AI On Board: Steering The Future of Governance

LIVE WEBINAR

Guiding Boardroom Principles for the AI Revolution

with Timothy G. Glowa
&
Mark A. Pfister

Webinar Start Countdown

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WEBINAR REMINDERS

a few points to mention

- **Purpose:** Share trending and knowledge on the effects of AI in the boardroom relating to strategy and governance.
- **Questions:** Write your questions in the Q&A section. Our goal is to answer all questions at the close of the presentation. Otherwise, we will follow-up with you via email afterwards.
- **Materials:** Yes, this entire webinar is being recorded and you will receive a link via email shortly. This link will also include the ability to view & download the presentation deck in its own separate file.
- **International Board Director Competency Designation:** IBDC.D certification holders will receive 1 CPE credit by attending (be sure to follow proper CPE credit submission guidelines).

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YOUR SPEAKER

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Non-Executive Director,
Executive Advisor, &
Human Capital Authority

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- Author of *"Smart Board Governance for the AI Revolution"* (2023), is a former Big 4 consultant and equity partner specializing in Human Capital (Compensation), Strategy, and ESG.
- Leader of HRbrain.ai, an AI-focused HR startup.
- He holds a B.A. in Economics from the University of Calgary and an M.B.A. from the New York Institute of Technology.
- IBDC.D certified!

YOUR HOST

Mark A. Pfister

Non-Executive Director, CEO,
& Chief Board Consultant

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- Governance & Strategy expert, Non-Executive Director, & Chief Board Consultant having consulted & advised hundreds of public, private, nonprofit, & PE Boards.
- His book, *Across The Board: The Modern Architecture Behind an Effective Board of Directors*, is a bestseller with circulation in over 70 countries.
- He is the creator of the International Board Director Competency Designation (IBDC.D), a globally-recognized Board Director education & certification program.

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Goals for Today

AI & Board Governance

I The AI Revolution

II The Impact of AI

III AI Missteps: Learning from Failures

IV Achieving AI Success: Strategies for Thriving

V The AERO Matrix

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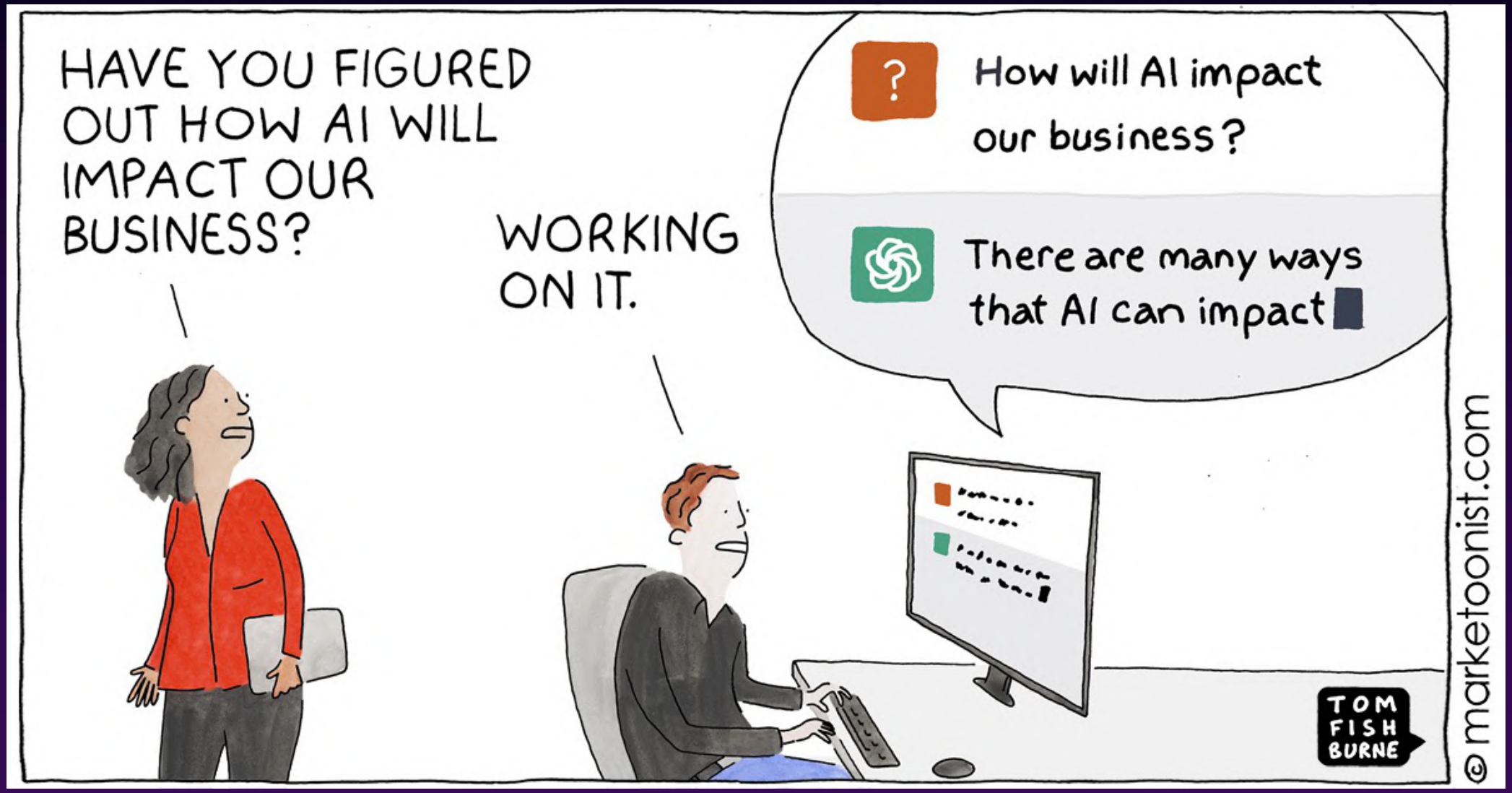
The impact of AI on businesses explained….



Key Milestones in the Business Revolution Timeline

Industrial Revolution
- Shift to powered, machine- driven manufacturing
- Division of Labour
- Increased productivity and efficiency in manufacturing

Second Industrial Revolution
- Expansion of electrical power &fine-tuning of the assembly line-
- Mass production and widespread technological advancements-

The AI Revolution
- Integration of AI into business processes.
- Enhanced decision-making, automation of complex tasks, and transformation in customer engagement.

1760s

1870

1970 – 2010s

2010s - Today

Digital and E-commerce Revolution
- Rise of personal computing and the internet.
- Transformation in retail, communication, and IT, reshaping consumer behavior

1991 Radio Shack advertisement vs. your phone

Everything from this 1991 ad is in your pocket right now.

Your phone is 100,000x more powerful than the computers used for Apollo 11

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Generative AI accelerates workforce automation, transforming high-wage roles

About 75 percent of the value that generative AI use cases could deliver falls across four areas:

Customer operations, marketing and sales, software engineering, and R&D

Generative AI has the potential to change the anatomy of work, augmenting the capabilities of individual workers by automating some of their individual activities

The pace of workforce transformation is set to accelerate, with potential technical automation driving estimates that half of today's work activities could be automated soon

In the United States by 2030, the adoption of generative AI is projected to most significantly increase automation among the highest wage earners, marking a shift toward impacting high-wage professions.

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Source: McKinsey, The economic potential of generative AI: The next productivity frontier, June 2023

AI's Rapid Growth Impacts All Aspects of Companies; Executives Voice Mixed Reactions

100 Million Downloads

in two months for ChatGPT

Time for TikTok: 9 months

Time for Instagram 2.5 years

(Reuters, ChatGPT sets record for fastest-growing user base, February 2, 2023)

43% of middle managers

believe that their jobs could be automated by generative AI

(Wall Street Journal, AI Is Starting to Threaten White-Collar Jobs. Few Industries Are Immune, February 12, 2024)

66% of executives

are ambivalent or outright dissatisfied with their organization's progress on AI and GenAI so far. Reasons: a lack of talent and skills (62%), an unclear AI and GenAI roadmap and investment priorities (47%), and absence of strategy regarding responsible AI and GenAI (42%)

(BCG, From Potential To Profit, January 12, 2024)

62% of high-performing companies

that have embraced generative AI technologies report significant improvements in customer engagement and operational efficiency compared to those that have not

(McKinsey, The state of AI in 2023: Generative AI's breakout year, August 1, 2023)

AI Concerns Weighing on the Workforce Mind

A significant majority of employees harbor concerns about the potential adverse effects of AI on their jobs, reflecting widespread apprehension. This concern is consistent across different regions, highlighting the need for better communication and education about the role of AI in the workplace. Addressing these concerns proactively can help employees transition to a future where AI is an integral part of the workforce.

> *"I am concerned about the negative impact of AI on my job." Percent who Completely Agree or Agree - USA: **58%**, Canada: **60%**, Europe: **61%**.*

HRbrain.ai

Source: State of Work Today, February 2024.

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Target Faced Backlash for Intrusive Customer Profiling

Summary of the Issue

- Target faced legal and public backlash for its sophisticated data analytics practices, specifically the method it used to predict customer pregnancy from shopping habits.
- This technique, although aimed at increasing sales by identifying and targeting new parents before competitors, was perceived as overly invasive, leading to discomfort and complaints from customers who felt their privacy was violated.

Impact Assessment

- The case exposed the potential for ethical and privacy issues in the use of predictive analytics for marketing purposes.
- It highlighted the delicate balance companies must maintain between leveraging data for business gains and respecting consumer privacy.
- The backlash served as a cautionary tale on the limits of what consumers might tolerate in terms of personal data usage.

Result

- This case highlights the need for stricter data ethics within industries using predictive analytics.
- Companies must set clear policies to sidestep reputational damage and legal risks.
- Moreover, Target deliberately mixed unrelated products in promotional materials to obscure its predictive tactics and simulate randomness in ads.

Source: New York Times, "How Companies Learn Your Secrets", February 16, 2012

Air Canada Liable for Chatbot's Misleading Fare Advice

Summary of the Issue

- Air Canada was found liable in court for misinformation provided by its chatbot, which advised a customer that they could make a retroactive bereavement fare claim on full-price tickets.
- The misinformation led to financial losses for the customer who relied on the chatbot's advice.

Impact Assessment

- The court's decision highlights the risks associated with automated customer service tools that provide critical information without proper oversight.
- This case sets a legal precedent that could affect how companies implement and manage AI-driven customer service technologies.

Result

- Air Canada might need to review and possibly overhaul its chatbot's programming and supervisory protocols to avoid future liabilities.
- The airline industry, and potentially other sectors using similar AI technologies, are prompted to enhance the accuracy and reliability of automated systems to safeguard against misinformation and ensure compliance with legal standards.

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Streaming into the Future: How AI Is Reshaping Entertainment

Summary of the Issue

- AI is revolutionizing media consumption by enabling streaming services like Netflix and Amazon Prime Video to offer highly personalized viewing experiences.
- Streaming services utilize AI to personalize viewing experiences, curate content, and optimize various aspects of their service from recommendations to content production.

Impact Assessment

- AI's integration into streaming platforms represents a technological leap in understanding and serving individual user preferences, effectively acting as a personal curator for viewers.
- This shift towards personalized media experiences is setting new standards for viewer engagement and content accessibility, pushing competitors in the entertainment industry to rapidly adopt similar technologies or risk obsolescence.

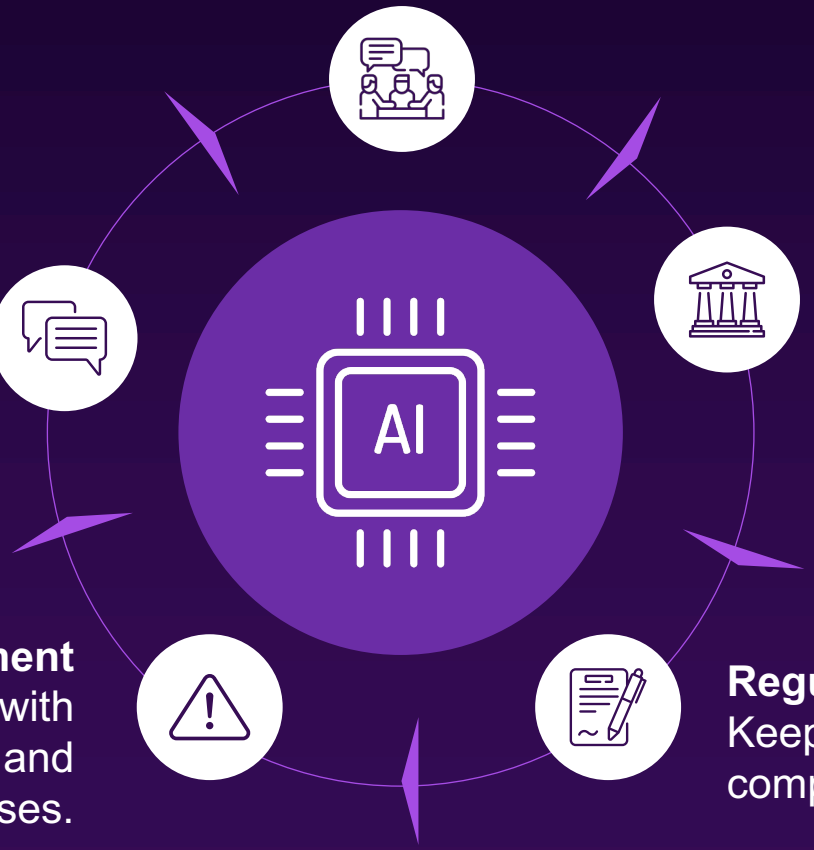
Result

- Streaming services are increasingly investing in AI to refine content algorithms and improve operational efficiencies.
- However, this rapid adoption brings challenges such as data privacy and the need for greater transparency in AI mechanisms. As AI becomes integral to entertainment, providers must balance innovation with ethical considerations to maintain audience trust.

AI Governance: Key components essential for responsible AI implementation and oversight

Strategic Oversight
Boards must ensure that AI initiatives align with the organization's long-term goals and strategic direction.

Stakeholder Communication
Engaging stakeholders in discussions about AI's role and impact ensures transparency and builds trust



Ethical AI Governance
Developing robust ethical frameworks to guide responsible AI use is crucial. Includes training data sourcing.

Risk Management
Identify and manage the risks associated with AI, including data privacy, security, and potential biases.

Regulatory Compliance
Keep abreast of global AI regulations to ensure compliance and avoid legal pitfalls.

AI Presents Boards with Enormous Opportunities…

Improved decision-making:
AI can amplify human creativity and strategic thinking, enhancing corporate governance.

Enhanced efficiency:
AI's automation capabilities can streamline board operations, improving efficiency and focus.

Strategic foresight:
AI aids in anticipating future trends and challenges, enabling proactive governance."

Ethical considerations:
AI requires boards to navigate complex ethical terrain, ensuring AI's use aligns with corporate values and societal norms.

Skill gaps:
Only **29%** of board directors believe they are equipped to oversee AI effectively.

Regulatory compliance:
Adapting to rapidly evolving AI-related regulations and ensuring compliance.

People Challenges:
The impact on employees could be challenging

AI Presents Boards with Enormous Opportunities, but also Risks, Ethical Dilemmas, & Skill Gaps

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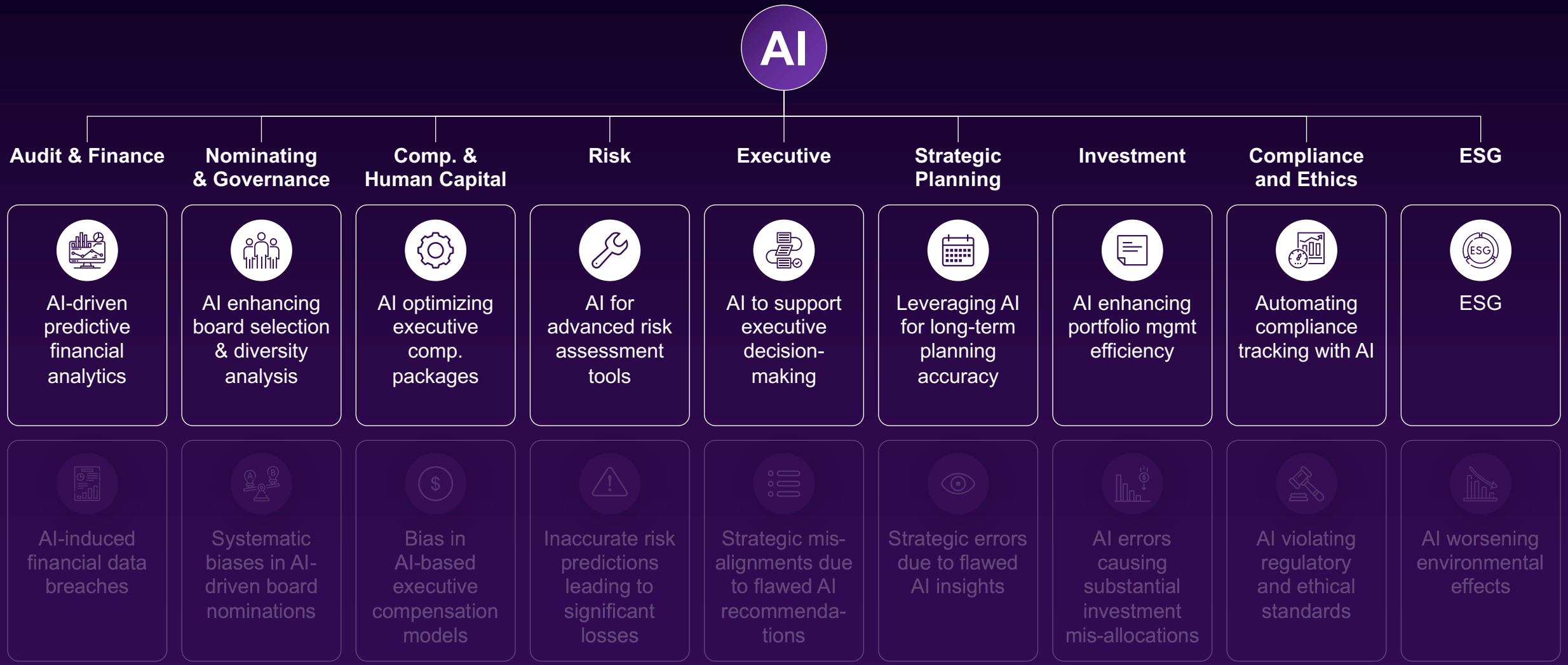
Transforming Boardroom Practices and Governance

AI

Audit & Finance	Nominating & Governance	Comp. & Human Capital	Risk	Executive	Strategic Planning	Investment	Compliance and Ethics	ESG
AI-driven predictive financial analytics	AI enhancing board selection & diversity analysis	AI optimizing executive comp. packages	AI for advanced risk assessment tools	AI to support executive decision-making	Leveraging AI for long-term planning accuracy	AI enhancing portfolio mgmt efficiency	Automating compliance tracking with AI	ESG
AI-induced financial data breaches	Systematic biases in AI-driven board nominations	Bias in AI-based executive compensation models	Inaccurate risk predictions leading to significant losses	Strategic mis-alignments due to flawed AI recommenda-tions	Strategic errors due to flawed AI insights	AI errors causing substantial investment mis-allocations	AI violating regulatory and ethical standards	AI worsening environmental effects

Transforming Boardroom Practices and Governance



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Introducing the AERO Matrix

AI **E**valuation of
Risk & **O**pportunity

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Framework for Balancing AI opportunity against AI Risk

High Risk, Low Opportunity (Avoid)	High Risk, High Opportunity (Evaluate)
Low Risk, Low Opportunity (No-Brainer)	Low Risk, High Opportunity (Pursue)

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AERO Matrix Balancing Risks & Opportunity

AERO
Matrix for Large Credit Card Issuer

AI-Based Investment Advisory Services

Using AI to provide personalized investment advice based on individual financial profiles and market conditions. Potentially increases investment portfolio returns but involves high risks due to market volatility and algorithmic biases

AI Powered Real-time Offer Optimization

Implementing AI to dynamically create and optimize offers based on real-time customer interactions and market conditions. Maximizes marketing effectiveness by adapting offers to current trends and customer responses

AI-Enhanced Customer Feedback Analysis

Using AI to systematically analyze customer feedback across multiple channels to derive actionable insights. Improves product and service offerings by understanding customer needs and pain points more effectively

AI-Driven Personalized Marketing

Utilizing AI to analyze customer data and behavior to deliver highly personalized marketing messages and offers. Increases customer engagement and satisfaction, boosts conversion rates, and enhances overall marketing ROI

Risk

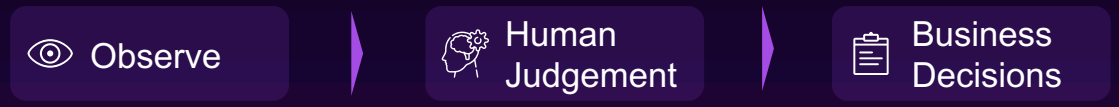
Opportunity

EX: AERO Matrix for Large Credit Card Issuer

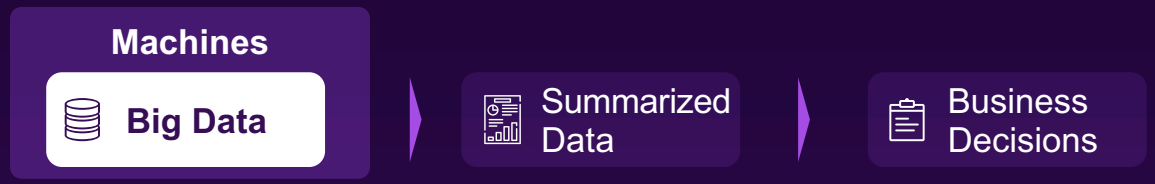
Opportunity	Risk	Description	Strategic Consideration	Governance Consideration	Questions for Board Members
↑ High	↓ Low	**AI-Driven Personalized Marketing**	Enhanced customer retention and acquisition through tailored experiences	• Ensure compliance with data protection regulations • Regular audits of AI algorithms to prevent bias	• How will we ensure the ethical use of customer data? • What measures are in place to monitor and refine AI-driven initiatives?
↑ High	↑ High	**Real-time Offer Optimization**	Staying ahead in competitive markets by being agile and responsive	• Strict adherence to real-time data handling and privacy laws • Continuous monitoring of AI decisions for fairness	• What are the risks of real-time data processing on customer privacy? • How do we balance aggressive marketing with customer satisfaction?
↓ Low	↓ Low	**AI-Enhanced Customer Feedback Analysis**	Better customer insights leading to more informed strategic decisions	• Compliance with feedback collection and analysis regulations • Ensure transparency in data processing	• How can we leverage customer feedback more effectively using AI? • What are the limitations of AI in interpreting human emotions and sentiments?
↓ Low	↑ High	**AI-Based Investment Advisory Services**	Potential market differentiation, high financial risk	• Monitoring for compliance with investment regulations • Managing the risk of reliance on algorithmic decision-making.	• How do we mitigate the risks associated with AI-based investment decisions? • What are the ethical considerations in automating financial advice?

Optimizing Business Decisions with AI and Data

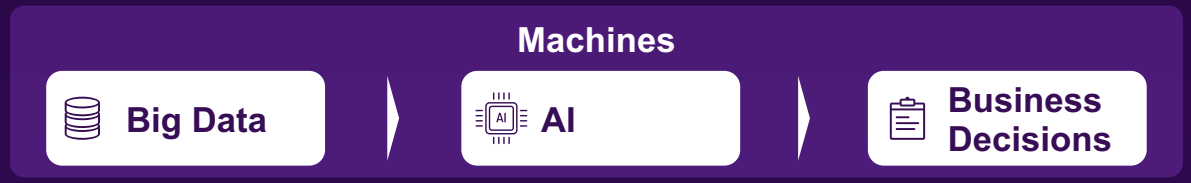
Decision Making Model Based on Human Judgement



Decision Making Model that uses Summary Data



Decision Making Model that Uses AI



Decision Making Model that Combines the Power of AI and Human Judgement

Five key questions boards should ask about generative AI

Boards are responsible for overseeing the application of generative AI within their companies, ensuring its value is maximized while its risks are managed. Posing the correct questions to company leaders will aid in harnessing the technology's potential and mitigating its risks.

Industry and Company Impact

How will generative AI affect our industry and company in both the short and long term?

Value and Risk Balance

Are we balancing the creation of value with proper risk management?

Organizational Structure for AI

How should we organize to integrate and manage generative AI effectively?

Capability Assessment

Do we have the necessary technological and talent capabilities (board included) to leverage generative AI?

Ethical Guidelines

What ethical guidelines are in place to ensure our generative AI deployment aligns with our corporate values and societal norms?

Key Learnings

AI's Transformative Role:
AI is compared to major historical revolutions, significantly enhancing decision-making and customer engagement.

AERO Matrix Tool:
A tool for boards to assess AI risks and opportunities, helping to make informed strategic decisions.

AI Risks and Opportunities:
Boards must carefully manage AI's benefits and risks, emphasizing strategic balance and oversight.

Workforce Impact:
AI's influence extends to high-wage jobs, with significant implications for workforce automation and job roles by 2030.

Learning from Missteps:
Case studies, like Air Canada's chatbot errors, highlight the need for precise AI management and data accuracy.

AI Expertise on Boards:
Boards should include at least one member with AI experience to guide strategy and oversight.

Ethical AI Governance:
Effective AI governance requires adherence to ethical standards and regulatory compliance to protect privacy and prevent bias.

Regulatory Compliance:
Boards must stay updated with (Global) AI regulations to ensure compliance.

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Non-Executive Director, Executive Advisor, & Human Capital Authority

With Focus in Compensation, Strategy & ESG

Try the AERO Matrix

or visit

https://hrbrain.ai/opportunityriskcalculator/

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are you prepared?

Understand the key components of AI governance

Know the impact of AI within your industry

Leverage the opportunities

Q&A

Contact Tim at timglowa@hrbrain.ai

Contact Mark at mark@pfisterstrategy.com

Board Director Education + Certification Details https://www.pfisterstrategy.com/exceptionalboarddirector

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TIMOTHY G. GLOWA

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Tim Glowa, author of "Smart Board Governance for the AI Revolution" (2023), is a former Big 4 consultant and equity partner with expertise in Human Capital (Compensation), Strategy, and ESG. He has been a strategic advisor to executives and Boards across various sectors, championing the "voice of the employee." His global influence has empowered organizations to make informed decisions on employee attraction, retention, rewards, engagement, development, and off-boarding. Mr. Glowa has counseled C-suite executives and boards across diverse industries, emphasizing data-driven decision-making.

As a renowned thought leader in marketing, human capital, strategy, transformation, and ESG, he currently spearheads an HR-focused artificial intelligence (AI) startup. Mr. Glowa previously served as an equity Partner at Grant Thornton, where he launched the Employee Listening and Human Capital Analytics practice, helping clients navigate the pandemic's workforce challenges. His role as an Executive Director at Ernst & Young centered on addressing critical talent issues. Additionally, he's a successful entrepreneur who raised venture capital, established a marketing and human capital analytics consulting firm, and successfully sold it to Deloitte. He earned a B.A. in Economics from the University of Calgary and an M.B.A. from the New York Institute of Technology.

Mr. Glowa's commitment to education shines through his engagements with the National Association of Corporate Directors (NACD), where he educates Independent Directors on human capital considerations, employee turnover risks, low engagement, and culture alignment. He collaborates primarily with the Human Capital, Compensation, ESG, or Strategy Committees and possesses experience with the Nominating Committee. His qualifications include an International Board Director Competency Designation (IBDC.D) from M. A. Pfister Strategy Group, membership in the National Association of Corporate Directors (NACD), and completion of Wharton Business School's Executive Education Certificate in Corporate Governance for Board Directors. Additionally, he holds a Global ESG Board Certification (GCB.D) in Environmental, Social, and Governance from Competent Boards.

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MARK A. PFISTER

Non-Executive Director, CEO, and Chief Board Consultant

Biography

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With a strong focus in Strategy, Governance, and Technology / Cybersecurity, Mark A. Pfister is CEO & Chief Board Consultant of M. A. Pfister Strategy Group, an executive advisory firm that serves as a strategic advisory council for executives and Boards in the public, private, nonprofit, and private equity (PE) sectors. He is also Founder & CEO of the International Board Director Competency Designation (IBDC.D) education and certification program, a Board Director certification course recognized globally, and was previously Chairman & CEO of Integral Board Group, a specialized Board services and consulting company. Mr. Pfister is a *'Board Macro-Influencer'* and his success has been repeated across a wide range of business situations and environments. He prides himself on being a coach and mentor to senior executives and Directors. In Board Director circles, Mr. Pfister has earned the nickname *'The Board Architect.'*

The overarching theme throughout his career has been his aptitude in leadership positions, passionate focus on people, unique governance models, and ability to create value for shareholders and stakeholders through innovative business strategies and operational excellence. Michael Lorelli, Executive Chairman of Rita's Franchise Company, has said, *"Mark's unusual combination of excelling at a macro and micro grasp of business, genuine interest in Governance, and ability to coach and mentor a Management Team make him a terrific Independent Director."*

Mr. Pfister is a certified project management professional and frequently serves as an expert Project Executive, consulting on global programs/projects in their initiation and operational phases, as well as programs requiring remedial focus to bring them back on track. He has deep knowledge and experience in Board design & operations, strategic planning, business transformation, technology implementations, decisioning processes, certification & continuing education programs, executive coaching, and governance models.

Mr. Pfister was CEO of Pro4ia, Inc., an international consulting and professional services company specializing in a wide range of technology solutions utilizing formal Project Management as a proven and repeatable delivery method. With a Fortune 50 client list, Pro4ia was Citibank's Nominee for Crain's *Magazine 'Entrepreneurship of the Year'* Award in 2005. He simultaneously served as CEO of Onit, Inc., a national sourcing company specializing in placements for all levels of technology skill sets. Mr. Pfister was also the Regional Program Office Leader for American Express leading some of the largest technology transformation initiatives in the company's history. He served as a Licensed Engineering Officer in the U.S. Merchant Marine, holds a B.S. from the State University of New York Maritime College in Facilities Engineering, and completed Harvard Business School's Executive Education Program for Board Directors.

Mr. Pfister is the creator of the *'Board as a Service'* (BaaS) engagement model, an industry he is credited with inventing. He is a Master Speaker and conducts international speaking tours, lectures, and seminars focused on effective leadership, strategy, Board architecture, becoming an exceptional Board Director candidate, professional project/program management, and entrepreneurship.

His popular book, *'Across The Board: The Modern Architecture Behind an Effective Board of Directors,'* an Amazon best-seller with circulation in over 70 countries, has influenced an entire new generation of Board Directors.

Mr. Pfister is a proficient Board Director and CEO with experience across multiple industry verticals. He is typically the Chair, or a member of the Strategic Planning Committee, Governance Committee, Technology & Cybersecurity Committee, and has deep Nominating Committee experience. Mr. Pfister's experience as an internationally renowned Board Consultant, having guided and coached hundreds of Boards, Board Committees, and Board Members across public, private, nonprofit, and private equity (PE) verticals, additionally offers up unique and informed viewpoints to the companies he serves.

He holds an *International Board Director Competency Designation* (IBDC.D) through M. A. Pfister Strategy Group, is a certified *Project Management Professional* (PMP) through the Project Management Institute, earned a *Global ESG Board Certification* (GCB.D) through Competent Boards, holds a *Certified Cyber Intelligence Professional* Board Certification (CCIP) through the McAfee Institute, and previously held an *Executive Masters Professional Board Certification* through the American College of Corporate Directors (ACCD).

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