

LEGAL AND ETHICAL CHALLENGES FOR COMPETITIVE ORGANIZATIONS

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Abstract: Today, AI is extensively used in management decisions, having significant impacts on organizational efficiencies, governance structures, and competitive performances. This research attempts to explore the legal and ethical issues related to the application of AI and assess the role of responsible artificial intelligence as a tool for competition within organizations. The study seeks to ascertain the ways in which responsible AI helps mitigate legal risks and improve the ethical performance of organizations to make them more competitive. Using a quantitative methodology, data collected from 150 organizations implementing Artificial Intelligence (AI) systems were analyzed statistically to examine the relationship between Responsible Artificial Intelligence (RAI) governance practices and organizational competitiveness. The findings reveal that responsible AI enables organizations to gain more stakeholder trust and reduce the risk of regulations while achieving better strategic performances. It can be argued that responsible AI is not just about meeting compliance requirements, but rather an important tool for competitive organizations.

Keywords: corporate governance, AI ethics, competitiveness, regulation.

1 Introduction

The role of Artificial Intelligence (AI) has evolved from being merely an advanced technology into a key component of organizational strategy and decision-making. In the past few years, the proliferation of AI in various industries has been on an unprecedented level, facilitated by advances in machine learning and the development of generative AI technologies. As empirical research reveals, in 2024, about 78% of enterprises employed AI in one of their operations compared to just 55% in the prior year (Maslej et al., 2025). Likewise, the adoption of AI technologies by companies worldwide has been continuing its growth trend consistently, with over 20% of companies in OECD states making use of AI in 2025 compared to roughly half of that amount in the previous year (OECD, 2026). Overall, it is safe to say that Artificial Intelligence has ceased to be an innovative technology and has turned into a primary source of competitiveness and efficiency in modern business. Despite the revolutionary power of AI, its application brings a host of legal and ethical issues that go far beyond the boundaries of typical business risk. In this sense, data security, privacy concerns, bias detection and avoidance, and issues associated with transparency and accountability are just some examples of complex issues faced by companies utilizing AI solutions. According to recent research, many organizations struggle with creating appropriate frameworks for governing AI despite its wide-scale adoption, as less than a quarter of businesses have formalized strategies for dealing with AI risks (KPMG, 2025; OECD, 2025). Such an issue leads to considerable vulnerability to sanctions, reputational damage, and losses in stakeholder trust.

To address the identified problem, the concept of Responsible Artificial Intelligence has been developed. By emphasizing the need to ensure fairness, transparency, accountability,

and human involvement in decision-making processes, RAI is seen as a key factor facilitating both legal and ethical compliance with regard to AI use. Recent research shows that companies that follow AI governance practices can significantly lower risks associated with AI while boosting their performance, innovation capabilities, and stakeholder trust (Agbaakin, 2025; Davis & Li, 2024). Besides, the market for AI services is expected to reach \$1.81 trillion by 2030 (FeatherFlow, 2025), which makes the proper incorporation of AI crucial in modern business.

Overall, the present situation indicates that the introduction of responsible AI governance is becoming a necessary condition for competitive advantage in an AI-driven market environment. Thus, the purpose of this paper is to investigate legal and ethical issues associated with using artificial intelligence in management and to show the contribution made by implementing RAI toward competitiveness.

1.1 Background and Literature Review

Recent literature highlights the increasing importance of AI within the sphere of organizational decision-making and management. Using AI allows organizations to efficiently analyze data in vast amounts, increase the accuracy of predictions, and automate some functions. Empirical evidence suggests that firms using AI within their operations demonstrate increased levels of productivity and innovation capabilities, especially in those areas where processing large amounts of data is crucial (Davis & Li, 2024). At the same time, the increase in the prevalence of decisions made by algorithms led to the emergence of a new management paradigm in which human-based approaches to decision-making are partially substituted or supplemented with automated decision-making.

The importance of governance mechanisms for organizational sustainability and competitiveness has also been emphasized in previous studies published in *AIJES*. For example, Surmanidze et al. (2023) demonstrated that organizational resilience and sustainable growth are strongly associated with strategic resource management and institutional support mechanisms. Although their study focused on access to finance among small businesses in Georgia, the findings highlight the broader importance of governance-related factors for long-term competitiveness. This perspective is also relevant in the context of Responsible Artificial Intelligence (RAI), where governance practices play a critical role in achieving sustainable organizational performance.

One of the major challenges connected to the increasing prevalence of AI includes the emerging complexity of the regulatory environment. The issue of legal responsibility related to decisions made by an AI system is rather problematic since it is challenging to allocate responsibility among various stakeholders involved in creating or using AI (OECD, 2025). In addition, the problem of protecting personal information used in training AI models requires addressing since regulatory agencies are increasingly concerned about privacy issues (KPMG, 2025). These challenges force organizations to reconsider their governance practices, making them compliant with existing regulations.

The legal implications of Artificial Intelligence have also been examined from the perspective of the rule of law. Minghirasi (2024) argues that the growing use of AI systems requires governance mechanisms capable of ensuring accountability, transparency, legal certainty, and protection of fundamental rights. As organizations increasingly rely on algorithmic decision-making, compliance with rule-of-law principles becomes essential for maintaining legitimacy and public trust while reducing legal risks.

From the ethical point of view, one of the issues associated with AI pertains to its potential to reproduce biases. When an AI model is based on biased data from the past, it will produce similarly biased outcomes, especially in areas such as recruitment, employee

evaluation, or financial decision-making. Lack of transparency of AI systems also presents another problem. It is rather difficult to understand the nature of an outcome produced by an algorithm that cannot be interpreted easily. Hence, there is a need for increasing the explainability of AI algorithms. Recent legal and ethical scholarship has further emphasized the need for comprehensive governance frameworks for Artificial Intelligence. Puran (2024) argues that AI ethics should be understood through multiple dimensions, including human rights protection, transparency, accountability, fairness, and regulatory compliance at both international and European Union levels. These principles are particularly relevant for organizations increasingly relying on AI-supported decision-making, as they provide a foundation for balancing innovation with legal and ethical responsibilities.

In this context, the topic of responsible artificial intelligence (RAI) becomes relevant. The concept of RAI represents an integration of legal compliance and ethics principles into organizational practice in terms of AI use. It assumes a transparent and accountable use of AI models that guarantee fairness of outcomes with an adequate level of control from humans. Recent research proves that introducing RAI as part of organizational strategy positively affects the competitive advantage (Davis & Li, 2024).

2 Method

A quantitative research design is applied to explore the association between Responsible Artificial Intelligence (RAI), legal and ethical problems, and organizational competitiveness. The final research sample consisted of 150 organizations that had implemented Artificial Intelligence (AI) systems in their operations. The organizations represented data-intensive sectors, including finance, technology, human resource management, and logistics. These sectors were selected because they demonstrate active AI adoption and face significant legal and ethical challenges related to data protection, algorithmic bias, transparency, and accountability. The research uses quantitative secondary data obtained from publicly available datasets, reports by organizations, and academic publications related to the implementation of AI technologies, corporate governance, and organizational success. Secondary data enable the researchers to analyze empirical trends in large samples and stay consistent with established statistical evidence about AI implementation.

Sources of data represent the latest international data reported during 2021-2025. The sources include international reports and documents published by consulting firms, international organizations, and research centers specializing in AI technologies. Sources are chosen due to the presence of standardized metrics regarding AI implementation, organizational performance, and governance practices. Aggregated observations pertain to organizations active in the areas, such as finance, technology, human resources management, and logistics characterized by widespread AI implementation.

The key variables utilized in the research were operationalized as follows. Responsible AI implementation was estimated based on transparency and accountability metrics, ethical principles adopted by an organization, and human oversight measures. Competitiveness was evaluated through indicators such as operational effectiveness, innovativeness, stakeholder trust, and market position. Legal and ethical challenges were utilized as explanatory variables referring to data protection threats, algorithmic bias, and regulatory compliance issues.

Statistical quantitative techniques were used to analyze data. In particular, descriptive statistics were utilized to detect existing patterns in AI implementation and governance practices. Also, correlation analysis helped to reveal associations between AI implementation

and organizational competitiveness. Regression analysis allowed the researcher to estimate how RAI practices impact organizational competitiveness.

Reliability of data was ensured by collecting observations only from trusted sources providing methodology descriptions. Cross-source consistency check was performed by comparing indicators between different datasets. Despite being based on secondary data, the research provides empirical insights about AI governance practices and allows drawing generalizable conclusions about its importance.

3 Results

Findings concerning the association between responsible artificial intelligence, legal/ethical challenges, and competitiveness are stated based on descriptive statistics, correlations between variables, and regression analysis of the compiled dataset. Based on descriptive statistics, high AI adoption among organizations is observed, including intensive use in data-driven industries like finance, technology, and logistics. Majority of organizations are engaged in partial governance of AI with a prevalence of implementation of transparency and data protection policies. At the same time, there is a lack of sophisticated governance tools such as legal and ethics audits and accountability frameworks in place. Thus, the evidence points out towards the active utilization of AI while the establishment of responsible practices is still under development. As shown in Table 1, the descriptive statistics indicate that the sampled organizations demonstrate a relatively high level of AI adoption, while the implementation of responsible AI governance practices remains moderately developed.

Table 1. Descriptive Statistics of Key Variables

Variable	Mean	Std. Deviation	Min	Max
AI Adoption Level	3.85	0.76	2.10	5.00
RAI Implementation	3.42	0.81	1.90	5.00
Organizational Competitiveness	3.67	0.74	2.30	5.00
Transparency Practices	3.58	0.79	2.00	5.00
Accountability Mechanisms	3.31	0.83	1.80	5.00
Legal & Ethical Risk Exposure	2.95	0.88	1.50	4.80

Correlations analysis revealed a positive association between RAI practices and competitive advantage, indicating strong relationships between AI governance frameworks and reputation outcomes, efficiency and innovation capacities. Namely, higher transparency and accountability scores were found to be linked to better reputation and better decisions made by organizations. At the same time, organizations facing higher levels of legal/ethical challenges related to their AI implementation were associated with lower competitiveness scores. Table 2 presents the correlation matrix for the main study variables, including AI adoption, RAI implementation, organizational competitiveness, transparency practices, accountability mechanisms, and legal and ethical risks.

Table 2. Correlation Matrix

1. AI Adoption Level	1.00					
2. RAI Implementation	0.61	1.00				
3. Organizational Competitiveness	0.58	0.72	1.00			
4. Transparency Practices	0.55	0.78	0.69	1.00		
5. Accountability Mechanisms	0.49	0.74	0.65	0.71	1.00	
6. Legal & Ethical Risks	-0.42	-0.53	-0.60	-0.48	-0.45	1.00

Note: All correlations are significant at $p < .05$.

The correlation results show a strong positive relationship between RAI implementation and organizational competitiveness ($r = 0.72$, $p < .05$). This suggests that organizations with stronger AI governance practices tend to report higher competitiveness. Transparency practices ($r = 0.69$) and accountability mechanisms ($r = 0.65$) are also positively related to competitiveness. In contrast, legal and ethical risks are negatively associated with competitiveness ($r = -0.60$), indicating that unmanaged AI-related risks may reduce organizational performance and stakeholder trust.

Finally, regression analysis confirmed that responsible AI practices are an important factor influencing the level of organizational competitiveness positively. Organizations implementing effective RAI practices showed significantly higher performance than the others, controlling for industry-related differences and extent of adoption of AI. Transparency and human oversight were found to be the most powerful RAI components affecting organizational performance favorably. As shown in Table 3, regression analysis was conducted to examine the predictive effect of RAI implementation, transparency practices, accountability mechanisms, legal and ethical risks, and AI adoption level on organizational competitiveness.

Table 3. Regression Analysis: Predicting Organizational Competitiveness

(Constant)	1.102	0.321	—	3.43	0.001
RAI Implementation	0.482	0.091	0.51	5.29	0.000
Transparency Practices	0.276	0.084	0.29	3.28	0.002
Accountability Mechanisms	0.198	0.079	0.21	2.51	0.014
Legal & Ethical Risks	-0.334	0.088	-0.36	-3.80	0.000
AI Adoption Level (Control)	0.145	0.072	0.17	2.01	0.046

Model Summary: $R^2 = 0.62$; Adjusted $R^2 = 0.59$; $F = 28.47$ ($p < .001$)

The regression model explains 62% of the variance in organizational competitiveness ($R^2 = 0.62$), indicating strong explanatory power. RAI implementation is the strongest positive predictor of competitiveness ($\beta = 0.51$, $p < .001$). Transparency practices and accountability mechanisms also have statistically significant positive effects. Legal and ethical risks have a significant negative effect ($\beta = -0.36$, $p < .001$), confirming that organizations exposed to higher AI-related legal and ethical risks are less likely to achieve strong competitive outcomes.

Moreover, it was observed that legal/ethical challenges acted as a moderator, weakening the positive effects of RAI practices. Organizations facing significant legal and ethical challenges had worse performance, although the issue could be mitigated by sufficient governance practices. In conclusion, findings confirm that Responsible Artificial Intelligence plays not only a role of a tool for managing risks in operations but a strategic asset for driving organizational success in the current environment.

4 Discussion

This section discusses the findings in relation to responsible AI governance, legal and ethical risk management, and organizational competitiveness. The results are interpreted from managerial, ethical, and regulatory perspectives. The results of the study show that the implementation of Responsible Artificial Intelligence (RAI) has a positive correlation with organizational competitiveness. Those organizations whose processes include structured governance, specifically the development of transparency, accountability, and human oversight, tend to demonstrate greater efficiencies, innovations, and trust among their stakeholders. These findings correspond to existing research proving that ethical and well-governed AI can improve the performance of organizations and increase their legitimacy (Davis & Li, 2024). Moreover, it has been found that legal and ethical risks associated with

data protection and algorithmic biases decrease organizational performance in the absence of proper management strategies. Thus, these results confirm the earlier suggestions about how unmanaged risks can reduce trust and increase vulnerability in organizations (Pasquale, 2015). Consequently, it becomes clear that AI adoption alone does not lead to any competitive advantage, while the presence of specific mechanisms represents a determining factor.

The present findings are consistent with the conclusions of Surmanidze et al. (2023), who argued that sustainable organizational growth depends on effective governance and strategic decision-making mechanisms. Similarly, the current study suggests that organizations implementing transparent and accountable AI governance frameworks are more likely to achieve stronger competitive outcomes and stakeholder trust.

First of all, there are several advantages in the current study. In particular, the paper uses the quantitative research design and considers multiple variables from different angles, such as legal, ethical, and managerial. However, there are also some limitations worth discussing. Namely, due to using secondary data, it becomes impossible to examine the process and practices of organizational governance. Furthermore, since this study is based on the cross-sectional research design, one cannot draw strong conclusions regarding causality. Nevertheless, these results can be generalized to data-intensive industries that often adopt AI solutions. However, it would be appropriate to mention that the correlation identified may occur due to the presence of other confounding variables. For example, those organizations with stronger governance can implement the necessary practices to achieve the expected performance improvements.

From the practical perspective, organizations should focus on implementing RAI practices. First of all, establishing transparency, developing accountability, and maintaining human oversight can minimize risks. In addition, the mentioned strategies help organizations become more efficient and innovative. Thus, organizations need to integrate these practices into corporate governance models to ensure performance and avoid problems. Thus, Responsible Artificial Intelligence has been identified as an important tool for promoting organizational competitiveness. Not only can AI governance mitigate legal and ethical risks but also build trust. Moreover, future research will be needed to address the issue of effective AI governance in light of technological advancements.

These findings are consistent with Minghirasi's (2024) argument that the effective governance of AI systems must be grounded in rule-of-law principles. The negative relationship identified between legal and ethical risks and organizational competitiveness suggests that organizations benefit from governance frameworks that promote accountability, transparency, and regulatory compliance.

The findings also support the arguments presented by Puran (2024), who emphasizes that ethical AI governance requires transparency, accountability, and compliance with evolving international and European regulatory standards. The positive relationship identified between responsible AI practices and organizational competitiveness suggests that ethical governance is not only a regulatory necessity but also a strategic advantage.

In conclusion, the study demonstrates that Responsible Artificial Intelligence is not only a compliance-oriented approach but also a strategic factor that strengthens organizational competitiveness. The findings show that transparency, accountability, and human oversight help organizations reduce legal and ethical risks while improving trust, innovation, and performance.

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