

Harnessing Artificial Intelligence for Company Legitimacy

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In recent years, Artificial Intelligence (AI) integration has gained considerable attention due to its transformative potential across various company sectors. While numerous studies have explored AI's contributions to operational efficiency, competitiveness, and innovation, the extent to which companies align their AI practices with stakeholder expectations remains underexplored. This gap is particularly significant, as companies are under growing pressure to demonstrate that their AI strategies not only enhance company performance but also contribute positively to society. This study delves into this unexplored area, examining how companies use AI in their operations to align with societal expectations and maintain company legitimacy.

Company Legitimacy and AI Practices

Company legitimacy refers to the perception that a company's actions are appropriate and acceptable within societal norms, values, and beliefs. A company's legitimacy is essential for maintaining its reputation and fostering trust with stakeholders, including shareholders, employees, customers, regulators, and the general public. AI, as a rapidly evolving technological innovation, plays a critical role in shaping these perceptions. When AI is used ethically and responsibly, it can enhance company legitimacy by demonstrating the company's commitment to societal well-being, transparency, and innovation. However, irresponsible or opaque AI practices can damage a company's legitimacy, as stakeholders may view these actions as misaligned with societal values.

To examine how companies use AI to enhance their legitimacy, this study draws on the principles of legitimacy theory. According to this theory, companies must continuously adjust their activities to align with evolving societal expectations. This dynamic interaction between company actions and societal values is especially relevant in the context of AI, which affects various dimensions of company performance, including transparency, sustainability, and governance. By leveraging AI in a way that aligns with stakeholder expectations, companies will not only gain legitimacy, but also sustain it in the long-term.

UK AI Disclosure Practices

The United Kingdom serves as an ideal context for this study due to its strong regulatory framework surrounding AI development. The UK government's "AI Sector Deal" initiative, launched in 2018, has spurred significant investment in AI, positioning the country as a global leader in this technology. Consequently, UK-listed companies are under increasing pressure to disclose their AI activities in their annual reports.

This study examines AI-related disclosures in the annual reports of UK companies listed on the FTSE100 index from 2020 to 2023. These reports provide an important source of information for stakeholders and offer insights into how companies align their AI practices with societal expectations. This study analyzes these reports using a meaning-oriented content analysis approach, a qualitative method that goes beyond word counting to explore the deeper meanings and themes conveyed through corporate narratives.

Impression Management in AI Disclosures

Companies often employ impression management strategies to shape how stakeholders perceive their activities. These strategies can be categorized as either assertive or defensive. Assertive strategies are proactive and aim to highlight positive company achievements, whereas defensive strategies are reactive and seek to mitigate negative perceptions. In the context of AI disclosures, companies may use assertive strategies to emphasize their technological advancements and contributions to society, positioning themselves as leaders in innovation. Defensive strategies, on the other hand, might involve explaining or justifying controversial AI practices, such as data privacy concerns, to protect the company's reputation.

Findings and Implications

The findings suggest that UK companies use AI disclosures as a key tool for managing company legitimacy. By aligning their AI practices with stakeholder expectations, companies can enhance their reputation, demonstrate accountability, and foster trust with stakeholders. The study identifies several key themes in AI disclosures, including

transparency, sustainability, governance, and ethical compliance. Companies use these themes to convey a narrative that aligns with stakeholder expectations and enhances their social legitimacy.

One of the most significant findings is the dynamic nature of companies' usage of AI disclosures during periods of crisis and recovery. For instance, during the COVID-19 pandemic, many UK companies adopted defensive strategies in their AI disclosures, focusing on transparency and accountability to address the challenges posed by the crisis. These disclosures emphasized how AI technologies were used to maintain business continuity, ensure employee safety, and support affected stakeholders. In the post-pandemic recovery phase, companies shifted to more assertive strategies, highlighting their technological innovations and contributions to societal well-being. This shift underscores the importance of adaptability in company communication strategies, particularly in times of uncertainty.

This study also highlights the importance of transparency in AI disclosures. Stakeholders increasingly expect companies to provide clear and comprehensive information about their AI practices, particularly in areas such as data privacy, algorithmic fairness, and ethical governance. Companies that fail to meet these expectations risk damaging their legitimacy, as stakeholders may perceive them as lacking accountability or operating in ways that are misaligned with societal values.

Conclusion and Recommendations

This study provides important insights into how companies use AI disclosures to manage company legitimacy. By strategically aligning their AI practices with stakeholder expectations, companies can enhance their reputation, build trust, and sustain their social legitimacy. This study contributes to the literature on legitimacy theory and impression management by demonstrating how AI disclosures serve as a critical tool for navigating the complex relationship between company actions and societal expectations.

However, the study also acknowledges certain limitations. The qualitative nature of meaning-

oriented content analysis, while useful for uncovering deeper themes, is inherently subjective and may be open to interpretation. Future research could build on these findings by incorporating interviews with company managers to gain insights into the decision-making processes behind AI disclosures. Additionally, further research could explore how internal company entities, such as governance committees, influence AI disclosure strategies.

In summary, this study underscores the critical role of AI disclosures in maintaining company legitimacy. As AI continues to transform various sectors, companies must ensure that their use of this technology aligns with stakeholder expectations. By doing so, they can navigate the challenges and opportunities presented by AI while maintaining the trust and support of their stakeholders.

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