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Adapting Artificial Intelligence for Corporate Governance: Navigating Its Global Adoption and Local Integration

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ABSTRACT

Technological advancements in today's world are an ever-changing tale. It is still far-fetched for AI to overtake human directors reasonably soon, but its use in corporate activities is expected to grow. Running in parallel, corporate boards must be capable of dealing with the complicated legal and ethical challenges of using AI in company management and operations.

This paper delves into utilizing Artificial Intelligence (AI) in corporate governance and its worldwide acceptance and integration. With the advancement of AI technology, corporations are presented with both opportunities and challenges in corporate governance. The author observes that AI invites a radical change in Corporate governance by reforming it into a non-human board which suggests a fundamental alteration of the corporate structure. However, on the other hand, it also raises concerns relating to a lack of accountability and human conscience.

AI can enhance decision-making and risk management, making it a desirable solution for companies seeking to improve their governance practices. However, implementing AI in corporate governance raises significant ethical, legal, and practical issues that must be addressed. The paper attempts to strike a balance between the benefits of technological progress and addressing social and legal concerns while incorporating AI into their governance practices. Further, this paper explores the facets of adopting AI in corporate governance, comparing it with prominent global theories. The author posits that the effectiveness of AI in corporate governance lies in its alignment with existing governance frameworks, ethical and legal considerations, and stakeholder expectations.

Eventually, this paper concludes that to make AI successful in corporate governance, regulators, companies, and stakeholders should work together to oversee its global acceptance and local integration.

Keywords: *Artificial Intelligence, Corporate Governance, Human Directors, Local Integration, legal personhood.*

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I. INTRODUCTION

Artificial intelligence (AI) has developed into a revolutionary technology with the potential to completely overhaul a wide range of sectors. Several industries, including healthcare, finance, manufacturing, and transportation, have seen radical change as a result of AI integration. Massive amounts of data can be analysed by AI systems, which can also spot patterns and offer insights that human analysts might not be able to. One sector that has demonstrated tremendous promise for implementing AI in its operations is corporate governance.

A company's direction, management, and control are governed by a system of procedures, values, and practises known as corporate governance. A company's governance structure is in charge of making sure that it runs in a way that is consistent with the interests of its shareholders and stakeholders.³ The board of directors, management, and other stakeholders make up a company's governance structure.

The use of AI technologies to improve decision-making procedures in businesses is referred to as the integration of AI in corporate governance. These tools can analyse data, automate processes, generate insights, and boost the governance structure's overall effectiveness.⁴ AI systems can assist in decision-making by offering thorough and objective analysis that human decision-makers might not be able to provide.

But nonetheless, a deeper comprehension of AI's local integration and worldwide adoption is necessary for its deployment in corporate governance. Recent years have seen a substantial increase in interest in the application and integration of AI in corporate governance. While AI has the potential to increase corporate governance's efficacy and efficiency, its integration is not without difficulties.

The hazy legal frameworks that control the use of AI systems in decision-making processes are one of the biggest obstacles. Data security, privacy, and ethical issues with employing AI in governance systems are additional difficulties.⁵ Also crucial to take into account are the compatibility of AI with human directors and any potential repercussions of AI incorporation in corporate governance. The goals of this study are to examine the difficulties businesses experience when implementing AI for corporate governance, to uncover the theories underlying such adoption, to assess how well AI complements human directors, and to assess the possible effects of such integration. In addition to offering advice for businesses on how to deal with the

³ C. A. MALLIN, *CORPORATE GOVERNANCE*, (Oxford University Press, 2016).

⁴ S. Brunswicker, & B. Andersen, *Artificial Intelligence in Corporate Governance: Theoretical and Practical Perspectives* PALGRAVE MACMILLAN (2020).

⁵ Peter Engelke, *AI, Society, and Governance: An Introduction*, ATLANTIC COUNCIL, JSTOR (2020).

difficulties of integrating AI into their governance structures, the research paper will help readers gain a better knowledge of the global acceptance and local integration of AI in corporate governance.

(A) Research Objectives

In order to help businesses negotiate the difficulties of integrating AI into their governance structures, this research study aims to: (a) provide a deeper knowledge of the global acceptance and local integration of AI in corporate governance; and (b) provide constructive criticism. The paper specifically seeks to:

- (i) Determine the difficulties companies are having implementing AI for corporate governance, and look into possible solutions.
- (ii) Analyze and evaluate the theories that attempt to explain how AI has been incorporated into governance frameworks.
- (iii) Analyze the suitability of AI for corporate governance and uncover any potential adoption obstacles.
- (iv) Analyze the potential effects of integrating AI into corporate governance, taking into account the effect on accountability, decision-making, and ethical issues.
- (v) With an emphasis on the Indian context, offer advice and suggestions to businesses on how to successfully negotiate the difficulties of AI integration in corporate governance.

(B) Research Questions

The following research questions will be covered in this study:

1. What difficulties do businesses have when implementing AI for corporate governance?
2. What prevailing ideas account for the use of AI in corporate governance?
3. In corporate governance, how compatible is AI with human directors?
4. What potential effects might the incorporation of AI have on corporate governance?

(C) Research Design

A mixed-methods research approach, which combines qualitative and quantitative research methods, will be used in this study. The qualitative research will examine the prospects and limitations of AI integration in Corporate Governance through a thorough review of pertinent literature, case studies, and expert viewpoints. For the quantitative study, survey data from chosen businesses will be collected in order to gauge how they perceive about integrating AI

into their governance structures.

(D) Data Collection and Analysis

A systematic evaluation of pertinent academic books, articles, and journals will be used to gather qualitative data. Case studies on other nations that have incorporated AI into their governing frameworks are also provided. Quantitative information is gathered from secondary sources such as Grand view research report on AI.

Both qualitative and quantitative data analysis techniques are used to examine the gathered information. Thematic analysis of qualitative data identifies significant themes and examines them for patterns and linkages. Descriptive statistics, like percentages and bar graphs, are used to examine quantitative data.

Overall, the mixed-methods study approach will offer a thorough understanding of the difficulties and prospects of AI integration in Corporate Governance, as well as the perspectives and experiences of businesses in various industries on AI integration. With an emphasis on the Indian context, the research findings will offer recommendations and proposals for businesses to successfully traverse the hurdles of AI integration in Corporate Governance.

II. GLOBAL PERSPECTIVE

Use of artificial intelligence (AI) in corporate governance has become a global trend, as businesses around the world see the potential advantages and possibilities that AI can provide in improving decision-making, boosting performance, and driving innovation. These are some significant viewpoints on the global deployment of artificial intelligence (AI) in corporate governance:

1. North America:

North America has been in the forefront of AI adoption in corporate governance, with many businesses incorporating AI and machine learning into their decision-making processes. AI is rapidly being used in areas like risk management, compliance, and financial forecasting, and businesses are investing in AI-based tools and technology to obtain a competitive advantage.

2. Europe:

Use of AI in corporate governance has grown significantly in Europe, with many organisations employing AI to automate processes and improve decision-making. There are, however, worries about AI's ethical and societal ramifications, and several European nations are drafting legislation and standards to guarantee that AI is used ethically and openly.

3. Asia:

With nations such as China, Japan, and South Korea investing extensively in AI-based technology and applications, Asia is a fast rising market for AI adoption in corporate governance. Numerous Asian businesses are utilising artificial intelligence to improve customer service, streamline supply chain management, and develop new goods and services.

4. Africa and the Middle East:

While AI adoption in corporate governance is currently relatively low in Africa and the Middle East, there is significant interest and investment in AI-based technology and applications. Many businesses see AI's potential to promote innovation and growth in these areas, and governments are encouraging AI development through legislative initiatives and financing.

Generally, the worldwide outlook on AI adoption in corporate governance is one of optimism and expansion, with firms and governments recognising and investing in AI's potential advantages and development and implementation. Nonetheless, there are worries regarding AI's ethical and societal consequences, and it is critical to ensure that AI is utilised ethically and transparently to maximise its advantages while minimising its hazards.

III. THEORIES OF ADOPTION

(A) Theory of Reasoned Action

The Theory of Reasoned Action (TRA)⁶ is a social psychology theory that describes how attitudes, norms, and beliefs influence behaviour. TRA can be useful in understanding why people adopt or reject AI technologies in the context of AI adoption.

An individual's behaviour, according to TRA, is determined by their intention to perform that behaviour, which is influenced by two factors: their attitude towards the behaviour and the subjective norm associated with that behaviour. An individual's attitude towards behaviour, whether positive or negative, is referred to as their attitude.

The perceived social pressure to perform the conduct, on the other hand, is referred to as the subjective norm. Subjective norms in the context of AI adoption can be influenced by factors such as the opinions of coworkers, industry experts, or friends and family. An individual's attitude and subjective norm both contribute to their purpose to use AI technologies. The more their willingness to accept the technology, the more likely they are to do so.

Yet, research suggests that perceived hazards, a lack of expertise or resources, or cultural factors

⁶ M. Fishbein and I. Ajzen, *Belief, attitude, intention and behavior: An introduction to theory and research*, Massachusetts, Addison-Wiley Publ. Co., (1975).

may be hurdles to adoption. These barriers can diminish an individual's willingness to use AI technologies and, in the end, prevent them from doing so.

(B) Theory of Diffusion of Innovation

The Theory of Diffusion of Innovation (TDI)⁷ is a social science theory that describes how new ideas, goods, and technology get embraced and spread over time in a society. TDI can help us understand how and why individuals and organisations choose to adopt AI technology in the context of AI adoption.

TDI classifies adopters into five groups: innovators, early adopters, early majority, late majority, and laggards. Early adopters and innovators are the first to accept new technology, whereas the early and late majority comprise the majority of the adoption curve.

According to TDI, various factors influence the adoption of new technologies, including the relative advantage, compatibility, complexity, trialability, and observability of the technology. These factors influence how quickly and readily a technology is adopted and can vary based on the context and adopter characteristics.

The relative benefit of AI technologies in the context of AI adoption may include characteristics such as greater efficiency, accuracy, and cost savings. The degree to which AI technologies fit with an individual's or organization's needs, values, and current infrastructure is referred to as compatibility. The level of technical expertise and resources necessary to deploy and utilise the technology is referred to as complexity, whereas trialability refers to the ability to test the technology before committing to adoption.

Therefore, TDI offers a framework for comprehending the adoption of emerging technologies like AI. Organizations can build strategies to increase adoption and overcome any hurdles that may exist by analysing the elements that drive adoption.

(C) Theory of Planned Behaviour

Theory of Planned Behaviour (TPB)⁸ is a social psychology theory that describes how people's beliefs, attitudes, and intentions influence their behaviour. TPB can help us understand why individuals and organisations choose or reject AI technology in the context of AI adoption.

An individual's behaviour is driven by their desire to execute that activity, which is controlled by three factors: their attitude towards the conduct, subjective norms, and perceived behavioural

⁷ E. M. ROGERS, *DIFFUSION OF INNOVATIONS*, (5th ed. 2003).

⁸ I. Ajzen, *The Theory of Planned Behavior*, *ORGANISATION BEHAVIOUR HUMAN DECISION PROCESS* 438, 438–459 (1991).

control, according to TPB. An individual's attitude towards behaviour, whether favourable or negative, is referred to as their attitude.

An individual's attitude towards AI in the context of AI adoption can be influenced by factors such as perceived utility, simplicity of use, and compatibility of the technology with their work or personal life. Descriptive norms are the perceived societal pressures to engage in the action. Subjective norms in the context of AI adoption can be influenced by factors such as the opinions of coworkers, industry experts, or friends and family. The individual's sense of how easy or difficult it is to do the behaviour is referred to as perceived behavioural control. In the context of AI adoption, factors like technical expertise, resource availability, and organisational support can all influence perceived behavioural control.

These three criteria work together to influence an individual's intention to accept AI technologies, and the higher their intention to adopt, the more likely they are to actually adopt the technology. TPB does, however, advise that there may be challenges to adoption, such as a lack of expertise or resources, as well as cultural considerations. These barriers can diminish an individual's willingness to use AI technologies and, in the end, prevent them from doing so.

Ultimately, the Theory of Planned Behaviour can give a framework for understanding the elements that impact AI adoption as well as the barriers that may stand in the way of its acceptance. Organizations can establish strategies to increase adoption and resolve any concerns that may arise by understanding these characteristics.

IV. TECHNOLOGY ACCEPTANCE MODEL (TAM)

TAM can help us understand why individuals and organisations may or may not use AI technology in the context of AI adoption.

According to TAM, two major aspects influence an individual's acceptance and adoption of new technology: perceived utility and perceived ease of use. Perceived usefulness refers to an individual's belief that a technology will improve their performance or productivity, whereas perceived ease of use refers to an individual's belief that a technology would be simple to use and understand.

In the context of AI adoption, characteristics such as AI's potential to improve decision-making, automate mundane jobs, and reduce errors may impact perceived usefulness. Factors like as user interface design, training and support, and interoperability with current systems can all influence perceived ease of use.

According to TAM, these two elements eventually influence an individual's attitude towards

utilising technology, which determines their intention to use it. TAM recognises, however, that external factors such as corporate regulations, social norms, and cultural factors may impact adoption.

TAM was one of the most commonly utilised models in adoption research. However, some limits have been discovered, as detailed in:

- the use of subjective metrics that limit the veracity of the conclusions; the complexity inherent in human beings, context, and environment of use are not taken into account
- taken into account; consequently, just as conduct must be viewed as a means to an end, desire to use cannot be deemed sufficiently representative of actual use.⁹

Based on the model's limitations, a new proposal was developed to improve the model's ability to capture the drivers of adoption. The revised model popularly termed TAM2¹⁰ introduce a series of new variables: "subjective norm"; "voluntariness"; "image"; "experience"; "job relevance"; "output quality"; and "outcome demonstrability".

TAM3¹¹ was developed as a result of a combination of the TAM2 and a posteriori investigation. Two new construct news groups were added: anchors, which are general views about computers and computer use, and adjustments, which are beliefs based on practical experiences. "Computer selfefficacy," "perception of external control," "computer anxiety," "computer playfulness," "perceived delight," and "objective usability" are the new constructs.

Following the categorization suggested in¹², we may categorise all of these constructs into five groups:

- Task-related traits: attributes relevant to the job that are supported by the innovation.
- Technology-related qualities: characteristics of innovation in and of itself.
- Individual attributes: personal traits or intrinsic characteristics of the persons who use the innovation.
- Interpersonal characteristics: social or relational traits

⁹ B. Alturas, *Models of Acceptance and Use of Technology Research Trends: Literature Review and Exploratory Bibliometric Study*, 335 IN SYSTEMS, DECISION AND CONTROL13, 13–28 (2021).

¹⁰ V. Venkatesh & F. D. Davis, *Theoretical Extension of the Technology Acceptance Model: Four Longitudinal Field Studies*, 46 MANAGEMENT SCIENCE 186, 186–204 (2000).

¹¹ V. Venkatesh & H. Bala, *Technology Acceptance Model 3 and a Research Agenda on Interventions*, 39 AUTHOR J. COMPIL. C, (2008).

¹² C. Sorgenfrei, K. Ebner, S. Smolnik, & M. E. Jennex, *From acceptance to outcome: Towards an integrative framework for information technology adoption*, AISel, (2014).

- Situational factors: the environment's professional traits¹³

A recent published study¹⁴ on acceptance theories applied to artificial intelligence-based intelligent products. The authors emphasised the possibility of researching acceptance theories in the realm of artificial intelligence.

According to these authors, few studies explain the drivers of the intention to adopt taking in consideration the particularities of AI-based intelligent goods, which may be considered a problem in the research field of the theories of adoption when applied to AI.

(A) Martin Petrin's Phases of Adoption of AI

This study employs Martin Petrin's two-phase conceptualization of AI's introduction into corporate governance.¹⁵

- i. In the first phase, corporate boards will reduce in size as AI provides an increasing amount of jobs and information. It will function as a support mechanism for human directors in the early stages of AI management. Legal problems arise regarding how directors' personal liability is affected and their capacity to assign responsibilities to or rely on AI's guidance.
- ii. The duties of human directors are "fused" together and offered by a single algorithmic entity - the Robo-director - in the second phase. In principle, this AI software might replicate the combined knowledge and abilities of a typical board and be 'appointed' by shareholders in the same way that human directors are currently nominated. The old system of director roles appears dysfunctional in the second phase, as human boards are replaced by single software offers.

(B) Brief analysis of adoption

Following a quick examination of the theories and stages of adoption, we have narrowed down two stages of AI adoption in Corporate Governance.

Research stage:

In the research phase, researchers investigate and assess the possible benefits and hazards of AI in the context of corporate governance. Companies often conduct feasibility studies, pilot projects, and risk assessments during this stage to explore the possible influence of AI on

¹³ Raul do Vale Martins, Bráulio Alturas, & Isabel Alexandre, *Perspective for the Use of Adoption Theories in Artificial Intelligence*, 16th Iberian Conference on Information Systems and Technologies (CISTI), 23 – 26 June 2021.

¹⁴ K. Sohn & O. Kwon, *Technology acceptance theories and factors influencing artificial Intelligence-based intelligent products*, 47 TELEMAT. INFORMATICS (2020).

¹⁵ Martin Petrin, *CORPORATE MANAGEMENT IN THE AGE OF AI*, UCL WORKING PAPER SERIES (2019).

corporate governance processes. The exploratory stage's purpose is to discover the most potential AI use cases in corporate governance and establish a roadmap for deployment.

Deployment Stage:

During the deployment stage, AI technologies are deployed and integrated into the company's governance policies. This could include utilising AI for risk management, compliance monitoring, decision-making assistance, or other governance-related tasks. Developing policies and processes for the use of AI in corporate governance, including ethical and legal considerations, is also part of the implementation stage. The implementation stage's purpose is to guarantee that AI in corporate governance is effective, efficient, and in line with the company's beliefs and goals.

These stages are crucial for the successful implementation of AI in corporate governance. The experimental stage assists businesses in comprehending the potential benefits and hazards of AI, as well as identifying the most promising use cases for deployment. The implementation stage guarantees that the use of artificial intelligence in corporate governance is responsible, effective, and consistent with the company's overall strategy and principles.

Ultimately, AI has the potential to alter corporate governance by making decision-making more efficient and effective, boosting risk management, and increasing transparency and accountability. Adoption, on the other hand, necessitates rigorous preparation, intelligent implementation, and continuing monitoring and assessment.

V. GROWTH OF AI

According to a variety of sources, AI's recent rapid rise is unlikely to slow down anytime soon. In fact, between 2022 and 2030, organisations are expected to deploy AI globally at a CAGR of 38.1%.

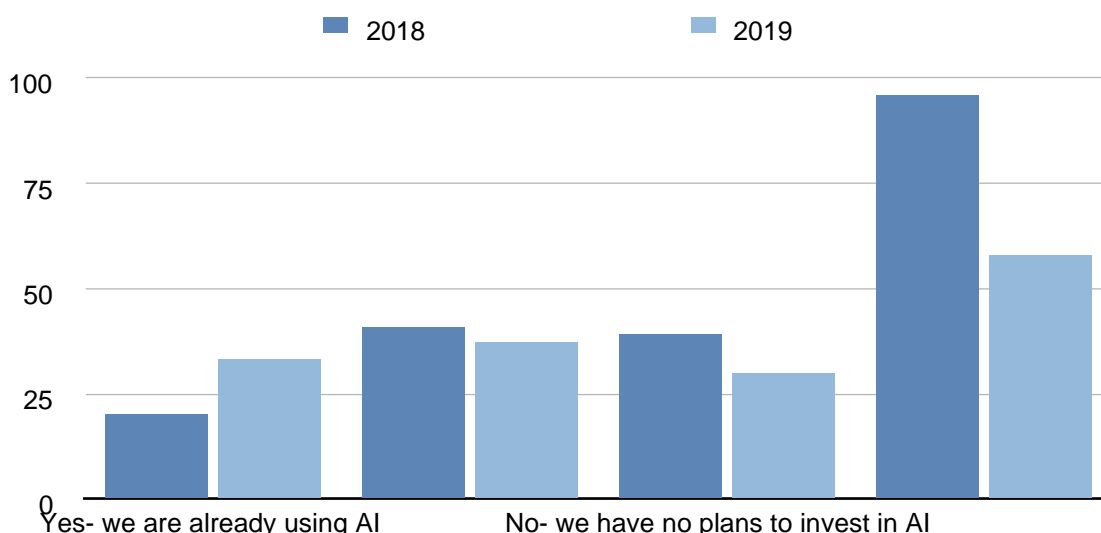


Figure:- In 2019, will your organisation invest in artificial intelligence (AI) or already be using it? Source:- Grand View Research

In the case of the global AI market, this indicates that the sector is expanding at a rate of over 40% annually. This growth rate is really astounding and shows how quickly the AI sector is developing.

VI. LOCAL INTEGRATION OF AI IN CORPORATE GOVERNANCE

(A) Current Status:

Corporate governance models are just beginning to include artificial intelligence (AI). But, technology has the ability to change how businesses run by raising efficiency, cutting costs, and improving decision-making procedures.¹⁶ With several businesses already experimenting with AI-based solutions, there has been an increase in interest in the implementation of AI in corporate governance in recent years. Predictive analytics, virtual assistants, and chatbots powered by AI are increasingly used in corporate governance.

Indian corporate governance has been actively pursuing the adoption of artificial intelligence. The ability of AI to boost corporate sector efficiency, transparency, and decision-making has been acknowledged by the government. The use of AI in many facets of corporate governance has also been investigated by the Indian business sector.

The topic of compliance is one of the main areas in India where AI is being applied. AI-powered compliance solutions have become a realistic choice due to the growing complexity of rules and the requirement for prompt compliance.¹⁷ To interpret rules and automate compliance procedures, these solutions make use of machine learning algorithms and natural language processing.

The discipline of risk management is one such area where AI is in use. Tools for risk management powered by AI can analyse massive volumes of data and spot possible problems instantly, empowering businesses to take preventative action to reduce risks.¹⁸

Further gaining popularity in India is the usage of AI in board meetings. Board members can get help from AI-powered virtual assistants with meeting planning, data analysis, and in-person

¹⁶ M.C. Lacity, L.P. Willcocks, A. Craig, *Robotic process automation and risk management*, 62 COMMUNICATIONS OF THE ACM 36, 36-43 (2019).

¹⁷ N. Stieglitz, M. Mirbabaie, & C. Ehnis, *AI in the boardroom: An empirical study on corporate decision makers' appraisal of artificial intelligence in governance and leadership*, TECHNOLOGICAL FORECASTING AND SOCIAL CHANGE, 159 (2020).

¹⁸ KPMG India, *Artificial Intelligence in India - Hype or Reality?* (2018).

insights.¹⁹

The current state of India's adoption of artificial intelligence for corporate governance is illustrated through a number of case studies. These are a few instances:

- **HDFC Bank:** One of the biggest private banks in India, HDFC Bank, has been enhancing its customer care through the use of AI-powered chatbots. These chatbots utilise machine learning

and natural language processing to comprehend consumer questions and deliver pertinent answers. Both client happiness and the effectiveness of answering consumer inquiries have significantly improved, according to the bank.

- **Mahindra Group:** In order to recognise and reduce potential risks, the Mahindra Group, a diverse conglomerate with operations in a number of industries, including the automotive, aerospace, and hospitality sectors, has been adopting AI-powered risk management solutions. These technologies analyse massive volumes of data and offer timely insights, allowing the business to take preventative action to reduce risks.
- **Wipro:** An international IT firm called Wipro has been utilising AI-driven compliance solutions to guarantee on-time regulatory compliance. To interpret rules and automate compliance procedures, these solutions make use of machine learning algorithms and natural language processing. Significant efficiency and accuracy gains in compliance processes have been reported by Wipro.
- **Reliance Industries:** One of the biggest corporations in India, Reliance Industries, has been experimenting with the use of AI at board meetings. Jio Huddle, a virtual assistant powered by AI created by the firm, can help board members prepare for meetings, analyse data, and provide real-time insights while the meeting is in progress.
- **TATA Steel:** As evidenced by the Indian multinational corporation Tata Steel, the use of AI at board meetings is expanding in India as well. To help board members prepare for meetings, analyse data, and provide real-time insights during the discussion, Tata Steel has implemented a virtual assistant powered by AI called "TARA." The company's board meetings are now more productive and efficient thanks to the virtual assistant.

As evidenced by the instance of Indian telecom behemoth Bharti Airtel, there are obstacles to the use of AI in corporate governance in India. Bharti Airtel received criticism for using

¹⁹ A. Sridhar & S.B. Krishnan, *Artificial Intelligence and Corporate Governance: A Study of Indian Companies*, 20(5) GLOBAL BUSINESS REVIEW 1117, 1117-1130 (2019).

chatbots with AI to manage consumer concerns. Consumers expressed annoyance and unhappiness over the chatbots' inability to comprehend their questions and deliver adequate answers.

*The current state of India's adoption of artificial intelligence for corporate governance is highlighted by these case studies. While there are encouraging instances of the effective use of AI in compliance, risk management, and board meetings, there are also issues that must be resolved to ensure the moral and responsible use of AI in the corporate sector.*²⁰

VII. PRELIMINARY ISSUES IN THE "INDIAN CONTEXT"

India has one of the strongest economies in the world and one of the most dynamic and thriving corporate sectors. However, the use of AI in corporate governance is still in its early phases, and before widespread integration can occur, a number of issues must be resolved. The following are a few of the initial concerns in the Indian context:

1. **Lack of awareness and understanding:** Indian companies are not sufficiently informed about AI and its potential advantages and dangers. Due to the apparent complexity of the technology and the uncertainty surrounding how it will affect their operations, many businesses are reluctant to employ AI. There is a need for greater education and awareness-raising programmes as a result, in order to help Indian companies comprehend the potential advantages and dangers of AI integration.²¹
2. **Regulatory challenges:** On the use of AI in corporate governance, there aren't any clear norms or recommendations in India. Because of this, it is challenging for businesses to understand the legal system and guarantee adherence to all applicable rules and laws. Uncertainty and a lack of defined legislative frameworks discourage investment in the use of AI.
3. **Data privacy and security:** Data security and privacy are becoming more of a worry as AI is used more frequently. Indian companies have to ensure they have the necessary safeguards in place to protect their data and make sure AI isn't being used in ways that harm security and privacy.²² Several data privacy regulations have recently been proposed in India, such as the Personal Data Protection Bill, 2019, which intends to safeguard people's privacy and create a legal framework for the gathering, storing, and

²⁰ *Ibid.*

²¹ Rahul Nair, *AI governance in India: issues, challenges and opportunities*, 3 JOURNAL OF DATA, INFORMATION AND MANAGEMENT 14, 14-25 (2021).

²² Bhatia, Neha, *Artificial intelligence governance and ethics: global initiatives and Indian perspective*, 11 JOURNAL OF INFORMATION TECHNOLOGY AND ECONOMIC DEVELOPMENT 63, 63-81 (2020).

processing of personal data. The application of these rules to AI-based solutions needs to be made clearer because they are currently in the process of being implemented.

4. **Ethical considerations:** The application of AI to corporate governance poses moral questions about bias, accountability, and transparency. Indian businesses must make sure that their use of AI complies with their values and is ethical. The ethical ramifications of AI deployment in corporate governance in India require further study and discussion.
5. **Skilled workforce:** A competent workforce that is able to comprehend and utilise AI-based solutions is necessary for AI adoption. Nevertheless, India lacks the qualified workers with the essential experience to integrate AI in corporate governance. To create a trained workforce that can accelerate AI adoption in India, additional funding is required for training and education efforts.

To sum up, the incorporation of AI into corporate governance has the potential to change how businesses run, but there are a number of initial concerns that must be resolved in the Indian context. To successfully traverse the difficulties of AI integration and reap the potential rewards of new technology, businesses need to be aware of these problems and take action to address them. To enable a seamless integration of AI in corporate governance and to make the most of this technology to enhance business processes and spur growth, a thorough strategy must be in place.

VIII. AI COMPATIBILITY WITH HUMAN DIRECTORS

The compatibility of AI and human directors is largely determined by how AI technology is conceived and applied within the firm. In some circumstances, AI technologies can supplement and augment human directors' decision-making capacities by providing them with more data, insights, and analysis.

In a broad sense, AI should be viewed as a tool to supplement and improve human decision-making rather than as a replacement for human judgement and decision-making. Working together, AI and human directors can help to make more informed and effective decisions, resulting in enhanced organisational performance and outcomes.

AI entering the boardroom, whether in phase one or phase two, will necessitate a complete rethinking of our structure of director duties and personal responsibility.²³ This is an

²³ Florian Möslin, *Robots in the boardroom: artificial intelligence and corporate law*" in Woodrow Barfield and Ugo Pagallo (ed) *Research Handbook on the Law of Artificial Intelligence* (Edward Elgar Publishing, Cheltenham,

examination of the basic roles of directors and how they might be harmonised (or not) with AI in both phases one and two. This research is exploratory rather than thorough, and it does not address every issue that may occur when examining directors' obligations and AI.

1. Acting in best interest of the company

Section 166 of the Companies Act of 2013, states that directors "must behave in good faith in order to promote the objects of the company" when exercising powers or executing duties. This subjective responsibility, which is part of a director's fiduciary duty of loyalty, mandates that a director behave in good faith to advance the profit of the firm, even though doing so may result in an objectively imprudent action. The company's interests are the interests of all current and future shareholders.

In phase one, the human director will remain liable for any final decision, and the s 166 responsibility will be applied in substantially the same way. Directors are expected to employ AI in an assisting or advising capacity to evaluate inputs and facilitate decision-making, but will retain final decision-making authority. As long as a human director makes the ultimate choice in good faith to benefit the firm, AI's aid will be no different than the types of advising tools that directors presently use.

Things get problematic when AI becomes a director and is required to behave in the best interests of the firm. Because AI is data-driven, acting in the best interests of the firm may be as simple as programming. As long as shareholder interests can be accurately collected and catalogued, an algorithm can be loaded with this data.

However, problems will develop when attempting to foresee what future shareholders' best interests would be. AI with access to meaningful data and using machine learning has the potential to be forward-thinking. After all, AI algorithms are primarily intended to forecast the likelihood of future events. However, data reliance and paucity remain critical challenges.

2. Accuracy in usage of power

Section 179 of the Companies Act of 2013 requires directors to use their authority exclusively for the purposes for which it was provided, in lieu of any improper or improper objective. A director may comply with the duty to act in good faith in the best interests of the company but still failing to exercise corporate powers properly. This obligation is most typically regarded when directors employ corporate powers to block hostile takeover attempts for the company's stock.

2018) at 666.

The application of AI in phase one may result in improved adherence to this duty by human directors. AI is not motivated by a desire to preserve its employment and could be a beneficial tool in dealing with takeover scenarios by offering impartial analysis and reducing any conflict between directors' personal interests and the goals for which they are authorized to act.

3. Fiduciary Duty

Lastly, directors are bound by a fiduciary responsibility of loyalty to the company. Directors must always act in the best interests of the company, not their own, as a corollary to their obligation to act in good faith in the best interests of the company. This responsibility of loyalty is best demonstrated by avoiding transactions with a conflict of interest, sometimes known as "self-dealing" transactions.²⁴

The "consciousness paradox" is AI's most difficult problem: there can never be responsibility for AI robots or artificial directors that lack an awareness for values, ethics, morality, and external incentives. All of these human flaws are inextricably linked to fiduciary obligations of loyalty. In the situation of fused boards, several unusual concerns arise regarding fiduciary responsibility. To begin, we should be aware of directors purposefully misprogramming software for their own advantage by adding data that favors their personal interests over others'. This is comparable to a self-interested transaction and might occur when a director deliberately chooses inputs that would enable the AI to advocate investment in a firm in which they have a major financial stake.

The potential that stakeholders will design AI software in ways that benefit them but not the enterprise remains high. It is a well-known agency issue that there is an information gap between management and directors.

As long as management keeps control over coding and data sources, information asymmetry will be a vexing issue for corporate governance. The Companies Act only applies to self-interested directors, not to management. To avoid these difficulties, the board will need to create a mechanism for monitoring AI programming. This is likely to come under their current risk monitoring and management responsibilities.

Data Analysis:-

Several research studies and surveys on the issue of AI in corporate governance and decisionmaking have been undertaken, which may throw some insight on stakeholders' attitudes and impressions of the compatibility of AI and human directors. Following are some of the most

²⁴ Bernard Black, *The Principal Fiduciary Duties of Boards of Directors* (Paper presented at Third Asian Roundtable on Corporate Governance, Singapore, April 2001).

important findings:

- According to a McKinsey & Company poll of CEOs, 63% feel that the use of AI and machine learning in their firms has resulted in increased performance, and 44% predict that AI will result in more jobs rather than fewer ones.
- According to a PwC poll of board directors, 85% of respondents believe that AI will considerably or somewhat affect their firm over the next five years, and 63% feel that AI will be a positive influence in their sector.
- According to a Harvard Business Review research²⁵ firms that combined AI and human decisionmaking outperformed those that depended entirely on AI or human decision-making, indicating that there is potential for AI and human directors to collaborate effectively.

These findings indicate that there is some optimism and perceived advantage about the compatibility of AI and human directors, yet there may be issues and problems that must be addressed. It is crucial to highlight that these findings may be context-specific and rely on how AI technology is used within companies.

IX. RECOMMENDATIONS AND SUGGESTIONS IN INDIAN CONTEXT

India might gain a lot from using AI in corporate governance, including better decision-making, increased efficiency, and greater transparency. However, implementing AI in corporate governance comes with a number of dangers and obstacles, such as issues with data privacy, bias, and accountability. Many comments and ideas can be made in this context to direct the incorporation of AI into corporate governance in India.

1. Appointment of Director and Delegation of Power:

A crucial component of corporate governance is the selection of directors and the transfer of authority. Any company's success depends on the board of directors operating well, so candidates for the board should be carefully considered based on their qualifications for providing good corporate governance. The identification of the skills and knowledge required for productive board membership can be aided by the use of AI techniques like predictive analytics and natural language processing. The board should also make sure that directors receive training on AI's implications for corporate governance and its ethical and responsible use.

Another crucial component of corporate governance is power sharing. For the organisation to

²⁵ H. James Wilson & Paul R. Daugherty, *Humans and machines can enhance each other's strengths*, HARVARD BUSINESS REVIEW, (July–Aug. 2018).

operate effectively, the board of directors must delegate authority to management and other stakeholders. By giving stakeholders instant access to pertinent data and insights, AI-powered solutions like decision support systems can aid in the delegation of power. But it's crucial to make sure that the delegation of authority is grounded in a clear knowledge of the obligations of various stakeholders, and that the use of AI doesn't jeopardise the values of accountability and transparency.

2. Legal Personhood for AI:

AI's legal standing is a complicated and disputed topic. While AI systems are capable of a variety of jobs, they do not have the same legal standing as people. Clarifying AI's legal position and ensuring that it is held accountable for any injuries or unfavourable effects emerging from its actions may be made possible by giving AI legal personhood. Giving AI legal personality would necessitate thorough study of the ethical and legal ramifications.

In academic and political circles, there has been much discussion on the idea of legal personhood for AI. Giving AI legal personhood, according to some supporters, could help to ensure greater accountability and responsibility for its deeds. Others contend that it could have a number of unexpected consequences and that the existing legal system is adequate for controlling the application of AI. While there is still disagreement over whether AI should be considered to have legal personhood, it is crucial to make sure that ethical and responsible standards are used to guide the use of AI in corporate governance.

3. AI as expert advisor:

AI can act as a proficient advisor to help directors make wise decisions. Directors may access pertinent data and insights in real-time with the use of AI-powered technologies like chatbots and virtual assistants, which enables them to make better decisions. Directors must be aware of the constraints and potential biases of AI technologies, and it is crucial to make sure that the use of AI does not supplant human judgement and decision-making.

Some of the difficulties directors experience in making wise judgements may be alleviated by using AI as an expert advisor. Artificial intelligence (AI) systems are capable of digesting enormous volumes of data and offering analyses and suggestions that may not be immediately obvious to human decision-makers. Yet, moral and responsible norms must govern the use of AI in decisionmaking. Furthermore, it's critical to make sure that everyone benefits from AI and that its adoption doesn't lead to job losses or a deepening of the digital divide.

4. Legal framework pertaining to AI:

It is crucial to take into account the particular difficulties and opportunities that come with the deployment of AI in corporate governance in the Indian setting. India is a multicultural nation with a sizable population, thus the adoption of AI should be fair and inclusive. The government should create regulations that promote the use of AI while making sure that all facets of society benefit equally from its use. It is crucial to create a legal system that acknowledges AI's status as a legal entity. Furthermore, the Companies Act of 2013 and other regulations that are appropriate for the Indian context need to undergo certain necessary amendments. The Companies Act of 2013 and other pertinent regulations in India may need to be amended in the following ways to account for the introduction of AI for corporate governance:

- Definition of "officer who is in default": According to the Companies Act of 2013, every officer of the firm who is accountable for any non-compliance is a "officer who is in default." It could be required to broaden the term to include AI systems that make decisions in light of the development of AI.
- Appointment of directors: According to the Companies Act, 2013 at least one-third of the board of directors must be independent. This rule may need to be modified to ensure that at least one independent director has knowledge of AI or similar fields.
- Fiduciary duty: It may be necessary to amend the Companies Act, 2013, to add provisions that explicitly define the fiduciary obligations of AI systems and their operators because the concept of fiduciary duty is essential to corporate governance.
- Liability and accountability: It may be necessary to amend the Companies Act of 2013 and other pertinent legislation to define the responsibility and liability of AI systems and their operators for any non-compliance or wrongdoing.
- Data protection and privacy: Since AI is used more frequently in corporate governance, it is crucial to make sure that the systems are compliant with data protection and privacy laws and that stakeholders' personal information is protected.
- Cybersecurity: Cyberattacks and data breaches are more likely as AI technologies are incorporated into corporate governance. It might be necessary to alter the Companies Act of 2013 and other pertinent laws to include cybersecurity-related clauses.
- Intellectual property rights: Intellectual property rights problems may arise when AI is used more and more in corporate governance. The Companies Act of 2013 and other pertinent laws may need to be updated to offer clear standards for resolving such conflicts.

These are only a few of the possible modifications that could be made to the 2013 Companies

Act and other pertinent regulations in India in order to take into account the introduction of AI for corporate governance. All such modifications should be thoroughly thought through and assessed to make sure they adhere to the standards of moral and responsible AI.

Integrated artificial intelligence (AI) has the ability to transform decision-making, boost productivity, and cut expenses. Therefore, it is crucial to make sure that ethical and responsible concepts serve as a guide for the use of AI. Some of the recommendations that can be put into practise to make sure that the adoption of AI in corporate governance is ethical and sustainable include the creation of ethical guidelines and codes of conduct, the sharing of benefits, the legal personhood of AI, and the use of AI as an expert advisor.

X. CONCLUSION

In today's quickly changing business world, using Artificial Intelligence (AI) for corporate governance is becoming increasingly vital. AI has the ability to greatly improve decision-making, performance, and drive innovation, but it also introduces new problems and risks that must be properly addressed.

The global use of artificial intelligence (AI) in corporate governance is a complicated and changing process, with different areas and nations confronting distinct possibilities and problems. Increasing interest in the adoption of AI theories has been at the forefront of AI adoption in corporate governance.

To summarise, successful AI adaptation for corporate governance necessitates a strategic strategy that balances AI's potential advantages with the obstacles and threats it poses. This necessitates a thorough awareness of the local environment as well as a continuing commitment to using AI in a responsible and transparent manner to achieve corporate goals and create value for all stakeholders.

XI. REFERENCES

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