

## Responsible AI: strategic, operational, and governance implications

The rapidity with which AI technologies like ChatGPT have emerged and spread has made board and executive oversight incredibly hard. According to research conducted by the Institute of Directors, over 86% of businesses already use some form of AI without the board being aware.<sup>1</sup> One director stated, *“The only time in my boards where this came up was during my IT review, and already one-third of the workforce was using this.”*<sup>2</sup> With the challenge of AI in mind, on June 8, 2023, the Ethics, Culture, and Compliance Network (ECCN) gathered virtually for a conversation with Steve Weber, a partner at Breakwater Strategy, about board oversight of AI—its technological and strategic possibilities, its risks, and its oversight challenges—along with the broader social, ethical, and governance considerations.

### What is generative AI?

Artificial intelligence describes a machine’s ability to perform the cognitive functions we usually associate with human minds, using algorithms that are trained on large datasets.<sup>3</sup> Mr. Weber noted that artificial intelligence isn’t new. Indeed, it has undergone decades of evolution: *“There have been arguably four generations of what people called artificial intelligence models.”* Today the most notable AI technologies are large language models (LLM) like OpenAI’s ChatGPT chatbot, which can produce textual, pictorial, and musical content, have conversations with humans, and answer questions or assist in queries and tasks. Even LLMs are not new: Mr. Weber pointed out that these technologies existed for nearly a decade before coming to widespread public awareness late last year.

Generative AI’s capabilities go beyond generating text in response to queries. Mr. Weber pointed out that AI can create compelling content and user experiences by using multimodal functions like text to video or video to text. Domain-specific LLMs can analyze and make more precise predictions about real-world problems than humans can. He stated, *“In a few months, you’ll be able to ask an LLM to watch the recent investor day presentation by the CEO of company X, summarize for you in four bullet points what they said, and point out any inconsistencies in tone and language.”*

Mr. Weber suggested that LLMs could quickly evolve from generating responses to becoming agents that take action in the world: *“Today, if I asked the LLM what’s the best way to get from Rhinebeck, New York, to San Francisco, the LLM might give me an answer. A few months from now, it’s not even going to answer me. It’s just going to book me a car to Newark Airport, a seat on United, and put me in a rental car at SFO.”*

### Opportunities and risks

AI technology has enormous potential to drive business value, but it also poses significant organizational and societal risks. ECCN participants discussed actual and potential use cases as well as the major risks occupying their attention.

## Opportunities

With AI affecting business processes, product development, and customer experience across industries, participants discussed specific applications in their organizations.

- **Improving operational performance.** Many companies have growing confidence in AI's potential to transform business operations and are evaluating how to integrate it into sales, marketing, data analytics, and customer support. *"We're using AI to generate text and predict things like potential customer purchases product by product to figure out what customers might want to buy what from us,"* noted one director. *"We're using ChatGPT to find vulnerabilities in code and found that GPT-4 was better than some of the commercially available code scanners."*
- **Creating competitive advantage.** One director said, *"We've been grappling with what are the places where we can get ahead of the curve [with AI] and have a strategic advantage with some of our proprietary activities."* Another director pointed out the competitive imperative to move fast: *"This is a once-in-a-generation opportunity to leap ahead of the competition. This is not the time to be conservative. This is the time to charge ahead."*
- **Reducing business costs.** AI has proven capable of cutting costs by reducing unnecessary human interactions; one participant cited the administrative aspects of healthcare as an area with potential for significant cost savings. But the benefits go beyond reducing administrative costs. One director noted, *"There have been companies that do everything from scanning X-rays and MRIs to digesting healthcare provider notes and trying to come up with a recommendation for hospital groups to lower their costs by minimizing readmissions."*

## Risks and concerns

While AI offers opportunities, it also presents numerous risks and concerns that warrant attention, including the following:

- **Cybersecurity and safety threats.** AI heightens cyber risk by expanding the capability of fraudulent actors to exploit personal demographic and financial data through more sophisticated phishing attacks or other forms of malware. Mr. Weber underscored to members, *"Every time you see a creative activity, you should be thinking about how a cybersecurity bad actor would do exactly the same kind of thing to create social-engineering malware."*
- **Fraud and misinformation.** AI can be used to facilitate fraudulent activities by automating scams or generating fake or misleading information that can cause significant damage to companies' brands and reputations. In addition to deliberate fraud, the potential for misinformation is inherent in the way LLMs are trained. Mr. Weber stated, *"A large language model is really at its foundation a prediction machine. The training data that generates those prediction models is derived from digital data that's out there on the internet, and you can't ever forget that fact. Large language models tell us what the internet says, not what the world says."*

- Changing infrastructure needs.** Widespread deployment of AI will place increasing demands on information technology (IT) infrastructures. One participant said, *“We know that both the energy and compute<sup>4</sup> needed is intensive, and we know it’s expensive.”* Issues go beyond power to include *“heat, latency, and throughput.”* One director noted, *“In terms of the compute power needed, it’s the ability to move traffic, very quickly, and avoid extracting power from the rest of the country and the world.”* Addressing these challenges will require innovations and investments. *“Over the next two to three years, there’s going to be a change in the AI networking and computing models,”* one director said.
- Implications for transparency and disclosure.** Members shared concerns about obligations to disclose their use of AI tools in product development, especially in professional-services contexts. In discussing the responsibility of firms to report their use of AI in their work for consulting clients, one director said, *“That has important implications for internet protocol, business model, pricing, and obviously for the division of labor, if products are being built by generative AI rather than a junior associate.”* Another said, *“Some companies are relying on a kind of transparency rubric, where people will experiment with AI but self-report the use of the product and that it was provided or built with the assistance of GPT.”*

### Developing governance and oversight

Effective governance of the use of artificial intelligence is a major challenge for company boards as they monitor management’s efforts to develop policies that balance innovation with risk oversight.

- Identifying expertise.** Given the complexity and rapid evolution of AI, boards face the challenge of ensuring they have access to the expertise and insights needed to stay abreast of the technology. One director stated, *“I think it’s an important question for boards and management to consider how much subject matter expertise they need to do their jobs and how they get it efficiently. And efficiently is the key word there, unless you’re going to spend 24 hours a day, seven days a week reading—and you still probably can’t keep up.”*
- Establishing oversight responsibilities.** Board responsibility for AI oversight varies. One director’s board *“has it firmly in the audit committee in terms of compliance oversight and privacy, but we’ve charged the management team to bring it back to the full board for a broader discussion about risks and opportunities.”* Other directors said that operations or technology committees oversee AI, while some have not determined which committee has ownership. Organizations are also developing new governance structures at the management level. One participant described creating a management-level AI governance committee cochaired by the chief compliance officer and the head of IT.
- Developing company policies.** Organizations are scrambling to develop policies for company use of AI as the general public—and employees—experiment with ChatGPT. One director presented the challenge: *“Employees are using mostly open-source tools, and we’re not so sure*

*exactly how they're doing it. So, we're asking, Do we need to control that? Is there a risk in that? Or do we leave them alone and let them innovate with what they have out there?"* Some participants' companies do not permit any on-the-job use of AI at all, while others permit only certain employees or functions to use it. One participant said, *"We looked at it from a risk perspective, to not allow every employee to have access to it but keep it in a more controlled environment, which has been run out of our chief technical officer's office. We do not allow most of our employees to access generative AI."*

### Navigating an ambiguous regulatory environment

Business leaders face an uncertain regulatory environment, as currently there are no clear policy guidelines around AI. One director said, *"The FCC [Federal Communications Commission] has not been able to regulate social media companies over the past 20 years. So, we might hope for a federal organization to oversee AI, but the question is, What's the level of enforcement going to be?"*

- **Technology development is outpacing policy and regulation.** One participant said, *"The clock speed of the technology [development] is way faster than the clock speed of the government."* Lack of clear policy can create expectations for business leaders to proactively address AI as a societal responsibility. Mr. Weber said, *"Firms may be asked to speak out on AI, the same way in which firms have been asked to talk about ESG or LGBTQ rights, where the question was not only what's your policy, but what's your stance on what's happening for society as a whole or at the government level?"*
- **Bad outcomes could generate aggressive regulatory responses.** Mr. Weber said, *"I think we're going to increasingly see some big examples of risk and actual very concrete harms."* Members discussed the importance of taking collective action to limit the risk of severely harmful physical or digital incidents that result in regulatory overreaction. Mr. Weber noted the need to *"modulate the pendulum swings that I think we're going to see among regulators, who may not be able to be totally restrictive, but can create a lot of friction that would not be constructive."*
- **Regulatory consistency is unlikely.** By its nature, AI technology demands a global regulatory framework, but Mr. Weber noted that organizations are likely to face a patchwork of differing state regulations in the United States, while the possibility of global cooperation is remote. *"Any question about a common regulatory environment between the Chinese government and US government is wrapped up in fundamental national security and economic competitiveness concerns,"* said Mr. Weber. *"Would it be a good thing to have some global rules at the highest level? I think it probably would, but I think the likelihood is close to zero."*

### Looking ahead

Members expressed a need for and interest in developing a peer vetted oversight maturity model and a framework for AI policy development. Tapestry Networks will explore convening a task force to identify next steps.



Appendix: meeting participants



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**Pat Condon**  
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**Terry Crews**  
Non-executive director,  
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**Tracy Davis-  
Bradley**  
Executive Director and  
Chief Integrity and  
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Compliance, Ethics, and  
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**Julie Kane**  
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Hillenbrand, and WW  
Grainger



**Cynthia Patton**  
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Secretary, Tessera  
Therapeutics, Non-  
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Organon



**Meg Porfido**  
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**Justin Ross**  
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**Inderpreet  
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## Endnotes

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<sup>1</sup> Institute of Directors, "[AI in the Boardroom: The Essential Questions for Your Next Board Meeting](#)," Institute of Directors blog, March 24, 2023.

<sup>2</sup> Summary of Themes reflects the network's use of a modified version of the Chatham House Rule whereby names of members and their company affiliations are a matter of public record, but comments are not attributed to individuals or corporations. Quotations in italics are drawn from conversations with network members and guests in connection with the meeting.

<sup>3</sup> "[What Is AI?](#)" McKinsey & Company, April 24, 2023.

<sup>4</sup> Amazon Web Services defines the term "compute" as "a generic term used to reference processing power, memory, networking, storage, and other resources required for the computational success of any program." ("[What Is Compute?](#)" Amazon Web Services, 2023).