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TRANSFORMING CORPORATE GOVERNANCE THROUGH ARTIFICIAL INTELLIGENCE: A FUTURISTIC PERSPECTIVE IN THE INDIAN CONTEXT

Dr. Rakesh Sharma[1], Mr.Rahil Molvi Abbas[2], Mr.Kamal Krishna[3]& Ms Sameeksha Singh[4]

[1]Assistant Professor- Sharda School of Business Studies, Sharda University,
Greater Noida (U.P)
Research Scholar [2,3,4]

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Keywords	***Abstract***
AI Corporate Governance, Board Decision-Making, Indian Capital Markets, SEBI, Companies Act 2013, Machine Learning, Digital India, ESG, Board AI Literacy.	This paper discusses how Artificial Intelligence (AI) is changing the landscape of corporate governance in the Indian regulatory and business landscape. The paper assesses the feasibility, acceptability, and governance requirements of using AI in board-level decision making based on primary survey data gathered from 412 BSE 500 quoted companies (2023), data from Secondary sources, like SEBI, NASSCOM, and MeitY reports, and a multi-method analytical approach encompassing Ordinary Least Squares (OLS) regression analysis and scenario analysis. Five levels of synergic intelligence (aided, augmented, amplified, autonomous and autopoietic) are proposed and correlated with India's special legal framework (Companies Act 2013, DPDPA 2023, SEBI LODR 2015). Board AI Literacy, ESG commitment, and AI investment intensity are the most significant factors driving AI governance readiness among Indian companies, with Board AI Literacy ($\beta = 0.482$, $p < 0.001$) being the strongest. There is a significant gap in readiness for public sector undertakings (PSUs) ($\beta = -0.612$), which

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	is a critical reform gap. Finally, the paper provides actionable recommendations for the board directors, SEBI, MCA and MeitY to co-create an equitable and accountable AI governance architecture for India's 5-trillion-dollar economy ambition.

INTRODUCTION

Artificial Intelligence (AI) is poised to be a turning point technology that is transforming the corporate Governance landscape in the world. India is in a pivotal moment, with its start-up ecosystem ranking as the third largest in the world and its economy as a USD 5 trillion one, aiming to reach that level by 2027. The Government of India's Digital India initiative, the National Strategy for Artificial Intelligence (NSAI, 2018) by NITI Aayog and the progressive changes in corporate governance norms by the Securities and Exchange Board of India (SEBI) have all contributed to a rich but complicated environment for the use of AI at the board level. The Companies Act, 2013, the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (LODR) and an increasing volume of guidance from the Reserve Bank of India (RBI) and the Insurance Regulatory and Development Authority of India (IRDAI) are the key regulations governing corporate governance in India. In this context, Boards of Directors have fiduciary duties which are to be met with great circumspection by AI tools, especially in terms of responsibility, protection of Digital Personal Data (Digital Personal Data Protection Act 2023) and algorithmic bias in a multi-lingual, diverse and economically differentiated society. Although the use of AI by Indian corporates is on the rise with 71.5% of BSE 500 companies being aware and 27.5% being on the AI board, scholarly research on the impact of AI on governance practice in India is still in its early stages. This paper tackles the above gap by offering a forward-looking scenario framework specific to India, an empirical investigation and a novel regulatory mapping.

2. LITERATURE REVIEW AND THEORETICAL FRAMEWORK

2.1 Global Scholarship on AI and Corporate Governance In the era of AI, Cadbury (1992) has redone the definition of corporate governance as 'the system by which companies are directed and controlled'. Davenport and Ronanki (2018) wrote about AI's rise as a business priority, and Agrawal, Gans and Goldfarb (2018) suggested that AI is really changing the way decisions are made: it's making the cost of prediction cheaper. Cossin and Metayer (2014) added three more roles to the Board of Directors (BoD), these roles being the supervisor, co-creator and supporter, and the latter two roles being sensitive to the capabilities of AI. Armour and Eidenmueller (2019) raised important questions of algorithmic accountability and director liability – questions which are especially relevant in India, where the liability of directors is strictly prescribed under Section 166 of the Companies Act, 2013. The latter is based on Hilb's (2017) co-evolutionary digital governance model, which is used to theorise the synergic intelligence framework. The context of Indian Corporate Governance can be understood from the following points: The Kumar Mangalam Birla Committee

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Report (1999), the Narayana Murthy Committee Report (2003) and the Uday Kotak Committee Report (2017) each played a significant role in enhancing the independence of the boards, the audit function and the rights of shareholders, respectively, in the wake of liberalisation in corporate governance in India. The responsibility to engage in governance practices was also placed on institutional investors with the issuance of SEBI's Stewardship Code (2020). The DPDPA, 2023, introduces a data fiduciary duty that directly impacts the use of AI systems that are developed using personal data in board processes.

3. RESEARCH METHODOLOGY

3.1 Research Design The research design of this study is mixed methods research design which uses the following procedures: (a) Primary data collection through structured survey questionnaires to board members, Company Secretaries, Chief Information Officers, and senior management people of companies listed in BSE 500 list; (b) Secondary data analysis from SEBI Annual Reports, NASSCOM databases, Prowess IQ and company annual reports; and (c) Qualitative scenario analysis using the Stacey (1992) decision taxonomy which has been adapted to the Indian regulatory condition. Sample and Data Collection:

3.2 Total 412 BSE 500 companies were sampled strata wise randomly by considering the market capitalisation of the companies and the sectors classification. Data were gathered from January to September 2023. The survey instrument consisted of 48 items on a 10-point Likert scale, which were refined after a pilot study (N = 35). The test of sampling adequacy (KMO) = 0.814 and Bartlett's Test of Sphericity was significant ($\chi^2 = 4{,}812.3$, $p < 0.001$), indicating that the data was suitable for factor analysis.

3.3 Statistical Tools

The statistical methods used were: (i) Descriptive statistics (mean, standard deviation and range); (ii) Cronbach's Alpha for scale reliability; (iii) Ordinary Least Squares (OLS) Regression with heteroskedasticity-robust standard errors (White, 1980); (iv) Variance Inflation Factor (VIF) to check multicollinearity and (v) Sector-wise comparative analysis. Analysis was done using STATA 17.0 and R (version 4.3.1) and the results were cross-checked.

4. RESULTS AND DATA ANALYSIS

4.1 AI Adoption Across Indian Corporate Sectors

Table 1 displays the adoption rate of AI across eight important sectors of the Indian economy from primary survey data (N = 412 respondents, 2023) and verified by NASSCOM (2023) and SEBI Annual Report (2022 – 23). Adoption is assessed in three levels of governance, awareness, pilot/partial deployment and full board-level integration.

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Sector	Awareness (%)	Pilot Deployment (%)	Board-Level Integration (%)	Primary AI Governance Use Cases
Banking & Financial Services	92	68	41	Compliance, Fraud Detection
Information Technology	88	74	56	Predictive Analytics, NLP
Manufacturing (Aatmanirbhar)	71	44	22	Predictive Maintenance
Healthcare & Pharma	65	39	18	Drug Discovery, Diagnostics
Retail & E-Commerce	78	52	34	Demand Forecasting, CRM
Energy & Infrastructure	54	28	12	Grid Optimisation, ESG
Telecom	81	55	29	Customer Churn, CapEx Planning
Public Sector Undertakings	43	21	8	Governance Reporting, Audit
Weighted Average	71.5	47.6	27.5	—

Table 1: AI Adoption Across Indian Corporate Sectors (BSE 500 Survey, 2023; N = 412)

Note: Figures refer to the percentage of the respondents in the sectors surveyed. Board-Level Integration means that AI tools are formally part of a decision process of at least one Board committee. Authors' primary survey, NBWHP – NASSCOM AI Adoption Report 2023, Annual Report 2022–23 published by SEBI.

4.2 Synergic Intelligence Framework for Indian Boards

Table 2 shows a mapping of five levels of human–machine synergy with the five dimensions of governance, adapted to the Indian regulatory landscape as identified by the Companies Act, 2013 and SEBI LODR Regulations, 2015, which are derived from Hilb's (2017) co-evolution model. The framework helps Indian boards understand the AI maturity of the present state and a strategic transition trajectory.

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Intelligence Level	Machine Role	Human Role	Accountability Shift	Regulatory Complexity	Indian Application Examples
Assisted	Low	High	Nil	Moderate	Reporting, MIS Dashboards
Augmented	Moderate	Moderate	Low	High	Predictive Analytics, ESG Scoring
Amplified	High	Low	Moderate	High	Risk Modelling, Algo Trading
Autonomous	Very High	Very Low	High	Moderate	Robo-Directors (pilot: HK, SG)
Autopoietic	Total	Minimal	Total	Evolving	Self-Evolving Governance Systems

Table 2: Synergic Intelligence Framework – Human–Machine Governance Levels (Indian Context)
Source: Adapted from Hilb (2017); Authors' framework; Ministry of Electronics and Information Technology (MeitY) AI Strategy 2023.

4.3 Descriptive Statistics of Key Variables

Table 3 presents descriptive statistics for the primary variables used in the OLS regression model. AGRS and BALI are composite indices constructed using a 10-point Likert scale administered across board members and senior executives. Cronbach's α values indicate high internal consistency (α > 0.79).

Variable	N	Mean	Std. Dev.	Min	Max	Cronbach's α
AI Governance Readiness Score (AGRS)	412	6.12	1.84	1	9.8	0.82
Board AI Literacy Index (BALI)	412	5.47	1.92	1	10	0.79
Firm Size (log total assets, ₹ Cr)	412	9.84	2.31	4.12	15.3	—
Board Independence Ratio (%)	412	54.3	11.2	33.3	83.3	—
ESG Disclosure Score (0–100)	412	58.7	18.4	12	96	—
AI Investment Intensity (% of revenue)	412	2.3	1.6	0.1	12.4	—

Table 3: Descriptive Statistics of Key Variables (N = 412; Indian BSE 500 Firms, 2023)
Note: AGRS = AI Governance Readiness Score; BALI = Board AI Literacy Index; ₹ Cr = Indian Rupees in Crore. Source: Primary survey (2023); Prowess IQ Database; BSE Corporate Governance Reports.

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4.4 OLS Regression: Determinants of AI Governance Readiness

The results for the Ordinary Least Squares (OLS) regression model having AI Governance Readiness Score (AGRS) as the dependent variable are presented in Table 4. The hypotheses are tested as follows: H1: AI literacy enhances readiness.

H2: there is a positive relationship between firm size and readiness.

H3: ESG commitment strengthens AI governance .

H4: The intensity of AI investments correlates with AI integration.

Standard errors are given as heteroskedasticity-robust. Model $F(8, 403) = 47.82$, $p < 0.001$; Adjusted $R^2 = 0.611$

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Independent Variable	β Coefficient	Robust SE	t-statistic	p-value	Hypothesis
Board AI Literacy Index (BALI)	0.482***	0.073	6.6	<0.001	Supports H1
Firm Size (log assets)	0.214**	0.094	2.28	0.023	Supports H2
Board Independence Ratio	0.031*	0.018	1.72	0.086	Partial Support
ESG Disclosure Score	0.157***	0.041	3.83	<0.001	Supports H3
AI Investment Intensity	0.339***	0.062	5.47	<0.001	Supports H4
Sector: BFSI (ref: Manufacturing)	0.891***	0.201	4.43	<0.001	Sig. Sector Effect
Sector: IT	0.743***	0.189	3.93	<0.001	Sig. Sector Effect
Sector: PSU	-0.612***	0.217	-2.82	0.005	Negative Effect
Constant	2.114***	0.342	6.18	<0.001	—
Model Fit: Adj. R^2 = 0.611; F(8, 403) = 47.82; p < 0.001; VIF < 3.1 (no multicollinearity)					

Table 4: OLS Regression Results: Determinants of AI Governance Readiness Score (AGRS)

Note: *** p<0.001, ** p<0.05, * p<0.10. Dependent variable: AGRS (0–10 scale). Robust standard errors in parentheses. Reference sector: Manufacturing. VIF values confirm absence of multicollinearity. Source: Authors' analysis using primary survey data and Prowess IQ (2023)

4.5 Indian Legal and Regulatory Landscape for AI Governance

In India, there is a complex landscape of multi-regulators in corporate AI governance. Table 5 illustrates key pieces of legislation and regulatory guidelines pertinent to the adoption of AI at the

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board level, while identifying areas of current gaps which Indian companies should look to proactively address.

Regulation / Policy	Governing Body	AI Governance Relevance	Key Gap / Board Implication
Companies Act, 2013	MCA, GoI	Director duties, fiduciary liability	AI accountability gaps in Section 166
SEBI LODR Regulations, 2015	SEBI	Board composition, disclosure obligations	Robo-director recognition absent
Digital Personal Data Protection Act, 2023 (DPDPA)	MeitY	Data fiduciary obligations, consent	Critical for AI training data governance
IRDAI AI Guidelines, 2023	IRDAI	AI use in underwriting, claims	Sector-specific; board oversight mandated
RBI Master Direction on IT, 2023	RBI	Algorithmic accountability in BFSI	Algorithm audit trail requirements
NITI Aayog Responsible AI, 2021	NITI Aayog	Principles: safety, equality, privacy	Non-binding; aspirational framework
Draft National AI Policy, 2024	MeitY (proposed)	Comprehensive AI governance structure	Under public consultation (as of 2024)

Table 5: Indian Legal and Regulatory Framework for AI Corporate Governance

Source: Ministry of Corporate Affairs (MCA); SEBI; MeitY; RBI; NITI Aayog. Compiled by Authors (2024).

4.6 Hypothesis Testing Summary				
H#	Hypothesis Statement	Key Statistic	Result	Policy Implication
H1	Higher board AI literacy (BALI) is positively associated with AI governance readiness (AGRS).	β=0.482, p<0.001	Supported	Board AI training programmes are critical.
H2	Larger Indian firms demonstrate greater AI governance integration than smaller firms.	β=0.214, p=0.023	Supported	SMEs require targeted policy support.
H3	Firms with higher ESG disclosure scores exhibit greater AI governance readiness.	β=0.157, p<0.001	Supported	ESG-AI governance nexus is significant.
H4	Greater AI investment intensity leads to higher AI governance readiness at board level.	β=0.339, p<0.001	Supported	Investment signals strategic commitment.
H5	PSU boards show lower AI governance readiness compared to private sector boards.	β=−0.612, p=0.005	Supported	Public sector reform urgently needed.

Table 6: Summary of Hypothesis Testing Results

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5. DISCUSSION

This is the fifth module of the AI Governance Readiness.This is the fifth module of AI Governance Readiness in Indian Boards. The empirical results show that the Indian corporate boards have an overwhelming digital governance gap. The Public Sector Undertakings are trailing significantly behind AI governance integration (41% in public sector undertakings vs 56% in the IT sector board-level integration), with BFSI in the third place. This heterogeneity is not necessarily a result of a lack of AI awareness, but rather due to structural barriers, including legacy IT infrastructure, a high risk aversion among those in government's power, and the absence of a forced governance framework for PSUs. As shown in the OLS regression, Board AI Literacy (BALI) is the strongest predictor of AI governance readiness ($\beta = 0.482$), highlighting the need for structured board education programmes. This is in line with SEBI's Circular on Board Evaluation (2022), which needs to be updated to include digital and AI competency evaluation. ESG-AI Nexus: An Emerging Indian Paradigm The positive correlation between ESG disclosure scores and AI governance readiness ($\beta = 0.157$, $p < 0.001$) is a novel theoretical contribution, as this relationship suggests that companies with higher ESG disclosure scores are more likely to have a more systematic approach to manage AI. This 'ESG-AI co-evolution' route is of special significance as India is implementing SEBI's Business Responsibility and Sustainability Reporting (BRSR) for 1,000 of its top listed companies. This connection should be captured through an 'AI Governance' pillar in future BRSR disclosures.

The Autopoietic Challenge and Societal Implications The term 'autopoietic intelligence' though remains aspirational in the Indian context, brings forth some questions on accountability under Section 166 of the Companies Act, 2013. Algorithmic decision makers are not being recognized under the regulatory regime in India, unlike Hong Kong and Singapore, where they are starting to experiment with algorithmic board members (Vital, 2014). Although the DPDPA, 2023 is a major step, it does not specifically discuss algorithmic accountability in board proceedings. Regulatory arbitrage can be avoided with the proactive engagement of MCA and SEBI.

6. CONCLUSIONS AND POLICY RECOMMENDATIONS

The study shows that AI is not just a technology, but a key governance variable that will change the governance structure, processes, and accountability of Indian corporate boards. Boards can follow a five-level guided path from aided to autopoietic intelligence using the synergic intelligence framework. The empirical results provide confirmation of all five hypotheses, indicating that board AI literacy, ESG commitment, and AI investment intensity are crucial factors in shaping governance readiness.

The recommendations for Boards of Directors are included below. The following recommendations are made to the Boards of Directors: Requires at least one board member who has a background in AI/technology, similar to the requirement for an independent director.

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2. Form a separate Board AI & Technology Committee (BATC) that will report quarterly to the board and audit committee.

3. Conduct AI Governance Audits on annual basis with the results of the audit being shared in the Corporate Governance Report as part of SEBI LODR requirements.

6.2 Recommendations for Regulators (SEBI, MCA, MeitY):

This section provides recommendations to the regulators (SEBI, MCA and MeitY). 5. SEBI should revise the LODR Regulations to incorporate statements of the algorithmic accountability and AI governance in annual filings. 6. MCA must provide a specific guidance note on the 'business judgment rule' for algorithmic decision-making, clarifying the applicable scope of the rule in AI decision-making. 6. Immediate introduction of National AI Policy (2024) with compulsory AI governance standards for listed companies by MeitY. The practices of NITI Aayog's Responsible AI should be put in place as governance indicators at board level in the BRSR framework.

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The authors declared no potential conflicts of interest with respect to the research, authorship, and/or publication of this article.

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