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Legal Aspects of Artificial Intelligence in Corporate Governance

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Abstract: This article provides an in-depth analysis of the legal aspects of using artificial intelligence (AI) technologies in corporate governance. While AI enhances decision-making automation, minimizes risks, and improves operational efficiency in the modern business environment, issues related to its legal compliance, liability boundaries, transparency principles remain at the center of discussion. The article examines potential legal risks arising from AI integration into corporate governance, including property rights, data protection, algorithmic accountability, and the legality of AI-based decisions. Additionally, it compares existing legal norms at the international and national levels and presents recommendations to strengthen the legal framework for AI usage in corporate governance. The research findings aim to contribute to the improvement of legal mechanisms that ensure the sustainable and legally compliant application of AI in business management in the future.

Keywords: artificial intelligence, corporate governance, company law, automated decision-making, GDPR, EU AI Act, algorithm, ethics, human insight.

Introduction

In today`s rapidly advancing technological era, artificial intelligence has become an integral part of various industries. Corporate governance is one of such fields. AI`s ability to analyze vast amounts of data, make optimal and strategically sound decisions based on that analysis, and automate various processes serves as a key factor in ensuring efficiency and success not only in the corporate sector but also in other domains. However, the integration of emerging and still unregulated technologies into different fields raises numerous questions.

When it comes to corporate governance driven by AI, concerns regarding its transparency, openness, and fairness arise. Additionally, issues related to accountability for AI's actions and

decisions. Specifically, on who should be held responsible for erroneous decisions or analyses made by AI are being widely debated on a global scale. Given this context, by employing various methods and materials and comparing, this research explores the role of AI, the boundaries of its legal framework and its position in company law and corporate governance.

Methods & Materials

This study employs a variety of research methods. Firstly, it analyzes mechanisms for regulating artificial intelligence at the international level. Secondly, it conducts a doctrinal legal analysis, reviewing existing research in the field, as well as literature published by leading experts in the sector. Additionally, several real-world examples of AI applications in corporate governance and their role in advancing the industry are examined throughout the research.

Legal Mechanisms for Regulating Artificial Intelligence

As AI continues to evolve, the demand for its regulation is increasing accordingly. Although there is no specific convention or law that comprehensively governs AI from a legal perspective today, several significant documents play a crucial role in shaping the legal framework for this field.

In the European Union, these include:

✓ General Data Protection Regulation (GDPR)

✓ European Union's Artificial Intelligence Act (EU AI Act)

In the United States:

✓ Blueprint for an AI Bill of Rights

In Uzbekistan:

✓ Resolution of the President of the Republic of Uzbekistan on the approval of the Strategy for the Development of Artificial Intelligence Technologies until 2030.

In addition to these legal documents, there are also numerous academic studies and secondary sources related to artificial intelligence and corporate governance. In this research, these sources were carefully selected based on their relevance and applicability to corporate governance, AI, and its regulatory framework. Among them is the European Commission's report titled "Study on the Relevance and Impact of Artificial Intelligence for Company Law and Corporate Governance." Besides there also has been studies conducted in this field by Uzbek researches, such as Rakhimov N. who has explained different existing methods of information technologies used in corporate governance in his article on use of intelligent information systems in enterprise management and decision-making.

Furthermore, a case study approach was used in order to analyze real-life incidents, examining how AI has been applied in corporate settings. One such case included in this research is:

✓ The case involving Amazon's use of bias artificial intelligence in its hiring process.

Results

The findings of this research indicate that, primarily, article 22 of the General Data Protection Regulation (GDPR) is specifically written to regulate automated decision-making. This article aims to protect individuals from being solely subjected to decisions made entirely by artificial intelligence without human intervention. The second part of the article outlines specific situations in which automated decision-making is permitted. These include:

a) When it is necessary for entering into or performing a contract between the parties.

b) When it is authorized by the legislation of a member state, provided that appropriate measures are in place to protect the rights, freedoms, and legitimate interests of the subject.

c) When explicit consent has been obtained from the subject.

Additionally, the third part of Article 22 emphasizes that, in cases outlined in points (a) and (b), adequate safeguards must be ensured to protect the individual's rights and freedom. [5]

Another significant document aimed at regulating the field of artificial intelligence is the European Union's Artificial Intelligence Act (EU AI Act). This act was adopted relatively recently, on August 1, 2024, and is set to come into force on August 2, 2026. However, according to the act, its implementation will be part by part regarding AI-related risk levels, with the first stage beginning on February 2, 2025. Annex III of this document provides a list of high-risk sectors where AI integration poses significant concerns. Among these sectors, management and decision-making are explicitly classified as high-risk areas. If AI is observed to be used in this sector or if potential risks arise following its implementation, the European Commission reserves the right to take appropriate measures or issue additional regulatory acts to ensure compliance and mitigate risks. [6]

In the United States, while there are no specific legal instruments established for regulating artificial intelligence, the Blueprint for an AI Bill of Rights was issued by the White House in October 2022. This document does not have a legally binding nature; rather, it serves as a set of recommendations and guidelines for the ethical use of AI. Despite its non-mandatory nature, the AI Bill of Rights includes several critical aspects for AI regulation. One of the key principles outlined in this document is protection against algorithmic discrimination, ensuring that individuals are not subjected to biased or unfair treatment as a result of AI-generated automated decisions. [7]

In Uzbekistan there also has been steps taken to develop the usage of AI in different spheres. According to the previously mentioned resolution of the President in order to ensure data protection and follow ethical principles there are taken such measures as developing ethical guidelines for AI technologies and improving legal frameworks for data collection, storage, processing and security. [4]

In addition to existing legal regulations, it is essential to refer to doctrinal sources. According to research conducted by Ernst & Young, artificial intelligence in corporate law and governance can be divided into two primary domains:

1. Decision-making processes

2. Monitoring and compliance oversight

Each of these categories further branches into specific subfields, which can be outlined as follows:

A. Decision-making Processes

A.1. Appointment of corporate bodies

A.2. Implementation of decisions from other companies

A.3. Managerial activities

B. Monitoring and Compliance Oversight

B.1. Supervisory activities

B.2. Company formation/registration

Furthermore, a study conducted by CATI across 402 European companies revealed that 13% of them currently utilize AI to support corporate operations, while 25% plan to integrate AI into their business strategies in the near future. [8]

In addition to a previous study, a research done by N.Rakhimov points out systems of information technologies that are currently used in corporate governance, according to which followings are considered so:

- ✓ CRM (Customer Relationship Management);
- ✓ ERP (Enterprise Resource Planning);
- ✓ MRP (Material Requirements Planning);
- ✓ SAP (systems, Applications and Products);
- ✓ SMART AP (Automated Process Management Systems);
- ✓ 1-C: Enterprise. [3]

Artificial intelligence has been integrated into various sectors, and several notable cases have emerged in connection with its application. One such case is Amazon's 2015 hiring discrimination case. According to reports, Amazon's AI-driven recruitment system automatically filtered out CVs that contained the word "woman", favoring other applications instead. This bias stemmed from the historically lower representation of women in the workforce and the relatively low number of job applications from female candidates. As a result, the AI incorrectly determined that female applicants were wrong or less suitable for the positions. [9]

Discussion

Analyzing the results of the research, several key points can be highlighted:

1) ***Regulatory Mechanisms for AI Integration in Corporate Governance Are Not Fully Developed.*** While legal documents and regulations exist for data protection, cybercrimes, and other aspects of the digital sector, they do not directly address the challenges arising from AI implementation in corporate governance. In such cases, applying existing legal norms by analogy does not always provide a complete solution. As highlighted in the case studies and legal acts, corporate law and company law are high-risk areas for AI use. However, this does not justify restricting AI implementation, nor is it feasible to do so in an era of rapid technological advancement. Therefore, following the example of the EU AI Act, it is necessary to develop not only a European framework but also an international-level legal document to regulate AI usage in corporate governance.

2) ***Ethical concerns.*** AI's ability to analyze large volumes of data in a short time significantly simplifies the work of corporate boards. However, the accuracy of AI-analyzed data and the ethical implications of AI algorithms can raise serious concerns. AI biases, lack of transparency, and potential discriminatory outcomes (as seen in the Amazon hiring case) demonstrate that not only legal regulations but also AI algorithms themselves need further improvement. Ensuring fairness, transparency, and accountability in AI-driven corporate decision-making is crucial to mitigating ethical risks.

3) ***Proposal for Future***. To address the aforementioned issues and challenges, several recommendations can be proposed. The primary suggestion is to adopt a separate legal document regulating artificial intelligence. Secondly, ensuring the transparency of artificial intelligence by requiring companies to disclose relevant information about its operations could enhance its functionality and reliability. Furthermore, in the future, to facilitate the integration of artificial intelligence in corporate law and corporate governance, experts in ethics and law should collaborate with cybersecurity specialists to ensure that artificial intelligence aligns with principles of fairness and humanity.

Conclusion

The integration of artificial intelligence into corporate law and corporate governance brings significant opportunities and profound changes. AI enhances companies` decision-making processes while also raising expectations regarding transparency and fairness. In the future, regulatory frameworks for AI governance must prioritize global regulatory compatibility, ethical principles, and transparency. To ensure that corporate decision-making processes based on AI remain fair, accountable, and legally compliant, policymakers and corporations must collaborate. Additionally, expanding empirical research on AI's impact on corporate governance is crucial for ensuring the sustainable and ethical development of this technology.

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