



The Board Member's Guide to Overseeing AI

A practical guide for corporate directors to empower themselves and harness Artificial Intelligence for their companies

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Picture this scenario: You're reviewing the agenda for your board's upcoming meeting, and the first topic is "Governing AI – risks and opportunities." You've read numerous articles about AI, dabbled with ChatGPT, Microsoft Copilot and Google Gemini, and regularly talk to Alexa and Siri. But beyond that, Artificial Intelligence still feels like a mystery. You're not a tech expert, so how do you contribute to this crucial topic that could change the trajectory of your company's future?

AI is now on every board agenda, but few directors know how to handle it – or where to start. You likely have more questions than answers: How do

you provide guidance on a technology which, admittedly, few of us truly understand? Is AI as game-changing (or dangerous) as reported? Does your organization want to be a leader or a follower in adopting AI? How do you ensure that your organizations use AI responsibly and stay abreast of evolving regulations? What happens if you still don't have an AI strategy?

Our overview of AI for board members will help you determine how to navigate your AI journey.

The actual deployment of AI is the responsibility of management, and likely there are multiple leaders in the organization who understand

the technology in more depth than the board. But the proliferation of generative AI has raised a myriad of challenging questions ranging from strategic to moral, ethical, and even existential – questions which must be addressed or monitored by the board.

How Boards Can Get Started with AI

The first step for any journey is to know your starting position. Boards of directors, and Chairs in particular, have a responsibility to assess their level of comfort and understanding of the topics affected by AI and work quickly to close any gaps. Given the rapid rise and

evolution of AI technology, it is safe to assume there are significant gaps on this topic inside nearly every corporate boardroom.

To develop a baseline level of understanding of both AI technology and the key areas it affects for their organization, we recommend the following starting steps for every board:

Embrace self-learning: Every board member (or at least technology committee members) should have a basic understanding of AI. Learning about this technology is vital to making informed decisions and staying relevant in today's rapidly changing business landscape. Some free resources we have enjoyed ourselves include:

- **Article** - *Why AI Will Save the World* by Marc Andreessen
- **Podcast** - "How Should I Be Using A.I. Right Now?," The Ezra Klein Show
- **Presentation** - "Generative AI exists because of the transformer"
- **Book/Audiobook** - "Co-Intelligence: Living and Working with AI," by Ethan Mollick
- **LinkedIn Learning** - *Gen AI for Business Leaders*

Stay informed by your organization: To keep the board up to date, establish regular presentations on important AI topics. The CTO, General Counsel, Customer Service leaders, and other experts should all be invited to share AI-related insights with the board.

Engage external experts: Tap into experts outside of your organization to understand how AI is impacting your specific industry and the areas of concern you face.

Foster a culture of accountability: Have open and regular conversations about AI within the board and hold each other accountable for staying informed and knowledgeable about AI matters. The chair must ensure that every board member takes these responsibilities seriously and is well-prepared to engage in meaningful debates.

Asking the Right Questions

As the board develops a common language and understanding of AI, it becomes possible to delve deeper into more complex issues, which include three primary areas: (1) Strategic Urgency, (2) Responsible AI, and (3) Risks and Regulations. We break down each

of these areas in detail along with several key questions board members will want to ask.

1. Strategic Urgency: The Risk of Inaction

As board members, you have seen waves of technology come and go, promoted one day as "the next big thing" and obsolete soon thereafter. Given the bold claims for AI, some might argue we should wait and see. Others will say we're already too late given that AI is already disrupting and transforming entire industries. While we don't have the absolute answer, it is the responsibility of boards to make a conscious decision, recognizing that doing nothing is also a choice – and a risky one.

Mitigating the risk of inaction requires board members to be proactive in understanding the potential benefits and challenges of AI adoption. They need to foster a culture of innovation and continuous learning within the organization, encouraging exploration and experimentation with AI applications.

As the pace of innovation increases, AI has the power to turbocharge everything. New players are entering the scene, and even old ones are using AI to get ahead. Being too risk-averse and simply sticking to the old ways of doing things may be a death sentence for a company. As AI becomes increasingly integrated into business processes and decision-making, companies that refrain from leveraging its power may struggle to keep up with the pace of change and find themselves lagging behind more agile and tech-savvy competitors.

Implementing AI technologies thoughtfully and ethically can lead to significant gains in productivity, efficiency, and innovation. Ultimately, recognizing the urgency and embracing the potential of AI is no longer an option; it is a necessity for the long-term success and survival of businesses today.

2. Responsible AI

This area addresses possible AI issues surrounding fairness, accountability, transparency, ethical considerations, and the well-being of both individuals and society. The goal is to mitigate the potential negative impacts and risks of AI technologies while maximizing their positive contributions. There are several key components of Responsible AI:

Key Questions for Board Members to Ask

Strategic Urgency

1

What is the AI agenda for the next 3-5 years, and how will we fund it?

2

Do we need an AI review board or committee?

3

Who owns the responsibility of AI in our organization? Which other leaders do they collaborate the most closely with?

4

What are the obstacles, pitfalls, and roadblocks (e.g., tech debt, privacy issues, etc.) that are impeding our progress on critical issues related to AI?

Accuracy: One of the biggest concerns of AI is accuracy, as predictive models are never able to perform at 100% accuracy. Generative AI models can easily spread misinformation or draw inaccurate conclusions. To ensure AI-generated content is accurate, having the right safeguards is key. Companies also need a plan to handle different scenarios – what happens if customers are presented with false data or if internal decisions are based on inaccurate AI answers?

Bias: Since AI models are trained on historic observations, biases can creep into AI models, which can create disadvantages for some populations or result in outright discrimination. Boards will want to ensure that their organization’s use of AI is ethical and has a system to account for biases. (There is research underway into systems that can correct for some biases using synthesized data on protected attributes such as gender, race, and ethnicity.)

Security: AI relies heavily on data, and companies need to collect, store, and process large amounts of data to train and operate AI systems. This increases the risk of data breaches and unauthorized access, potentially exposing sensitive information. In addition, AI systems need to be able to withstand attacks, where bad actors may attempt to input data that would trick the AI model into making incorrect predictions or classifications, which could lead to misinformed decisions or actions.

Transparency: Transparency in AI is crucial to building trust, ensuring ethical use, and facilitating accountability. AI users and stakeholders should have a clear understanding of how their particular model arrives at its decisions, stores data, and how to evaluate its performance.

Environmental and Societal responsibility: As people and functions are disrupted by AI, what are the values that will guide your business as you adopt AI? Should you buy carbon offsets to address the impact that training and running AI models have on the environment? What obligations will your company undertake to retrain or upskill employees or provide a level of job protection?

3. Risks and Regulations: Staying Ahead of the Regulatory Storm

One of the critical areas of AI that demands attention from the board is concern for liability. As generative AI models become

more advanced and capable of producing innovative works, questions arise about intellectual property infringement and ownership of the work. Companies must address whether they have the right to claim ownership over outputs generated by their AI models and whether they can patent these new works. Additionally, understanding the complexities of data rights and ensuring compliance with data protection regulations is essential.

As new policies and regulations emerge from various authorities, including the European Union (EU) and U.S. Securities and Exchange Commission (SEC), companies must closely monitor these developments. Ignorance or negligence in keeping up with the ever-changing legal landscape could lead to inadvertent violations, which might result in severe financial penalties and damage to a company's reputation. In addition, compliance with existing regulations, such as the General Data Protection Regulation (GDPR) or the California Consumer Protection Act (CCPA) in the United States, is essential to safeguarding user data and maintaining trust with customers.

To date, the most significant piece of legislation addressing the use and scope of AI is the European Union’s AI Act, which goes into effect on August 1, 2024. The U.S. does not currently have any similar comprehensive federal legislation or regulations for the development of AI or that specifically prohibit or restrict their use, although elements of the EU AI Act will apply to U.S. companies providing AI-based solutions. Additionally, several frameworks and guidelines exist to guide the regulation and use of AI such as the White House’s landmark executive order on AI and the proposed Blueprint for an AI Bill of Rights, and regional legislation including the Colorado AI Act are also important to consider. With AI regulation still emerging, it is still up to companies to decide their own appropriate level of governance for now. Developing a framework for AI operations will provide clarity and transparency throughout the organization and position your company to comply when even more regulations come. Clear testing procedures to evaluate and validate your AI systems are also needed to ensure functionality, reliability, accuracy, security and performance meet the desired standards.

Navigating the uncharted waters of AI regulation requires companies to adopt a proactive and adaptable approach,

Key Questions for Board Members to Ask

Responsible AI

5

What safeguards are we adopting to ensure accuracy in AI-generated content? What are the “rules of the road” used by leading companies, and have we adopted those?

6

If decisions are made based on misinformation, how do we unravel that web and then prevent it from happening again?

7

Do we have a program or a framework in place that is proactively searching for misinformation about our organization and is monitoring Responsible AI practices? What does it entail?

8

How do we ensure ownership of our IP? What policies are in place in the case of our inadvertent infringement?

9

Bias is a major concern in AI models, which can have a major impact on our company’s brand, on the hiring and retention of employees, and on DEI goals. How are we mitigating bias in our organization’s use of AI?

10

How do the values of our organization dictate our response to the impact that our use of AI could have on our workforce, society, or the environment?

collaborating with legal experts and stakeholders to develop comprehensive and compliant AI strategies that align with the evolving regulatory framework. By staying ahead of the regulatory storm, organizations can not only mitigate potential risks but also position themselves as leaders in the responsible development and deployment of AI technologies.

Where Do You Go from Here?

The board's oversight of AI will not be a one-and-done exercise. As a director, your efforts will evolve as your company's comfort and use cases for technology do. Going forward, the board will need to keep the following considerations in mind as its journey progresses:

Normalize the topic of AI: As mentioned previously, AI needs to be a regular, expected topic for the board. Risk committees must assess emerging regulations and areas of vulnerability. People committees must consider the impact of AI on the organization, and of course, any areas where AI can bring greater efficiency and effectiveness. Tech committees must assess and report on progress toward major AI initiatives. As boards learn to treat AI as an asset and resource, it will become a topic as expected as financials or human capital.

Modify your board structure: If you don't have a technology committee, now may be the time to start one. Not every board member brings the tech acumen or interest to dive deeply into these topics, so boards must provide a forum for those who do. Additionally, if you don't have a technology expert on your board, you will want to bake in that capability when seeking your next board director.

Evaluate your company's leadership: The need for AI strategy and skills is equally important within corporate leadership. Ensure your management teams are having similar discussions, and mapping where AI experts may be needed. The demand for AI talent is extremely high, so carefully assessing what capabilities are needed and developing a strategy for recruiting those specific experts is critical to maintaining a competitive advantage.

Budget time and resources for the long term: Too often boards and management teams spend aggressively upfront to try

to leverage technology immediately. While being a first mover has advantages, ensure you have the resources to fund long-term investment in AI. Unrealistic timelines and budgets can lead to AI failures, where companies expect immediate results and end programs before they have time to reap the benefits.

Play offense and defense: Ensure your board agenda provides sufficient time to address both AI threats and opportunities. Staying abreast of AI regulations and competitors' actions will be table stakes – how can you leverage AI to your advantage? Is there an opportunity to influence regulation to your benefit, apply AI learning models against your company's proprietary data, or deploy AI technologies internally to gain significant efficiency?

Continuous learning: In the coming years, AI will likely evolve faster than any previous technology. Keeping current on emerging technologies and opportunities will be critical to evolving your company's strategies with the changing landscape. Fighting complacency in this emerging battleground may ultimately separate the winners and the losers.

It's impossible to predict the future, but all signs suggest that the emergence of generative AI marks a significant and transformational milestone along the arc of technology history. This new chapter presents both opportunities and risks by joining the AI revolution – but perhaps even greater risk by taking a wait-and-see approach. Regardless of the speed at which your organization adopts AI, one thing is for certain – AI should not be ignored. It will change our world in countless ways, and its full potential will unfold over time, reshaping our industries, economies, and societies. Board members who embrace and understand AI's potential will become the architects of that transformation.

Key Questions for Board Members to Ask

Risk and Regulations

11

How are we dealing with the emerging regulations surrounding AI? Is the pace of change slowing down our adoption of it?

12

How are we ensuring data privacy and security in AI projects?

13

Who is responsible for compliance with these regulations? Do we have (or need) a Chief Data Privacy Officer?

14

How do we manage third-party AI services?

15

Are we engaging with regulators and industry standards organizations?

16

What training is in place for employees on AI ethics and regulation?

About Egon Zehnder

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