

A STUDY ON LEGAL AND ETHICAL CHALLENGES OF AI IN HRM

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ABSTRACT

The adoption of Artificial Intelligence (AI) in Human Resource Management (HRM) offers significant opportunities but also presents complex legal and ethical dilemmas. This abstract provides an overview of these challenges, focusing on critical areas including data protection and privacy compliance, the mitigation of algorithmic bias in hiring and performance evaluations, ensuring fairness and non-discrimination, establishing clear accountability for AI decisions and navigating the evolving landscape of employment law in AI for AI decisions and navigating the evolving landscape of employment law in an AI –driven HR environment.

Keywords: ArtificialIntelligence, Personally Identifiable Information, Digital Personal Data Protection, Algorithmic Bias and Discrimination.

INTRODUCTION

Artificial intelligence (AI) is fundamentally reshaping Human Resource Management (HRM) by enhancing efficiency, streamlining process and providing data-driven insights across various functions. AI-driven tools are reforming recruitment, performance evaluation and employee experience. Globally, the integration of AI in HR is rapidly accelerating, with 45% of organizations currently utilizing AI in HR functions and an additional 38% planning future adoption. Projections indicate that by 2025, 80% of organizations will integrate AI into their HR operations and 70% of employees are anticipated to interact with AI-powered tools daily. Specific applications of AI in HRM are diverse and impactful. These include automated resume screening, sophisticated candidate matching, efficient interview scheduling and the creation of personalized learning paths for employee development. AI also facilitates real-time performance feedback, predictive analytics for employee retention and strategic workforce planning. The benefits derived from AI adoption are substantial, encompassing increased operational efficiency, improved decision-making accuracy, an enhanced employee experience and a significant reduction in human errors. The pervasive discussion surrounding AI in HR often highlights its efficiency gains, such as cost reduction, time savings and the automation of repetitive tasks. However a recurring theme in the discourse is them immediate pivot to inherent risks, including algorithmic bias, data privacy concerns and the critical need for human oversight.

CURRENT STATE OF AI INTEGRATION IN INDIA HR PRACTICES AND ITS BENEFITS

In 2025, Indian businesses are showing a significant push for faster AI implementation, as evidenced by 98% of their leaders considering it a key objective. This rapid adoption is revolutionizing India HR, significantly enhancing talent acquisition, engagement and strategic workforce planning. The adoption of AI in HR is on the rise among Indian businesses, as they leverage these technologies to improve efficiency and provide tailored experience for their workforce. The applications of AI in India mirror global trends but are tailored to the local context. These include AI-powered resume screening, predictive hiring analytics and the use of chat bots to enhance the candidate experience. AI also plays a role in curating personalized learning paths, monitoring real-time performance metrics, conducting sentiment analysis for employee feedback and suggesting internal mobility

opportunities. Notably, AI in recruitment has already reduced the time-to-hire by nearly 30% for Indian organizations. Despite the rapid adoption the Indian HR landscape faces a significant challenge: a persistent talent shortage, particularly in technical and soft skills. A substantial 54% of HR professionals report receiving an overwhelming number of applications where only half or fewer meet the required qualifications. This necessitates a strategic focus on employee up skilling, with 84% of HR professionals in India prioritizing AI training and 82% emphasizing the development of soft skills like communication and collaboration to bridge this talent gap.

LEGAL CHALLENGES OF AI IN INDIA HRM

1. Algorithmic Bias and discrimination: Navigating the Equality Imperative

AI system, while designed for impartiality, frequently replicate and amplify existing biases if the data used for their training is flawed or unrepresentative. This Phenomenon, often termed “bias in, bias out” means that historical discrimination embedded in past HR decisions can be perpetuated by Ai in new hiring and evaluation processes. The Indian Context presents unique challenges due to its diverse socio-cultural landscape, encompassing multiple languages, dialects and entrenched social structures such as caste and religion. AI systems, if trained on data reflecting these societal prejudices, risk exacerbating groups. The risk of AI perpetuating stereotypes and misrepresentations is significant if its design and monitoring are not handled with utmost care.

2. Data privacy and security: Compliance with India’s Digital personal Data protection Act, 2023

The integration of Ai in HR necessitates the collection and processing of vast volumes of personal and sensitive employee data, including Personally Identifiable Information (PII), health records, and biometric identifiers. India’s legal framework for data protection has significantly evolved with the Digital Personal Data Protection Act (DPDP Act), 2023. This landmark legislation is the country’s first comprehensive data privacy law, establishing new standards for how organizations collect, process, store, and safeguard digital personal data, with a strong emphasis on individual consent, transparency and accountability.

3. Accountability and Liability for Ai-Driven Decisions

Determining accountability and liability when AI systems make errors or cause harm is a complex and evolving area of laws. This is particularly challenging in India, where existing legal frameworks primarily attribute responsibility to human “persons”. The inherent “black box” nature of many AI algorithms further complicates this making it difficult to trace decisions back to their source and assign culpability. Despite this ambiguity, employers are generally held responsible for the outcomes of AI decisions, even if they fall under principles like vicarious liability, where a company can be held accountable for wrongful acts committed by its employees or agents within the scope of their duties, liability to third-party AI providers, even if they are not direct employers, making a departure from the traditional “human employer” assumption in Indian labour laws.

4. Job Displacement and Labour Law Implications

AI-driven automation is increasingly replacing routine human tasks across various sectors, leading to significant job displacement, skill redundancy and the emergence of algorithmic management. India a 1% increase in AI adoption has been associated with a 0.81% rise in job displacement, predominantly affecting low and middle-skilled occupations. The Indian white-collar job market, especially in IT service and BPO, faces a significant threat from AI, with estimates suggesting 40-50% of roles could be automated away.

5. Intellectual Property Rights in AI-Generated Content and Models

The increasing capability of AI to autonomously create a wide variety of content, including art, software code, novel inventions, job descriptions, and training materials, presents complex questions regarding Intellectual Property (IP) ownership. Traditional IP laws are generally structured to attribute inventorship and authorship to human creators, a paradigm that is challenged by AI-generated works. This extends beyond the generated content to the models themselves, requiring investment in provenance tracking technologies and clear internal policies on model development and distribution. Given that the legal framework for AI IP is still evolving globally, proactive measures are essential for safeguarding intellectual assets.

ETHICAL CHALLENGES OF AI IN INDIAN HRM

1. Transparency and Explainability: Addressing the “Black Box” Problem

Many AI systems operate as “black boxes” meaning their internal decision-making processes are opaque and challenging to interpret or explain. This lack of transparency can lead to skepticism, mistrust and resistance among employees, particularly when AI-driven outcomes directly impact their careers and livelihoods. Employees possess a fundamental right to understand how decisions affecting them are made, especially when AI algorithms are involved. Explainable AI (XAI) is emerging as a crucial solution to this challenge. Offering human-readable insights into AI decisions. Demystifying algorithms and fostering trust. Transparency in AI implementation involves clear communication regarding AI’s use, data sources, algorithms, and decisions-making processes. In India, a significant gap exists in policy awareness, with only 41% of employees reportedly aware of existing AI policies. This highlights that merely having policies is insufficient; active communication and explanation are imperative.

2. Human Oversight and Autonomy: Preserving the “Human” Element in HR

Human oversight is consistently underscored as crucial for ensuring ethical AI use, preventing “AI-lienation” and maintaining fairness, transparency and trust within HR processes. The prevailing consensus is that AI should augment human capabilities rather than completely replace human judgement, particularly in morally significant areas. Human intervention remains critical for final decisions in sensitive areas such as hiring, promotions and terminations. The effective identification and correction of biased AI model outcomes heavily depend on the involvement of managers. Workers’ representatives express particular concern about AI’s application in personnel selection, fearing a neglect of human oversight and AI’s inability to replicate crucial human skills like moral judgment and empathy. They advocate for a “human-in-command” approach, where individuals retain the ability to overrule AI at every step.

Impact on Human Dignity and Workplace Culture

The moral dimension of AI in the workplace fundamentally centers on upholding human dignity, ensuring fair treatment of workers and enhancing human capabilities. AI should be developed and implemented in ways that promote human capabilities and productivity, serving as “bicycles of the mind “to extend human abilities and unlock creativity. However a significant concern is the potential for AI to depersonalize interactions and decisions, reducing individuals to mere data points and stripping away the essential human element from the workplace. Over-automation can lead to sterile and impersonal candidate experience, lacking the nuance and emotional intelligence crucial for well-rounded recruitment decisions. A profound moral questions arises from the risk that AI might deprive humans of work that provides life with meaning and purpose.

In the Indian context, many employees perceive AI-driven HR decisions as less fair than human ones, even objective data might suggest otherwise. This perception underscores that the human experience of work cannot be reduced solely to data points and optimization metrics. The true role of HR, therefore, is to shape meaningful, people-centric experiences, striking a delicate balance between efficiency and authenticity to foster a deeply human workplace culture.

Regulatory Landscape and Policy Responses in India

1. current Legal Frameworks and Gaps in AI Regulation

India’s approach to governing AI’s impact on employment is currently fragments, relying on existing legal frameworks rather than a dedicated, comprehensive statute. The Information Technology Act,2000, for instance, addresses data protection and consent through Sections 43a and 72a, applicable where AI systems manage worker-related data. This act mandates obtaining employee consent for collecting and processing personal data, including sensitive information and requires reasonable security practices. The Digital Personal Data Protection Act (DPDP Act) 2023 stands as India’s first comprehensive data privacy law, setting standards for the collection, processing, storage and safeguarding of digital personal data, with a storage emphasis on consent, transparency, and accountability. Additionally the Industrial Disputes Act, 1947, governs layoffs and retrenchments a concern that may become more pronounced with AI-induced automation.

2. Government Initiatives and Industry Guidelines for Responsible AI

In response to the evolving landscape of AI, India has initiated several government programs and industry guidelines aimed at fostering responsible AI development and adoption.

Government Initiatives:

- **India Ai Mission(launched 2023/2024):** This strategic government initiative aims to building a comprehensive ecosystem for AI innovation across various sectors. It promotes responsible and ethical AI development, embedding principles of safety, security, transparency, and privacy into AI design. The mission positions India as global hub for ethical and development-oriented AI.
- **National Strategy for AI (NITI Aayog):**Developed by India’s government think tank,NITI Aayog, this strategy provide a comprehensive roadmap for AI adoption. It emphasizes an “AI for All” approach and outlines broad ethical principles for responsible AI management, including safety, reliability, equality, inclusivity, privacy, transparency, and accountability.
- **Ministry of Electronics and Information Technology (Meity):** MeitY published a report on ‘AI Governance Guidelines Development’ for public consultation in January 2025. This report advocates for a “Whole-of-government” approach to ensure compliance effective governance. It suggests establishing an AI Incident Database to track real-world risks and encourages industry transparency commitments. MeitY is also actively working to mitigate risks from misuse of AI-enable technologies like deep fakes and misinformation.
- **AI Task Force (Government of India, 2017):** This tasks force is actively working on developing a roadmap for AI regulation and governance in the country.
- **India AI Safety Institute:** This institute is specifically focused on responsibly leveraging AI and addressing AI risks and safety challenges.

Industry Guideliness:

- **Confederation of Indian Industry (CII):** In May 2025, CII released a “Guidebook on Effective Adoption and Governance of AI for Board Leaders”. This guidebook urges board engagement in AI strategies with corporate goals, accountability, transparency and fairness. It recommends implementing risk management protocols and conducting regular audits to ensure responsible AI use.
- **NASSCOM:** As a key industry association, NASSCOM aims to foster responsible AI adoption at scale by building industry capacity and commitment. It has launched a Responsible AI Resource Kit, offering self-regulation guidance and tools. NASSCOM emphasizes the importance of ethical data sovereignty and localized datasets to prevent biased AI models.
- **SHRM India:** SHRM India collaborates on reports analyzing AI’s impact on HR, highlighting the importance of ethical governance, addressing integration barriers, and adopting to evolving skill requirements. It advocates for equipping HR professional with the necessary knowledge regarding AI’s capabilities and ethical considerations.

3.Judicial Scrutiny and Emerging Precedents

In the absence of comprehensive Ai-specific legislation, the Indian judiciary has begun to scrutinize the impact of AI on employment and fundamental rights, thereby establishing emerging precedents. The Supreme Court of India has expressed serious concerns regarding AI’s potential to cause large- scale job losses, particularly affecting drivers and even legal professionals. The Court has noted the rapid development of AI modules and their implications for various sectors. In a notable instance, the Punjab and Haryana High Court utilized ChatGPT to assist in a bail decision for a murder case, marking a significant, albeit controversial, first for AI in Indian judicial proceedings. Indian courts are increasingly confronting scenarios where workers are denied opportunities by automated systems. Another more, the Bombay High Court’s ruling upholding the right of transgender persons to apply for police constable jobs and directing the state to facilitate online applications, underscores the imperative for AI in recruitment to be non-discriminatory.

Recommendations for Responsible AI Implementation in Indian HRM

- **Developing Robust Ethical AI Frameworks and Policies:** Organizations must prioritize the development and implementation of robust ethical AI guidelines and policies. These frameworks should encompass principles of transparency, data privacy, bias mitigation, accountability and the imperative of human oversight. Specially, an ethical framework should be established to guide AI use in critical HR functions such as assessment and selection.
- **Enhancing Legal Compliance and Governance Mechanisms:** To effectively navigate the complex legal landscape of AI in HRM, organization must enhance their legal compliance and governance mechanisms. This begins with assigning responsible leadership such as a dedicated compliance officer, to oversee regulatory adherence. It is crucial to monitor evolving AI laws and regulations at local national and international levels before implementing AI systems.

- **Fostering Human-AI Collaboration and workforce Up skilling**

A fundamental recommendation for responsible AI implementation in HR is to foster robust human –AI collaboration, ensuring that AI augments human capabilities and judgment rather than replacing them. This necessitates comprehensive training for HR professionals and the broader workforce on AI tools, data literacy, and ethical decision-making and technical proficiency.

- **Promoting Transparency, Explainability and Stakeholder Engagement**

To foster trust and ensure responsible Ai implementation. Organizations must actively promote transparency; explain ability and comprehensive stakeholder engagement. This involves implementing Explainable AI (XAI) to demystify complex algorithms and provide human-readable insights into AI decisions. Clear communication about how AI systems function, what data is used and how decisions are derived is paramount for building trust and reducing employee resistance.

CONCLUSION

The integration of Artificial Intelligence into Human Resource Management in India presents a complex interplay of transformative potential and significant legal and ethical challenges. While AI offers unparalleled opportunities for efficiency,

enhanced decision-making and personalized employee experiences, its deployment necessitates careful navigation of inherent risk, particularly, concerning algorithmic bias, data privacy, accountability, job displacement and the preservation of human dignity.

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