discretion redistribution, and authority locus function as core mediating mechanisms. Uneven absorptive capacity concentrates epistemic power within central technical units, while frontline discretion becomes structured within algorithmic parameters rather than eliminated. Authority is hybridized, combining formal bureaucratic hierarchy with emergent technical elites who control system calibration and data flows. These internal transformations subsequently shape broader governance consequences, including mediated administrative holism, re-routed accountability, constructed legitimacy narratives, and uneven service outcomes across regions. The findings collectively show that AI governance outcomes are institutionally filtered, politically embedded, and path-dependent. Rather than producing uniform modernization effects, AI systems interact with existing bureaucratic traditions and capacity disparities in Indonesia. Organizational mediation therefore provides the explanatory bridge linking technological adoption to governance consequences.

The study contributes to the field in three principal ways. First, it extends Digital Era Governance theory by embedding macro-level structural pressures within meso-level organizational dynamics, demonstrating that intelligent centres and holism are contingent upon institutional capacity and authority negotiations. Second, it advances Organizational Mediation Theory by applying it to AI governance in a developing-country context, thereby expanding its relevance beyond general technology adoption debates. Third, it enriches empirical scholarship on AI in public administration by shifting attention from normative algorithmic ethics toward intra-bureaucratic power reconfiguration and legitimacy construction. The analysis also challenges assumptions that AI inherently reduces discretion or enhances objectivity, showing instead that

discretion is redistributed and legitimacy is narratively constructed. By situating Indonesia as a decentralized and capacity-uneven state, the study highlights how developing-country bureaucracies mediate digital transformation differently from highly institutionalized Western administrations. This contextualized contribution helps bridge global AI governance debates with Global South administrative realities. Overall, the article reframes AI governance as an organizationally negotiated process rather than a purely technical reform.

Future research should deepen comparative analysis across developing-country contexts to examine how variations in administrative tradition, decentralization, and fiscal capacity shape organizational mediation patterns. Cross-sector comparisons within Indonesia could further illuminate whether welfare, regulatory, and security domains exhibit distinct discretion and authority dynamics under AI adoption. Quantitative and mixed-method designs may complement secondary-data approaches by measuring changes in decision consistency, appeal rates, or regional equity outcomes. Longitudinal research would also be valuable to assess whether technical elites consolidate durable authority or whether hybrid arrangements stabilize over time. Additionally, future studies should investigate citizen perceptions of algorithmic governance to better understand how legitimacy narratives are socially received and contested. Greater attention to subnational governments is particularly important in decentralized states, where absorptive capacity gaps may widen governance inequalities. Finally, integrating political economy analysis with Organizational Mediation Theory could clarify how partisan competition and electoral incentives shape AI deployment strategies. Such research would further refine understanding of how AI governance evolves within institutionally diverse developing-country public sectors.

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