

Chapter 3

Ethical and Corporate Social Responsibility: Implications of Artificial Intelligence Application for the Detection and Prevention of Financial Fraud

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ABSTRACT

Artificial Intelligence (AI) has experienced rapid penetration in our society, playing a crucial role in everyday analysis and decision making. AI integration in the financial field stands out as one of the most advanced, especially in terms of financial fraud detection and prevention. Yet, this rapid evolution of the sector brings with it several ethical and corporate social responsibility (CRS) challenges that have not yet been properly explored. This analysis provides the essential principles for understanding the use of AI in the detection of financial fraud, assessing its effectiveness, and examining the tools used to understand the conceptual framework within which ethics and CRS are defined in the application of AI. A comprehensive review of the ethical and CRS challenges inherent in the use of AI in the detection and prevention of financial fraud is conducted, along with an analysis of the different perspectives present in the academic literature on the subject. In addition, future research directions are proposed to address these issues more comprehensively and effectively.

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1. INTRODUCTION

As the implementation of artificial intelligence (AI) systems steadily progresses in the financial sphere, academics and researchers have turned their focus towards analysing the socio-economic and political implications of this emerging phenomenon (Gomes et al., 2020; Kamruzzaman, 2022; Kumar et al., 2023). Academic interest continues to grow given the potential of AI and the wide range of benefits AI provides such as automation and efficiency of processes (Iadanza et al., 2022), analysis of large datasets (Dutta et al., 2020), innovation and development (Mannuru et al., 2023) and process optimization (Igwegbe et al., 2023); as well as diverse application like medicine, marketing, finance or agriculture (Yang et al., 2021; Lorkowski et al., 2021; Hasan et al., 2023; Majeed et al., 2024).

However, the greater complexity of this technology has certain negative aspects. For the incorporation of AI, companies face challenges such as changing infrastructures, development and maintenance costs, and lack of specialised professionals. Nevertheless, the most important challenge lies in the ethical and corporate social responsibility (CSR), which pose unprecedented problems for society. The pervasiveness of AI raises several questions about equity, transparency, and automated decision-making, demanding rigorous scrutiny to mitigate potential negative implications for various strata of the population (Elliott et al., 2021). According to Zhao & Fariñas (2022), companies and governments must make collective efforts to achieve responsible and sustainable AI through a proactive regulatory framework backed by rigorous corporate policies and reporting (Vinueza et al., 2020).

Other important issue lies on the way to integrate technological progress, such as AI implementation and cope with issues, considering the diverse business practices and cultural values of societies (Hofstede, 2001); and future AI impacts in internet business, perception and autonomy, as well as in Internet of Thing (IoT) and technologies such as blockchain (Lee et al., 2018). While in Western countries any AI implementation effort need to integrate individual rights and freedom to maximize profit, Asian countries place stronger emphasis on collective well-being and societal harmony. For example, AI implementation should emphasize on collective-welfare and institutional respect in China (Ding, 2018), respect hierarchical structures and employee welfare in Japan, or show technological prowess and social equity (Kim & Chung, 2019; Zhang et al., 2022). In this regard, a global approach needs to consider the diversity of culturally aligned CSR to be worldwide accepted (Wilson & van der Velden, 2022) or even include enough flexibility to adapt their AI strategies to different ethic and value priority, balancing innovation with ethical responsibilities (Minkkinen et al., 2022).

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