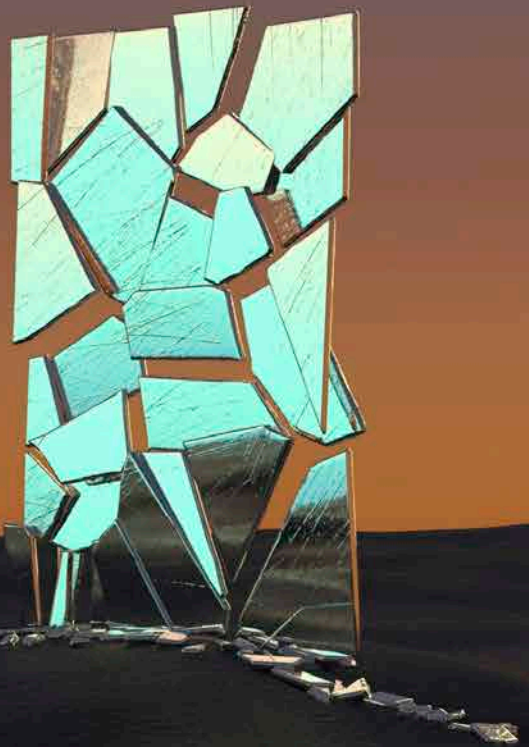


A Director's Guide to AI Board Governance

Nine principles for
board oversight
of Artificial Intelligence



About The Institute of Directors in New Zealand

The Institute of Directors in New Zealand (IoD) is the leading professional organisation for directors and boards, and promotes high standards of governance. We offer a range of resources to the governance community, including training programmes, networking events and practical tools to improve governance practices. IoD membership demonstrates a commitment to professional development and ethical conduct, aiding directors in their roles. The IoD facilitates knowledge exchange and collaboration among directors, to help contribute to organisational success. More information is available at www.iod.org.nz

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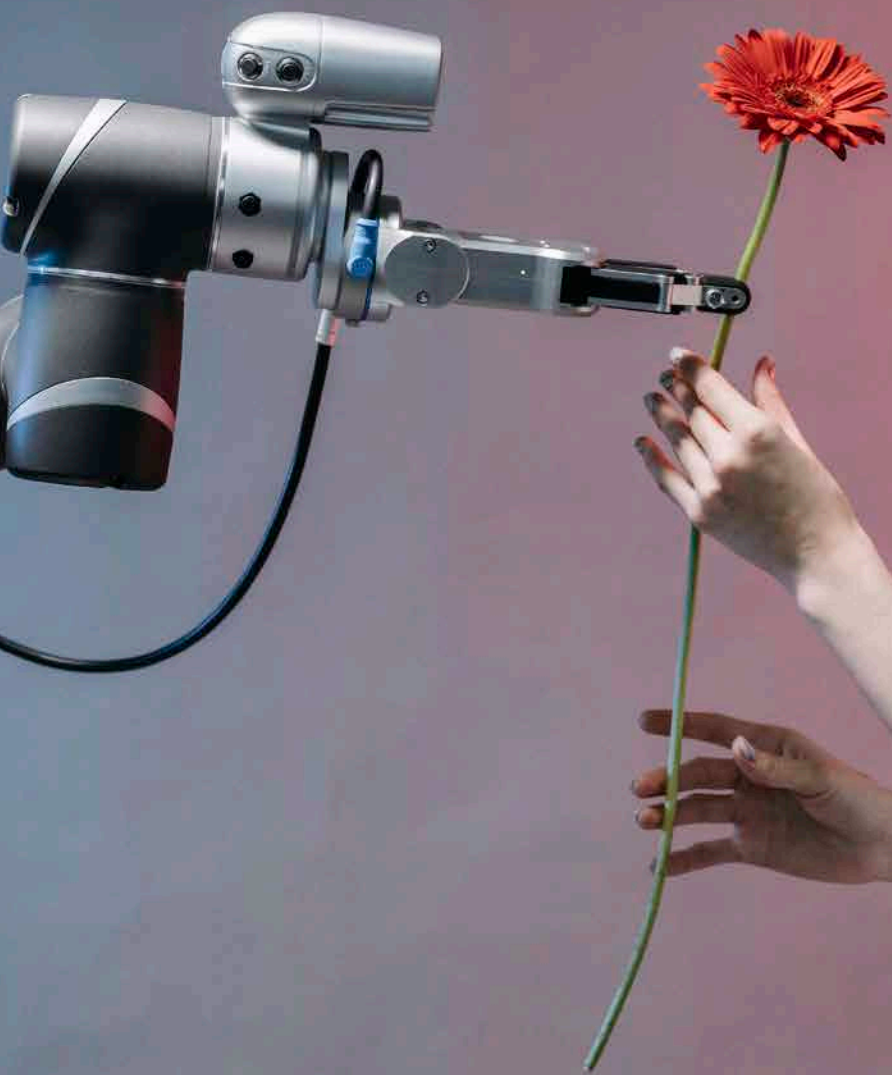
This guide was authored by the Governance Leadership Centre at the IoD.

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(July 2024)

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Leading the AI transformation

We are on the verge of a profound technological shift. From global markets to everyday life, AI is proving itself to not just be a fleeting trend but a transformative wave offering unprecedented opportunities.

For companies and organisations, AI holds the promise to transform operations, boost productivity, ignite innovation and elevate ambitions to new heights. Those who strategically harness AI's potential will likely do well in this new landscape, while those who fail to adapt risk obsolescence.

Directors and boards need to fully grasp the magnitude of this change. It's not just a technological change but a major shift that promises to reshape industries, alter business practices and affect every aspect of our connected world. Stakeholders will be looking to closely scrutinise your organisation's AI use, seeking assurance in your ethical and effective deployment of this powerful tool.

Despite the clear importance, the 2023 IoD Director Sentiment survey reveals a concerning gap; while nearly 70% per cent of directors acknowledge technology will change boardroom operations, only 25 per cent are focusing on digital acceleration.

“Boards should make time to learn about, and understand, the potential of, AI. Boards should also support management to learn about AI, because they will have to work closely together to understand what business problems AI may potentially solve. The immediate challenge is to figure out how to harness this powerful tool in a way that is both productive and safe, and truly value adding. The future of our organisations hinges on our ability to adapt and innovate responsibly.”

– Kirsten Patterson CMIInstD, Chief Executive, NZ Institute of Directors

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The leadership imperative

AI is a double-edged sword. While it offers tremendous benefits, it also introduces complex risks such as privacy concerns, bias, accuracy issues, intellectual property infringements, transparency problems and security threats.

Navigating these uncertainties is a significant challenge. Boards must guide their organisations through this period of change, maximising AI's advantages while safeguarding against its pitfalls. It is crucial to ensure AI adoption delivers sustainable value and adheres to ethical guidelines and legal obligations.

This guide aims to equip directors and boards with the knowledge and tools necessary to integrate AI governance into their strategic discussions. The nine principles outlined provide actionable steps to foster informed decision-making and strong leadership, setting the foundation for a future where AI drives both innovation and responsibility.

As stated in Spark's report with NZIER, CEO Jolie Hodson said "The findings reveal clear and compelling benefits of modernising New Zealand's economy: with a 20 per cent uplift, the use of advanced digital technologies is predicted to increase industry output by up to \$26 billion over the next decade, and GDP by as much as 2.08 per cent per year."

– Jolie Hodson, Spark CEO commenting on the Accelerating Aotearoa businesses one technology generation forward report from Spark and NZIER, 2024

What is AI?

- **AI, or artificial intelligence** refers to computers performing tasks that typically require human intelligence, such as understanding language and recognising patterns.
- **Machine learning systems** learn from data, finding patterns to make predictions or decisions. This learning process is iterative, meaning the systems become more accurate with more data.
- **Deep learning** uses [neural networks](#) to analyse complex data, helping fields such as image and speech recognition.
- **Generative AI (Gen AI)** creates new content such as text, images or music by learning patterns from existing data and generating outputs that resemble the training data.
- **Natural Language Processing (NLP)** enables AI to understand, interpret and respond to human language.

Narrow AI (that is, the forms of AI described above) is designed for specific tasks while **Artificial General Intelligence (AGI)** aims to do any intellectual task a human can. While AGI remains mostly theoretical, narrow AI is widespread and advancing rapidly.

AI models use learned data patterns. For instance, in text analysis, models can learn to identify themes or topics through extensive training on text data. The training process is about teaching a computer model to get better at a task by

fine-tuning its settings. The goal is to make as few mistakes as possible. This process needs a lot of computer power and a large amount of data to learn from.

Data is the foundation of AI. The quality and quantity of data directly affect the performance, trustworthiness and safety of AI systems. High-quality data leads to more accurate outputs, while poor data can lead to biases and errors, causing trust and safety issues. Leading companies such as Google, Microsoft, and OpenAI are driving the development of foundational and generative AI models, continuously expanding the capabilities of these systems.

The rapid development of AI presents both promise and challenges. Artificial systems learning and improving at unprecedented levels are likely to transform industries and economies. However, this rapid progression relies on ongoing technological advancements and data availability. Limitations such as limited access to high-quality data, computational constraints, energy and semiconductor chip supply, and ethical considerations could hinder this progress. Therefore, boards must remain informed and cautious, balancing innovation with ethical standards and the robustness of AI systems.

Is AI different to overseeing other technology projects?

AI evolves rapidly and requires flexible governance. It can quickly disrupt markets, business models and behaviours.

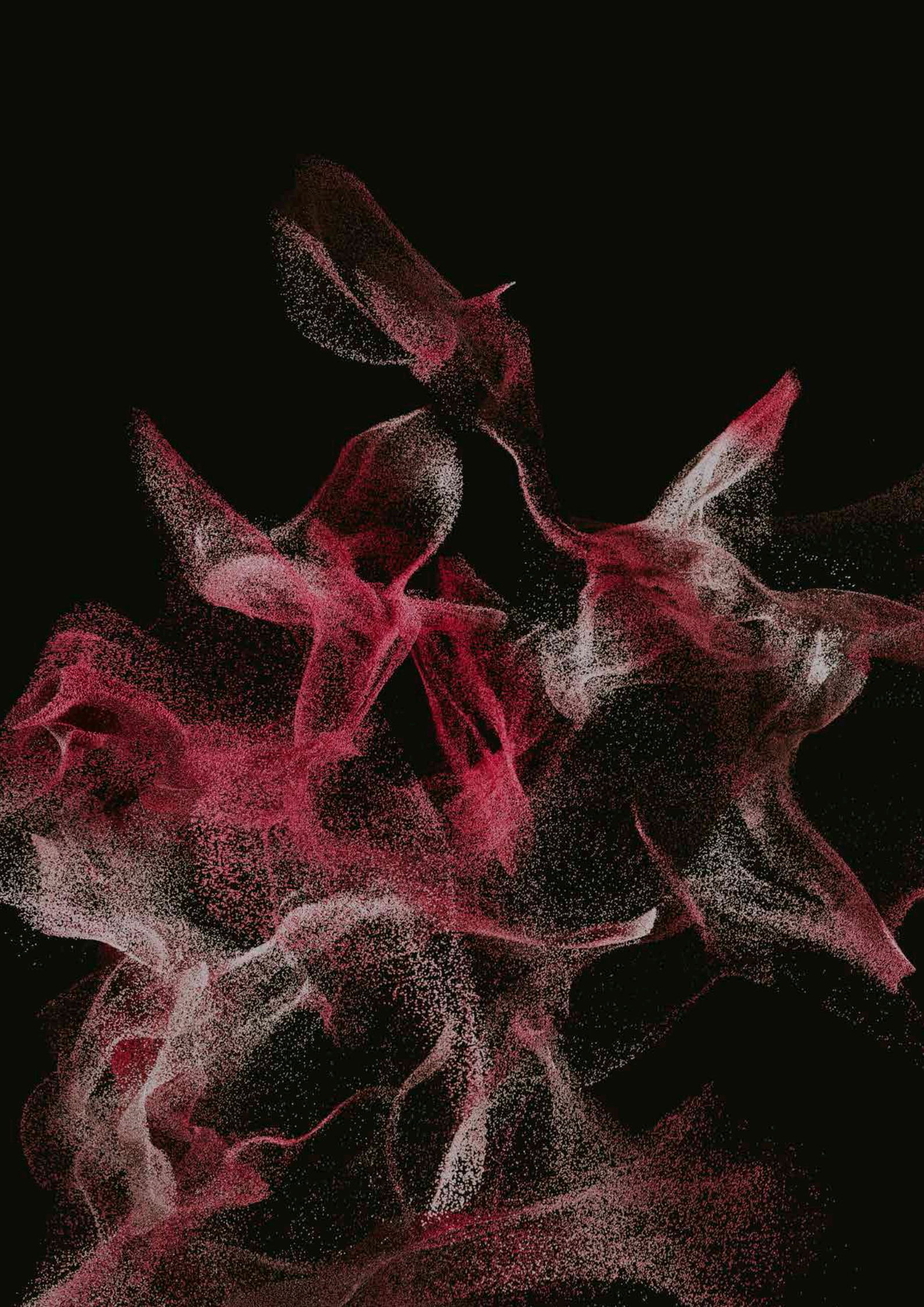
AI learns and adapts over time, needing constant oversight and adjustments. Changes may disrupt consumer behaviour and stakeholder expectations, so organisations will need to stay flexible and well-informed. AI can reinforce biases, lack transparency and make errors (hallucinations). Therefore, boards need to prioritise ethical considerations and accountability.

AI also increases cybersecurity risks, such as deep fakes, personalised influence and disinformation. These require heightened vigilance and proactive management to protect reputation, trust and security. Furthermore, AI's rapid development can lead to business changes resulting in significant job redeployment and potentially, displacement. The full impact is still uncertain as AI is in its early stages in many organisations. Boards need to anticipate these shifts and develop strategies to support transitions.

While standard governance frameworks are helpful, directors and boards must remain alert and proactive in their practices to leverage AI's benefits and enhance organisational resilience.

“The last wave of digital governance succeeded by focusing on customer value, the same is true in an AI-enabled future.”

– Melissa Clark-Reynolds CFIInstD



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Nine core principles

We have developed nine principles to help boards effectively use AI, drive innovation, improve decision-making and strengthen the organisation overall. Good governance practices are crucial for managing AI and steering companies and organisations towards a successful future through the responsible use of this technology.

The nine principles are:

1. Take action from a strategic perspective
2. Seize the opportunities
3. Categorise and address the risks
4. Build board capability
5. Select the right board structure
6. Oversee AI use and data governance
7. Look after your people
8. Proactively build trust
9. Embrace AI as part of your governance practice

“Artificial intelligence holds the potential to transform our working and personal lives to an extent not seen since the advent of computing. Governors and senior leaders can best future-proof their people and organisations by actively exploring and embracing the opportunities and risks that AI presents. From disruption comes innovation – it’s time to get involved.”

– David Glover CFIInstD

01

Take action from a strategic perspective



“It’s common for large organisations’ technology landscape to rely on legacy platforms and systems. To ensure safe, effective and easy adoption of AI, planning a forward path is crucial. Boards play a critical role in overseeing system updates, enabling organisations to thrive in the evolving digital landscape. Additionally, calibrating risk appetite and setting proportionate governance thresholds should be a vital topic at the Board table.”

- Ann-Marie Cavanagh, Deputy Government Chief Digital Officer

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The board's strategic oversight is essential for harnessing AI's potential.

While AI is exciting and inspires innovation, deploying it without a strategic framework approved by the board can lead to disjointed efforts that don't align with organisational goals and create additional risks. When AI is managed solely at the management level without proactive board involvement, important aspects such as ethics and risk management may be overlooked. Therefore, the board's role is to integrate AI into the organisation's values, strategic vision and long-term goals while providing the oversight needed to navigate associated risks and ethical considerations.

Boards need to ensure they are knowledgeable and well-informed to lead effectively. They should promote exploring opportunities without hindrance, working closely with management to determine the appropriate pace for the organisation's best interests.

Boards must know how to add value to their organisations by strategically incorporating AI into their overall strategy, aligning with global and industry trends, and considering regulatory frameworks. For organisations operating internationally, understanding local regulatory requirements is essential, because overseas regulations can be more stringent than those in New Zealand.

Directors do not need to be AI or technology experts but should have a minimum level of literacy to ask insightful questions and understand the information presented to the board.

By proactively leading on AI, boards can help their organisations thrive in an AI-driven world.

Procurement: a key issue

Strategic selection: Ensure AI solutions align with the organisation's goals and values.

Vendor due diligence: Conduct thorough vetting of AI vendors to guarantee adherence to governance, policies, processes and testing, preventing bias and inaccuracies.

Responsible AI: Focus on selecting AI systems that avoid bias, ensure transparency and protect privacy.

Regulatory compliance: Confirm AI choices comply with legal requirements to avoid risks.

Cost-effectiveness: Ensure financially sound decisions with a focus on return on investment.

Talent consideration: Assess if the organisation has the necessary talent to ensure the strategy can be achieved.

Vendor management: Oversee vendor relationships, contracts and disputes to ensure successful AI initiatives.

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AI regulation settings

AI regulation is evolving on a global scale. In the EU, the AI Act, passed in 2024, categorises AI systems by risk level and imposes strict requirements on high-risk applications. In the USA, the Blueprint for an AI Bill of Rights (2022) and the AI Risk Management Framework (2023) aim to ensure more accountable AI practices. Australia has updated its AI Ethics Framework and initiated programs to foster AI innovation. These regulations mainly focus on governing the development of AI applications.

In New Zealand, organisations primarily serve as deployers or users of AI. Koi Tū: The Centre for Informed Futures has developed a [guide](#) for informing AI public policy, and the AI Forum is facilitating the formulation of a [National AI Strategy for New Zealand](#).

You should be asking:

- What impacts could AI have on the industry or industries in which the organisation operates?
- How might AI impact the business and its ability to achieve its current long-term strategy?
- How are competitors utilising AI? Are there other organisations using AI in a way that can inform the organisation's own business model and usage?
- Does AI create new opportunities that the organisation should incorporate or accommodate in the long-term strategy?
- How do we plan to maintain oversight of AI deployment to prevent fragmentation within the organisation and ensure it supports our strategic objectives?

02

Seize the opportunities



“AI will enable individuals and organisations with limited skills and experience to achieve significantly higher performance levels than before. New Zealand organisations must expedite their AI adoption to maintain their competitive edge.”

– Matt Ensor CMIInstD

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AI offers significant opportunities for boards to drive ambition, innovation and productivity in their organisations. It's more than just automating tasks; AI can be a game-changer that reshapes how businesses operate. Some of the most common uses include providing instant support and personalised customer interactions, enhancing production processes and predicting customer behaviour for targeted marketing.

Innovative examples of New Zealand companies using AI include:

- [Air New Zealand](#) using computer vision AI to analyse meals.
- [Spark](#) using AI to enhance customer experiences.
- [Woolworths](#) using AI for dynamic pricing.
- [Udemy](#) using generative AI to help learners close skills gaps faster.

Boards can seize AI opportunities by proactively evaluating their options and strategically adopting AI. Understanding the rapid evolution of AI technology and addressing the right timing to invest is crucial. Due to its continuous development, investing in AI requires a flexible approach.

A good starting point is for boards to assess their organisation's digital maturity to effectively use AI. This includes having a robust data infrastructure and fostering a culture open to learning. Even small organisations can benefit from AI by starting with scalable, cost-effective solutions that provide immediate value. Focusing on areas with the highest impact allows these organisations to gradually build their AI capabilities.

AI applications in business

Automation: Replacing manual tasks with AI-powered systems, improving efficiency and reducing costs.

Decision support: Analysing data and providing insights to inform strategic decisions.

Personalisation: Tailoring products, services and experiences to individual customers.

Risk management: Identifying and mitigating potential risks through data analysis and predictive modelling.

Product development: Accelerating innovation with AI-assisted design, testing and optimisation.



You should be asking:

- What specific AI-driven tools and technologies are being implemented within the organisation to transform key areas such as the customer services, sales and/or marketing functions?
- What steps are we taking to integrate AI-driven insights into our product and service development to capture new market segments?
- How are we using predictive analytics to forecast market trends, manage risks and support strategic thinking?
- How are we leveraging AI to enhance our competitive differentiation and establish a leadership position in our industry?

03

Categorise and address the risks



“If you’re ready for AI, you need to be privacy mature . . . Do you understand the data you hold? Do you understand why you collect it? Do you understand where the personal data is that you hold, your customer data, your employee data, where your stakeholder data is held? Do you know how it flows through your system? Do you know how it’s connected to third parties? If you don’t know and understand these things, you don’t understand your risk profile.”

– Deputy Privacy Commissioner Liz MacPherson, Institute of Directors 2024 Leadership Conference

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Understanding AI risks is crucial for boards. AI can significantly impact organisational strategy, operations, compliance and reputation. The fast-changing nature of AI means boards must stay vigilant and make sure their risk management practices are current.

AI systems, if not managed well, can lead to strategic issues, operational failures and legal challenges. Without proper controls, there's a risk of intellectual property leaking out of the organisation.

Additionally, AI can reinforce biases, harming individuals and communities, which in turn can damage the organisation's reputation. Gen AI, in particular, poses significant accuracy risks, potentially producing incorrect or misleading outputs that can cause harm. This isn't only about business risk – it's about the real-world impact on people, which creates business risk. Boards must be aware of both.

AI evolves rapidly, which can disrupt business as competitors use new technologies. Boards should promote continuous learning about AI and its impacts, needing solid risk management plans, ethical AI practices and regular oversight of AI projects.

AI's complexity introduces new cybersecurity challenges. While AI can enhance cybersecurity by detecting threats faster, it can also be exploited by malicious actors. Boards must ensure strong cybersecurity measures are in place.

Many organisations offer tools and frameworks to help establish appropriate structures, policies, technical processes and controls for AI development and use. The National Institute of Standards and Technology (NIST) has a framework to foster trustworthy and responsible AI system. The NIST AI RMF 1.0 [Artificial Intelligence Risk Management Framework](#) is comprehensive and covers the entire AI lifecycle, addressing both technical and socio-technical aspects. Boards should also consider ISO 42001 for AI governance standards.

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Legal compliance

In New Zealand, there isn't a comprehensive legal framework specifically for AI. AI governance is evolving, and organisations need to stay informed, particularly if they operate overseas, because much more onerous laws apply elsewhere.

Privacy considerations are crucial when using AI tools that use personal information. AI presents unique challenges for privacy because it can gather and combine personal information in new ways. This complexity can make it harder to see, understand and explain how personal data is used, placing a greater responsibility on organisations to manage privacy effectively.

The Office of the Privacy Commissioner has issued guidance on [Artificial Intelligence and the Information Privacy Principles](#). They recommend conducting Privacy Impact Assessments before implementing AI systems to ensure privacy risks are identified and managed appropriately.

The board also needs to keep track of developing [case law on AI and intellectual property](#).

Directors should be aware of various existing laws that impact using AI:

Privacy Act 2020: Governs the collection, use and disclosure of personal information relevant to AI systems that process personal data.

Human Rights Act 1993: Protects fundamental human rights, including protection against discrimination.

Consumer Guarantees Act 1993: Provides protections for consumers, relevant in cases where AI systems are involved in consumer transactions.

Fair Trading Act 1986: Prohibits misleading and deceptive conduct in trade.

Copyright Act 1994: Relevant in cases where AI systems generate or use copyrighted content.

Commerce Act 1986: Deals with competition and fair trading, which could be relevant where AI impacts market competition.

Health and Safety at Work Act 2015: If AI systems are deployed in the workplace, this act ensures the safety and well-being of workers.

Crimes Act 1961: Addresses certain AI-related activities, such as unauthorised access to computer systems.

When AI goes wrong

Samsung's ChatGPT ban

In 2023, Samsung Electronics [banned employees from using ChatGPT](#) after engineers leaked sensitive internal code while using the Gen AI tool for troubleshooting. The breach exposed significant data security risks, emphasising the importance of stringent data governance and robust oversight in AI use.

Italy's fine on the city of Bolzano for privacy breaches

In 2024, the city of Bolzano, Italy, was fined for privacy violations due to its use of Gen [AI facial recognition in public spaces](#) without proper consent or safeguards. The case demonstrated the crucial need for compliance with privacy regulations and ethical AI deployment to protect individual rights and ensure transparency in managing AI technologies.

NEDA AI chatbot

The National Eating Disorders Association (NEDA) introduced an AI chatbot named Tessa to help users with eating disorders. However, Tessa [was swiftly deactivated after offering harmful guidance](#). This incident highlights the need for rigorous human oversight, thorough testing and continuous monitoring of AI tools to ensure they are safe and aligned with ethical standards.

You should be asking:

- How is the organisation currently using AI and does it intend to make use of AI in the future? Is it being used in key products or services or core business functions? What is the AI risk profile of those use cases?
- How are the organisation's suppliers, vendors and service providers utilising AI?
- What are the risk areas for the organisation's use of AI and where do they fall on a risk spectrum of high to low? How can you take a risk-based approach to managing those risks?
- For risks toward the higher end of the risk spectrum:
 - What does the decision process look like for determining whether the risk is appropriate for the organisation to take?
 - How is management monitoring, identifying and mitigating these risks?
 - What does a potential range of negative outcomes look like if risks are realised?

04

Build board capability



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Modern organisations need digitally savvy boards

There is a need for digital leadership at the governance level. Boards cannot afford to delegate responsibility and accountability for technology and information strategy to management without appropriate and competent oversight. Developing digital capability is not as simple as appointing a digital expert to the board; It is about developing the digital capability of the board.

Boards must prioritise AI literacy, ensuring directors understand AI principles. Continuous learning and staying informed about AI trends are crucial.

Although directors do not need to be AI experts, they need to have sufficient knowledge to make well-informed decisions and conduct substantive dialogues with both advisors and stakeholders. The Institute of Directors has developed an [AI glossary](#) to empower directors with some key terms and concepts.

To enhance AI and digital competence, boards should actively pursue training and workshops. Continuous learning is crucial, and directors should lead by example, showing their dedication to understanding AI's potential and risks. This proactive approach fosters a culture of innovation where the organisation feels empowered to explore and use AI solutions responsibly.

Directors should aim to grasp key AI concepts, but it's also important to stay curious and ask probing questions during technical discussions. This ensures everyone understands and discusses the implications of options on the whole organisation and prevents decisions from being solely driven by digital experts. The board's role is to critically assess AI initiatives, considering ethics, privacy and alignment with strategic goals.

Staying abreast of new AI trends, best practices and regulatory changes requires a structured approach. Boards should set aside time in their agendas for regular updates on these topics and seek advice from external experts when necessary. It's also crucial for boards to evaluate their AI competency and decide if they need to on-board specialist support or seek out more training.

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You should be asking:

- How are we actively fostering AI literacy within the board and across the organisation, and what steps can we take to further enhance understanding and engagement with AI initiatives?
- Are we equipped with the necessary AI fundamentals to effectively govern AI adoption and make informed strategic decisions, and how can we ensure ongoing education and development in this area?
- What specific skills and knowledge related to AI are currently present on the board, and where are the gaps that need to be addressed to ensure comprehensive oversight of AI initiatives?
- Do we understand the key risks that AI could pose to our organisation, and do we have a clear view as to whether those risks are being appropriately identified and managed?
- Are we staying informed about emerging AI trends, best practices and regulatory developments, and how can we continuously evolve our know-ledge and competencies to meet the evolving needs of the organisation?

05

Select the right board structure

“Technology has the potential to create new opportunities for people to do what only people can – think creatively and innovate boldly.”

– *Accelerating Aotearoa businesses one technology generation forward* report from Spark and NZIER, 2024

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Flexibility in board structure is essential to adapt to AI advancements.

Selecting the right board structure to govern AI is crucial for organisations aiming to harness AI opportunities while managing risks and ensuring long-term sustainability. Boards should think about their setup carefully, focusing on AI governance from the start. Bringing AI into board discussions on a regular basis helps organisations stay responsive by keeping the board up to date and prepared for new AI developments.

Forming an AI committee can help the board delve into AI topics such as ethics, risks and emerging technologies. However, the need for a dedicated committee depends on the organisation's size, maturity and the complexity of its AI initiatives. For less-prepared organisations, AI discussions can be integrated into existing committees such as audit and risk or technology committees. These groups can assess how AI affects different parts of the organisation.

A technical advisory group can also help the board better understand AI. For organisations with smaller boards, having the entire board oversee AI might be more effective. This ensures everyone shares responsibility and is involved in AI-related decisions.

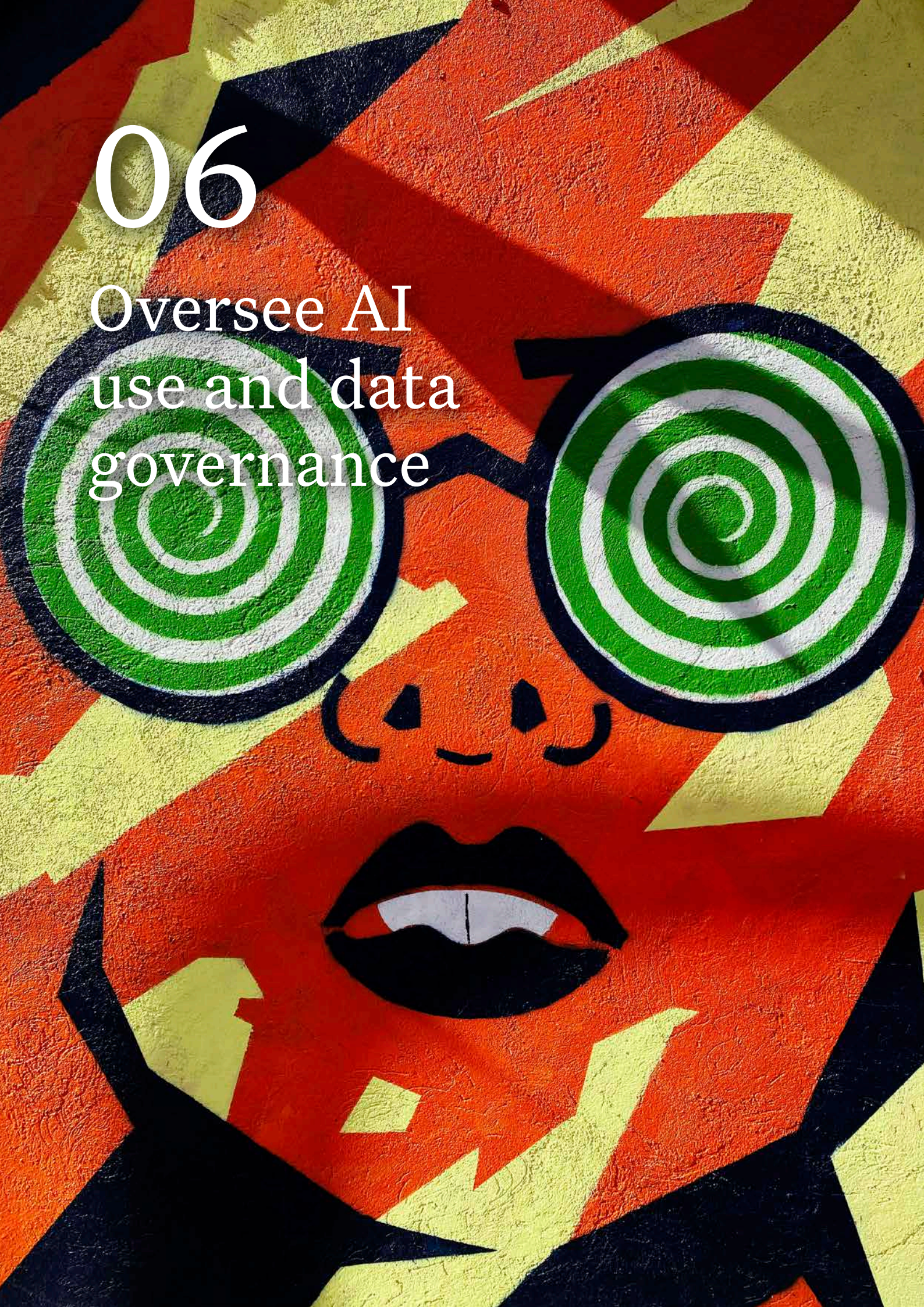
There is no right way to do it. Boards need to choose a structure that fits their organisation's needs, enabling them to keep pace with AI advancements. A well-considered board structure can improve AI visibility and integration of AI within the organisation, positioning it for sustainable success in an AI world.

You should be asking:

- How well do our existing committees, such as those focused on technology or risk, handle AI-related issues, and would establishing a dedicated AI committee enhance our ability to manage AI's unique challenges and opportunities?
- Where is our organisation in terms of AI maturity, and how should this influence our approach to structuring AI oversight within the board? Should we prioritise immediate formation of a dedicated AI committee or integrate AI governance into existing structures?
- What is the optimal size and composition of a dedicated AI committee to balance agility and decision-making efficiency with the need for diverse perspectives and expertise?
- How can we effectively augment our technical expertise related to AI, either through board member recruitment or by leveraging external advisors, to ensure robust assessment and governance of AI initiatives?

06

Oversee AI
use and data
governance



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The board's role in AI oversight

Boards must exercise oversight to ensure that management deploys AI responsibly, actively monitoring and mitigating associated risks.

AI introduces substantial business risks and reputational damage if systems fail to perform as expected. Reputation damage may result if the organisation's use of AI is perceived to be causing harm to people. For instance, an AI-powered recruitment tool trained on historically biased data or data not representative of New Zealand demographics could produce outputs that disadvantage certain groups.

At a minimum, organisations should have a clear policy for data protection and ethical AI use, meaning AI systems should adhere to principles of fairness, transparency, accountability and respect for privacy. This policy should apply to both workers and the board. Depending on the extent of AI risk, an organisation may need a Responsible AI or AI Governance Programme to enable a more holistic approach within the organisation. Boards should sign off on AI policies and any AI governance frameworks, ensuring these are robust and align with the organisation's strategic objectives.

What can a board expect to find in an effective AI governance framework or policy? The core components should include:

- **Ethical principles:** Guiding principles such as fairness, transparency, accountability and privacy.
- **Roles and responsibilities:** Clear delineation of the roles and responsibilities of the board and management in AI governance.
- **Monitoring and evaluation:** Procedures for regular monitoring and evaluation of AI systems to ensure alignment with organisational goals and ethical standards.
- **Education and training:** Ongoing education and training for board members and staff to stay updated with AI advancement and emerging risks.

Policies should mandate explainability in AI systems, ensuring their operations can be understood and justified, thereby building confidence among all stakeholders. Clear data governance rules are vital because the integrity of AI models depends on the quality of data they are trained on. Poor data quality can lead to unreliable outputs, ethical issues and operational inefficiencies, potentially damaging the organisation's reputation and performance.

To ensure responsiveness to emerging trends and AI reliability and safety, boards should ask for regular updates and forward-looking reports from management, including environmental scanning.

Boards can ask to receive a dashboard for AI with key metrics for overseeing privacy and security breaches, as well as levels of AI accuracy. Generative AI hallucination issues entail AI generating incorrect or misleading information that appears plausible, which can undermine trust and lead to poor decision-making.

Commissioning a more formal AI audit across the organisation and its supply chain may also be warranted, including understanding the level of education, training and awareness of ethical frameworks. External audits can be useful in evaluating the effectiveness, accuracy, and fairness of AI models, offering insights into areas for improvement.

Directors cannot abdicate their responsibilities to AI

Several international regulators, such as the UK Financial Conduct Authority, the Monetary Authority of Singapore, and the Hong Kong Monetary Authority, have said directors have a duty to oversee AI-related risks. AI misuse or unforeseen results can harm stakeholders and are connected to broader climate change and social issues which are a high priority for boards, regulators and investors.

In New Zealand, directors have a fundamental duty to act in the best interests of their companies and there are similar duties placed on governors of other types of entities. This responsibility cannot be handed over to AI systems. While AI can offer valuable insights and support decision-making, directors retain the ultimate accountability for corporate governance.

Key performance indicators (KPIs) for AI:

Accuracy: Measuring how well AI models are performing their intended tasks.

Efficiency: Assessing the cost and resource savings achieved through AI automation.

Customer satisfaction: Evaluating the impact of AI on customer experience and satisfaction.

Revenue growth: Measuring the contribution of AI to revenue generation and business growth.

Return on investment: Analysing the financial benefits of AI investments.

You should be asking:

- How are we ensuring the quality and integrity of our data are maintained to support reliable and safe AI models?
- What policies and frameworks do we have in place to manage AI-related risks, ensure data protection, and uphold legal and ethical standards?
- How transparent and explainable are our AI-driven decisions to our stakeholders, including employees, customers, regulators and the public?
- What insights have we gained from recent AI audits, and how are we addressing identified risks and opportunities within our AI and data strategies?

07

Look after your people



“AI is a tool that can provide organisations with great efficiencies, supporting and enhancing human capability and capacity. Your organisational AI implementation must include a clear AI policy that addresses transparency and ethical considerations, and has your workforce wellbeing front and centre.”

– Lynda Carroll CFInstD

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AI is likely to have a big impact on the workforce. Boards must prioritise workforce wellbeing and continuous learning.

Boards must recognise the considerable impact AI could wield on their organisation's culture. As this technology becomes increasingly integral, the welfare of the workforce needs to take centre stage. Boards should pay close attention to the implications of AI on workforce wellbeing, acknowledging the heightened risks such as cyberattacks and the potential misuse of AI technologies such as deep fakes can have on mental wellbeing.

Workforce strategies and wellbeing initiatives need to align with the overarching organisational strategy. This means communicating clearly about what AI means for the organisation and how it will support broader business goals. The successful realisation of an AI strategy will depend on the organisation's ability to attract and retain the requisite AI talent and providing opportunities for workers to acquire new skills.

The integration of AI not only introduces innovation and efficiencies but also brings significant [shifts to job roles](#). [OECD research](#) findings suggest both workers and their employers are generally positive about the impact of AI on performance and working conditions. However, there are also concerns, including about job loss. Maintaining a healthy and vibrant organisational culture amid AI-driven change requires deliberate guidance from the board. This means ensuring any workforce redeployment or displacement initiatives are managed well, and the alternatives are considered.

Encouraging a culture of continuous learning is paramount. Boards can lead by example, demonstrating their commitment to lifelong learning and showing they value employee growth. Internal communication plays a pivotal role in this trust-building endeavour. Boards should cultivate a culture of openness, consistently sharing information about AI initiatives, their benefits, and associated risks with workers.

You should be asking:

- How are we integrating AI into our existing organisational culture and workforce strategies?
- What measures are we taking to attract and retain top AI (and related digital technology) talent in this competitive landscape?
- What resources and opportunities are we providing for continuous learning and development in the context of AI?
- How are we communicating the role and impact of AI to our employees, and ensuring they are informed and engaged?
- Do we have a plan to anticipate, identify and debunk impersonation (deep fake) attacks?

08

Proactively build trust

“The responsible use of AI gives you a licence to continue innovating. The flipside is a loss of trust and social licence – and an unwelcome presence in the headlines.”

– Frith Tweedie, Simply Privacy



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Building trust in AI adoption is crucial. Boards must prioritise transparency and responsible AI practices.

AI faces a critical trust problem. A convergence of factors – disinformation, safety and security concerns, ethical dilemmas, bias and the opacity of AI decision-making – threatens to erode public trust. Moreover, the proliferation of [deepfakes](#) and the potential for job displacement increase societal anxieties.

We are also living in an age where customer preferences are rapidly evolving, particularly among younger demographics who prioritise ethical considerations when making purchasing decisions.

Responsible AI

To address these concerns, boards must proactively engage in governance practices that prioritise responsible AI. This ethical approach encourages boards to proactively consider the impact of their organisation's actions, including the long-term consequences and broader impact, going beyond what is merely required by the law.

A responsible AI approach considers ethical components such as trust, transparency, fairness, accountability and human oversight. By empowering humans to manage AI tools effectively, organisations can bridge the divide between technological progress and societal trust, ensuring AI serves as a force for good.

AI has the potential to amplify existing biases in human decisions, underscoring the importance of protective measures to prevent bias reinforcement. Organisations need to monitor, identify and address instances where bias and discrimination might be perpetuated across the AI lifecycle, including in training data, during model development and while it's in use.

Verification of AI systems' adherence to ethical principles and compliance requirements is important. Boards can implement regular audits and independent reviews to demonstrate compliance. By publicly sharing the outcomes of these audits and the steps taken to address any issues, boards can further enhance transparency and trust.

The focus on an ethical approach raises the issue of [whether ethics training should be mandatory](#) for everyone involved in the design, development and deployment of AI systems. It's also important to recognise and incorporate diverse perspectives on AI and data sovereignty, including from a [Māori perspective](#).

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Engaging with stakeholders

Building trust with stakeholders requires proactive and consistent efforts from the board. It begins with establishing a robust AI governance framework and prioritising the responsible development and use of AI. By doing so, the board sets a foundation of integrity and accountability that resonates with stakeholder groups, from customers, investors and workers to regulators and community groups.

Effective communication with both external and internal stakeholders requires proactive engagement and clear, consistent messaging. This can be achieved through various channels, including the organisation's website, social media and meetings, keeping in mind that consumers typically view good explanations as interactive processes.

Effective board communication can also include detailed disclosures in annual reports.

The World Economic Forum has published a ['Responsible AI Playbook for Investors'](#) whitepaper to guide investors in promoting and implementing ethical AI practices.

You should be asking:

- What processes do we have in place to align our organisation's values and the values of our stakeholders?
- What processes do we have in place to properly monitor and test for bias and other harmful AI outputs across the AI lifecycle? How will identified risks be mitigated?
- How do we engage with and incorporate diverse perspectives, including Māori, on AI and data sovereignty?
- Could we be more effective at communicating our AI governance practices and audit outcomes to build trust with our stakeholders?

09

Embrace AI as part of your governance practice

What does AI think?

“Like electric light over a century ago, and the world wide web 30 years ago, generative artificial intelligence is becoming the default ‘always on’ environment for business. It’s the most powerful creative tool ever invented and begs the question of personal relevance to every director. Yesterday’s laurel wreaths of governance will become digital fertilizer in the GAI world of tomorrow.”

– Mike O’Donnell MInstD

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Directors and boards need to think about how they can use AI to become more effective at what they do.

Integrating AI into board governance has the potential to significantly improve the efficiency and effectiveness of decision-making processes.

However, integrating AI is not without its challenges. It requires significant investment in technology and training, and boards must be prepared for a learning curve. Some companies are already appointing AI bots as observers at board meetings and are putting technology at the centre of board strategy. One example is the [Aiden Insight board navigator tool](#) that provides real-time insights.

Imagine if, as a director, you could spot a revenue issue weeks into a quarter by using [predictive AI](#). AI's predictive analytics can provide boards with data-driven insights, enabling proactive strategies rather than reactive measures. Advanced analytics can help boards anticipate market trends, identify emerging risks and seize opportunities. And this is already happening: A KPMG International study on [AI in financial reporting and audit](#) found 99 per cent of businesses expect to be using AI in financial reporting by 2027 and 64 per cent of companies expect auditors to have a role in evaluating their use of AI in financial reporting, providing assurance and proof over their AI controls.

To keep on top of the issues that AI raises for boards, [a dashboard can be used](#) for key metrics such as privacy, security and accuracy.

Using AI-powered tools can also help with workflow. Virtual board portals enhanced with AI can significantly improve document sharing, ensuring real-time updates and automated workflows. This can free up board meeting time for the most important discussions, while also providing directors with immediate access to the latest information. Developing prompting skills is key to effectively using Gen AI.

AI can also assist in summarising or editing board papers, highlighting key issues, suggesting relevant questions, and even auto-generating meeting minutes. There is a proliferation of tools available although agreed security protocols need to be followed. And boards must be cautious and ensure these tools are complementing human judgment, not replacing it. In addition, any recordings used for board minutes need to be managed well.

To strike a balance between technology and human expertise, boards should promote a tech-savvy board culture while maintaining critical human judgment. This means using AI to address data-heavy and repetitive tasks, allowing directors to apply their insights and experience to complex decision-making scenarios. Establishing clear protocols and guidelines for AI use ensures human oversight remains paramount, safeguarding the board’s strategic vision and maintaining high standards for using AI.

Instilling an ethos of innovation within the boardroom cultivates a forward-thinking mindset essential for staying relevant and ensuring the board adds value to their organisation. It encourages continuous learning and adaptability across the organisation, ensuring the board is always at the forefront of technology uptake. This proactive approach is not only likely to build a high-performing culture on the board and across the organisation but also helps build a resilient governance framework capable of adeptly responding to future challenges.

Your role vs. AI’s role: Pressure testing

AI’S ROLE	YOUR PROFILE
<ul style="list-style-type: none"> • Give you a framework for how to get started • Identify unseen consequences • Quickly review and assess multiple scenarios • Balance YOUR biases (e.g. risk aversion) • Provide an objective/neutral perspective (it isn’t drinking the kool aid) 	<ul style="list-style-type: none"> • Put outputs in context of your company/industry/situation • Alignment to financial and strategic priorities • Narrow AI’s assessment • Make the decision

Framework provided by Spark and Section’s Executive AI for Business Mini-MBA program.

You should be asking:

- How can we leverage AI to enhance our decision-making processes while ensuring that critical human judgment is preserved?
- What protocols and guidelines should we establish to ensure AI tools are used responsibly, particularly concerning privacy, security, and the accuracy of the data these tools provide?

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In summary

AI is reshaping our world and directors must be prepared to lead. Directors need to stay sharp, continue to learn and ensure their boards are equipped to harness AI's potential. This means embracing new opportunities, managing risks and supporting their teams with clear, strategic direction.

Think big and act decisively. Use existing governance frameworks, including the [IoD's Four pillars of governance best practice in New Zealand](#), to assess where the organisation is and where it needs to go. Be transparent, ethical and proactive in engaging with stakeholders. Building trust is essential and it starts with you.

The path ahead is exciting. By staying informed, fostering a culture of learning and leading with integrity, boards can turn AI into a powerful tool for growth and innovation. The future is bright for those who are ready to adapt and lead with vision.

Resources for further reading information

[IoD Glossary](#) and resources for members

[OECD AI Principles](#)

World Economic Forum: [Empowering AI Leadership – An Oversight Toolkit for Boards of Directors](#)

NIST: [National Institute of Standards and Technology \(NIST\) AI Resources](#)

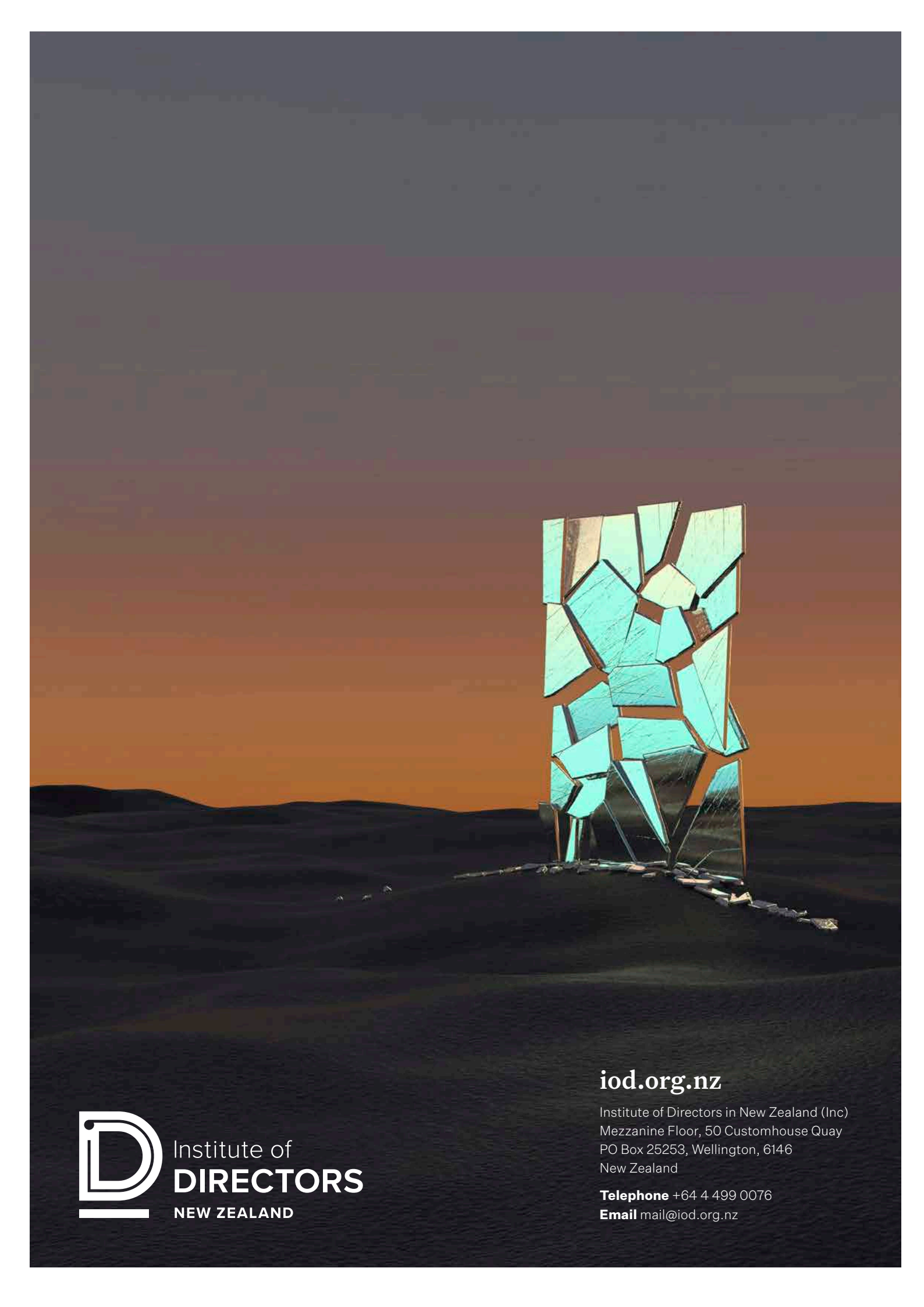
Koi Tū: [A guide policy-makers: Evaluating rapidly developing technologies including AI, large language models and beyond](#)

[AI Governance Website](#), AI Forum of New Zealand

Callaghan Innovation: [EU AI Act Support](#)

Spark Report: [Accelerating Businesses One Tech Generation Report](#)

[Māori Data Governance Model](#)



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