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Legal Implications and Liability Issues of Artificial Intelligence (AI)–Based Corporate Decision-Making Models

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Abstract: This article provides a comprehensive analysis of the role of artificial intelligence in decision-making within corporations. Within the scope of the study, the use of AI systems in corporate governance processes, their impact on efficiency, and the resulting legal risks are examined. In particular, it addresses issues such as determining liability in cases where decisions involving AI cause harm, algorithmic errors, differences between humans and artificial intelligence, the legal consequences of decisions made by AI, and related accountability. Additionally, based on international experience, a comparative corporate analysis has been conducted, and legislative recommendations have been developed in the conclusion.

Keywords: corporate governance, artificial intelligence, fiduciary responsibility, corporate decision-making, principles, corporate code, AI responsibility, AI accountability directive, AI decision-making.

Issues related to the legal and institutional regulation of the use of artificial intelligence in corporate governance are being systematically studied at leading academic centers and universities worldwide. In particular, research conducted under the auspices of the MIT Initiative on the Digital Economy at the MIT Sloan School of Management, as well as the MIT Computer Science and Artificial Intelligence Laboratory (CSAIL), focuses on the impact of artificial intelligence on corporate decision-making processes, directors' liability, and the risks associated with algorithmic governance.

Similarly, within the framework of the Program on Corporate Governance jointly established by Harvard Business School and Harvard Law School, as well as through projects at the Berkman Klein Center for Internet & Society, scholars examine the legal consequences of AI-driven governance decisions, the transformation of fiduciary duties, and the permissible limits of directors' reliance on algorithms.

In Europe, particular attention is devoted to issues of corporate liability, ethical governance, and transparency in the use of artificial intelligence by the Oxford Internet Institute at the University of Oxford, as well as by the Centre for Corporate Reputation. Likewise, research conducted at the Cambridge Judge Business School and the Centre for the Study of Existential Risk (CSER) at the University of Cambridge addresses the implications of artificial intelligence for corporate risk management and the development of normative regulatory constraints.

In the Asian region, legal research on the application of artificial intelligence in corporate governance and regulatory frameworks is being carried out at the National University of Singapore through its Centre for AI & Data Governance. At the University of Tokyo and Seoul National University, the legal risks and liability issues associated with AI-based governance decisions are examined from an economic and legal perspective.

Within the CIS region, research conducted at Lomonosov Moscow State University focuses on directors' liability and the legal nature of automated decision-making at the intersection of the digital economy, artificial intelligence, and corporate law.

In the twenty-first century—widely characterized as the age of technology—artificial intelligence has increasingly permeated not only the corporate sphere but virtually all areas of social and economic life. While the integration of AI into corporate governance and its active involvement in decision-making processes has created significant efficiencies, it has simultaneously given rise to a range of complex legal and institutional challenges.

The relevance of this topic lies precisely in the need to examine how artificial intelligence participates in corporate governance and to identify appropriate legal solutions to the consequences arising from such participation. This Article undertakes a comprehensive analysis of the legal implications generated by the use of artificial intelligence in corporate decision-making and governance structures.

At this juncture, it is useful to briefly address the historical origins of the concept of corporate governance. The notion of corporate governance was first articulated in 1776 by the economist **Adam Smith** in his seminal work, ***The Wealth of Nations***[1], through which foundational ideas concerning corporate organization and economic coordination were introduced into the study of corporations.

The model of corporate governance in which corporations were initially managed directly by shareholders began to spread widely in the global economy during the 1930s in the United States following the entry into force of securities legislation.[2] This period marked the emergence of the first institutional structures of corporate governance. The first book explicitly devoted to corporate governance was published in 1984. Beginning in 1993, the scholarly journal ***Corporate Governance: An International Review*** started publication, contributing significantly to the theoretical development of the field.

Accordingly, the term "corporate governance" has come to denote the collective body of legal concepts and regulatory frameworks underlying the formation, management, and effective operation of companies.

Furthermore, a lecture delivered by the French economist Venon on the fundamental principles of corporate governance served as a formative framework for the development and improvement of corporate governance practices across Europe. In Uzbekistan, the adoption of this model of governance largely coincided with the country's attainment of independence and the subsequent transition to a market economy.

The legal foundations of corporate governance in Uzbekistan were established through the Civil Code, which entered into force in 1997[3], as well as through legislative acts introducing amendments and supplements to the Law of the Republic of Uzbekistan "**On Joint-Stock Companies and the Protection of Shareholders' Rights**"[4] and the Law "**On Limited Liability Companies**."[5] These legal instruments regulate the legal status of corporations and their various forms, governance structures, and issues of liability.

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[1] Butler, Eamonn. *The Wealth of Nations*. Adam Smith Institute, 2010, www.adamsmith.org/the-wealth-of-nations.

[2] Securities Act of 1933 SEC.gov | Statutes and Regulations

[3] Civil Code of the Republic of Uzbekistan 21.12.1995. Oʻzbekiston Respublikasining Fuqarolik kodeksi (birinchi qism), 29.08.1996. Oʻzbekiston Respublikasining Fuqarolik kodeksi (ikkinchi qism)

[4] Law of the Republic of Uzbekistan "On Amendments and Additions to the Law 'On Joint-Stock Companies and the Protection of Shareholders' Rights", OʻRQ-370-сон 06.05.2014. "Aksiyadorlik jamiyatlari va aksiyadorlarning huquqlarini himoya qilish toʻgʻrisida"gi Oʻzbekiston Respublikasi Qonuniga oʻzgartish va qoʻshimchalar kiritish haqida

[5] Law of the Republic of Uzbekistan "On Limited Liability Companies.", 310-II-сон 06.12.2001. Masʼuliyati cheklangan jamiyatlar toʻgʻrisida

However, despite the existence of these normative legal acts, the issue of liability arising from the use of artificial intelligence in corporate decision-making remains insufficiently regulated from a legal perspective.

However, the above-mentioned normative legal acts do not provide legal regulation concerning liability arising from the use of artificial intelligence in corporate decision-making. At present, a growing number of corporate entities have begun to seriously consider integrating artificial intelligence into their corporate decision-making processes. In particular, the involvement of artificial intelligence in corporate governance has the potential to facilitate the work of corporate participants and to enhance efficiency by saving time. Nevertheless, the participation of artificial intelligence in corporate governance remains largely unregulated from a legal perspective in almost all jurisdictions. To illustrate the practical dimensions of this issue, it is instructive to consider applied examples. In 2014, in China, the biopharmaceutical company Pathway Pharmaceuticals reportedly registered an artificial intelligence system as a formal participant within the company and actively sought to rely on it in corporate governance and decision-making processes. In particular, the AI system was used to collect and process patient data (big data) and to generate recommendations for appropriate pharmaceutical prescriptions.

However, certain decisions produced by the AI system proved to be erroneous, resulting in patient complaints. This case became one of the most widely discussed examples concerning the issue of artificial intelligence liability within corporate structures and triggered broader global debate on the need for legal regulation of AI accountability. At the time, neither Chinese national legislation nor the legal frameworks of most other jurisdictions provided clear rules governing liability for artificial intelligence operating within corporate entities. As a result, corporate participants—despite not being directly involved in the contested decisions—were compelled to bear financial responsibility in proportion to their ownership interests.

Subsequently, the Chinese government took steps to address the issue of artificial intelligence liability in corporate governance by adopting, on August 15, 2023, ***the Interim Measures for the Management of Generative Artificial Intelligence Services.***[6] These measures represent one of the first regulatory efforts aimed at establishing a legal framework for managing and allocating responsibility in relation to generative artificial intelligence. Pursuant to Article 9 of the above-mentioned regulatory instrument, where a company's board of directors adopts an incorrect decision based on an artificial intelligence recommendation and such decision causes harm to shareholders, the resulting error may not be dismissed as a mere "***technical malfunction***" of the AI system. Instead, the organization (corporation) and its management are expressly designated as the "***owners***" and "***producers***" of the relevant information and, as such, bear full legal responsibility.

This provision makes clear that where artificial intelligence commits an error in the context of corporate decision-making, liability is attributed not to the AI system itself, but to the corporation and its governing bodies, which are deemed fully accountable in their capacity as the owners and producers of the data and decisions generated.

In contrast to China, the issue of liability in the United States may be resolved under a fundamentally different legal framework. This distinction can be illustrated through the following example. In the case of highly complex algorithmic systems—such as the Aladdin platform used by BlackRock—errors in algorithmic outputs may, under existing doctrine, allow directors to avoid personal liability by invoking the protections of the Business Judgment Rule. From a legal perspective, such scenarios may be analyzed as either theoretical cases or potential sources of legal risk.

[6] The Interim Measures for the Management of Generative Artificial Intelligence Services (2023) https://www.google.com/search?q=https://flk.npc.gov.cn/detail2.html%3FZmY4MDgwODE4OTYyZGM0YTAxODk2Y2MxYjk1OTA3OTU

By way of illustration, reference may be made to the market volatility experienced in 2020, during which AI-driven systems such as Aladdin were suspected of contributing to rapid market downturns. At that time, BlackRock's management provided explanations to regulatory authorities, and no personal liability was imposed on directors or executives. Unlike the Chinese approach, the Business Judgment Rule operates robustly within the United States.

Under the corporate law of the State of Delaware—where BlackRock is incorporated—the Business Judgment Rule affords directors a particularly high degree of discretion. Courts adhere to the principle that judges are not business experts and therefore will not second-guess managerial decisions solely on the basis that they proved unsuccessful, provided that the directors did not act in bad faith or with intent to cause harm.

Accordingly, where a director relies on analytical outputs generated by an AI-based system such as BlackRock's Aladdin platform, courts are likely to characterize such reliance as "***reasonable reliance***." As a result, even where errors attributable to artificial intelligence lead to losses amounting to billions of dollars, directors may not incur personal liability under U.S. corporate law. Had this situation arisen in China, the applicable regulatory framework—specifically ***the Interim Measures for the Management of Generative Artificial Intelligence Services***[7]—would have imposed a clear standard on directors: while they may rely on technological systems, they nonetheless remain fully responsible for the outcomes generated by such systems. In this sense, the Chinese model effectively conveys the principle that reliance on technology does not displace managerial accountability.

By contrast, the existing legal framework in the United States may allow corporate governance bodies, and directors in particular, to shift substantive decision-making responsibility onto algorithms and thereby avoid personal liability. More generally, there is currently no specific federal statute or uniform state-level regulation in the United States that directly governs liability for corporate decisions made on the basis of artificial intelligence. Instead, disputes arising from AI-assisted corporate decision-making are resolved within the confines of existing corporate law doctrines, most notably the Business Judgment Rule and the traditional framework of directors' fiduciary duties.

Turning to the European Union's approach to artificial intelligence and liability in corporate decision-making, the EU may be regarded as one of the most cautious and normatively advanced jurisdictions in regulating the use of AI. A defining feature of the EU approach is that artificial intelligence is not recognized as an independent legal subject, but rather as a technological tool that must remain subject to human control and oversight. Consequently, responsibility for corporate decisions adopted with the involvement of AI is consistently attributed to human actors.

The adoption of ***the European Union Artificial Intelligence Act***[8] in 2024 represents the first comprehensive normative legal framework governing artificial intelligence within the EU. ***The AI Act*** classifies AI systems according to a risk-based approach and expressly identifies systems used in areas such as creditworthiness assessment, insurance, investment activities, personnel selection, and strategic corporate decision-making. Corporations deploying such systems are required to ensure meaningful human oversight in the decision-making process, to guarantee the explainability of AI-generated outcomes, and to accept responsibility in cases where errors or harm occur.

Within this framework, AI cannot function as a substitute for a board member or director; rather, it is treated as an advisory instrument. More broadly, under EU law, directors and corporate governing bodies operate within the framework of fiduciary duties. Pursuant to the AI Act and

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[7] The Interim Measures for the Management of Generative Artificial Intelligence Services (2023) https://www.google.com/search?q=https://flk.npc.gov.cn/detail2.html%3FZmY4MDgwODE4OTYyZGM0YTAxODk2Y2MxYjk1OTA3OTU

[8] European Union AI Act (Artificial Intelligence Act), Regulation - 2016/679 - EN - gdpr - EUR-Lex

prevailing corporate law doctrine, a director who relies blindly on an AI-generated recommendation may be found to have breached fiduciary obligations. This means that corporate governance officials—including directors—cannot evade liability by invoking the argument that "***the AI made the decision***." Instead, corporate governing bodies, and directors in particular, remain under a legal obligation to independently assess and critically evaluate AI-generated outputs.

In addition, within the European Union framework, ***The General Data Protection Regulation*** (GDPR)[9] plays a significant role. Legal effects based solely on automated decision-making that produce legal consequences for individuals are subject to strict limitations. Pursuant to **Article 22 of the GDPR**, individuals have the right not to be subject to decisions based exclusively on automated processing that produce legal effects concerning them or similarly significantly affect them. This provision guarantees the right to human intervention, the right to obtain an explanation, and the right to contest and seek review of such decisions. Taken together, these elements demonstrate that the EU model differs fundamentally from the Business Judgment Rule–oriented approach prevailing in the United States.

Turning to Uzbekistan's legal framework, artificial intelligence technologies are currently being utilized in practice by a wide range of corporations. However, as in many other jurisdictions, the participation of AI in corporate decision-making remains largely unregulated under national legislation. Accordingly, drawing on the comparative experiences of China, the United States, and the European Union analyzed in this Article, it is necessary to establish a legal framework governing AI-based corporate decision-making. As a first step, this may be achieved either through the adoption of a dedicated Law **"On Artificial Intelligence"** or through targeted amendments to existing legislation regulating corporate relations, including the Civil Code, the Law "**On Joint-Stock Companies and the Protection of Shareholders Rights**," and the Law "**On Limited Liability Companies**."

In particular, these legal instruments should define artificial intelligence not as an independent legal subject, but as a high-risk technological tool. Such an approach would be fully consistent with the EU's risk-based regulatory model. Moreover, the use of artificial intelligence in areas such as credit assessment, investment decision-making, personnel selection, and strategic corporate governance should be classified as "***high-risk AI***." As emphasized above, strategic management decisions are of particular significance for corporations and their stakeholders.

Furthermore, based on the experiences of China and the European Union, the mandatory incorporation of the principle of human oversight into corporate governance law would be of critical importance. Under such a framework, any recommendation or conclusion generated by artificial intelligence would lack legal effect unless reviewed and approved by a human decision-maker. This approach would not only strengthen directors' fiduciary duties, but would also prevent attempts to evade liability by invoking the argument that "***the AI was at fault***."

On the basis of the analytical findings and research presented above, this Article proceeds to set forth the three most significant conclusions and proposals derived from the analysis.

First Proposal: Artificial Intelligence Cannot Serve as an Independent Subject of Legal Liability in Corporate Decision-Making.

At present, within leading legal systems—particularly in the European Union, the United States, and China—artificial intelligence is not recognized as an independent legal subject. Even where AI is granted decision-making authority, it is not regarded as a bearer of legal rights and obligations, but rather as a technological tool created, deployed, and controlled by human actors. Accordingly, where harm arises as a result of AI-based corporate decisions, attributing liability to the algorithm itself lacks legal justification.

[9] GDPR (General Data Protection Regulation, Regulation - 2016/679 - EN - gdpr - EUR-Lex

This approach is consistently affirmed in the EU's regulatory framework, including the European Union Artificial Intelligence Act, in U.S. corporate law doctrines, and in China's regulatory measures adopted in 2023. Collectively, these frameworks underscore the principle that responsibility for AI-assisted corporate decision-making must remain with human decision-makers rather than being shifted to artificial intelligence systems.

Second Proposal: The Use of Artificial Intelligence Necessitates the Strengthening of Directors' Fiduciary Duties.

The use of artificial intelligence in corporate governance does not automatically alleviate directors' fiduciary obligations, including the duty of care and the duty of loyalty. On the contrary, under the model developed within the European Union, the increasing complexity of AI-driven decision-making imposes heightened responsibilities on directors. These responsibilities include the obligation to anticipate and assess algorithmic risks, to subject AI-generated recommendations to critical and independent evaluation, and to ensure meaningful human oversight throughout the decision-making process. In this sense, the assertion that "the AI recommended the decision" cannot serve as a universal or sufficient justification for exempting directors from legal liability. Rather, reliance on artificial intelligence reinforces—rather than diminishes—the scope and intensity of directors' fiduciary duties within corporate governance.

Third Proposal: Clearly Defining Liability for AI-Based Corporate Decisions Ensures Legal Certainty and Institutional Trust.

This proposal constitutes one of the most critical aspects of the subject under examination. The absence of clearly articulated liability mechanisms for corporate decisions made on the basis of artificial intelligence gives rise to legal uncertainty, undermines investor and shareholder confidence, and contributes to an increase in corporate disputes. The experience of the European Union demonstrates that the normative consolidation of a risk-based approach, mandatory human oversight, and transparency requirements does not restrict the use of artificial intelligence in corporate governance; rather, it stabilizes such use within a coherent legal framework. Accordingly, the explicit delineation of liability for AI-based corporate decisions within national legislation constitutes a fundamental precondition for ensuring both the effectiveness of corporate governance and long-term legal stability.

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