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AI Across the Board

Less worrying, more preparation and not too much awe is what is required.

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The impact of Artificial Intelligence (AI) on the business world has been pervasive. In particular, Generative AI has made headlines and upended many traditional ways of approaching customer service, marketing, etc. Still bland, still true.

Progress has been relentless.

Both companies and consumers have been taken by surprise many times when new developments are introduced, especially when new players such as DeepSeek arrive on the scene unexpectedly.

Boards should take AI seriously. This is particularly relevant in a European context, where the EU's AI Act, the world's first AI law, now regulates AI based on assigned risk. The AI Act entered into force on 1st August 2024, and will be fully applicable from 2nd August 2026.

Recent research by the Trinity Corporate Governance Lab and FTI Consulting revealed numerous gaps in AI governance and risk management.

In a survey of AI disclosure by the 50 largest companies in Europe it was found that only 23 companies provided disclosure on board oversight, while 20 companies reported on risk management frameworks and 19 on AI policy.

Ethical concerns about AI abound, with specific attention paid to issues such as trust, bias, privacy, accountability and job security. For directors of companies to be effective, they will have to stay up to speed with developments in this space, but do they perhaps also need to have concerns about their own job security? Or is that a concern that is only likely to feature at lower levels of the organisation where automated processes can make menial or manual labour obsolete?

In a survey of AI disclosure by the 50 largest companies in Europe

46% provided disclosure

on board oversight

The bottom line is directors cannot ignore AI

The appointment of AI bots as advisors to corporate boards, e.g. at Abu Dhabi-based investment company IHC and at Realbotix might make some directors uncomfortable, although the purpose of these appointments is to support directors, rather than to replace them. Or at least to keep them on their toes!

To be effective, they need high-level familiarity with technological developments, and they need to understand both the risks and opportunities associated with AI. A simple way to explore this is to revisit the role of the director, and then to investigate how AI can either help or be a hindrance.

The most popular definition of corporate governance (the Cadbury definition) states that corporate governance is “the system by which businesses are directed and controlled”.

The custodian of corporate governance is the board of directors. According to the new Irish Corporate Governance Code 2024 (incorrectly described by many as the “first” Irish Code, because they are unaware of the fact that Ireland produced the first corporate governance code in the world).

To do this effectively, directors must navigate the so-called directorial dilemma: driving the enterprise forward while keeping it under prudent control.

“A successful company is led by an effective and entrepreneurial board, whose role is to promote the long-term sustainable success of the company, generating value for shareholders and contributing to wider society”

Any technology, including AI, is a double-edged sword. The same technology that can ensure the privacy of confidential intellectual property can be applied to enable money laundering. The value added by an algorithm does not depend on the software, it depends on the content created by programmers, which can be used to include or discriminate, inform or mislead, etc. It is always dangerous to generalize, but for now I will describe these different impacts of technology as either help or a hindrance.

How can AI help?

Whether it is in the more formal role of an AI Advisor or not, AI can help boards to process and summarize vast amounts of information to enable them to make important strategic decisions. ChatGPT can scan the activities of competitors, compare regulatory frameworks, suggest potential focus areas, etc. But boards should always remember that generative AI ultimately (or at least currently) remains a word cruncher that spits out text based on the statistical probability that one word is more likely to follow another. From a control perspective, AI can be employed on the operational side to automate audits and risk assessments and to report directly – even in real-time – to the board.

Transparency will be improved, and such information can be used to compare and discuss reports prepared and submitted by management, but it can never replace it.

How can AI be a hindrance?

AI is a hindrance when it is used as an outsourced alternative to the board's own processes. AI should never prevent the board from applying its collective mind to make carefully considered decisions that are in the best interest of the company. ChatGPT should prepare neither the strategy nor the financial statements, even if it could. The board needs to find the sweet spot between pushing AI to its limits and maintaining the ultimate responsibility for directing and control.

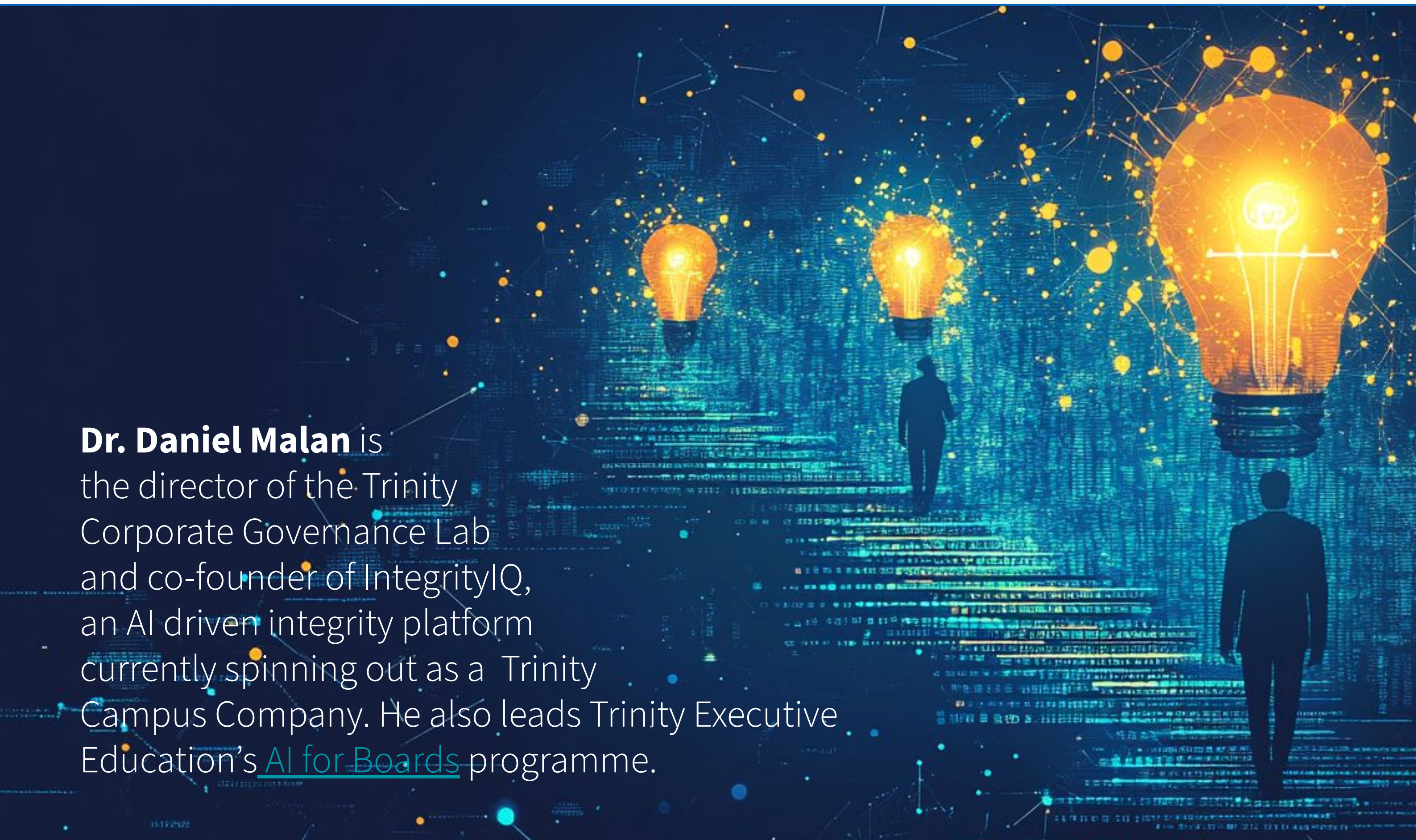
How to get it right

To find that sweet spot, directors should be impressed by the power and possibilities of AI, but not too much. They should not be worried that AI will make them obsolete, and they should understand and stay up to date with technological developments. Every director on the board should be able to describe concepts like AI, machine learning, large language models, etc. accurately, albeit in high-level terms.

Directors should use AI individually and collectively. Individual directors can use AI in their preparation for board meetings. In the boardroom, AI can be used to improve direction (industry summaries, competitor comparisons, etc.) and to improve control (scanning regulation, identifying anomalies, preparing minutes, etc.).

AI can scan regulation, but directors should understand regulation, including AI regulation such as the AI Act. Compliance with regulation should never be mindless. Regulation will vary in different parts of the world, but the approach should never be to see how close to the wind a company can sail without getting into trouble. Regulation should always be viewed within a broader ethical framework. Regulation is there not only to prevent bad actors from gaining the upper hand, but also to ensure that the legitimate ethical concerns around trust, privacy, bias etc. are addressed in a responsible manner.

Getting it right will not be easy, but an unintimidated and informed board will be best positioned to use technology to improve effectiveness and sound governance.



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