

Morgan Stanley

INSTITUTE FOR SUSTAINABLE INVESTING

Governance and AI Adoption



Introduction

As companies integrate AI into their workflows, new governance issues are coming into focus. How are boards responding to this period of rapid change; how are companies thinking about risks, now and in the future; and what control measures are being implemented?

We looked at these questions from two angles for a deeper understanding of how governance is evolving alongside AI adoption. First, we analyzed board composition within the S&P 500 to assess how AI skills among non-executive directors are being incorporated – this is based on a dataset from ISS, compiled in June 2026. Second, the Morgan Stanley Institute for Sustainable Investing surveyed a group of 200 executives involved in AI governance strategy at global corporates to explore views on the implementation of AI strategies.

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Key Takeaways from Board Member Data



- 1 Most boards have some AI experience; a quarter have multiple sources:** Two-thirds of S&P 500 companies have at least one non-executive director with AI skills, according to new data from ISS¹. One-quarter have multiple sources of experience: 24% have three or more non-executive directors with AI skills, building towards the breadth of knowledge that boards routinely have for skills like Technology (96% with three or more) and Information Security (80%).



- 2 AI experience on boards varies by sector:** Information Technology and Real Estate companies have the highest rates of AI skills (34%/32% with three or more non-executive directors), with Energy at zero, Communication Services at 15% and Utilities at 16%. Morgan Stanley Research finds potential² for AI productivity gains in some sectors with lower board-level oversight, suggesting that board-level AI skills may be increasingly required in these sectors over time.



- 3 AI skills are represented across board committees:** Where companies have multiple non-executive directors with AI skills, they are fairly evenly distributed across the three main board committees (Audit, Nominating and Compensation). This supports a view of AI governance as broadly relevant across the business, rather than focused on risk management.

Key Takeaways from Our Survey



- 4 Data risks are top of mind today, shifting to regulation and execution:** Among AI governance professionals managing risks around AI adoption today³, 90% say data risks are material and 56% name them the top risk from their company's use of AI. Looking forward 2-3 years, the focus shifts to uncertainty about complying with regulation (35% say this is the top future risk) and execution risks (32%).



- 5 A range of control measures is in place or in progress:** These include both defining where responsibility for AI governance lies, and specific model control actions. Almost half of respondents have allocated responsibility across boards, executives and corporate functions today, and 30% - 40% have a range of model controls in place. More than 90% of companies expect to implement each of the eight control measures we named over time.



- 6 Separate human review in higher risk situations** emerges as the most important piece of guidance on AI use given by companies to employees: 41% chose this option, more than double the next answer.

¹ Dataset from ISS dated June 2026 covering current board members at S&P 500 companies. ISS defines "AI skill" as reflecting prior experience in AI, machine learning or a related topic, based on companies' disclosures.

² Morgan Stanley Research, "AI Adoption And The Future Of Work: Banks, Tech and Professional Services", May 11, 2026. For a copy, please reach out to your Morgan Stanley representative.

³ Subset of respondents in [Sustainable Signals: Corporates 2026 | Morgan Stanley](#), April 2026.

AI Skills and Board Composition

This section draws on an ISS dataset covering over 4,000 current non-executive director appointments in the S&P 500. The dataset includes biographical data and committee memberships as well as tags for board members' skills based on companies' disclosures, one of which is AI experience. ISS defines "AI skill" as reflecting prior experience in AI, machine learning or a related topic. The analysis focuses on S&P 500 companies as the dataset includes information about the full set of companies; coverage in other regions is not comprehensive.

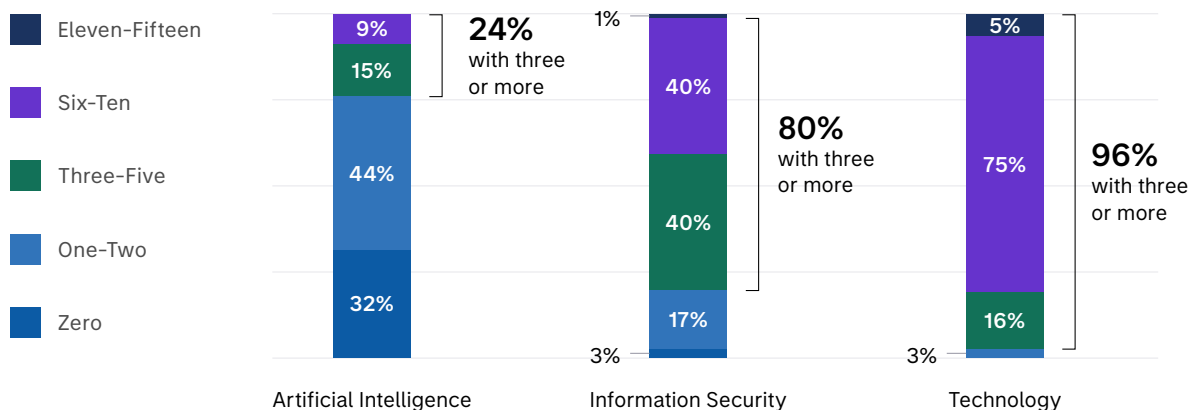
One-quarter of S&P 500 companies have three or more non-executive directors with AI skills

Across the S&P 500, two-thirds (68%) of companies have at least one non-executive director with AI skills. One-quarter (24%) have multiple sources of experience, with three or more non-executive directors with AI skills, building towards the breadth of knowledge that boards routinely have for other technical skills. Almost all (96%) S&P 500

companies have three or more non-executive directors with Technology skills, and 80% have three or more with Information Security skills. For Technology in particular, most boards have many more non-executive directors with this skill: 80% have six or more.

FIGURE 1

Number of non-executive directors with technical skills per S&P 500 company



Source: Institute analysis of ISS data as of June 2026.

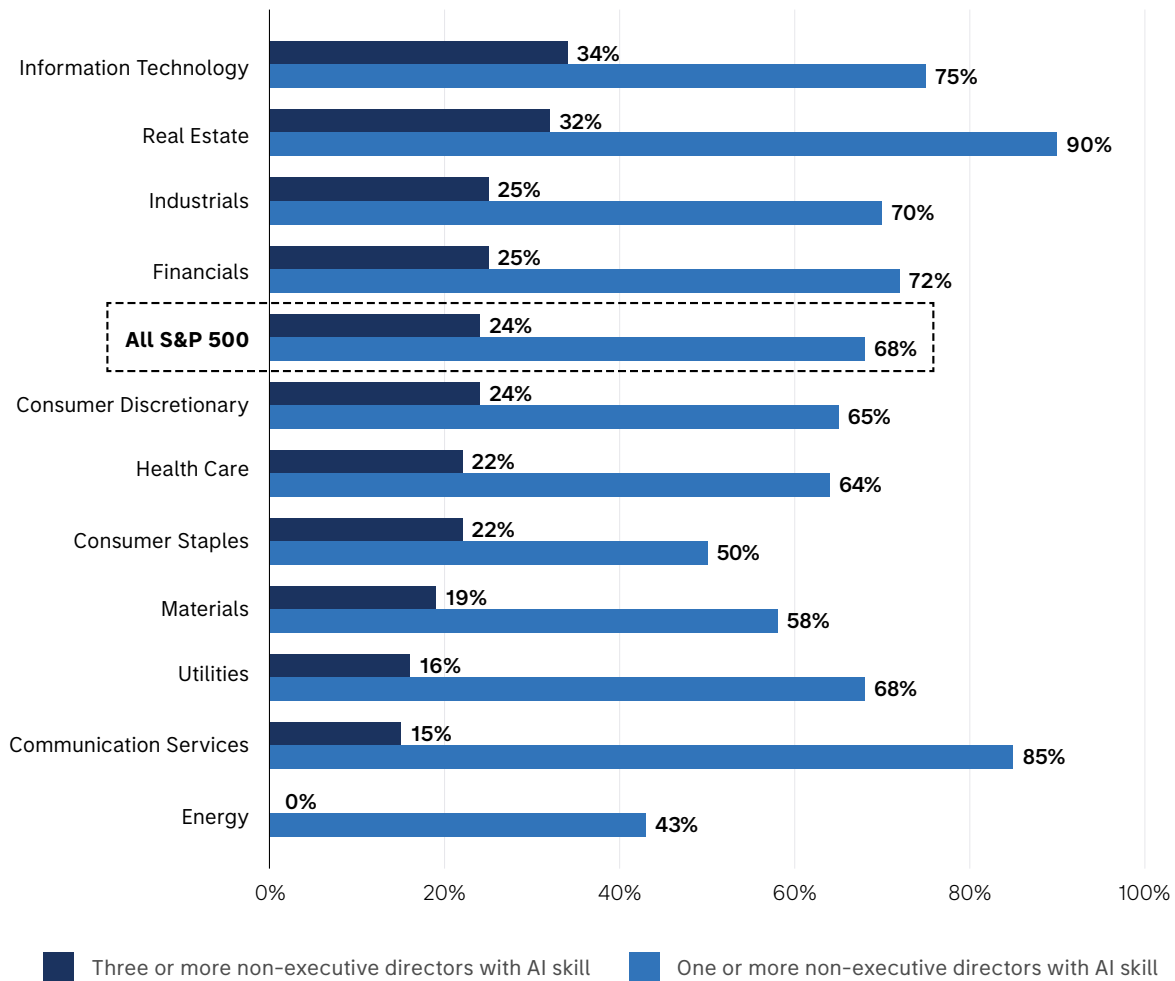
Rates of AI skill vary by sector

In some sectors of the S&P 500, like Information Technology and Real Estate, around one-third of companies have three or more non-executive directors with AI skills, ahead of

the index average at 24%. But six out of eleven sectors fall below average: Energy is lowest with zero, followed by Communication Services at 15% and Utilities at 16%.

FIGURE 2

Non-executive directors with AI skills, S&P 500 companies



Source: Institute analysis of ISS data as of June 2026.

Nearly one-fifth of S&P 500 non-executive directors have experience with AI or machine learning

Today, just under one-fifth (17%) of non-executive directors on boards of S&P 500 companies are tagged as having AI skills – almost 700 individuals, holding 900 board seats (many sit on more than one board). AI skills are strongly associated with Technology and Information Security skills, as well as CTO experience.

As corporate adoption of AI systems is still at an early stage, most non-executive directors are unlikely to have significant executive experience of leading AI adoption –

ISS frames the data point as indicating that a director has prior experience in AI, machine learning or a related topic. However, directors tagged with AI skills are not necessarily more recent appointees. Almost two-thirds (62%) were appointed in 2022 or earlier, similar to the broader director population (63%) – suggesting that companies do not necessarily expect executive experience of AI adoption to view a non-executive director as qualified in this area.

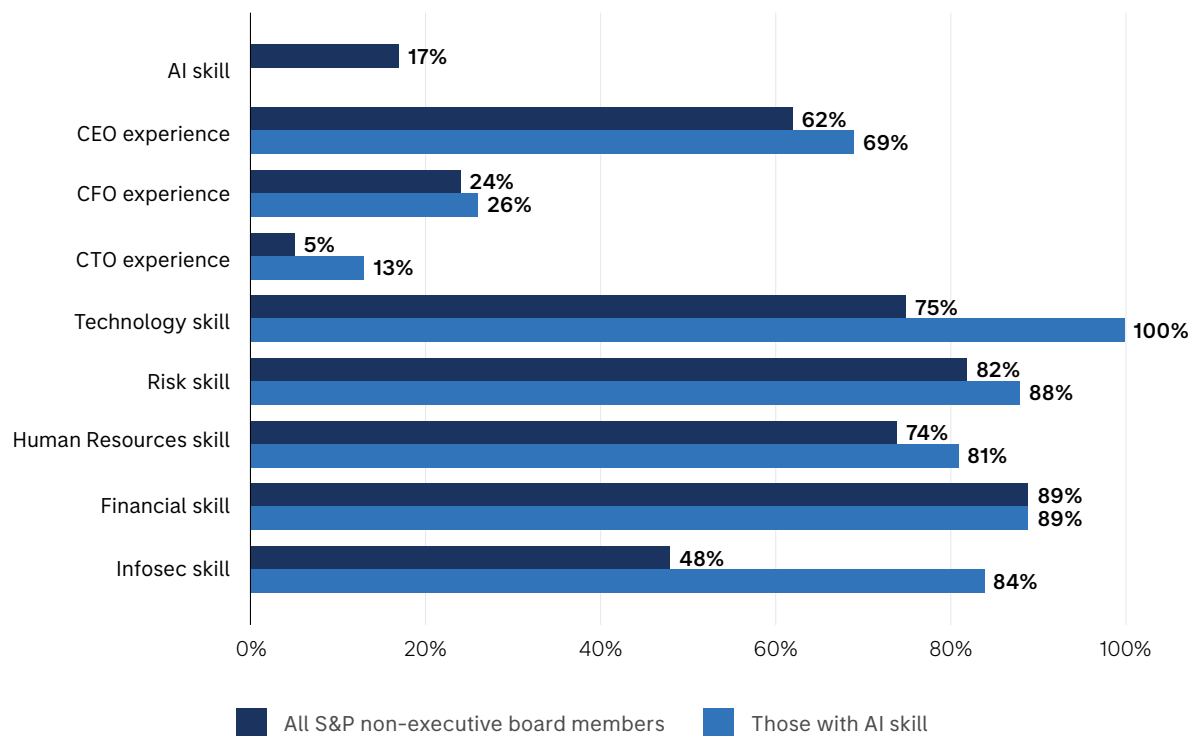
What characterizes S&P 500 non-executive directors with AI skills?

More likely than the broader group to have Technology skills (100%, vs 75%) and Information Security skills (84%, vs 48%)

Similar tenure on the board: 62% appointed in 2022 or earlier, vs 63% overall

FIGURE 3

Board member skills in the S&P 500



Source: Institute analysis of ISS data as of June 2026.

Findings on AI Adoption Productivity Gains from Morgan Stanley Research

Public commentary largely comes from sectors with higher board representation, but survey findings suggest benefits may be more widespread

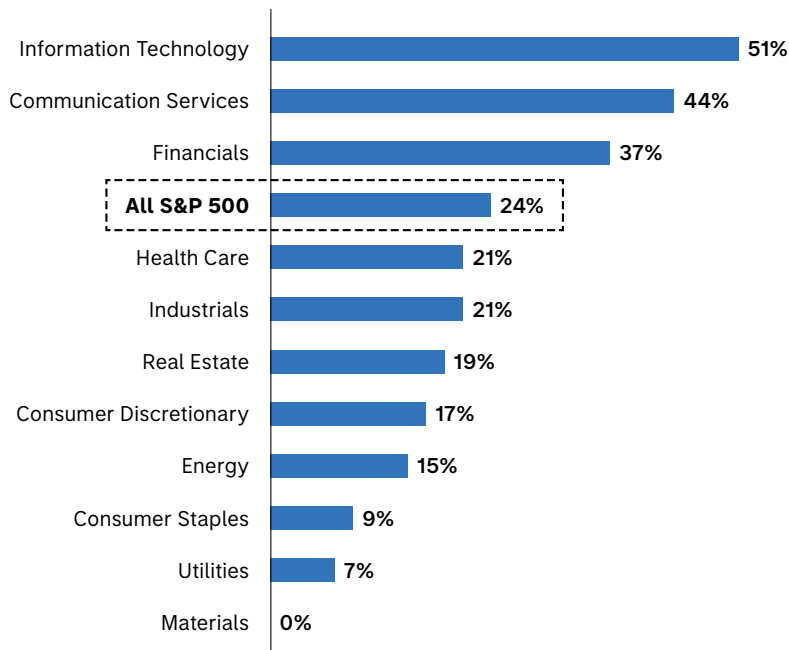
One-quarter of S&P 500 companies made some public comments about tangible benefits of AI adoption in the second quarter of 2026. Technology, Communication Services and Financials companies had the highest rates of commentary, broadly mirroring the distribution of non-executive directors with AI skills that we outlined above.

Morgan Stanley Research also conducted a series of interviews with a more specific set of industry groups. These were selected based on analysts' views around

industries most likely to benefit from AI adoption, as well as those attracting strong investor interest in the impact of AI on employment. Here, interviews find similar results for average net productivity gains, including in sectors such as Consumer Staples where ISS data suggests that board representation of AI skills is more limited. Areas of productivity improvement identified in interviews include activities that are common across industries, such as customer service, marketing, supply chain management and human resources.

FIGURE 4

Percentage of companies within each S&P 500 sector mentioning quantifiable AI-related impacts



Source: Alphawise, Morgan Stanley Research

Company commentary about tangible benefits of AI Adoption

Morgan Stanley Research's Alphawise team analyzed transcripts of earnings calls and conference appearances that took place during the second quarter of 2026, building on previous analysis to track how management teams are communicating the quantifiable benefits of AI adoption to investors.

The analysis found that one-quarter (24%) of companies in the S&P 500 mentioned at least **one measurable benefit of AI adoption** in an event during 2Q 2026, in line with the rate for this group that the same analysis found for 1Q 2026, and up from 14% during 2Q 2025. By sector, Technology, Communication Services and Financials companies were most likely to comment on tangible benefits, broadly mirroring our finding about sectors with the greatest board representation of AI skills from the ISS board member dataset.

Source: Morgan Stanley Research, "What are companies saying about AI adoption benefits & AI's impact on labor?", July 8, 2026. For a copy, please reach out to your Morgan Stanley representative.

Productivity gains from AI Adoption

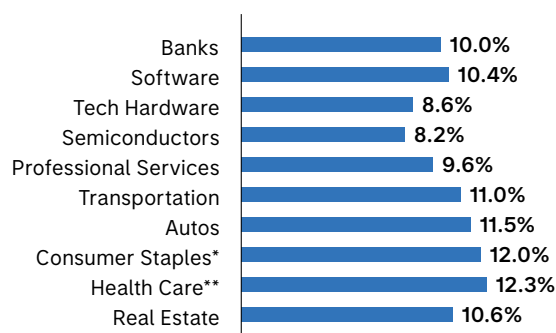
In April 2026, Morgan Stanley Research's Alphawise team carried out 808 online interviews with C-suite professionals with detailed knowledge of their company's AI strategy and implementation. The sample covers banks, software & services, tech hardware & equipment, semiconductors and professional services. This work builds on an earlier set of 935 online interviews conducted in October 2025, covering transportation, autos, consumer staples, health care and real estate companies. Both sets of interviews covered companies in the U.S., U.K., Germany, Japan and Australia.

Views on net productivity gains are broadly similar across industry groups. The 10 GICS® industry groups represented in the two sets of interviews were selected based on Morgan Stanley Research analysts' views around industries most likely to benefit from AI adoption, as well as those attracting strong investor interest in the impact of AI on employment. Across these industry groups, companies identified between 8.2% and 12.3% net productivity gains, on average. Some of the higher averages are in industry groups like Consumer Staples Distribution and Retail, where the broader sector (Consumer Staples) has lower rates of both non-executive director representation (based on ISS data) and public-facing commentary (based on the transcript analysis), suggesting that impacts may be more nuanced within sectors.

Productivity improvement could come in areas common to many industries. Views on the areas of productivity improvement are broadly similar across the two sets of industries covered by the interviews. These are often in areas common to many sectors, such as customer service, marketing, operations and supply chain, sales and human resources.

FIGURE 5

Average net productivity increase as a result of AI implementation in the past 12 months

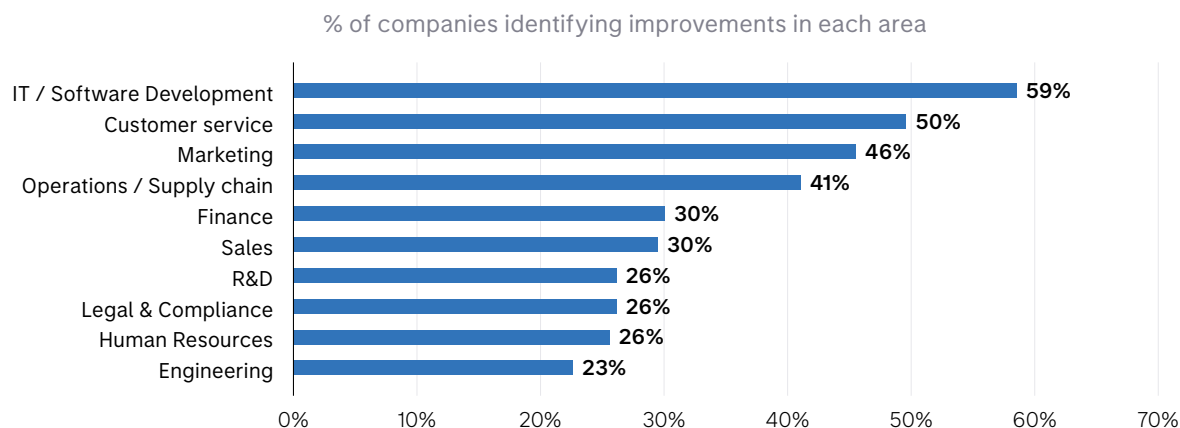


Source: Alphawise, Morgan Stanley Research

* Consumer Staples Distribution and Retail ** Health Care Equipment & Services

FIGURE 6

US: Areas of productivity improvement in the last 12 months



Source: Alphawise, Morgan Stanley Research

Source: Morgan Stanley Research, "AI Adoption And The Future Of Work: Banks, Tech and Professional Services", May 11, 2026. For a copy, please reach out to your Morgan Stanley representative.

AI skills are fairly evenly distributed across board committees

To assess how companies may be assigning responsibility for AI oversight, we analyzed committee memberships. As a baseline across the S&P 500, around 45% of non-executive directors sit on each of the three⁴ most common committees: Audit, Nominating and Compensation (non-executive directors often have more than one committee membership).

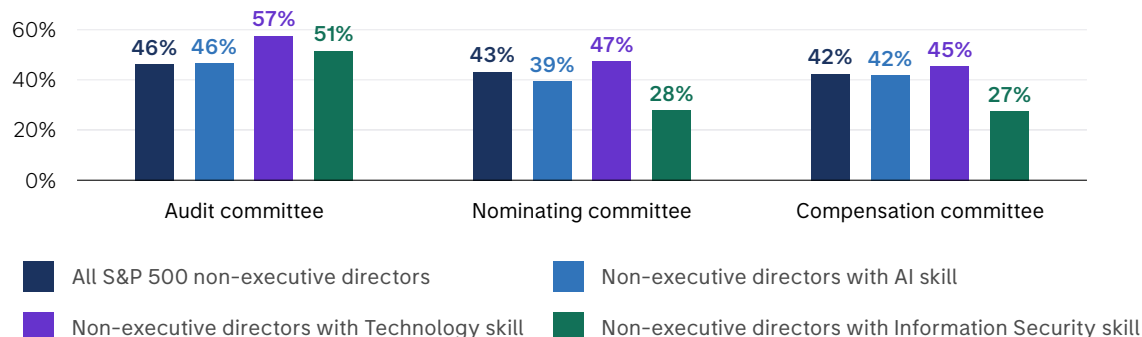
If AI governance is seen primarily from a risk management perspective, Audit committees may be the most natural home: The Conference Board notes that Audit committees typically have oversight of risk⁵, and EY finds that more than three-quarters of S&P 500 companies include oversight of cybersecurity risk in their Audit committee descriptions, based on analysis of 2024 proxy statements⁶. 2025 analysis from EY finds that 21% of Fortune 100 companies disclose AI

oversight by the Audit committee, while 25% disclosed that this sat with a different committee⁷.

However, non-executive directors with AI skills are fairly evenly distributed across the three main board committees, with 46% sitting on the Audit committee, 39% on the Nominating committee and 42% on the Compensation committee. Similarly, Technology skills are slightly more often associated with the Audit committee, but still with broad representation. In contrast, non-executive directors with Information Security skills are almost twice as likely to sit on the Audit committee than the other two. This may suggest that boards are approaching AI skills as broader than risk management, reflecting the comprehensive impact of AI on companies.

FIGURE 7

Percentage of non-executive directors that sit on each board committee



Source: Institute analysis of ISS data as of June 2026. Note that many non-executive directors sit on more than one committee.

“Boards are responding to this period of rapid change. We expect continued efforts to deepen AI knowledge among existing non-executive directors, as well as active consideration of AI skills in recruiting new board members. AI experience has broad relevance across board committees and across sectors, enabling companies to capture the full opportunity from AI adoption while also ensuring strong oversight.”

MELISSA JAMES

Managing Director, Vice Chairman of Global Capital Markets and Head of the GCM ESG Center of Excellence



⁴ Some companies, particularly in Financial Services, have separate Risk committees, but this is not widespread across the S&P 500.

⁵ [Board Practices and Composition in the Russell 3000 and S&P 500: 2025 Edition](#), The Conference Board, November 2025.

⁶ [How board committees are changing](#), EY, November 2024.

⁷ [Cyber and AI oversight disclosures in 2025](#), EY, October 2025.

Executives' Views on Risks and Control Measures

This section is based on a subset of respondents in Morgan Stanley's Institute for Sustainable Investing's [Sustainable Signals: Corporates](#) survey, conducted in April 2026 across 200 global corporates with revenue >\$100m. To qualify, respondents had to be decision-makers on their company's AI governance strategy or have comprehensive knowledge of that strategy. This is a global sample, unlike the previous section which focused on the U.S. due to data availability constraints. We present the global data here for the broadest coverage; some regional differences are noted in the text but overall conclusions are the same in all three regions.

Where does AI governance strategy fit in corporate functions?

Our earlier analysis of AI skills among non-executive directors shows a fairly even spread across board committees, enabling boards to consider AI implications across business units. Our survey allows us to explore how this looks for internal corporate functions. AI governance executives hold multiple roles working across functions, most commonly strategy (26%), marketing and communications (20%) or business development and sales

(17%). This is similar to our finding for sustainability decision makers in the main Sustainable Signals: Corporates sample.

There is some overlap between AI governance responsibilities and sustainability roles. One-third of sustainability decision-makers in our Sustainable Signals: Corporates respondent group are also close to their company's AI governance strategy, either as decision-makers or with comprehensive knowledge.

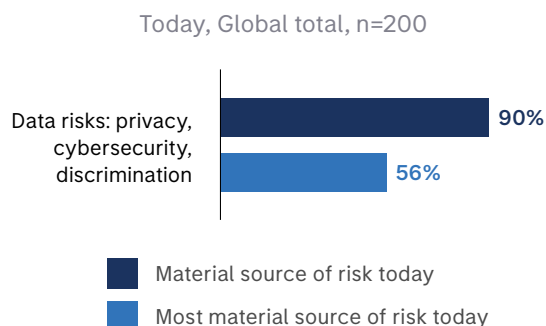
What are the key sources of risk from AI adoption?

DATA RISKS ARE TOP OF MIND TODAY

Data (privacy, cybersecurity and discrimination) is by far the most common source of risk identified today, with 90% saying this is material and 56% naming it the top risk from their company's use of AI (the next answer is legal risks at 11%). This finding is consistent across regions, across company sizes and across industries. However, respondents expect other risks to overtake their current concerns around data: just 5% of respondents say they expect data to be the most material risk in 2-3 years.

FIGURE 8

What do you see as material sources of risk from your company's use of AI?



Source: Institute for Sustainable Investing, April 2026

LOOKING AHEAD 2-3 YEARS, FUTURE REGULATION AND EXECUTION RISKS ARE PROMINENT

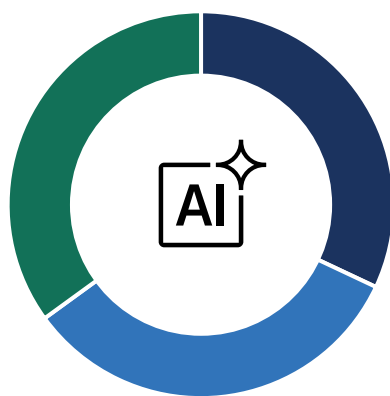
Just over one-third (35%) expect regulatory compliance or legal risks to be their top concern in 2-3 years, while 32% highlight a range of execution risks as most material.

- **The shape of future regulation is top of mind for many. 30% expect regulatory compliance to be the most material risk in future**, perhaps reflecting the still-nascent regulatory landscape today. This rises to 37% among Europe-based companies, with North America and APAC at 25% and 26% respectively. Across sectors, regulation is generally ranked most material, although consumer-facing sectors are lower than others. An additional **5% place legal risks** around intellectual property top among future risks.
- **Execution risks are also prominent. 16% see strategic risks around pace of adoption and failure to realize ROI** as most material in future. This rises to 20% of North American companies, larger companies (those with annual revenue over \$10 billion), and over 20% of Utilities, Industrials and Technology companies. Control measures are also prominent: **8% say oversight of decisions made by AI systems** is their top future risk. An additional **5% put counterparty risks** around vendor relationships top of the list, while a further **3% say that integration risks**, where AI systems cannot interoperate with legacy systems and infrastructure, may be most material.

FIGURE 9

What do you see as the most material source of risk from your company's use of AI?

In 2-3 years, Global total, n=200



Regulation and legal, 35%

Compliance risks 30%
Legal risks 5%

Execution, 32%

Strategic risks 16%
Oversight risks 8%
Counterparty risks 5%
Integration risks 3%

Other, 33%

Model risks 9%
Human capital risks 8%
Data risks 5%
Reputational risks 5%
Improper use 2%
Product risks 2%
Environmental risks 1%

Source: Institute for Sustainable Investing, April 2026
Figures may not sum due to rounding

What control measures are companies putting in place?

Most respondents expect their company's existing risk management frameworks to capture AI-related risks. Just under half (48%) say that most of their current risk management structure should be sufficient with some changes, and a further 39% expect their existing structure to work well, but are still assessing.

The survey covered three key ways for companies to approach control measures for AI adoption:

- Defining where responsibility lies among boards, executives and corporate functions.
- Specific model control measures such as model inventories, testing/validation and design standards.
- Guidance to employees.

MOST COMPANIES ARE ESTABLISHING WHERE RESPONSIBILITY SITS

Around 90% of respondents say their companies have defined, or are in the process of defining, where responsibility for AI governance and risk management sits within their organization. Across corporate functions, senior executives and the board, just under half of respondents say this is in place today, with around a further 45% describing this as in progress. Answers are generally consistent across sectors, with consumer-facing businesses a little lower than others. The survey results are similar across the three regions.

FIGURE 10

What measures does your company currently have in place to support effective governance and risk management of AI development and deployment?

% saying each measure is fully in place

Sectors	n=	Define responsibilities		
		Control functions (e.g., Risk, Compliance, Audit) with dedicated role on AI risk management	Board/Executive Committee with a defined remit on AI governance and risk management	Senior executive(s) with responsibility for oversight of AI governance and risk management
Energy, Materials, Utilities, Industrials, Real Estate	87	48%	45%	52%
Consumer Staples, Consumer Discretionary	40	38%	43%	35%
Financials, Technology, Health Care, Comm. Services	73	48%	49%	48%
Fully in place, global total	200	47%	46%	46%
In progress, global total	200	42%	46%	45%
Fully in place plus in progress, global total	200	89%	92%	91%

Source: Institute for Sustainable Investing, April 2026

A RANGE OF MODEL CONTROLS ARE ALSO BEING IMPLEMENTED, WITH VARYING RATES OF PROGRESS

For more specific model control measures, existing implementation rates are lower, and vary more by sector. Across a set of five measures, current adoption varies between 41% (for model inventory and for testing/validation) and 27% (for structured challenge mechanisms) across the full group of 200 respondents. At the sector level, the variation is more pronounced. In some cases, adoption rates for Financials, Technology, Health Care and Communication Services companies are around double those in the remaining sectors.

More than three-quarters of companies say that each of these model control measures are either in place or in progress, rising to over 90% when the option of “Planned but not yet implemented” is included. Fewer than 10% of companies rated any of the model control measures either “Still considering” or “Not required”.

FIGURE 11

What measures does your company currently have in place to support effective governance and risk management of AI development and deployment?

% saying each measure is fully in place

		Model controls				
Sectors	n=	A formal inventory of AI models in use with assigned ownership	Formal model testing and validation protocols prior to deployment	Defined standards for AI model design and data use	Model risk classification and tiering system that determines required controls and oversight	Structured challenge mechanisms to identify unintended or emergent risks
Energy, Materials, Utilities, Industrials, Real Estate	87	32%	23%	36%	33%	18%
Consumer Staples, Consumer Discretionary	40	25%	38%	35%	38%	25%
Financials, Technology, Health Care, Comm. Services	73	59%	42%	45%	52%	38%
Fully in place, global total	200	41%	41%	39%	33%	27%
In progress, global total	200	43%	38%	38%	41%	50%
Fully in place plus in progress, global total	200	84%	79%	77%	74%	77%

Source: Institute for Sustainable Investing, April 2026

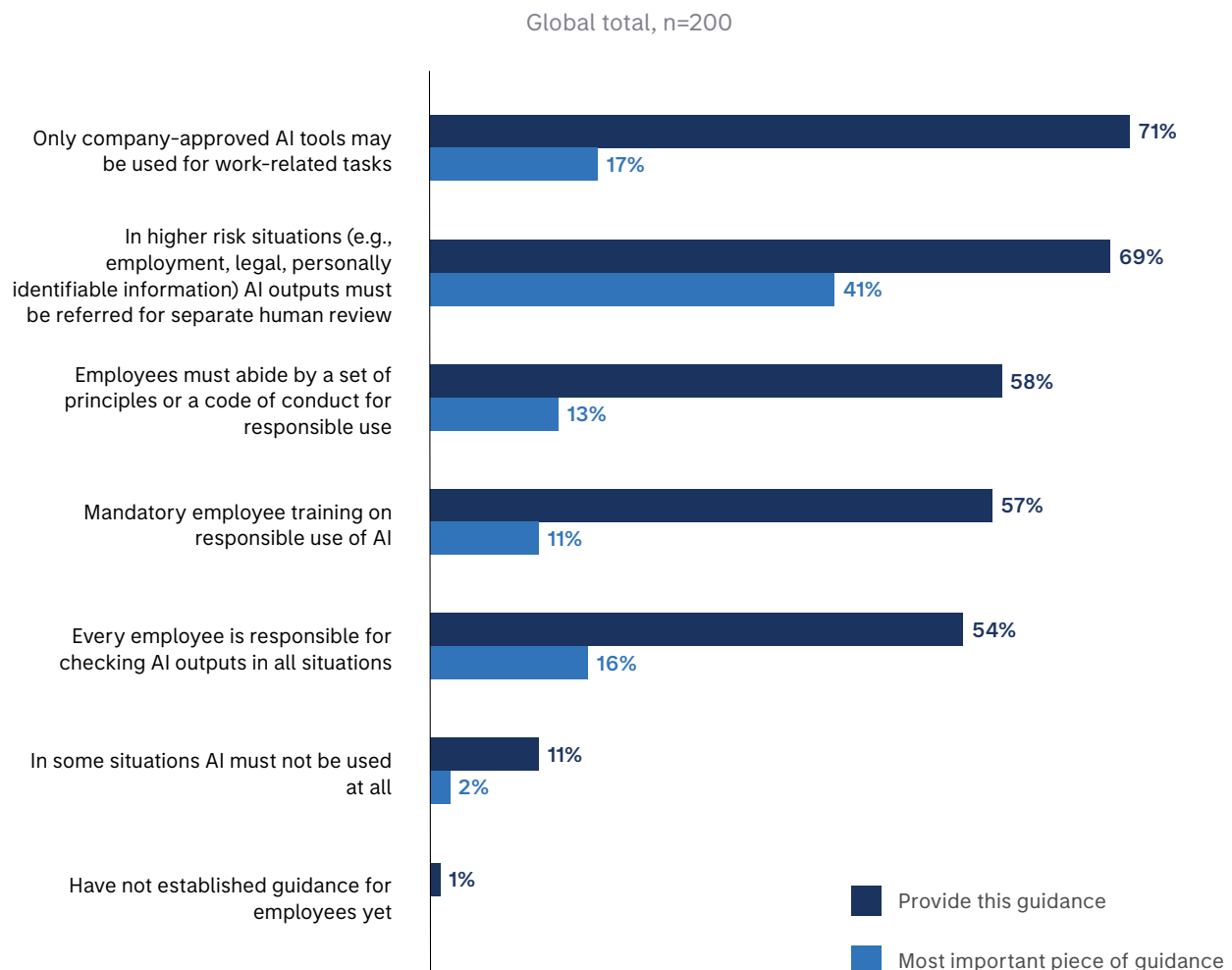
SEPARATE HUMAN REVIEW EMERGES AS THE MOST IMPORTANT PIECE OF GUIDANCE TO EMPLOYEES

The most common pieces of guidance to employees, according to survey respondents, are that AI tools must be company-approved (71%), and that AI outputs must be referred for separate human review in some higher-risk situations (69%, rising to 75% in North America). Many also note that their company has a code of conduct (58%), mandatory training (57%), and that employees are responsible for checking AI outputs (54%). It is unusual for companies to identify some situations where the use of AI is ruled out altogether (11%, rising to 15% in North America), although this is more common among respondents at Health Care and Technology companies (over 20% of each group say they provide this guidance).

Separate human review emerges as the most important piece of guidance that companies give their employees: 41% of respondents chose this, more than double the next answer (only company-approved AI tools to be used for work-related tasks, at 17%).

FIGURE 12

What guidance does your company provide to employees on responsible AI use?



Source: Institute for Sustainable Investing, April 2026

What are the barriers for companies establishing effective AI governance strategy?

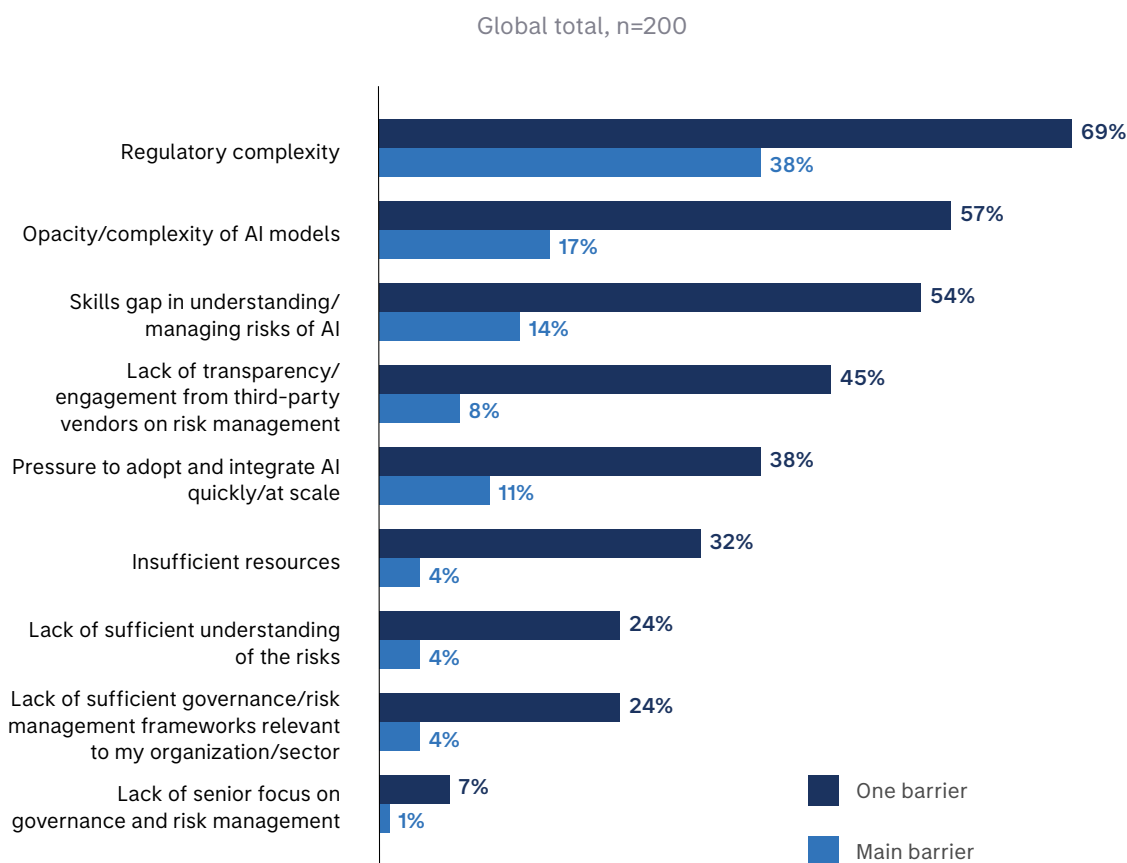
REGULATION AND MODEL COMPLEXITY ARE THE MOST PROMINENT ISSUES

The most highly ranked barriers to enhancing the effectiveness of AI governance are external: 38% cite regulatory complexity as their main barrier (rising to 43% in North America⁸), followed by opacity and complexity of AI models at 17% (this rises to 26% of European companies). Among internal factors, a skills gap is the most common issue, at 14% (19% and ranking second in North America).

More than one-third of respondents (38%) say that pressure to adopt AI rapidly is holding back their company's governance efforts, while 11% say this is their main barrier, mostly in Consumer Discretionary and Communication Services sectors (zero Health Care companies and just 4% of Financials companies said this was their top barrier). Respondents generally feel well resourced, and that their senior management is focused on the issue with 4%/1% respectively noting this as their top barrier.

FIGURE 13

Which of the following potential barriers to enhancing effectiveness of governance and risk management for AI are relevant to your company?



Source: Institute for Sustainable Investing, April 2026

⁸ Many of the companies in our sample operate globally or in several regions of the world, and so may need to consider regulation in multiple locations.

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