

Artificial Intelligence, Governance Mechanisms and Firm Performance: A Conceptual Analysis

Shallu^{1*} | Dr. Monika²

¹Research Scholar, Haryana School of Business, Guru Jambheshwar University of Science and Technology, Hisar, Haryana, India.

²Assistant Professor, Haryana School of Business, Guru Jambheshwar University of Science and Technology, Hisar, Haryana, India.

*Corresponding Author: samrashallu@gmail.com

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ABSTRACT

The exponential development of Artificial Intelligence in the corporate functions has changed radically the way decisions are taken, the way risks are managed and how audits and performance is monitored. Existing studies mostly look at the relation between corporate governance and financial performance separately or deal with adopting AI without considering the dynamics of the governing. Moreover, the lack of standardised frameworks for AI disclosure particularly in emerging markets like India, means there are transparency gaps, accountability problems and also potential governance risks. This study attempts to create a conceptual framework is to integrate disclosing AI, Corporate Governance Mechanisms and Financial Performance using the theories of Agency Theory and Collective Action Theory. We show that the information asymmetry between managers and shareholders can be reduced by AI disclosure and this has implications on the oversight by the board, and builds trust between stakeholders. At the same time, collective board involvement in AI oversight helps to add to the credibility and effectiveness of disclosure practices. The analysis hence further identifies key characteristics of the boards include optimal size of the board, gender diversity, separation of the CEO and Chair roles and structure of board meeting as moderating factors in the governance performance nexus. While financial transparency enabled by AI makes audits better, operations more efficient and risks more detectable, challenges such as voluntary reporting practices, algorithmic bias and regulatory uncertainty increase the demand for adaptive governance models and standardized disclosure indices. The study contributes to the study of governance and technology as it proposes an integrated and theoretical framework of disclosing about AI as a strategic tool for high and sustainable financial performance and long-term competitive advantage.

Keywords: Artificial Intelligence (AI), AI Disclosure, Corporate Governance, Financial Performance, Agency Theory.

Introduction

The integration of Artificial Intelligence (AI) in the operations of the corporations has brought about a major change in strategic and operational underpinnings of the corporations especially in the information technology sector. AI systems are increasingly used in the decision-making process, risk assessment, audit, customer analytics, performance monitoring. From the point of view of the Agency Theory (Jensen, & Meckling, 1976; Fama & Jensen, 1983), the function of corporate governance is important to reduce the conflicts between managers and shareholders. AI disclosure supports the implementation of governance mechanisms by increasing transparency and decreasing information gaps, increasing accountability. Similarly, the Collective Action Theory emphasizes on the need of coordination of oversight and sharing of monitoring roles in governance structures as required, mainly for dispersed ownership firms. Despite the upsurge in the literature on the topic of AI and firm performance, there is still a lack of clarity on the interplay of the AI disclosure and corporate governance mechanisms and how

these impact financial performance. Most previous studies are either confined to the topic of AI adoption and ESG performance or corporate governance and financial performance individually and do not integrate both aspects under one big umbrella. Furthermore, the absence of structured and standardized practices surrounding AI disclosure may present governance challenges, particularly in emerging markets, such as India, where regulatory frameworks are still in the process of evolving. The lack of a standardised index on AI disclosure that is geared for a corporate environment in India further hinders the systematic evaluation and comparison of firms. This hints at the obvious need for conceptually analyzing on the role of disclosure of AI to determine governance effectiveness and financial performances.

In view of these shortcomings, the purpose of this review and synthesise the current literature on AI adoption and disclosure in corporate settings and examine the theoretical foundation especially Agency Theory and Collective Action Theory, that explains the role of disclosure of AI in strengthening corporate governance. Additionally, the study aims at conceptually analyzing the interrelationship between AI disclosure, corporate governance mechanism and financial performance and also propose an integrated model linking these dimensions with special reference to Indian corporate context.

Objectives

- To review and synthesize existing literature on AI adoption and disclosure in corporate settings.
- To analyze the theoretical foundations explaining the role of AI disclosure in corporate governance.

Review of Literature

• Corporate Governance and Financial Performance

Recent research about the relationship between corporate governance (CG) and financial performance (FP) had produced mixed and often contradictory results thus keeping the topic open for further research by scholars. While some studies show that Good CG mechanism including board independence, institutional ownership and audit committees have positive effects on FP (Purwanto et al., 2020; Markonah and Prasetyo 2022), others show weak or context-specific relations (Guluma 2021). These inconsistencies have usually been attributed to the difference in firm characteristics, market environments or the measuring of both the quality of governance and financial performance outcomes (Mansour et al., 2022). Consequently, in order to understand the CG-FP linkage requires a subtle discovery about the internal mechanisms, external regulatory conditions and the firm level attributes.

• AI Evolution in Business

According to the European commission "AI refers to systems that demonstrate intelligent behaviour by analysing their environment and taking actions - with some degree of autonomy - in order to achieve certain goals" (European commission, 2019a, p. 1). Such explaining AI and evolving it in such a form that AI becomes interpretable by humans and human understands what AI is and does, is relevant because of the potential of increased interpretability and less probabilities of errors or bias in systems which may further increase trust in such systems by humans (European Commission, 2019b) . One possible way for organizations to respond to this type of needs, indeed, would making AI related information public (Bonsson et al. 2021).

Disclosures can be roughly defined as the report of the economic information, both financial and nonfinancial and quantitative and other economic information about the economic position of the company and about the performance of the same (Owusu-Ansah, 1998: 608). Disclosures that are voluntary and mandatory All of the information that a company discloses to stakeholders is done according one purpose is obligatory (Shehata, 2014). Lang and Lundholm (1993) consider the annual reports as a good proxy of the disclosure rate of other companies. Presenting some detailed data related to the range and the means of some certain implementation of AI technology in some organization is also called as AI disclosure. It is comprised of making the explanation of how and why AI gets utilized, to what end, and the wellspring of probable advantages and downsides. This is becoming increasingly popular as people are increasing their demand for organizations to be governed using corporate guidance in their technological innovation. In as much as AI disclosure continues to be a field of playground to advertise technological expertise, it is also an aspect demanding the establishment of a level of confidence by the investment community and customers together with regulatory agencies (Felzmann et al. 2020) However, a distinct lack of binding legislation and lack of common best practices have rendered AI disclosure a largely voluntary process. There are some specific remarks about the use of the Australian disclosure system: Firstly, organizations enjoy a large amount of freedom in determining the level and method of reporting that can be used, which means that there is an incomplete picture. Businesses release AI

information in annual or sustainability reports as well as technology reports but the level of information released depends on tradition, regulation and corporate strategy (Hacker, 2023)

Artificial Intelligence (AI) has made life-changing changes in the field of finance, business strategy, and organizational management in the past few years. In the context of finance, AI has enabled the automation of complex tasks such as credit scoring, fraud detection, and investment forecasting, with neural networks, support vector machines, and deep learning being some of the deployed algorithms (Kudelić et al., 2025). Integrating Environmental, Social, and Governance, or ESG, criteria into AI systems is nowadays a process to ease business decisions created in the corporate world to represent ethical judgements and stakeholder demands. It brings together these ideas in order to promote banks as responsible innovators that are ethical agents of financial revolution. This, but, should also be done by overcoming some internal barriers like integrating AI with legacy systems and change of organizational cultural towards innovation (Gupta & Agarwal, 2025).

In corporate governance, AI is employed for better performance monitoring and strategic choices based on board diversity analysis and predictive analytics using artificial neural networks (Yang et al. 2024). Entrepreneurial finance is also undergoing transformation with the help of artificial intelligence tools in being able to understand the patterns of crowdfunding and enhancing the communication of entrepreneurs and their investors (Kudelić et al., 2025). Beyond finance, the structuration of Industry 4.0's business model and the intelligence of its AI is providing value creation and personalization of smart services in the context of startups and innovation ecosystems (Ventura & Meirelles, 2025). Similarly, in human resource management, digital AI tools play their role in organizational resiliency through enhancing adaptability and communication and strategic planning in dynamic environments (Ahmić & Čosić, 2025). Collectively, these advancements reflect AI's prominent role in advocating for data-driven choosing, operational efficiency, and strategic innovation across industries, along with key ethical concerns of prejudice, privacy, and openness.

Liu et al. (2025) point out the role played by AI to increase consumer's willingness to adopt Central Bank Digital Currencies (CBDCs) in terms of digital technology awareness, privacy guarantees and usability from Chinese banking sector. Similarly, Chen and Hu (2025) introduce the legal and risk considerations of generative AI as it applies to the financial industry, and suggest the need for robust systems of regulation to mitigate liability. Integrating AI into the business operation is further demonstrated in the work of Nguyen et al. 2025 that examines the relationship between AI-enabled governance structures and firm performance in Vietnam, which reveals nuances in the outcomes of the board diversity and independence. The wider discourse is also the strategic impact of gender diversity in boardrooms where Nguyen, Greene and Wu (2025) have found positive impacts of female board members presence and institutional ownership on firm profitability. Collectively, these studies show a growing trend in the use of AI to maximize financial performance, corporate governance and strategic management while remaining current with the regulatory, ethical and social complexities.

- **Relationship between Disclosure of AI, Corporate Governance & Financial Performance**

The disclosure of artificial intelligence (AI) has become the focus of corporate governance due to the reduction of information asymmetry between managers and investors. Put simply, it simply entails an articulation of what AI systems are, how they are constructed, tested, and monitored (Petrin, 2024). Increased transparency reduces uncertainty among investors and in certain cases it can decrease the cost of capital of the firm (Vyshnevskiy, 2024). Agency theory is used to explain this by pointing out the conflict between the shareholders (principals) and the managers (agents) (Hill and Jones, 1992). Board members mitigate these conflicts through the requirement of credible disclosure (Brown et al., 2024). Responsible management is signaled by clear AI reporting, e.g., fairness audits, which may in turn enhance ROE and ROA, by reducing the cost of financing and increasing operational efficiency (Awad, 2025). The collective-action theory also emphasizes the fact that efficient AI management should be supported by the coordination of directors in order to have credible monitoring (Ostrom, 2008; Rae & Blenker, 2024). Financial transparency based on AI increases trust, the quality of governance, and the level of ESG integration and lowers risks such as the risk of algorithmic bias (Shubita and Alrawashedh, 2023; Ridzuan et al., 2024; Eghaghe et al., 2024).

The studies indicate that three key value streams include; reducing uncertainty leads to lower finance costs (better ROE); proven AI efficiency leads to better ROA (Danek and Pospisil, 2024); and good governance results in better reputation and long-term profitability (Kalkan, 2024). This is supported by EU proposals of model audits and disclosures (Schwarcz et al., 2025). But weak or symbolic disclosure - particularly with CEO duality - can lead to less credibility (transparency theatre) (Petrin, 2024;

Akhtar, 2025). The best board size, dedicated meetings with the aid of AI applications, and gender diversity also enhance the quality of the disclosure and accountability (Shaban and Omoush, 2025; Vyshnevskiy, 2024). The results of empirical investigations indicate a positive correlation between AI disclosure and financial performance (ROA, ROE) (Shiyyab et al., 2023). Accounting transparency (Al-Okali, 2024) and financial prediction are also improved by AI (Omar et al., 2025). In general, clear AIs governance enhances trust, minimizes risk and promotes viable financial results.

Conclusion

This paper aimed at analyzing the interdependence among Artificial Intelligence (AI) disclosure, corporate governance, and financial performance, especially in the emerging market environment. Judging by the literature reviewed and theoretical basis of Agency Theory and Collective Action Theory, it can be concluded that AI disclosure is a highly relevant tool of decreasing asymmetry in the flow of information, boosting board oversight, and improving the confidence of stakeholders. Honest reporting of AI implementation, regulation, and performance results are adding to enhanced accountability and more efficient board of directors monitoring.

This result is supported by the previous empirical studies that demonstrate that AI adoption and disclosure have a positive relationship with such key financial performance indicators as Return on Assets (ROA) and Return on Equity (ROE). AI makes operations more efficient, better at risk management, enhances audit capabilities and allows making decisions based on data. Steps to financial benefits of AI are not automatic, though; it is mostly a matter of the nature of governance structures that will govern AI implementation. Best board size, gender balance, separation of CEO and Chair position, and effective board meetings are other attributes of the board that largely affect credibility and effectiveness of AI disclosure.

Besides, AI-enhanced financial transparency helps to enhance corporate reporting reliability, lowers the cost of capital, and investor trust. Simultaneously, issues like algorithmic bias and unregulated disclosure structures, as well as voluntary reporting, point to the necessity of adaptive schemes of governance and regulatory policies. Lack of a standardized AI disclosure index in the Indian corporate setting further highlights the need to come up with a systematic framework of gauging AI transparency.

Comprehensively, the research paper concludes that AI disclosure, which has solid corporate governance mechanisms, is positively related to financial performance. The three factors of AI, corporate governance, and financial performance are interconnected and complementary to one another as opposed to being independent. Companies that combine the transparent reporting of AI practices with the good governance of the companies tend to have a higher chance of enjoying a sustainable financial growth, improved stakeholders trust, and long-term competitive advantage. The future studies must be directed toward formulating common AI disclosure indicators and empirical testing in Indian market to give more explanations to this emerging governance-technology-performance nexus.

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