


Chapter 8


Navigating Towards Sustainability: The Role of Corporate Governance and AI-Driven Behavioral Interventions

Mohammad Irfan

 <https://orcid.org/0000-0002-4956-1170>


Christ University, Bengaluru, India

Rui Teixeira Dias

 <https://orcid.org/0000-0002-6138-3098>


ESCAD, IPLUSO, Intrepid Lab, Lisboa, Portugal

Manas Khemka

 <https://orcid.org/0009-0001-6748-4076>


Christ University, Bengaluru, India

Pragya Mondal

 <https://orcid.org/0009-0004-3508-6454>

Christ University, Bengaluru, India

N. Mohan

 <https://orcid.org/0000-0002-2729-960X>

CMR Institute of Technology, Bengaluru, India

ABSTRACT

The paper explores how corporate governance practices influence non-financial performance, particularly sustainability. Strong governance ensures that ESG principles are integrated into business operations, promoting long-term sustainability. The study examines the effectiveness of AI-assisted behavioral interventions in advancing sustainable practices. AI can mitigate cognitive biases and irrational decisions, pushing individuals and organizations toward sustainability. AI-driven governance frameworks can enhance non-financial performance, including environmental stewardship, social responsibility, and ethical governance. Through case studies and analysis, the paper provides insights into how AI and corporate governance can optimize sustainability strategies beyond traditional financial metrics.

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INTRODUCTION

Sustainability has emerged as a prominent narrative of the corporate world with intensifying challenges from climate change, dwindling natural resources, and rising social inequalities. This would have once been considered ancillary in the corporation's strategy and its way of doing business but, rather than that, has now formed one of the very central pillars to corporate strategy. This way of transformation is growing where companies begin to understand that success should not just be about finance and that a company can judge and measure how well it will fare in an ever-changing environment by some non-financial metrics—environmental, social responsibility, and governance (ESG), (Raman et al., 2024). This paradigm shift calls for organizations to align their corporate governance frameworks in such a way that sustainability becomes integrated into the core of their activities.

Corporate governance is defined as the system of principles, processes, and practices that give direction to organizational decision-making. This system not only tells how companies are directed and controlled but also influences their strategic priorities and responses to emerging issues. Strong governance frameworks ensure that businesses are adequately prepared to navigate the complexities of sustainability, aligning objectives with ESG principles and ensuring accountability, transparency, and ethical behavior. Corporate governance plays a very important role in the pursuit of sustainability. Well-governed organizations are more likely to adopt proactive approaches to sustainability, leveraging their governance structures to embed ESG considerations into their strategies (Isalm, 2024).

By doing so, they enhance their reputation, mitigate risks, and create long-term value for stakeholders. Integration of ESG principles into corporate governance frameworks also helps organizations to forecast and respond to the growing expectations of investors, customers, and regulators as leaders in sustainability (Aagaard, 2024). Non-financial performance, which encompasses a wide range of metrics such as energy efficiency, waste management, employee well-being, and community engagement, has emerged as a key focus for organizations striving to meet sustainability goals. In response to growing stakeholder demands for transparency and accountability, companies are increasingly prioritizing non-financial performance as a measure of their commitment to ESG principles. The organizations build trust and loyalty among their stakeholders by setting aligning sustainability objectives with stakeholder interests, thus further strengthening corporate credibility (Zhao & Fariñas, 2022).

The rapid advancements in artificial intelligence (AI) have opened new doors for corporate governance to better non-financial performance. AI technologies, with their capacity to process great volumes of data and generating actionable insights, provide transformative power for organizations seeking better sustainability practice. (Aagaard, 2024) By leveraging AI, companies can develop innovative solutions for complex sustainability challenges, including optimizing resource allocation and minimizing carbon footprints. One of the most promising fields of AI application in sustainability is in behavioural interventions. AI-driven behavioral interventions alter stakeholder behavior by urging them to undertake actions relevant to sustainability objectives. Such interventions focus on insights from behavioral science and AI analytics to create pointed nudges that push people in the direction of sustainable practice, such as recommending to specific employees how to reduce consumption of energy or implement better environmental practices. Behavioral interventions are valuable for attacking the cognitive biases and irrational patterns of decision making that characteristically impede progress toward sustainability. Cognitive biases - such as overconfidence, loss aversion, and status quo bias - can cause people and organizations to focus on immediate payoffs rather than sustainability goals. An example could be a company that

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