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BEYOND COMPLIANCE: THE EUROPEAN ARTIFICIAL INTELLIGENCE ACT AS A FRAMEWORK FOR ETHICAL AND SUSTAINABLE GOVERNANCE

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ABSTRACT

The objective of this study is to examine how the European Artificial Intelligence Act (AI Act) functions not only as a regulatory framework but also as a catalyst for embedding ethics and sustainability into corporate governance. The paper seeks to identify how compliance obligations can simultaneously promote responsible innovation and sustainable development. The research is grounded in theories of regulatory governance, business ethics, and sustainable development. It draws upon frameworks from the General Data Protection Regulation (GDPR), United Nations Sustainable Development Goals (SDGs), and concepts of digital constitutionalism to explain the EU's normative approach to AI regulation. A qualitative, document-based analysis was conducted, reviewing EU legislative texts, academic literature, and practitioner reports to map intersections between AI governance, ethical compliance, and sustainability objectives. Findings reveal that the AI Act operationalizes ethical principles, such as transparency, accountability, and human oversight, through a risk-based approach that supports SDGs 8, 9, 10, 12, and 16. However, challenges persist regarding implementation costs, SME adaptation, and environmental reporting. The study emphasizes the need for cross-disciplinary governance frameworks integrating AI ethics, sustainability, and regulatory compliance. This study addresses that gap by providing an integrated analysis of the AI Act, the GDPR, and the SDGs, contributing to both academic discourse and practical governance frameworks. Originality/Value: This research contributes to understanding the AI Act as a model of sustainable digital governance that aligns innovation with ethical responsibility and corporate accountability with a comprehensive mapping of the EU AI Act, the GDPR and the Sustainable Development Objectives. Despite the growing attention to AI regulation and ethics, few studies have systematically connected the EU AI Act to sustainability outcomes and behavioral transformation.

KEYWORDS: Artificial Intelligence, Corporate Governance, Ethics, Sustainability, Compliance, European AI Act.

1. INTRODUCTION

Artificial Intelligence (AI) has rapidly evolved from a specialized technological tool into a defining feature of the twenty-first-century economy and society. Its integration across multiple domains now represents one of the most profound structural shifts in modern history, transforming how value is created, decisions are made, and relationships between humans and machines are governed. AI is no longer a peripheral or experimental innovation; it is actively reshaping strategic and operational models in finance, healthcare, education, retail, customer service, and even creative and cognitive professions (McKinsey & Company, 2025; Fiske et al., 2019). Scholars increasingly view this diffusion as a paradigmatic shift in governance itself, where decision-making once reserved for human judgment is progressively delegated to autonomous or semi-autonomous systems (Ferry, 2025).

From a managerial and economic standpoint, the efficiency gains and analytical precision made possible by AI have spurred a surge in corporate adoption. The global AI industry, valued at approximately USD 233.46 billion in 2024, is expected to surpass USD 1.7 trillion by 2032 (Fortune Business Insights, 2025). Corporate uptake has more than doubled since 2017, with firms harnessing AI to automate processes, enhance forecasting accuracy, and unlock new forms of innovation (Pavlidis, 2024). Yet beyond its commercial utility, AI is emerging as a strategic instrument for promoting sustainable and socially responsible business practices. Intelligent data systems are increasingly employed to collect and analyze Environmental, Social, and Governance (ESG) indicators, improve carbon-footprint accounting, and automate sustainability reporting. In doing so, AI contributes directly to Sustainable Development Goals (SDGs) 13 (Climate Action) and 16 (Peace, Justice and Strong Institutions) by strengthening corporate accountability and advancing evidence-based sustainability strategies.

Nevertheless, the diffusion of AI has also introduced new ethical and societal dilemmas that demand careful governance. The proliferation of large-scale language and learning models has revealed the dual nature of AI as both an enabler of progress and a potential amplifier of risk (Feliks, 2025). Without adequate safeguards, AI systems may perpetuate algorithmic bias, compromise data privacy, or undermine human autonomy—thereby reinforcing existing inequalities and marginalizing vulnerable groups (Silva-Atencio, 2025). Moreover, the resource intensity of advanced AI models raises environmental concerns about energy consumption and electronic waste, underscoring the need for regulatory frameworks that integrate ethics with ecological responsibility (Vinuesa et al., 2020).

The European Union's Artificial Intelligence Act (AI Act) represents the most ambitious global response to these intertwined ethical, social, and environmental challenges. As the first comprehensive legal framework dedicated to AI governance, the Act establishes a human-centric, risk-based model that aims to harmonize innovation with fundamental European values of human dignity, fairness, and sustainability (Charter of Fundamental Rights of the European Union, 2000). By imposing obligations relating to transparency, human oversight, and data quality, the AI Act not only safeguards rights but also promotes the responsible and sustainable use of AI throughout its lifecycle. Its structure encourages organizations to design systems that are robust, traceable, and socially beneficial—aligning technological progress with ethical and environmental objectives (Dignum, 2022; Sætra, 2021).

A distinctive feature of the AI Act lies in its *extraterritorial reach*. Mirroring the approach pioneered by the General Data Protection Regulation (GDPR), it extends to any organization, within or beyond the EU, whose AI systems are placed on the European market or whose outcomes affect EU residents (Musch et al., 2023). This design reinforces the EU's growing influence as a global regulatory power. The precedent set by the GDPR, illustrated by high-profile enforcement actions such as the €1.2 billion fine against Meta in 2023 (CMS Law, 2025) demonstrates the Union's capacity to project its digital-ethics standards internationally. The AI Act is therefore not merely a compliance burden but a catalyst for harmonizing ethical and sustainability practices across global value chains.

By embedding sustainability and ethics into the very architecture of technological governance, the AI Act provides corporations with a practical roadmap for aligning digital transformation with long-term social and ecological objectives. It encourages the adoption of responsible innovation practices, lifecycle assessments, and transparent reporting mechanisms that integrate ESG considerations into decision-making. At the same time, it presents challenges: compliance costs may strain smaller firms, and the rapid pace of AI innovation risks outpacing regulatory adaptation. Nonetheless, the Act's framework offers a crucial opportunity to build public trust in technology while fostering inclusive, low-carbon, and equitable economic growth across sectors.

As artificial intelligence continues to evolve, its relationship with ethics, corporate governance, and sustainability will define the next era of organizational strategy.

Firms must therefore approach AI not only as a driver of competitiveness but as a cornerstone of sustainable value creation. This article examines the theoretical and practical dimensions of this transformation. It reviews key definitions and literature on AI and regulatory governance, analyzes the compliance and corporate-ethics implications of the European AI Act, and evaluates its capacity to promote sustainability objectives.

The paper concludes by identifying the main challenges and opportunities in designing a responsible and business-friendly AI governance model that reconciles innovation, accountability, and sustainable development.

2. CONCEPTUAL FRAMEWORK

2.1. Artificial Intelligence

As pointed out in a recent survey of factors influencing the adoption of AI agents (Kelly et Al, 2023) the very definition of Artificial Intelligence is still highly debated and consensus across the academic community, regulators and practitioners has not yet been achieved. For purposes of this analysis, Artificial Intelligence is defined as a man-made tool or entity that possesses the ability and capacity to meet or exceed the requirements of the task it is assigned when considering cultural and demographic circumstances (Bringsjord, 2011; Dobrev, 2012; McLean and Osei-Frimpong, 2019; Omohundro, 2014).

This definition presupposes that the AI agent is capable of making associations and inferences, interpreting data (text, images, videos, numerical data, voice recordings etc.) independently and 'learning' from datasets and previous interactions with humans with the objective of completing the assigned tasks more accurately, speedily and with powers of calculation and processing that are not possible to attain by a human being.

The definition used for the present study concurs with the definition set out in the European Artificial Intelligence Act, which outlines the following:

"AI system means a machine-based system that is designed to operate with varying levels of autonomy and that may exhibit adaptiveness after deployment, and that, for explicit or implicit objectives, infers, from the input it receives, how to generate outputs such as predictions, content, recommendations, or decisions that can influence physical or virtual environments" (Regulation Eu 2024/1689 of the European Parliament, Art3).

As outlined by the Organization for Economic Co-operation and Development in its updated definition (OECD, 2024), and according to the AI Act, to be classified as an AI system, a system or application must exhibit the following: (i) it must be machine-based, (ii) it must operate with a certain level of autonomy, (iii) it must possess the ability to infer how to generate outputs from inputs received for explicit or implicit objectives and make decisions that can influence physical or virtual environments and (iv) it must demonstrate adaptiveness after deployment.

It is worth noting that all these criteria must be met to classify a system as an AI system. It follows that rules-based software which has been extensively used in the past two decades, in robotic process automation, for example, lacking the ability to infer inputs or outputs are not in the scope of the AI Act. They are however, in the purview of the GDPR (GDPR, Art 4, Art.22).

This contrast emphasizes the respective scopes of the AI Act and the GDPR: while they may overlap, they are not identical as the latter already targets decisions made by automated means without human involvement.

2.2. The European Artificial Intelligence (Ai) Act

With the unprecedented development of AI systems and their rapid adoption, regulators across the globe have constantly been playing catch up. At least 60 countries have adopted some form of AI policy since 2017 according to DLA Piper (DLA Piper, 2025).

However, most jurisdictions still lack targeted AI laws, and the approach to regulating AI differs across regions. Thus, in the USA, at the forefront of the AI innovation curve, a Federal AI law is still missing.

The European Union Artificial Intelligence Act, which entered into force on 1 Aug 2024, introduces a horizontal, region-based tiered risk-based framework with international reach.

This new groundbreaking regulation seeks the promotion of innovation while protecting health, safety, privacy and fundamental rights.

The Risk-based approach focuses on use cases with obligations essentially based on the level of risk posed by how an AI system is used (or on its potential use), not the technology on which it is based.

The Act also adresses General Purpose Artificial Intelligence (GPAI) models and systems, but these are treated differently due to the vast array of their potential use cases. (AI Act, Chapter 5). (**Refer to**

Figure1)

Figure 1: EU AI Act Risk Based Approach.

The objective is to protect EU users' rights and at the same time to guarantee a ***level playing field*** for the companies conducting business in the EU market or targeting it, irrespective of whether they are based in the EU or not, so that all abide by the same rules (Czerniawski, M, 2025) and as such are subject to same compliance and regulatory burdens.

Furthermore, the Act specifies a wide range of entities across the value chain that must abide by it, including entities that develop and produce the AI systems, entities that use those systems as well as distributors, representatives and manufacturers. Although not specifically defined, companies may play a hybrid role, for example where they are a provider of AI systems placing it in the EU marker and deploying these systems internally for their own use as well.

As with the GDPR, to stress the vital role of this regulation and enhance the credibility of the EU authorities, enforcement penalties are steep. The competent authorities may impose fines up to €35M or 7% of worldwide annual turnover for infringements on prohibited practices, while other aspects of non compliance may attact fines of €15M or 3% of annual turnover (AI Act, Art. 71).

In a world where the adoption of Artificial Intelligence systems is an imperative to remain competitive, relevant, and provide the level of service demanded by customers, this regulatory backdrop is expected to deeply influence Corporate Governance bodies, their strategy, the resulting policies, staff attitudes toward AI use, increasing the need for cross departmental cooperation.

2.3 Sustainable Development Goals

The concept of *sustainability* has evolved from environmental concern into a multidimensional paradigm that integrates economic viability, social inclusion, and ecological stewardship. Within academic discourse, sustainability is defined as the capacity to meet present needs without compromising the ability of future generations to meet their own, emphasizing intergenerational justice and the preservation of natural and social capital (Brundtland, 1987; Purvis, Mao, & Robinson, 2019). Contemporary scholarship recognizes sustainability as a normative framework that connects ethical reasoning with policy and governance, extending beyond environmental protection to include social equity, institutional integrity, and corporate accountability (Bebbington & Unerman, 2018).

The United Nations' Sustainable Development Goals (SDGs), a set of 17 globally agreed objectives adopted in 2015, translate these normative aspirations into operational targets. They encompass poverty reduction, gender equality, climate action, responsible consumption, and strong institutions. Academic literature views the SDGs as an integrated system in which progress on one-dimension influences others; for example, effective climate action (SDG 13) and responsible consumption (SDG 12) are inseparable from inclusive governance and peace (SDG 16) (Sachs et al., 2019). Researchers have

also emphasized the "systems-thinking" nature of the SDGs, arguing that sustainable outcomes require cross-sectoral collaboration and technological innovation, including the deployment of digital tools such as artificial intelligence (Salvia et al., 2019; Vinuesa et al., 2020).

In the field of business ethics and corporate governance, sustainability is increasingly interpreted as a managerial commitment to align firm strategy with global well-being and planetary boundaries. Sustainable corporate behavior entails integrating environmental, social, and governance (ESG) criteria into decision-making, fostering long-term stakeholder trust, and embedding transparency into reporting systems (Montiel & Delgado-Ceballos, 2014; Adams, 2017). Scholars contend that aligning corporate governance with the SDGs can transform compliance obligations into sources of innovation and legitimacy (Bebbington, Unerman, & O'Dwyer, 2020). This academic consensus reinforces the ethical imperative for organizations to view sustainability not as peripheral to profitability, but as central to responsible value creation and resilient global development.

2.4. Corporate Governance, Compliance, And Sustainability Integration

While corporate governance frameworks differ across jurisdictions and are shaped by cultural, historical, and legal traditions (Turnbull, 2019), a unifying principle prevails: governance refers to the system of processes, structures, and mechanisms through which organizations are directed and controlled to achieve strategic objectives while balancing the expectations of shareholders and broader stakeholders (Ali et al., 2020). Modern scholarship increasingly situates this definition within the context of sustainability governance—that is, the integration of ethical responsibility, environmental stewardship, and long-term social value into corporate oversight structures (Bebbington & Unerman, 2018; Eccles & Klimenko, 2019).

The notion of "corporate governance" was first conceptualized in the 1980s, most notably through Tricker's pioneering work, Corporate Governance (1984), which synthesized five years of research at Nuffield College, Oxford (Tricker, 2015). Although the terminology is relatively recent, the underlying idea is ancient: governance emerges whenever ownership and control are separated, requiring mechanisms of accountability, fairness, and transparency to ensure alignment between management and the interests of those they serve. As Aguilera et al. (2020) highlight, sound governance not only guarantees ethical conduct and managerial accountability but also fosters sustainable growth by embedding social responsibility and stakeholder trust at the core of business operations.

In this sense, corporate governance extends well beyond fiduciary duties to shareholders. It encompasses the network of relationships connecting management with employees, suppliers, consumers, regulators, and communities. These relationships are now being reshaped by the ethical and compliance imperatives introduced by the European Artificial Intelligence Act (refer to Figure 2).

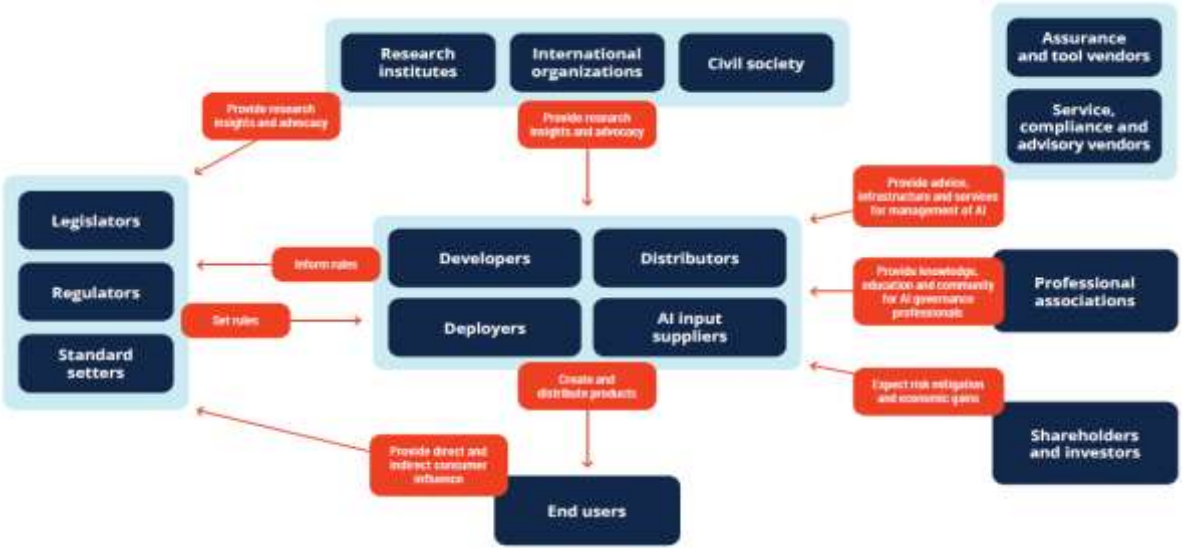

Figure 2: EU AI Governance Ecosystem.
Source: IAPP, 2025.

2.4.1. Preservation of Shareholder And Stakeholder Interests

A robust governance framework protects not only shareholder rights but also the collective interests of stakeholders. Accountability, transparency, and integrity in managerial decision-making are central to this protection. The AI Act reinforces these principles by mandating that high-risk AI systems undergo conformity assessments and continuous monitoring under human supervision. Such oversight prevents algorithmic opacity in domains like credit scoring, recruitment, and automated decision-making, safeguarding both shareholder value and societal welfare. Effective governance thus becomes a vehicle for ethical capitalism—one in which financial performance and social responsibility are not opposing goals but mutually reinforcing outcomes (Adams, 2017).

2.4.2. Risk Management

Risk management remains a cornerstone of effective corporate governance. Traditional risk categories—financial, operational, legal, and reputational—are now supplemented by AI-specific risks such as algorithmic bias, cybersecurity vulnerabilities, and data quality deficiencies. The AI Act compels organizations to embed these emerging risks into their enterprise risk management (ERM) systems. Post-market monitoring and incident reporting obligations (AI Act, Arts. 61 & 62) create feedback mechanisms that reduce the likelihood of systemic AI failures and foster learning-based compliance cultures. While these measures enhance organizational resilience (Monem, 2024), they also introduce additional compliance costs, particularly for smaller firms. Nonetheless, such costs represent an ethical investment in sustainable governance, ensuring that innovation does not undermine fairness or social inclusion (Jamali & Karam, 2018).

2.4.3. Governance, Performance, And Sustainable Competitiveness

Strong governance frameworks are consistently correlated with improved business performance, ethical decision-making, and long-term resilience. Transparency, auditability, and traceability—core requirements of the AI Act—enhance not only algorithmic reliability but also corporate legitimacy. When firms internalize these standards, they can leverage them as competitive advantages, generating value through consumer trust, product safety, and reputational integrity (Butt, 2024). In the broader sustainability context, this aligns with ESG principles that link ethical governance to superior long-term returns and reduced exposure to non-financial risks (Eccles & Klimenko, 2019).

2.4.4. Stakeholder Confidence and Legitimacy

Sustainable corporate governance relies on stakeholder trust and perceived legitimacy. By embedding fairness, explainability, and transparency into AI systems, organizations can demonstrate accountability to employees, consumers, and regulators alike. The AI Act's Article 52—mandating transparency in human–AI interactions—empowers citizens to make informed choices and promotes consent-driven technology adoption. This participatory form of governance strengthens stakeholder engagement and contributes to social sustainability by ensuring inclusivity and procedural justice (Aguilera et al., 2020; Corporate Governance Institute, 2025).

2.4.5. Legal Compliance and Ethical Integration

Compliance today extends beyond regulatory adherence—it entails aligning internal policies with ethical norms and sustainability objectives. The AI Act's binding obligations for AI developers, deployers, and importers require data governance, human oversight, and continuous risk assessment. These duties must be translated into corporate codes of conduct, internal audits, whistleblowing frameworks, and third-party due diligence. This integration bridges ethics and law, transforming compliance into a moral and strategic function of governance rather than a reactive administrative task.

2.4.6. Long-Term Perspective and Sustainable Responsibility

Ethical corporate governance prioritizes sustainable value creation over short-term profit maximization. The AI Act embodies this shift by institutionalizing long-term monitoring, documentation, and lifecycle accountability for AI systems. This lifecycle approach reinforces responsible innovation, ensuring that technological progress remains aligned with human rights and ecological integrity. Governance bodies are thus required to integrate environmental and social considerations into strategic planning—an approach consistent with the United Nations Sustainable Development Goals (SDG 10 on Reduced Inequalities and SDG 16 on Peace, Justice and Strong Institutions). Research shows that organizations embedding these commitments achieve greater stakeholder trust, improved resilience, and a more predictable investment environment (Butt, 2024; Bebbington & Unerman, 2018).

Empirical studies further confirm that AI-driven governance mechanisms—such as automated

compliance analytics and predictive monitoring—enhance transparency and accountability (Arslan & Alqatan, 2020; Cihon et al., 2021). This, in turn, supports firms in meeting sustainability benchmarks and operating as responsible corporate citizens. However, the same technologies also pose risks: biased data or insufficient oversight can result in discriminatory outcomes, privacy violations, or reputational damage (Silva-Atencio, 2024). Thus, corporate governance must evolve toward an integrated ethical model—one that balances innovation and compliance while embedding sustainability at its core.

3. METHODOLOGY

This study adopts a qualitative and interpretive research design, combining doctrinal legal analysis with a thematic review of multidisciplinary literature to examine how the European Artificial Intelligence Act (AI Act) contributes to ethical and sustainable corporate governance. The methodological approach is rooted in document-based research, integrating both academic and practitioner sources to ensure theoretical rigor and practical relevance.

3.1 Research Design and Scope: The research design follows a multi-source qualitative analysis structured around three interrelated domains:(1) the regulatory framework of the European Union concerning artificial intelligence and data protection, (2) the academic discourse on ethics, corporate governance, and sustainability, and (3) the practical implications for organizations implementing AI governance frameworks under the AI Act and the General Data Protection Regulation (GDPR).

This triangulated design allows the study to capture not only the normative and ethical underpinnings of AI regulation but also its functional implications for business and sustainability strategies.

3.2 Data Sources and Materials: the analysis draws on multiple categories of sources:

- Peer-reviewed academic literature published between 2018 and 2025 covering AI ethics, corporate governance, sustainability, and regulatory governance. Key databases consulted include *Scopus*, *Pro-Quest, Emerald Insight*, *SpringerLink*, and *ScienceDirect*.
- Doctrinal and legal texts from the European Commission and Parliament, notably Regulation (EU) 2024/1689 (the AI Act), the General Data Protection Regulation (GDPR 2016/679), and accompanying Commission communications, working papers, and official guidance documents.
- Practitioner and policy reports from leading organizations and consulting bodies (e.g., Deloitte, EY, KPMG, PwC, IAPP, CMS Law) offering implementation guidance and compliance insights.
- Empirical and statistical data from institutional and market sources such as *Fortune Business Insights*, *OECD Digital Economy Papers*, and the *CMS GDPR Enforcement Tracker*, providing quantitative grounding for market trends, compliance costs, and enforcement statistics.

This diverse evidence base ensures that the study integrates theoretical, legal, and applied perspectives to evaluate the AI Act's operational and sustainability impact.

3.3 Analytical Approach: A thematic content analysis was conducted to identify recurring concepts linking the AI Act's provisions with ethical principles and Sustainable Development Goals (SDGs). Textual materials were coded according to categories reflecting the study's analytical dimensions: transparency, accountability, human oversight, sustainability, and governance integration. Thematic patterns emerging from academic and practitioner sources were then compared against the normative requirements of the AI Act and the GDPR to assess convergence between regulatory intent and sustainable practice.

3.4 Validity and Limitations: To enhance validity, the study cross-referenced doctrinal interpretations with empirical evidence and practitioner assessments, ensuring conceptual triangulation between academic theory and applied governance practice. However, the analysis remains qualitative and interpretive; it does not seek to measure quantitative compliance outcomes or firm-level performance indicators. Future research could extend this inquiry through comparative case studies or empirical assessments of corporate AI governance maturity across sectors.

4. THE EU ARTIFICIAL INTELLIGENCE ACT, ADVOCATING FOR SUSTAINABLE DEVELOPMENT?

Beyond its core concern with compliance and privacy, the European Artificial Intelligence Act (AI Act) is emerging as a transformative framework for embedding sustainability, ethics, and responsible innovation into the governance structures of both EU and non-EU companies that engage with the European internal market. While the Act is

fundamentally designed to ensure the safety of AI systems, its normative orientation extends far beyond risk regulation. It implicitly advances several of the United Nations Sustainable Development Goals (SDGs); most notably SDG 8 (Decent Work and Economic Growth), SDG 9 (Industry, Innovation and Infrastructure), SDG 10 (Reduced Inequalities), SDG 12 (Responsible Consumption and Production), and SDG 16 (Peace, Justice and Strong Institutions)—and, by extension, aligns AI governance with the EU's wider "green-digital twin transition." Table 1 below illustrates which provisions in the EU Act and the GDPR contribute to promote the advancement of Sustainable Goals.

From an ethical standpoint, the AI Act reflects a profound shift in how societies conceptualize technological responsibility. It operationalizes principles of beneficence, non-maleficence, autonomy, and justice (traditional pillars of ethical reasoning) within a concrete regulatory framework. This architecture transforms AI regulation into a vehicle for technological stewardship, ensuring that innovation serves the collective good rather than narrow economic advantage (Floridi, 2021; Stahl, 2021). As Dignum (2022) and Stix (2021) observe, such codification of ethics into law constitutes a step toward "actionable AI ethics," bridging the gap between abstract values and enforceable corporate obligations.

Table 1: The EU AI Act and The GDPR – Mapping of Provisions Advancing Sdgs.

Regulatory Dimension	GDPR Requirements	AI Act Requirements	How These Provisions Advance Sustainability (mapping to SDGs)
Human-Centric Governance	Establishes data subject rights (Arts. 12–22) : access, rectification, erasure, portability, and objection — to ensure control over personal data.	Requires human oversight (Arts. 14, 29, 61–63) and prohibits AI practices that threaten human dignity or fundamental rights (Art. 5).	Both frameworks reinforce human autonomy, dignity, and agency : promoting SDG 16 (Peace, Justice & Strong Institutions) and SDG 10 (Reduced Inequalities) through ethical governance and inclusive digital participation.
Transparency & Accountability	Imposes transparency obligations for data processing (Arts. 13–14) and accountability principles requiring evidence of compliance (Art. 5(2)).	Mandates documentation, traceability, and record-keeping for AI systems, with conformity assessments and reporting obligations for high-risk AI (Arts. 61–63, 71).	Enhances institutional trust and ethical accountability across value chains, supporting SDG 16 by strengthening governance mechanisms and stakeholder confidence in digital systems.
Risk-Based Regulation	Requires Data Protection Impact Assessments (DPIAs) for high-risk data processing (Art. 35).	Adopts a tiered risk-classification framework (Unacceptable, High, Limited, Minimal) to regulate AI by potential harm rather than technology type (Arts. 6–9).	Promotes responsible innovation and proportionality, ensuring that risk mitigation aligns with SDG 9 (Industry, Innovation & Infrastructure) and SDG 12 (Responsible Consumption & Production) by preventing misuse of emerging technologies.
Privacy-by-Design & Ethical-by-Design	Introduces privacy by design and by default (Art. 25), embedding protection mechanisms into system development.	Encourages ethics-by-design and AI literacy obligations to ensure explainability, safety, and fairness throughout the AI lifecycle (Arts. 14, 52, 71).	Both require preventive governance that embeds ethical and sustainability considerations into technology design, aligning with SDG 8 (Decent Work & Economic Growth) and SDG 12 by fostering sustainable innovation cultures.
Data Quality & Non-Discrimination	Mandates data accuracy and limits on data retention to avoid misuse (Art. 5).	Obligates high-risk AI to use representative, bias-free, and high-quality datasets (Art. 10).	Ensures fairness, equality, and inclusion in automated decision-making : central to SDG 5 (Gender Equality) and SDG 10 (Reduced Inequalities) by preventing algorithmic discrimination.
Security & Resilience	Requires technical and organizational measures for data protection, including cybersecurity and breach notification (Arts. 32–33).	Imposes robustness, security, and post-market monitoring for high-risk AI systems (Arts. 15, 61).	Enhances resilience of digital infrastructures, contributing to SDG 9 and SDG 16 by supporting stable, secure, and trustworthy digital economies.
Extraterritorial Reach	Applies to controllers and processors outside the EU when handling EU residents' data (Art. 3).	Applies to AI systems placed on the EU market or affecting individuals within the EU, regardless of provider location (Art. 2).	Globalizes ethical and sustainability standards, reinforcing SDG 17 (Partnerships for the Goals) by promoting regulatory harmonization and ethical convergence.
Oversight & Enforcement	Establishes supervisory authorities (DPAs) and the European Data Protection Board to coordinate enforcement (Arts. 51–63).	Creates a system of national market surveillance authorities and notified bodies for conformity assessment (Arts. 59–66).	Strengthens institutional accountability and regulatory cooperation, reinforcing SDG 16 by building transparent, responsive institutions and SDG 17 through international collaboration.
Lifecycle Governance & Sustainability Alignment	Encourages continuous review of data processing to ensure lawful purpose limitation (Art. 5(1)(b)).	Requires ongoing monitoring, retraining, and lifecycle management of AI systems to ensure long-term safety (Arts. 61–63).	Embeds circular-economy thinking and sustainability into the governance cycle, ensuring adaptive and ethically sustainable technology ecosystems ; supporting SDG 12 and SDG 13 (Climate Action).
Education & Capacity Building	Promotes awareness and education about data protection rights (Recitals 39, 84).	Introduces AI literacy obligations to train personnel and ensure ethical decision-making (Art. 71).	Builds a foundation of responsible digital citizenship and sustainable organizational culture, contributing to SDG 4 (Quality Education) and SDG 8 through workforce skill development and ethical leadership.

The Act's risk-based framework thus provides both a legal and an ethical compass for technological

development. It requires proportionality between the level of autonomy granted to AI systems and the risks posed to individuals and society (European Commission, 2021).

By mandating risk classification, transparency, and human oversight, it compels companies to integrate moral reflection into their design and deployment processes.

This approach resonates with the concept of sustainable corporate citizenship, where technological progress is balanced against social equity, environmental stewardship, and long-term value creation (Monem, 2024).

The AI Act introduces obligations that (although framed through compliance) encourage ethical, transparent, and accountable AI systems. Article 15, for instance, requires that high-risk systems be resilient, accurate, and capable of self-monitoring. Such technical robustness contributes to reducing unintended societal and environmental externalities (European Commission, 2021).

It also intersects with environmental responsibility: robust and well-audited AI systems consume fewer computational resources through efficient algorithmic design, thus lowering energy demand and carbon emissions.

As Vinuesa et al. (2020) and Sætra (2021) argue, embedding sustainability metrics (such as energy efficiency, data-center sourcing, and hardware life-cycle management) into AI governance is essential for achieving the SDGs.

In addition, the Act's governance requirements such as ongoing risk-management systems, mandatory post-market monitoring (Art. 61), and meticulous documentation, foster *lifecycle accountability*.

This long-term orientation encourages organizations to view AI not as a single deployment event but as a dynamic system with evolving ethical, environmental, and societal implications. Such an approach is pivotal for the *green digital transformation*: companies are now expected to assess and mitigate not only human-rights risks but also potential harms to ecological systems.

As Hickman & Petrin (2021) and Monem (2024) demonstrate, AI-enabled analytics can optimize energy use, streamline waste management, and enhance predictive sustainability reporting, thereby contributing directly to SDG 12 (Responsible Consumption and Production) and SDG 13 (Climate Action).

The convergence of AI governance with sustainability performance indicators yields clear competitive advantages (Berger, 2024).

Under the Corporate Sustainability Reporting Directive (CSRD), investors and regulators increasingly demand credible non-financial disclosures that evidence ethical technology management.

The AI Act provides a harmonized framework through which firms can substantiate ESG commitments, reduce regulatory uncertainty, and strengthen stakeholder confidence.

Empirical research suggests that strong ESG governance correlates with lower capital costs and improved resilience to market shocks (OECD, 2022; Kotsantonis & Pinney, 2023).

Hence, compliance with the AI Act is not merely a legal necessity but a strategic opportunity to align corporate purpose with sustainable value creation.

Transparency obligations, particularly those pertaining to high-risk AI and its interaction with vulnerable populations, have profound ethical significance. Article 10's focus on data quality, non-discrimination, and explainability directly supports SDG 10 (Reduced Inequalities).

By embedding explainability into AI design, the Act enhances procedural fairness and individual autonomy which are cornerstones of ethical governance (Floridi, 2021).

Such transparency mitigates the risk of algorithmic bias and strengthens public trust in digital institutions.

Moreover, it advances *deliberative accountability*: the idea that citizens should be able to understand, question, and contest automated decisions affecting them (Stix, 2021).

The Act's insistence on *human oversight*, *ethical design*, and *stakeholder engagement* marks a paradigmatic shift from rule-based compliance to *values-based governance*.

This aligns with Butt (2024) and Sætra (2021), who argue that organizations must institutionalize ethical reflexivity thus creating spaces for moral deliberation and cross-disciplinary dialogue within corporate structures.

By embedding ethicists, sustainability officers, and civil-society voices into AI governance boards, firms can transform sustainability from a reporting obligation into a participatory practice that informs strategic direction (Refer to Figure 3).

Such *multi-stakeholder sustainability governance* supports SDG 16 (Peace, Justice and Strong Institutions) and reinforces the EU's commitment to democratic accountability in technology

management.

Figure 3: Lifecycle Of AI Systems: Framework for The Classification of AI Systems.
Source: Adapted From Lifecycle and Key Dimensions of An AI System. OECD Digital Economy Papers (2022).

From a broader philosophical perspective, the AI Act embodies what De Gregorio (2021) terms *digital constitutionalism*, a model of governance that anchors technological power in democratic, social, and ecological values. It recognizes that the legitimacy of AI governance depends not only on compliance but on the moral justification of its outcomes. By situating sustainability, fairness, and human dignity at the center of digital regulation, the EU seeks to ensure that the benefits of AI contribute to collective prosperity rather than technological inequality. This approach also anticipates global convergence: as other jurisdictions explore similar risk-based frameworks, the EU's integration of ethics and sustainability may establish the blueprint for a new global regulatory paradigm.

In sum, the EU Artificial Intelligence Act functions simultaneously as a *compliance instrument* and as an *ethical manifesto* for sustainable technological progress. It challenges organizations to internalize sustainability not as

peripheral reporting but as an organizing principle of AI design, deployment, and governance. By linking corporate responsibility, environmental stewardship, and digital ethics, the Act transforms sustainability into a measurable dimension of lawful, fair, and human-centered innovation.

5. PRIVACY AND COMPLIANCE IMPLICATIONS OF THE EU AI ACT

The governance of artificial intelligence (AI) within the European Union cannot be fully understood in isolation from the existing data protection regime established by the General Data Protection Regulation (GDPR) of 2016**.** Whenever AI applications involve the processing of personal data, they automatically fall under the GDPR's jurisdiction, which remains the cornerstone of European digital rights protection (GDPR, 2016). Organizations operating in or targeting the EU market must therefore comply with the Regulation's foundational principles: safeguarding data subjects' rights (Articles 12–22), promptly notifying supervisory authorities of data breaches (Article 33), ensuring appropriate technical and organizational security measures (Article 32), and maintaining transparency and informed consent practices (Articles 13–14). Above all, firms must adhere to the overarching principle of accountability (Article 5(2)), which obliges them to demonstrate continuous compliance.

Two design concepts, namely *privacy by design* and *privacy by default* (Article 25), have become particularly significant in the context of AI deployment.

These principles require organizations to integrate privacy considerations directly into system architecture and development processes rather than treating them as post-implementation add-ons (Voigt & Von dem Bussche, 2017).

Embedding such safeguards necessitates a robust corporate governance framework supported by internal controls, compliance functions, and dedicated oversight bodies capable of monitoring AI-related risks across the organization.

Since the GDPR's enforcement in 2018, European data protection authorities have demonstrated a consistent commitment to sanctioning non-compliance. By March 2025, total fines exceeded €5.65 billion, encompassing more than 2,245 enforcement actions across EU and non-EU entities (CMS Law, 2025).

High-profile cases (including **Clearview AI** for unlawful facial recognition (CNIL, 2022), OpenAI for its data processing practices in Italy (Garante per la Protezione dei Dati Personali, 2023), and **Uber** for data breach mismanagement (European Data Protection Board, 2018)) illustrate that the GDPR's extraterritorial reach is not theoretical but actively operationalized. **Refer to Figure 4.**

Importantly**,** the EU Artificial Intelligence Act (AI Act) does not replace the GDPR; rather, it complements and extends its logic of protection through a new *risk-based regulatory framework* designed specifically for AI systems (European Commission, 2021).

Both instruments share a human-centric orientation and an extraterritorial scope, ensuring that non-EU organizations offering AI-driven products or services within the Union remain accountable to EU citizens' rights and ethical expectations. The AI Act thereby amplifies the EU's broader digital constitutionalism, embedding accountability and transparency obligations throughout the AI lifecycle.

Meeting these new obligations entails integrating the AI Act's requirements into existing compliance and governance structures.

This process calls for interdisciplinary coordination, as compliance functions must align AI governance with other intersecting legal domains such as data protection, product safety, intellectual property, cybersecurity, and sector-specific regulation in finance, healthcare, and energy (Calo, 2022).

Non-EU firms seeking access to the European market will therefore need to adopt a *holistic compliance architecture*; one that merges privacy management under the GDPR with the AI Act's forward-looking risk controls and ethical oversight mechanisms.

Such alignment not only ensures regulatory conformity but also positions organizations to leverage compliance as a source of strategic advantage: enhancing trust, reputational integrity, and sustainability within an increasingly regulated global digital economy.

Beyond compliance, the coexistence of the GDPR and the AI Act contributes directly to the European Union's broader sustainability vision. Together, these frameworks advance social and ethical sustainability by promoting fairness, human dignity, and respect for fundamental rights, which are principles nested at the core of the United Nations Sustainable

Development Goals (SDGs). Specifically, they

reinforce SDG 8 (Decent Work and Economic Growth) by ensuring trustworthy technological innovation; SDG 10 (Reduced Inequalities) by preventing algorithmic discrimination and protecting vulnerable groups; SDG 12 (Responsible Consumption and Production) by fostering transparent and accountable digital ecosystems; and SDG 16 (Peace, Justice and Strong Institutions) by strengthening governance and legal accountability. A stronger regulatory architecture, therefore, is not merely a mechanism of control, it is also a catalyst for sustainable digital transformation.

By embedding ethics, transparency, and accountability into the design and deployment of AI, the EU regulatory framework exemplifies how law can serve as a moral compass for technological progress, ensuring that innovation contributes to a fairer, more inclusive, and sustainable global society.

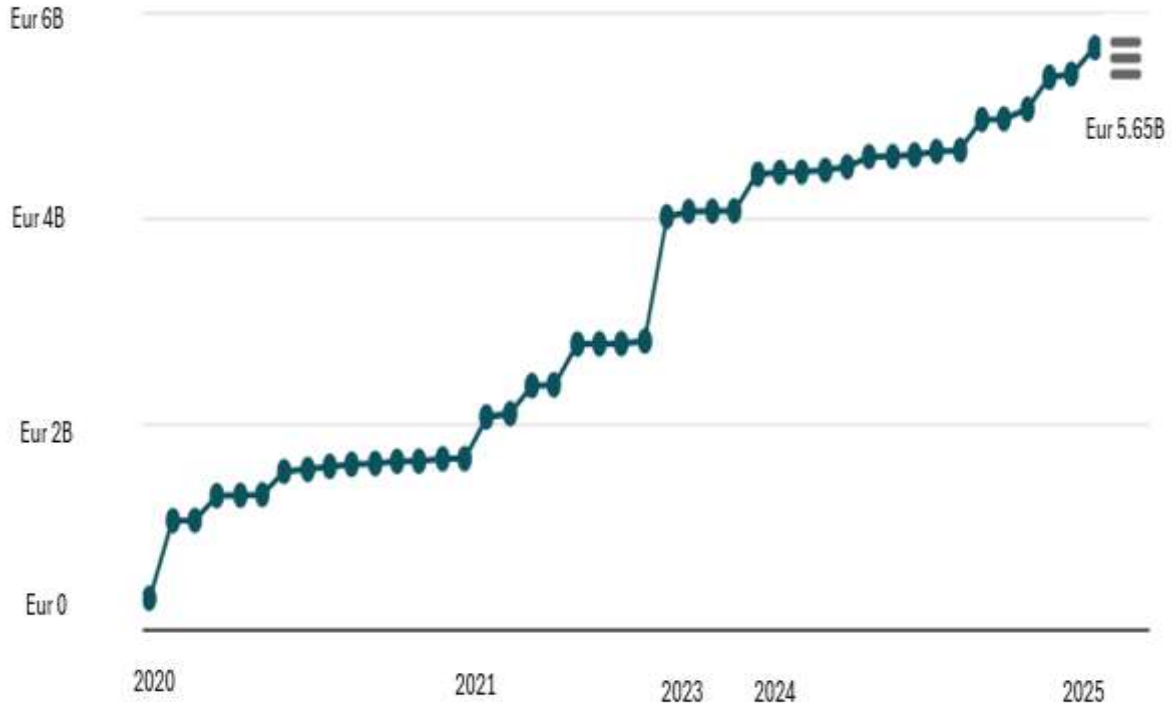

Figure 4: GDPR – Sum of Total Fines From 2020 To March 2025.
Source: Adapted From CMS Law – GDPR Enforcement Tracker.

6. DISCUSSION: RECONCILING COMPLEX REQUIREMENTS WITH A BUSINESS-FRIENDLY AI CORPORATE GOVERNANCE STRATEGY

The European Union's Artificial Intelligence Act (AI Act) constitutes a landmark in global efforts to establish a comprehensive regulatory framework for artificial intelligence. Its risk-based architecture aims to prevent and mitigate harms arising from AI deployment, yet its implementation raises notable practical and ethical challenges for organizations seeking to align innovation with compliance.

One of the central difficulties lies in the disparity between the rapid evolution of AI technologies and the slower pace of regulatory and institutional adaptation. The Act imposes continuous monitoring, risk assessment, and post-market evaluation obligations on companies (AI Act, Arts. 61–63), compelling them to maintain ongoing documentation and adjust AI systems as they evolve. As Wachter and Mittelstadt (2022) observe, such perpetual compliance demands a level of agility and technical sophistication that many organizations—particularly small and medium-sized enterprises (SMEs)—are ill-equipped to achieve. The tension between regulatory rigidity and the iterative, experimental nature of AI innovation generates friction, especially where agile development cycles clash with the procedural formality of risk documentation and conformity assessment.

Another significant barrier is the skills and resource gap within organizations. The International Association of Privacy Professionals (IAPP, 2025) highlights the shortage of trained staff as a primary obstacle to implementing AI governance programs, alongside limited resources and insufficient technical

understanding. Similarly, Veale and Borgesius (2021) point out that the AI Act introduces multidisciplinary obligations—ranging from algorithmic transparency to bias detection and data governance—that exceed the expertise traditionally available within compliance teams (see Figure 5).

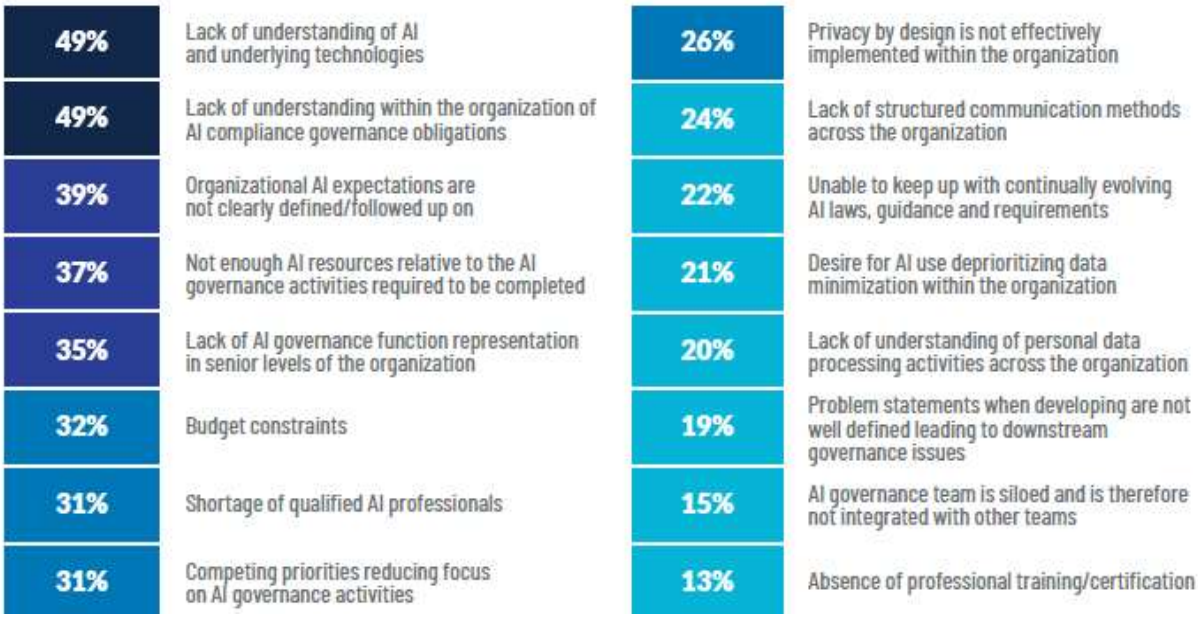

Figure 5: Challenges In Delivering on AI Governance.
Source: IAPP, IA Governance Report 2025.

The extraterritorial application of the Act further intensifies the challenge. It extends beyond EU-based entities to include foreign providers, deployers, importers, and distributors whose AI systems reach or affect EU users. This broad scope creates a compliance burden across global value chains, often disadvantaging organizations with fewer resources. De Gregorio and Dunn (2023) note that while the AI Act seeks to harmonize regulatory standards, it inadvertently deepens disparities between large multinationals and smaller innovators, who may struggle to fund conformity assessments or maintain specialized governance structures. Murray et al. (2023) echo this concern, arguing that the absence of differentiated compliance pathways risks excluding SMEs from the AI ecosystem altogether, reinforcing the dominance of major technology corporations. Without targeted support measures—such as capacity building or financial incentives: the Act could unintentionally dampen innovation, particularly among emerging European firms (Wischmeyer, 2020).

From an environmental and sustainability perspective, the regulation's omission of mandatory environmental reporting represents a missed opportunity. Large-scale AI systems consume vast computational and energy resources, and yet the Act does not explicitly address these sustainability externalities. Gal and Elkin-Koren (2021) contend that future iterations of the regulation should embed environmental metrics into the compliance process, thereby aligning AI governance with Europe's broader environmental, social, and governance (ESG) commitments and its digital-green transition goals.

The European Union, representing a market of over 448 million citizens and a GDP of €17 trillion, remains a critical arena for global businesses. Firms intending to operate within or target this market must therefore undertake proactive gap analyses and AI system inventories to assess their exposure to regulatory risks and ensure compliance readiness. As of February 2025, operations deemed to carry "unacceptable risk" must cease, and organizations covered by the Act are expected to have implemented mandatory AI literacy requirements.

Professional organizations, regulators, and consulting bodies (including the Big Four) have proposed frameworks to guide companies through the complex adaptation process. Their recommendations converge on six main areas of action. First, conducting a Gap Analysis and AI Inventory enables firms to map their AI systems, identify risk categories, and determine their role under the Act (provider, deployer, importer, or distributor), as recommended by KPMG (2025) and IAPP (2025). Second, PWC (2024) and IAPP (2025) emphasize the need to align internal processes with

the Act's differentiated obligations, ensuring proportional responses to risk levels. Third, firms can build on existing GDPR-aligned data governance frameworks to develop AI-compliance systems that incorporate Data Protection Impact Assessments (DPIAs) and AI impact assessments promoting data quality and transparency (OneTrust, 2023; EY, 2024; Protiviti, 2025). Fourth, organizations should strengthen their risk management and validation methodologies to ensure ongoing oversight and accountability (Deloitte, 2025). Fifth, the creation of an AI-literate organizational culture through training and awareness programs remains crucial for sustainable compliance, particularly as AI literacy requirements became enforceable in early 2025 (EY, 2024; Deloitte, 2025). Finally, EY (2024) underscores the importance of cross-functional governance, led by senior leadership, to integrate compliance oversight across business units and foster ethical consistency throughout the enterprise.

In the end, business leaders, boards, and governance committees must strike a delicate balance between innovation, ethical integrity, and regulatory conformity. The AI Act challenges firms to design governance systems that are both compliant and adaptable, embedding accountability, transparency, and sustainability into their operational DNA. A "business-friendly" approach to AI governance does not imply deregulation but rather the creation of frameworks that allow organizations to innovate responsibly leveraging ethical compliance as a source of strategic resilience and long-term trust in the digital economy.

Furthermore, the implementation of the European Artificial Intelligence Act (AI Act) is expected to generate significant behavioral and cultural transformations within organizations, fostering new forms of collaboration and ethical awareness that directly support several Sustainable Development Goals (SDGs). The Act's requirements for risk classification, data governance, and continuous monitoring (Arts. 9, 61–63) compel firms to establish cross-departmental cooperation among legal, compliance, data science, sustainability, and human-resources teams. This interdisciplinary engagement represents a shift from siloed decision-making toward collective accountability in the design and deployment of AI systems. Such cooperation encourages transparency and mutual understanding between technical and non-technical actors, reinforcing SDG 16 (Peace, Justice and Strong Institutions) through stronger governance practices, and SDG 9 (Industry, Innovation and Infrastructure) by promoting responsible innovation ecosystems within firms.

Beyond procedural adaptation, the AI Act promotes behavioral alignment with ethical and inclusive business practices. The mandated integration of human oversight, bias testing, and non-discrimination risk assessments into AI lifecycle management requires employees to adopt a more reflective and socially conscious approach to technology. These processes cultivate an organizational culture where fairness, explainability, and respect for diversity are embedded into everyday operations. For example, algorithmic impact assessments designed to detect discriminatory patterns in recruitment or credit scoring directly advance SDG 10 (Reduced Inequalities) and SDG 8 (Decent Work and Economic Growth). Moreover, the obligation to document, monitor, and explain AI-driven decisions enhances ethical literacy and personal responsibility across all organizational levels. In this sense, the AI Act does not merely impose compliance duties; it stimulates behavioral change toward sustainable digital citizenship, aligning workplace conduct, governance structures, and innovation strategies with the broader objectives of equitable and human-centered development envisioned in the United Nations 2030 Agenda.

7. CONCLUSION

This analysis focused on the complexities introduced by the EU AI Act, and on the concrete compliance, privacy and and governance implications that this ambitions regulation poses to companies wishing to operate in the EU market. While the benefits of AI are monumental, this new technology impacting all aspects of human life (from education, literary creation, health, business, psychology, entertainment, and even artistic creation) also introduces new risks that the European Artificial Act seeks to mitigate through a risk based and human centric approach.

The findings underscore the strategic role of AI governance in achieving the Sustainable Development Goals. By institutionalizing risk assessment, bias prevention, and ethical oversight, the EU AI Act transforms compliance into a lever for sustainable innovation. For policymakers, it provides a blueprint for integrating ethical evaluation into regulatory design; for corporations, it defines measurable pathways to align digital transformation with ESG objectives. Embedding these principles fosters transparency, stakeholder trust, and responsible technological behavior across both public and private sectors.

Future research could empirically assess how the AI Act influences organizational behavior, employee AI literacy, and corporate ESG performance across industries. Comparative analyses between EU and non-EU firms would further clarify global convergence toward ethical AI governance. Quantitative studies measuring behavioral outcomes such as bias mitigation and sustainable process redesign would complement this qualitative assessment and deepen understanding of AI regulation as a driver of social and environmental value creation.

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