

EY Center for Board Matters

Four lessons for boards in overseeing emerging technology

When it comes to governing innovative, new technologies, boards play a critical role in identifying strategic opportunities and overseeing related risks.

The 2023 EY Board Strategy Summit welcomed more than 100 board directors and business leaders to talk about innovating for the future in the face of rising inflation, geopolitical crises and rapid digital transformation – all hastened by the emergence of generative artificial intelligence (AI), the metaverse and other disruptive platforms.

In a series of panel discussions, networking opportunities and high-profile keynote addresses, the summit explored how critical it is for directors to gain experience with fast-moving technologies directly, what investors and other stakeholders expect from the board, how leading companies are embracing innovation in times of uncertainty, and the importance of innovating with purpose and principles. Following are four lessons learned through these discussions.

Be curious

When the audience was asked how many of them felt like they were experts in AI, they erupted in laughter. Hands went up, mostly in jest. But the response was telling: How can board members keep up? Board leaders must consider emerging technology platforms that were barely in existence before the pandemic: AI, the metaverse, advanced language models. Boards that see potential in these technologies – unique to their companies' mission and purpose – don't just vote up or down, said one session leader, they are "visioning." That means having actionable discussions about how they can lean into these technologies immediately and use them to reorient business and operating models toward growth and productivity.

Melody Hobson, CEO of Ariel Investments, Chair of the Board at Starbucks, and a board member of JP Morgan Chase, told the audience that she has done just that by going straight to Starbucks stores. The best innovators, she believes, are people at the counters – and not just when it comes to coffee, food, and customer services, but also in improving the work experience for baristas themselves.

Be hands-on

Our panelists talked about how the new generation, starting with Gen Z, is already fully digital. These young early adapters are current and future consumers and employees. They want to own their data, have a say over AI and curate their metaverse experience. For example, not unlike generations of teenagers who went to the mall to shop and hang out, soon teens will be doing the same in the metaverse. The world of professionals interacting as avatars in virtual realities is coming, too. We are already seeing the power of this environment for corporate learning, especially in training for dangerous work such as pipeline and powerline maintenance. Being merely aware of these technologies will not cut it. Boards must embrace the same hands-on mindset as Gen Z's. They need to get out of their comfort zones, try these technologies themselves and adopt a continuous learning mindset. Boards that embrace AI broadly and vision the opportunity to change their businesses – even consider applications in their boardrooms – will reap the rewards. Those that don't will fall behind. And this future is only a few years away.

Back at Starbucks, Hobson had put this mindset to work by helping to launch the Tryer Center, a bustling innovation hub on the ground floor of the company's Seattle headquarters. From the amount of milk in coffee to developing a new system for mobile orders, all ideas are thoroughly tested with the goal to put them to use in just 100 days. Everyone, including board members, is encouraged to participate.

Embrace innovation without being reckless

Just a couple of years ago money was free and people went to offices. Then came COVID-19 and everything that followed – supply chain crises, the war in Ukraine, inflation – transformed how companies do business around the world. Mark Weinberger, Board Member of Johnson & Johnson, MetLife and Saudi Aramco, noted that directors are dealing with inflation for the first time in many of their tenures. Labor and energy costs also continue to rise. Cutbacks and layoffs can only get companies so far. AI, intelligent automation, and alternative energy sources must be part of scenario planning and capital reallocation decisions.

While innovation is a necessity, boards should seek balance between exuberance and caution. The blinking lights of sleek new technology are not a solid business plan, especially during time of economic uncertainty. Disruptive platforms must have a solid business case behind them. By asking the right questions boards can better understand their customers and talent – as human beings, not just shoppers and workers – using AI's powerful algorithms to improve products and lives.

Be inclusive and responsible

The tech skills needed to keep innovation humming are at a deficit. Less constrained immigration policies and remote work could open up a greater talent pool, bringing high-tech professionals from Asia, Africa and the Middle East. Still, a great many of those talented people are underrepresented right here in the United States. For Ken Frazier, retired Executive Chairman & CEO of Merck, purpose-driven innovation involves aligning achievement to skills, not merely credentials. Along with Ken Chenault, former Chairman and CEO of American Express, he co-founded the OneTen initiative – to hire, promote and advance one million Black workers who do not have a four-year degree into family-sustaining careers over the next ten years. Chenault and Frazier believe a similar purpose-driven mindset should apply to the boards and management.

Human diversity is a core value and leads to better business outcomes. However, while empathy and soft skills matter, says Chenault, a culture of innovation requires constructive conflict to advance new ideas.

Responsible innovation also means watching out for the unintended consequences of rapidly advancing digital technology. The era of "move fast and break things" is over. Innovation is always faster than regulation, but boards must recognize and oversee the related risks of AI. Just because something is possible doesn't mean it's right. AI is here to stay, and leaders will have to balance its potential benefits with the risks of cyber threats, biases and other adverse impacts on workers and consumers.

To win in a digital economy, boards will have to practice proactive curiosity, immerse themselves in new technologies, engage in constructive tension and build inclusive ecosystems that break down barriers to progress. The future of innovation is about trying, failing, failing better until you succeed in building a better working world.



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10 key takeaways for boards as they govern innovation and emerging technology

- 1 Be curious and hands-on with innovative technology; if you are going to govern emerging technology, you must understand it, at least at a cursory level.
- 2 Seek balance between exuberance and caution. The blinking lights of technology are not a solid business plan; disruptive technology must have a business case and ROI behind it.
- 3 Try to see the opportunity of innovation through the lens of the younger generation by bringing fresh perspectives into the boardroom.
- 4 Globalization drives innovation and, while geopolitical conflict between major powers can be a challenge, emerging markets should not be ignored.
- 5 Especially during the current market uncertainty, companies should keep investing in innovation and trust in the core strength of the economy, but with an ROI mindset.
- 6 Remember that greater diversity throughout the company – including the board and management – leads to better results. Diversity is core to long-term value.
- 7 It is critical for boards to understand the unintended consequences of technology and aspire to innovating responsibly; the era of “moving fast and breaking things” is over.
- 8 Companies can help address inequality through purpose-driven innovation that is aligned to the mission and values of the company.
- 9 Empathy and soft skills matter, but boards shouldn't be too collegial. A culture of innovation requires constructive conflict or even confrontation when it matters the most.
- 10 Never pile on, reiterate or underscore comments made by other directors in the boardroom. Only use your voice to contribute something original and/or innovative. Don't be the “Wizard of Was.”

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US SCORE no. 20361-231US
CS no. 2206-4054345

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