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AI-ASSISTED BOARD DECISION-MAKING AND DIRECTORS' DUTIES: EXAMINING ACCOUNTABILITY UNDER INDIAN CORPORATE LAW

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ABSTRACT

Companies have begun to use intelligence tools to help with strategy, risk assessment, financial analysis and compliance. This article examines whether section 166 of the Companies Act 2013 provides coverage for directors' duties when board decisions depend on artificial intelligence tools. It asks if additional safeguards are needed to ensure accountability in cases. The article draws on research and compares selected aspects of the EU AI Act and Delaware corporate law. It reviews the Companies Act, the SEBI Listing Obligations and Disclosure Requirements Regulations, 2015 the India AI Governance Guidelines of November 2025 relevant court decisions and academic studies. The article finds that section 166 is flexible in principle. The duties of care, diligence and independent judgment still apply regardless of the directors' use of tools. When intelligence helps in decision-making the responsibility remains with the directors. However, the section says little about what it means to rely on probabilistic systems. Also, the Act does not offer a safe harbour, for directors who use experts. To address these gaps the article proposes a risk-based governance plan. This includes board policy, a tiered classification system, verification steps, documentation, training and regular review. It recommends that most of these measures can be implemented through existing duties, board practices and regulatory guidance. Only a narrow legislative change is needed. To clarify good-faith reliance. If evidence shows that such a change is necessary. The article takes an approach. It links directors' duties to the risks posed by intelligence systems without treating intelligence as a legal director. It also avoids assuming that policy guidance creates statutory duties. The focus remains on accountability and responsibility not on redefining roles.

INTRODUCTION

Boards have always depended on others. Directors rely on management reports, opinions from auditors, legal advice and valuations experts and company law have long said that this is needed. What is new is the kind of help they get. AI systems can take in lots of data predict

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what might happen, point out risks with rules and suggest what to do. They do it in a way that is based on chances often without a clear reason and they make mistakes in a different way than people do. Experts have been talking for years about how these systems might come into the boardroom from helping with decisions to more far-fetched ideas about AI taking part in running the company.[1] This article is about the realistic part of that idea: boards that use AI to help them make decisions they still make on their own.

The legal difference between help and handing over control is very important. In India the board must have people[2], and the rules in section 166 are for the director as an individual.[3] An AI system cannot be a director, cannot have duties to act in the best interest of the company and cannot be blamed for what happens. If a board uses AI as one part of a decision that makes sense the usual rules about duties still apply. If the board just takes what the AI says as the decision without checking or understanding it, the question is whether the directors really used care and made their judgment. The problem with how the company's run is in, between these two ideas. It is the chance that directors, because they trust the AI and think it is smart, stop asking the questions that their duties say they need to ask and the company's records just say that "the system suggested" a plan.

India has chosen not to pass a standalone law on artificial intelligence. The India AI Governance Guidelines, released by the Ministry of Electronics and Information Technology (MeitY) in November 2025, rely on existing laws and sectoral regulators.[4] While, the EU AI Act requires human oversight in high-risk AI systems.[5] The EU Act does not specifically regulate directors' duties. So, the key issue for company law is whether existing duties are enough. If they are not what kind of changes would be fair and proportionate?

Research questions - The main question is: how well does section 166 of the Companies Act address directors' duties when decisions involve AI? Are protections necessary to make sure that responsibility stays strong? Here are five questions connected to this topic:

1. Can directors fulfil their duty of care, their duty of diligence and their duty of judgment when they rely a lot on AI suggestions?

2. How do we decide who is responsible when an AI helped make a decision that caused loss

[1] Florian Möslein, *Robots in the Boardroom: Artificial Intelligence and Corporate Law*, *in* Research Handbook on the Law of Artificial Intelligence 649 (Woodrow Barfield & Ugo Pagallo eds., 2018); Martin Petrin, *Corporate Management in the Age of AI*, 2019 Colum. Bus. L. Rev. 965; John Armour & Horst Eidenmüller, *Self-Driving Corporations?* 10 Harv. Bus. L. Rev. 87 (2020).

[2] Companies Act, 2013, § 149(1), No. 18, Acts of Parliament, 2013 (India).

[3] *Id.* § 166.

[4] Ministry of Electronics & Info. Tech., India AI Governance Guidelines (Nov. 2025).

[5] Regulation (EU) 2024/1689 of the European Parliament and of the Council of 13 June 2024 Laying Down Harmonised Rules on Artificial Intelligence, 2024 O.J. (L 2024/1689), art. 14.

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or caused non-compliance or caused harm to people who are affected?

3. Are the laws able to handle issues like automation bias, hidden ways of making decisions, mistakes and too much trust in AI?

4. What kinds of tools, for governance should businesses use?

5. What things can India learn from the EU AI Act and other legal systems?

Methodology and scope - This study uses analysis. It looks at laws, rules, court rulings, official policy papers and scholarly articles to check whether the current legal system is enough. The comparison is kept narrow. Article 14 of the EU AI Act and Delaware law on oversight and reliance are only used when they help explain about Indian law. The study has limitations. It does not include any field research so it cannot say how often Indian boards use AI or how they keep records of its use. It does not go into detail about sector-rules for banks or insurance companies except briefly.

Contribution and Structure - This article does not claim that no one has looked at this topic before. Other scholars have examined issues in different countries. Its goal is to bring that discussion into the context of law. Part II goes over existing literature and shows where the gap lies. Part III explains the Indian legal framework. Part IV looks at directors' duties to act with care and judgment, automation bias and how responsibility should be shared. Part V offers a conclusion.

LITERATURE REVIEW AND RESEARCH GAP

AI and corporate governance - The foundational question is how far AI can or should take over board functions. Möslein examined how existing corporate law accommodates AI in the boardroom and argued that current frameworks, built around natural persons, constrain delegation of core functions.[6] Petrin analysed AI-assisted management and the way directors duties adapt, concluding in broad terms that duties remain tied to human directors who must supervise the tools they use.[7] Armour and Eidenmüller offered a more forward-looking account of "self-driving corporations" asking whether corporate law's reliance on human decision-makers can survive increasingly autonomous systems and what accountability mechanisms would then be needed.[8] Against this, Enriques and Zetzsche cautioned against the "tech nirvana fallacy": the assumption that technology will resolve governance problems without introducing new ones, which makes human accountability more, not less, important.[9] The shared theme is

[6] Möslein, *supra* note.
[7] Petrin, *supra* note 1.
[8] Armour & Eidenmüller, *supra* note 1.
[9] Luca Enriques & Dirk A. Zetzsche, *Corporate Technologies and the Tech Nirvana Fallacy*, 72 Hastings L.J. 55

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that AI changes how directors obtain information but not who bears responsibility.

Fiduciary duties, reliance and independent judgment - Common-law systems have regulated reliance on others. The Delaware Supreme Court's decision in Smith v. Van Gorkom treated a board's approval of a merger as a breach of the duty of care even though the directors had relied on management's presentation. Delaware statute now protects good-faith reliance on experts chosen with reasonable care.[10] These materials suggest a spectrum: reliance is legitimate when directors have a basis for trusting the source and engage with the advice and not otherwise. The Indian statute contains no equivalent of the Delaware reliance provision, which sharpens the question of how Indian courts would treat reliance on AI.

Automation bias and human oversight - Behavioural research on automation bias shows that people tend to over-trust automated recommendations, omitting checks or following advice. Skitka, Mosier and Burdick provided experimental evidence, and Goddard, Roudsari and Wyatt systematically reviewed the literature, mainly in clinical settings.[11] Green has argued that policies requiring "human oversight" of algorithms rest on questionable assumptions about people's ability to oversee them in practice and that oversight requirements can create a misleading appearance of accountability.[12] That literature comes from medicine, aviation and public administration, not boardrooms, so its transfer to directors is an inference that should be flagged as such.

Algorithmic accountability and corporate responsibility - Kroll and others examine how accountability for decisions can be built through procedural and technical means rather than total transparency. Diamantis examines how corporate liability might attach when corporations use AI that produces outcomes arguing for treating the systems operation as part of the corporation's own conduct.[13]

Oversight doctrine and AI governance - Delawares Caremark line of cases Stone v. Ritter and Marchand v. Barnhill imposes a duty to make a good-faith effort to implement board-level reporting and monitoring systems for mission-critical risks, and has been critically discussed in the literature on enterprise risk management.[14] On AI- governance in India, official material

(2020).

[10] Smith v. Van Gorkom, 488 A.2d 858 (Del. 1985); Del. Code Ann. tit. 8, § 141(e).

[11] Linda J. Skitka, Kathleen L. Mosier & Mark Burdick, *Does Automation Bias Decision-Making?*, 51 Int'l J. Hum.-Computer Stud. 991 (1999); Kate Goddard, Abdul Roudsari & Jeremy C. Wyatt, *Automation Bias: A Systematic Review of Frequency, Effect Mediators, and Mitigators*, 19 J. Am. Med. Informatics Ass'n 121 (2012).

[12] Ben Green, *The Flaws of Policies Requiring Human Oversight of Government Algorithms*, 45 Comput. L. & Sec. Rev. 105681 (2022).

[13] Joshua A. Kroll et al., *Accountable Algorithms*, 165 U. Pa. L. Rev. 633 (2017); Mihailis E. Diamantis, *The Extended Corporate Mind: When Corporations Use AI to Break the Law*, 98 N.C. L. Rev. 893 (2020).

[14] In re Caremark Int'l Inc. Derivative Litig., 698 A.2d 959 (Del. Ch. 1996); Stone *ex rel.* AmSouth Bancorporation v. Ritter, 911 A.2d 362 (Del. 2006); Marchand v. Barnhill, 212 A.3d 805 (Del. 2019); Stephen M. Bainbridge,

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is limited to policy documents: the MeitY Guidelines and the Reserve Bank of India's August 2025 FREE-AI report for the financial sector.[15] Internationally commentary on the EU AI Act has examined the human-oversight design requirements, including critical assessments of their effectiveness.[16]

INDIAN LEGAL FRAMEWORK GOVERNING DIRECTORS' DUTIES

A. Section 166 of the Companies Act, 2013

Section 166 sets out the duties of directors in six parts.[17] Section 166(1) says a director must follow the company's articles. Section 166(2) says a director must act honestly and in a way that promote the company's objects and benefits all the members of the company. This includes the interests of the company, its employees, the shareholders, the community and the environment.[18] Section 166(3) says a director must act with care, skill and diligence. It also says a director must use their judgment.[19] Section 166(4) says a director cannot have a conflict of interest with the company. Section 166(5) says a director cannot get a benefit or try to get an unfair benefit for themselves or others.[20] Section 166(7) says that if a director breaks these rules they can be fined not less than 1 lakh rupees and up to 5 lakh rupees.[21]

The law does not explain what the standard of care means. Indian courts have usually used ideas from English law. The case of Official Liquidator v. P.A. Tendolkar is often used when talking about directors being responsible for negligence and how much a director can trust officers.[22] Section 166(3) mentions care, skill and effort and independent judgment. It does not say if the standard is the same, for everyone or if it changes based on the director's experience.

B. Board Powers and Decision-Making

Under section 179(1), the board has the power to carry out every authority that belongs to the company and to perform every act that the company is allowed to do long as the Act and the articles are followed. Section 179(3) lists the powers that the board can use when the board passes a resolution at a meeting. Those powers include calling for capital issuing securities, borrowing money, investing money, giving loans and approving statements and the boards

Caremark and Enterprise Risk Management, 34 J. Corp. L. 967 (2009).

[15] MeitY Guidelines, *supra* note 4; Reserve Bank of India, Report of the Committee on a Framework for Responsible and Ethical Enablement of Artificial Intelligence (FREE-AI) (Aug. 2025).

[16] Michael Veale & Frederik Zuiderveen Borgesius, *Demystifying the Draft EU Artificial Intelligence Act*, 22 Comput. L. Rev. Int'l 97 (2021) (addressing the draft proposal, not the final Act); Green, *supra* note 12.

[17] Companies Act, 2013, § 166(1)–(6).

[18] *Id.* § 166(2).

[19] *Id.* § 166(3).

[20] *Id.* § 166(4)– (5).

[21] *Id.* § 166(7).

[22] Official Liquidator v. P.A. Tendolkar, (1973) 1 SCC 602 (India).

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report. The Companies (Meetings of Board and its Powers) Rules 2014 give detail on these matters.[23] These matters for AI: The powers listed above cannot be carried out by sending an automated output or by delegating them to a system. The resolution must be passed by the directors themselves. The Act also gives directors accountability for the boards report. This includes a responsibility statement from the directors and a statement about the company's risk management policy. The Act requires audit committees of companies to evaluate internal financial controls and risk management systems.[24]

C. Independent Directors

Section 149(12) limits the liability of independent directors and non-executive directors who are not promoters or key managerial personnel. Their liability is limited to acts of omission or commission by the company that happened while they knew about it were attributable through board processes, with their consent or connivance or where they did not act diligently.[25] The phrase "attributable through board processes" shows that the quality of the board process is directly relevant to liability. Schedule IV, the Code for Independent Directors, explains that independent directors must bring judgment to strategy and risk management. They must also be satisfied with the integrity of information and the robustness of financial controls and risk management systems. The schedule requires them to update their skills and knowledge.[26]

D. SEBI Listing Regulations

For listed companies, the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (LODR) add more rules. Regulation 4(2)(f) lists the functions of the board. These functions include reviewing strategy, reviewing risk policy, reviewing major plans of action and monitoring how effective governance practices are. Regulation 17 deals with board composition and procedures. It includes information that must be placed before the board (Part A of Schedule II). It also requires that the board be informed of risk assessment and minimisation procedures. Regulation 21 requires a Risk Management Committee for the listed entities.[27]

E. The India AI Governance Guidelines (November 2025)

MeitY released the India AI Governance Guidelines on 5 November 2025. The Guidelines set out seven guiding principles, called "sutras" that are adapted from the RBI's FREE-AI framework. These sutras include accountability and "understandable by design". The

[23] Companies Act, 2013, § 179(1), (3); Companies (Meetings of Board and its Powers) Rules, 2014, r. 8.
[24] Companies Act, 2013, §§ 134(3)(n), 134(5), 177(4).
[25] *Id.* § 149(12).
[26] *Id.* § 149(8) & sch. IV, pts. II–III.
[27] SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, regs. 4(2)(f), 17, 21, sch. II pt. A.

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Guidelines recommend arrangements and favour relying on existing laws and sectoral regulators instead of a separate AI law.[28] The Guidelines are policy guidance. They do not in my reading of sources impose duties on company directors. They should not be treated as a statutory standard under section 166. Their relevance is persuasive and interpretive. They show what Indian policymakers consider deployment and this may influence how courts and regulators judge reasonable care.

F. Judicial Decisions on Directors Responsibility

I have not found a judgment that deals with AI-assisted board decisions. Similar principles come from decisions on directors' responsibility. In SMS Pharmaceuticals Ltd. V. Neeta Bhalla, the Supreme Court said that a director is not vicariously liable under section 141 of the Negotiable Instruments Act 1881 simply because they hold office. The Court also said that a complaint must show the director's role in the conduct of the business. Pooja Ravinder Devidasani v. State of Maharashtra applied that principle to directors. Sunil Bharti Mittal v. CBI looked at when the acts of a company can be attributed to individuals who control it and the limits of attributing them without specific involvement.[29]

G. Data Protection

If AI tools process data, the Digital Personal Data Protection Act, 2023 and the rules made under it become relevant. They apply to personal data not to all confidential corporate information. Confidential corporate information is mainly protected through contract, confidentiality duties and company policy.[30]

CRITICAL ANALYSIS: AI-ASSISTED DECISIONS AND DIRECTORS' DUTIES

A. Duty of Care, Skill and Diligence

The first question is whether it is necessary for directors to check an AI tool before using it. The law does not mention tools directly. The idea of "due and reasonable care" is not fixed. In situations it usually means that directors need to be informed before making a decision.[31] Looking at English law that Indian courts have used like the case of Re City Equitable Fire

[28] MeitY Guidelines, *supra* note 4. Secondary reports consulted: AZB & Partners, *MeitY Releases Guidelines on AI Governance – The Way Ahead and Roadmap for AI Use in India* (Nov. 13, 2025); S&R Associates, *MeitY Unveils India AI Governance Guidelines* (Nov. 6, 2025). The primary text, the exact sutra wording and page references remain.

[29] SMS Pharmaceuticals Ltd. v. Neeta Bhalla, (2005) 8 SCC 89 (India); Pooja Ravinder Devidasani v. State of Maharashtra, (2014) 16 SCC 1 (India); Sunil Bharti Mittal v. CBI, (2015) 4 SCC 609 (India); *see also* Negotiable Instruments Act, 1881, § 141.

[30] Digital Personal Data Protection Act, 2023, No. 22 of 2023 (India); Digital Personal Data Protection Rules, 2025.

[31] Companies Act, 2013, § 166(3); *cf.* Tendolkar, *supra* note 22.

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Insurance Co. directors can rely on people they have given tasks to unless there is a reason to doubt them. They can't ignore information that is obvious.[32] When it comes to AI three points come out from this.

First using AI is allowed. It is not wrong to use an AI tool just like it is not wrong to use a model or a report from a consultant. Second relying on AI should be done with reasons that match the importance of the decision. For a task knowing what the tool does might be enough. For a big decision that involves a lot of money, rules or people directors need to ask about the data used what the system is for how it was tested, where it has failed and if the results match other information. Third the care needed is that of a director, not an engineer. Directors don't have to check the code. They must ask the right questions and notice any warning signs.

There is no law in India that protects directors for relying on AI. In Delaware directors are safe if they trust experts they chose carefully. In India there is no rule but there is a law that allows courts to help someone who acted honestly and reasonably under section 463 which might be useful in cases of negligence or not doing their job properly.[33] The result is not being sure not being guilty. A director who can show they made a decision is in a good position but the law does not give much help on what an informed decision looks like for AI, which is the problem that Part V tries to fix.

B. Duty to Make Independent Choices

The duty to make choices in section 166(3) is, in my opinion the part of the law that is most connected to AI. Independent choices do not mean disagreeing with advice or ignoring it. It means that the director makes their decision and takes responsibility for it. Directors who accept a suggestion because the system made it without understanding why or looking at options may not have made their own choice but have let the system decide. This would be the same as directors who accepted a plan without reading it and the Van Gorkom case shows how that is treated.

Three things about AI make the issue harder. The results can look official and exact which might stop people from questioning them. The way the AI works may not be clear so it is harder to check. The board may not have the skills to understand it which makes them depend on management or the company that made the AI for help. None of these changes the rules. It makes it harder to follow them.

Section 179(3) supports the idea that some decisions must be made by the board in a meeting.[34]

[32] Re City Equitable Fire Insurance Co. Ltd. [1925] Ch 407 (CA) (Eng.).
[33] Companies Act, 2013, § 463.
[34] *Id.* § 179(3).

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A decision that is written as made in a meeting but in reality, made by a system that was not checked would meet the law on paper but not the purpose. Also, the law says the board must be made up of people and the duties in section 166(3) are personal so responsibility can't be given to a system.[35] My idea is that if the directors can explain why they agreed with or changed the AIs results then it is okay. If they can't then they have given up their responsibility.

C. Trusting Much Not Understanding and Wrong Results

These problems are often seen as technology issues. Their legal importance is how they affect the boards work. Trusting much in automated results is supported by research in other areas. If a board regularly accepts AI suggestions that pattern shows how the board works but how courts would see that is not clear. Not being able to explain how the AI works is important because it stops people from seeing if the assumptions are wrong and the MeitY Guidelines say that AI should be easy to understand.[36] results, from biased or bad data, errors in the model or made-up content are important because decisions based on them may cause losses break rules or hurt people.

Two legal points come from this. First these problems are expected. A director who knows a tool can make mistakes. Still uses it without checking is hard to say acted with reasonable care. Second expected problems are connected to the boards job to manage risks in the law and LODR. The legal question is not if the tool was perfect. If the board took steps that match the known risks. The law can handle these issues after the fact. It doesn't tell boards what to do before.

D. Allocation of Responsibility

Responsibility should be looked at from different angles and using AI does not by itself make anyone responsible at any level.

Directors - Personal responsibility needs a breach of duty a link to the problem. Depending on the place some guilt. Section 166(6) has a punishment for breaking this.[37] For non-executive directors, section 149(12) limits responsibility to things they knew through the boards work and through their choice or not being careful.[38] The better the board process is when using AI the stronger the defense is.

The company - The company is responsible for its choices and for breaking rules even if the choice was shaped by a wrong tool. Diamantiss argument in another place is that using AI does

[35] *Id.* §§ 149(1), 166(3).
[36] MeitY Guidelines, *supra* note 4.
[37] Companies Act, 2013, § 166(6).
[38] *Id.* §§ 149(12), 2(60).

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not keep the company from being responsible. Under law how the actions of people are linked to the company and vice versa follows old rules discussed in Sunil Bharti Mittal.[39]

Senior management - Management, including people who are not doing their job under section 2(60) may be responsible for picking, using and reporting on AI tools. For what they tell the board about how good they are. The boards trust in what management says about an AI tool is itself a trust question under Part IV.A.

Vendors - The vendor is responsible under contract. May be in trouble in court or under other laws. Getting money back for a contract breach is covered by the Indian Contract Act, 1872 including section 73.[40] Vendor contracts often stop them from being responsible and say they are not good for anything so directors who trust a vendor can't expect the vendor to take the blame. For that reason, the contract terms are part of the process.

These levels are separate. The vendors contract responsibility does not stop the directors from being responsible. The director's possible problems don't mean the company has no claim, against the vendor. Rules can affect the company or officers separately from any court case.

Conclusion

The main question was whether section 166 of the Companies Act 2013 adequately covers director's duties when decisions are guided by AI and what extra safeguards might be required. The answer is that section 166 works in principle but falls short in practice. The duties of care, diligence and independent judgment are broad enough to cover any decision-support tool. They make clear that accountability stays with directors and the company. What section 166 and Indian law do not offer is guidance on what it looks like to rely on opaque and error-prone systems with good faith.

On the subsidiary questions the analysis points out points. First directors can meet their duties when they use AI a lot if their reliance is informed, proportionate to the stakes and backed by their scrutiny; uncritical reliance is hard to fit with section 166(3). Second responsibility is layered: directors may be personally liable for breaches of duty within the limits of section 149(12) for non-executive directors; the company is responsible for its decisions and compliance; management is responsible for its representations and implementation; and vendors are bound contractually. Using AI does not automatically create liability at any level. Third existing law can tackle automation bias, opacity and inaccuracy through principles but only after an event and without forward guidance. Fourth a proportionate framework that

[39] Sunil Bharti Mittal, *supra* note 29.
[40] Indian Contract Act, 1872, § 73.

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includes board policy risk-based classification, verification, documentation, training, data protection and regular review would give meaning to the existing duties. Fifth the EU AI Act and Delaware law provide lessons: oversight must be real and not just nominal automation bias must be addressed explicitly and a documented process is the best proof of diligence.

The provisional thesis is mostly confirmed, with one tweak. Existing duties are a base and a proportionate framework can set clear expectations without treating AI as a legal director or stifling innovation. However, the evidence does not yet support binding rules. The best safeguards are board-level governance practice and non-binding guidance with a narrow statutory clarification of good-faith reliance kept as an option if experience shows a need.

The implication for corporate governance is that the quality of the boards process is the key factor. Boards that can explain how they used AI what they tested and why they decided as they did will be best positioned under any standard. The studys limits must be acknowledged: it is doctrinal relies on analogy because there is no authority on AI-assisted decisions and cannot evaluate real board practice. Empirical research, on how Indian boards use and document AI would test these conclusions.