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Transforming Governance: The Imperative for Boards to Embrace AI & Sustainability

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Corporate Board's Response to Artificial Intelligence (AI) and Sustainability

Artificial Intelligence (AI) is now a critical issue for corporate boards, requiring innovative governance strategies to harness its value while mitigating risks. AI has the potential to revolutionise industries and significantly impact long-term growth strategies. However, boards face challenges such as ethical considerations, legal implications, data privacy, and the need for transparent decision-making.

The latest Global Leadership Monitor by Russell Reynolds Associates shows that only 30% of board directors and 20% of management teams feel their boards have the necessary expertise to advise on generative AI implementation. To address this expertise gap, boards can learn from their governance experience with sustainability.

Both AI and sustainability require significant shifts in business operations, leadership, and governance and can either create, or destroy significant value depending on their implementation. Boards must effectively monitor AI and sustainability risks and opportunities, assist management in prioritising these issues, and avoid appointing single-issue directors. Instead, they should include directors with practical experience in these areas and follow a coordinated process similar to how sustainability is managed that clearly defines the responsibilities of the board and management in transforming business models in response to these disruptive forces.

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Why Boards and Management Teams Must Work Together to Drive Sustainability and AI Progress

Recent research from Russell Reynolds Associates highlights the necessity of a coordinated relationship between the board and management team to develop sustainability strategies that deliver both social and financial value for stakeholders.

As AI becomes more prevalent, the same collaborative oversight will be essential to seize AI opportunities while mitigating significant risks. Generative AI presents similar governance challenges and opportunities to those faced with sustainability. Both sustainability and AI require a company's management and board to collaborate in:

Understanding primary stakeholders (e.g., employees, customers, investors, suppliers, society-at-large) and their key concerns.

Continuously scanning the market to identify new risks and opportunities related to sustainability and AI.

Turning risks into opportunities to drive value creation.

In this collaborative process, the board and management have distinct roles that complement each other, leveraging their unique perspectives, skills, and mandates to establish effective governance. This approach does not mean the board should avoid challenging management or offering alternative views. Instead, a well-defined and coordinated approach ensures both parties fulfil their governance roles effectively.

Governance of Sustainability and AI Risks & Opportunities

When the board and management work well together, sustainability and AI can be integrated into the business as tools for value creation. Conversely, misalignment between the board and management can lead to fragmented or ineffective sustainability and AI efforts, reducing their potential to transform business and operating models.

Regional and local laws, as well as directives and corporate governance guidelines, must be considered as boards define their fiduciary responsibilities. If companies need to make decisions before regulations have been finalised, they should adopt a principles-based approach to mitigate the need for future backtracking.

The Board's Responsibilities for Governing Sustainability and AI

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Board directors should focus their sustainability and AI oversight broadly on four key responsibilities, each of which complement the corresponding responsibilities of management:

1. **Educating**
   Educate directors on material risks and opportunities related to sustainability and AI, equipping them to productively contribute to their company's strategy discussions.

2. **Integrating**
   To manage risk and make strategic decisions, integrate sustainability and AI strategy into board discussions, processes, and systems.

3. **Overseeing**
   In partnership with the management team, oversee key sustainability and AI risks, opportunities, and KPIs on an ongoing basis.

4. **Ratifying**
   Ratify management's sustainability and responsible AI metrics and related disclosures.

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How Sustainability and AI can be Integrated into Board Committee Responsibilities

Nomination Committee

- Include expertise on enterprise-relevant sustainability and AI issues in the board of directors' competency profile
- Make sustainable leadership and a commitment to Responsible AI a key component for CEO and senior management succession and appointments

Audit Committee

- Educate the committee around non-financial disclosure requirements
- Ensure that governance and audit mechanisms include assessment of adherence to company's Responsible AI principles

Compensation Committee

- Orient compensation structure to the sustainable and long-term development of the company
- Link CEO and management compensation to ambitious sustainability targets
- Ensure senior technical leaders are incentivised to prioritise Responsible AI practices

Advice to Boards for a Sustainable, AI-Enabled Future

Regardless of where boards fall in the maturity curve of sustainability and AI governance, we recommend the following key actions to elevate the board's oversight and ability to leverage the transformational impact of these forces:

1. Ensure that senior management and the board are clear on their respective roles in driving change and mitigating risk when it comes to sustainability and AI.

2. Don't rely on single-issue directors to fill the board's expertise gap – instead, look for opportunities to educate the entire board on the company's stakeholders, their priorities, and how the company creates value for them.

3. Integrate sustainability and AI into all risk management and strategic decision-making processes, such that they become a lens for identifying opportunity and risk.

4. Establish clear metrics for holding management to account against the company's sustainability and AI ambitions, and review progress regularly.

5. Publicly champion decisions made by the management team regarding their company's sustainability and AI journey, demonstrating board support for the company's ambitions.

When aligned, sustainability and AI become powerful levers for value creation. It's time to embrace the transformational power of these two forces and reshape how companies approach their governance.

References

https://corpgov.law.harvard.edu/2024/07/03/the-boards-role-in-ai-and-sustainability/

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Our smart business solution suite comprises of the following services:

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- Regional Payroll
- Corporate Secretarial
- ESG Services
- Share Registry
- Employee Share Plans

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As an experienced corporate services provider, we welcome any opportunity to discuss your business needs to see where we may be able to support you on your growth journey.

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