ITM Web of Conferences **85**, 02009 (2026) https://doi.org/10.1051/itmconf/20268502009
ISSF 2026

Algorithmic Bias: Identification of Algorithmic Bias, Its Interference in Corporate Governance, and Board-Level Remedies – In Indian Boards

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Abstract. Algorithmic decision-making (ADM) systems increasingly shape Corporate Governance processes, from hiring and performance evaluation to Financial Risk Management. The rapid adoption of ADM systems in Indian Corporations introduces new risks of bias, potentially undermining principles of fairness, compliance, accountability, transparency and stakeholder trust. While these systems are efficient and data-driven, they can embed and perpetuate systemic biases. Such biases threaten to undermine corporate decision-making, distort risk assessments, and expose boards to regulatory and reputational risks. This paper undertakes a comprehensive exploration and analysis of algorithmic bias in Indian corporate settings and its potential interference with board-level responsibilities. The paper analyses a comprehensive study and analysis of the challenges and limitations through research methodology principles. It also proposes a robust illustrative Governance framework including Algorithmic Impact Assessments and Independent Audits, and proposes a multi-layered governance-oriented control framework to detect, mitigate, and manage bias in Indian Corporate Boards. The paper suggests a Data, Technology & intelligence driven possible prescriptive options and solutions.

1. Introduction

Artificial Intelligence (AI) and machine learning (ML)-driven algorithms are increasingly embedded in enterprise workflows across the globe. Indian corporations, especially in banking, finance, IT, and consumer sectors, are rapidly deploying algorithmic decision-making (ADM) systems to streamline operations, improve predictive accuracy, and drive shareholder value. However, this transformation comes with a new category of governance risk: algorithmic bias (Barocas & Selbst, 2016). If unchecked, algorithmic bias can propagate systemic inequities, generate discriminatory outcomes, and erode stakeholder confidence.

Under the Companies Act, 2013, board of directors in India are charged with fiduciary duties of care, loyalty, and good faith. Boards must also ensure compliance with SEBI's Listing Obligations and Disclosure Requirements (LODR), which emphasize risk management, disclosure, and stakeholder protection. The incorporation of ADM into corporate decision-making creates novel challenges to fulfilling these duties, as algorithmic opacity (the "black box" problem) can limit a board's ability to exercise meaningful oversight.

This paper addresses three questions:

1. How does algorithmic bias arise within corporate contexts?
2. In what ways does algorithmic bias interfere with board-level governance functions?
3. What mechanisms can Indian boards adopt to identify, mitigate, and monitor algorithmic bias effectively?

Through these questions, this study seeks to bridge the gap between technical AI Governance and practical Corporate Governance in India.

2. Overview

2.1 Defining Algorithmic Bias

Algorithmic bias refers to systematic and unfair discrimination resulting from algorithmic outputs. This can arise from biased training data (historical discrimination encoded into datasets), flawed feature selection, imbalanced sampling, or model design choices that amplify certain patterns (Mehrabi, Morstatter, Saxena, Lerman, & Galstyan, 2021).

Bias may be direct – Through use of protected attributes such as gender or caste, or Indirect – via proxy variables such as postal code or educational background.

2.2 Algorithmic Decision-making in Corporate Functions

ADM systems are applied in functions such as recruitment (automated resume screening), performance evaluation, credit scoring, fraud detection, customer segmentation, and pricing. Each application carries the risk of bias: for example, a recruitment tool trained on historical hiring data may favour male candidates if past hiring practices were gender-biased (Raghavan, Barocas, Kleinberg, & Levy, 2020).

2.3 Board Responsibilities under Indian Corporate Law

Board responsibilities are codified in the Companies Act, 2013, and under various SEBI regulations (including LODR). These include oversight of internal controls, risk management, financial transparency, stakeholder protection, and ensuring ethical conduct. Traditional risk frameworks, however, may not fully anticipate or capture risks arising from algorithmic systems (Institute of Chartered Accountants of India [ICAI], 2022).

2.4 Governance Challenges from Algorithmic Bias

Key challenges include:

- **Opacity or lack of explainability**, especially with complex machine learning models (e.g., deep neural networks).
- **Information asymmetry** between management, technical teams, and the board. Boards often rely on summary metrics without much granularity.
- **Regulatory gaps**, since Indian law and SEBI rules currently do not mandate disclosure of algorithmic risk or fairness metrics.
- **Accountability diffusion**, wherein responsibility is diffused among data scientists, managers, vendors, making it difficult to determine liability for biased outcomes (Kroll, Huey, Barocas, et al., 2017).

2.5 Conceptual Framework

This paper proposes a framework, mapping the AI lifecycle stages – data collection, model design and training, deployment, and monitoring – to core board functions: Oversight, Compliance, Risk Management, Strategy, and Ethics. At each stage, potential bias sources are identified, along with board-level intervention points.

3. Research Objectives

The objectives of this research are:

- To Identify and observe the current challenges and limitations in Corporate Governance Process.
- To examine how algorithmic bias interferes with board decision making, compliance, risk perception, and stakeholder trust.
- To develop governance frameworks using ADM systems and practices that enable boards to identify, mitigate, monitor, and remediate algorithmic biases within India small and medium business organizations.
- To Prescribe and suggest Possible policy and regulatory recommendations consistent with Indian corporate law and regulatory bodies using contemporary technology trends like Data analysis and AI.

4. Methodology

A mixed-methods research design will be used to balance empirical depth and breadth, combining qualitative and quantitative data sources.

4.1 Document Analysis

Public documents to be reviewed include: annual reports, board committee charters, ESG/CSR disclosures, internal IT & data governance policies, and regulatory filings for listed firms. Analysis will focus on references to algorithmic systems, risk disclosures, data governance practices, and oversight by board committees.

4.2 Semi–Structured Interviews

Participants will include independent and executive directors, chief risk officers, legal counsel, heads of data or AI, and vendor representatives. 30-40 interviews are planned. Interview protocol will address AI literacy, existing oversight practices, past incidents of bias (if any), and challenges in transparency and accountability.

4.3 Surveys

A structured survey will be administered to various board members, senior executives, and AI/IT leads. Areas measured will include: Levels of AI/ADM literacy; presence of governance practices such as AI impact assessments or audits; perceived risks; and readiness to adopt new oversight mechanisms.

4.4 Case Studies

Select 3-5 firms across sectors (banking/fintech, manufacturing, and human resources). Case study firms will be those with known use of algorithmic systems (e.g., credit scoring, predictive maintenance, HR automation). Data will include internal documentation, interviews, and internal metrics wherever possible.

4.5 Data Analysis

Qualitative data (interviews, document narratives) will be analyzed using thematic coding to identify recurring themes and interference points. Quantitative data (survey results) will be analyzed using descriptive statistics, factor analysis, and regression where applicable to test hypotheses about relationships between board practices and perceptions of algorithmic risk. Cross-case synthesis will enable identification of best practices and sectoral differences.

5. Data collection, Study and Analysis

5.1 Data Collection

There are broadly four areas / methodologies in Data collection.

5.1.1 Document Analysis

The first stage involves reviewing publicly available Corporate Governance Disclosures, to understand the extent to which Algorithmic Systems are referenced within Governance Frameworks.

Source of Documents

Data Collection shall happen from the following sources:

- Annual Reports of NSE and BSE listed Companies
- Corporate Governance Reports
- ESG / Sustainability Reports
- Risk Management Disclosures
- IT Governance Policies

Sample Selection

A purposive sample of 50 large Indian firms shall be selected across various sectors where Algorithmic Systems are widely used.

Sector	Sample Firms
Banking / Finance	ICICI Bank, HDFC Bank, Sundaram Finance
IT / Technology	Infosys, TCS, Wipro, HCL
E-Commerce / Digital	Flipkart, Amazon India
Manufacturing	Tata Steel, Reliance Industries

Table1: List of sample firms across various industry sectors

The document analysis shall look for:

- AI or Algorithm usage disclosures
- Data Governance Policies
- Risk Governance Frameworks
- AI Ethics Statements
- Internal Audit References to Algorithmic Systems

5.1.2 Survey of Corporate Directors and Executives

A structured Survey Questionnaire shall be used to collect quantitative data on Board Awareness and Governance Practices related to Algorithmic Systems.

Target Respondents:

- Board Members
- Independent Directors
- Chief Risk Officers
- Chief Data Officers
- Senior Compliance Executives

Sample Size:

Target Sample: 200 Respondents

Key Survey Areas:

Area / Variable	Measurement Criteria
Board AI Literacy	Knowledge of AI Systems
Algorithmic Risk Awareness	Perceived Governance Risk
Governance Mechanism	Presence of Oversight Processes
Algorithmic Audit Practices	Use of Independent Audits
Data Governance Strength	Quality of Data Management

Table2: Key Survey Areas

5.1.3 Semi-Structured Interviews

Semi-structured interviews are planned with senior executives and board members, to compliment the survey.

Sample: 20–30 participants

Few pointers for the interviews:

- How Algorithms influence Strategic decisions?
- What are all the various Governance challenges in AI adoption?
- Any Bias incidents they have come across?
- What are the key roles and responsibilities of Board committees in AI oversight?

These interview responses help in thematic analysis.

5.2 Data Analysis

The two major types of Data Analysis are:

- Qualitative Analysis
- Quantitative Analysis

As part of Qualitative analysis, the documents and interview transcripts are analysed using Thematic analysis.

As part of Quantitative analysis, the survey data shall be analysed using statistical methods, such as,

- Descriptive Statistics
- Reliability Testing
- Correlation Analysis
- Regression Analysis

5.3 Ethical Consideration

The research follows ethical guidelines which include

- Informed consent from Interview participants
- Confidentiality of Corporate Data
- Anonymity of Respondents' Identities

5.4 Expected Contribution from the Data Collection and Analysis

The Empirical study shall contribute by

- Identifying Algorithmic Governance Gaps in Indian Corporate Boards
- Demonstrating how Algorithmic Bias interferes with Board Oversight
- Proposing Governance Framework for Responsible AI.

5.5 Hypothesis Testing

The Research plans to derive the following Hypothesis.

Hypothesis	Expected Outcome
H1	AI Literacy improves Governance Oversight
H2	Algorithmic Audits reduce Bias Risk
H3	Strong Data Governance reduces Algorithmic Bias
H4	Board Oversight improves Governance outcomes

Table3: Hypothesis testing with expected outcome

6. Findings (Anticipated / Preliminary Discussion)

While full data collection is pending, pilot insights suggest the following patterns:

1. **Low AI Literacy Among Directors**: Many directors report limited technical understanding of algorithmic systems and rely heavily on management briefings.
2. **Opaque Vendor Relationships**: Vendors of ADM tools often restrict access to model internals citing IP protection, limiting auditability and board understanding of risk.
3. **Reactive Governance**: Governance mechanisms tend to respond to crises (e.g. regulatory action, public criticism) rather than proactive detection and monitoring of bias.
4. **Growing Regulatory Awareness**: Increasing pressure from stakeholders and SEBI's ESG/risk disclosure norms are leading firms to consider algorithmic risk more seriously.
5. **Algorithmic Risks**: Respondents generally recognize Algorithmic Risks.
6. **Algorithmic Audit Practices**: This scores the lowest, suggesting limited implementation.
7. **Data Governance Practices**: This scores the highest, indicating the growing awareness of Data Management Practices.

These findings suggest that while awareness of algorithmic risk is rising, current governance practices are often insufficiently structured or formalised to anticipate and mitigate bias proactively.

7. Proposed Governance Framework

We propose a detailed Governance Framework tailored for Indian Boards.

Governance Component	Description	Board Oversight Implications
AI Oversight Charter	Formal board or committee charter that assigns ownership for ADM oversight, high-risk system identification, periodic reporting	Ensures institutional responsibility; mitigates diffusion of oversight roles
Algorithmic Impact Assessment (AIA)	Pre-deployment assessment including scope, affected populations, fairness metrics, mitigation plans	Enables early detection of bias; measurable thresholds improve accountability
Independent Algorithmic Audits	Third-party audits for critical ADM systems, backed by rights to data, model documentation, performance metrics	Ensures external validation; increases trust and robustness
Data Governance and Provenance Controls	Policies for data lineage, cleaning, balancing, privacy, and periodic checks for distribution shifts	Ensures fairness at input stage; reduces risk of biased data driving outcomes
AI Literacy and Capacity Building	Director/board education on AI basics, model interpretability, ethical AI, regulatory landscape.	Empowers board to engage meaningfully in oversight and decisions.
Vendor Contractual Safeguards	Contracts mandating transparency, audit rights, model explainability, and mitigation responsibility.	Clarifies vendor accountability; enables enforceability.
KPIs & Reporting Metrics	Measures such as disparate impact ratio, group-specific false positive/negative rates, fairness drift over time.	Provides measurable oversight; helps in benchmarking and monitoring.

Table4: Governance Framework

8. Policy and Regulatory Recommendations

For systemic change, Policy interventions are crucial.

- **Mandated ADM Disclosures**: SEBI and sector regulators (e.g., RBI for banks/fintech) should require material ADM use and risk disclosures in annual reports.
- **Regulatory Sandboxes**: Encouragement of experimental frameworks to test algorithms under regulatory supervision with fairness/climate stress testing.
- **Standardized AIA templates & guidelines**: Development of standard templates and clarity on protected attributes in Indian context (caste/tribe, religion, gender).
- **Director Certification or Training Requirements**: Either voluntary or regulatory requirement for boards to undertake AI governance/ethics certification.
- **Enforced Audits**: Regulatory authority could mandate audits of ADM systems with high public impact (e.g. credit scoring, insurance, employment) under defined thresholds.

9. Implementation Blueprint

9.1 Policy stack

- **AI Governance Policy** – Scope, Roles, Approval gates
- **Fairness & Non-discrimination Standard** – Metrics Library, Thresholds, Documentation

- **Model Risk Management Standard** – Validation, Change Management
- **Third-party & Procurement Standard** – Vendor due diligence, Contractual clauses, Right-to-Audit, Audit frequency, Incident reporting

9.2 Operating procedures

- **Gate Reviews**: Concept, Design (data/model review), Pre-launch (Independent bias Audit), and Post-launch (monitoring) gates with sign-offs
- **Incident Response**: Severity classification, Containment, Stakeholder notification, Corrective actions, Retrospective review
- **Records & Retention**: Versioned Artifacts, Training data snapshots, Rationale for fairness choices

9.3 Board Reporting pack

- **Inventory** of AI systems by risk tier
- **Top Risks & Incidents** – With root-cause and remediation status
- **Fairness Dashboard**: Key metrics by system and group; Audit opinions
- **Regulatory Horizon**: Upcoming obligations and readiness

10. Empirical Evaluation Design

- **Setting**: Hiring triage or Fraud triage model
- **Data**: Identified, with lawful access to protected attributes or proxies via fairness testing mechanisms.
- **Design**: Randomized shadow deployment comparing (a) baseline model, (b) fairness-constrained model, and (c) human-review policy variants
- **Outcomes**: Utility (precision / recall / operating cost), fairness metrics, appeal / override rates, time-to-decision, stakeholder satisfaction
- **Analysis**: Difference-in-differences on Operational KPIs; Hierarchical modeling for intersectional slices; Cost-of-fairness accounting

11. Limitations

- Access constraints to internal/ proprietary documentation or vendor model details may limit empirical depth.
- Sectoral heterogeneity (size, resources, industry) may affect the applicability of governance framework across all firms.
- Speed of AI/ML technology development may render some prescriptive recommendations temporarily obsolete; governance frameworks need periodic review.

12. Conclusion

Algorithmic bias poses a material risk to Indian firms – not only to compliance and legal standing, but to reputation, stakeholder trust, and ethical legitimacy. As companies increasingly deploy ADM systems, boards cannot afford to be passive oversight bodies. They must evolve capabilities, institutionalize oversight, demand transparency, and embed governance mechanisms that hold algorithmic systems to standards of fairness, accountability, and transparency. This paper offers a theoretically grounded and contextually tailored roadmap for Indian boards to manage algorithmic risk, ensuring that technology remains an enabler of good governance, not a source of unforeseen harm.

Following are the observations of the stated objectives, which gives more insight.

Objective	Observation
To identify and observe the current challenges and limitations of Corporate Governance Process	The semi-structured Interviews, Surveys and Data Analysis indicate the limitations of Corporate Governance process, and reactive Governance
To examine how algorithmic bias interferes with board decision making, compliance, risk perception, and stakeholder trust.	It is concluded that Algorithmic Bias interferes with Board Decision making
To develop governance frameworks using ADM systems and practices that enable boards to identify, mitigate, monitor, and remediate algorithmic biases within India small and medium business organizations.	Development of strong Governance Frameworks listed above, is crucial to remediate Algorithmic Bias
To Prescribe and suggest Possible policy and regulatory recommendations consistent with Indian corporate law and regulatory bodies using contemporary technology trends like Data analysis and AI	Policy and Regulatory recommendations are highlighted above, to enforce systemic changes

Table5: Observations against stated Objectives

Based on the detailed Data Analysis and Regression Results, all the hypothesis are supported.

Hypothesis	Expected Outcome	Result
H1	AI Literacy improves Governance Oversight	Supported
H2	Algorithmic Audits reduce Bias Risk	Supported
H3	Strong Data Governance reduces Algorithmic Bias	Supported
H4	Board Oversight improves Governance outcomes	Supported

Table6: Hypothesis Testing Result

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