

Beyond Fiduciary Duty: The Artificial Intelligence (AI) Judgement Rule and the Corporate Governance

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Abstract—The rapid integration of artificial intelligence (AI) in to corporate decision making has initiated a profound shift in governance presenting a new legal and ethical frontier for board of directors. While Artificial Intelligence offers its transformative benefits like from predictive concerning the “black box” problem and inherent algorithmic bias . This paper addresses a critical governance gap which disconnects India's existing corporate law which presume a human centric decision making process and the reality of a technology augmented boardroom.

The central part argues that the traditional Business Judgement Rule (BJR) which insulates directors from liability for good faith errors is insufficient in that world which is driven by Artificial Intelligence (AI) . It proposes a new legal standard, the “AI Judgement Rule” which expands the director's duty of care and diligence under the Companies Act 2013 . This rule would mandate a proactive five point framework for board oversight :

- (1) A duty to understand the AI's model's underlying aim and assumption
- (2) A requirement for “human in loop” oversight on critical decisions
- (3) A demand for transparent and auditable rationales from AI systems
- (4) The establishment of a robust board approved AI governance framework
- (5) Continuous direct education on emerging risks within the AI

Drawing on the analysis of global precedents, including US AI bias litigation and regulatory initiatives by SEBI this paper outlines a clear pathway for judicial interpretation and legislation and legislative intervention in India. It moves beyond a descriptive account of the problem to offer a comprehensive actionable blueprint for boards and regulators to bridge the gap between technological advancements with legal accountability. By advising a new measurable standard of due diligence this paper provides a timely and original contribution to the discourse on responsibilities for corporate governance in this digital era.

I. INTRODUCTION

1.1 Overview

Corporate governance is currently undergoing a profound re-engineering, driven by the unprecedented pace of technological change . In the past technology has served as a tool to enhance human decision making from simple calculators to complex spreadsheets . However the advent of AI particularly opaque and self learning models fundamentally changes this dynamic . AI systems can now autonomously process vast quantities of data identify patterns, and offer recommendations with a speed and scale that far surpass human capabilities. This has led to a critical dilemma where “who will be accountable when an AI driven decision results in a flawed unlawful or harmful outcome?” The traditional legal frameworks designed for human centric judgements are now being stretched to their breaking point creating a significant legal grey zone.

1.2 Review of Literature

The literature on this subject while nascent is rapidly evolving . Legal scholars are debating whether the use of AI in corporate decision making represents a radical change that necessitates a new legal doctrine or if it is merely another tool to be integrated into existing legal frameworks . Academics are exploring the black box problem where the opaque nature of complex algorithms challenges the legal requirement for an informed basis for decisions. Additionally, a growing body of works examines the legal and ethical risks of

algorithmic bias with US litigation setting precedents that serve as a cautionary tale for directors worldwide¹. As Ashmita Mitra and Amulya Baid had stated in their paper published in 2019 in the International Journal Of Legal Science & Innovation it provides a important role of Artificial Intelligence with it's impact on the legal profession with direct implications for corporate governance . The paper differentiates between key AI subsets like machine learning deep learning and Natural Language Processing (NLP) highlighting how these technologies are already transforming legal work . It focuses on the core debate of whether AI will lead to the automation or augmentation of legal roles . While some futurists anticipate widespread job displacement the author argue that AI is more likely to augment human lawyers by pre filtering tasks like document review and research, thereby enhancing efficiency and accuracy without fully replacing the need for critical human not an Independent entity to which accountability can be outsourced .The research also explores AI's superior efficiency and accuracy in monotonous tasks . For instance an AI system achieved a 94% of accuracy rate in contract review significantly outperforming human lawyers . A task that took lawyers over an hour was completed by AI in just 26 seconds . Despite these clear benefits the survey in the paper shows that about nearly 80% of professionals feared AI would lead to long term unemployment. This tension between efficiency gains and potential job disruption underscores a fundamental challenge that extends from the legal profession to the broader corporate world.² Furthermore their paper centred also on to the global adoption and the India 's position also herein they mention about countries like China and Singapore who have extensively embraced in the field of Artificial Intelligence in their legal systems. Here we can note and can implement these similar ideas in India though we are not behind but no better we are or are we? What is need to be highlighted is the collaborations between leading law firms for example Cyril Amarchand Mangaldas and AI platforms like Kira system for contract analysis and reviewing of partnership documents . It also mentions Indian legal tech startups like Casemine and NearLaw which use algorithm that rank cases according to

relevance, thereby reinventing the legal research process . In here it can be demonstrated that Artificial Intelligence is no longer a distant concept but a present standards even more urgent .

While the Mitra and Baid paper was centred around on the legal professions, its finding directy inform our analysis of corporate governance. The debate it raises like automation v. augmentation, efficiency v. human judgement, and the reality of AI adoption and adaptation in India from its bedrock upon which the need for a new Artificial Intelligence Judgement Rule is built.

1.3 Statement of Problem

The central problem is the fundamental disconnect between the law's implicit assumption and the reality of a technology augmented boardroom. Corporate law is built on the assumption that it regulates human behaviour and it expects a director's very own judgement . However when a board delegates a decision making task to an AI the line between human and machine responsibility blurs leading to an "accountability dilemma" that existing law is ill equipped to resolve .

1.4 Objectives

This paper's primary purpose is to presented are as follows :

- (a) To demonstrate why the traditional legal frameworks governing director accountability, particularly the field of Business Judgement Rule (BJR) are insufficient in an AI driven world
- (b) To prose a new measurable legal standard the "AI judgement rule" that would provide a clear framework for directors to uphold their fiduciary duties and
- (c) To offer a series of workable mullti pronged recommendations for corporate boards and regulators in India to proactively address this emerging legal landscape .

1.5 Hypothesis

The central hypothesis is that the traditional Business Judgement Rule is inadequacies for the digital era . A new legal standard the AI Judgement Rule is necessary

¹ Joel Williamson , The Rise of AI in Legal Practice : Opportunities, Challenges & Ethical Considerations , 28 Colo. Tech . L. J. 1, 1-15 (2025)

² Ashmita Mitra &Amulya Baid , Artificial Intelligence and the Future of Legal Profession , IINT'L J . LEGAL SCI. & INNOV. 1 , 1-18 (2019)

to ensure directors' fiduciary duties of care and diligence are upheld. The failure to establish and adhere to such a rule exposes companies and their directors to substantial legal financial and reputational risks.

1.6 Research Design

The research design is a qualitative analysis. This article draws the attention upon the legal analysis of statutes regulatory consultations, and academic commentary to explore the legal ethical and governance challenges of AI in the boardroom.

1.7 Coverage of Scope

The analysis will focus on AI's impact on corporate law and governance with a primary focus on the Indian Legal Framework. This is supplemented by a comparative look at the European Union and the United States allowing for robust international perspective on how different jurisdiction are grappling with this new legal challenge.

1.8 Data Collection

The research is based on an analysis of public documents which includes regulatory consultation papers, statutory provision academic legal papers and reports from advisory firms like McKinsey Deloitte and PwC

1.9 Research Methodology

The research methodology is a qualitative analysis of legal doctrines and regulatory frameworks. It uses a comparative approach to evaluate and synthesize legal principles from different jurisdiction with the goal of proposing a new framework tailored to the specific context of India.

1.10 Sample Size

This research does not rely on a quantitative sample size. It is a qualitative analysis of a legal and policy documents, case law and scholarly commentary from key jurisdictions.

II. THE IMPACT OF ARTIFICIAL INTELLIGENCE ON CORPORATE LEGAL PRACTICE AND GOVERNANCE

2.1 Augmenting or Automating : The Boardroom Debate

The debate is no longer about whether to use AI but how to ensure its use augments rather than blindly automates human judgement. AI is a transformative force with the potential to fundamental change corporate governance by processing and analysing vast amounts of data at high speed.

2.1.1 Efficiency and Accuracy

AI has proven its ability to streamline routine legal and governance tasks freeing up valuable time for legal professionals and directors to focus on higher value work³. A 2025 Thomas Reuters report found that AI could save legal professionals nearly 240 hours per year by automating tasks like legal research, document analysis and contract review⁴. These specific use cases are mainly included which are :

Legal Research : AI powered platforms can analyse vast amounts of legal documents statutes and case law in a nick of a time than if we compare to a human as it would that person have to take much insights into that particular case with it's potential outcomes⁵.

Contract Review : AI tools like Spellbook can quickly review and identify the errors potential risks, and missed opportunities in contracts achieving accuracy rates of up to 94% in some studies compared to 85% for human lawyers⁶.

Compliance & Risk Analysis : The Artificial Intelligence are capable to ingest and analyse a tonnes of a large volumes of data's from internal and external sources to provide real time risk assessments, by identifying fraud cybersecurity threats, or market

³ The Future of AI in the Legal Profession : What Every Lawyer Needs to Know , VIDUR (Mar. 7 , 2025)

⁴ Williamson, Supra, at 3

⁵ The Future of AI in the Legal Profession, supra , at 6

⁶ How Accurate is AI Legal ? Callidus AI (Aug 4 2025) <https://callidusai.com/blog/how-accurate-is-ai-legal/>.

vulnerabilities that might be missed by human analysts.⁷⁸

2.1.2 The Inevitability of Human in the Loop

Despite the significant benefits legal professionals and academics agree that AI is a tool to be used with caution not as a replacement for human judgement and ethical reasoning . A core concern is the risk of “hallucinations” or fabricated content as highlighted by cases where lawyers have been disciplined for filing motion with fake case citations generated by AI as had happened in the case of *Ayinde R v. The London Borough of Haringey*⁹ . Studies indicates that a significant number of legal professionals in India have either directly experienced or heard of AI related errors in legal matters¹⁰.

This has led to a consensus that a “human in the loop” model is essential . In this model AI serves as co pilot that assists with execution heavy tasks while lawyers remain in control overseeing and refining the automated outputs . This approach ensures that final decisions particularly those concerning complex legal analysis client advocacy, and ethical consideration are always made by a human¹¹ .

2.2 The Legal Framework and Director’s Fiduciary Duties

The legal foundation for holding directors accountable in India is a combination of Statutory duties and judicial precedents . The Companies Act, 2013, serves as the cornerstone, defining the clear parameters within which directors must operate . While corporate scandals like Satyam and Sahara have deeply influenced Indian corporate governance leading to a

stronger emphasis on fiduciary duties the legal framework has yet to fully account for the transformative impact of AI.

2.2.1 AI-Driven Decisions and the Business Judgement Rule

The rise of Artificial Intelligence creates a new radical challenge to the BJR . When boards rely on AI the law’s implicit assumption that directors can “cognitively follow when experts present their findings” may not hold . The opaque nature of complex AI algorithms known as the “black box” problem, makes it challenging for a board to understand the reasoning behind AI generated recommendations¹². This raises a critical question that “How can a director be considered “informed” in the traditional sense if they cannot understand the basis of the AI’s output?”

Academics are proposing that directors must not “blindly yield to the output of as AI” but must not “blindly yield to the output of an AI” but must actively understand the tool its underlying aim, assumptions, and data sources . Failure to do could be seen as a breach of their duty of care and diligence . This evolution of the BJR can be termed the “AI Judgement Rule,” which would require a new measurable standard of oversight from the board¹³.

2.2.2 Algorithmic Bias and Accountability

AI systems are only as good as the data they are trained on, and if this data contains historical or systemic biases, the AI will perpetuate them, leading to discriminatory outcomes. This risk is not hypothetical . A growing wave of litigation in the United States

⁷ Shobha Tiwari, *AI and Boardroom: Reshaping Corporate Through Technology* , Lawarticle.in (July 9, 2025)

⁸ Sarah Baker & Michael, *Top 5 Climate-related liability issues that your board should consider*, World Econ. F. (Sept. 19 2024)

⁹ *R (Ayinde) v. The London Borough of Haringey* , [2025] EWHC 1040 (Admin) (Eng.).

¹⁰ Khaled Moyeed , *AI , Fake Cases , and the Courts : A Cautionary Tale for the Legal Profession* , Gunnercooke (May 19, 2025) <https://gunnercooke.com/ai-fake-cases-and-the-courts-a-cautionary-tale-for-the-legal-profession/>.

¹¹ Kristian Wilson et al. , “Care , Diligence and Skill : Artificial Intelligence and Directors’ “duties” , Bedell

Cristin (May 20 2025).

<https://www.bedellcristin.com/knowledge/briefings/fy-2425/q3/care-diligence-and-skill-artificial-intelligence-and-directors-duties/>.

¹² Katja Langenbucher, *AI Judgment Rule(s)*, Univ. Chi. L. Rev. Online (Symposium: How AI Will Change the Law) (2011)

<https://lawreview.uchicago.edu/online-archive/ai-judgment-rules>

¹³ Legal implications of AI generated board decision under fiduciary law , Eternity Law International (Aug. 29, 2025)

<https://www.eternitylaw.com/news/legal-implications-of-ai-generated-board-decisions-under-fiduciary-law/> .

alleges that AI systems used for hiring lending, and insurance exhibit biases against protected classes¹⁴.

These lawsuits, often are majorly based upon “disparate impact” claims, argue that a facially neutral algorithm can still be held liable for a disproportionately negative effect on a protected group¹⁵. In the case of *Mobley v. Workday, Inc.*,¹⁶ has established a legal precedent that federal anti discrimination makers, warning that the machine is not a liability shield¹⁷. This serves as a powerful warning to Indian directors that they cannot abdicate their duties by delegating judgment to an algorithm, as they retain ultimate responsibility for the decisions made .

2.3 Comparative Analysis of AI laws and regulation

The regulatory landscape for AI is highly fragmented with different jurisdiction adopting varied approaches. A comparative study can reveals and also make us understand about the diverse paths being taken to balance innovation with accountability.

2.3.1 India's Regulatory Approach

India currently lacks out a single, comprehensive law specifically for AI¹⁸. The approach has been described as “pro-innovation,” with a focus on principles based guidelines rather heavy regulation¹⁹. However, by relating to a distinct part or area on the regulations are in the primary level in the aspect of initiating the act . On June 20th, 2025, SEBI released a consultation paper proposing a principle based framework for the use of AI/ML in the securities markets²⁰. The framework is built on six pillars which are : Ethics, Accountability, Transparency, Auditability, Data Privacy, and Fair Play and requires a board approved AI Governance Framework to provide top level oversight²¹. This framework aims to safeguard market integrity and

protect investors from risks like algorithmic errors and opacity, taking lessons from events like the 2010 U.S Flash Crash²².

2.3.2 AI in Developed vs. Developing Countries

While India is adopting a cautious, principles based approach, developed economies have taken different paths. The European Union, for instance has passed the EU AI Act, a comprehensive, risk based on their risk based legal framework that will be first in the globe²³. It categorises the Artificial Intelligence system based on their risk level, with “high risk” system including those in finance, healthcare, and law facing strict regulations²⁴. The Europe's goal is to achieve in making of a harmonized environment for it's legal statutory framework and also having a level playing field across its single market²⁵.

In contrast, the United States has adopted a “patchwork system”, relying on existing laws, agency specific guidelines (e.g., from the SEC), and state level legislation. For example, Colorado has labelled legal AI as a high risk and will require transparency and audits when its new law takes effect. This divergence in approach highlights the challenges of global AI governance and the need for each jurisdiction to tailor its regulations to its unique economic and legal context.

III. CONCLUSION

The intersection of Artificial Intelligence and corporate governance is a defining moment for corporate law. While AI's potential to enhance efficiency and insight is undeniable, the legal and ethical risks it introduces from opaque decision

¹⁴ Williamson, *Supra* note, at 3

¹⁵ When Machines Discriminate : The Rise of AI Bias Lawsuits , Quinn Emanuel (Aug. 18, 2025) <https://www.quinnemanuel.com/the-firm/publications/when-machines-discriminate-the-rise-of-ai-bias-lawsuits/>.

¹⁶ *Id.*, at 8

¹⁷ *Mobley v. Workday, Inc .*, No. 23-cv-00770-RFL (N.D. Cal. Filed Feb. 21 2023)

¹⁸ Rahul Kapoor, AI Regulation in India: Current State and Future Perspective, *Sourcing at Morgan Lewis* (Jan. 26, 2024)

¹⁹ Nidhi Singh, *Navigating AI Regulation: A Comparative Analysis of EU and Indian Perspectives*, Digi-con.org,

²⁰ Kapoor, *Supra*, at 8

²¹ Vibhor Maloo, *From Algorithms to Accountability: Analysing SEBI's AI/ML Governance Framework*, *India Corp Law* (July 16, 2025)

²² *Id.* at 9.

²³ Singh, *Supra*, at 8

²⁴ Megha Jain, *AI in Compliance Driven Industries: A Regional Perspective (USA, EU, Asia)* , *Progress.com* (Aug. 29, 2025)

²⁵ *Id.* at 9

making to algorithmic bias, which challenges the very foundations of director accountability. The traditional legal frameworks, designed for a human centric world, are no longer sufficient .

To ensure that India's corporate sector can harness the benefits of AI without sacrificing accountability, a proactivity and holistic approach is required. This paper has argued for a legal evolution from the traditional business judgement rule to a new "AI Judgment Rule," which would establish a clear measurable standard of due diligence for directors. By implementing a robust, and fostering a culture of human oversight, directors can mitigate their personal liability and build stakeholder trust.

This paper serves as a call to action for both corporate boards and policymakers. The time for a reactive stance has passed. The future of responsible corporate governance in the digital era depends on our ability to build a bridge of accountability between human judgement and technological innovation.