

THE IMPACT OF ARTIFICIAL INTELLIGENCE ON COMPANY MANAGEMENT -COMPANY LAW PERSPECTIVE

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Abstract

This study examines the revolutionizing impact of Artificial Intelligence (AI) in business management from the perspective of Indian company law, focusing on altering roles and responsibilities of directors and corporate governance frameworks. While AI is seizing decision-making powers, risk analysis, and compliance, traditional legal principles applicable to directors' liabilities are put under new challenges when it comes to accountability, transparency, and supervision. By a mixed-method approach of doctrinal legal examination and empirical data from corporate leaders and lawyers, the study highlights key concerns such as liability of AI-driven decisions, algorithmic bias, privacy of data, and regulatory compliance. The findings show that existing Indian legislation, including the Companies Act, 2013, remains inadequate to address all AI-related risks, testifying to the urgent need for legal reforms and regulatory enhancements. By balancing innovation with current fiduciary duties, the study suggests more stringent guidelines on accounting for ethical AI adoption to safeguard corporate and stakeholder interests in India.

Keywords: *Artificial Intelligence, Company Management, Corporate Governance, Company Law, Directors' Duties.*

1. INTRODUCTION

The fast development of AI has changed a lot of the way's businesses do their work, especially in how people manage the company. AI lets businesses automate simple tasks that need to be done over and over again, helps people make decisions with data, makes sure resources are used in the best way, and helps the company work better overall. As AI is used more in companies, the jobs and work of managers and

directors are changing a lot. The development of technology in this field brings some new opportunities but also some new challenges for managing a company well.

Introduction of AI into management within a company raises questions regarding responsibility, duty of care, transparency, and adherence to the law. Directors and officers must act with honesty, care, and in the interests of the company and those involved. Yet, assigning major choices to AI can make it unclear who shoulders the blame when AI causes damage or break laws. Clearly, the law needs to deal with topics including how broad directors' AI oversight should be, whether they are responsible for AI mistakes, and how well the present set of regulations addresses AI concerns.

1.1. Objectives of the Study

- To examine how artificial intelligence may affect directors' responsibilities and corporate management procedures from the standpoint of company law.
- To determine which legal and compliance problems result from incorporating AI into company governance and decision-making procedures.

2. LITERATURE REVIEW

Hickman, E., & Petrin, M. (2021) analyzed the EU's Ethics Guidelines for Artificial Intelligence (AI) through a company law lens, pointing out their important role in corporate governance. Experts noted that AI technologies might help companies work more efficiently and creatively, but they could also lead to problems such as discrimination, unauthorized access to data, and ethical issues for third parties and stakeholders. Authors applied the four basic principles of the EU Guidelines—respect for humans, avoiding harm, fairness, and explainability—and expanded them into seven guidelines for trustworthy AI. Hickman and Petrin argued that these principles helped with ethical management and controlling businesses with stakeholders in mind; however, their absence from the law made it hard for businesses to use them. Experts found that though the Guidelines are solid, a more clear and lawful approach was required to match AI with business law and guarantee corporate governance.

Möslein F. (2018) studied the relationship between AI and corporate law, examining if the current regulations for directors could fit the expanding role of AI in corporate boards. He looked at the case of Deep Knowledge Ventures, which is from Hong Kong and chose to include VITAL (Validating Investment Tool for Advancing Life Sciences) in their board of directors. VITAL was authorized to decide

on investments, making use of historical data analytics for research purposes. Despite this achievement, Möslein pointed out that at that time, corporate law laws did not offer enough tools for holding non-human agents responsible for what they did. He believed that legal systems would have to dramatically rethink what is expected of directors and their responsibilities as AI systems advanced towards taking on director functions.

Kurcz, B., & Paizis, A. (2019) provided by analyzing the way AI and digitalization technologies disrupted established linking factors in corporate law, for example, a company's center of central administration or place of incorporation. They found in their research that technological advancements, for example, blockchain-based decentralized autonomous organizations (DAOs), challenged the applicability of traditional legal standards for establishing jurisdiction and applicable rules of corporate governance. They insisted that the increasing application of AI in decentralized systems made it necessary to rethink substantive company law rules as well as private international law principles, particularly since automated systems made it increasingly difficult to delineate lines of legal responsibility and organizational place.

Eroğlu, M., & Karatepe Kaya, M. (2022) examined the evolving role of AI in shaping corporate board composition and diversity. While AI had not been recognized as a director at law by most company law legislation, its application in decision-making processes, such as board member appointment and performance assessment, had become more widespread. Three basic roles for AI were studied by the thinkers. It can be used by board members, for decision-making assistance, and as a way to screen candidates. According to the authors, while AI might help bring more diversity to boards and improve selection methods, it could also keep biases found in the training data. Executives believed that AI regulations should keep AI solutions in government work transparent, fair, and accessible to everyone.

3. RESEARCH METHODOLOGY

3.1. Research Design

This study used a mixed-method research approach, combining a doctrinal analysis of company law with collecting empirical information to explore how Artificial Intelligence (AI) affects company management in India. When conducting doctrinal analysis, pertinent laws and regulations are carefully studied, in addition to conducting surveys and interviews with managers and legal personnel to know about the present challenges relevant to the topic.

3.2. Data Collection

- **Doctrinal Research:** Examination of official laws and regulations on AI such as the Companies Act, 2013, SEBI rules, the IT Act, and case law addressing matters of AI law and compliance.
- **Survey:** 100 managerial workers in India were asked to fill out a questionnaire with questions about how AI is being used in management and what legal and regulation concerns they face, in 2024.
- **Interviews:** Interviews of legal experts and specialists in corporate governance provided explanations about fiduciary duties, risk, and issues that can arise during the use of AI.

3.3. Sampling Technique

The research team used targeted sampling to get corporate managers and legal experts who have hands-on or detailed knowledge of AI in business management. By doing this, the relevance and depth of collected information were assured.

3.4. Impact of AI on Company Management

Table 1 identifies the key domains—typically as defined under AoA responsibilities—where AI has been progressively applied. The results show AI is used most extensively in automating decisions, enhancing financial forecasting precision, and enforcing compliance, all being part of the executive and administrative functions delineated under the AoA.

Table 1: Areas of Company Management Influenced by AI

AoA-Based Management Function	Operational Area Influenced by AI	Percentage of Companies Implementing AI
Strategic and Executive Decision-Making	Decision-Making Automation	78%
Legal and Regulatory Compliance	Risk Assessment and Compliance	65%
Human Capital and Organizational Structure	Human Resource Management	54%

Financial Management and Oversight	Financial Forecasting and Reporting	72%
Customer Engagement and Service Policies	Customer Relationship Management (CRM)	68%

The use of artificial intelligence (AI) in business management has profoundly impacted many facets of company management, usually under the structures contained in a company's Articles of Association (AoA). These are formal regulatory documents that specify the firm's internal regulations for company management, making decisions, and managing strategy. As guided by the AoA, companies are now embedding AI technologies across main areas of management to optimize operational efficiency as well as adherence to regulations.

4. LEGAL ANALYSIS FROM A COMPANY LAW PERSPECTIVE

Legal analysis focuses on analyzing the implications of AI incorporation under current company law. Legal analysis considers the impact of AI on directors' responsibilities, compliance obligations, and company accountability, pointing out possible legal challenges and the necessity for regulatory clarity to promote responsible AI use in decision-making.

4.1. Directors' Duties and Artificial Intelligence (AI)

AI being used in making business decisions leads to significant problems for Indian companies, mainly related to what directors are required to do by law. It is a requirement under the Companies Act, 2013 for directors to always act with commitment, honesty, and what is best for the company. The use of AI for making decisions, especially with autonomous or semi-autonomous systems, poses a challenge to keeping up with old concepts of liability, oversight, and responsibility.

Relevant Indian Statutory Provisions:

- **Section 166, Companies Act, 2013:** Requires directors to act in good faith, act in the interests of the company, and exercise due care and diligence.
- **Section 173:** Governs the conduct of board meetings and decision-making processes.

- **Section 149:** Specifies the role and responsibility of independent directors, such as oversight and ensuring accountability.
- **Section 177:** Pertains to audit committees, where more and more use AI tools for internal auditing.

Major Legal Challenges to Directors:

- **Liability for AI Decisions:** Directors can be held liable for losses or harm caused by AI-based decisions when they do not oversee, authenticate, or challenge AI suggestions properly.
- **Duty of Care and Skill:** Directors have to gain adequate knowledge of AI technology, its constraints, and dangers to meet their statutory responsibilities of care and prudent management.
- **Transparency and Disclosure:** The nature of AI algorithms, particularly black-box models (deep learning), poses opacity that might undermine directors' responsibilities to ensure transparency and make necessary disclosures to the shareholders and regulators.
- **Algorithmic Bias and Fairness:** Directors have to guard against AI systems having the propensity to continue in perpetuation or indulgence of bias and unfairness, with the potential for bringing legal and reputational damage.

Relevant Case Law:

- **Kumar v. State of Maharashtra, AIR 2011 Bom 148:** Strengthened the directors' duty to inform, and in effect, this implies a duty to exercise care in adopting and utilizing AI tools in management.

While Indian courts have not yet ruled on AI-specific director liability cases, established standards of fiduciary duty and negligence will adjust to AI applications.

Table 2: Duties under Company Law vs AI Challenges

Company Law (India)	Legal Challenges from AI Integration
Duty of Care and Diligence (Sec 166)	Understanding AI’s operational risks; ensuring informed oversight
Duty to Avoid Conflicts (Sec 184)	Risks of algorithmic bias or unfair advantage
Duty to Act in Good Faith (Sec 166)	Aligning AI decisions with company’s best interests and ethics
Disclosure and Reporting (Sec 134)	Explaining opaque AI decisions to shareholders and regulators

The table 2 illustrates Indian company law responsibilities confronting challenges from AI, such as handling risks, preventing bias, making ethical choices, and explaining AI behavior to stakeholders.

4.2. Corporate Governance and AI in India

AI is transforming corporate governance at Indian firms by impacting board decision-making, shareholder participation, and internal control processes. Although AI enhances efficiency and precision, governance structures need to be legally strong and technologically configured.

Table 3: Use of AI in Corporate Governance Functions

Governance Function	AI Utilization Level (Approx.)	Legal Implication
Board Meeting Decision Support	60%	Directors must validate AI recommendations for legality and fairness.
Shareholder Voting via AI Platforms	45%	Compliance with legal standards for e-voting and cybersecurity essential.
AI-driven Internal Audits	55%	Must conform to audit standards and data privacy regulations.

Table 3 signifies the increasing application of AI within corporate governance, evidencing moderate adoption in board support for decisions, shareholder voting, and internal audits. It calls for compliance with the law, with directors needing to ensure that AI suggestions are fair and legal, e-voting platforms being compliant with cybersecurity standards, and audits being compliant with privacy and regulatory standards.

Relevant Indian Legal Provisions:

- **Section 117, Companies Act, 2013:** Authorizes electronic means for conducting shareholder meetings and voting, facilitating AI-powered e-voting platforms.

- **SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015:** Governs shareholder communication, voting, and disclosure standards, which apply to AI tools for investor relations management.
- **SEBI Insider Trading Regulations, 2015:** Deals with risks associated with misuse of AI analytics for market manipulation.
- **Indian Information Technology Act, 2000 & Rules, 2011:** Covers data security and cyber laws pertaining to AI systems.

Relevant Indian and International Case Law:

- **Smith v. Van Gorkom, 488 A.2d 858 (Del. 1985, USA):** While an American case, it establishes precedent stressing directors' responsibility to make informed choices—pointing out that the use of AI does not dispense directors from obligation.

Indian courts can also hold directors liable if AI dependency results in careless or ignorant decisions.

4.3. Regulatory and Compliance Issues in India's AI Governance

The use of AI in Indian business management raises multifaceted issues of compliance concerning data security, bias, insider trading, and accountability.

Table 4: Legal Experts' Concerns on AI Compliance Issues

Compliance Issue	Percentage of Indian Legal Experts Concerned
Data Privacy and Security	80%
Discrimination and Bias in AI Decisions	70%
Insider Trading via AI Analytics	60%
Accountability and Redress Mechanisms	65%

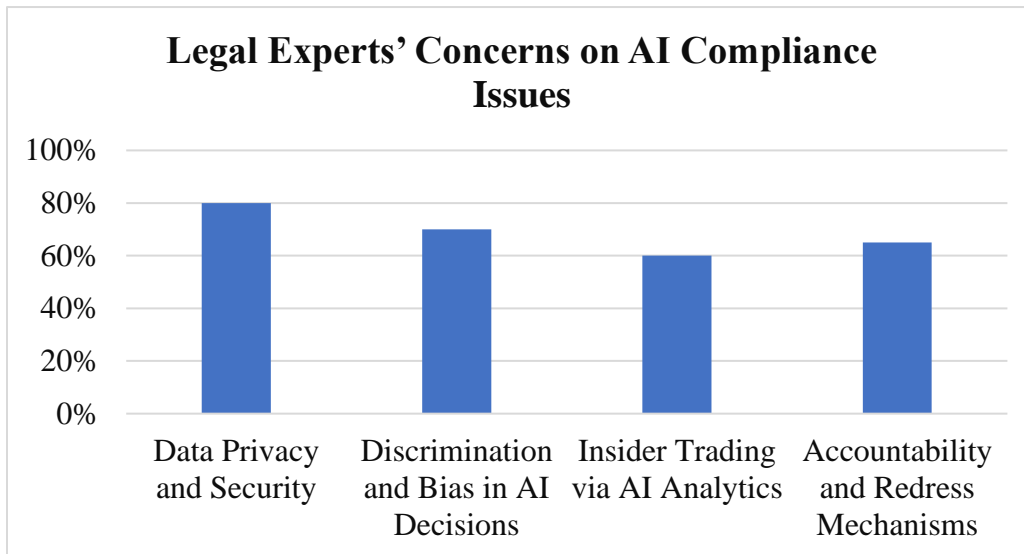


Figure 1: Legal Experts' Concerns on AI Compliance Issues

Most Indian experts in the law are highly concerned about AI data security and privacy, as 80% of them consider it a critical issue as shown in table 4. After that, 70% of the experts raised concerns about the fairness and ethical use of AI in making decisions. According to 60% of the experts, AI analytics in insider trading are still a big concern due to the risk of using AI to manipulate the market. Furthermore, 65% stress that proper accountability and redressal systems are required to address AI-related disputes and errors, which makes it tough to regulate AI in corporate governance.

Key Indian Regulatory Frameworks:

- **Information Technology Act, 2000 & Rules, 2011:** Establishes the law for data protection and cyber-security important for AI processing sensitive corporate information.
- **SEBI (Prohibition of Insider Trading) Regulations, 2015:** Deals with likely abuse of AI analytics of data in insider trading.
- **Draft Personal Data Protection Bill (India):** Aims to govern AI-based processing of data and automated decision-making, bolstering data privacy regulation.

Notable Cases Highlighting AI-Related Compliance:

- **Google Spain SL, Google Inc. v Agencia Española de Protección de Datos (2014) C-131/12 (EU):** While not Indian, it shapes international standards regarding automated decision-making and data privacy, applicable to India's developing legal system.
- **FTC v. Facebook (2021):** American regulation highlighting transparency and accountability in algorithmic technology—a warning to Indian businesses utilizing AI.

5. DISCUSSION

When organizations use AI in decision-making, compliance, and procedures, it is transforming the way companies are managed. A large number of organizations in India are embracing AI, mainly to automate their decision-making, predict financial outcomes, and ensure compliance. AI is becoming more common because it helps companies work more efficiently, accurately, and with more flexibility. At the same time, the new technology revolution makes managing corporations more complex and goes against old legal traditions.

The research raises concerns about the legal obligations of directors when AI systems make decisions. Indian Companies operate, 2013, requires directors to be diligent, honest, and act in the best interests of the company. When AI is used, these functions overlap. Directors will be responsible if they do not monitor AI outputs or understand what dangers they might present. Openness from directors about their decisions using AI is often difficult, especially when the algorithms are not fully understandable. The question is raised about whether existing rules are sufficient to oversee AI or if new laws are necessary to clarify who is responsible and accountable for AI. The use of algorithms led to many issues related to fairness and ethics.

If AI systems are not created or checked properly, they can lead to unfair treatment and discrimination that goes against the law. AI decisions influenced by bias can harm both the reputation and the legal position of organizations, so directors should be careful. The study also highlights data privacy, insider trading, and cybersecurity compliance, with 80% of respondents seeing data protection as a main concern. Because of how sensitive corporate information processed by AI is, the Information Technology Act and data protection regulations must be changed to handle its increased use in the corporate world.

AI is reshaping the way decisions are made, investors take part in elections, and companies are audited internally. AI makes work more efficient, but it is still necessary to take care of legal matters and monitor activities. The Companies Act and SEBI rules in sections 117, 149, and 177 ensure there is transparency in corporate governance, but they should be revised to include AI. The US *Smith v. Van Gorkom* examples of international case law. The *Van Gorkom* case shows that directors are not allowed to delegate their decisions about AI. Directors should know about AI to make wise decisions.

6. CONCLUSION

Through this research, it has been established how Artificial Intelligence changes how companies are managed under Indian company law. While AI can help businesses make better decisions and follow laws, it also brings up issues about the duties of directors, accountability, transparency, and privacy of data. It explains that the current laws, such as the Companies Act, 2013, and updates to it, do not address all the issues and ethical questions that come with using AI. Legal changes and better ways of running organizations are needed, along with making sure directors clearly understand what they need to do to keep an eye on AI systems and take steps to avoid bias, protect people's data, and keep shareholders confident. Being responsible with AI technology will require balancing progress with ethics and legal rules in corporate India.

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