

Digitizing Governance: Exploring AI's Transformational Influence in the Boardroom

The corporate governance landscape continues to evolve in an era defined by digital advancements. The integration of artificial intelligence (AI) is proliferating amid this evolution—and that impact stems into the boardroom. AI is reshaping traditional boardroom dynamics. With heightened regulatory pressures, escalating cyber risks, and increasing stakeholder expectations, incorporating AI can be a pivotal strategy to enhance the board's decision-making processes, drive accountability, minimize bias, and create other operational efficiencies.

From optimizing decision-making processes to strengthening governance frameworks, the integration of AI sets the stage for a comprehensive boardroom evolution, particularly related to enhanced transparency, accountability, and strategic alignment with stakeholders. This whitepaper delves into the transformative impact of AI in the boardroom by breaking down and exploring best practices, potential applications, emerging challenges, and future opportunities.

AI Takes Center Stage in a Digital Era

The proportion of organizations adopting AI has more than doubled since 2017, according to findings from Stanford University's 2023 Artificial Intelligence Index Report. And those that have adopted AI report cost decreases and revenue increases.¹

As we advance into the digital era, it is clear AI is taking center stage for organizations looking to transform traditional processes. Notably, this shift is prominent for manual and labor-intensive tasks that can be converted into more efficient, streamlined operations. With its ability to sift through vast amounts of data, adopting AI as a strategic partner may help navigate the complexities of rapidly evolving market trends. Its predictive capabilities can enable data-driven insights, paving the way for more proactive decision-making. This could result in capitalizing on opportunities with more agility and precision and providing a competitive edge in a rapidly changing business environment.

Boards and management teams are responsible for ensuring there is a digital strategy in place that allows the organization to stay competitive, while also preventing the organization from a potential misstep. According to findings from a 2023 Nasdaq survey, 10% of governance professionals indicate that technology, data innovation, and AI are a top area that will impact organizational success this year.² Given the pace of the digital evolution and advancement in AI, boards may consider leaning into technology innovation and education and incorporating digital transformation in the company strategy, while also ensuring proper oversight and governance.

5 Best Practices for Boards Embracing AI

Embracing AI in the boardroom can require a multifaceted approach that includes education, training, oversight, and technology application. By following these best practices, boards can leverage AI to help drive innovation, improve decision-making processes, and help enhance overall organizational performance. Governance can play a pivotal role in navigating the complexities of AI adoption, ensuring that boards steer their organizations towards a successful AI-driven future.

1. Establish a Governance Framework for AI Adoption

A robust governance framework around AI implementation is a supporting factor in safeguarding data security and privacy in the boardroom and beyond. It is important to have protocols in place to ensure sensitive information is protected and AI technologies do not compromise data integrity or share confidential data externally. Establishing clear guardrails can help mitigate risks associated with AI adoption and foster a culture of trust in AI-driven decision-making processes. It can also help ensure transparency, accountability, and fairness.

If not continuously assessed, AI may present biases and produce inaccurate information that may poorly affect communications and decisions. To help avoid these situations, oversight mechanisms should be in place. For example, Nasdaq has established an AI Governance Committee that assesses AI projects and applications from a cross-functional perspective, including participation of data science, technology, legal, risk, compliance, ethics, information security, strategy, and finance. The committee looks at the different AI efforts across the organization, keeping an eye on AI-related activities to encourage transparency, promote accountability, and manage potential risks, which can then be reported to the board. Moreover, a dedicated committee can provide feedback to the board on AI initiatives, ensuring alignment with organizational values and goals and compliance with regulations. So, while it is not a requirement to have an AI or technical expert on the board, it is important to establish clear governance structures and practices to effectively manage AI implementation for optimal outcomes.

2. Establish Oversight Responsibilities

Organizations can benefit from assembling multidisciplinary AI governance teams comprising experts from different fields, such as information security, compliance, legal, risk management, audit, and more. This diverse representation ensures that a broad range of perspectives is considered when evaluating the implications of AI technologies on the organization's—and the board's—operations. Incorporating input from various stakeholders can help address potential challenges and capitalize on opportunities presented by AI innovations.

Moreover, these teams play an instrumental role in executing rigorous monitoring protocols. This continuous scrutiny can not only advance adherence to established performance parameters but also facilitate timely identification and

rectification of potential glitches or deviations. The project teams may also be responsible for demonstrating quality delivery, helping to ensure that the AI tools seamlessly integrate with the existing processes, and contributing to the optimization of overall organizational performance.

3. Prioritize Education and Training

Adopting AI in the boardroom should come with a set of best practices to ensure both effective integration and fair governance. Of these best practices, which may be unique to every organization, the initial AI education component is critical. Learning about the technology and investing time in better understanding AI concepts, capabilities, and limitations can help boards grasp the added value that AI can offer, as well as comprehend its associated risks. Understanding both sides of the coin is essential for making informed decisions regarding AI implementation. As AI evolves, continuing education and training is beneficial in ensuring appropriate use of the technology in the boardroom and throughout the organization.

4. Engage in Thought Leadership

While some organizations may rely on internal leadership, others may source external experts to provide advisory services. Boards can leverage thought leadership and engage with key voices in the space to stay updated on the latest AI trends, developments, and best practices. In addition to knowledge sharing, this proactive approach can help boards better understand AI's potential impact on their organizations and foster strategic decision-making about implementing the technology.

5. Use Boardroom Technology

It may seem clear, but it is important for boards to recognize opportunities for advancement in their own boardrooms and consider how technology will support their work—rather than distract from or compromise it. While not new to the boardroom, board portal software is designed to improve board efficiency and effectiveness. Board portal software empowers boards to not only access documents but also derive insights, predict trends, and make informed decisions. Add AI to the mix and there is even greater opportunity for improvement. AI can bring a transformative shift to board portal software.

The Evolution of Board Portal Software: Then and Now

The evolution of board portal software has been influenced by key technological milestones over the past decade. In the past, boards were inundated with printed documents and bulky binders in preparation for meetings. Then, the introduction of devices, like the Apple iPad and other tablets, marked a significant era for board portal software, foreshadowing a shift away from archaic manual paper-based processes prevalent in traditional boardrooms. This technological advancement paved the way for greater efficiency and productivity in boardroom operations and corporate governance practices.

The shift towards digitization marked a significant leap, offering a centralized platform for document sharing, collaboration, and communication. This evolution helped simplify corporate governance complexities and lay the foundation for streamlined decision-making in boardrooms. Plus, user-friendly design and advanced features marked a turning point in the evolution of board portal software, setting the stage for further innovation opportunities.

Fast-track to today: there is an opportunity to unlock AI's full potential and advantages. AI can help turn static board processes with two-dimensional information into dynamic, intelligent board portal software. The technology has enabled the automation of functions traditionally handled by corporate secretarial teams. Integrating AI into board portal software has revolutionized document management, smart agendas, summarization, cross-referencing, and tailoring the user experience.

- **Document Management.** AI-powered algorithms could automatically categorize, tag, and organize documents, making them easily searchable and accessible. This feature may help reduce the time spent searching for relevant documents and, therefore, enhance meeting preparedness. The power of AI could also personalize document recommendations based on the board member preferences to ensure they have the right information at their fingertips.
- **Smart Agendas.** Board meeting preparation has traditionally involved laborious manual efforts to collate documents, set agendas, and identify discussion points. And meeting agendas had often been created based on past templates and predetermined sections. However, every board meeting is unique, and discussions can vary based on emerging trends, market dynamics, and regulatory changes. AI-driven board portal software could dynamically adapt to these nuances and create agendas.
- **Executive Summaries.** AI could help extract key information from documents, summarize lengthy reports, identify actionable insights, and pinpoint potential areas of concern. Instead of board members spending hours reading through extensive documents, AI extraction tools may provide concise executive summaries to capture key insights.
- **Tailored Insights and Education.** AI-driven personalization features could tailor board members' experiences based on analysis of their expertise, preferences, and roles. Analysis of engagement patterns could also allow AI to suggest tailored resources for education and development. This may also improve the board portal user experience.

According to a 2023 Nasdaq survey, only 1% of governance professionals indicate their board does not use board portal software.² This illustrates the widespread adoption and clear value board portal software brings to today's boardrooms. It also highlights that organizations acknowledge the imperative role of technology in fostering collaboration and enhancing decision-making processes.

The Future of the Boardroom: Preparing for AI Advancements and Disruptions

It is important to foster innovation throughout the organization and in the boardroom. Looking ahead, organizations may encourage experimentation with AI technologies, while also being mindful of ethical considerations and regulatory compliance. Balancing innovation with risk mitigation is a challenging equilibrium to achieve. Yet, striking symmetry between embracing technological advancements and upholding regulatory compliance is essential to foster a culture of innovation. Organizations acknowledge the need for innovation while also prioritizing the need for data security, privacy, and ethical considerations in all AI-driven initiatives.

The future of work, particularly in the boardroom, can be characterized by the demand for access to real-time data and advanced analytics tools that enable proactive decision-making. While AI offers distinct capabilities in processing data and generating insights, it should be seen as a decision-making aid rather than a substitute for human judgment. When interpreting AI-generated outputs, exercise caution and understand that answers are not definitive but are rather inputs that require critical human analysis. Human oversight can help qualify AI-driven decisions in alignment with ethical standards and organizational goals.

To prepare for the future, organizations and their boards should continue to find ways to integrate AI models to help reshape operations and decision-making processes. Boards that prioritize AI-assisted governance may better demonstrate their commitment to driving organizational growth and upholding competitive advantage. Moreover, this increased pace of technological innovation may lead organizations to accelerate their digital strategy and maintain strong internal and ethical controls over the digital asset framework, policies, and programs. By effectively integrating AI into corporate governance practices, boards can harness the transformative power of AI to propel their organizations towards a more prosperous and innovative future.

Board Portal Software: Redefining the Boardroom Experience

As AI continues to evolve, its role in corporate governance will become even more pivotal as it reshapes how boards operate and elevates their contribution to organizational and governance excellence. Moreover, the boardroom experience is being redefined by integrating AI capabilities in board portal software, enabling smoother workflows, deeper insights, and personalized engagements. Investing in board portal software like Nasdaq Boardvantage®, a platform focused on launching AI-driven tools, supports boards in streamlining their corporate governance workflows.

For more information, visit nasdaq.com/solutions/governance/boardvantage or email contact@nasdaq.com.

1 Nestor Maslej, Loredana Fattorini, Erik Brynjolfsson, John Etchemendy, Katrina Ligett, Terah Lyons, James Manyika, Helen Ngo, Juan Carlos Niebles, Vanessa Parli, Yoav Shoham, Russell Wald, Jack Clark, and Raymond Perrault, "The AI Index 2023 Annual Report," AI Index Steering Committee, Institute for Human-Centered AI, Stanford University, Stanford, CA, April 2023.

2 "Nasdaq 2023 Global Governance Pulse," Nasdaq Governance Solutions, October 2023.

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