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Presentation

AI in Corporate Governance: Can Machines Recover Corporate Purpose?

A key question in automating governance is whether machines can recover the corporate objective. We develop a corporate recovery theorem that establishes when machines can do this and provide a framework for its practical application. Training a machine on a large dataset of firms' investment and financial decisions, we find that most neoclassical models fail to explain the data, as managers appear to underestimate investment costs, leading to over-investment and under-exploration. This bias persists even when accounting for financial frictions, intangible capital, behavioral factors, and ESG. We develop an alignment measure that sheds light on why managerial alignment with shareholder value is imperfect.