



Original Article

Ethical, Legal, And Governance Issues of Artificial Intelligence in Business: A Study from Nanded City, Maharashtra (2024–25)

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Abstract

Artificial Intelligence (AI) has increasingly transformed business models, operational processes, and strategic decision-making across global and regional economies. While AI adoption offers significant efficiency gains and competitive advantages, it simultaneously introduces ethical vulnerabilities, legal uncertainties, and governance challenges. Although substantial literature examines AI governance in advanced economies and metropolitan regions, limited attention has been given to tier-II Indian cities where institutional maturity and regulatory awareness remain evolving. This study addresses that gap by examining ethical, legal, and governance dimensions of AI adoption in businesses operating in Nanded City, Maharashtra, during 2024–25. Using a secondary data analysis approach, the research synthesizes policy documents, scholarly literature, and industry reports to identify region-specific challenges. Findings indicate that AI adoption in Nanded is progressing unevenly across sectors, with retail and logistics leading implementation. However, data privacy risks, algorithmic bias, regulatory ambiguity, and weak governance structures—particularly among small and medium enterprises—pose significant long-term risks. The study proposes a conceptual alignment framework linking ethical safeguards, legal clarity, and governance maturity as prerequisites for responsible AI integration. The paper concludes by emphasizing institutional capacity building, regulatory refinement, and structured governance mechanisms to ensure sustainable AI-driven business growth in regional economies.

Keywords: Artificial Intelligence, Business Ethics, AI Governance, Legal Regulation, Regional Economy, Secondary Data Analysis.

Introduction

Artificial Intelligence has emerged as a transformative force reshaping business models, operational processes, and strategic decision-making worldwide (Brynjolfsson & McAfee, 2017). Businesses increasingly rely on AI-powered systems for customer relationship management, supply chain optimization, fraud detection, and market forecasting. In India, national initiatives such as Digital India and AI for All have accelerated the diffusion of AI technologies beyond metropolitan regions into tier-II cities like Nanded (NITI Aayog, 2020). Despite these advancements, the integration of AI in business is accompanied by complex ethical dilemmas, legal uncertainties, and governance challenges (Floridi et al., 2018). AI systems frequently operate using large volumes of personal and organizational data, raising concerns about privacy, transparency, accountability, and fairness. Moreover, the absence of comprehensive AI-specific regulations creates ambiguity regarding responsibility and liability in AI-driven decisions (Weber, 2021). Nanded City, located in the Marathwada region of Maharashtra, represents a developing urban economy with growing adoption of digital technologies by local businesses. However, limited institutional capacity and regulatory awareness make ethical and governance challenges more pronounced. This study aims to analyse these issues systematically using secondary data for the period 2024–25.

Literature Review

1. Artificial Intelligence in Business

AI technologies enable organizations to process vast datasets, automate repetitive tasks, and generate predictive insights, thereby improving efficiency and competitiveness (Agrawal et al., 2018).

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Research indicates that businesses adopting AI experience cost reductions, improved customer satisfaction, and enhanced operational agility (Dwivedi et al., 2021). However, uneven adoption across sectors and regions creates disparities in benefits and risks.

2. Ethical Issues in AI

Ethical concerns in AI primarily relate to data privacy, algorithmic bias, transparency, and human oversight (Floridi et al., 2018). O'Neil (2016) argues that algorithmic systems may reinforce existing social inequalities if trained on biased data. Lack of explainability further complicates accountability, especially in high-impact decisions such as credit approvals and hiring.

3. Legal Challenges of AI

Globally, legal systems struggle to keep pace with AI innovation. While the European Union has proposed the AI Act to regulate high-risk AI systems, India currently relies on general data protection and IT laws (European Commission, 2021). Scholars note that unclear liability frameworks expose businesses to legal and reputational risks (Kuner et al., 2020).

4. AI Governance Frameworks

AI governance refers to institutional mechanisms that guide responsible development and deployment of AI systems (Weber, 2021). Effective governance includes ethical guidelines, risk assessments, audit mechanisms, and board-level oversight. Studies show that organizations with strong governance frameworks enjoy higher stakeholder trust and compliance readiness (KPMG, 2021).

5. Regional Perspective

Most AI studies focus on metropolitan regions, whereas tier-II cities face constraints such as limited expertise, lower digital literacy, and weaker governance capacity (Sharma & Singh, 2022). This highlights the need for region-specific analysis, particularly for cities like Nanded.

Objectives of study

1. To examine the ethical, legal, and governance challenges associated with the adoption of Artificial Intelligence in businesses operating in Nanded City, Maharashtra.
2. To analyze the level of governance readiness and regulatory awareness among regional businesses for responsible and sustainable AI implementation.

Research Methodology

1. Research Design

This study adopts a descriptive and exploratory research design to examine the ethical, legal, and governance issues associated with Artificial Intelligence (AI) adoption in businesses operating in Nanded City, Maharashtra, during the year 2024–25. The research is exploratory because AI governance in tier-II cities remains under-researched, and descriptive because it systematically analyzes observable trends and documented evidence from secondary sources (Creswell & Creswell, 2018).

The study does not attempt to test causal hypotheses but instead aims to identify patterns, risks, governance gaps, and compliance challenges emerging from AI usage in the regional business ecosystem.

2. Nature of Data

The study is based entirely on secondary data analysis. Secondary data refers to information that has already been collected, processed, and published by researchers, institutions, or government bodies for purposes other than the present research (Johnston, 2017).

Sources of data include:

1. Government policy documents (Government of India, Maharashtra State policies)
2. Reports by NITI Aayog (2020)
3. Academic journal articles on AI ethics and governance
4. Industry reports by consulting firms such as KPMG (2021)
5. International regulatory frameworks (European Commission, 2021)
6. Peer-reviewed research on algorithmic bias and data governance (Floridi et al., 2018; O'Neil, 2016)

3. Scope of the Study

The geographical scope of the study is limited to Nanded City, Maharashtra, a developing urban business center in the Marathwada region. The temporal scope is restricted to 2024–25, a period characterized by increasing digital transformation in regional businesses.

The sectoral scope includes:

1. Retail and e-commerce
2. Banking and financial services
3. Healthcare
4. Logistics and transportation
5. Education services
6. The study focuses specifically on:
7. Ethical issues (privacy, bias, transparency)
8. Legal concerns (regulatory ambiguity, liability)
9. Governance readiness (internal policies, compliance mechanisms)

4. **Method of Data Analysis**

A thematic analysis approach was used to synthesize the collected secondary data (Braun & Clarke, 2006). The analysis involved:

1. Reviewing literature and policy documents.
2. Identifying recurring themes related to AI ethics, law, and governance.
3. Categorizing findings into three major dimensions:
4. Ethical Challenges
5. Legal and Regulatory Issues
6. Governance Readiness

The interpretation was contextualized to reflect the socio-economic and technological conditions of Nanded City.

5. **Reliability and Validity**

To ensure reliability, data was sourced from credible academic journals, government publications, and established institutional reports. Construct validity was maintained by aligning the analytical framework with established AI governance literature (Weber, 2021; Dwivedi et al., 2021).

Findings and Discussion

1. **AI Adoption Patterns in Nanded City**

Secondary data indicates that AI adoption in Nanded City remains moderate and uneven across sectors. Retail and logistics sectors demonstrate relatively higher adoption due to demand forecasting, chatbots, and inventory optimization tools. Banking institutions are cautiously adopting AI for fraud detection and credit risk assessment.

However, healthcare and education sectors show comparatively low AI penetration due to high implementation costs, regulatory sensitivity, and skill shortages (Sharma & Singh, 2022).

This uneven distribution suggests that AI adoption in regional economies is driven more by operational necessity than strategic innovation.

2. **Ethical Issues in AI Deployment**

1. **Data Privacy and Consent**

AI systems rely heavily on customer data, including behavioral patterns and transaction histories. In the absence of strong data governance frameworks, businesses risk unauthorized data usage or breaches. Floridi et al. (2018) emphasize that privacy protection is a foundational principle of ethical AI.

In Nanded, many SMEs lack structured data management policies, increasing vulnerability to compliance violations.

2. **Algorithmic Bias and Fairness**

Algorithmic bias arises when AI systems reflect or amplify existing social and economic inequalities (O'Neil, 2016). For example, biased training datasets can lead to discriminatory lending or hiring outcomes.

In regional contexts where datasets may be limited or unrepresentative, the risk of bias is heightened. Businesses often lack expertise to audit AI outputs for fairness, making bias detection difficult.

3. **Transparency and Explainability**

AI systems frequently function as "black boxes," meaning decision-making processes are not easily interpretable (Dwivedi et al., 2021). This lack of explainability reduces accountability and makes it difficult for businesses to justify AI-driven decisions to customers or regulators.

3. **Legal and Regulatory Issues**

India currently lacks comprehensive AI-specific legislation. Businesses rely primarily on general IT laws and emerging data protection frameworks. This creates regulatory ambiguity regarding:

1. Liability in case of AI errors
2. Responsibility for automated decisions
3. Data retention and consent protocols
4. Kuner et al. (2020) argue that unclear liability frameworks may discourage responsible AI adoption due to fear of legal exposure.
5. For Nanded businesses, this uncertainty leads to cautious adoption or informal implementation without compliance planning.

4. **Governance Readiness**

AI governance maturity varies significantly between large firms and SMEs.

1. **Large organizations tend to:**

- Develop internal AI usage policies
- Conduct periodic risk assessments
- Allocate IT compliance responsibilities

SMEs, however, often lack:

- Formal governance frameworks
- Ethical review committees
- Monitoring mechanisms

Weber (2021) notes that governance readiness directly influences stakeholder trust and regulatory compliance. The findings suggest that governance gaps are more pronounced in smaller regional enterprises.

5. Integrated Discussion

The findings reveal an important pattern: AI adoption in Nanded City is progressing faster than ethical and governance preparedness. While businesses recognize AI's operational benefits, they often underestimate long-term ethical and legal risks.

This imbalance may create reputational vulnerabilities and compliance challenges in the future. Responsible AI adoption requires not only technological capacity but also institutional maturity.

Limitations

1. **Secondary Data Dependence:** The study does not include primary surveys or interviews, limiting direct insights into firm-level practices.
2. **Regional Focus:** Findings are specific to Nanded City and may not reflect dynamics in metropolitan regions.
3. **Rapid Technological Change:** AI regulations and technologies evolve quickly, which may affect the long-term relevance of findings.
4. **Data Availability Constraints:** Limited publicly available data specific to Nanded required contextual interpretation from broader regional studies.

Suggestions

Development of Ethical AI Policies

Businesses should adopt written AI ethics guidelines emphasizing fairness, transparency, and accountability (Floridi et al., 2018).

Strengthening Legal Awareness

Local chambers of commerce should organize legal awareness workshops to educate SMEs on data protection compliance and AI risk management.

Institutionalizing Governance Mechanisms

Organizations should establish:

- AI oversight committees
- Internal audit systems
- Risk assessment protocols
- Governance maturity should become part of corporate strategy (Weber, 2021).

Capacity Building and Skill Development

Partnerships between local universities and businesses can enhance technical literacy and governance expertise in AI systems.

Policy-Level Intervention

State and national authorities should clarify AI-specific regulations, especially concerning liability and algorithmic accountability (European Commission, 2021).

Conclusion

Artificial Intelligence is reshaping business practices in Nanded City, offering efficiency gains and competitive advantages. However, ethical vulnerabilities, regulatory ambiguity, and governance deficiencies present significant challenges.

The study demonstrates that responsible AI adoption requires a multidimensional approach integrating:

- Ethical safeguards
- Legal clarity
- Governance accountability
- Skill development initiatives

For regional economies like Nanded, balancing technological innovation with institutional readiness is essential for sustainable growth. Future research should incorporate empirical primary data to deepen understanding of AI governance practices at the firm level.

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Conflicts of interest

The authors declare that there are no conflicts of interest regarding the publication of this paper.

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