Study recommends companies use artificial intelligence to better serve all shareholders

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Artificial intelligence can help reduce "short-termism" in companies and help firms better serve all shareholders, a new study recommends.

The domination of hedge funds often means the views and priorities of other shareholders—and broader stakeholders—can be ignored by boards of directors. This can be harmful to the company and society.

The paper, to be published in the *International and Comparative Corporate Law Journal* (*ICCLJ*), says AI could be used to process and gather data from a wider pool of shareholders and stakeholders through a pre-determined programmed algorithm. It could produce "outputs" for the board of directors—recommendations or advice for the board.

The study was conducted by Dr. Peter Underwood, from the University of Exeter Law School, and Dr. Joseph Lee, from The University of Manchester.

Dr. Underwood said, "AI is there to improve and assist in the decision-making process. The AI as a tool has the capacity to reduce short-termism. The ability to collect from a larger dataset and allowing each shareholder, particularly minority shareholder, to feed in data reduces the exit over voice problem.

"Using an AI director is not feasible within the current legal framework. Given the risks and required legislative changes required, it would likely result in more problems than it resolved.

"AI can transform corporate governance to be more inclusive. This in turn will generate a greater value for both shareholders and stakeholders in the longer term. Success as an AI advisor could lead to a wider acceptance of AI paving the way for greater AI input of the modern corporation."

The study says the big data generated by AI can provide guidance quickly and accurately independent of human subjective judgements focused on shareholder short-termism and board opportunism.

The AI used could be a set of automated notifications, which shareholders subscribe to updates for input. An online platform could provide a database of information for shareholders to view real time information on the company in which they are members.

AI could help investors search information and request information in specific formats. This can help make decisions and engage in activism. Their views can be fed back into the AI, utilizing their votes for the directors to consider.

Similar technology has been used by Santander, where they utilized traditional voting methods but by way of blockchain to generate a register of votes.

AI has the potential to add weight to each stakeholder voice and to help companies become more socially responsible. It can help directors address failures of corporate governance.

Dr. Underwood said, "Utilizing AI does not infringe or breach directors' duties. It can assist their duty to exercise independent judgment and a duty to exercise reasonable care, skill, and diligence."

The research suggests one executive director could be appointed to monitor the AI, a "technology director." They could be responsible for overseeing the input of data and checking on the functionality of the AI to ensure it is running in accordance with the agreed coding for decision making.

Regulating the AI systems themselves could be carried out in the form of industrial best practice or in the form of a code much like the U.K.

Corporate Governance Code. This would allow clear standards to be set while ensuring that this can be kept up to date with the most recent technological developments.

More information: Joseph Lee et al, AI in the boardroom: let the law be in the driving seat, *SSRN Electronic Journal* (2021). DOI: 10.2139/ssrn.3874588

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