IMPROVING BOARD LEVEL UNDERSTANDING OF RESPONSIBLE AI

August 2024

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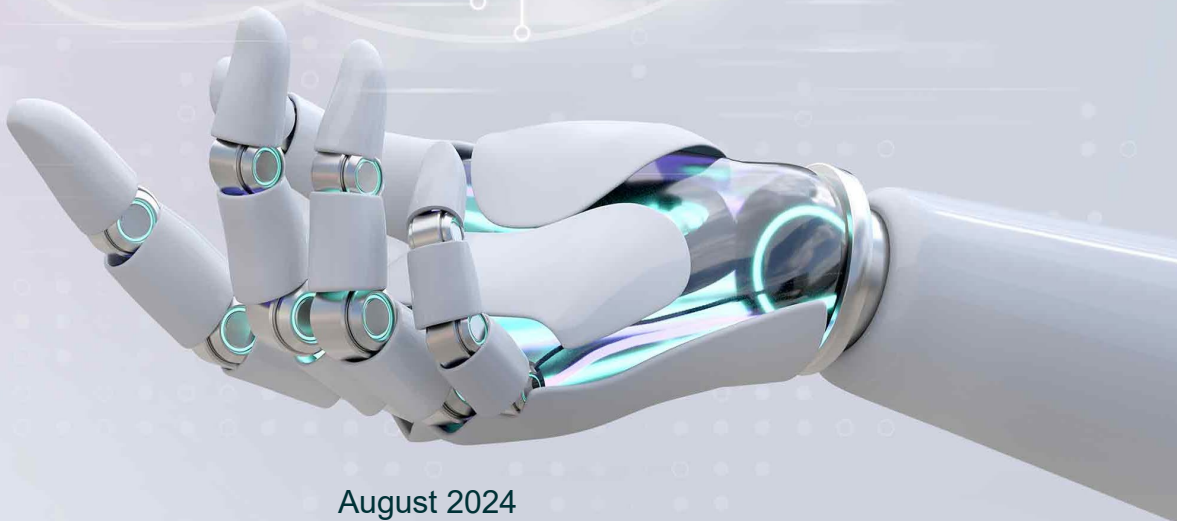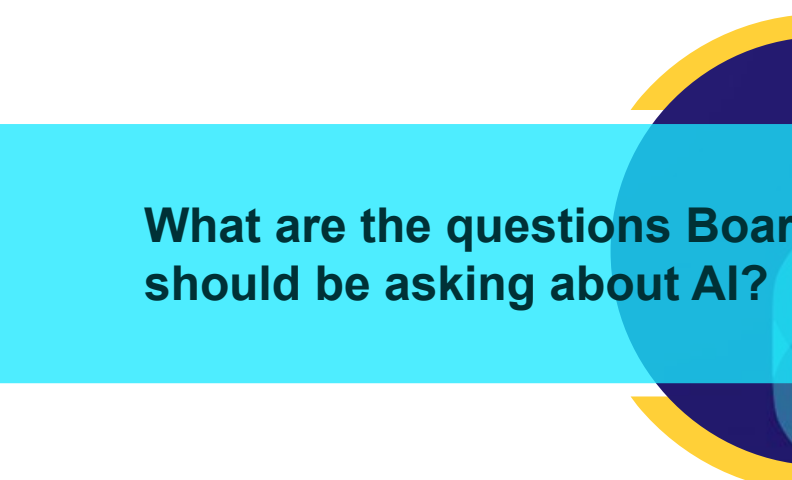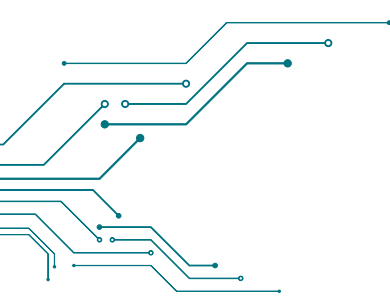Improving Board Level Understanding of Responsible AI

AI is being discussed and implemented across companies

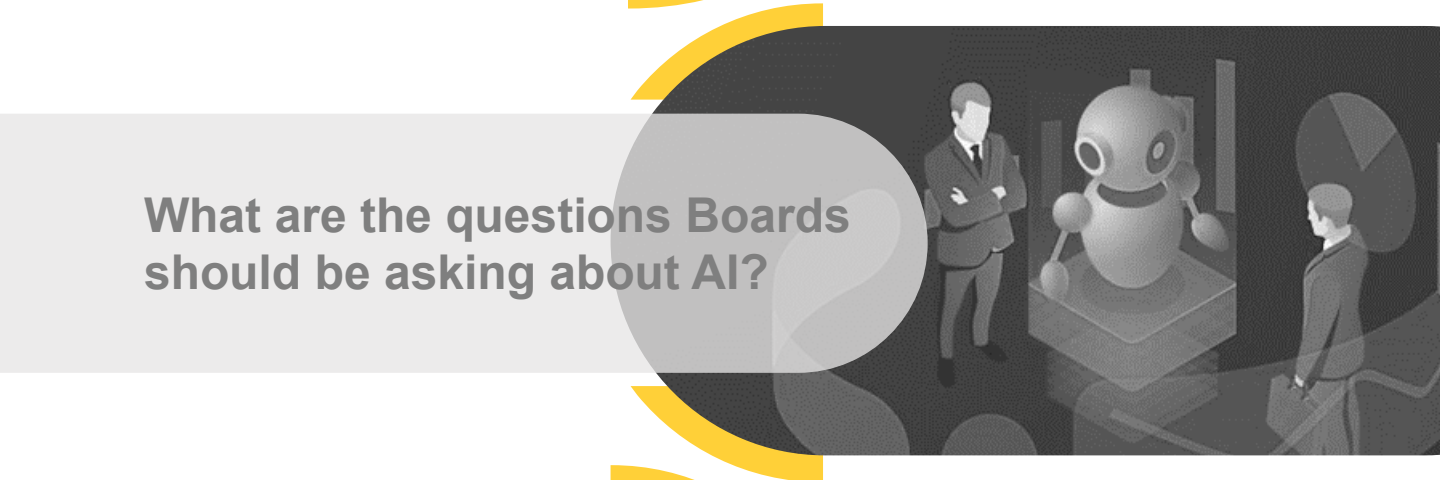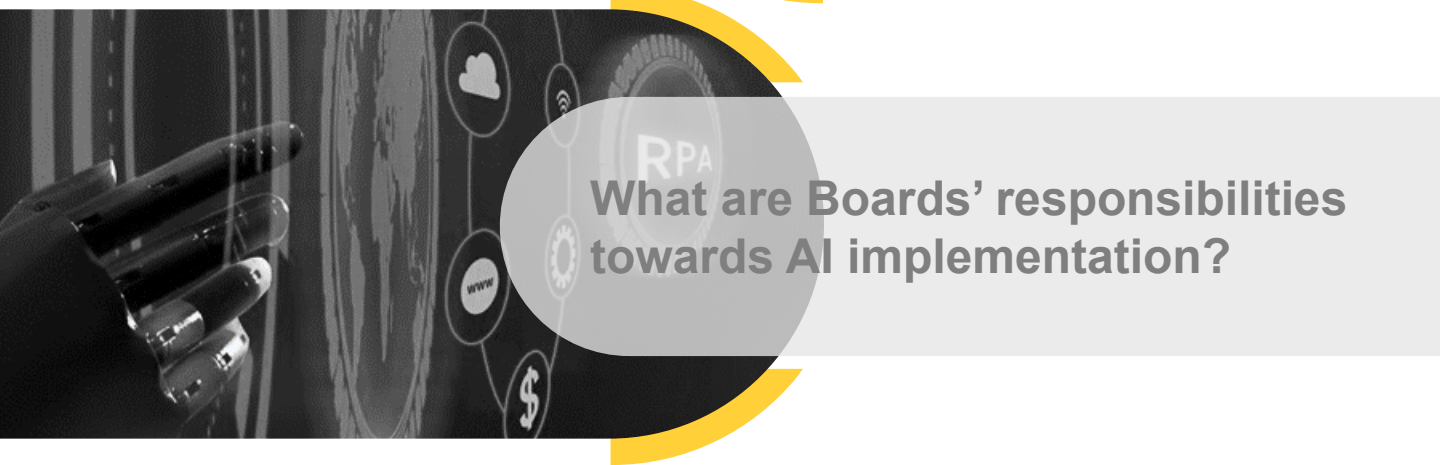**What are the questions Boards should be asking about AI?**

**What are Boards' responsibilities towards AI implementation?**

LEADING COMPANIES GLOBALLY AND IN INDIA ARE INCREASINGLY ADOPTING AI AND GENAI

- Analysis of corporate earnings calls of Fortune 500 companies shows a significant rise in mention of AI

- In 2023, AI was mentioned in 394 earnings calls (**nearly 80% of all Fortune 500 companies**), up 48% relative to 2022 and nearly doubling from 2018

- Mentions of AI in Fortune 500 earnings calls were associated with a wide range of themes-the most frequently cited theme, appearing in 19.7% of all earnings calls, was **generative AI**

- Another study surveyed generative AI usage among businesses across different regions of the world. While **North America leads in adoption at 40%, developing markets (including India, Latin America, and the MENA region) follow at 33%,** which is also the global average. Adoption was lower than global average in Europe, Asia Pacific and the Greater China region

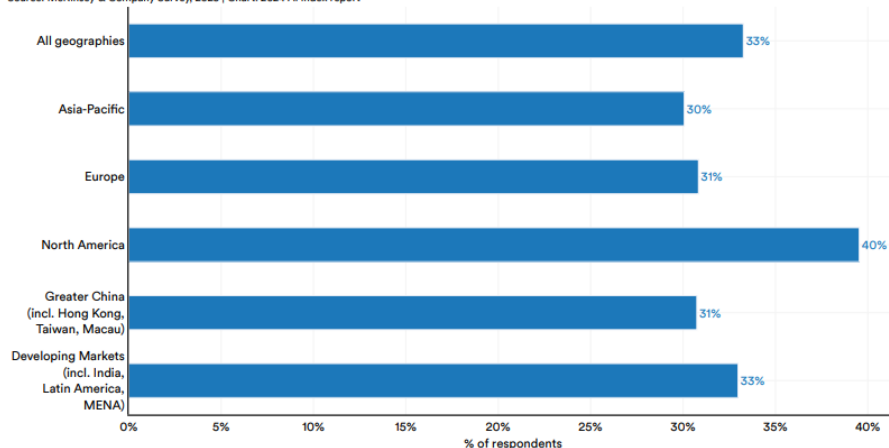**Number of Fortune 500 earnings calls mentioning AI, 2018–23**
Source: Quid, 2023 | Chart: 2024 AI Index report
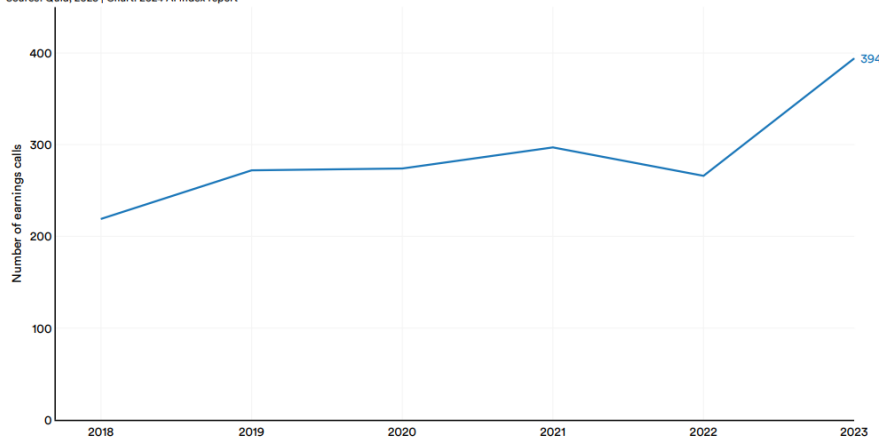
Source: Stanford University-2024 AI Index Report

Generative AI adoption by organizations in the world, 2023
Source: McKinsey & Company Survey, 2023 | Chart: 2024 AI Index report

*Source: Stanford University-2024 AI Index Report*

AI ALREADY BEING USED IN INDIAN COMPANIES, FOR FINANCE AND OTHER USE CASES

GENAI IN INDIA

- A recent report on global Generative AI showed India as the furthest ahead in implementing generative AI

- ***81% of respondents within India reported that generative AI was implemented and in use or partial use in their organization***. However, this may be higher on account of the large GCC and IT Services industry and its pressing need to create actionable insights in real time.

GENAI USAGE IN FINANCE

At the CFO Board 2023 Retreat, Generative AI was unsurprisingly a topic of keen interest. CFOs in India are actively understanding, evaluating, and investing in GenAI
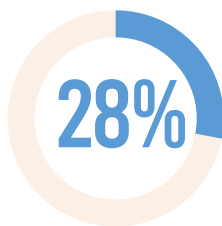
28% OF THE CFOS SURVEYED AT THE CFO BOARD RETREAT ALREADY HAVE GENERATIVE AI PILOTS UNDERWAY!

SELECT GENAI CASE STUDIES IN INDIA
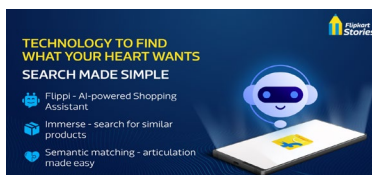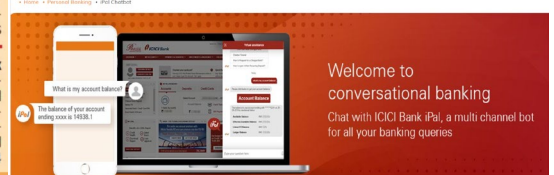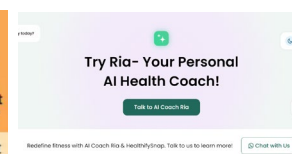
Sources: Elastic Generative AI Report; The CFO Board Publication "The Digital CFO-Powered by Generative AI"; KPMG Research
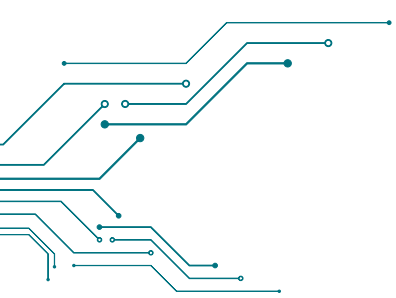
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What are the questions Boards should be asking about AI?

What are Boards' responsibilities towards AI implementation?

KEY CONSIDERATIONS FOR BOARDS ABOUT GENAI

01 STRATEGY AND VALUE CREATION

Key Questions

a) Are the broad-potentially game changing implications of AI-for the company's industry, business model, and long-term viability and competitiveness-being factored into strategy discussions?

b) What is the potential for innovation using AI across-products, improving customer experience, enabling D2C channels

c) What is the expected Impact on top line as well as bottom line by using AI?

02 EFFECTIVE RISK MANAGEMENT

Key Questions

a) How does the organization plan to address potential risks associated with AI? How are we balancing value creation with adequate risk management?

b) Does the company have established legal and regulatory frameworks?

03 OPERATING AND GOVERNANCE MODEL

Key Questions

a) How should we organize capabilities and oversight for AI implementation?

b) How do we implement an effective Responsible AI governance mechanism?

04 ORGANIZATIONAL CAPABILITIES

Key Questions

a) How do we build the necessary technology-new models, scalable data architecture, data governance and security procedures?

b) How do we build the necessary talent for GenAI-changing existing strategies for hiring, training, reskilling, and redeployment?

c) Finally, how we do build the necessary organizational culture to ensure continuous innovation and learning?

THE GRAPHIC ALONGSIDE SHOWS THE '9 LEVERS OF VALUE' FRAMEWORK. IT IS USEFUL TO ASSESS THE IMPACT OF AI ACROSS ALL THESE ELEMENTS THAT TOGETHER ENABLE COMPANIES TO CREATE AND GROW SHAREHOLDER VALUE

Business Model

- FINANCIAL AMBITION
- MARKETS
- CLIENTS & CHANNELS
- PROPOSITIONS & BRANDS

Operating Model

- CORE BUSINESS PROCESSES
- OPERATIONAL & TECHNOLOGY INFRASTRUCTURE
- GOVERNANCE, STRUCTURE & RISK
- PEOPLE & CULTURE

- MEASURES & INCENTIVES

Key Question: Are the broad-potentially game changing implications of AI-for the company's industry, business model, and long-term viability and competitiveness-being factored into strategy discussions?

How will GenAI affect our industry and company in the short and longer term?

- AI can create new categories of products and accelerate product launches. It can also dramatically improve customer experience and personalization

- AI can significantly increase worker productivity globally. Some studies estimate up to 30% productivity enhancement, which has huge profitability opportunities and can create a competitive edge through cost leadership

Do we want to be leaders or followers in AI?

- Every technology shift creates winners who take advantage of the disruption, and those that get disrupted and lose out

- The strategy would depend to a large extent on the current market share (market leader/ top 5/challenger) as well as positioning (product innovation/cost leadership/ customer centricity)

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Key Question: What is the potential for innovation using AI across-products, improving customer experience, enabling D2C channels?

Business Model:

- GenAI can create digital extensions of products, and create new categories
- It can also enable digital channels and D2C strategies
- The potential for hyper-personalization can even disrupt entire industries

Operating Model:

- GenAI can further automate business processes and reduce operating costs. It can enable non-linear growth without a corresponding increase in the workforce
- It can also improve capital and operating efficiencies by unearthing insights about benchmarks, trends and proactive measures to improve operations

Key Question: What are the specific business objectives and goals that the organization aims to achieve through the artificial intelligence?

Tangible impact areas

- Revenue increase
- Cost reduction
- Margin improvement
- Capital efficiency

Intangible impact areas

- Risk reduction
- Customer satisfaction
- Brand recall and perception
- Employee satisfaction and culture

Key Question: How does the organization plan to address potential risks associated with AI? How are we balancing value creation with adequate risk management?

USAGE OF AI WITHIN ORGANIZATIONS CREATES POTENTIAL FOR A VARIETY OF RISKS WHICH MUST BE SUITABLY ADDRESSED

Category			
Data Privacy and Quality	Data privacy and how data is shared with the service	Logging, retention of input and output data	How data is used and if data quality is acceptable
Intellectual Property	Intellectual Property leakage	Intellectual Property infringement	Intellectual Property rights and ownership of results
Model reliability	Manipulation of input or outputs	Algorithmic bias and errors in decision-making	Hallucination and misinformation
Security	Adversarial attacks and cyberattacks	Data security-leakage/unauthorized access	Fraud, counterfeiting and deepfakes
Compliance	Global AI regulations	Global Data and Data Privacy regulations	Industry specific regulations (e.g. Banking)
Ethical Concerns	Lack of transparency into algorithm and training set	Job displacement and workforce impact	Energy consumption and environmental impact
Audit and Monitoring	Performance monitoring and periodic review	Rights to transparency and audit by 3rd parties	Contingency/ Business Continuity plans if AI fails

Key Question: Does the company have established legal and regulatory frameworks?

USAGE OF AI WITHIN ORGANIZATIONS REQUIRES COMPLIANCE WITH MULTIPLE REGULATIONS

1 Emerging Global AI regulations such as the European Union Artificial Intelligence Act *(key highlights below)*

KEY PROVISIONS OF THE EU ARTIFICIAL INTELLIGENCE ACT

OVERSIGHT AND GOVERNANCE

The regulation establishes a European Artificial Intelligence Board to facilitate cooperation among national authorities and ensure consistent enforcement and application of the AI Act across member states.

PROHIBITED PRACTICES

The AI Act prohibits certain AI practices that are considered unacceptable and pose significant risks to individuals and society. These include AI systems that manipulate human behavior, exploit vulnerabilities, or deploy subliminal techniques to influence decision-making.

DATA AND DATA GOVERNANCE

The AI Act emphasizes the importance of data quality and sets requirements for data used in AI systems. It promotes data governance and encourages the use of high-quality, unbiased, and diverse training data to avoid discriminatory outcomes.

HIGH-RISK AI SYSTEMS

The regulation imposes specific requirements for AI systems classified as high risk. These include mandatory conformity assessment procedures, technical documentation, transparency obligations, and human oversight mechanisms.

2 Data Privacy regulations such as GDPR in the EU and the Digital Personal Data Protection Act in India

3 Other sector specific guidelines such as for Banking and Financial Services from the Reserve Bank of India

Key Question: How should we organize capabilities and oversight for GenAI?

OWNERSHIP

The Board needs to ensure AI is implemented responsibly within the organization with a senior executive sponsor being accountable for control, consistency and coordination

OPERATING MODEL

Centralized

- Most companies are setting up a Center of Excellence (COE) for AI, with a senior leader (COO/CIO/CDO) taking ownership and accountability

- The COE also comprises a cross-functional group of leaders representing all key functions-Sales, Marketing, Finance, Operations, Products, Engineering, Risk, Legal and IT

- The COE sets overall policy direction to ensure consistency and control across geographies and functions. It also establishes common platforms and partnerships

Distributed

- Business/support functions identify and prioritize use cases with the highest benefits, and add them to the implementation roadmap once the COE approves them

- Organizations are also targeting broad-based productivity uplift by rolling out enterprise-specific Chatbots, Co-Pilots in office applications and GitHub copilot for developers

- While functions can execute pilots, the COE must ensure they progress to production

OVERSIGHT

- The Board needs to actively monitor and review the progress of AI implementation, assess its impact on the organization, and adapt the governance structure accordingly

- The Board needs to ensure compliance with legal and regulatory requirements, and ensure communication to shareholders, customers and other relevant stakeholders

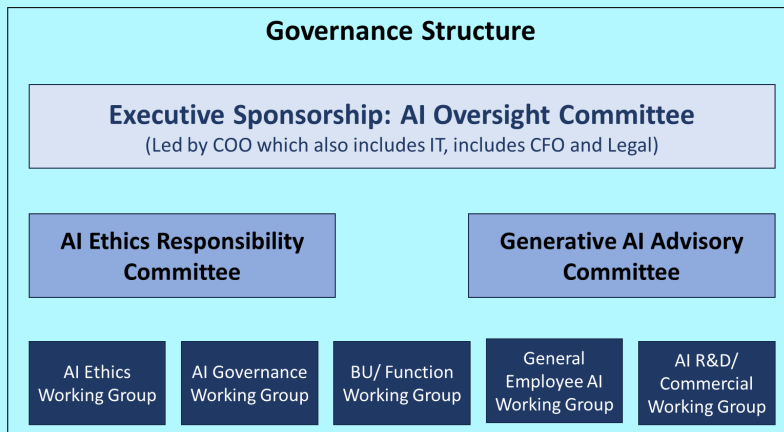## CASE STUDY: LARGE GLOBAL TECHNOLOGY COMPANY

OWNERSHIP + OVERSIGHT

Executive Sponsorship is through an AI Oversight Committee, which is led by the COO. The Committee also comprises CIO, CFO and Head of Legal)
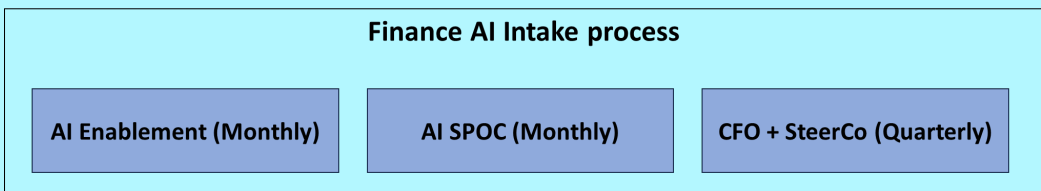
OPERATING MODEL

- The global COE is led by the AI Oversight Committee which has subcommittees focused on advisory/value creation (offense) and ethics/risk management (defense). Working groups for ethics, governance, BU/function use cases, employee use cases, and R&D/IT
- Business Units/functions prioritize use cases into a monthly intake pipeline for rollout
- Enterprise-specific Chatbot, MS Office Co-Pilots and GitHub copilot are also rolled out

Governance Structure

Executive Sponsorship: AI Oversight Committee
(Led by COO which also includes IT, includes CFO and Legal)

AI Ethics Responsibility Committee		Generative AI Advisory Committee	

AI Ethics Working Group	AI Governance Working Group	BU/ Function Working Group	General Employee AI Working Group	AI R&D/ Commercial Working Group

Finance AI Intake process

AI Enablement (Monthly)	AI SPOC (Monthly)	CFO + SteerCo (Quarterly)

Key Question: How do we implement an effective Responsible AI governance mechanism?

KPMG RESPONSIBLE AI FRAMEWORK

- KPMG's responsible AI frameworks, controls, processes and tools ensure AI systems are designed and deployed in a trustworthy and ethical manner so that companies can accelerate value.

- Organizations need to design and implement an appropriate framework for their industry and company

- Weightages to factors need to be defined based on industry and company context. E.g. Fairness may be important for Financial Services to ensure loan approvals are free from bias. Safety may be more important for Manufacturing/Aerospace and Defense setups where AI adoption can directly influence accidents and fatalities

1

Fairness
Help ensure models are free from bias and are equitable

2

Explainability
Help ensure AI can be understood, documented, and open for review

3

Accountability
Help ensure mechanisms are in place to drive responsibility across the lifecycle

8

Reliability
Help ensure AI systems perform at the desired level of precision and consistency

4

Security
Safeguard against attacks, corruption, or unauthorized access,

7

Data integrity
Help ensure data quality, governance, and enrichment steps embed trust

6

Safety
Help ensure AI does not negatively impact humans, property, and environment

5

Privacy
Help ensure compliance with data privacy regulations and consumer data

CONSIDERATION 4: ORGANIZATIONAL CAPABILITIES

Key Question: How do we build the necessary capabilities for AI implementation?

THE ORGANIZATION CAPABILITIES TO IMPLEMENT AI NEEDS TO BE REVIEWED FROM THREE LENSES

TECHNOLOGY

- How do we build the necessary technology spanning-data, computing, infrastructure, AI and GenAI models, AI Operations (AIOps), Identity/access and cybersecurity?
- Have we considered the range of options available between open and closed ecosystems? Is there a risk of any data or vendor lock-in?
- Have alliances and partnerships been explored for both data as well as technology?
- Which AI systems have been deployed, and which are the most critical? Have business continuity plans been drawn up in case AI systems fail or experience downtime?
- How will the organization ensure that AI implementation complied with industry standards and is aligned to best practices?

TALENT

- What measures are being used to educate and train employees about AI technologies, their implications, and ethical use? Are we tracking awareness, education and sentiment?
- How do we build the necessary talent for GenAI-changing existing strategies for hiring, training, reskilling, and redeployment?

CULTURE

Finally, how we do build the necessary organizational culture to ensure continuous innovation and learning?
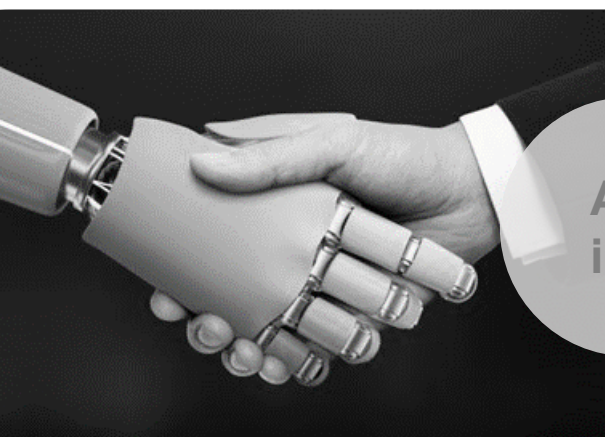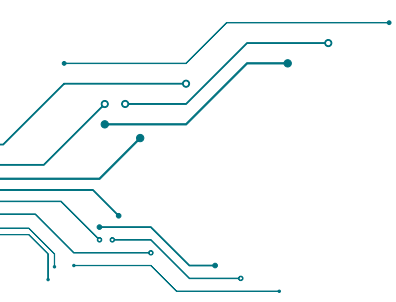
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What are the questions Boards should be asking about AI?

What are the Boards' responsibilities towards AI implementation?

AI IS HERE TO STAY AND IS INCREASINGLY ADOPTED IN ORGANIZATIONS IN INDIA. BOARDS HAVE A CRITICAL ROLE TO PLAY IN GUIDING AND GOVERNING THIS JOURNEY, ALONG THE FOLLOWING KEY DIMENSIONS

1. AWARENESS

- AI is an area that Boards need to be **aware and abreast** of. Firstly, in terms of opportunity and potential to benefit the company or disrupt the industry

- The next area is **risks to the company** when adopting AI, as well as the evolving **legal and regulatory requirements**

- Directors will need to **build their own capabilities-**e.g. Deep dive sessions with experts, immersion sessions, hands-on working with AI tools and perhaps even incorporating AI to prepare for meetings or to answer questions they may have!

2. BALANCE

- Boards are increasingly discussing AI but they tend to **focus more on the risks**. There are several regulatory, compliance and governance risks relating to IP, privacy, data security, transparency, biases, and accuracy

- However, it is crucial for Boards to **understand the opportunity and potential of AI** to affect every industry and virtually every function of the company including finance, marketing, operations and strategy. Being a frontrunner can be a significant competitive advantage

- Boards can transform institutions they govern and raise management's aspirations by **striking a balance** and asking the right questions. However, Boards should provide oversight without getting into an operating role

3. DEVELOPMENT

- Directors will need to review the **development of AI capabilities** within organizations.
  The needs to be holistic covering-**Technology, Talent and Culture**

- **Awareness, education and change management** within the workforce should also be tracked at the Board level

- Finally, Boards need to actively seek out information about **AI investments**, successes/ benefits, failures/learnings, and **value measurement** in reviews

4. CONTROLS

- Boards are ultimately **accountable for corporate governance**. So they need to understand and ensure that the organization complies with regulations

- Boards must also review the **controls and governance framework** within organizations specifically for AI. This framework needs to address all the potential risks, consider ethical
  and responsible AI principles, assign ownership and also ensure periodic reviews/audits

- **AI reviews** must be factored into all Board sub-committees (Audit, IT, Finance, Risk, Governance). **External AI reviews/audits** must also be considered

This report has been prepared with guidance from Jaywardhan Semwal, VP - Finance, Hewlett Packard Enterprise, PK Ghose, Former Executive Director and CFO, Tata Chemical, Neeta Revankar, Former CFO, Sasken Technologies Limited, Amol Joshi, CFO, TransUnion CIBIL Ltd and Chaitanya Gogineni, Partner, KPMG in India.

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BOARD

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