AI in the Boardroom

Artificial intelligence is no longer an emerging technology. And just as AI is changing the way companies work, set strategies, and manage risk, it is also transforming the boardroom.

As AI tools enhance real-time analytics, streamline board operations, and introduce new governance challenges, directors must consider how best to adjust their oversight practices to keep pace. With AI reshaping the dynamics of governance itself, board leadership must evolve to ensure decisions remain transparent, accountable, and aligned with organizational values.

It's also important for board members to recognize how AI use could increase their liabilities. Internal audit can support boards by providing independent assurance over AI processes, evaluating governance frameworks, and helping directors navigate ethical and regulatory risks.

A Real-Time Advisor

With the adoption of AI technology in the boardroom, "directors will essentially have a real-time advisor available at hand," according to the Stanford Closer Look Series paper, The Artificially Intelligent Boardroom.

How fast are things moving? "It's crazy for a board to [still] get updates every 90 days with PDFs when predictive AI can spot a revenue issue two weeks into a quarter," says Steve Singh, managing director of Madrona Venture Group, in the Axios article, "AI Shakes Up Corporate Boards."

The Stanford article notes that given the level of information and analysis available through AI, there may be a change in the way boards carry out governance responsibilities in areas such as:

• **Strategy.** "Some of the work that was previously outsourced to strategy consultants will be available in-house, at lower cost and turnaround time," the article says.

• **Compensation.** Instead of waiting for analyses by external consultants, the compensation committee will use analytical and benchmarking tools to evaluate compensation design in real time, predict proxy advisor recommendations, and assess legal and tax considerations.

• **Human capital management.** The board can perform advanced analytics on human resources data, spot patterns and skills gaps, and forecast potential workforce trends.

• **Legal.** AI can monitor and synopsize relevant new legal and regulatory developments.

• **Board evaluations.** AI can provide insights into board effectiveness at the individual and board level. AI-driven coaching and advisory can measure engagement, assess time allocation and focus, and measure the ratio between board actions that are proactive versus reactive.

Questions for Board Directors

• *What kind of training will board members need to make the best use of AI tools?*

• *How will AI and the data it provides change the way the board members receive information and perform their work?*

• *What will be the impact if the board receives a significant volume of information directly from AI rather than from management or outside consultants?*

• *Will board members' time commitment increase because of the wealth of data available to them? What impact will that have on directors' work?*

• *How can boards benefit from AI use without raising their liability risk?*

Leaning Into Technology

"By effectively integrating AI into corporate governance practices, boards can harness the transformative power of AI to propel their organizations towards a more prosperous and innovative future," according to Nasdaq's Digitizing Governance: Exploring AI's Transformational Influence in the Boardroom.

Nasdaq, which has developed board portal software for organizations, recommends some AI best practices for directors:

• **Develop a governance framework for AI adoption.** "It is important to establish clear governance structures and practices to effectively manage AI implementation for optimal outcomes," Nasdaq says.

• **Determine oversight responsibilities.** Nasdaq notes the benefits of putting together multidisciplinary AI governance teams with experts from areas such as information security, compliance, legal, risk management, and audit that can provide insights and take part in implementing rigorous monitoring protocols.

• **Prioritize education and training.** Introductory and continuing learning can enable boards to understand and monitor AI capabilities and benefits along with its limitations and risks.

• **Engage in thought leadership.** Boards should connect with AI experts to remain informed on trends, developments, and best practices.

• **Harness boardroom technology.** Boards should recognize how AI can support their work.

New Challenges

Using AI to transform the boardroom can also pose challenges. Any director or executive of a public company who does not understand the risk or seize the benefits of generative AI, for example, "does so at his or her individual peril because of the risk of personal liability for failing to properly manage a prudent GenAI strategy," according to the ABA article, "The Duty of Supervision in the Age of Generative AI: Urgent Mandates for a Public Company's Board of Directors and Its Executive and Legal Team."
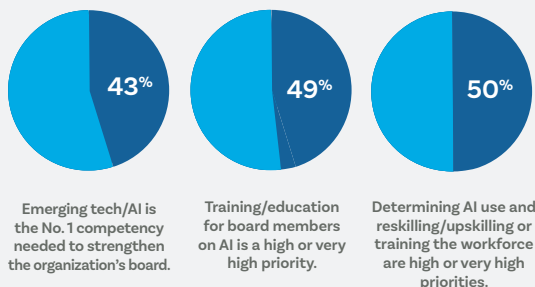
Because of GenAI's advantages and substantial risks in areas such as corporate, regulatory, and securities law, "boards of publicly held companies must implement reporting, information systems, and controls that govern their organizations' use of GenAI technology," the article advises. It recommends an organizationwide team dedicated to GenAI risk oversight, an AI board committee, written policies, and regular education for boards and executives.

Organizations also will have to develop strategies and techniques to monitor, manage, and mitigate the risks associated with agentic AI, which can perform work and make decisions autonomously. There are challenges related to several attributes associated with this increasingly popular tool, according to IBM's "Getting Your Organization Ready to Scale Responsible Agentic AI," including:
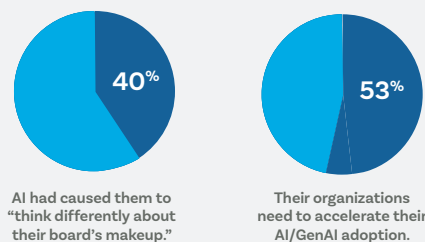
- Limited visibility into how AI agents operate.

- Open-endedness in executing actions, which may lead to unexpected choices.

- Complexity related to AI agents' inner workings, making them harder to analyze.

- Irreversibility. When AI agents work without continuous human oversight, there is a greater chance that their actions will be irreversible and have tangible consequences in both the digital and physical realms.

AI Priorities for Boards

According to C-suite-level private company business leaders in Deloitte's Private Company Outlook: Governance:

43%

Emerging tech/AI is the No. 1 competency needed to strengthen the organization's board.

49%

Training/education for board members on AI is a high or very high priority.

50%

Determining AI use and reskilling/upskilling or training the workforce are high or very high priorities.

In a separate Deloitte survey of board members and executives on AI governance:

40%

AI had caused them to "think differently about their board's makeup."

53%

Their organizations need to accelerate their AI/GenAI adoption.

Some of AI's advantages bring their own drawbacks. "With AI, directors will have access to exponentially deeper information that supplements and goes beyond management-prepared board materials," the Stanford article says. However, one caveat is that, with ready access to AI information and analysis that is not provided by management, the roles of management and directors — and related fiduciary expectations — could be blurred.

In addition, if board members have instant access to company information, when a problem occurs, shareholders and other observers may question how the board could have missed it, given the larger volume of a greater range of instant information available to them.

Also, new and constantly updated data can lead to information overload if not handled prudently. In the Board Agenda article, "AI 'Could Increase Directors' Liabilities,'" one observer questions whether AI use in governance information gathering and decision making could result in "a drive toward homogeneity" based on the "averages of averages of averages" supplied by AI.

Internal Audit's Contribution

"Now more than ever, organizations are looking to internal audit for increased guidance on AI," whether as an advisor on risks and controls related to AI or in providing an assurance role on processes that use or rely on AI, according to The Institute of Internal Auditors' (IIA) Artificial Intelligence Auditing Framework. The framework was developed as a tool for internal auditors to use in understanding AI risks and identifying related best practices and internal controls. Internal auditors and others also have access to resources through The IIA's AI Knowledge Center.

The internal audit function can help boards assess and communicate the ways in which AI can impact a company's ability to create value in the short, medium, or long term. It also can help boards identify and consider the emerging and unexpected risks that AI can pose for governance.

Internal audit can also help boards consider how best to prepare for AI-related crises, such as privacy violations, algorithmic biases and discrimination, operational failures, dependency and third-party risk, and regulatory compliance, according to the NACD article, "AI Crisis Preparedness: Key Roles for Boards and Internal Audit."

"Internal audit is pivotal to enhancing the board's oversight and strategic response to AI-related risks," the article says.

A New Consideration

The board already has responsibility for considering how AI use aligns with the organization's overall strategy and for considering AI-related risks. It is also important to address the many benefits of AI use in the board's own work and the challenges that should be addressed when it is deployed. Internal audit can be a valuable partner in this process.