


# Chapter 4


## The Legal Challenges and Opportunities of Using AI in HR Functions

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### **ABSTRACT**

*Artificial Intelligence (AI) is rapidly transforming Human Resource Management (HRM), offering enhanced efficiencies and innovative approaches in recruitment, performance management, and various HR functions. This chapter explores the integration of AI in HRM, examining the potential benefits, legal challenges, and ethical considerations associated with its use. Key opportunities include improved recruitment processes, data-driven performance evaluations, and personalized employee experiences. However, challenges such as compliance with data protection laws, addressing algorithmic bias, and maintaining transparency are critical. The chapter provides a comprehensive overview of best practices for legal compliance and risk mitigation, and discusses future directions for AI in HRM, including advancements*

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*in technology, evolving regulations, and ethical frameworks. Organizations must navigate these complexities to harness AI's potential while ensuring responsible and equitable use.*

## **INTRODUCTION**

This section introduces the reader to Artificial Intelligence and its potential in revolutionizing business sectors. Human Resource Management has not been left behind, and AI forms part of most of its processes. Such an integration has presented unparalleled opportunities for improving efficiency, accuracy, and strategic decisions within the system of human resource management. From streamlining recruitment and selection processes to optimizing performance management and employee engagement, AI has the potential to revolutionize how organizations manage their most valuable asset-human capital (Arslan et al., 2022). Like any other powerful tool, there exist certain difficulties in AI- HRM use, mainly on legal issues. Acquaintance with these challenges and related opportunities is important for HR professionals, lawyers, and leadership in every organization. First, applications of AI in HRM are manifold. AI algorithms in recruitment favor the automation of sourcing and screening applicants by reducing the time and cost it conventionally takes to do these things. AI is used to sift through a lot of data in finding the best candidates, using predefined criteria that reduce human biases, which may inflate hiring decisions (Basu et al., 2023). AI-driven performance management tools have been deployed to make more objective employee performance appraisals, leverage analytics to predict future performance, and identify the gaps in development. Beyond recruitment and performance management, AI has been extended in other HR functions: compensation management, employee training and development, and employee relations, introducing personalized experiences with individual employee needs in mind (Budhwar et al., 2022).

These advantages notwithstanding, AI use in HRM raises several serious legal issues. One of the major concerns is that of anti-discrimination legislation. While AI has a great potential to reduce biases, sometimes it is susceptible to perpetuating them through algorithms that are taught on biased data or through decision-making criteria representative of the existing biases within society. These may lead to a plethora of legal problems relating to discriminatory hiring or biases in performance appraisals. Another critical issue with AI in HRM pertains to data privacy. AI systems often process huge amounts of personal data, which needs to be handled in conformity with data protection laws, such as the General Data Protection Regulation of the European Union and the California Consumer Privacy Act of the United States. An

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