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## Study on the Influence of Artificial Intelligence on Corporate Governance

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*In this age of technological advancements, Artificial Intelligence (AI) distinguishes itself as the most captivating one. Artificial Intelligence (AI) with its development is transforming almost every sector and corporate governance, decision-making is no more an exception to it. In this article we will be exploring various types of Artificial Intelligence (AI), how they can be incorporated into a company for better working of the board members and help them foster the process of achieving their goals, the positive and negative impacts of Artificial Intelligence (AI), will Artificial Intelligence (AI) be able to replace human board members in near future and at the last we will be discussing that how AI can be incorporated into corporate boardrooms in a better way for better working of the boardrooms and corporate governance. Applications of Artificial Intelligence to the public sector are broad and growing with early experiments taking place all around the world. Hence Artificial Intelligence has become an integral part of corporate governance, organisations must prioritize ethical considerations. Companies should develop a robust ethical framework.*

**Keywords:** *artificial intelligence, technological advancements, corporate governance, decision-making, board members.*

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### INTRODUCTION

Artificial Intelligence is no longer a concept restricted only to the realms of science fiction. AI has the potential to reshape various aspects of corporate governance with its increasing

integration. The use of AI in corporate governance can lead to better-informed decisions with accuracy. It analyses vast amounts of data to uncover hidden patterns and trends and facilitate real-time monitoring of performance indicators. It has the potential to revolutionize risk management by enabling companies to identify and relieve risk more effectively. One of the most important applications of AI in administration is conducting elections through a computerised voting system. The complex process of policy-making can benefit from the use of AI techniques such as decision support optimisation, data processing, etc.<sup>1</sup> The AI can re-employ workers time towards more rewarding work that requires lateral thinking, empathy and creativity- all things at which humans continue to outperform even the most sophisticated AI program. In this era of artificial intelligence, corporate governance will have to change, to reap the benefits of Artificial Intelligence (AI). The emerging technology of Artificial Intelligence (AI) comes along with various challenges regarding transparency, ethical accountability, and informed decision-making. To prevail over these challenges the incorporation of Artificial Intelligence (AI) in the corporate bodies is necessary but is to be done meticulously because Artificial Intelligence (AI) does have some drawbacks. Before delving into the intricacies of Artificial Intelligence (AI) and corporate governance I will be discussing basic definitions of Corporate Governance and Artificial Intelligence (AI).<sup>2</sup>

## CORPORATE GOVERNANCE

Corporate Governance is an action that is based on some rules and regulations through which the company is governed. Some of the key elements of Corporate Governance are as follows:

**Stakeholders Management:** Corporate governance ensures that the interests of the stakeholders are taken into account and works accordingly. This promotes trust and long-term value.

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<sup>1</sup> 'Artificial Intelligence in Governance' (*Confederation of Indian Industry*, 17 May 2023)

<<https://www.ciiblog.in/artificial-intelligence-in-governance/#:~:text=One%20of%20the%20most%20important,other%20vulnerable%20sections%20of%20society>> accessed 15 February 2024

<sup>2</sup> Florentina Susnea, '7 trends in corporate governance due to AI' (*LinkedIn*, 13 July 2023)

<<http://www.linkedin.com/pulse/7-trends-corporate-governance-due-ai-florentina-susnea/>> accessed 15 February 2024

**Transparency:** Corporate Governance ensures the sharing of the financial reports, and communication relevant information with the stakeholders which fosters trust and credibility among them.

**Decision Making:** When companies use powerful Corporate Governance it helps in responsible decision making, ensures accountability, promotes transparency and victuals strong stakeholder relationships.<sup>3</sup>

## ARTIFICIAL INTELLIGENCE

It is the simulation of Human Intelligence it is an advanced technology that can perform such tasks for which earlier there was a requirement of human intelligence. For example: understanding language, perceiving images, reasoning, and speech recognition etc. With the entry of Artificial Intelligence (AI) into the corporate boards there comes a question of what would be its impact on corporate governance, before delving into this we will be discussing the actual position of Artificial Intelligence (AI) in today's era and what it would be in future.<sup>4</sup>

**The types of Artificial Intelligence (AI) that are prevailing and are of greater concern to the companies are as follows:**

**Assisted Artificial Intelligence (AI):** Assisted AI in corporations is a system having a lesser range in terms of operation as compared to the other systems of AI. In this system human intelligence is at the supreme level, AI just helps humans to achieve their goals by helping them in accomplishing their basic tasks such as translation. This system of AI is also termed “Narrow” AI or “Soft” AI by scholars because it has a limited approach. An example of this particular system of AI could be Apple's Siri.

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<sup>3</sup> Priyanshi, 'Corporate Governance in India' (*Legal Service India*, 19 December 2021) <[<sup>4</sup> Holly j Gregory, 'AI and the Role of the Board of Directors' \(\*The Harvard Law School Forum on Corporate Governance\*, 07 October 2023\) <<https://corpgov.law.harvard.edu/2023/10/07/ai-and-the-role-of-the-board-of-directors/>> accessed 15 February 2024](http://www.legalserviceindia.com/legal/article-7435-corporate-governance-in-india.html#:~:text=Corporate%20governance%20safeguards%20not%20only,shareholders%20associated%20with%20that%20company.></a> accessed 15 February 2024</p></div><div data-bbox=)

**Augmented Artificial Intelligence (AI):** It is another version of artificial intelligence in corporate boardrooms and in this system, human intelligence prevails over AI. But, in this version, the approach of AI towards the decision-making of the board members is a bit more panoramic and advanced. This version of AI has helped in increasing the company's productivity. Augmented AI in a line can be termed as an emerging system that will not prevail over human intelligence in decision-making but will help enhance human intellect in regard to decision-making.

**Autonomous Artificial Intelligence (AI):** It is the most principal level where an AI can reach means in this system; AI contains its decision-making mechanism and can make decisions itself. But this AI system is still debatable and it may give rise to many problems too.<sup>5</sup>

## **POSITIVE & NEGATIVE IMPACTS OF INCORPORATING ARTIFICIAL INTELLIGENCE INTO CORPORATIONS**

**The process of incorporating AI into corporate boardrooms has both positive and negative impacts:**

**Positive Impacts:** As we know technology is evolving day by day, so the process of corporate governance and decision-making is also becoming complex. This complexity in the technology is making it difficult for the board to make proper and fast decisions. Incorporation of AI in corporate boardrooms would be a boon to this situation because of its cognitive capabilities such as risk assessment, interpreting intuitive, physiological and other behaviours of humans and helping them understand the positive and negative implications of their decisions. In addition to this AI can analyse large amounts of data in a short period which may reduce the risks and costs associated with decision-making. Some positive impacts of Artificial Intelligence (AI) on corporate governance are as follows:<sup>6</sup>

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<sup>5</sup> Baran Can Kaya, 'The Role of Artificial Intelligence In Corporate Governance' (2022) SSRN <<http://dx.doi.org/10.2139/ssrn.4143846>> accessed 16 February 2024

<sup>6</sup> *Ibid*

- **AI-powered auditing and compliance:** AI can support carrying forward the auditing and compliance processes associated with corporate governance. AI because of its cognitive capabilities can analyse the risks automatically and identify deviations from the set rules and regulations that may help in reducing human error.<sup>7</sup>
- **Data-driven Decision Making:** AI can be used for analysing data through which useful insights can be provided to the decision makers such as market trends, customer references and emerging opportunities. This would help the board in making more strategic decisions.<sup>8</sup>
- **Transparency:** AI systems promote transparency by providing well-documented analysis to the users and stakeholders so that they are aware of how the decisions have been made. For Example: In financial institutions, lots of risk elements are involved, so providing a detailed documented analysis of decision-making to the stakeholders would be of great help to them.<sup>9</sup>
- **Risk Management:** With the advancements in technology, the regulations are becoming more complex. To comply with these stringent regulations AI can be a game changer AI through machine learning processes can analyse large data in real-time, and flag suspicious transactions and compliance breaches. Therefore, by leveraging AI and Corporate Governance organisations can proactively address compliance requirements and foster a culture of ethical conduct.<sup>10</sup>
- **Automation Capability:** AI can perform routine tasks allowing the employees to focus on high-level matters. By doing this AI would help the organisation in accomplishing

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<sup>7</sup> Artificial Intelligence in Governance (n 1)

<sup>8</sup> Matthew Martin and Marina Ehrlich, 'AI in corporate governance: a new dawn for the board of directors?' (*Lexology*, 12 October 2023) <<http://www.lexology.com/library/detail.aspx?g=233b49cd-5cd7-42bb-8874-7a5122c65eee>> accessed 16 February 2024

<sup>9</sup> Alexis Veenendaal, 'How to Ensure AI Governance in Your Organization' (*SS&C Blue Prism*, 30 August 2023) <[www.blueprism.com/resources/blog/ai-governance/](http://www.blueprism.com/resources/blog/ai-governance/)> accessed 16 February 2024

<sup>10</sup> 'The Transformative Role of Data and AI in Corporate Governance' (*LinkedIn*, 19 June 2023) <<http://www.linkedin.com/pulse/transformative-role-data-ai-corporate-governance-permutableai/>> accessed 16 February 2024

goals with a lesser amount of resources. In a way enhancing overall corporate governance.<sup>11</sup>

**Negative Impacts:** The reason behind incorporating artificial intelligence (AI) in the corporate boardroom is to increase productivity and efficiency. On the other hand, more use of artificial intelligence (AI) may lead to a breach of ethical conduct.

If we look at the present scenario the legal infrastructure is not able to reap the expeditious growth of artificial intelligence (AI). It means that directors would be held accountable for the work done by AI.

Presently, if we look at the variations of AI, they vary from Artificial Narrow Intelligence (ANI) to Artificial General Intelligence (AGI) on the other hand the legal sector is not compatible with this tremendous growth and there is one more AI variant named as Artificial Super Intelligence (ASI). It will not be very far before AGI will be replaced by ASI everywhere. Therefore, the need of the hour is to make such a legal framework that would be compatible with ASI and the one we are having is not even compatible with AGI. Therefore, there is a dire need to make such a legal framework that can govern the applications of Artificial Super Intelligence (ASI).<sup>12</sup>

**Although AI has great potential, on the other hand, it poses great risks and threats to corporate governance example:**

- **Human Oversight:** Although AI has great cognitive capabilities; still it lacks human intuition and judgement. Therefore, somewhere with the use of AI, the board would not be able to consider social and ethical factors during decision-making.
- **Bias:** Artificial Intelligence (AI) is a creation of humans. It works according to the data entered in the software. So if in case the data stored is somewhat biased the AI will not be able to help in developing good corporate governance.

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<sup>11</sup> Martin (n 8)

<sup>12</sup> Rajasi Guharoy and Saheli Biswas, 'AI and Legal Decisions Making in The Corporate Governance' (2021) 3(6) International Journal of Legal Science & Innovation 312 <<https://doi.org/10.1000/IJLSI.111214>> accessed 16 February 2024

**For Example:** If there is a company named A and the eligibility criteria for selection in this company as an employee is that you should be a white American. If the person applying is an Afro-American, he will be rejected on this Basis.

So through this example, I just mean to say that AI would not be using its mind. It would be working on the data saved in its programming system. Therefore, AI would be acting biased.

**Cyber Security Risks:** AI systems are themselves vulnerable to cyber-attacks that may hamper the personal data and information of the company. This comprises of data may lead to a breach of shareholders' and stakeholders' interests which will further lead to the overall disturbance in the company.

**Cost:** AI systems are expensive to incorporate and maintain for small and medium-sized businesses.

**Job Displacement:** AI systems are becoming more capable of performing tasks that are generally performed by humans, which will lead to the wrapping of jobs. This is a concern that has been raised for centuries whenever new technology arises.

**Legal and Regulatory Framework:** The present legal framework is not able to cope with the expeditious growth of AI Systems. The result of this is that AI systems have no accountability i.e. for the work done by AI the Board members would be directly liable.

**Unintended Consequences:** As we have seen with other emerging technologies, unforeseen consequences may arise. The same is the case with AI also; we have seen that when AI chatbots are used by companies to address the issues of their Customers, these AI chatbots are not able to address the customers to their satisfaction and sometimes end up providing wrong information. So companies must be prepared to address unintended consequences because of the use of AI.<sup>13</sup>

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<sup>13</sup> Priyanshi (n 3)

## IS IT POSSIBLE FOR AI TO TAKE OVER HUMAN ROLES IN CORPORATE BOARDROOMS?

Artificial intelligence isn't something to be scared of. There would be no Artificial Intelligence without human intelligence. Humans write the lines of code with which AI is developed. As AI application continues to grow, so will the services of humans. Someone has to design the machine's AI process, create these machines, and operate and maintain them. Thus any speculations of AI riding humans in the workspace can be boldly dismissed.

Undoubtedly AI is capable of learning quickly but it lacks common sense and is simply incapable of reasoning and contesting facts to the degree that humans can. White collar Jobs such as writer, programmer etc. require working with software and hence are more influenced to being done partly by AI systems. On the other hand, blue-collar jobs such as plumbers, electricians, police officers etc. are far from being at risk of obsolescence due to AI, as they require manual labour.<sup>14</sup>

AI will never be capable of reaching the level of creativity and imagination which are primal features of human beings. The need to get food and groceries delivered to the people was a human realisation not by AI, thus Zomato, Swiggy and Blinkit were made. AI only helped by suggesting the favourite restraints, tracking the delivery time, etc.<sup>15</sup>

Sensitivity toward human emotions such as counseling, therapy, customer service, ability to establish relationships is a human ability that can never be replicated by AI. Human possess a moral compass that guides their decision making enabling them to make choices based on ethical considerations in various fields. AI on the other hand cannot understand complex moral dilemmas or ethical judgements.

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<sup>14</sup> Atul Harsha, '5 Reasons Why Artificial Intelligence Cannot Completely Replace Human' (*Shiksha Online*, 10 July 2023) <<http://www.shiksha.com/online-courses/articles/5-reasons-why-artificial-intelligence-cannot-completely-replace-human/>> accessed 15 February 2024

<sup>15</sup> AG Danish, '12 reasons Why AI cannot replace humans' (*LinkedIn*, 09 April 2023) <<http://www.linkedin.com/pulse/12-reasons-why-ai-cannot-replace-humans-a-g-danish/>> accessed 15 February 2024



AI's creative process is limited to the data it receives. Humans can create various concepts and change ways of doing work, AI lacks this human ability because it can only work with the data received. It cannot think of new ways, styles or patterns of doing work and is restricted to the given templates. Humans are highly adaptable and can easily adjust to new situations and environments. They can learn from their experiences and apply that knowledge to new situations. In contrast, AI is limited in its programming and cannot adapt to new situations without reprogramming. This makes AI less flexible and less adaptable than humans.

**Physical Dexterity:** It is another area where AI cannot replace humans. It refers to the ability to perform manual tasks that involve using hands and fingers to manipulate objects such as cooking, playing instruments etc. While AI cannot perform tasks that require human touch, AI can respond to basic commands but cannot connect with others on an emotional level. However, as of now, machines are not capable of fully replacing humans. While artificial Intelligence can transform the business, human intelligence is still needed to succeed.

## **SUGGESTIONS ON HOW TO MAKE IMPLEMENTATION OF ARTIFICIAL INTELLIGENCE ON CORPORATE GOVERNANCE BETTER**

Artificial Systems are designed to perform tasks that normally require human intelligence, such as recognition, reasoning, decision making and learning. However, AI systems are not perfect and can make errors or produce inaccurate results.

How a proper AI systems be achieved? How to evaluate and validate, what are the performance metrics and success criteria?

For this, we need to set a clear scope and direction for AI systems and avoid unnecessary complexity.

- Implementing explaining ability can help to understand AI's decision-making process, identify errors and improve accuracy.
- One must choose data that is relevant, representative and reliable for the problem and AI system.

- Splitting of data into training, validation and testing to avoid overfitting or underfitting the AI system.
- Performance metrics and success criteria that align with business objectives to be established.
- One needs to consider the advantages and disadvantages of each algorithm, including complexity, interpretability and robustness.
- Choosing the right hyperactive parameters, like learning rate, batch size and regularization will control the learning process and affect the performance of AI systems.
- Training and tuning an AI system requires a balance of diverse, high-quality data and meticulous algorithm refinement.<sup>16</sup>
- Improving AI system accuracy is not a one-time task but a continuous process that requires regular maintenance. Monitoring and reviewing the AI System's performance over time and making adjustments are necessary.
- Follow ethical and legal standards to ensure that the AI system is fair, transparent and trustworthy.<sup>17</sup>

There is no shortage of principles and concepts aiming to support the fair, responsible and accountable application of AI when it comes to managing AI on the board. It is clear that AI can be a double-edged sword. In a corporate setting, it may bring many benefits including reduced costs, efficiency gains, innovation and improved decision-making. However, it can also be a disruptive technology impacting a wide range of human rights-related issues. AI is becoming ever more omnipresent and is affecting more aspects of human life in greater ways and recent years have seen increased calls for board oversight of AI in areas such as sustainability and accountability. It is vital to investigate the potential hazards of AI applications so that the application of these technologies can be aligned with human values and beliefs.

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<sup>16</sup> Prashant Singh, 'Corporate Boards And Decision Making: Impact Of Artificial Intelligence (AI) - New Technology' (*Mondaq*, 11 January 2024) <<https://www.mondaq.com/india/new-technology/1410678/corporate-boards-and-decision-making-impact-of-artificial-intelligence-ai>> accessed 15 February 2024

<sup>17</sup> Christian Poloczek, 'How Will AI Transform Corporate Governance? A New Era of Decision-Making and Compliance' (*LinkedIn*, 07 April 2023) <<https://www.linkedin.com/pulse/how-ai-transform-corporate-governance-new-era-christian-poloczek/>> accessed 16 February 2024

The corporate use of AI enables technologies to play either an instrumental or a determining role, both of which often result in improved efficiency, accuracy and effectiveness. We need to achieve research objectives based on the different roles that may be played by AI in the boardroom.

The first step is to investigate the functions of AI in an advisory or assistant role so as to promote AI-supported and AI-enhanced board accountability. In these situations, AI is neutral and instrumental, board members are still in the driving seat regardless of how the AI is designed or applied.

The second is to discuss scenarios where AI has an independent role and acts as an autonomous director. In this situation, AI accountability is equivalent to board accountability. Every industry has a high demand for AI capabilities – including systems that can be used for automation, learning, legal assistance, risk notification, and research.<sup>18</sup>

There is no denying that artificial intelligence has changed our lives. A recent survey by Forbes indicated that many Americans still trust humans over AI by a large percentage. With increased automation, people are nervous about job displacement. While AI promises efficiency and precision it is essential to consider the human element – the workers whose roles might become obsolete. As AI makes some tasks redundant, it also opens doors to new roles and opportunities. Just as AI might reduce the need for manual site inspections, it can also create demand for AI specialists, digital twin architects, and smart contract developers. It is not a question of whether people will lose jobs, but how to train the workforce for the new roles created by AI that allow for new job security and growth.

**The developers and digital transformation leaders can maintain or improve the level of artificial intelligence by following some approaches:**

- Adding new and fresh data is one of the most common and effective methods of improving accuracy. Better and more diverse data to be required to develop them

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<sup>18</sup> Shehmir Javaid, 'Top 7 AI improvement recommendations & techniques in 2024' (*AI Multiple Research*, 03 January 2024) <<https://research.aimultiple.com/ai-improvement/>> accessed 16 February 2024

- Improving the quality of the data is necessary for improving artificial intelligence. The quality of the data can be improved by maintaining the quality during the collection phase.
- Upgrading the algorithm and adding new parameters can be an effective way to improve artificial intelligence. Data structure and algorithms can be improved through the use of cache-friendly data layouts and efficient algorithms. Feature re-engineering of an algorithm is also one of the process of improvement.<sup>19</sup>

## CONCLUSION

Businesses can become more efficient by using AI-powered tools thoughtfully and proactively. However, they must be alert to the risks of being biased. Despite the considerable opportunities that AI offers, organizations also must be aware of the potential drawbacks. Undoubtedly with the rise in technological development, AI systems have gained tremendous importance in ordinary life and business life. But its negative impact could also be a tremendous problem. Striking a balance between AI use and human judgment will be crucial. Therefore, the implementation of legal regulation concerning the liability and accountability of AI systems will certainly help overcome its negative impact.

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<sup>19</sup> Jingchen Zhao, 'Promoting more accountable AI in the boardroom through smart regulation' (2024) 52 Computer Law & Security Review  
<<https://www.sciencedirect.com/science/article/abs/pii/S0267364924000062#:~:text=AI%2Dpowered%20analytics%20tools%20can,resource%20allocation%20and%20mitigate%20risks>> accessed 16 February 2024