

December 2020

EOS Case Study



Alphabet



Christine Chow outside Alphabet's HQ ahead of the 2019 shareholder meeting.

Alphabet has published a set of principles to promote the responsible use of AI, followed by white papers, case studies, fairness indicators, and ethical dashboards and tool suites for enterprises and developers that use its technologies for building their own AI systems. EOS continues to engage with the company on its human rights impacts and gaining oversight from the board.

Background

Alphabet's Google is a pioneer in using mathematical algorithms to solve human problems, such as: finding patterns, trends and associations e.g. fraudulent transactions monitoring; discovering inefficiencies e.g. optimising energy usage at power stations; and executing clearly defined plans e.g. compliance and regulatory reporting. While this has its benefits in efficiency and scalability, using an algorithm can also give rise to biased human decision making, especially as artificial intelligence (AI) embedded algorithms are often written by humans; the data used are selected, directly or indirectly, by people.

We started engaging with the company on the importance of responsible AI in April 2018 – a natural extension of our engagement on data privacy and the EU General Data Protection Regulation (GDPR) compliance due to the company's role as a data controller and processor.

Company overview

Alphabet is a collection of businesses. It operates through the Google and Other Bets segments. The Google segment includes its main internet products such as ads, Android, Chrome, hardware, Google Cloud, Google Maps, Google Play, Search, and YouTube. The Other Bets segment consists of businesses such as Access, Calico, CapitalG, GV, Verily, Waymo, and X.

Engagement objective



Strategy, risk and communication:

Implement the responsible use of AI

Sustainable Development Goal:



The responsible use of AI is important to investors. From the legal and compliance perspective, a company is subject to regulatory fines if a data subject's information is collected and used without consent. In the process of creating and implementing AI systems, opaqueness of systems, lack of explicability, unexpected bias in data and algorithms, inaccuracy in measurement and hence product quality and performance, and even unfair access to services for under-represented minorities may cause infringements to human rights and wider ethical concerns. For example, YouTube relies on AI as the first line of defence to help catch hateful videos. Only when high risk issues are flagged would the content be reviewed by human moderators. We voiced our concerns on transparency over the use of AI and called for responsible use almost a year prior to the Christchurch mosque shooting in March 2019 when the incident was livestreamed on Facebook.



Our engagement

In April 2018 we began engaging with the company on how its technologies manage the prioritised content of Google Search and on YouTube, the video-sharing platform, to avoid human rights concerns arising through the application of AI. In June 2018, Google's CEO posted a blog that set out the company's principles for responsible AI.

In October 2018, we engaged with a senior member of the legal team, the assistant secretary at Google, and encouraged the company to go beyond publishing principles, to demonstrate how the principles are being applied.

At the meeting at its headquarters, we reiterated that as signatories of the Principles for Responsible Investment (PRI), investors are subject to rigorous assessment and reporting on their application of the principles and that Google should take a similar approach on the application of its principles for responsible AI. In December 2018, on an investor conference call, we again questioned how Alphabet's Google intends to demonstrate the application of AI principles. In March 2019, the company set up an AI ethics advisory council. However, this was abruptly terminated only 10 days after it was established due to conflicts amongst council members¹. We therefore stepped up our engagement with the board, including writing to the chair of the board explaining in detail our concerns around the management of AI ethics. We requested that the letter be shared with other board members prior to our in-person attendance at the 2019 annual shareholder meeting.

We asked the company to provide further disclosure on its approach to content governance, including how social impact is assessed and measured. We recommended a formal and inclusive feedback system from employees, as well as other stakeholders, in its AI ecosystem to ensure that technology deployment is subject to robust product design and impact assessment throughout the value chain. This goes beyond its existing education initiatives such as Machine Learning Fairness and Grow with Google.

At the 2019 annual stockholder meeting, in addition to supporting one of the shareholder proposals aimed at better addressing societal risks, we voiced our concerns relating to AI governance directly to the executives and board members in the questions and answers session. The company acknowledged our concerns and noted its progress in improving AI governance.

Changes at the company

With regard to our request for the company to demonstrate how the AI principles are being applied, in January 2019 the company published a 30-page white paper on AI governance, covering five areas where stakeholder collaboration is needed, namely: explicability, assessment of fairness, safety, human-AI collaboration and a general liability framework. It acknowledged that the responsible use of AI is needed to address ethical, technological, legal and other challenges and that AI implementation may affect the brand and demand for products, and have a financial impact on revenues and operating results.

In January and February 2019, YouTube took a series of actions to improve transparency and accountability. It updated user warning signals and clarified when content violates community guidelines. It provided a framework to notify content creators and conditions that may lead to freezing the accounts under a three-strike policy. Updated guidelines against hateful content and harassment soon followed.

Since 2019, the company has made significant improvements at the operational level to improve tools to measure fairness, transparency and explicability of AI which also helped satisfy our request for demonstration of application of the AI principles. For example, it encourages community members, such as freelance developers using its technologies, to participate in the debate and discussion on unfair biases, in line with our request for a feedback system.

¹ <https://www.bbc.co.uk/news/technology-47825833>

² <https://ai.google/responsibilities/responsible-ai-practices/>

The company improved stakeholder engagement and communications on trusted AI. It responded to the EU consultation on [the application of] AI and made its 45-page response publicly available. It collaborated with NGOs to conduct human rights impact assessment specially on its facial recognition tools. It published a dedicated website on responsible AI practices², which covers best practices for machine learning engineering and AI-human interactions.

With regard to how its social impact is assessed and measured, Alphabet has introduced a library of tools and testing components in TensorFlowX – its production model of AI systems, to emphasise safety, testability, security and other ethical aspects of AI. It released fairness indicators, what-if tools, data visualisation tools, AI dashboards and a toolkit for transparency reporting.

In November 2020, Alphabet changed its audit committee to become an audit and compliance committee (ACC). The ACC's charter now includes sustainability, data privacy and civil and human rights risks as items which must be reviewed by it, increasing its responsibilities and becoming closer to meeting our request for enhanced board oversight. The nominating and corporate governance committee will review the Alphabet board's committee membership each year and review the chairs of each board committee every three years to consider if a rotation is appropriate. This review will include an evaluation of each member's performance, participation, and skill set, as well as membership on private boards.

When evaluating candidates for nomination as new directors, Alphabet explicitly stated that it will consider a set of candidates that includes both underrepresented people of colour and different genders. Although there is still a gap between our recommended external board evaluation practices to the assistant secretary of Google in 2018, it is the first time that Alphabet is taking concrete actions to improve governance.

Next steps

Despite significant progress on responsible AI practices in operations, in meeting customers' needs, and stepping up on stakeholder engagement, there is still a lack of demonstrable board oversight especially concerning strategic decisions that have significant human rights and ethical impact, such as extreme manipulation and freedom of expression. This is why we co-led the filing of a shareholder proposal in 2020, calling for a human rights risk oversight committee to help anticipate and oversee management of the adverse human rights and societal risks and impacts associated with Alphabet's technologies. With approximately 53% of Alphabet's voting shares controlled by the company's executive officers and board members, 16% support for the resolution translates to roughly 45% of the independent votes. If we take into account the shares held by former chair and CEO Eric Schmidt, the support of independent votes goes up to over 50%. We continue to engage with the company through a human rights lens to encourage board accountability over the responsible use of AI.



Christine Chow
Engagement
EOS

Federated Hermes

Federated Hermes is a global leader in active, responsible investing.

Guided by our conviction that responsible investing is the best way to create long-term wealth, we provide specialised capabilities across equity, fixed income and private markets, multi-asset and liquidity management strategies, and world-leading stewardship.

Our goals are to help people invest and retire better, to help clients achieve better risk-adjusted returns, and to contribute to positive outcomes that benefit the wider world.

All activities previously carried out by Hermes now form the international business of Federated Hermes. Our brand has evolved, but we still offer the same distinct investment propositions and pioneering responsible investment and stewardship services for which we are renowned – in addition to important new strategies from the entire group.

Our investment and stewardship capabilities:

- **Active equities:** global and regional
- **Fixed income:** across regions, sectors and the yield curve
- **Liquidity:** solutions driven by four decades of experience
- **Private markets:** real estate, infrastructure, private equity and debt
- **Stewardship:** corporate engagement, proxy voting, policy advocacy

Why EOS?

EOS enables institutional shareholders around the world to meet their fiduciary responsibilities and become active owners of public companies. EOS is based on the premise that companies with informed and involved shareholders are more likely to achieve superior long-term performance than those without.

For more information, visit www.hermes-investment.com or connect with us on social media:



For professional investors only. This is a marketing communication. Hermes Equity Ownership Services (“EOS”) does not carry out any regulated activities. This document is for information purposes only. It pays no regard to any specific investment objectives, financial situation or particular needs of any specific recipient. EOS and Hermes Stewardship North America Inc. (“HSNA”) do not provide investment advice and no action should be taken or omitted to be taken in reliance upon information in this document. Any opinions expressed may change. This document may include a list of clients. Please note that inclusion on this list should not be construed as an endorsement of EOS’ or HSNA’s services. EOS has its registered office at Sixth Floor, 150 Cheapside, London EC2V 6ET. HSNA’s principal office is at 1001 Liberty Avenue, Pittsburgh, PA 15222-3779. Telephone calls will be recorded for training and monitoring purposes. EOS000746 0009905 11/20.