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**ALGORITHMIC DECISION-MAKING IN THE CORPORATE
SECTOR: RETHINKING ACCOUNTABILITY AND LIABILITY IN THE
AGE OF ARTIFICIAL INTELLIGENCE IN INDIA**

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Abstract

The swift deployment of Artificial Intelligence (AI) enabled solutions into business decision-making processes has revolutionised the business operations within modern enterprises. Automated financial assessments and compliance and risk management systems powered by algorithms are emerging as corporate systems that depend more on algorithmic decision-making to enhance efficiency and accuracy. Yet this move into technology creates complicated jurisprudential issues around liability and accountability, especially when such systems create wrong, prejudiced or detrimental conclusions. This section analyses the issues presented by algorithmic decision-making in corporate India, specifically, how the existence of the existing legal infrastructure fails to address responsibility and attribution of fault. Traditional corporate governance processes are based on human decision-making, and, the increasing dependence on autonomous or semi-autonomous AI makes it difficult for liability of corporate entities, directors and technology developers to be identified. Taking a doctrinal and analytical approach, it discusses what AI will become, how it is emerging as a player in corporate governance and in particular, the implications of both relevant laws (Companies Act) and regulatory norms in relation to that in corporate behaviour. And it does a comparative reading of the developing global regulatory initiatives specifically on regulatory regimes that differ in the European Union to identify some reform possibilities. The paper asserts that the lack of a coherent legal system governing AI-based corporate action poses wide gaps to regulation, and hence the need to re-evaluate accountabilities under existing ones. Lastly, it suggests an appropriate legal and governance framework designed to improve

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transparency, fairness and liability definition pertaining to algorithmic corporate governance in India.

Keywords: *Artificial Intelligence, Algorithmic Decision-Making, Corporate Governance, Accountability and Liability, Regulatory Framework.*

Introduction

The increased deployment of Artificial Intelligence (AI)⁴ in corporate operations has significantly changed the nature of decision making in today's business ecosystem. Algorithmic systems⁵ enable corporates to perform many functions today financial analysis, risk assessment, regulatory compliance, recruitment and strategic planning. These systems empowered by complex data-processing capabilities are often seen as more efficient and objective,⁶ capable of minimizing human error.

Yet a reliance on algorithmic decision-making prompts important legal and ethical questions⁷ too, especially when such systems yield erroneous, discriminatory, or harmful results. In the classical company model, accountability and liability are vested in identifiable human actors such as the director, the officer or the employee whose decisions can be examined in a legal framework. The deployment of AI decision-making subverts this system by introducing aspects of autonomy as well as opacity, a concept known as the 'black box' dilemma,⁸ where the rationale for what is generated based on the algorithmic results is not so easily understood. This change threatens the pillars of corporate governance⁹ in the sense of transparent, accountable and ethical management.

The Indian legal regime including Companies Act¹⁰ and other supporting framework of law and regulatory mechanism has not really yet caught up with new challenges associated with the algorithmic system in corporate decision making. Though these legislations give an organized structure to what is necessary to govern corporations legally and legally

⁴ Stuart Russell & Peter Norvig, *Artificial Intelligence: A Modern Approach* (4th ed., Pearson, 2021).

⁵ Tarleton Gillespie, "The Relevance of Algorithms" in *Media Technologies* (MIT Press, 2014).

⁶ Cary Coglianese & David Lehr, "Regulating by Robot: Administrative Decision Making in the Machine-Learning Era" (2017) 105 *Georgetown Law Journal*.

⁷ Luciano Floridi and others, 'AI4People—An Ethical Framework for a Good AI Society: Opportunities, Risks, Principles, and Recommendations' (2018) *Minds and Machines*.

⁸ Frank Pasquale, *The Black Box Society: The Secret Algorithms That Control Money and Information* (Harvard University Press 2015).

⁹ OECD, *G20/OECD Principles of Corporate Governance* (OECD Publishing 2015).

¹⁰ The Companies Act 2013.

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responsible for liability, they are still the root of human agency,¹¹ and they never quite capture all the time when AI technologies shape and or set decisions. Thus, when algorithmic decisions cause loss, non-compliance, or violation of stakeholders, a considerable loophole widens in determining liability.

This problem becomes urgent following rise of AI technologies for Indian corporates as they are undergoing digital transformation¹² and being up against the global competitive pressures. Without clearly defined legal principles, this begs the question of whether liability rests with the enterprise, the board of directors, or the developers¹³ and designers of the algorithmic systems. Furthermore, concerns over bias,¹⁴ lack of disclosure and responsible conduct make it even more difficult for the regulatory environment.

The objective of this paper is to explore the legislative question-challenges related to algorithmic decision-making in the Indian corporate sector. Its intention is to analyse if the existing corporate governance and liability provisions are capable to deal with such challenges, whilst establishing which loopholes should be targeted for legal change. In adopting a comparative point of view and analysing the international regulatory approach,¹⁵ the research tries to put forward one specific framework, making AI-based investment in the corporate world accountable, transparent and just.

Research Questions

1. Does the current corporate legal framework in India provide adequate redress on accountability issues related to algorithmic decision-making?
2. What does the liability analysis look like in the cases AI-driven corporate decisions cause harm, bias, or regulatory non-compliance?
3. What threats does the transparency and corporate governance of algorithmic opacity present?
4. How far might comparative legal approaches shape the development of an effective regulatory regime on AI for corporate India?

¹¹ Julia Black, 'Decentring Regulation: Understanding the Role of Regulation and Self-Regulation in a "Post-Regulatory" World' (2001) 54 *Current Legal Problems*.

¹² NITI Aayog, *National Strategy for Artificial Intelligence* (2018).

¹³ Ryan Abbott, 'The Reasonable Robot: Artificial Intelligence and the Law' (2018) 105 *Georgetown Law Journal*.

¹⁴ Solon Barocas and Andrew D Selbst, 'Big Data's Disparate Impact' (2016) 104 *California Law Review*.

¹⁵ European Union, *Artificial Intelligence Act* (2024).

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Research Objectives

1. To explore the role and growing dependence on algorithmic decision-making in organizations.
2. To examine the adequacy of existing corporate governance and liability frameworks in India in these regards in response to AI-driven decisions.
3. To discover the legal and regulatory obstacles of accountability, transparency and liability in algorithmic systems.
4. To investigate an analysis comparative legal structures and recommendations to reinforce regulatory mechanisms in India.

Hypothesis

The present corporate law in India is insufficient to solve the problems of accountability and liability arising from algorithmic decision-making, which require a new and holistic regulation for the regulation of AI-driven businesses in India.

Literature Review

AI (Artificial Intelligence) and corporate governance and decision-making have been thrust under the academic spotlight¹⁶ of the past few decades. Academic discourses thus far concentrate on the transformative abilities of algorithmic systems for improving efficiencies,¹⁷ reducing human error¹⁸ in business processes.

On the other hand, simultaneous concern as to the legal and ethical implications¹⁹ for decisions by independent governance mechanisms have been presented in relation to granting decision-making power to autonomous or semi-autonomous systems. Companies with business governance frameworks that have been examined by the researchers on which corporate governance frameworks are typically built have tended to focus on accountability, transparency, and fiduciary responsibility²⁰ as the most crucial features in the making of a

¹⁶ Erik Brynjolfsson and Andrew McAfee, *The Second Machine Age: Work, Progress, and Prosperity in a Time of Brilliant Technologies* (W W Norton & Company 2014).

¹⁷ McKinsey Global Institute, *Notes from the AI Frontier: Modeling the Impact of AI on the World Economy* (2018).

¹⁸ World Economic Forum, *Artificial Intelligence in Business* (Report).

¹⁹ Luciano Floridi and others, 'AI4People—An Ethical Framework for a Good AI Society' (2018) *Minds and Machines*.

²⁰ OECD, *G20/OECD Principles of Corporate Governance* (OECD Publishing 2015).

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firm's choices in the course of its operations. These principles are fundamentally based on a base of the idea that decisions can be made by identifiable human agents²¹ and their behaviour can be subjected to supervision and scrutiny. But the advent of algorithmic decision-making challenges that conventional perspective. AI systems frequently do operate in opaque and complex processes, and so the justification for a particular decision is not easy to trace, leading to what researchers commonly call the "black box" problem.²²

Moreover, some of the recent literature focuses on the problem of liability attribution²³ in relation to AI-enabled outputs. Yet there are some researchers who want old corporate liability rules²⁴ to be brought up with AI, as it would also set the companies accountable for the use of, and results from, similar systems. Critics of that same approach claim that algorithmic systems should not be simply made use of or shared risk, but to be responsibly created, both for actors and society as a whole. Yet even though all the above is being discussed, no one seems to agree on what will be the right legal system to tackle such issues.

From a regulatory perspective, comparative scholarship has dealt with AI governance in emerging global contexts. The European Union²⁵ and numerous jurisdictions such as it, for example, are in the forefront of drafting structured legal regulations regarding AI with a high degree of transparency, accountability, and risk classification.²⁶ Such developments have been discussed extensively in academia as blueprints for other jurisdictions, including India. But academics have warned against the wholesale translation of foreign regulatory paradigms regardless of considerations for the country's socio-economic and legal landscape. Academic involvement in AI and corporate law in the context has been relatively nascent in the Indian context.²⁷

There are new voices that exist today that acknowledge that AI is becoming more and more prevalent and that it is imperative that AI-driven practices are regulated, and in the literature, these concerns have mostly focused on issues with data protection, privacy, and digital

²¹ Salomon v Salomon & Co Ltd [1897] AC 22 (HL).

²² Frank Pasquale, *The Black Box Society* (Harvard University Press 2015).

²³ Ryan Abbott, 'The Reasonable Robot: Artificial Intelligence and the Law' (2018) 105 *Georgetown Law Journal*.

²⁴ Steven Shavell, *Economic Analysis of Accident Law* (Harvard University Press 1987).

²⁵ European Union, *Artificial Intelligence Act* (2024).

²⁶ European Commission, *Ethics Guidelines for Trustworthy Artificial Intelligence* (2019).

²⁷ NITI Aayog, *National Strategy for Artificial Intelligence* (2018).

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governance²⁸ on a broader, rather than specific focus on corporate environments with algorithmic decision-making.

This indicates a definite gap in the research on AI, corporate governance and liability in the Indian system of law. Hence this paper aims to fill this gap by addressing and critically analysing the legal challenges involved with algorithmic decision making in the Indian corporate sector. It draws from existing literature, but is an in-depth investigation of accountability and liability, underpinned by comparative observations and policy recommendations.

Legal Framework Governing Corporate Decision-Making in India

Corporate Governance Structure the Indian corporate governance framework²⁹ relies heavily on the legislative act and regulatory framework as well as its implementation by government to ensure accountability, transparency and responsible decisions. The legal basis is provided by Companies Act, 2013³⁰ and their obligations and responsibilities to directors and the major managerial staff of the company. Alongside these laws, there are regulatory standards like the SEBI³¹ (Listing Obligations and Disclosure Requirements) Regulations put forth by the Securities and Exchange Board of India (SEBI) in place to provide more guidelines for governance for listed companies.

The Companies Act, 2013 lays down fiduciary duties³² responsibilities on directors related to acting in good faith, doing due diligence and doing what is in the best interests of the corporation including those of other shareholders and any other interested party. It does this from a position of transparency and responsibility³³ through the principles of this legislation, wherein it imparts decision making to the directors. Liability generally has to do with how much people are involved and as such supports again the concept of recognizable human agency³⁴ as the cornerstone of corporate responsibility. Regulatory framework supports governance aspects along board composition, independent board directors, audit committees and disclosure requirements. They are designed to foster accountability, accountability and oversight of corporate decisions. Independent Directors' role in overseeing and maintaining a

²⁸ Justice KS Puttaswamy v Union of India (2017) 10 SCC 1.

²⁹ OECD, *G20/OECD Principles of Corporate Governance* (OECD Publishing 2015).

³⁰ The Companies Act 2013.

³¹ Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations 2015.

³² The Companies Act 2013, s 166.

³³ Andrew Keay, *The Corporate Objective* (Edward Elgar Publishing 2011).

³⁴ Salomon v Salomon & Co Ltd [1897] AC 22 (HL).

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neutral and non-discriminatory decision making body and not getting involved in conflicts of interest and this must be especially true of the structure of the decision making body can be very good.

Moreover, as Artificial Intelligence and Algorithmic systems become more prevalent in corporate affairs, the legal tradition now faces a major threat. The rule of law³⁵ (at the moment) rides heavily on the idea that decisions are made exclusively by human agents whose intentions and actions fall within the legal doctrines of the day.

On the other hand, algorithmic decision-making³⁶ complicates and adds features of autonomy to these assumptions. Some of the core shortcomings of today's legal framework render it not capable of clearly delineating when decision making is delegated to AI systems. Though executives are still legally held responsible for the effective functioning of the company as a whole, their liability remains uncertain,³⁷ however, as they choose things that they were not consciously designed to decide and that had an influence via highly opaque systems³⁸ (e.g., algorithms). This represents an issue with regard to legal liability issues, for example, where legal liability becomes unclear for unintentional wrongdoing by AIs when injury occurs due to errors produced, biases³⁹ or surprises.

Furthermore, not only do present regulation guidelines not yet specify the standards of transparency⁴⁰ in algorithmic work, neither do they specify requirements on transparency as transparency in working algorithmic systems or oblige organizations to disclose⁴¹ how much they depend upon AI, what AI or data-driven decision-making for decision-making is done by corporations to ensure their use will be publicly announced. Without adequate information to help all participants in society determine how fairness or dependability of those systems, these types of regulatory hurdles are seen as accountability and oversight problems.

That absence of such an exclusive regulatory architecture for AI decision help, however, is an indictment of corporate governance for Indian corporate governance on AI. It also

³⁵ Lawrence Lessig, *Code and Other Laws of Cyberspace* (Basic Books 1999).

³⁶ Karen Yeung, 'Algorithmic Regulation: A Critical Interrogation' (2018) 12 *Regulation & Governance*.

³⁷ Steven Shavell, *Economic Analysis of Accident Law* (Harvard University Press 1987).

³⁸ Frank Pasquale, *The Black Box Society* (Harvard University Press 2015).

³⁹ Solon Barocas and Andrew D Selbst, 'Big Data's Disparate Impact' (2016) 104 *California Law Review*.

⁴⁰ Finale Doshi-Velez and Been Kim, 'Towards a Rigorous Science of Interpretable Machine Learning' (2017).

⁴¹ Sandra Wachter, Brent Mittelstadt and Luciano Floridi, 'Why a Right to Explanation...' (2017) *International Data Privacy Law*.

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demonstrates that current legal principles need to be revisited in order to apply the realities of algorithmic governance in the corporate world.

Role of Artificial Intelligence in the Corporate Sector

The integration of Artificial Intelligence (AI) in the corporate world has greatly changed the way in which companies work and make decisions. With the modern digital economy, corporations now need to think about algorithmic systems not only as supporting technologies, but also as an essential part of their decision-making architecture. The tools are designed to optimize process efficiency for productivity⁴² enhancement, cost-saving and speed of corporate decision-making. Consequently, AI technologies have now insinuated themselves into the fabric of corporate strategy making, and now lie at the heart of governance and strategic positioning of corporations and are central to building longer-lasting strategies and their sustainable enterprises.

For financial decision-making, AI is likely one of the most practical applications. Algorithmic tools are heavily used by companies for credit scoring, financial forecasting, fraud detection and investment strategy formulation. These systems can sift through massive amounts of data in real time, finding patterns not readily apparent to human decision makers. AI-systems can thus help multinationals make data-driven decisions⁴³ more accurately and without as much uncertainty. But this increasing reliance poses a significant risk, especially when the outputs result from algorithmically driven decisions are determined by incorrect data, prejudiced assumptions or inadequate training models. If any of such decisions are incorrect, losses of money, violations of regulations, harm to the reputation, can happen.

AI has transformed HRM for recruitment and employee evaluation. For evaluating resumes, classifying candidates and tracking behavioural and performance indicators, automated systems are heavily employed. These technologies, which have greatly simplified hiring procedures and alleviated bureaucratic overhead, also do lead to serious moral issues of fairness and non-discrimination. Algorithms that have been built using biased datasets and past historical experiences in the data, may cause algorithmic outcomes biased against members from certain categories of people. It violates equality principles, and places companies in danger of legal and reputational liability, too.

⁴² McKinsey Global Institute, *Notes from the AI Frontier* (2018).

⁴³ Erik Brynjolfsson and Andrew McAfee, *The Second Machine Age* (2014).

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These AI-driven systems have also become critical in the context of regulatory compliance and risk management. These technologies are utilized by organizations for compliance obligations monitoring as well as for anomaly detection and application to complex regulatory frameworks. Such systems should prove to be particularly useful in heavily regulated areas such as those where non-compliance can lead to very significant legal and financial penalties. Yet delegation of compliance duties to automated systems has implications for responsibility, particularly when those systems don't realize risks or misinterpret regulations. The question is in whether it is up to the company, its leadership or the programmers of the algorithmic systems. AI also has more and more impact on strategic decision making at the chain of command and board of directors. These insights, gleaned from advanced analytics, machine learning applications and predictive algorithms, drive corporate strategies, marketplace, and investment opportunities.

In much of the world, those recommendations of algorithms will have a large influence, if not an influential influence, on the final decision of corporate decision makers. There has been heightened reliance on technology, generating serious issues with the degree of human control and possibly diminishing responsibility for managerial effectiveness. It also questions classic corporate governance assumptions which are based in the human judgment, as an inherent part of the decision-making process itself.

As transformative as AI may be, corporate decision-making is no easy feat and AI has certain innate drawbacks. A major concern is the lack of transparency in algorithmic systems, which is referred to as the "black box" phenomenon⁴⁴ that results from the opaque internal logic and reasoning of the system as being either unavailable or less clear. This opacity erodes stakeholder trust and presents serious transparency and accountability and auditability issues.

Moreover, data privacy,⁴⁵ cybersecurity and ethical issues also impact the implementation of AI in business domains. In addition, the incorporation of AI poses some more general questions around the transformation of corporate responsibility. With the division of decision making power becoming increasingly between human and automated decision-making, the legal structures of corporate behaviour are increasingly inadequate to accommodate new complexities. There are also challenges inherent in this scenario which are compounded by

⁴⁴ Frank Pasquale, *The Black Box Society* (Harvard University Press 2015).

⁴⁵ Justice KS Puttaswamy v Union of India (2017) 10 SCC 1.

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unclear regulation standards about the use of AI, which can lead to ambiguity in liability attribution and enforcement.

As such, AI has undeniably improved corporate effectiveness, innovation and competitiveness, but its increasing use in decision-making also leads to the scrutiny of existing legal and governance systems that is clearly not well adapted to this new reality. The rise of algorithmic systems speaks to the immediate need to deal with challenges related to accountability, transparency, and liability so that technology does not become an investment in legal certainty and ethical responsibility in the corporate realm.

Legal Issues: Accountability and Liability in Algorithmic Decision-Making

The rapid integration of algorithmic decision-making into corporate structures has led to intricate dilemmas on how to make legal decisions and to hold these decisions with respect to the basics of accountability and liability in a corporate setting. Conventional rules are naturally anthropocentric;⁴⁶ that is, they are based on the notion that authority for decision-making is invested in identifiable human actors whose intentions, actions, and negligence can be analysed through the prism of established legal standards. But the application of Artificial Intelligence (AI), especially within autonomous, semi-autonomous and multi-party decision-making systems throws this model of justice into question; decisions are made by humans and non-humans and spread out to various actors.

One significant issue comes into play when accountability for decisions that are heavily algorithmic driven (or totally algorithmic). In traditional corporate governance, directors and officers are expected to exercise independent judgement and due diligence. Yet, if reliance on algorithms so often considered to be objective, in its most data dependent form of analysis comes at the expense of human touch, the reach of human oversight is diluted. And it creates a paradox where decision-makers may formally maintain authority while, in a substantive way, defer to algorithmic recommendations, and lines of accountability get blurred. Current law does not serve us well by not accommodating this transition from decision trees based on people to machine based models.

Associated with accountability is the issue of attribution of liability. If the algorithmic choices cause damage, harm such as loss of money, discrimination, infraction of regulation, several

⁴⁶ Cary Coglianese and David Lehr, 'Regulating by Robot: Administrative Decision Making in the Machine-Learning Era' (2017) 105 *Georgetown Law Journal*.

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different parties can be involved. Such entities range from the corporate entity that employs the algorithm to the governance board and the developers or vendors which design the algorithm. It is an uncertain legal environment which also leads to less certainty as to liability on the part of all involved. This leaves existing doctrines of corporate liability such as vicarious liability and strict liability with little guidance, as they existed to mitigate harm caused by autonomous technological processes.

The issue is further compounded by “black box” phenomenon, which is the lack of understanding of many AI systems. Machine learning algorithms, especially those based on deep learning, tend to function in ways that cannot be easily interpretable even by creators. That explains away the inability for the courts to take responsibility, in legal terms; to conclude liability, the courts depend on evidence, reasoning, and cause and effect. Without transparency, it’s hard to determine whether a decision was reasonable, negligent, or legally prohibited. Consequently, enforcement of accountability is greatly compromised. We know that another core dimension is algorithmic bias and discrimination. AI is trained on historical data and based on what has happened in the past which can even become the stereotype when it comes to social inequalities and prejudices as well. So algorithmic decisions in hiring, lending, and customer profiling, in any one instance, can unwittingly lead to discriminatory outcomes. From the standpoint of law, this involves questions on the basis of anti-discrimination law and equality principles. But liability in these cases is challenging to assign; bias, they argue, may not come from conscious deliberation, but from systemic failings in data or design. This presents a challenge to the classic fault-based liability model that is predicated on intent or negligence.

The delegation to AI-powered systems of decision-making authority further concerns the undermining of fiduciary duties. Directors have responsibility under regulation to exercise reasonable care, skill, diligence, and independent judgment. However, excessive dependence on algorithms might lead to a situation where directors accept machine-induced decisions without thinking for themselves. This begs the question if such reliance qualifies as a breach of fiduciary duty. Currently, the law is lacking in establishing the degree to which directors are required to know or question algorithmic processes prior to following them to practice.

In addition, the principle of foreseeability, which is central to the development of many liability approaches, is increasingly problematic under AI laws. Algorithmic systems, especially those that could be trained and adapted, can generate results that we can't

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reasonably expect when used. This unpredictability limits the applicability of negligence-based liability as it becomes harder to know if harm was anticipated and prevented. Consequently, current legal principles may be insufficient in mitigating harms due to autonomous systems. Compliance and due diligence are also issues that are emerging. Corporations, however, are the standard bearers who must confirm the compliance of their operations with the laws and regulations in force. But if these compliance tasks are automated by AI systems, that doesn't stop the systems from failing directly if human intervention isn't involved. This begs the question of a corporate's due diligence and whether reliance on automation can be considered as a liability defence. Confusion is compounded by a lack of clear regulatory parameters. In India, these challenges are amplified in the context of a lack of a unified legal framework for all aspects of AI.

Although basic concepts of corporate law, tort law, and regulatory compliance offer a useful foundation within which to address these problems at least in part, they seem not to capture the nuances of algorithmic decision-making as they are so heavily influenced by algorithmic methods. This leaves the legal context fragmented along certain lines and creates uncertainty, a development that is potentially a barrier, as both innovation and accountability.

Finally, the infusion of AI into corporate decision-making presents massive deficiencies in legal structure of accountability and liability. The traditional frameworks of the attribution of responsibility are ill-competent to account for the distributed and opaque nature of the algorithmic systems. The pressing priority is to reset our law against this backdrop and redefine legal principles to reflect technology without sacrificing the fundamental principles of transparency, fairness, and accountability within the corporate sector.

Comparative Analysis of Global Approaches to AI Regulation

In an era when more and more big tech competition and competition for real-time relevance occurs and legal challenges from algorithmic decision-making have global significance, countries around the world will need to look beyond the existing regulatory arrangements that stimulate innovation but also on accountability and legal certainty. These regulatory paradigms indicate alternative but interrelated practices that permit the implementation of a productive legal agenda potentially useful for crafting a suitable legal design for India. As the most integrative and systematic of these strategies was followed, however, one further

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example can be found in the EU where the EU has put in place the AI Act⁴⁷ (the EU legislation that governs AI). The EU's regulatory approach is thus also built on a classification of risks⁴⁸ which include unacceptable, high, limited, and minimal risk type depending on the location of AI applications. An example of such classification, in practice, would be "high-risk" in the business-type, if you are evaluating the AI system in financial services, recruitment, etc and assessing creditworthiness.

But high-risk AI systems overseen by the EU face high demands for compliance standards across, among others, data quality, transparency, human oversight and monitoring and accountability standards. And when companies employ these platforms, they have to establish that algorithmic actions are traceable and can be explained so regulators can inspect them closely and hold them legally responsible. Focus on explainability and auditability is a response to the "black box" problem that is still with us elsewhere. The EU also incorporates fundamental rights principles into AI regulation, a protective mechanism against technologies that weaken their ability to be fair to the public, to treat people equitably and to discriminate against a person when they cannot make that choice.

In comparison, the US response to AI regulation is much more piecemeal, market driven. There is no overarching federal statute here and it comes from industry standards, agency expectations, and individual industry regulations. Regulation is an existing set of laws, consumer protection laws, financial regulations and anti-discrimination legislation. But more flexible and more innovative, but could create inconsistency for the accountability standard across sectors. For tech companies, the US approach stresses what it calls for is for the corporation to self-regulate and guide their own ethics, as well as ethical governance. And technical companies themselves design from the inside out how they use artificial intelligence responsibly. That kind of enforcement and consistency problems are generated when such compliance depends on voluntary mechanisms. Such compliance dependent on voluntary mechanisms such as this often leads to that sort of enforcement and consistency problems. Meaning, when dealing with the organization system, no legal requirement or legal obligation to be obeyed is there so the companies can operate in an adored manner since there are no restrictions, as long as the algorithms are effective and profitable without transparent mechanism for accountable and transparent measures. Or else are we to make sure that

⁴⁷ European Union, *Artificial Intelligence Act* (2024).

⁴⁸ European Commission, *Ethics Guidelines for Trustworthy AI* (2019).

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increased algorithmic choices do not lead to catastrophic risks because we have a heightened risk of algorithm introduction? However, one of the problems of concern in all the jurisdictions concerned is that promoting the principles of AI is beginning to become new frontiers in our global stage with the help of the ethical AI governance in governance principles: fairness, transparency, trust, accountability, and human control in law and the business-based systems are starting to come into prominence in the sense that it is important to be integrated, ethical principles that when applied not only in terms of human interest concern that should also be considered but in legal and corporate standards should be kept in mind.

In addition, more than the international action or the policy making activities mentioned above make the call that the human being and the human-centric human-centered human part of regulation of AI becomes more relevant in the application of AI regulatory rules the implementation of laws driven on the aspect of humans, like algorithmic technologies in the situation, it impacts on the other side as with regards to individual rights and their importance on individual and institutions, individual rights or societal systems, society, the individuals and society, the societies all of them and in cases of society -based on government-state, society as well as human-based AI regulation. These transitions reflect the movement away from purely technical regulation towards more holistic forms of governance centered around the environmentally and socially literate governance mode that incorporates both legal, ethical and social aspects: AI laws and regulation from a social and societal perspective.

With this international context looking at Indian AI regulations, it is only arguable that India has an infant and fledgling perspective toward this same phenomenon. Though India has a strong agenda of digital transformation and a high technology agenda to have disruptive innovation happening in artificial intelligence (AI), it does not solve problems as much in terms of AI decision-making as it does algorithmic technologies in enterprise. Existing company conduct, data security and regulation laws exist in silos without a overarching structure of regulatory actions to ensure accountability and prevent risks from AIs at the corporate conduct and compliance, privacy, and behaviour levels of individual firms. India's lack of a risk-based regulatory framework compares poorly with its EU one. There are no specific categories that need to be defined for a responsibility and in the moment that a company decides what it wants to do and the right thing to do, it also has very little to say in terms of what it has to do when it deploys AI and systems out of it. The problem of no

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enforceable rules with regards to transparency, explainability, and so on helps create the black box that also has the same challenge: is that it's just as hard to own. In other words, as the EU-style regulatory template has been adopted as a common EU model, the regulatory system will probably be different in India depending on the state of the economy of the country, and its regulatory capabilities that are likely to be affected. A bureaucratic compliance system will discourage innovation, and so will restrictions on start-up and new companies. And to accomplish so, India then has to reconcile regulation and technology, borrowing elements from them, learning bits of those best practices and incorporating whatever is best for whatever purposes.

This comparative analysis indicates that the productive regulatory framework in India would need to be the product of both types of measures (including elements of structured regulation and elements of governance flexibility). They can also include a policy on risk-based classification, public accountability for high-risk AI systems, sectoral standards that capture subtle nuances of algorithmic decision-making, particularly in companies, and, more broadly speaking, rules for AI of certain kinds. Moreover, building administrative capacity and regulatory environment (and supporting its implementation and execution, as well) are crucial. That is, there are some significant international standards, which show that awareness of addressing the legal consequences of AI decision-making and AI-based strategies is quite well developed. The particular tactics will differ, but the broad objective is to prevent innovation from evading the legal obligation that would support it in keeping its pace and ahead of the development of new technologies and/or software. For India the issue in this case is not to emulate the process of others but to build a context-sensitive, emergent, adaptive, and future-responsive regulatory environment for effective regulation of AI in the corporate sphere with respect to accountability, transparency, and fairness.

Challenges and Regulatory Gaps in India

The quick uptake of Artificial Intelligence (AI) in India's private sector revealed a wide chasm between technological progress and legal systems and regulations applicable. India has made significant strides in digital governance and corporate regulations, as well, but its legal environment is under-resourced to tackle complexity brought about by algorithmic decision-making. This lag has led to a piecemeal and reactionary legal environment in which emergent risks are managed using blanket principles instead of specific legal tools.

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A very fundamental challenge is the lack of a complete and tailored AI regulation framework. In contrast to some jurisdictions which have taken structured and forward-looking approaches, traditional legal doctrines entrenched at the level of corporate law, tort law, and regulatory compliance frameworks have continued to reign supreme in India. These are strong laws in one area but fall far short of adapting to the complexities of autonomous and semi-autonomous systems. Lack of AI-specific legislation will lead to a regulatory vacuum for corporations without guidance on what an AI can and cannot do, and what their legal obligations are.

Equally relevant to this are the problems of doctrinal inadequacy to hybrid decision-making systems. The structure of Indian corporate law is built on the fundamental premise human agency exists, as it means holding who decides how accountable based on whether they are recognizable or not by using their judgment and discretion. That model is however disrupted by AI-driven systems which bring the decision-making into line partly or wholly automated. This shift is neither recognized nor governed within the law as an accepted practice and raises questions for us as to when corporate actors should bear responsibility when their decisions rely on algorithmic outputs. To add to the problem is the lack of established standards of accountability and supervision. Fiduciary duties bind directors and business officers to due care, diligence, and independent judgment. Yet, they can also draw a line at an increasingly heavy dose of AI, a signpost toward the kind of monitoring and its extent that is needed. There aren't precise legal benchmarks to which corporations can follow when looking over the algorithms, which might result in automated decisions being accepted without human checks. This would run counter to the principles behind corporate governance and undermines the architecture of accountability.

A further gap is a lack of obligatory transparency and explainability requirements. Algorithmic decision-making systems also tend to operate in an opaque universe with no explanation given to the stakeholders, regulators or even corporations themselves of how a particular result works. There is no existing requirement in Indian law for corporations to report their AI systems use nor does it specify that these systems undergo explanation or audit.

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Lack of transparency⁴⁹ means that not only regulatory oversight is prevented, but it is also limited for affected parties' grievance resolution and challenging of decisions. The regulatory environment is also marred by the fact that there is no risk-based classification mechanism of AI governance. Because without such a framework all AI systems are treated uniformly, regardless of potential impact or risk profile. This type of blanket approach is not only unworkable but dangerous in the corporate environment as the range of AI applications encompasses low-risk operational capabilities to high-risk decisions in domains of finance, employment and compliance. Without differentiated regulatory responsibilities, high-risk applications are still poorly regulated, increasing the potential for harm. Liability attribution is probably the most challenging and unresolved challenge. When such algorithmic decisions cause such results, including financial loss, social injustice, or regulatory discrimination, the current legal environment does not adequately govern who is liable. The overlapping of different actors, such as corporations, directors, software developers and vendors, contribute to a multi-stakeholder responsibility architecture that is no match to what is being legislated. This uncertainty contributes to the difficulties in law enforcement and uncertainty for businesses trying to employ AI technologies responsibly. Moreover, the principle of foreseeability, which forms the basis of much liability law, is getting harder to apply when considering AI systems. Machine learning algorithms improve with time, generating results that may not have been foreseen at the time of adoption. This complicates the classical use of negligence-based liability as it is difficult to prove that harm was avoidable and reasonably foreseeable. This means that current legal doctrines may not represent adequate remedies when faced with harms from AI.

A further major concern is the relatively limited institutional and technical capacity of regulatory authorities. Rigorous AI regulation must not only be guided by a legal perspective, but also an intuitive appreciation for technological systems. And it is difficult in India because the regulatory authorities may not have the necessary resources and technical knowledge to analyse, monitor and audit intricate algorithmic processes for data quality in India. This ability gap diminishes the effectiveness of legal enforcement and future regulation of legislation. Furthermore, the existing framework lacks a connection between legal and ethical aspects. Ethical principles like fairness, non-discrimination, and accountability are acknowledged in policy discourse, but not systematically built into enforceable legal

⁴⁹ Finale Doshi-Velez and Been Kim (2017).

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standards. It generates a disjuncture between normative expectations and legal mandates that permits companies to fulfil the letter of the law while putting aside larger ethical issues. India's regulatory ecosystem is also fragmented, which adds to the difficulty of governing AI. Various domains of AI-driven activities including data protection, cybersecurity, consumer protection and corporate governance are governed by distinctive, albeit siloed, legal regimes.

This fragmentation creates overlapping responsibilities, gaps in regulation and uneven enforcement, making the legal framework less effective. They have also given short shrift to proactive regulatory vision in dealing with new, technological challenges. Because we live in an era when such actions arise, but tend to be left to happen reactively to events as they occur (e.g., dispute or regulatory failures). This strategy cannot be sufficient to govern and mitigate risks in an era of rapidly evolving AI technologies. The Indian legal framework, hence, faces significant structural, doctrinal, and institutional gaps in responding to the threats of AI-driven corporate decision-making. This also points to the need for systemic legal change. It is essential to bridge these gaps not just for good governance but to promote responsible innovation and trust in the corporate use of AI technology.

Recommendations and the Way Forward

The growing dependence on Artificial Intelligence (AI) for corporate decisions demands redefining India's legal and regulatory framework at a deep level. As we illustrate in the above analysis, current approaches cannot accommodate the complex dilemmas of accountability, transparency and liability inherent in algorithmic systems. It is thus imperative to implement a comprehensive, forward-looking, and multi-faceted regulatory approach for technological innovation and to harmonize it with the security and ethicality of governance. First and foremost, there is an immediate need for the introduction of broad-based, dedicated AI regulatory regime. That legislation should go a step further in breaking out of the disjointed legal issues and building a consistent statutory foundation that regulates the development, implementation and management of AI systems within corporates. The conceptualisation needs to draw explicit lines between algorithmic decisions, automated systems and high-risk AI applications to minimize ambiguity. It also should contain a formal process for compliance and monitoring, followed by enforcement, so corporations can function within clearly defined legal parameters.

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The risk-based regulatory model is critical to this framework. Due to these different uses of AI, a standardized regulatory approach would be inefficient and impractical. Instead, AI systems should be categorized on the basis of their risk to stakeholders and the general public's interest. In particular, high-risk systems— notably those in financial decision-making, recruitment decisions, credit scoring systems and regulatory compliances— should be subjected to elevated burdens such as required impact assessments, algorithmic audits, and continuous observations. This would give regulatory attention an effect proportional to which area may cause the greatest damage.

Just as critical are the creation of strong interpretability and transparency requirements. Corporations need to be legally required to reveal the use of AI in decision making processes in a corporate decision-making context, particularly where decisions made are made with huge implications for stakeholders' rights and interests.

Additionally, AI systems should be designed to be able to express the outputs of their outputs meaningfully. The creation of “right to explanation” provisions would provide affected persons with the information they need to interpret and dispute decisions made using an algorithm, and enhance procedural fairness and accountability. The question of liability needs to be addressed through establishing the attribution model. In this sense, a hybrid liability approach can be chosen, where responsibility is apportioned among different actors based on the extent of their role and degree of control over the AI system.

Corporate entities should take the primary responsibility for the deployment and outcomes of AI systems, with developers and vendors being responsible if there are design errors or negligence. Further, directors and officers should hold themselves accountable for proper supervision and governance. This model will clarify this current uncertainty and ensure a fairer sharing of responsibility. Strengthening corporate governance standards is also imperative for reforms. These are the sorts of changes in technology that will require a fresh look at the duties of the trust between managers and their followers when it comes to the governance of AI systems. Directors should be expected to demonstrate a common understanding of its use and also the adequate safeguards necessary to do such purposes. This might involve setting up dedicated committees for AI governance, frequent risk assessments and independent audits. Crucially, we should not approach AI as a replacement for human knowledge. And beyond legal reforms, improving institutions and regulation is a very urgent need. Effective governance in AI is a joint challenge for regulators to be able to blend legal

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and technical knowledge. This can be done using targeted capability generation programmes such as targeted trainings, technical expert hires, and partnership with academia and research institutions.

A focused regulatory body or task force for artificial intelligence governance could help strengthen oversight and collaboration. Ensuring the incorporation of ethical principles into legal norms is equally important. There may well be numerous policy tools associated with AI, and while they provide guidance on ethical frameworks for AI in policy papers, the non-binding aspect of the guidelines limits their overall application, however. These concepts of fairness, non-discrimination, transparency and accountability, for example need to be embedded in binding standards, and these need to be established as established laws. Such approach in this respect will mean companies not only legally be required, but also morally to use AI tools. An equally vital recommendation is the encouragement of harmonisation and coordination of regulation. AI is embedded into several areas of life, including data protection, cybersecurity, consumer protection, and corporate governance, among others. So there is no place for a siloed regulatory approach. There is a need for further coordination among the governing entities to establish a coherent and consistent regulatory framework. This could include inter-agency cooperation, harmonised standards and seamless compliance systems. “Regulatory reform should be complemented through innovation and technology growth.” Over-regulation may suffocate creativity and suppress investment in AI technologies. To tackle this issue, organizations could implement regulatory sandboxes, so that corporations can experiment with AI in safety. This would facilitate creativity but at the same time, enable the early detection and mitigation of risks.

Finally, India needs to participate in the global regulatory dialogue and the international cooperation. At the cross-border level, because AI development is very often transnational, the harmonization of national regulations with good practice internationally enhances the rule of law through increased regulation compliance. Involvement in global standard-setting initiatives will also allow India to play a role in designing standards around responsible AI. Legal, institutional, and ethical frameworks are all central to the regulation of AI in the corporate sector and thus must be an important dynamic approach taken to ensure effective AI regulation in the new reality. Such a systematic and long-term outlook can help India tackle the problems of algorithmic decisions and inspire creativity as well as preserve public confidence. To ensure that the development of technology goes hand in hand with an equally

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sophisticated growth in legal accountability and to ensure the sustainability and integrity of corporate governance in the digital age.

Conclusion

The incorporation of Artificial Intelligence (AI) in business decision-making is a radical advancement in the form, functionality, and governance of a current business firm. A once-purely human judgement domain now becomes a complicated hybrid framework, where algorithmic functions influence, and sometimes decide, pivotal business decisions. Although there is no denying that this transformation has enabled efficiency, precision, and scale, it has also unveiled severe weaknesses in the very current legal systems themselves.

The paper has focused on the various aspects of AI in the corporate world: It has examined in an analytical manner its effect upon accountability and liability. Through this experience, the article has shown that legal doctrines that are based on human intentions, foreseeability, and direct control have begun to fail to adapt to algorithmic decision-making realities. The spread of accountability between many actors, combined with the veil of AI, throws the underlying premise of the construction of corporate liability into question.

One important point of this study is that the “black box” characteristic of algorithmic systems negatively affects transparency and enforceability when regulating the technology in the sense that regulators, courts, and stakeholders cannot easily determine the appropriateness and fairness of corporate activities. This lack of explanation of accountability not only undermines accountability mechanisms, but also makes significant concerns with procedural fairness and stakeholder rights. Moreover, the existence of algorithmic bias and the uncertainty with which machine learning systems are designed lead to a problem for the application of fault-based liability models, and the discovery of shortcomings in the doctrinal and procedural aspects of the law.

The comparative analysis discussed in this paper reveals that while jurisdictions in different countries have adopted quite different AI regulations, there exists a consistent and clear acknowledgment of the need for structured oversight, risk-based governance, and enforceable accountability standards. Such developments show the necessity for proactive regulatory intervention in order to prevent technological advancement exceeding legal authority. Moreover, the existing legal framework of India is insufficiently specialized and developed in the area, and does not yet offer the clarity and consistency that is necessary to confront AI

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challenges in the corporation world. The examination of the regulatory gaps in India shows a larger pattern of the regulatory void in India is indicative of a more systemic problem, specifically, the lack of existing legal structures to deal with rapid technological paradigms development. The lack of AI-specific legislation, transparency issues, liability attribution, and institutional capacity is creating a legal-political environment of uncertainty and reactive governance. That kind of approach fails accountability and risks and is dangerous as well as posing for sustainable and ethical corporate practice. This paper, however, calls for a more comprehensive and forward-looking regulatory approach that combines legal reform with ethical governance and institutional development. At its core, the proposed recommendations including risk-based regulatory models, clear liability frameworks, transparency and explainability standards and regulatory capacity enhancement are intended to help fill the technology-legal accountability gap.

Crucially, reform without this standard is likely to suppress innovation; the aim is to maintain a structure of accountability and fairness for innovation. The further down the road, AI's regulation in the business sector is supposed to be framed by a wider normative vision that considers "technology as a means of the good of society," one in which "technology can serve as a technology-driving force of progress, yet it is to be properly integrated into the context of justice, accountability, regulation, and human oversight." AI evolution offers more than a technical problem, however; it is also a legal and ethical one, challenging existing orthodoxy and governance models to rethink.

Finally, in the end the nature of business decisions in the future will increasingly be based on the interaction of human and algorithmic rationality. And if this transformation is to work equitably and in a manner that is sustainable the law needs to evolve alongside technology. A well-balanced, flexible and context-sensitive regulation will be vital in protecting the quality and efficiency of corporate governance while exploiting AI's transformative power. The only way that the legal system can effectively evolve in relation to digital technology is to do so from a stance of principled reflection and of a commitment to the values that are fundamental through which it has grown.

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