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AI-ASSISTED CORPORATE DECISION-MAKING AND DIRECTORS' FIDUCIARY DUTIES UNDER INDIAN LAW: ACCOUNTABILITY AND LIABILITY FOR ALGORITHMIC DECISIONS

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Abstract

The growing use of AI in corporate governance poses certain issues regarding the exercise of the duty of care and the assignment of liability for algorithm-assisted decisions. AI may help corporate boards in predicting the finances of their company, assessing risk, strategising, monitoring, and making investments. However, the usage of such a technology poses the issue of the possible bias of algorithms, the problem of transparency of such tools, data integrity, automation bias, and the possibility of reduction of human accountability. This paper will discuss whether the principles of corporate law are sufficient for the regulation of the directors who use recommendations of AI and whether the directors are able to rely on such recommendations without breaching the principles of duty of care, duty of good faith, duty of loyalty, and duty of independent judgment. The paper will analyse the liability of the directors, companies, AI creators and developers, and technology providers. Indian corporate law and other international jurisdictions will be discussed.

Keywords: Artificial Intelligence; Corporate Governance; Directors' Fiduciary Duties; Section 166; Algorithmic Accountability; Board Oversight; Indian Company Law.

1. Introduction

Over the last few years, the fast progress of technology in the field of artificial intelligence has resulted in a revolution in the process of decision-making within organizations. Even though the use of artificial intelligence improves the efficiency and complexity of decision-making, its increased popularity has resulted in such challenges as transparency, responsibility, and the obligations of the board of directors under the duty of care. According to the Companies Act, 2013, particularly Section 166, directors must exercise their powers with diligence and in good faith. In this regard, the issue is that of the decision made with the help of AI and whose

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responsibility it would be in case of any mistake.

1.1 Background

The rapid development of artificial intelligence (AI) has significantly changed the corporate management and decision-making, including financial forecasting, risk assessment, fraud detection, and corporate planning. AI-supported decision-making includes the application of algorithmic tools for analyzing information, assessing the risk and making recommendations regarding corporate decisions. While being very helpful, those tools cause certain worries about the possibility of algorithmic bias, lack of transparency, inaccurate results, and over-dependence on technologies. The increasing use of AI in corporate governance makes it necessary to consider the issue of directors' duties in this regard. According to Section 166 of the Companies Act, 2013, directors have to act in good faith, in the best interest of the company, and exercise independent judgment. Thus, not giving sufficient consideration to the validity, limits and possible effects of recommendations made by algorithms can create doubts about compliance with these duties.

Additionally, the India AI Governance Guidelines, issued by the Ministry of Electronics and Information Technology in November 2025, stress the importance of responsible and trustworthy AI.

Nonetheless, such principles cannot serve as substitutes for the statutory duties of directors. In light of the above, this research evaluates whether current principles of directors' fiduciary duty suffice to govern decisions made using AI technology by corporations and their directors' duties of care, diligence, accountability, and independent judgment.

1.2. Literature Review and Research Gap

Recently, Indian scholars have begun exploring the link between artificial intelligence and company laws. In their study named "The Road Not Taken: Manoeuvring Through the Indian Companies Act to Enable AI Directors," Rudresh Mandal and Siddharth Sunil discuss the possibility of replacement or supplementation of directors using artificial intelligence within the ambit of the Companies Act, 2013, particularly Section 166. Similarly, another study conducted by Vydhrithi Reddy named "Corporate Boards: Human or Bot?" looks into the problem of incorporation of artificial intelligence in Indian corporate boards. This study mainly concentrates on the role of the director in respect of artificial intelligence, accountability, bias, and transparency. This article tries to understand how the behaviour of directors should be analyzed when they are taking corporate decisions based on the recommendations of an artificial intelligence system.

The authors put forward an AI-Assisted Board Decision Accountability Framework which

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would consider four aspects – materiality of decision, foreseeability of technology risks, independent analysis by directors, and adequate oversight and documentation.

1.3. Statement of the Research Problem

The central research problem is that of the legal responsibility associated with the decision-making of companies using AI. Under Indian company law, the directors are supposed to meet their statutory and fiduciary duties when exercising their corporate powers. Section 166(3) of the Companies Act, 2013 mandates the directors to apply due and reasonable care, skill and diligence and independent judgment. This provision, when used in the context of AI-based decision-making, poses the question of directors' liability when the outcome of the algorithm-based system is wrong or biased or inappropriate. Another important issue is related to the allocation of liability between the board members, the companies, and the developers of the AI technology. Given that more than one entity can be involved in the process of making decisions using algorithms, their liabilities have to be ascertained under the applicable law. Thus, this article analyses whether the Indian law provides enough protection to board members for the AI-assisted decisions made by the companies and whether there is any need for governance measures.

1.4. Research Questions

The present research is guided by the following questions: How do Section 166 and other relevant provisions of the Companies Act, 2013 apply to corporate decisions assisted or influenced by artificial intelligence? Under what circumstances may a director's reliance upon an AI-generated recommendation constitute a breach of the statutory and fiduciary duties of care, diligence, good faith and independent judgment?

To what extent may legal responsibility for harmful algorithm-assisted corporate decisions be attributed to directors, the company and AI developers or technology providers under the existing Indian legal framework? Are the existing provisions of Indian company law and the current AI governance framework adequate to address the challenges arising from AI-assisted corporate decision-making? What legal and corporate governance safeguards may be introduced to strengthen accountability, transparency and meaningful human oversight in AI-assisted corporate decisions?

1.5. Research Objectives

1. To examine the legal nature and scope of directors' fiduciary duties in AI-assisted corporate governance.

2. To analyse the relationship between AI-assisted decision-making and directors' duties of care, diligence, good faith and independent judgment. 3. To investigate potential liability

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arising from negligent or otherwise unlawful reliance on algorithmic recommendations. 4. To assess the adequacy of existing Indian law, with limited comparative reference to relevant international regulatory approaches. 5. To propose an analytical framework and practical safeguards for responsible AI use by corporate boards.

1.6. Scope and Limitations of the Study

The scope of the study includes the law of India in relation to the issues of corporate governance and directors' duties. This paper will examine the directors' duties in terms of their duty to act in good faith, due care, skill, diligence and independently in making corporate decisions with the help of AI technologies. Moreover, the paper will examine other provisions of the Companies Act, 2013, related to the obligations of the board and corporate supervision. Furthermore, the India AI Governance Guidelines, 2025 will be analysed as a guideline for responsible AI and potential legal responsibilities of the directors, the companies and providers of AI technologies for harmful decisions made with the help of algorithms. It should be mentioned that the study will not examine the mathematics and the way AI technologies operate. Moreover, the AI will not be considered as an independent legal subject. It will examine the legal obligations of people and corporations that use and supervise AI technologies. The EU AI Act and OECD AI Principles will be used only for the purpose of comparison.

1.7. Research Methodology

This study adopts a doctrinal approach in the process of carrying out the research. Doctrinal methodology entails the interpretation and analysis of primary and secondary sources of law. It is ideal for the examination of statutory framework, duties of directors in line with AI-assisted business decisions. The primary sources of law entail the Companies Act, 2013, including Section 166, Supreme Court rulings and other sources of judgment as well as government regulations on artificial intelligence. Secondary sources of law entail legal books, peer-reviewed journal articles, scholarly publications on corporate governance and accountability algorithms. This study will adopt the analytical, interpretive and critical methodology for studying the relevance of the directors' duties to algorithmic assisted decision-making and to point out the loopholes in the Indian statutory framework for recommending good governance practices. Finally, the methodology will involve exploring whether current Indian corporate law sufficiently guarantees the accountability and independence of directors with respect to their use of algorithms.

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2. AI in Corporate Governance

AI is increasingly becoming a tool for use in the corporate governance setting to support the functions of decision-making of directors and managers of firms. The use of AI may be useful for businesses in analyzing their financial information, risk assessment, compliance with regulations, investment evaluations, and business strategies. While the use of this technology may make the process of decision-making more effective, some issues emerge with regard to transparency, oversight and accountability. The first issue is the need to assess if it is possible to perform statutory and fiduciary duties in the new setting.

2.1 Meaning and Forms of AI-Assisted Decisions

The notion of AI-supported decision-making for companies is understood as the process of analysis, prediction, and proposal of corporate actions made by AI-based systems. The use of AI can be of different levels. First, AI as an analytical tool assists directors in the analysis of financial reports, markets trends, and operational data, while making decisions directors retain full responsibility. Second, AI as a recommendation tool analyses different options and provides predictions, for example investment strategies. Directors must independently assess the correctness of data, assumptions, and risks used by the AI tool. Thirdly, there is an indication that certain acts would be carried out by AI systems based on pre-determined criteria, such as automated trading, automated payment process, and automated inventory taking. The acts need to be properly authorized and supervised.

Fourthly, the excessive use of AI takes place when the recommendations offered by the algorithms are adopted by the directors without proper evaluation of their validity and potential implications. This may negatively affect the objectivity of the directors and calls into question the compliance of the directors with Section 166 of the Companies Act, 2013.

2.2 Benefits and Risks of AI in Corporate Governance

There are many advantages associated with the use of AI in corporate governance. The technology enables fast processing of a lot of information as compared to traditional methods, helps recognize the patterns that may not necessarily be clear to human minds, and predicts the risks that a company may face from a financial, operational, or regulatory perspective. The use of AI may help detect unusual transactions and monitor compliance with the rules as well as improve the process of internal reporting. All these functions may help to enhance the information that the directors can rely on while taking business-related decisions. At the same time, there are many risks associated with the use of AI technology as well. The reliability of the results produced by an AI algorithm greatly depends on the quality, relevancy, and accuracy of the input data. Incorrect or partial data may lead to wrong recommendations. Moreover, the

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bias of the algorithms may result in discrimination and unfair decisions as well because the historical data is biased.

This poses challenges in the evaluation of the underlying assumptions and risks behind the intended decision.

The risks related to cybersecurity threats, any form of unauthorized access, data tampering and the release of confidential information belonging to the company in the use of AI technology also poses risks to the organization. Bias from automation may also pose as a challenge where the board members and the employees overly depend on the automated recommendation made. This is because of the false assumption that an advanced technological system must be objective and accurate.

2.3. Corporate Board Responsibility

The use of AI in corporate governance will not automatically transfer the statutory duties of directors to the provider, supplier, or user of the technology. The directors are required to carry out their functions in the light of the memorandum and articles of association of the company, act in good faith and in the best interest of the company, and act with due and reasonable care and diligence, as provided in Section 166 of the In this regard, it should be noted that directors cannot take an AI recommendation as an alternative for their judgment. The assessment should include how appropriate the system is, how reliable it is, what dangers can emerge due to it and what human control over the system should be. The depth of the analysis will depend on what kind of decision-making process it is, on the reasonable knowledge of directors and on possible results of it. This means that the directors do not need to understand all the technical details of the AI system or become liable for every negative result if the decision is made with its help.

The actions of the directors will be assessed taking into consideration their legal duties and situation during the decision-making process. Also, the participation of AI developers and service providers may become essential if the case is about defective design, wrong information or any other reasons of liability.

2.4 Legal Significance of AI-Assisted Decision-Making

The legal importance of AI with regard to corporate governance does not stem simply from the usage of AI technology. Instead, the main point in question is whether the decision-making process by which the corporate decision has been taken complied with all statutory obligations, internal rules of the corporation, and relevant legal rules of making such specific decision. This way, for instance, when the board of directors takes the investment decision relying on an AI forecast, the questions might involve the validity of the forecast in terms of verification, consideration of the risks and the exercise of independent judgment. Likewise, the

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authorization of the automatic transaction might raise issues of internal approval rules and control. One such helpful analytical proposition is that the more important a decision made by a corporation is and the higher the level of foreseeable risk involved in the decision, the better the reason exists to verify the decision, carry out human analysis of it and document it accordingly.

Such an analytical proposition can be used in order to measure whether the directors have exercised the requisite degree of care and diligence. Nevertheless, one needs to remember that the proposition is nothing but an analytical framework proposed for use in this study. It cannot be regarded as a statutory test laid down in India for use in making decisions with the help of AI technologies. In any case, the fact that directors use AI technology in the decision-making process cannot in itself make them liable for something.

3. Directors' Fiduciary Duties under Indian Law

The application of Artificial Intelligence (AI) in the decision-making process of a corporation has led to a significant legal question, which is whether the directors can absolve themselves of their liability on the basis that the decision was based on the recommendations of the artificial intelligence system. In India, the directors cannot do so because they act in a fiduciary capacity and are therefore expected to perform their statutory duties even when the help of technologies comes into play. The Companies Act, 2013 under Section 166 gives the legal framework that would be used in analyzing their duties.

3.1. Directors' Fiduciary Duties under the Companies Act, 2013

First of all, Section 166(1) states that the directors must conduct themselves in accordance with the Articles of Association of the company. This suggests that the powers of the directors should be exercised in line with the powers given to the directors by the company's constitution. Where a company has introduced AI-based solutions for making investment decisions, financial approvals and risk management, such usage of the technology must not be inconsistent with the company's governance. Can the directors delegate more powers to an AI-based solution than those powers allowed under the Articles? This question can only be answered taking into account the applicable limitations in the constitution and statute.

Secondly, Section 166(2) provides that the directors must act honestly in order to advance the purposes of the corporation for the benefit of its members as a whole and in what is best for the corporation, its staff, shareholders, the community and protecting the environment. It becomes a fundamental issue whether the directors can act on such recommendation of AI software despite the potential impact on the staff and other interests mentioned in the provision. The

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directors have to judge such recommendation in light of the statutorily recognized interests under Section 166(2). A decision cannot be justified only on the basis of financial benefits found by an algorithm. Thirdly, Section 166(3) imposes on the directors an obligation to exercise proper and reasonable care, skill and diligence and exercise independent judgement. This is particularly important considering that AI could present a recommendation that the director would not be able to properly understand and verify on its own.

Would the mere adoption of an AI recommendation be sufficient evidence to discharge the obligation of care? Evidently, the fact that a technology recommends something does not amount to an exercise of reasonable care on the part of the directors. They have to consider the reliability of the information as well as the context of their decisions. Fourth, section 166(4) of the Act bars directors from engaging in activities where there is actual or potential conflict between their personal interest and that of the company. The applicability of this rule is when directors are engaged in the selection process of vendors of AI or approval of technology contracts where the persons are related to the directors either by kinship or business relationships or where there are any investments held by the directors. Is it valid for a director to prefer one particular vendor on the recommendation of AI? Fifth, Section 166(5) states that it is a breach of fiduciary duty for directors to procure or attempt to procure any undue personal gain or advantage.

For instance, a director who uses procurement recommendations generated by an artificial intelligence system to favour his business associate could be under suspicion under this section. What matters is the attempt by the director to get an undue gain and not how the transaction was processed. Finally, Section 166(6) disallows a director from assigning his or her office and any such assignment made in contravention of this provision shall be null and void. Section 166(7) further imposes a fine on a director for contravening the section. This penalty under the statute must be differentiated from another claim for damages, which would require a legal basis. There is then the essential question: can directors assign their decision-making powers to an AI system or even its maker? Directors are free to use technological aids as well as assign operational duties, where applicable by the law.

But it must be stressed that Section 166(6), which does not allow the assignment of the office of director, cannot simply be viewed as a prohibition against delegating or a regulation of AI. The more urgent question posed by the use of AI is whether directors have performed their obligations under Section 166(2) and (3). AI is just a technology employed by the company, and it cannot be equated to a director due to the recommendations it gives the directors.

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3.2. Duty of Care, Skill and Diligence

The duty under section 166(3) is to act with reasonable care, skill and diligence. In the context of AI-assisted decision-making that would be the kind of thing the directors would have to consider: is the system appropriate for that particular corporate decision? Is the information it provides reliable? Do its limitations give rise to material risk? For example, prior to approving a major investment on the basis of an AI-generated financial forecast, it would be reasonable to expect the directors to check the key assumptions, verify the relevant information and obtain specialist advice where appropriate. They would be justified in questioning any recommendations which are inconsistent with the available evidence and in re-evaluating their reliance on systems which are known to produce unreliable results. However, does every director have to become an AI expert? No. Section 166 makes no such requirement.

The standard should be assessed in the light of the nature of the decision, the director's duties, the information reasonably available and the likely consequences of reliance. Those are the proposed applications of the existing statutory duty, not additional statutory requirements expressly imposed on directors in respect of AI.

3.3. Duty of Independent Judgment

Independent judgement is a necessary component of proper corporate governance. Directors must not simply go along with recommendations without considering whether or not those recommendations are in the best interests of the company. It is perfectly legitimate to rely on the advice of experts, but it is quite different to hand over the responsibility to make the decision. For instance where an AI system is recommending the termination of a major business relationship the directors would be well advised to consider the commercial context, the potential legal ramifications and the range of alternatives before approving the recommendation. If they simply go along with it without any proper consideration then their conduct could be open to challenge under section 166(3). The key issue is of course the difference between using AI as a tool to assist in the exercise of judgment and using it to substitute for judgment.

3.4. Good Faith, Conflicts of Interest and Undue Gain

AI may also be used in the context of personal interests or improper conduct on the part of the company. A director who is in a position to know of system deficiencies and who chooses to conceal them, or who manipulates data or favours an AI vendor as a result of a personal relationship may be in breach of section 166(2), section 166(4) and section 166(5) as appropriate. Can a director get off the hook by saying that the decision was made by an algorithm? The use of AI does not in itself absolve a director of liability where the conduct

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would otherwise be in breach of a statutory duty. The director's intention, interests, actions and the circumstances of the transaction will still be relevant.

3.5. Judicial Interpretation and Supporting Case Law

Dale & Carrington Investment (P) Ltd. V. P.K. Prathapan is one of those cases where the Supreme Court of India acknowledged the nature of powers of the directors as being fiduciary, stressing on the fact that these powers should be utilized for proper purposes and for the benefit of the company. Even though in the mentioned case there was a dispute in regard to the improper allotment of shares rather than any use of AI, it still establishes the rule that directors should not abuse the company powers for their own benefit.

Another case related to corporate governance is Tata Consultancy Services Ltd. V. Cyrus Investments (P) Ltd.. The mentioned case deals with corporate governance and board powers, as well as with legal regulation of company management. Conclusion Analysis of Section 166 indicates that use of AI does not change the legal identity and the duties of the directors. The main point is not whether the directors used AI or not, but rather whether they used their powers correctly and fulfilled their fiduciary duties under such circumstances. It is permissible for directors to use AI for information, predictions, and suggestions; however, the use of such a tool should not mean that they abandon their independent judgment and supervision. The higher the risk level and foreseeability of the business decision made by the directors, the greater need for verification, human assessment, and proper documentation.

4. Liability for Algorithmic Decisions

Increasing reliance on artificial intelligence (AI) in business decision-making brings up another very crucial legal question regarding liability of one of the entities in case of adverse financial, regulatory or other damage done as a result of such decision. In contrast to normal business decision-making process where only company directors can be held liable for their decision or mistake, in the case of algorithmic decision-making there can be multiple participants in the process, such as directors, company itself, AI creators and external service providers. It becomes difficult to determine the entity which should be held liable for erroneous recommendation or adverse outcome. Nevertheless, reliance on AI technology does not imply that liability shifts to technology provider.

4.1. Liability of Directors

In such cases, the directors can be liable for actions which result in violation of statutory or any other duty of the directors. According to Section 166 of the Companies Act, 2013, directors should act with good faith, due care, skill, and diligence, and should keep their judgment

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independent. Thus, directors cannot take refuge from their responsibility by stating that any wrong decision is made with the help of AI. For instance, where directors approve a major investment on the sole basis of an AI-generated forecast without taking into account important risks and assumptions, the conduct of directors can be questioned under Section 166(3). In case of a director using an AI system to derive an improper benefit personally, then Sections 166(2), 166(4) and 166(5) come into the picture.

But should directors be liable whenever an AI-supported decision leads to an unfavorable outcome? Of course not. The negative business consequence does not necessarily mean that there was a violation of their fiduciary duties. Such determination depends upon the data available at the moment, the potential dangers associated with the decision, the actions of the directors and their diligence and objectivity.

4.2. Liability of the Company

The company may equally become liable in situations where legal liability is created through the use of AI in decision-making. In cases where the AI system is used by workers or managers in the course of the corporate business, the actions taken as a result thereof may lead to legal liability of the firm, subject to the applicable law. For instance, in case the AI system aids in processing data illegally, the firm may be held liable. A business also needs to have proper internal governance framework for their AI systems. Such framework could include approval process, limitation of automation of decision-making, monitoring mechanism, and clear accountability of human supervision. It is not possible to boil down corporate governance responsibilities of the board to the purchase of an AI system and leaving it completely unregulated. However, corporate liability of a business organization and the liability of individual director must be differentiated. The company can be liable for corporate action, whereas the liability of the director is connected with individual legal obligations and actions of the director.

4.3. Liability of AI Developers and Service Providers

AI developers, software vendors and service providers could also be responsible for harm caused by algorithmic decisions if they acted in such a way that contributed to the harmful nature of the decision. For example, the vendor may provide faulty software, not comply with the required performance standards or violate the data security and confidentiality obligations under the contract. Thus, the agreement made between the company and the vendor will play an important role as well. There may be performance criteria, maintenance obligations, security provisions, auditing rights, confidentiality clauses, and procedures for reporting any faults. But is it possible to pass all the responsibility of making a particular AI-based decision on the

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vendor? Of course, not. Contracts cannot release the company from statutory duties and rights of the third parties.

4.4. Causation and Negligence

The determination of causation is another complex issue regarding the liability of algorithms. The negative impact on the organization can be due to wrong information, malfunctioning of the AI system, lack of proper supervision by people, bad decision-making of management, or even external market conditions. It Is thus complicated to determine if the harm was caused by the AI system itself or the way in which the corporation used its results.

In the case where a corporation faces some financial losses after accepting an erroneous recommendation of investments provided by the AI system, it needs to be analyzed whether the harm was done because of the malfunction of the system, unreasonable dependence of the directors, erroneous information, or external factors. Only an inaccurate recommendation will not lead to legal liability. The negligence cause of action will involve the analysis of applicable duties of care, breach, causation and legal damages. In contractual cases, it involves the analysis of whether there was a breach of contract and the recoverability of the loss under the law. Section 73 of the Indian Contract Act of 1872 provides for compensation for any loss or damage caused by breach of contract.

4.5. Contractual Allocation of Liability

Contracts between companies and artificial intelligence vendors assume great importance in the distribution of responsibility in cases of algorithmic failures. The companies can have contractual provisions regarding accuracy of the system, data protection, cybersecurity, maintenance, technical assistance, and defects liability. The indemnity provisions can protect the parties financially in case of specified damages while the limitation of liability provisions can limit the recovery in certain situations. In addition, Section 74 of the Indian Contract Act, 1872, can be applicable when there is a provision regarding payment on breach or penalty in the contract. Nevertheless, the risk distribution through contracts has to be differentiated from statutory responsibility. In no way will the contract between the company and the artificial intelligence vendor preclude legal remedies available to regulatory authorities or others from seeking their rights.

4.6. Evidentiary Challenges

Establishing how the AI system made its particular recommendation can be another major hurdle. The algorithms may complicate understanding the decision-making process. Possible evidentiary materials may comprise input data, system logs, models, documentation, correspondence from vendors and board meeting minutes. As per Section 63, the evidence act

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Bharatiya Sakshya Adhiniyam, 2023 acknowledges electronic and digital evidence. There would therefore be a need for companies to ensure that they have relevant documents for any major decisions that involve artificial intelligence systems. This would also include documents regarding why the recommendations were accepted or rejected and by whom. Liability for algorithmic decision-making cannot per se be imputed to one of the participants in Indian law. The liability for any failure on part of the directors can arise if there is any violation of their statutory duties. Liability can arise against the company if there is any act performed by it in breach of any rule or regulation.

Liability can also arise against the AI vendor in case of any breach of contractual or other recognized legal duties. The factors that would decide the issue would be the duty involved, conduct of each participant, causation, loss and the evidence available.

5. Comparative Legal and Regulatory Analysis

The regulation of Artificial Intelligence (AI) in corporate decisions necessitates the balancing of technological advancement and the element of legal accountability. Various regions have implemented varied means for addressing the hazards of AI technology. While the EU has taken an approach that is characterized by comprehensiveness and risks with the Artificial Intelligence Act, India has chosen the principle-based approach, which is supplemented by its India AI Governance Guidelines, 2025. Comparison of these two approaches will highlight the areas of improvement for India.

5.1 European Union's AI Regulatory Framework

Regulation (EU) 2024/1689, the EU Artificial Intelligence Act, creates a risk-based approach to the regulation of AI systems. Prohibited AI practices are distinguished from high-risk AI systems, as well as other categories of AI use. According to the type, the Act places certain obligations related to risk management, data governance, transparency, technical documentation, accuracy, and human oversight. Such a regulatory scheme can be applied in the area of corporate governance if the AI system is applied in processes like recruiting, personnel management, and evaluation of creditworthiness. There might be some obligations for providers and deployers of high-risk AI systems in such cases. The focus on human oversight is very important as crucial decisions should not depend on automatic results only. At the same time, the EU AI Act does not change the national company law and directors' responsibilities directly. It regulates AI and the duties of certain subjects of regulation. Directors' personal liabilities remain to depend on the company law and the particular decision.

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5.2. India's Approach and International AI Principles

The approach adopted in India is distinct from the EU's more elaborate statutory approach. The India AI Governance Guidelines, 2025, published by the Ministry of Electronics and Information Technology, encourage responsible AI through certain principles, which include trust, human-centricity, fairness, accountability, understandability, safety and resilience. The guidelines also stress upon using the existing laws for addressing issues arising out of the use of AI technologies, without the necessity of drafting a new legislation for every issue. The AI Principles of the Organisation for Economic Co-operation and Development (OECD), revised in 2024, provide yet another important source in this regard. They focus on human rights, fairness, transparency, explainability, robustness, security and accountability. They also encourage traceability of processes and decisions relating to AI, which would help in examining responsibility in light of the roles played by different parties.

5.3. Responsibility of Directors and Companies

These different perspectives can be contrasted to demonstrate the significance of keeping humans in charge of corporate decisions. Under the laws of India, the question of liability for directors must be examined from the perspective of the provisions of Section 166 of the Companies Act, 2013, based on the duty concerned, available information, foreseeable risks, conduct of the director and the relationship between the breach and the claimed damage.

Failure to investigate a significant discrepancy while approving an AI recommendation, ignoring warning signs regarding inaccurate data, or using AI in making a decision that requires considerable human judgment are some examples of instances which can be used to claim negligence. At the same time, the fact that directors took all necessary precautions but still lost commercially cannot be considered a failure on its own. Similarly, liability of the company should be looked at on a separate basis as well. Liability of the company could arise where any activity done by the company goes against the legal requirement. Some of the questions to ask would be whether the activity done was authorized by the company, whether there has been any breach of any legal requirement and whether that breach led to any losses.

5.4. Responsibility of AI Developers and Technology Providers

The EU liability regime imposes certain duties on the AI provider and deployer depending on the role they play. This gives a good model to compare with respect to responsibilities of the developer and vendors of AI. Under Indian law, liability of the AI provider will arise when there is a violation of any contract or legal duty recognized by law. For instance, the vendor can be liable for supplying defective software, false representation made in contract, and non-conformity with the security standard agreed. Indemnity under contract will divide the financial

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liabilities but will not relieve from statutory duties or define third party rights. OECD accountability principle will also support the allocation of responsibility based on the role played by participants in the life cycle of AI.

5.5. Causation, Evidence and Illustrative Case Study

Algorithms make it challenging to determine causality and accountability. Evidence includes board resolutions, agreements with third-party vendors, documentation of the system itself, risk analysis reports, validations, inputs and outputs of the AI system, and evidence of human review of the algorithmic decision. In India, the admissibility of electronic records is governed by the Bharatiya Sakshya Adhiniyam, 2023, according to statutory requirements. Suppose that a board of directors uses an algorithm to analyze a major acquisition, and the algorithm makes an erroneous assessment of the liabilities of the target company, and the directors authorize the acquisition despite contradictory audit reports available to them. Four legal issues arise:

Did the directors exercise due care and independent judgment under Section 166(3)? Did the company suffer a legally recoverable loss? Did the AI provider breach a relevant contractual or other legal obligation? Can the established breach be connected to the loss suffered? If the directors fail to review the audit information that is available, that could indicate negligence, but that will depend upon the specific facts involved. The obligation of the provider should be assessed on the basis of its obligations and actions under the contract separately. Nothing can be determined until the facts and causation have been determined.

Conclusion

The comparative analysis reveals that whereas the EU regulatory system is more developed and takes a risk-based approach, India focuses on its guiding principles and laws at the moment. International principles, especially OECD ones, help to increase transparency and human involvement and responsibility in the process of using artificial intelligence technology. Indian experience can benefit from the above approaches by improving disclosure and documentation related to AI, risk assessment and human control of the processes. The ultimate goal, however, is not to hold directors responsible for all failures of the algorithms but to properly allocate responsibility among the parties involved.

6. Existing Indian Law and the Need for Reform

The increased utilization of AI in business decisions leads to the issue of whether India's current legal framework can be enough to promote transparency, accountability, and responsible adoption of technology. While Chapter VIII of the Companies Act, 2013, has no separate section dedicated to AI governance, some of its provisions can help in dealing with

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the duties of directors and the work of corporate boards. Furthermore, the India AI Governance Guidelines, 2025, provide guidance on the responsible use of AI. But the actual application of laws and guidelines to business decisions supported by AI needs to be clarified.

6.1. Additional Provisions of the Companies Act, 2013

Apart from Section 166, several provisions of the Companies Act, 2013, may contribute to the regulation and supervision of AI-assisted corporate activities.

Table 1. Selected provisions of the Companies Act, 2013 relevant to AI oversight

Provision	Relevance to AI governance
Section 149	Board composition and independent directors, supporting objective oversight of significant AI-related decisions.
Section 166	Directors' duties of good faith, care, diligence and independent judgment.
Section 173	Board meetings and deliberation on important AI-assisted decisions.
Section 177	Audit committee oversight of financial controls and risk management where applicable.
Section 179	Powers of the board and relevant corporate decision-making authority.
Section 184	Disclosure of directors' interests, including relevant arrangements with AI vendors.
Section 188	Related-party transactions where an AI vendor arrangement satisfies statutory criteria.

These sections show that corporate law contains provisions to ensure there is supervisory control, disclosure and accountability in a corporation. But they do not amount to an AI governance framework in themselves. Whether they are applicable is contingent upon the nature of the corporation and transaction among other things.

6.2. India's AI Governance Guidelines, 2025

The Ministry of Electronics and Information Technology announced the India AI Governance Guidelines on 5 November 2025. The Guidelines promote responsible AI adoption through principles such as accountability, transparency, fairness, safety, human oversight and innovation. They also emphasise the use of existing legal and institutional mechanisms to address AI-related risks. The Guidelines are important because they recognize that technological development should be accompanied by appropriate safeguards. However, they are policy guidance and should not be treated as an Act of Parliament or an independent source of directors' fiduciary duties. Consequently, directors' statutory responsibilities continue to be

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examined primarily under the Companies Act, 2013, and other applicable laws. An important issue is whether these Guidelines provide sufficiently specific directions for company boards using AI in significant corporate decisions. In particular, further clarity may be useful regarding board-level supervision, documentation, risk assessment and the responsibilities of directors when relying on AI-generated recommendations.

6.3. Identified Regulatory and Practical Gaps

Although existing Indian laws provide a foundation for corporate accountability, several practical questions remain concerning AI-assisted decision-making. First, the law does not establish a specific general standard of AI literacy for directors. It is therefore important to examine what level of understanding directors should reasonably possess when using AI systems for significant corporate decisions.

Second, questions arise concerning independent verification. Should companies require external validation or specialist advice before relying on AI systems for major financial, investment or compliance decisions? The answer may depend on the nature and foreseeable risks of the decision. Third, there is a need to consider appropriate documentation. Without records of AI-generated recommendations, material limitations and human review, it may become difficult to establish whether directors exercised independent judgment.

Fourth, the opacity of certain AI systems creates evidentiary difficulties. Where directors cannot adequately explain the basis of a recommendation, determining whether reasonable care was exercised may become more complicated. Finally, companies must consider confidentiality, cybersecurity and personal data protection when supplying information to external AI providers. These concerns require examination under the applicable Indian legal framework, including relevant data protection and contractual obligations. These issues should be understood as areas requiring further legal and practical clarification, rather than proof that Indian law provides no protection or regulation.

6.4. Proposed Reforms

To strengthen accountability and responsible AI adoption in Indian corporate governance, the following reforms may be considered: 1. Board-level AI governance policy: Companies should establish policies identifying approved AI applications, prohibited uses, accountability structures and procedures for reporting significant risks. 2. Risk-based review: Greater scrutiny should be applied to AI systems used in material financial transactions, corporate reporting, employment decisions and regulatory compliance. 3. Meaningful human oversight: Directors should understand the material assumptions, limitations and risks of AI-generated recommendations sufficiently to exercise independent judgment. 4. Proper documentation:

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Companies should maintain records of significant AI-assisted recommendations, material limitations, contrary evidence and the reasons supporting the final board decision, subject to confidentiality and proportionality requirements. 5.

Vendor due diligence: Companies should assess the reliability, cybersecurity, data practices, audit accessibility and contractual responsibilities of AI developers and service providers before adopting their systems.

6. Director training and expert advice: Companies should provide appropriate AI governance training and access to technical specialists where the complexity or significance of a decision requires additional expertise. 7. Proportionate accountability: The law should avoid both automatic immunity for directors using AI and automatic liability merely because an algorithm produces an incorrect result. Responsibility should depend on the applicable duty, the conduct of the parties and the circumstances of the decision.

6.5. Proposed AI-Assisted Board Decision Accountability Framework

To operationalize the above analysis, this article proposes a four-factor framework for assessing the process by which directors use AI-generated recommendations. Materiality first asks what is the significance of the decision, including its financial, legal and stakeholder consequences. Second, foreseeable risk assesses whether the concerns about data quality, reliability, bias, cybersecurity or system limitations were identifiable at the time of concern. Third, independent judgment looks at whether directors have thought critically about the recommendation, taken account of any material contrary information and reached their own conclusion, rather than just signing off an automated output. Fourth, oversight and evidence check if checks, expert input, human review and documentation were proportionate to the importance and risk of the decision. The factors are intended to guide a fact-sensitive application of existing legal duties, particularly Section 166(2) and (3).

They are not cumulative statutory elements, a presumption of negligence or a substitute for the legal requirements of duty, breach, causation and loss. Their weight will vary with the circumstances. A routine, low-impact use of AI may require limited review, while a major investment or decision materially affecting employees or regulatory compliance may justify more extensive scrutiny. The framework therefore seeks to preserve directors' accountability without imposing unrealistic technical obligations or automatic liability for algorithmic error.

Conclusion

India's existing corporate legal framework provides an important foundation for regulating directors' conduct in AI-assisted decision-making. Sections 149, 166, 173, 177, 179, 184 and 188 of the Companies Act, 2013, offer mechanisms for board supervision, accountability and

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disclosure. Nevertheless, the increasing complexity of AI systems highlights the need for clearer governance practices and practical safeguards. The India AI Governance Guidelines, 2025, provide a policy foundation, but more specific board-level guidance may improve their application in corporate settings. The objective of reform should be to ensure that technological innovation strengthens corporate governance without weakening directors' fiduciary responsibilities or creating uncertainty regarding legal accountability. The Companies Act, 2013, No. 18 of 2013, section149, 166, 173, 177, 179, 184 and 188 (India).

Ministry of Electronics and Information Technology, Government of India, India AI Governance Guidelines (2025). The Digital Personal Data Protection Act, 2023, No. 22 of 2023 (India), read with the commencement notification G.S.R. 843(E), 13 November 2025; the Act has a staggered commencement, and its substantive obligations should not be described as fully in force as at 1 November 2026.

7. Findings, Recommendations and Conclusion

Analysis shows that the expanding use of Artificial Intelligence (AI) in corporate decision-making does not lead to a total legal vacuum under the Indian law. To tackle the governance lapses arising out of AI-assisted decisions, the Companies Act, 2013, especially Section 166 is the existing base. Directors remain bound by their duties of good faith, due care and diligence, independent judgment and conflict avoidance, whether they rely on their own expertise or that of algorithms. The biggest challenge is figuring out how these traditional legal standards apply to complex and sometimes opaque technologies One key finding is that directors cannot escape accountability by merely relying on AI-generated recommendations. But, an incorrect prediction or an unsuccessful business decision, using AI, should not automatically be a breach of fiduciary duty.

A Liability must be founded upon the applicable legal duty, the information available at the relevant time, the director’s conduct and the causal link between the alleged breach and the harm suffered. There is also a need to acknowledge the different duties of directors, companies and AI service providers. Increasing accountability. Companies should establish board-level AI governance policies that specify acceptable uses, approval processes, and individual responsibilities.

The oversight should be proportional to the importance and risks of each decision. Decisions involving significant investments, employment, financial reporting and regulatory compliance should be subject to meaningful human scrutiny, even if they are assisted by AI. Companies should also keep logs of algorithmic outputs, related assumptions, risk assessments, human

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interventions and final approvals. Seek independent validation and expert advice where the complexity or implications of the AI system so warrant. On the regulatory front, India should provide clearer guidance on the responsibilities of directors in AI-assisted corporate governance. This guidance could include AI literacy, risk-based supervision, vendor due diligence, oversight by humans, and documentation. Reforms should clarify existing fiduciary obligations, rather than impose automatic liability for the mere fact directors have used AI.

In conclusion, AI should support corporate judgment, not replace directors' legal responsibilities. Indian law can address many AI-related governance failures through existing duties and remedies, but clearer governance practices and regulatory guidance are needed. The proposed four-factor framework—materiality, foreseeable risk, independent judgment, and oversight and evidence— offers a structured way to assess the decision-making process while preserving the distinction among the roles of companies, directors and technology providers. Ultimately, liability must depend on the applicable legal duty, the evidence, each actor's conduct and the relevant causal connection. This approach can promote responsible technological innovation while maintaining fiduciary accountability and sound corporate governance.

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