AI and Corporate Governance

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Overview of AI and Corporate Governance

In discussions with numerous corporate governance / company secretarial professionals, the subject of AI looms large, particularly with the recent emergence of large language models (LLMs) like ChatGPT or Google's Bard (now Gemini). For some, AI remains a somewhat ominous presence on the horizon, while others have started taking initial steps to grapple with the potential implications of such technological advancements for boards, corporate governance frameworks, and the company secretarial profession.

The reality of AI often seems to occupy a peculiar middle ground; despite all the discussions of disruption and even potential Armageddon, widespread and commonly deployed practical applications remain limited, including within the corporate governance sphere. Large language models, for example, possess the capability to analyse and organise vast amounts of data instantly, promising significant efficiencies and potential automation of certain aspects of roles – but, as of today, the outputs remain variable.

Within the company secretarial realm, AI tools exist that can transcribe meeting discussions, generate action points, and draft minutes, to take one example. Nevertheless, there remains a lack of trust in these tools, partly due to accuracy concerns and issues around data protection and privacy. While we catch glimpses of what the future might look like, there is no sense that that future is right now – or at least, not yet.

Nevertheless, there appears to be a growing consensus that AI will profoundly impact corporate governance and the professionals within it. Predicting the speed and magnitude of this impact remains challenging; change might occur both more rapidly and more gradually than we might think. However, if we do accept that there will be an impact, it is critical that we as company secretaries continue to understand and compare what we see across different companies and develop a sense of what emerging practice looks like.

Here are some key emerging considerations:

Developing a functional understanding of large language models and their associated risks and opportunities is crucial.

Even with today's LLMs, the quality of output heavily depends on the quality of inputs or "prompts." One significant risk lies in a lack of understanding of these tools and the potential danger of treating AI outputs as indisputable facts, which could lead to providing inaccurate advice to boards / management teams / clients or advice that is lacking in context.

Ensuring that AI and emerging technologies find their place on board agendas is increasingly important.

While AI is gradually finding its way into board discussions, it is not yet universal. However, given AI's potential to drive long-term change, it warrants inclusion on the agenda, especially considering UK directors' duties regarding long-term value considerations.

There are inevitably going to be different reasons for a possible lack of engagement with the topic that are specific to different companies, different sectors, and different boards; however, there might be some common reasons for AI not being grappled with.

One reason might be an unspoken perception that the risks and opportunities around AI are not particularly impactful on a particular company given its sector or risk profile, i.e. the mentality of "we' re not a tech company". But which company board can say with full confidence that emerging technologies will not or could not materially impact on the workforce, on the organisational culture or the strategy and business model? These are all long-term considerations and directors owe it to themselves and to their stakeholders to continually test these assumptions – for even if they are correct today, it does not mean that they will be correct tomorrow.

Another related reason might be the tension that inevitably rises when boards have to strike the balance between short-term and long-term issues. This is a particularly prevalent consideration in the context of recent macroeconomic concerns. Directors may feel that their time is most valuably spent on concentrating on short-term survival rather than long-term developments, particularly when the speed of change that is associated with AI makes the long-term even more difficult to predict with certainty. One solution is for boards to consider instituting annual strategy sessions, for example, where the focus is away from the here and now and on what the business might look like in 5, 10 or 20 years. No-one wants to be the next example of a business that simply did not adapt to the world around it. This discussion of course requires the right inputs, which leads us to...

Securing the right inputs for credible AI discussions may pose a challenge.

Boards may lack the necessary expertise or range of inputs to facilitate fruitful conversations about AI. While larger companies may have the option to appoint technology or data-focused officers to the board, smaller companies might consider forming working groups or collectively upskilling to address this gap. Long-term, there may be significant risks in AI being the domain of a particular manager or team thus resulting in silos, or for AI to be adopted across the business without strategic oversight from the board.

Considering the impact of AI on trust is vital.

AI has the potential to undermine trust in corporate communications if not responsibly managed – this encompasses every aspect of communications, including the annual report, other financial results, the company website and social media. Similarly, boards must comprehend how data generated by AI might introduce biases, potentially eroding trust. Companies must ensure authenticity in shareholder communications and be transparent about their use of AI tools in all forms of reporting, including their annual report, website and reporting to the Board.

Cultivating the right corporate and boardroom culture is fundamental.

With the rapid pace of technological change, boards and companies must seek to foster cultures that embrace agility and change. Boards should ask themselves, "does our corporate culture encourage and facilitate agility and change in a way that will enable us to effectively capture the benefits of AI?" and they should champion such cultures to navigate AI-related risks and capitalise on opportunities that technological advancements present.

It is almost inevitable that different companies and sectors will be impacted at different times and to different extents by the advent of new technologies, but the crucial point is that the culture is in place to have open conversations around the impact of AI and how the company responds. This consideration of culture of course extends to the workforce and how boards and companies can best create a culture that supports employees in navigating technological change.

Addressing the impact on the corporate governance profession

This requires an understanding of both the "AI of governance" and the "governance of AI." Company secretaries must grasp how to integrate AI into decision-making frameworks effectively while also reflecting on the long-term risks and opportunities associated with AI and other emerging technologies, both to the companies they work with and, increasingly, to the profession.

The extent of AI's impact on the company secretarial profession remains unclear. While AI may automate certain compliance tasks, it has the potential to free up time for company secretaries to focus on strategic advisory roles, embedding ethical practices across organisations and facilitating decision-making processes. Embracing this opportunity necessitates an agile and flexible culture within the profession.

If you would like to discuss any of the points discussed in this article, please get in touch with Paul Johnston at paul.johnston@oneadvisory.london