
ALGORITHMIC GOVERNANCE UNDER THE COMPANIES ACT, 2013: LEGAL ACCOUNTABILITY AND FIDUCIARY DUTIES IN AI-ASSISTED DECISION-MAKING

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ABSTRACT

The growing integration of Artificial Intelligence (AI) into corporate decision-making is transforming how boards oversee strategy, risk, and compliance. While AI enhances efficiency and analytical capabilities, it also creates significant challenges for directors' legal accountability under Indian corporate law. This paper examines the interaction between AI-assisted governance and the fiduciary duties of directors, including care, skill, diligence, and loyalty, as prescribed under the Companies Act, 2013. Through doctrinal analysis and lessons from international frameworks in the EU and the U.S., it identifies gaps in India's regulatory landscape and considers potential liability scenarios for both directors and corporations. The study proposes practical solutions, such as algorithmic due diligence, transparency standards, and AI auditing mechanisms, aimed at ensuring that technological adoption strengthens governance while preserving legal responsibility. By addressing the intersection of law and technology, this research provides actionable insights for regulators, boards, and legal practitioners navigating the evolving corporate environment.

Keywords: Algorithmic Governance; Fiduciary Duties of Directors; Corporate Accountability.

I. INTRODUCTION

“Someone once compared AI to a brilliant but unpredictable teenager, full of potential, but still learning the rules. Our legal system must evolve to govern such technologies responsibly.”

Justice Manmohan, Supreme Court of India

Artificial Intelligence (AI) is steadily reshaping corporate governance in India. Boards and senior management are increasingly turning to AI tools to aid in strategic decision-making, monitor risks, ensure regulatory compliance, and forecast operational outcomes. These technologies can process large volumes of data, detect patterns, and generate predictive insights, enabling faster and more informed decisions. At the same time, the use of AI in corporate decision-making raises significant legal questions. The Companies Act, 2013 presumes that directors exercise independent judgment and bear personal responsibility for the decisions of the company. When decisions are influenced or assisted by AI, traditional notions of fiduciary duty, diligence, and accountability are challenged. A key question arises: how should liability be allocated when algorithmic advice, rather than purely human judgment, shapes corporate decisions?¹

While there is growing attention to AI’s operational and ethical implications in corporate management, the legal dimensions under Indian law remain largely underexplored. In particular, how AI interacts with statutory obligations under Sections 134 (financial statements and board reports) and 166 (duties of directors) of the Companies Act, 2013, has not been fully addressed. Practical guidance on transparency, compliance, and liability for directors when using AI remains limited. Comparative studies from the EU, UK, and US provide insights, but India lacks a tailored legal framework that addresses its corporate and regulatory realities.²

¹ David Joshi, AI Governance in India – Law, Policy, and Political Economy, 12 Indian Journal of Public Policy 234 (2024).

² Anna Romanova, Development of Management Systems Using Artificial Intelligence Systems and Machine Learning Methods for Boards of Directors, 13 Journal of Corporate Technology 321 (2025).

1.1 Algorithmic Governance: Scope and Application

Algorithmic governance refers to the use of AI and machine learning in corporate decision-making. These systems increasingly shape a company's strategic, financial, and operational decisions.

A. Automated Financial Risk Assessment

AI tools are now widely used to identify credit exposure, detect anomalies, and prevent financial fraud. In the United States, the Securities Exchange Act, 1934 requires firms to maintain safeguards against manipulation within algorithmic systems. Similarly, the European Securities and Markets Authority (ESMA) highlight the need for transparency and explainability in risk-assessment models. High-frequency trading algorithms can execute thousands of trades in a fraction of a second, improving market efficiency but also creating unique compliance challenges. In *United States v Coscia*³, the Court of Appeals for the Seventh Circuit held that manipulative intent could be inferred from the algorithm itself, demonstrating that liability may arise from automated trading structures.

B. Board-Level Analytics and Strategic Decisions

Corporate boards increasingly rely on AI to simulate scenarios for mergers, acquisitions, or capital allocation. Despite these technological aids, directors remain bound by fiduciary duties under the Delaware General Corporation Law (DGCL) and must satisfy the business judgment standard. Directors are expected to ensure that their reliance on algorithmic outputs is informed, reasonable, and consistent with corporate obligations.

1.2. Literature Review

*A. Board Responsibility for Artificial Intelligence Oversight – Harvard Law School Forum (2022).*⁴

This article primarily focuses on the board's obligations in ensuring ethical and compliant AI deployment within corporations. It asserts that corporate boards can no longer treat algorithmic governance as a technical or operational issue, but as a fiduciary concern central to governance and compliance frameworks. The article lays out key principles for AI oversight: transparency, explainability, human intervention, and continuous monitoring. It also refers to the "black box" dilemma—where directors are held responsible for decisions made by opaque algorithms

³ *United States v. Coscia*, 866 F.3d 782 (7th Cir. 2017).

⁴ Harvard Law School Forum on Corporate Governance, Board Responsibility for Artificial Intelligence Oversight (Jan. 5, 2022), <https://corpgov.law.harvard.edu/2022/01/05/board-responsibility-for-artificial-intelligence-oversight/>.

whose logic they cannot interpret. The forum contribution highlights the need for proactive engagement by boards, advocating for risk committees and AI subcommittees at the board level. In conclusion, the authors propose that fiduciary responsibilities evolve dynamically to meet the ethical and regulatory risks posed by automation and machine learning tools.

B. Transparency and Accountability in AI Systems – Cheong (2024).⁵

Cheong’s article deeply explores the concepts of transparency, explainability, and accountability in artificial intelligence systems, with an emphasis on their relevance to governance structures. The author critiques the assumption that explainable AI automatically ensures accountability, pointing out that superficial or post hoc explanations may not fulfill legal standards of diligence or disclosure. The paper highlights the limitations of current “black box” mitigation strategies and advocates for embedding auditability and traceability features into algorithmic systems. Drawing from comparative insights, Cheong references the EU AI Act (2024) and similar legislative efforts to promote algorithmic risk classification and human oversight. The conclusion underscores that algorithmic transparency must be coupled with enforceable governance obligations, making it a core element of fiduciary accountability in corporate.

C. Decision Provenance and Algorithmic Traceability – Singh, Cobbe & Norval (2018).⁶

The authors introduce the concept of “decision provenance,” which focuses on tracing the lifecycle of algorithmic decisions from data input to final output. The article provides a technical-legal framework for how provenance records can enhance accountability in both public and corporate settings. Within the corporate governance context, the paper’s insights have significant implications: by documenting how algorithms evolve and make decisions, companies can better assign liability and demonstrate due diligence. The authors argue that provenance systems not only increase transparency but also prevent “accountability capture,” where excessive surveillance and recordkeeping might inadvertently centralize power. Their framework offers a pragmatic balance between innovation and oversight, suggesting that traceability should be codified as part of directors’ duty to supervise digital systems.

⁵ Ben Chester Cheong, Transparency and Accountability in AI Systems, *Frontiers in Human Dynamics*, vol. 6, art. 1421273 (2024).

⁶ Jatinder Singh, Jennifer Cobbe & Chris Norval, Decision Provenance: Harnessing Data Flow for Accountable Systems, *IEEE Access*, vol. 7, pp. 6562–6574 (2019), <https://arxiv.org/pdf/1804.05741>.

D. SEBI's AI Governance Framework and Indian Corporate Accountability (2025).⁷

This recent article analyses the Securities and Exchange Board of India's (SEBI) proposed AI/ML Governance Framework and its implications for regulated entities. The paper situates SEBI's approach within global best practices, emphasizing board-level responsibility for algorithmic risk assessment, model audits, and documentation. It notes that under Sections 134 and 166 of the Companies Act, 2013, directors already bear duties of disclosure and diligence, which should now extend to algorithmic governance. The author concludes that India's evolving regulatory landscape must bridge corporate law with technology governance, ensuring that fiduciary accountability includes algorithmic risk management. The paper's value lies in linking compliance, governance, and AI ethics under one unified doctrinal perspective.

1.3. Statement of Problem

The present study focuses primarily on two interrelated aspects. First, the emergence and evolution of the algorithmic accountability doctrine within corporate governance, and second, the way Indian and global legal frameworks address fiduciary responsibility in the age of AI. The study seeks to explore:

- Whether existing corporate law principles adequately cover algorithmic oversight duties?
- How international developments such as the EU AI Act and SEBI's governance framework influence India's legal landscape?
- What conceptual and regulatory gaps persist in linking algorithmic transparency, human oversight, and corporate liability?
- The key assumption that guides this research is that algorithmic transparency and human accountability must remain central to corporate governance, ensuring that technology serves corporate integrity rather than diluting it.

2. THE BLACK BOX AND THE BOARDROOM: LEGAL ACCOUNTABILITY IN ALGORITHMIC DECISION-MAKING UNDER INDIAN CORPORATE LAW

2.1 Accountability Challenges in AI-Driven Governance

A. The Black-Box Problem

Many AI systems operate as opaque "black boxes," producing outputs that are difficult to interpret even for their developers. This opacity conflicts with the duty of care articulated in

⁷ Vibhor Maloo, From Algorithms to Accountability: Analysing SEBI's AI/ML Governance Framework, *IndiaCorpLaw* .

Smith v Van Gorkom,⁸ which requires directors to make informed decisions. Blind reliance on AI outputs may compromise the ability of boards to demonstrate due diligence.

B. Perceived Objectivity and Embedded Bias

Algorithms are often assumed to be neutral, yet they can reproduce historical biases embedded in data. Such biases may expose companies to liability under anti-discrimination and regulatory laws, even where no human intent to discriminate exists.⁹ Here, the problem lies in the architecture of the technology rather than in managerial intent.¹⁰

C. Diffused Liability and Legal Personhood

Corporate law typically attributes responsibility to individuals within a company under the identification doctrine. AI, however, lacks legal personality, complicating the assignment of accountability for decisions or errors generated by algorithms. Directors cannot disclaim responsibility for systems they deploy, but their ability to control autonomous AI processes is limited. This challenge is reminiscent of earlier debates over automated financial systems. Under the Caremark standard (*In re Caremark International Inc. Derivative Litigation (1996)*)¹¹ a failure to understand or supervise corporate operations may constitute a breach of the duty of oversight. Similarly, directors relying on AI without adequate understanding or monitoring may be exposed to liability.¹²

CHAPTER III: CORPORATE AND VICARIOUS LIABILITY IN ALGORITHMIC CONTEXTS

3.1 Corporate and Vicarious Liability in Algorithmic Contexts

A. The Legal Personhood Problem and Attribution of Acts

Traditionally, corporate liability is imposed through doctrines of vicarious responsibility, holding that the acts of employees or agents are legally attributable to the company. The rise of autonomous AI challenges this framework: AI lacks legal personality and can operate independently once deployed. This raises the question: who is responsible when algorithmic decisions cause harm or breach regulatory obligations?¹³ Under Indian law, the Companies Act 2013 recognizes corporate liability via the attribution of “mens rea” to persons in charge of

⁸ *Smith v. Van Gorkom*, 488 A.2d 858 (Del. Ch. 1985).

⁹ Ravi Shankar, Implications of Black Box Dilemma in the Indian Legal System, *Journal of Legal Research and Juridical Sciences*, vol. 4, no. 3, pp. 1265–1270 (2025).

¹⁰ Suryanshu Dutta & Sakshi Shah, AI Bias, Liability and Corporate Accountability, *The Institute of Company Secretaries of India* (Oct. 1, 2025).

¹¹ *In re Caremark International Inc. Derivative Litigation*, 698 A.2d 959 (Del. Ch. 1996).

¹² "Legal Personality for Artificial Intelligence with Special Reference to Corporate Personhood in India," *Shakuntla Sangam Indian Journal of Law and Human Behavior*, vol. 6, no. 1, pp. 20–25 (2020).

¹³ "Algorithmic Bias and Discrimination: Legal Accountability in Indian Corporate Governance," *International Journal of Innovative Research in Multidisciplinary Studies*, vol. 4, no. 6, pp. 232659–232664 (2025).

business conduct. In *Iridium India Telecom Ltd. v Motorola Inc.*,¹⁴ the Supreme Court held that a corporation can possess mens rea through its directing mind. Yet when decisions are generated by AI, the “directing mind” is diffuse, complicating culpability assessment. Courts may analogize AI to agents under corporate attribution principles. As in *Tesco Supermarkets Ltd. v Nattrass*,¹⁵ acts of the directing mind are attributable to the company, whereas subordinate acts may not be. Liability may therefore depend on whether AI operates as a delegated managerial agent or merely as an instrument of execution.

B. Corporate Liability: Algorithms as Agents of the Corporation

When AI performs core corporate functions—such as automated trading, compliance monitoring, or employee evaluation—the outputs effectively become acts of the corporation. Under Section 10 IPC and Section 85 IT Act 2000, companies may be liable for acts committed with the consent, connivance, or negligence of responsible officers. Malfunctioning AI systems that breach regulations can thus expose the corporation to vicarious liability, even without director intent. Global practice mirrors this principle. In *FTC v Facebook (2021)*¹⁶, algorithmic bias and data misuse were treated as acts of the corporation, resulting in substantial fines. Similarly, under the EU GDPR and AI Act 2024¹⁷, companies deploying AI remain strictly accountable for discriminatory or unlawful outcomes. These developments suggest that Indian law may benefit from explicit codification of algorithmic attribution.

C. Director Liability: Oversight, Due Diligence, and Fiduciary Breach

Directors may face personal liability for failures in oversight or due diligence. Section 166 imposes duties of care, skill, diligence, and good faith. Failure to govern AI systems adequately—through audits, transparency, or explainability mechanisms—could constitute a breach of fiduciary duty. The Supreme Court in *Official Liquidator v P.A. Tendolkar*¹⁸ held that directors must exercise care as an ordinary prudent person would under similar circumstances. This duty arguably extends to understanding or supervising AI systems. Comparative jurisprudence, such as *In re Caremark*,¹⁹ imposes liability for sustained oversight failures, now increasingly discussed as “algorithmic oversight liability” in corporate scholarship. In India, Section 134(5)(f) implicitly supports this principle by requiring systems to ensure compliance with applicable laws.

¹⁴ *Iridium India Telecom Ltd. v. Motorola Inc.*, (2011) 1 SCC 74 (India).

¹⁵ *Tesco Supermarkets Ltd. v. Nattrass*, [1972] AC 153 (HL).

¹⁶ *FTC v. Facebook*, No. 20-358, 2021 WL 4592316 (D.D.C. Oct. 4, 2021).

¹⁷ General Data Protection Regulation, Regulation (EU) 2016/679, 2016 O.J. (L 119) 1

¹⁸ *Official Liquidator v. P.A. Tendolkar*, AIR 1973 SC 1104 (India).

¹⁹ *In re Caremark International Inc. Derivative Litigation*, 698 A.2d 959 (Del. Ch. 1996).

D. Vendor Liability and Contractual Risk Allocation

As companies increasingly procure AI from external developers, questions of vendor responsibility and contractual allocation of risk arise. Contracts may attempt to shift liability to vendors, but where developers maintain ongoing control or influence over AI operations, courts may recognize joint liability under non-delegable duty principles. European directives and proposals treat software and AI systems as “products,” holding developers accountable for design defects—an approach that India could adopt through amendments to the Consumer Protection Act 2019²⁰ or IT Act 2000.²¹

E. The Need for Legislative Clarity

Indian courts currently rely on analogy to determine whether AI acts are attributable to corporations or whether directors can disclaim responsibility due to technological opacity. While judicial reasoning may work on a case-by-case basis, legislative clarity is preferable. Amendments to Section 166 Companies Act 2013²² and Section 85 IT Act 2000²³ could codify a “duty of algorithmic accountability,” requiring directors to ensure AI systems are explainable, auditable, and compliant, harmonizing governance with global standard

4. Proposed Legal and Policy Framework for India

4.1 Toward a Coherent Legal Architecture for Algorithmic Accountability in India.

A. The Emerging Need for AI Governance in Corporate India

India is at a critical juncture in integrating artificial intelligence (AI) into corporate governance. The rapid adoption of AI technologies across corporate functions necessitates a coherent legal and policy response that balances innovation with accountability. A hybrid governance model, combining statutory obligations, regulatory oversight, and ethical principles, offers a structured approach to address the complexities of AI deployment in the corporate sector.

Existing frameworks, including the Companies Act, 2013, and Securities and Exchange Board of India (SEBI) regulations, provide foundational mechanisms for corporate accountability. However, these instruments are insufficient to address the unique challenges posed by AI-driven decision-making. Recent developments, such as SEBI’s proposed amendments²⁴ in 2025 and the NSE settlement in 2024²⁵, illustrate both the transformative potential of

²⁰ Consumer Protection Act, 2019, No. 35 of 2019, Acts of Parliament (India).

²¹ Information Technology Act, 2000, No. 21 of 2000, Acts of Parliament (India).

²² Companies Act, 2013, No. 18 of 2013, Acts of Parliament (India).

²³ Information Technology (Reasonable Security Practices and Procedures and Sensitive Personal Data or Information) Rules, 2011, G.S.R. 313(E), Ministry of Electronics and Information Technology, Government of India.

²⁴ Securities and Exchange Board of India (SEBI), Consultation Paper on AI Governance, Nov. 15, 2024.

²⁵ National Stock Exchange of India (NSE), Press Release on Settlement with SEBI, Aug. 1, 2025.

algorithmic systems and the risks associated with inadequate oversight. These events underscore the imperative for boards to implement governance mechanisms capable of systematically supervising AI integration while mitigating operational and reputational risks.

B. Algorithmic Due Diligence as a Mechanism for Enhanced Oversight

To strengthen corporate oversight, India should consider introducing a statutory Algorithmic Due Diligence Standard. This framework would extend directors' duties under Section 166(3) of the Companies Act to explicitly encompass AI systems, clarifying their responsibility for ensuring that algorithmic tools are implemented ethically, transparently, and responsibly.²⁶

Under this proposed standard, directors would be required to ensure transparency in AI decision-making by understanding the logic, parameters, and assumptions underlying algorithmic outputs. They must also verify the integrity and accuracy of input data, ensuring datasets are complete, unbiased, and representative of sound business judgment. Furthermore, corporations should conduct independent, periodic audits to detect discriminatory or erroneous outcomes, particularly in sensitive domains such as recruitment, credit evaluation, and lending. This approach aligns with international frameworks, including the OECD Principles on AI (2019) and the European Union's Artificial Intelligence Act (2024)²⁷, both of which emphasize fairness, accountability, and human oversight in AI governance. Adoption of such principles in India would promote a culture of digital diligence among corporate leaders, integrating ethical and responsible AI use into the core of boardroom governance.

C. AI Audit and Disclosure Mechanisms

Corporate boards should institutionalize AI audit and disclosure processes within their reporting obligations under Section 134(3) of the Companies Act.²⁸ Companies would disclose the nature, purpose, and scope of AI systems influencing material corporate decisions, alongside their potential impact on shareholders, employees, and other stakeholders. Results from annual third-party audits evaluating fairness, accuracy, and compliance with legal and ethical standards should be made publicly available. Functioning analogously to financial audits, such mechanisms would enhance transparency, strengthen investor confidence, and demonstrate adherence to rigorous governance standards.

D. Regulatory Reforms and Board-Level Oversight

Regulatory agencies, particularly SEBI, must evolve to meet the challenges posed by AI

²⁶ Organisation for Economic Co-operation and Development (OECD), OECD AI Principles, May 2019.

²⁷ European Union, Artificial Intelligence Act, Regulation (EU) 2024/1689, Official Journal of the European Union, July 12, 2024.

²⁸ Companies Act, 2013, No. 18 of 2013, Acts of Parliament (India).

integration in corporate governance. Amendments to the Listing Obligations and Disclosure Requirements (LODR) Regulations, 2015, could require companies to disclose algorithmic risks in annual reports, establish board-level AI oversight committees, and report material AI failures affecting investors. These reforms would align Indian regulatory practices with international standards, reflecting approaches adopted by the U.S. Securities and Exchange Commission (SEC) and the European Securities and Markets Authority (ESMA), both of which emphasize transparency, accountability, and risk management in algorithmic operations. By adopting a hybrid framework combining statutory mandates, regulatory guidance, and ethical standards, India can ensure that AI-driven corporate governance evolves responsibly, mitigating risks while fostering innovation.

5. CONCLUSION

Artificial Intelligence has introduced a paradigm shift in how corporations govern, decide, and assume responsibility. As corporate India accelerates its adoption of algorithmic tools to enhance efficiency and competitiveness, the legal system must evolve to ensure that technological innovation does not erode fiduciary integrity. The Companies Act, 2013 designed in an era of human-centric decision-making now faces the challenge of adapting to an environment where algorithms influence or even determine strategic choices.

This paper demonstrates that algorithmic governance, while transformative, amplifies existing legal ambiguities surrounding corporate and directorial accountability. The duties of care, skill, and diligence can no longer be confined to human conduct alone; they must extend to the design, deployment, and supervision of AI systems. Directors cannot rely on technological opacity as a shield against liability. Instead, they must cultivate informed oversight grounded in transparency, auditability, and ethical prudence to align with both domestic and global standards of responsible governance.

The study further underscores the urgent need for a codified “duty of algorithmic accountability” within Indian corporate law. Such a framework would mandate algorithmic due diligence, periodic AI audits, and public disclosures of AI usage in material corporate decisions. Complementary reforms through SEBI’s LODR regulations and sectoral policies could institutionalize board-level AI oversight committees, ensuring that technology governance becomes a core pillar of corporate compliance, not a peripheral concern. Ultimately, the convergence of law and technology offers India an opportunity to reimagine corporate governance as a fusion of innovation and responsibility. By embedding algorithmic accountability into statutory and regulatory structures, India can position itself as a global

leader in ethical AI governance one where directors uphold not only profitability but also transparency, fairness, and public trust. The path forward lies in crafting a legal architecture that preserves the spirit of fiduciary duty amid the realities of digital transformation.