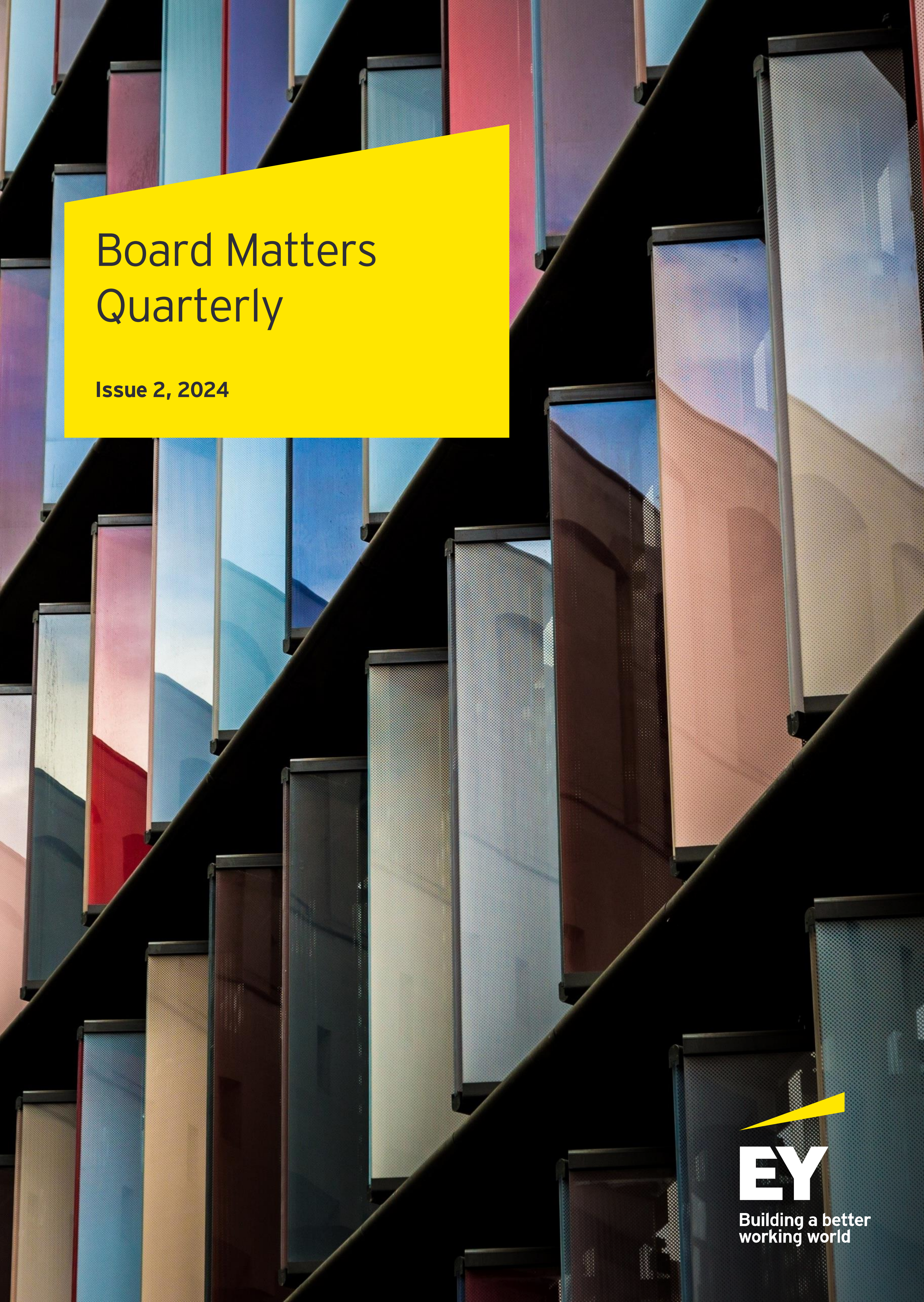

Board Matters Quarterly

Issue 2, 2024

Building a better working world

What's the right mix of elements to catalyze true value?

Discover how to transform your business through the combined power of people, technology and innovation.

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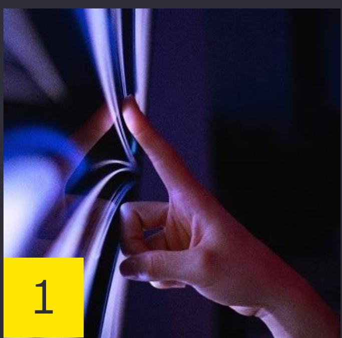
Board Matters Quarterly

Board Matters Quarterly offers thought-provoking perspectives and insights into leadership and governance issues for boards and audit committees, providing support to navigate an increasingly complex business environment.



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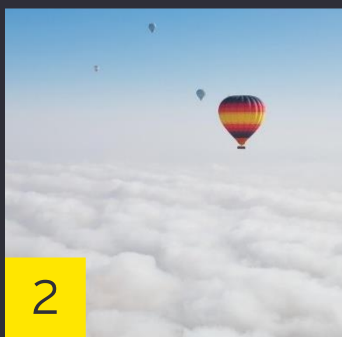
Why inculcating AI in business strategies is crucial to maximize growth



2

How to create clarity in ambiguity in board priorities

Why inculcating AI in business strategies is crucial to maximize growth

Artificial Intelligence (AI) possesses the transformative power to elevate both efficiency and revenue in organizations, when harnessed effectively. Achieving this success hinges on cultivating an environment that not only embraces AI but also trusts AI. As you embark on the journey to embed AI in your organization, you need to reflect deeply on the following questions:

Have you crafted an AI strategy that seeks transformative change, rather than just incremental improvements?

AI offers exciting possibilities, yet it also carries inherent risks. What measures have you set in place to mitigate both internal and external threats?

Human-AI collaboration is crucial for AI to be effective. How is your organization fostering a culture, where teams not only adopt but also trust in, and synergize with AI?

This article addresses these essential topics and more, aiding board members by outlining some initial steps, posing critical questions, and highlighting considerations for effective AI implementation.

Decoding the 'Why' of AI

The EY CEO Outlook Pulse Survey revealed that 76% of business leaders anticipate AI to principally boost efficiency, with minimal impact on revenue growth.

However, a closer examination reveals that AI's true potential spans far beyond mere operational optimization. Its success lies in strategic adoption and application.

Synergizing AI and business strategies

AI should not be an isolated venture but an integral part of overall business transformation. Start by intertwining your AI and corporate strategies, focusing on desired business outcomes. Successful AI programs cut across organizational structures and are not confined to departmental initiatives.

A transformational approach to AI encompasses complete value chains, fostering comprehensive rather than isolated improvements. For instance, revamping an entire financial management process rather than expediting just one part can yield far more significant benefits.

An illustrative case of optimization is that of a company seeking to reduce the time and effort required for its finance team to compile management reports. This task typically involves scrutinizing competitor activities, crafting comparative analyses with industry peers, and analyzing the acquired data.

While the incorporation of AI yields some efficiencies in this specific process, the true potential of AI extends far beyond mere time management. For instance, AI could have been employed to provide strategic insights to enhance profit margins or identify and rectify potential revenue losses.

Clear strategy ownership and outcome measurability are vital. Prioritize use cases that promise the most substantial impact, avoiding the trap of numerous proofs of concept.

When aligning technology with strategy, discern whether to buy or build. Assess whether off-the-shelf solutions suffice, or if a bespoke approach would reap greater rewards.

Boards may wish to ask:

- Is our AI strategy aligned to the business strategy?
- Is it transformative across entire value chains with trackable and quantifiable benefits?
- Who is responsible for the AI strategy and execution?
- Is there a clear strategy on technology (buy vs build)?
- Are all foundational elements - data, business processes, governance - in place to support the AI strategy?

Navigating AI risks with diligence

Delving into AI also means confronting the spectrum of associated risks—data privacy, ethical quandaries, and stringent regulatory landscapes. Then comes the looming question: If your AI system malfunctions, what then? Implementing robust checks and balances is non-negotiable to mitigate the possibility of misinformation.

Boards may wish to ask:

- What controls are in place to govern AI? Is there a rollback strategy?
- What does your responsible AI framework look like?
- What external risks, laws and regulations must you consider?
- What is the environmental impact of your AI strategy implementation?
- How autonomous is your AI? What human interventions are in place?

AI's People impact – Enabling human synergy

The crux of AI transformation lies not only in technology but also in people. Upskilling staff and reshaping interactions with suppliers and customers are foundational. As AI redefines roles, redirecting your workforce's potential to areas where they continue to add value is essential.

AI transcends industries and borders, and it is here to stay. How organizations take advantage of it is open to debate. No matter what your business strategy, we believe there is merit in assessing the value of an AI strategy to drive real business outcomes. Learn first, test second, then scale up, once the value is clear.

Boards may wish to ask:

- How does AI change the way our people work, and our interactions with suppliers and customers?
- How do we use trusted, responsible AI to drive brand value with customers, suppliers and our people?
- How are we going to upskill, reskill and redeploy our people to drive value?
- How do we change people’s behaviors so that they embrace, use and trust AI?

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How to create clarity in ambiguity in board priorities

Companies continue to face challenges from dynamic global crises, geopolitical complexities and global economic uncertainties. At the same time, growth opportunities beckon the bold. Generative AI (GenAI), for instance, offers tremendous potential to increase productivity and transform work, business models and society.

In this context of crises and opportunities, directors need to deepen their engagement and guide companies to build resilience by carefully balancing discipline and transformation. Central to this is the ability to address key concerns on capital allocation, talent, evolving technologies, and environmental, social and governance (ESG), among a slew of other competing corporate priorities.

As directors help companies build resilience, addressing key concerns on capital allocation, talent, evolving technologies, and environmental, social and governance is critical.

Focus on capital

Global economic activity is expected to remain subdued in the year ahead. But Asia remains promising in driving global growth. Asia is expected to contribute to 60% of global GDP growth in 2024 — higher than the pre-COVID-19 pandemic average.[1] Southeast Asia is projected to see an uptick in growth the same year, spurred by favorable factors, such as the continued travel revival, steady internal demand and greater public investment.

Notwithstanding, boards are generally cautious and focusing strongly on capital allocation. While global appetite for mergers and acquisitions (M&As) has fallen to its lowest level since 2014, companies should not hold back from crucial investments that underpin long-term growth, such as those related to technology and sustainability. The board must urge the management to take a long-term perspective to avoid missing out on innovations or investments for growth and competitiveness. Being proactive and transparent in communicating the company’s growth narrative and capital strategy to stakeholders is equally crucial.

Elevate the talent agenda

Having a workplace culture that enhances retention and belonging has become more challenging — and therefore a differentiator — for organizations. The EY 2023 Work Reimagined Survey found that nearly four in 10 employees in Southeast Asia are likely to leave their jobs for competitive salaries, career advancement and better wellbeing programs. If boards have been sidelining talent matters, now is the time to engage with the chief human resources officer and get close to employee sentiments.

Artificial intelligence (AI) — including GenAI — is expected to impact employees in more ways than displacing or augmenting job tasks. The above survey found that while more than 90% of employers in Southeast Asia are already using or planning to use GenAI within this year, only a quarter plan to provide GenAI-related training. This is a very telling gap. Re-skilling and upskilling must take priority if the workforce is expected to fully harness technologies — and grow and thrive with them.

Innovate fast with technology

There is still much uncertainty in the AI space, making it hard for executives to respond with agility. Governments are seeking to strike a balance between fostering innovation with AI and designing regulations to mitigate macro risks.

Despite the ambiguities, companies know that inertia can cost them opportunities to innovate for growth. Leading companies are moving beyond thinking incrementally about AI in terms of how they can make existing processes more efficient to considering how AI could transform business models, products and services. At the same time, considerable attention must be given to robust AI policies and governance to not only maintain compliance but also build confidence with regulators, investors and other stakeholders.

Keep up on climate action

With just six years to meet the Paris Agreement target of halving greenhouse gas emissions worldwide by 2030, swift action from companies must continue to address the escalating climate crisis. Stakeholders are closely monitoring how companies are meeting their emissions reduction targets and climate transition plans — and so too must boards.

While the push to prioritize sustainability is challenging as ESG considerations are wide-ranging and require trade-offs that may be hard to quantify, investing in climate action pays off. EY research found that companies taking the most action to address climate change are 1.8 times more likely to report higher-than-expected financial value from their climate initiatives, compared with those taking the least action.

Moreover, multiple studies have shown that investors look for focus. Companies that direct their efforts in a concerted manner on the most material ESG aspects for their industry have historically demonstrated a higher alpha than peers that do not.

The boardroom concerns discussed above sit against a backdrop that is increasingly fraught with geopolitical tensions, which arguably have had the most complex impact on corporate strategy in a generation. Robust board leadership is crucial to help increase the resilience of the enterprise's business model and supply chains to prepare for future shocks. After all, the board's role doesn't stop at defending the past; it's also to define the future — hopefully, one that's marked by resilience, growth and optimism.

This article was sourced from EY Center for Board Matters: How to create clarity in ambiguity in board priorities

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