



AI IN FOCUS IN 2025:

Boards and Shareholders Set Their Sights on AI

Danielle Rizak, Associate, Compensation & Governance Advisory, ISS-Corporate

Alyce Lomax, Associate Vice President, Compensation & Governance Advisory, ISS-Corporate

www.iss-corporate.com

KEY TAKEAWAYS

- In 2024, public companies and shareholders increased their focus on artificial intelligence (AI), in terms of both board level oversight and shareholder proposals.
- The percentage of companies providing some disclosure of board oversight increased by more than 84% year over year and more than 150% since 2022. The increases were seen across all industries.
- Shareholder proposals related to AI more than quadrupled compared with 2023, mostly focused on calls for reports providing greater analysis and disclosure of impacts
- Scrutiny of AI is expected to intensify further in 2025, due to increasing urgency around issues including the balance between transparency, responsibility, and return on investment.

Introduction

Artificial intelligence has cemented its place in the future of innovation, with companies and investors alike racing to capture the fierce advantages possible with AI. With plans to push their businesses to the next level of progress and efficiency to the tune of millions or billions of dollars, corporations of all kinds are navigating the promise and potential in generative AI, automation, and machine learning -- as well as possible pitfalls and risks.

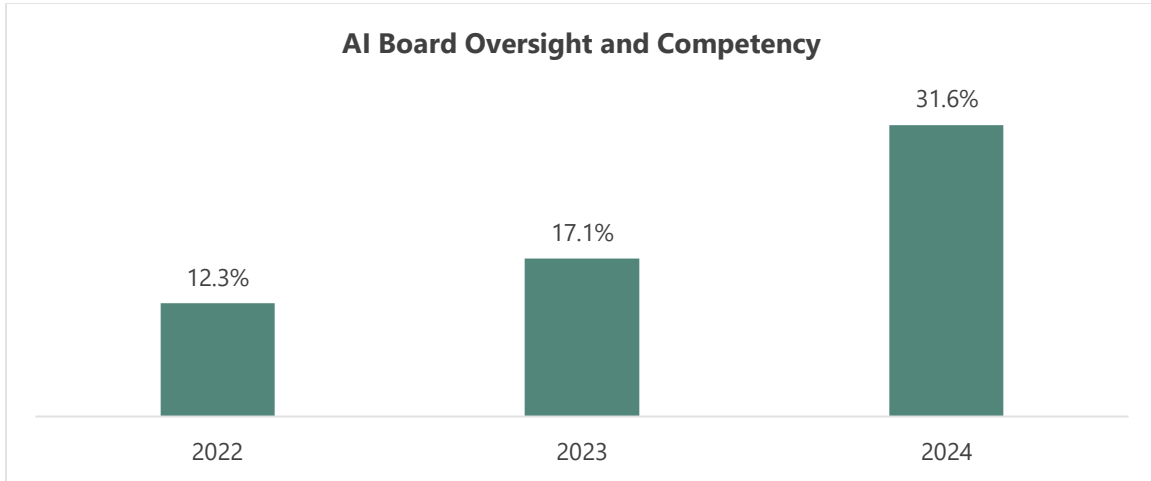
Meanwhile, many shareholders are likely to scrutinize their companies for potential risks; whether they seek to determine what sort of return they will receive after massive investment in the technology, learn exactly how corporate boards are handling oversight, or receive more robust information on the management of human rights and other risks inherent in the technology (or all of the above). In the coming year investors may lob increasingly tough questions at issuers.

The drive for financial results, robust disclosure around AI ethics and guardrails, and risk mitigation through clear and solid board oversight is likely to ramp up in 2025. This paper expands on [ISS Corporate's analysis in 2024](#).

Board Level Scrutiny Of AI

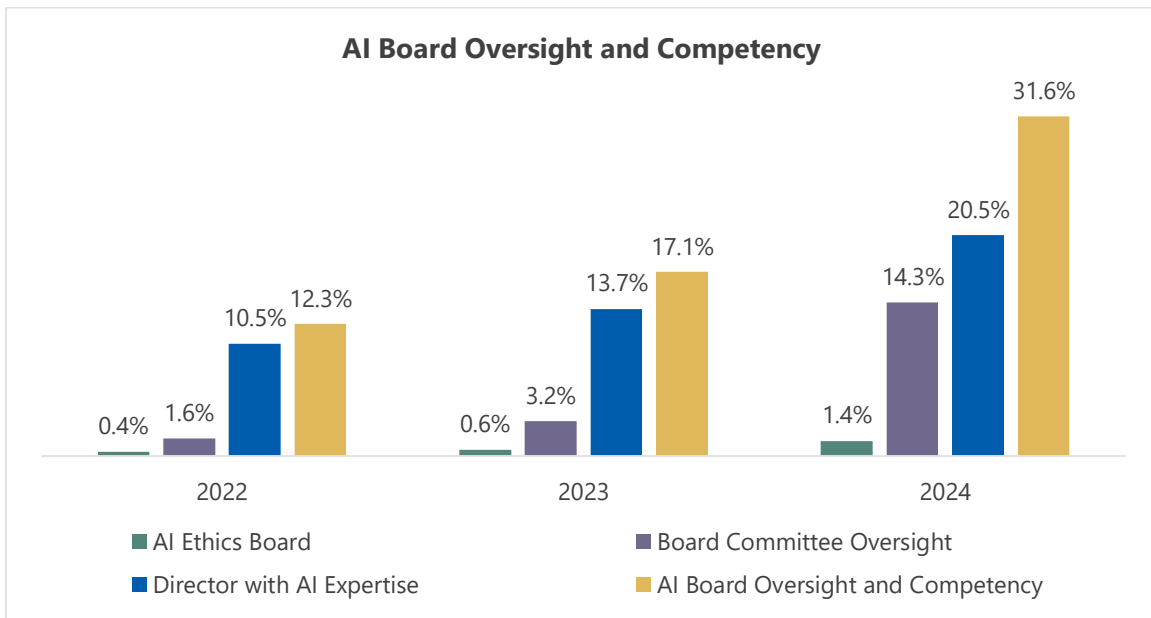
Between the advancing breadth and functionality of AI in company operations, the widespread uncertainty surrounding the technology and the evolving political and regulatory landscape, the board's oversight role is becoming increasingly important. The percentage of S&P 500

companies disclosing some level of AI board oversight or AI competency¹ has increased more than 84% in the past year, and over 150% since 2022, with significant increases across every industry.



Source: ISS-Corporate Analysis

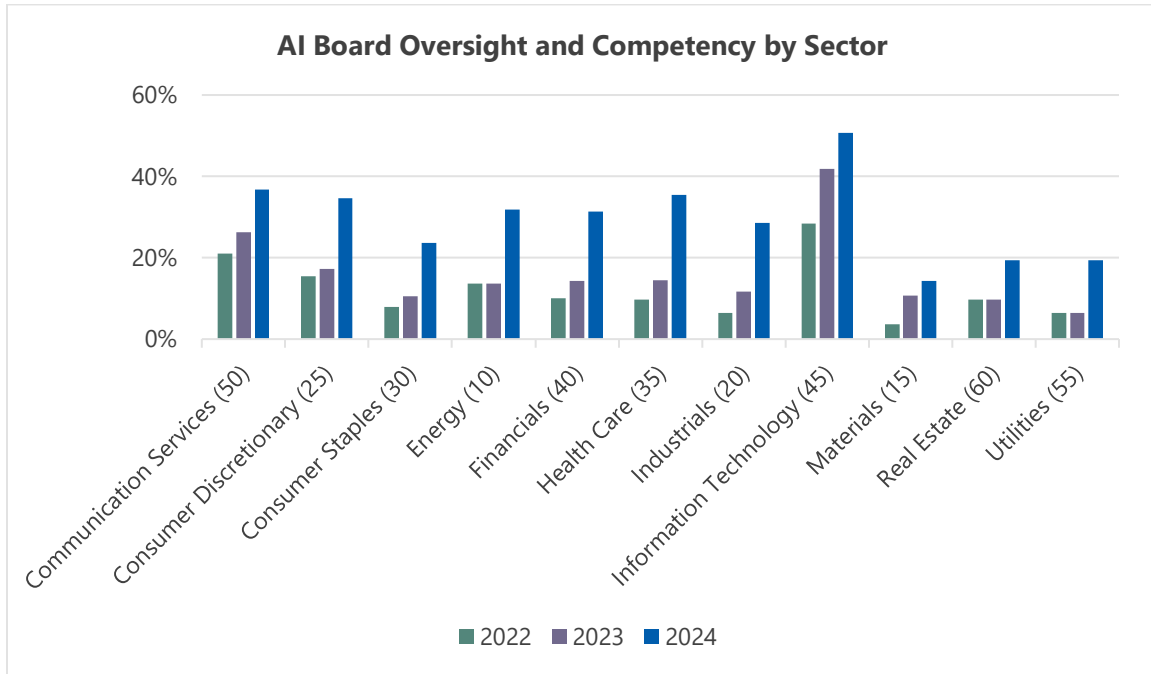
In 2024, more than 31% of the S&P 500 disclosed some level of board oversight of AI, including specific committee oversight responsibility, director(s) with AI expertise, and/or an AI ethics board.



Source: ISS-Corporate Analysis

¹¹ For the purposes of this paper, a company was determined to have oversight of AI if it disclosed in the proxy statement that: (1) the full board or a specific committee either has oversight responsibility of AI or AI was mentioned as one of the topics evaluated by the board or the committee during the year; (2) at least one director has expertise in the field of AI; or (3) the company has established an AI ethics board or a similar governing body tasked with overseeing AI-related topics.

Consistent with the data from 2022 to 2023, the Information Technology sector saw the most disclosure of board AI oversight, with 51% of companies reporting some level of oversight or expertise. The Communications sector saw the second most disclosure with 37% of companies and the Health Care and Communications Services industries tied for third with 35% of companies disclosing oversight measures. The prevalence has at least doubled year over year for each two-digit GICS group, with the exception of the Information Technology and Materials sectors, both of which saw a smaller but still significant increase.



Source: ISS-Corporate Analysis

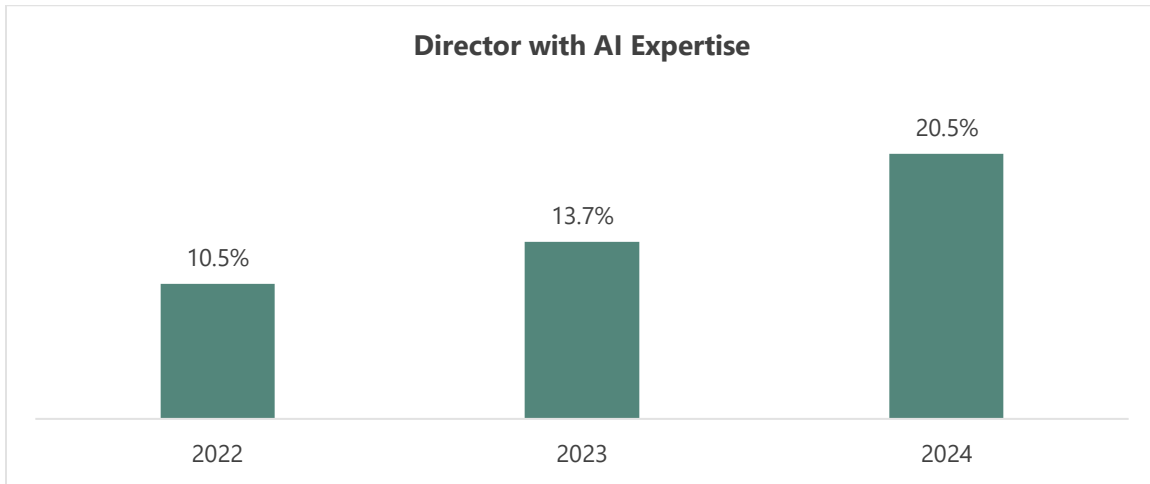
As the functionality of AI continues to soar beyond IT capabilities, other industries are incorporating AI into their strategies, amplifying the need for oversight measures in industries across the market landscape.

Director Expertise

The experience and knowledge of board members is the primary indication of preparedness to assess and manage AI-related risks and opportunities. Among S&P 500 companies, 20% have at least one director with AI expertise² on the board, compared to just under 14% disclosing explicit board or committee oversight of AI and 2% with an established AI ethics board. This

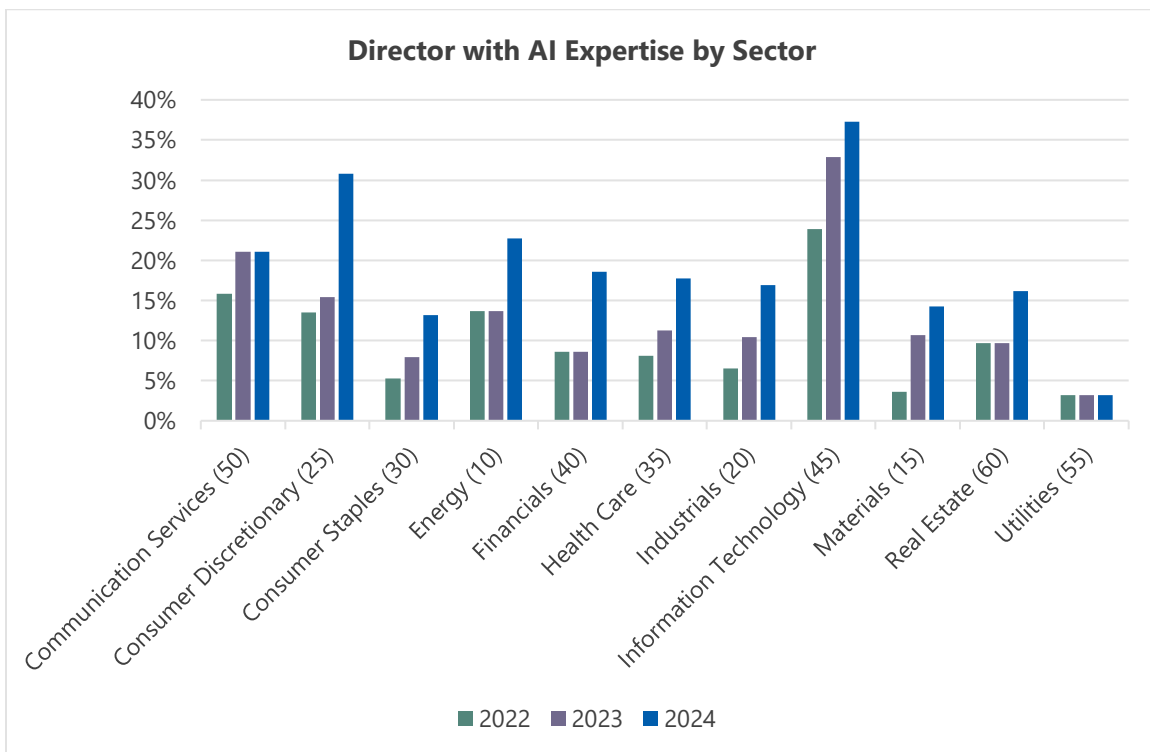
² For the purpose of this paper, a director was classified as having AI expertise if any of the following apply: current or past employment with companies in AI or relevant industry, current or past employment positions relevant to the AI industry, board membership with companies in AI or relevant industry, certification in AI, and/or employment titles related to AI.

represents a rapid increase of AI proficiency among corporate boards, nearly doubling in two years from 11% in 2022, indicating that AI competency is a high priority for many boards.



Source: ISS-Corporate Analysis

Unsurprisingly, the Information Technology sector is the frontrunner, with 37% of companies having at least one director with an AI-related background, followed by the Consumer Discretionary sector with 31% of companies. Compared with the previous year, the prevalence of companies with director AI expertise in the Consumer Discretionary and Financials sector has roughly doubled, with even larger increases visible across all sectors since 2022.

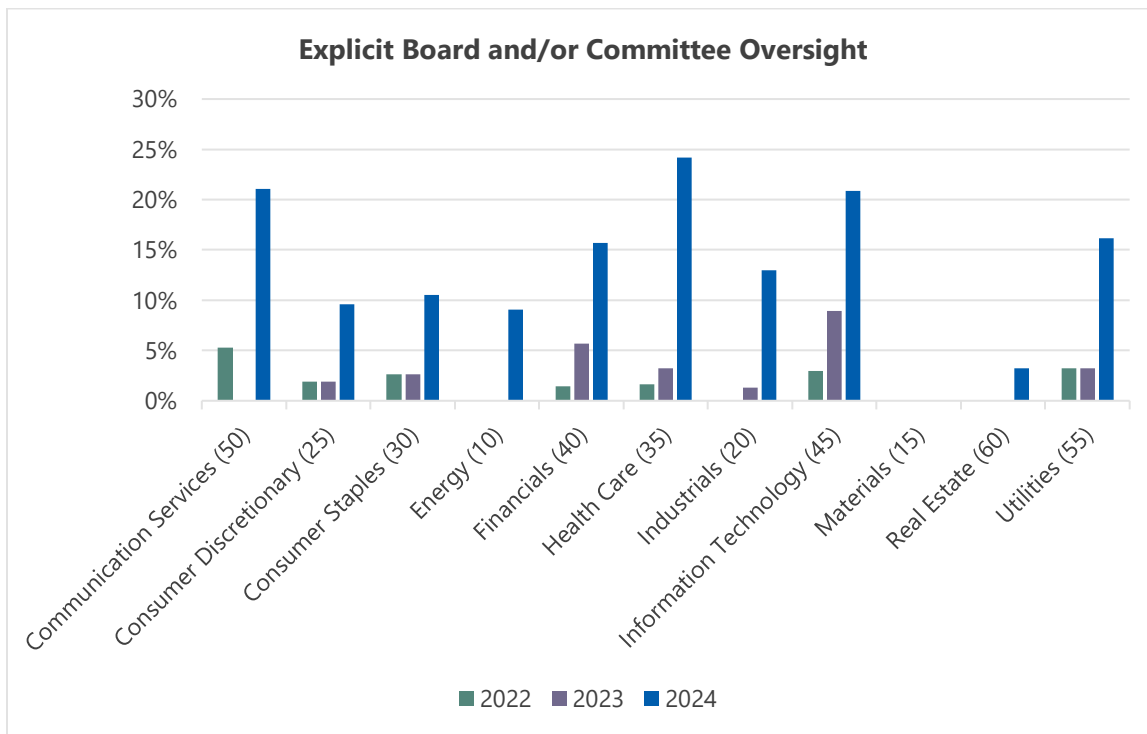


Source: ISS-Corporate Analysis

AI expertise may be deduced from a director’s background and biography, but some companies have begun including AI proficiency in director qualification matrices so shareholders can quickly assess the skills on corporate boards.

Committee or Full Board Oversight

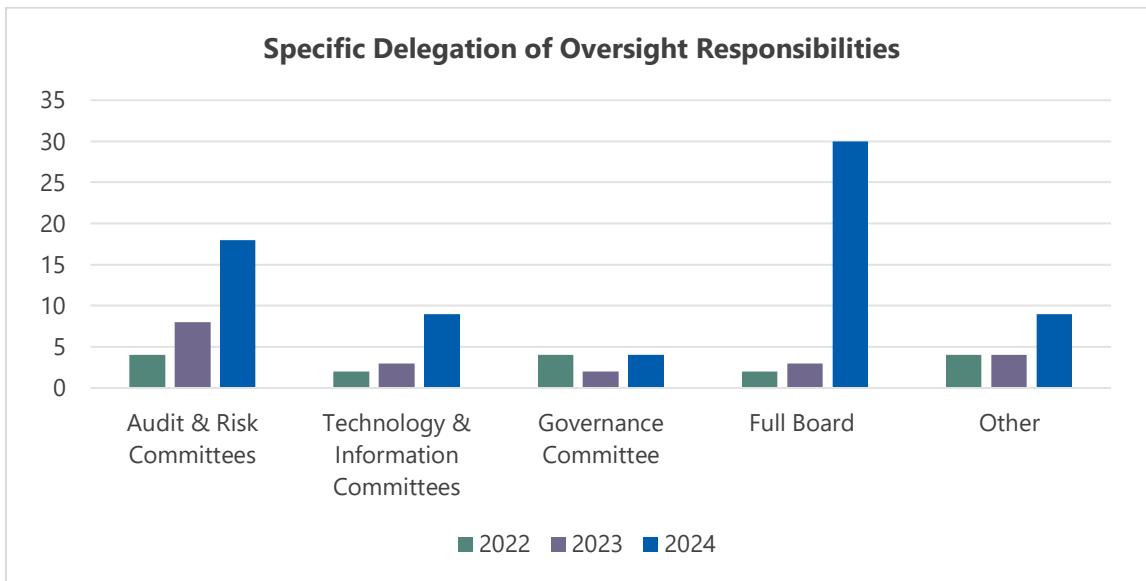
There has been a dramatic increase in the explicit disclosure of full board or committee oversight of AI, yet it still remains uncommon, with only 11% of the S&P 500 providing specific disclosure.



Source: ISS-Corporate Analysis

Note: the bracketed number indicates the GICS 2-digit sector grouping

Among S&P 500 companies that report full board or specific committee-level oversight of AI, those in the Utilities sector have the highest prevalence at 19%, increasing from just 3% in 2022 and 2023. These companies indicate that AI oversight is managed by the full board and/or a specialized committee, such as audit or technology committees.



Source: ISS-Corporate Analysis

When oversight of AI is assigned to a committee, the scope of an existing committee is typically broadened to include this new responsibility. Audit and/or risk committees are the most common choice for companies that delegate or expand the responsibility of AI to a specific committee. Among the companies that disclosed the delegation of AI oversight responsibilities to a specific committee(s) and/or the full board in 2024, the full board was the top choice. In previous years, the majority of the responsibility was given to audit and risk committees. The shift may indicate that corporate issuers are acknowledging the need for more extensive and higher-level oversight or interpreting risk ramifications that extend beyond cybersecurity. In addition, compared with the previous year, more companies delegated this responsibility to committees other than audit and risk, such as those focused on environmental and social impact, public policy, security, and value creation, reflecting the variety of areas in which AI can impact business operations.

In 2024, two companies received shareholder proposals directly related to board responsibilities for AI oversight. One proposed that the company amend the charter of its Audit and Compliance Committee to clearly include the responsibility of AI oversight. The proposal suggests that investors may be thinking of AI as such a fundamental business function that it may demand separate and distinct board attention.

AI Ethics and Review Board

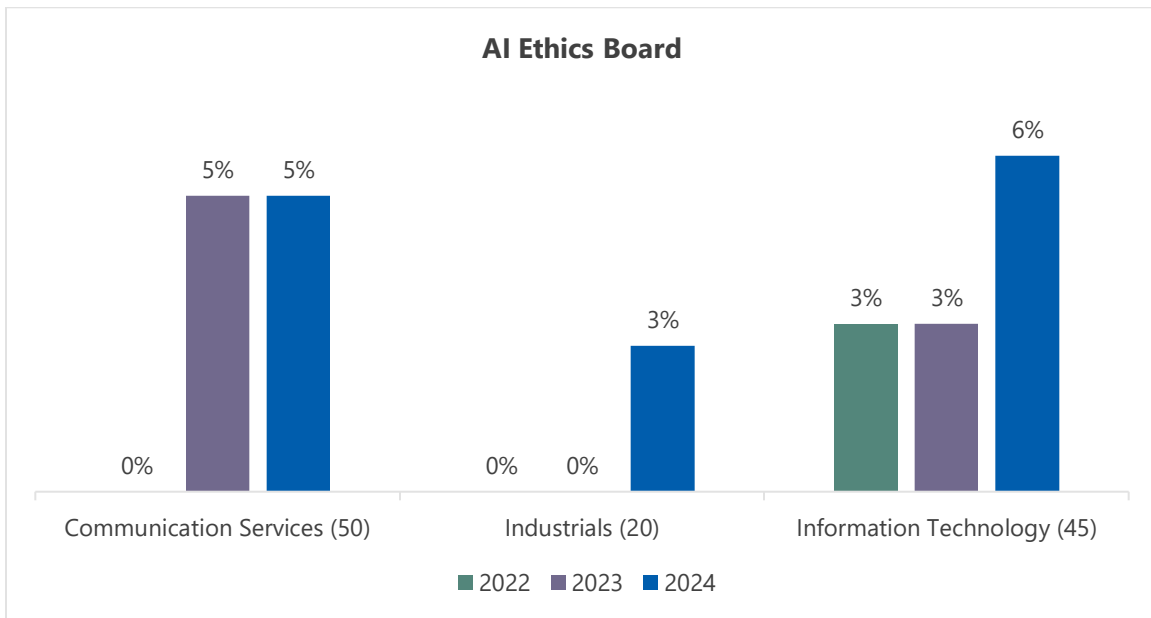
The presence of an AI Ethics Board, while not necessarily a board-level entity, indicates a systemic and organizational oversight mechanism relating to this emerging technology. So far, such an oversight body as disclosed in proxy statements appears to be relevant only to a small subset of companies that are directly involved in development and active deployment of AI

technology. Of the AI oversight functions studied, AI Ethics Board had the least growth, with the prevalence almost flat since 2023.



Source: ISS-Corporate Analysis

Three industries within the S&P 500 (Information Technology, Communication Services, and Industrials) chose to assign AI oversight to an ethics or review board composed of multi-disciplinary teams. While this approach is still rare, the Information Technology sector has seen a rise in both adoption and disclosure since 2022. Notably, 3% of the Industrials sector has adopted some type of AI Ethics Board, which was nonexistent or not disclosed in previous years.

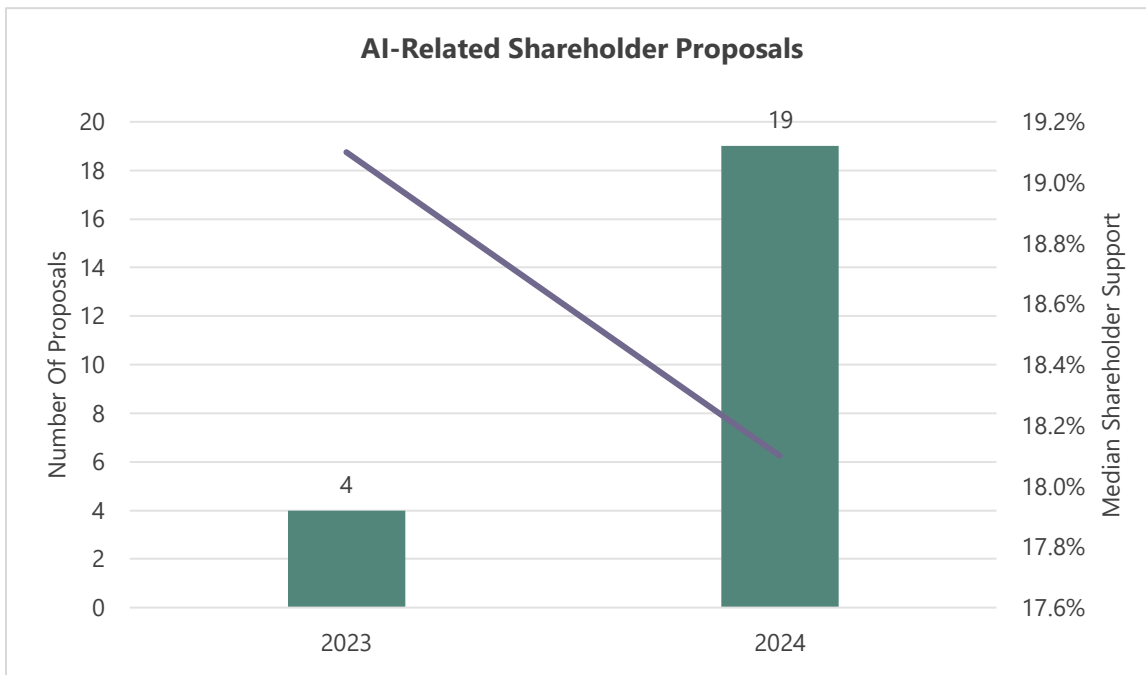


Source: ISS-Corporate Analysis

Shareholder Proposals Zoom in on Impacts

Concerns and interest regarding AI and its oversight are capturing the attention of boards and shareholders alike. Shareholder proposals related to AI are increasingly cropping up, with an eye on disclosing how companies are addressing risks and impacts related to the fast-growing technology.

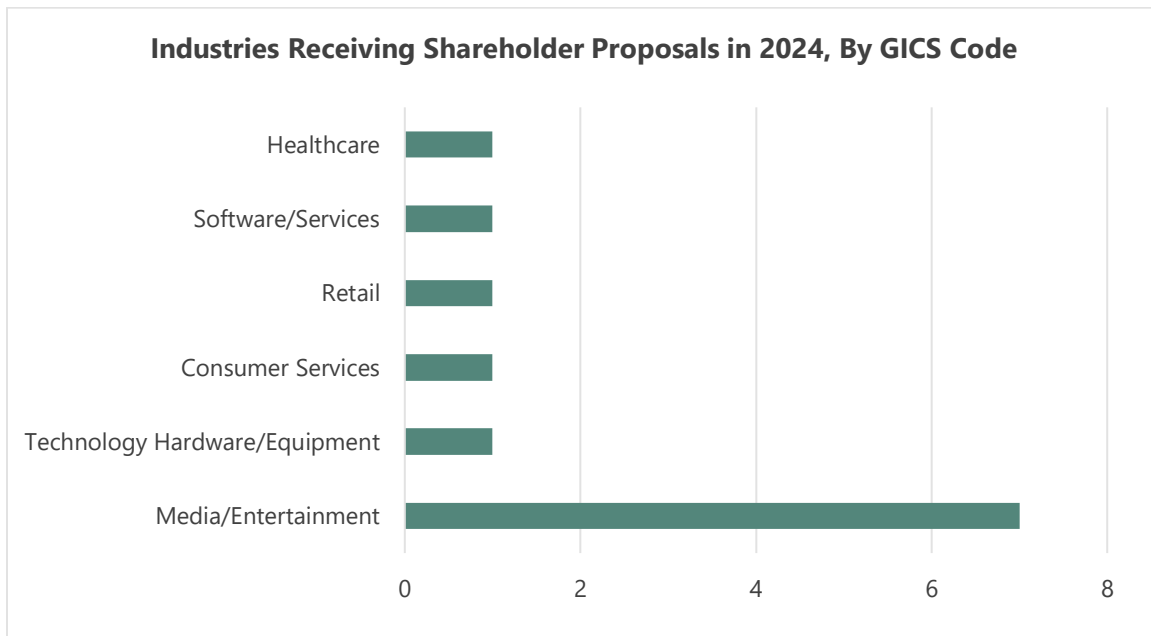
In 2024, the number of shareholder proposals focused on AI at companies more than quadrupled year over year.



Source: ISS-Corporate data as of December 31, 2024.

Note: 2024 figure includes AI-related shareholder proposals withdrawn/omitted at three companies.

While this is admittedly growth from a small base, there are hints of the progression to come, such as AI-related proposals aimed at companies and industries beyond the immediate sectors involved with the development and deployment of the technology.



Source: ISS-Corporate Compass data as of December 31, 2024.

As illustrated above, the Media & Entertainment industry saw the highest number of proposals in 2024. This industry includes online platforms and interactive media such as Google parent company Alphabet and Facebook owner Meta.

Shareholders targeted more traditional Media and Entertainment companies as well. The use of AI has serious implications for the arts, content generation, and intellectual property/capital, explaining the increase in such companies that also received proposals.

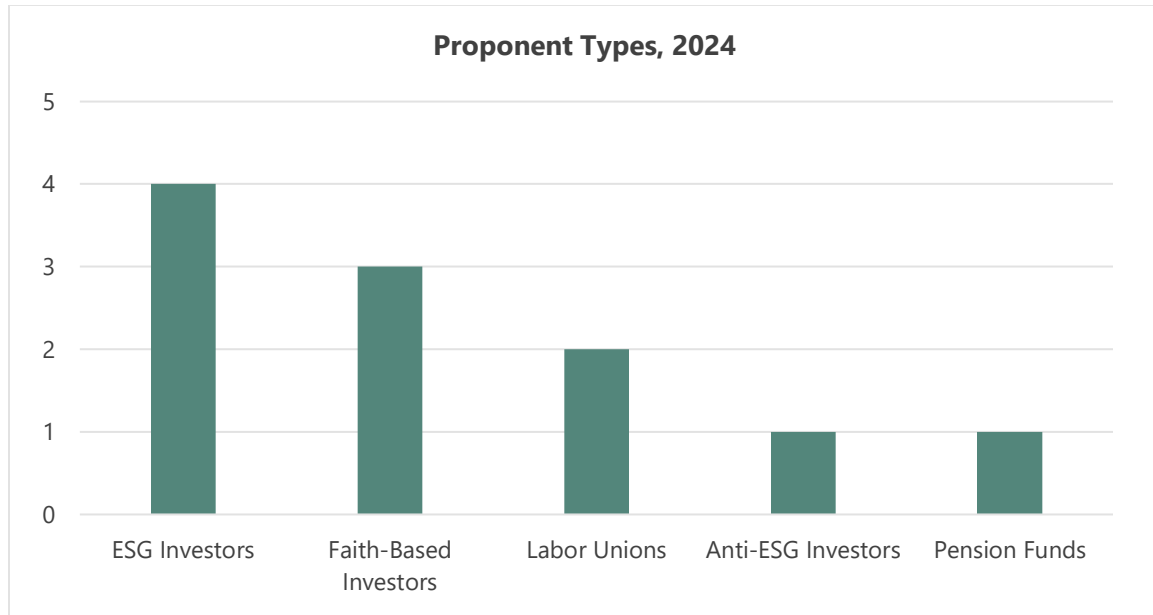
In an example of that goes beyond the obvious industries, one restaurant company, which falls within Consumer Services, received a shareholder proposal aimed at advanced technologies including automation driven by artificial intelligence. That raises questions about whether that industry's foray into technology-driven efficiency will help humans do their jobs better, or largely replace them.

Most of the AI-related shareholder proposals in 2024 called for third-party evaluation reports and impact assessments. This likely reflects shareholders' increasing appetite for access to information related to AI given various human capital and human rights ramifications as well as increased urgency for companies to focus on the returns from massive investments in AI initiatives.

While many of the companies targeted arguably provide solid and robust disclosure in these areas, companies that fall short may see increasing demands from shareholders to have access to adequate information to gauge AI risks and opportunities.

As previously mentioned, in two cases shareholders specifically asked for board committees/oversight focused on AI.

Meanwhile, a variety of shareholders requested reports on AI use and its impacts relating to areas such as human rights, misinformation and disinformation, privacy, data sourcing, and copyright.



Source: ISS-Corporate Analytics, as of December 31, 2024

Labor unions including the AFL-CIO were frequent shareholder proponents. This is no surprise given the obvious impacts on workers that are inherent in increasing automation. Faith-based investors also presented shareholder proposals on AI, focusing on the human rights aspects. ESG-focused shareholders including Trillium Asset Management and Arjuna Capital were notable proponents as well, which is understandable given the economic implications of rapid AI adoption without appropriate attention to unforeseen ramifications, costs and negative externalities, both at the corporate level as well as systemically.

The end of 2024 included some interesting last-minute shareholder proposals, such as one from As You Sow that focused specifically on the use of AI in the oil industry.

Concern about AI-related risks might be one of the few topics to cross party lines. The National Legal and Policy Center, a frequent counter-ESG shareholder activist, submitted a proposal focusing on data sourcing, privacy, and copyright infringement risk related to AI.

Given the wide-ranging potential impacts to various stakeholders, it's easy to imagine a continued uptick in AI-related shareholder proposals in 2025, as well as a broadening of the types of shareholders seeking a higher degree of disclosure on the many facets and possible unintended consequences of the emergent technology.

AI Increasingly Coming Into Focus in 2025

Clearly corporate America is paying close attention to AI risks and opportunities. Effective and targeted board oversight will become crucial for companies in realizing the potential of AI for business efficiency, profitability, and shareholder value creation, but also on managing potential disruptions to their business and myriad risks including human rights and privacy, or to avoid costly financial losses. Investors' demand for information on companies' AI preparedness likely will intensify in 2025 as they attempt to understand the impact of the fast-evolving technology.

Although AI is a relatively new topic for corporate boards, there are existing frameworks that can be applied to manage risk and meet investor expectations. As many boards have done with other areas of extra-financial risks and opportunities, assessing the issue's materiality to their business and their key stakeholders, and studying and benchmarking against emerging best practices can help enhance a firm's AI preparedness. Proactive and responsible oversight during this uncertain evolutionary period will put companies in a better position to realize advantages, avoid risk, manage investor expectations, and remain resilient and competitive while facing the changes that are bound to occur in such a dynamic area.



ISS Corporate Solutions, Inc.
("ISS-Corporate") is a leading provider of cutting-edge SaaS and high-touch advisory services to companies, globally.

LEARN MORE

info@iss-corporate.com
AMERICAS: +1 301 556 0570
EMEA: +44 203 192 5773
APAC: +852 39051840
www.iss-corporate.com

Companies turn to ISS-Corporate for expertise in designing and managing governance, compensation, sustainability, and cyber risk programs that align with company goals, reduce risk, and manage the needs of a diverse shareholder base by delivering data, tools, and advisory services. ISS-Corporate's global client base extends across North America, Europe, and Asia, as well as other established and emerging markets worldwide.

This document and all of the information contained in it, including without limitation all text, data, graphs, charts (collectively, the "Information") is the property of ISS-Corporate or its affiliates. The Information may not be reproduced or disseminated in whole or in part without prior written permission of ISS-Corporate. ISS-Corporate MAKES NO EXPRESS OR IMPLIED WARRANTIES OR REPRESENTATIONS WITH RESPECT TO THE INFORMATION. ISS-Corporate is a wholly owned subsidiary of Institutional Shareholder Services Inc. ("ISS"). ISS-Corporate provides advisory services, analytical tools and publications to companies to enable them to improve shareholder value and reduce risk through the adoption of improved corporate governance practices. The ISS research teams, which are separate from ISS-Corporate, will not give preferential treatment to, and are under no obligation to support, any proxy proposal of a corporate issuer nor provide a favorable rating, assessment, and/or any other favorable results to a corporate issuer (whether or not that corporate issuer has purchased products or services from ISS-Corporate). No statement from an employee of ISS-Corporate should be construed as a guarantee that ISS will recommend that its clients vote in favor of any particular proxy proposal or provide a favorable rating, assessment or other favorable result.