Boards must referee the use of AI: Lessons from VAR and beyond

Chris Hodge

Special Advisor, Corporate Governance

Having been asked to write a piece about the impact of AI on boards I was struggling to think of an eye-catching analogy to open with until I went to watch my football team in action last weekend.

At one point in the match the VAR system – video assistant referee for those of you who don't follow football – was called on to help the referee work out what had happened. After several minutes during which he appeared to study every conceivable angle, he made what me and my fellow fans are convinced was the wrong decision.

I had mixed emotions. On the one hand, we were being robbed. On the other, I had my opening analogy, which is that both AI and VAR are only as good as the people using them. If a director or referee doesn't have the ability to interpret what they are being told and reach the right judgement, the technology can't do it for them.

I think this should be the starting point for boards considering how to use AI in their own decision-making processes and in the business at large. They need a clear understanding of what it can and cannot do, and of its shortcomings as well as its strengths.

For board decision-making the role of AI is to supplement, but not be a substitute for, the board's collective skills and experience. I mentioned in the previous edition research from the Conference Board in the US showing that technology expertise on boards had increased over the last five years but that experience in business strategy had declined. There should not be a trade-off between the two. Modern boards need both.

A strategic approach is also essential when implementing AI throughout the business. AI has the potential to unleash tremendous innovation, but the full benefits are unlikely to be achieved if all you aim to do is automate your existing business processes. Those of us old enough to remember the early years of the internet as a commercial platform can think of many cases of companies that went online but failed because they had not addressed the fundamentals – their products and services.

We are told that the potential benefits of AI are exponentially greater than those achieved in the early internet era, but if that is the case then so are the risks. This is particularly true of ethical risks, which have understandably been the focus of much of the public policy debate and which are likely to lead to regulation at some point, as acknowledged by the UK Government in a recent policy statement[1]. As with all other aspects of company strategy, boards need to understand these risks and determine their risk appetite.

In addition, the issue of AI governance is now on investors' agendas. Earlier this month the International Corporate Governance Network published a briefing note for investors listing questions they should ask boards[2].

What are the practical steps that boards can take to prepare the company to integrate AI into its operations? There is no shortage of guidance available. Having reviewed some of the more reputable sources, these are some of the recurring themes.

First, ensure that the board collectively has an adequate understanding of the implications of AI for the company, its stakeholders and the sector in which it operates. Without this, boards are unlikely even to recognise the opportunities offered by AI let alone take them. For some companies this may justify changes to the board, but even then regular briefings and updates are a good idea given the pace at which the technology and its applications are developing.

Second, ensure management evaluate the company's readiness to integrate AI. Without this knowledge any business plans and timelines risk being unrealistic.

For example, does the company have the necessary data infrastructure and technical capabilities? In a recent interview with the Financial Times[3] Julie Sweet, CEO of Accenture, expressed the view that "most companies do not have mature data capabilities and if you don't have the data you can't use AI". She estimated that for many companies it would take three to five years to develop the capabilities required.

This assessment should include an audit of where AI is already being used in the company and for what purposes. A 2022 survey by the UK Institute of Directors found that 86% of companies already made some use of AI without the board being aware they were doing so[4].

Third, develop and promote throughout the company high-level principles that make clear what purposes AI can be used for (for example, automating business processes and some routine decisions) and any restrictions on it use (such as when doing so might cause harm).

Having done so, set up a mechanism for assessing proposed AI applications and reviewing existing ones to identify any ethical concerns and reputational risks. This could be either at board or management level, perhaps depending on the extent to which the company plans to rely on AI.

It might also be desirable to review whether the company's processes for managing risks are suitable for dealing with AI related risks. A recent briefing paper from the World Economic Forum's AI Governance Alliance[5] argues that the nature of AI means there is a need to have active risk management at an earlier stage that for other implementation projects.

Whether AI turns out to be as revolutionary as has been claimed or just a useful addition to the technology options available to companies should become clearer over the next year or two, but until then it would be a brave board – or perhaps a foolish one – that bets on the latter. If AI is going to change the rules of the game, far better to start preparing now.

1. **A pro-innovation approach to AI regulation: government response - GOV.UK (www.gov.uk)**
2. **ICGN Investor Viewpoint - Artificial Intelligence - An engagement guide (2).pdf**
3. **Accenture chief says most companies not ready for AI rollout (ft.com)**
4. **IoD-The-AI-in-the-boardroom-3d69e07919bad710b0d29fb309e6d5ce.pdf**
5. **WEF_Presidio_AI Framework_2024.pdf (weforum.org)**

MORROW SODALI

Morrow Sodali is a leading provider of strategic advice and shareholder services to corporate clients around the world. The firm provides corporate boards and executives with strategic advice and services relating to corporate governance, board effectiveness, shareholder and bondholder communication and engagement, capital markets intelligence, proxy solicitation, shareholder activism and mergers and acquisitions.

From headquarters in New York, London, and Sydney, with offices and partners in major capital markets, Morrow Sodali serves more than 2,000 clients in 70 countries, including many of the world's largest multinational corporations. In addition to listed and private companies, our clients include financial institutions, mutual funds, ETFs, stock exchanges, and membership associations.

---

boardgovernance@morrowsodali.com
+44 (0)20 7100 6451

Nations House, 103 Wigmore Street,
London W1U 1QS, United Kingdom

morrowsodali.com

NEW YORK

LONDON

SYDNEY

BEIJING

BUENOS AIRES

DUBLIN

FRANKFURT

HONG KONG

MADRID

MELBOURNE

MEXICO CITY

PARIS

PERTH

ROME

SAO PAULO

SEOUL

STAMFORD

TOKYO

TORONTO