

Faculty of Law, Economics and
Finance of the University of
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Corporate Technologies and the Tech Nirvana Fallacy

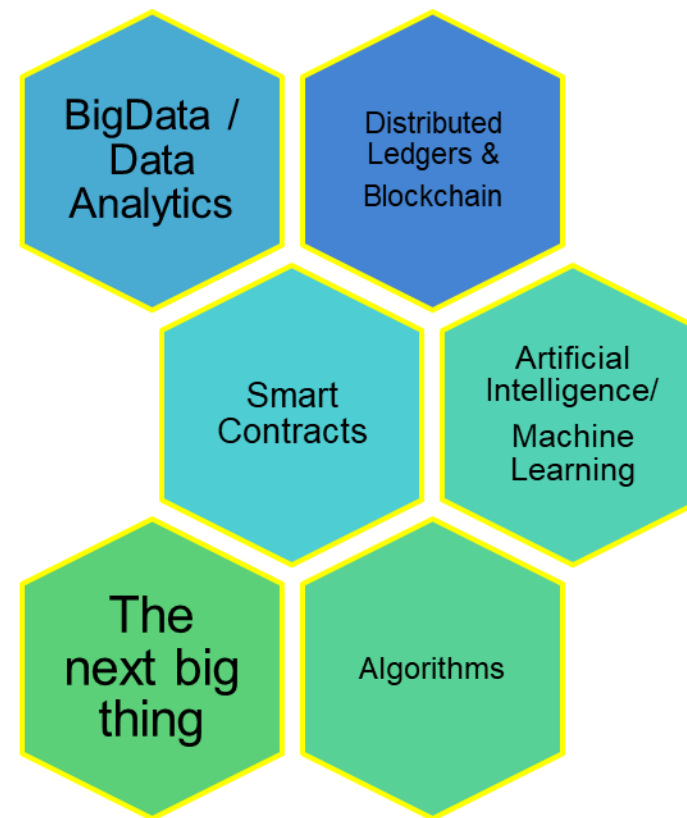
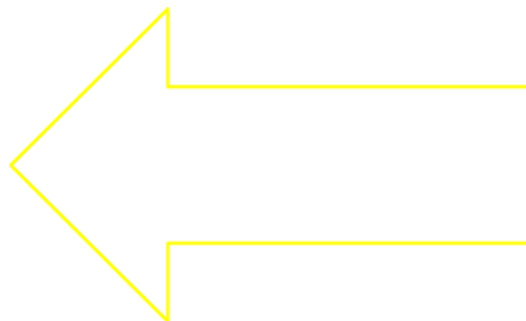
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ECGI - Law Working Paper No. 457/2019

www.ssrn.com/abstract=3392321

I. Introducing CorpTech

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II.1. Optimistic predictions about technology and corporate governance

- Technology will make the monitoring function of the board obsolete (eg Hamdani et al)
 - CorpTech will allow improvements in:
 - Director selection
 - Compensation setting
 - And especially Governance, Risk & Compliance (GRC) functions
 - Can CorpTech even *replace* the (monitoring) board?

- Technology makes the (mediation) function of the board obsolete (Yermack; Lafarre and Van der Elst) by making its intermediation unnecessary

Reduced information
asymmetries btw
shareholders and
managers

Improved analytics
for shareholders
(better knowledge)

Lower (informed)
voting costs

III. A Tech Nirvana Fallacy?

- Comparing perfect (future) CorpTech with imperfect human-populated Boards
- How good is technology really viz. humans?
 - After all, CorpTech is itself the product of humans
 - AND humans are **conflicted**.
- Consider tech limitations and governance-inherent traits

- IT Limitations
 - Data dependency
 - Data governance (Armour-Eidenmueller)
 - AI is (for now?) stupid. In particular:
 - Ethics difficult to code
 - Inferior handling of incomplete legal environment
 - Many GRC (and, generally, board-decided) issues have “political,” highly context-specific, nuanced elements, that AI doesn’t and will not (for the predictable future) handle

- Governance inherent traits
 - Governance is about incomplete contracts
 - Complex, long-term “self-driving contracts” are still a long way from here
 - Conflicts of interest: software engineers are human, and must sell / move up in the corporate hierarchy
 - Who are the buyers / decision makers *within* corporations?
 - Who controls the data?

■ IT Limitations

- Dialogue is key
- Algos (obviously) not good at *mediating* among shareholders with diverse interests
 - Which means management would be in charge of directly engaging with shareholders and mediate among them
 - And that would arguably be inferior to board's involvement

- Governance inherent traits
 - Information asymmetries to persist:
 - Disclosure is better, but still patchy, and for good reasons
 - Collective action problems are here to stay
 - Automation in proxy advisory services as a solution?
 - Less activism? Possibly more (lower costs of identifying targets)
 - Greater need for mediating board
 - More monitoring via more efficient prices?
 - Still mediated by governance

- CorpTech ever more central to corporate governance
 - As a tool, for sure
 - As something to keep an eye on:
 - It can better tackle some agency problems so long as managers and shareholder interests are aligned
 - But it is bound to exacerbate agency problem when alignment is imperfect:
 - It “maximizes” opportunism
 - Eg, “perfect” compensation package for CEO, given constraints
 - And may even create an illusion of objectivity / inevitability



Question: How should CG adapt?

- IT firms compete to provide the best products
 - Competitive market? Or oligopoly?
 - Building a pro-shareholder (or even pro-society) brand?
 - Contractual governance in the relationship btw corporation and IT supplier is a problem
 - Data control issues
 - Standardized software? → No two firms are alike
- Aligning management's incentives (eg, via compensation)?
 - Catch 22: you need incentive alignment to get the algo that aligns incentives, but if you get the incentives right, you don't need the incentive-aligning algo

- Broaden (independent) board members remit, to include monitoring over CorpTech

- Tech Committee

- Today: Cybersecurity and operating IT risk;



- Tomorrow: CorpTech governance

- Monitoring of contractual governance, of design of crucial algos, and of coders' compensation
 - Direct role would be too much

- CorpTech Licensing? Outside financial sector??
 - Expertise, resources etc. of watchdog
 - Limit to innovation
 - Code disclosure?
 - Rely on crowd testing?
 - But any CorpTech is data-specific; not effective
- **Disclosure of CorpTech governance arrangements**

Whether CorpTech can replace (functions of) boards of directors is the wrong question.

Firms with the right CorpTech **and CorpTech governance** will have advantages over firms without CorpTech or with the wrong CorpTech arrangements.

As part of a framework for the right CorpTech arrangements, our work identifies why CorpTech may not be as beneficial as it looks, esp. *without adapting CG arrangements*.

Thanks!

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Recommended Readings

- Corporate Technologies and the Tech Nirvana Fallacy by Luca Enriques, Dirk A. Zetsche :: SSRN
- The Dark Side of Digital Financial Transformation: The New Risks of FinTech and the Rise of TechRisk by Ross P. Buckley, Douglas W. Arner, Dirk A. Zetsche, Eriks Selga :: SSRN
- Artificial Intelligence in Finance: Putting the Human in the Loop by Dirk A. Zetsche, Douglas W. Arner, Ross P. Buckley, Brian Tang :: SSRN

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