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ABSTRACT

Artificial Intelligence (AI) has presented itself as a revolutionary event that is transforming business and management innovation on a wide scale of organizational functions. AI-enabled systems are transforming the way of decision-making processes, organization setting, and the value creation processes through innovation management and sustainable business models to human resource management (HRM) and marketing intelligence. The paper reviews the existing scholarly sources to understand the role of AI in business and management innovation, especially in regard to innovation management, HRM, sustainability, and marketing. Based on the systematic literature reviews, conceptual frameworks, and bibliometric analyses, the study constitutes a qualitative and integrative approach to research. The results point out that AI is an efficiency, creativity, and scalability facilitator potential, but at the same time creates an ethical issue, employee resistance, and the threat of organizational dehumanization. At the end of the paper, the author finally suggests strategic and management guidelines in developing the concept of harmonizing the progress of technologies with human-focused innovation, providing guidelines on future research and real-world applications.

KEYWORDS

Artificial Intelligence, Business Innovation; Innovation Management, Human Resource Management, Sustainable Business Models, Marketing Analytics.

INTRODUCTION

The fast development of the Artificial Intelligence (AI) technologies has significantly changed the sphere of business and management innovation. Organizations are also implementing AI-

based applications more frequently to optimize their operational processes, enhance strategic decisions and enhance innovation in functional areas. In comparison with previous forms of digitalisation, AI does not only play a supporting role but may be considered a cognitive system, learning, reasoning, and capable of making autonomous decisions (Soni et al., 2020). As a result, AI is transforming the nature of value creation, competition, and innovation by firms in dynamic settings.

According to recent studies, the impact of AI is not only the stream of technological optimization but also the radical change in the way innovation management is conducted, organizational behaviour, and business models (Haefner et al., 2021; Fuller et al., 2024). One of the most common AI insights introduced into management spheres pertains to Human resource operations, marketing strategies data, ethical decision-making software, and innovation approaches based on sustainability sustainability (Rodgers et al., 2023; Sharma et al., 2025). Nevertheless, with all the advantages, AI application implies a dilemma of ethical governance, labour displacement, dehumanisation of the employees and confidence in algorithmic decision-making (Shin et al., 2025).

The scale of interdisciplinary attention to AI as a driver of business transformation has been increasing; thus, the present paper will critically assess the use of AI in driving business and management innovation and solving emerging challenges. This research proposal aims to compile academic writings about the strategic implications of AI and their managerial implications in the essential business areas.

The fast evolution of Artificial Intelligence (AI) technologies has brought about a drastic change in the field of business and management innovation. Organisations are moving towards the application of AI-based solutions to streamline operations, improve strategic decision making, and create novelty in functional areas. However, in contrast to previous waves of digitalisation, AI does not only assist human activity; on the contrary, it can learn, reason, identify patterns, and make autonomous decisions (Soni et al., 2020). As a result, AI is transforming the value creation process, competition, and innovation strategies in the fast-changing market environments.

Recent research reveals that the effect of AI is not only in the field of technological efficiency but also in the complete restructuring of the work of innovation management, organisational behaviour, and business models (Haefner et al., 2021; Fuller et al., 2024). Human resource analytics, predictive marketing, financial risk assessment, compliance monitoring, and sustainability-oriented

innovation application are some of the most common fields of application of AI-driven systems (Rodgers et al., 2023; Sharma et al., 2025). As an example, AI-based analytics can help companies to recruit talents with the help of screening based on the algorithm, and machine learning applications can improve customer personalisation and demand prediction. Nevertheless, in spite of such benefits, AI implementation provokes critical issues in the domain of ethical regulation, labour robots, dehumanisation of employees, and excessive dependence on algorithmic decision-making (Shin et al., 2025).

LITERATURE REVIEW

AI and Innovation Management

The application of Artificial Intelligence (AI) to innovation management signifies more than a techno-logical change; it also indicates a major change in terms of policies and regulations. Fuller et al. (2024) attribute AI's augmentation of ideation, evaluation, and commercialization to its ability to conduct data-driven experiments. However, algorithmic systems function within legal systems that mandate accountability, transparency, and reasonable management of risks. Where innovation activities are dependent on analytics that are managed by AI, there is the inescapable reality of processing data in volume, which activates the need to comply with data protection laws, particularly the General Data Protection Regulation (GDPR). Articles 5 and 22 of the GDPR address the challenge of automated decision-making and profiling, in which there are legal obligations of compliance that pertain to the lawfulness, fairness, and transparency of such decisions, as well as the possibility of a human decision-maker intervening in the decision, if that decision has a substantial impact.

Haefner et al. (2021) think of AI in the innovation ecosystem as an extension of human thinking, although this type of extension needs to be understood in terms of legal accountability. Assigning evaluative or predictive decisions to AI systems is problematic in terms of legal accountability because, for instance, if an algorithm is discriminative or triggers a loss due to a malfunctioning system, who is to be held liable? Traditional negligence and product defect liability theories may be inadequate to address the shifted responsibilities of designers, implementers, and users of AI systems. New EU regulations in the draft AI Act (2024) have a risk-based approach to legislation, aiming to provide an answer for Third Party Liability in Negligence. For AI systems used in high-risk innovations, such as financial modelling or AI recruitment tools, the Conformity Assessment Regulation (CAP) requires AI systems to have technical documentation, to comply with a set of

Data Governance Framework Regulation, and to have a Human Oversight Regulation (HO) in conjunction with the AI systems.

In addition, AI-based innovations also engage with IP law. Per the TRIPS Agreement and existing patent law, for an invention to be patentable, the requirement is human inventorship, which creates doctrinal ambiguity with respect to patenting AI-generated inventions. The questions of authorship, ownership, and patentable subject matter continue to be unsettled in different legal systems.

The International soft-law frameworks, such as the OECD Principles on Artificial Intelligence (2019) and the Council of Europe Framework Convention on Artificial Intelligence (2024) focus on the regulatory human rights-based approach. It provides transparency, strength, and accountability. Therefore, the use of AI in innovation management must be viewed as a regulated socio-technical system, in which compliance, governance, and legal risk are integral to the elaboration of a sustainable competitive advantage, rather than as peripheral aspects.

AI in Human Resource Management and Organizational Behavior

The use of AI in HRM has increased at a high rate, including recruitment, performance management, employee engagement, and decision-making beyond what is ethical. Rodgers et al. (2023) address the issue of ethical decision-making in HR and AI-based algorithms and show that AI could help lessen biases and enhance consistency. However, they warn about excessive dependence on the unbiased algorithmic reasoning that lacks human control.

AI has been introduced into various components of Human Resource Management including recruitment, assessments, employee data, and workforce analytics. While Rodgers et al. (2023) state that AI brings greater procedural fairness and circumvents some human biases, the use of AI in hiring and firing raises considerable legal risks. Article 22 of the General Data Protection Regulations (GDPR) grants individuals the right to not be subject to automated decision making in recruitment and termination processes. Therefore, employers have an obligation to be transparent and explain the workings of the algorithm, as well as provide some degree of human oversight in the decision-making process.

Derived from the Shin et al. (2025) discussion, an organisational system that relies on AI tools raises the risk of creating an environment of employee distrust and organisational dehumanisation. This undesired effect can have legal

ramifications when the use of such AI tools is not perceived as fair by employees. There is no exception to anti-discrimination laws with respect to the use of AI in decision-making processes. Consequently, AI is subject to the UK Equality Act 2010, Title VII of the U.S. Civil Rights Act 1964, and EU Equal Treatment Directives. Entities using AI that have a disproportionate effect on individuals classified as belonging to a "protected class" risk being sued and/or facing legal penalties as well as losing their reputation. Additionally, the European Union Artificial Intelligence Act categorizes AI systems in recruitment as "high risk" and therefore places requirements regarding risk management, data management and governance, bias mitigation, record-keeping, and the provision of human oversight. Therefore, AI-powered HRM systems must incorporate design-privacy, algorithmic auditing, and accountability provisions to safeguard due process and the protection of fundamental rights at work.

AI and Sustainable Business Model Innovation

Innovation in business models and sustainability division has been aided in resource utilization, prediction of optimizing analytics, and operationalization of the circular economy frameworks through the use of Artificial Intelligence. Sharma et al. (2025) explain that AI helps in the enhancement of the environment, enhancement of the supply chain, and long-term strategic siloing of environmental threats. In addition, legal and regulatory requirements are beginning to shape managerial efficiency to an even greater degree. New regulations in the European Union on Corporate Sustainability Reporting create an obligation on firms to report negative and positive impacts related to the use of digital and AI systems that create environmental, social, or governance (ESG) risks. This means that environmental decision-making aided by Artificial Intelligence must be transparent, accountable, and auditable.

In addition, any Artificial Intelligence that works with environmental compliance or carbon reporting must be legally sustainable. In addition to the environmental protection laws of the nation or the Paris Agreement on Climate Change (2015), reporting sustainability metrics inaccurately, or an algorithm that reports inaccurately, could create legal issues for the organization related to regulatory sanctions, greenwashing, and litigation by shareholders.

Legal issues related to the innovation of sustainable AI come from intellectual property laws as the TRIPS Agreement, and other patent laws, and require that there be a human element in order to have a patent. This poses issues of ownership and patenting for AI that creates sustainable technologies. Moreover, sustainable

innovation has been added to corporate governance with AI ethics, and includes reputational and legal risk compliance audits and other legal risk measures to manage these themselves. Thus, it is imperative that AI-driven sustainable innovation is integrated into strong legal compliance systems so that the triad of environmental enhancement, technological development, and corporate accountability can work in harmony with the evolving regulatory requirements and global sustainability legal frameworks.

AI in Marketing and Consumer Insights

The incorporated nature of AI in the marketing sphere has fundamentally reshaped the management of customer relations, personalization policies, as well as market intelligence. Yao et al. (2025) show that AI-based marketing systems can be used to support real-time consumer insights and predictive behaviour modelling, as well as automated decision-making. These features boost the interactions and marketing efficiency with the customers. However, there are still concerns related to the privacy of data, transparency of algorithms, and trust between consumers. Marketing systems operated by AI should preserve long-term brand credibility by balancing between personalization and ethical usage of data.

Research Trends and Bibliometric Insights

Mukthar et al. (2025) present a bibliometric review of the dynamics of research on AI, specifically in the fintech and business innovation areas. They find that AI-related publications have grown exponentially and the interest in AI and AI-related publications is on the rise among scholars and managers, as reflected in their publications. The research highlights a cross-disciplinary approach to AI studies, as it involves looking at it through the lens of management, technology, ethics and sustainability.

ANALYSIS

The legal regulation of artificial intelligence in the context of business and management innovation is primarily focused on the development of the regulation of international law and interregional approaches, along with sector-specific compliance/normative mechanisms. The most prominent legislative tool for regulating AI-based data processing is the EU General Data Protection Regulation (GDPR) (Regulation (EU) 2016/679). Article 22 of the GDPR gives the data subject the right not to be the subject of decisions which are based solely on automated processing, including profiling, which leads to legal consequences or have a significant impact on the data subject.

Articles 5 and 13–15 impose requirements for transparency, purpose limitation, data minimization and provision of information regarding algorithmic logic. The GDPR also sets large-scale financial penalties, up to 20 million euros and up to 4% of the of the company's global annual turnover, whichever is higher, which illustrates the seriousness of compliance obligations.

In 2024, the European Union Artificial Intelligence Act (AI Act) will be the first legislation in the world to comprehensively regulate artificial intelligence. The Act separates AI systems into unacceptable risk, high risk, limited risk, and minimal risk. High-risk AI systems are those used in recruitment, credit scoring, education, and biometric identification. These systems are subject to numerous requirements, including risk assessment, human control, documentation, data governance, and compliance assessment. Non-compliance with these requirements can result in administrative fines of up to 7% of the company's global annual turnover.

AI governance ethics at the international level show the most promise with the OECD Principles on Artificial Intelligence (2019), which stress global standards of transparency, accountability, and human-centrism, and the 2024 Council of Europe Framework Convention on Artificial Intelligence which focuses on human rights and the democracy and rule of law verticals, as the most promising example at the international treaty level.

AI in corporate governance and the Environmental, Social, and and Governance (ESG) reporting obligations has also emerged with the EU Corporate Sustainability Reporting Directive (CSRD), which obliges companies to report concerning their digital systems and the associated risks of AI particularly around privacy, discrimination, and sustainability. Also, anti-discrimination laws like the UK Equality Act 2010 and the U.S. Civil Rights Act of 1964 (and their amendments) apply to decision making algorithms in the recruitment and employment space so that discriminatory AI falls within the domain of illegality and so may expose companies to lawsuits.

Intellectual Property presents emerging challenges of its own. Current patent systems that are guided by international trade agreements on trade and intellectual property rights (TRIPS) and innovations must meet the criterion of human inventorship. This requirement brings concerns about the right to own innovations that are generated by AI. The aforementioned regulatory instruments illustrate that innovation in business through AI currently faces a mosaic of regulatory environments, thereby necessitating organizations to incorporate regulatory frameworks, legal audits, and ethical impact considerations in their AI

governance.

METHODOLOGY

Present research is qualitative in nature, with the integrative literature review as the methodology that summarizes the results of the high-quality peer-reviewed journal articles. The chosen literature is based on systematic literature reviews, conceptual frameworks, bibliometric analyses, and empirical studies of the years 2020-25. This method allows one to see AI in a multifaceted form of innovation in the field of business and management.

The analysis is based on the thematic synthesis journey, which implies classifying findings into four major areas innovation management, human resource management, sustainable business model, and marketing. The patterns, contradictions, and gaps in research are determined by the comparison and contrasting of theoretical points of view and empirical results of the study. It is an appropriate methodology that can be used in development of theories and generation of strategic insights in new areas of research. The current study is a qualitative study, and the methodology is the integrative literature review that sums up the findings of the high-quality journal articles that underwent peer review. The selected literature relies on the systematic literature reviews, conceptual frameworks, bibliometric analysis, and empirical research of 2020-25. This approach enables one to view AI as a complex type of innovation in business and management.

The results are analysed in terms of thematic synthesis journey, which presupposes the ability to place the findings under four key areas of interest identified as innovation management, human resource management, sustainable business model, and marketing. The comparison and contrast of the theoretical perspective and empirical outcomes of the study determine the patterns, contradictions, and gaps in research. It is a suitable methodology that may be applied in theory formulation and creation of strategic insights in novel fields of study.

FINDINGS

The analysis reveals several key findings:

AI is a powerful tool to increase the process of innovation through boosting the speed of ideation, enhancing the quality of decisions, and allowing experimentation on the basis of data. Organisations that successfully use AI to their benefit show their superior

performance in terms of innovation and flexibility. Furthermore, there is a paradox in the use of AI in HRM. Whereas AI increases efficiency and ethical uniformity, it may also destroy human relationships and trust among employees when mistakes are made in implementation. The collaboration between human and AI becomes identified as a key success factor.

The AI-based sustainability initiatives help to create long-term value by integrating the economic, environmental, and social goals. These advantages however are contingent on strategic integrated and ethical governance models. Together with these points, AI-driven marketing systems have greater consumer insights and personalization, yet they are also associated with the threat of privacy and transparency. The innovative sustainable marketing will depend on the trustful AI implementation.

The increasing cross-disciplinary interest in literature on Responsible AI governance and the legal institutionalisation of AI supervision is notable. Although AI fosters innovation through rapid ideation, predictive modelling, and data-driven experimentation, the deployment of AI technologies is now legally governed. Article 22 of the GDPR gives users the right to not be subject to an automated decision that has legal consequences, including the right to a human intervention and the right to challenge the decision.

Human Resource Management (HRM) reveals a notable paradox. While the first (or initial) AI systems are designed to provide and facilitate automated recruitment, performance analytic and workforce planning, the employment-related AI systems have been classified as 'high-risk' under the EU Artificial Intelligence Act (2024) and Risk AI systems are subject to compliance obligations concerning transparency, human intervention, bias mitigation, etc. Additionally, the UK Equality Act 2010 and Title VII of the U.S. Civil Rights Act 1964 are anti-discrimination laws that govern algorithmic hiring. Employers suffer liabilities, and regulatory scrutiny and damages from AI systems that violate anti-discrimination policies. As such, organizational trust and compliance mandates that explainability, transparency, fairness (tests), and human (compliance) reviews be utilized (or employed) as 'legal practices' – and not 'best practices'.The same holds true for AI-enabled environmental sustainability initiatives. AI drives the compliance regulations for environmental reporting obligations under the ESG disclosure regimes and the EU Corporate Sustainability Reporting Directive (CSRD) and the digital systems that impact the environmental performance of an organization. Business innovation driven by Artificial Intelligence (AI) is becoming increasingly complicated by the patchwork of domestic laws and international treaties. The multiple advantages

of AI (operational efficiency, predictive analytics, and improvements to strategic competitiveness) are not without challenges, as leg al requirements surrounding data, human rights, trade, and sustainability limit the potential of AI. Starting from the data governance level, General Data Protection Regulation (GDPR) (EU) 2016/679 lays down the principles of lawfulness, fairness, and transparency, as well as data minimisation, and accountability. The Regulation sets a standard of fairness and transparency pertaining to automated decision-making in which the Regulation sets an example by requiring any AI system that 'significantly impacts' an individual to implement adequate AI system safeguards. Subsequently, the European Union Artificial Intelligence Act (2024) has a governed a risk-based approach to AI regulation whereby a number of AI applications in relation to employment, finance, and critical infrastructure are termed 'high-risk' and therefore, has a number of obligations cited as conformity assessments, technical documentation, human oversight, and post-market monitoring. At an international level, the OECD Principles on Artificial Intelligence (2019) and G20 AI Principles endorse human-centred values, and advocates for AI governance to have the fairness, transparency and accountability in the treatment of citizens/ personnel. More importantly, in the international law realm, Council of Europe Framework Convention on Artificial Intelligence (2024) is the first international treaty to address AI relative to the human right, democracy, and rule of law. These frameworks reiterate the fact that AI-based innovations are legally required to uphold process fairness, equality, and non-discrimination. The consideration of trade and intellectual property rights remains pertinent. The Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) (1994) answers some questions on patent protection, while other questions remain unanswered concerning the abstract questions of patents and who can be an inventor/owner of an AI-generated output. Also, AI systems designed for sustainability must comply with the provisions of the Paris Agreement (2015) and the EU Corporate Sustainability Reporting Directive (CSRD) as well as other corporate disclosure requirements.

CONCLUSION

This paper critically analysed how Artificial Intelligence (AI) will revolutionise business and management innovation in terms of innovation management, human resource management (HRM), sustainable business models, and marketing intelligence. The results affirm that the AI is not a technological addition but a strategic facilitator that transforms organisational structures, the decision-making and the value creation processes. Artificial intelligence enhances agility and competitive advantage of

organisations by boosting experimentation, increasing predictive accuracy and accelerating ideation. Nonetheless, there is also a major paradox of the research. Even though AI boosts efficiency, scalability, and accuracy of the analysis, it also creates ethical, legal, and organisational issues. AI enhances uniformity and minimises human bias in HRM, but poses a threat of distrust, dehumanisation, and algorithmic opaqueness among employees when mismanaged. Likewise, AI-based sustainability programs and marketing systems generate long term values and consumer understanding, however, they raise issues of data privacy, transparency, accountability and regulatory compliance.

The paper highlights that responsible governance, human-AI interaction, and ethical control are the keys to the successful implementation of AI. The culture of the organisation, regulatory frameworks and the human-centred value should be coordinated with technological progress. Finally, AI-based innovation is not to substitute the human judgment but to support it. To guarantee sustainable and responsible AI implementation in businesses, future studies are needed to determine more cross-cultural regulatory differences, empirical support of human-AI collaborative models, and long-term organisational effects.

Managerial recommendations include:

- Trying to introduce hybrid models of human and AI decision-making that can improve trust and accountability.
- Establishing ethical AI regulations systems to reduce discriminatory and dehumanising.
- Placing AI strategically in sustainability efforts as opposed to it being a tool in itself.
- Making AI-based marketing practices transparent and hold the data responsible.

Future studies ought to focus on the long-term effects of AI implementation, cross-cultural disparities in the adoption level among employees, and the empirical testing of human-AI collaboration frameworks. In dealing with these areas, researchers and practitioners will be able to develop the responsible and innovative integration of AI in business and management environments.

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