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BUILDING AN AI ORGANIZATION

Thought Leadership

No challenge is more pressing in business today than the leveraging of artificial intelligence (AI). As companies—from start-ups to corporate giants—attempt to derive value from AI, perhaps the most critical decision they face is determining how to structure the AI team within the broader organization. For leaders tasked with making this decision, key questions include:

- Who is responsible for crafting the company's AI strategy and who will execute it?
- How should the AI team be structured, and how will it be funded?
- How is success for the AI team measured, and how will its efforts be recognized by the business?

To answer these questions, Korn Ferry interviewed leading executives across a variety of industries, geographies, and company sizes to learn how their AI teams are being structured today, the strengths and drawbacks of each organizational model, and the biggest challenges that still need to be solved.

Origins of the AI Organization

Before the tremendous technological developments of the past 18 to 24 months—most notably the launch of Chat-GPT and other leading large language models (LLMs)—most AI technology was developed in academic settings or well-funded corporate **R&D factories**. Because off-the-shelf AI capabilities were very limited in their availability and scope, organizations that were committed to using AI in their business—whether in machine learning, neural networks, or computer vision—often had to build the technology themselves.

Key Insights

- AI organizational models are shifting away from legacy R&D Factories into three new models.
- The pros and cons of each AI organizational model.
- Next steps for implementing the AI organizational design that is right for your business.

R&D Factories

In the R&D factory model, companies would hire a chief AI officer or head of AI to build and lead what amounted to an AI laboratory, often under the auspices of the chief technology officer (CTO), but occasionally reporting to a General Manager or even a CEO. This leader would almost certainly have a PhD in some form of artificial intelligence, come from a distinguished academic laboratory, and recruit other research-focused AI practitioners to develop custom capabilities for their business. These corporate R&D environments were initially developed by large technology companies, a handful of significant financial institutions, and other early adopters.

While this type of organization still exists today, it is largely limited to two types of companies: the first being leading tech companies currently driving global advances in generative AI, and the second being smaller start-ups aiming to make significant advancements in AI technology, well beyond previous benchmarks.

While the advantages of the R&D organizational model are clear, as the technology developed is perfectly applicable to its business and comes with the potential of white-labeling or direct-selling it to others, the downsides are significant.

With the R&D model, the costs associated with building such a team are tremendous—both in people costs (top-level academic AI leaders can command seven or eight-figure compensation) and computing costs (primarily in data center or cloud expenses). And the competition for talent is exceptionally fierce in this space, as there is a significant shortage of academically qualified AI researchers and developers to lead and work in this type of organization. While it makes sense to have academic researchers run R&D factories, it's not clear that academics are always the best equipped to apply AI to business problems at the speed and scale needed today, given the high expectations for rapid ROI from AI organizations.

The Modern AI Organization

The potential impact of AI is indisputable as Korn Ferry's research reveals that over 82% of CEOs and senior leaders believe AI will have an extreme to significant impact on their business. And given the widespread availability of AI tools and technologies provided by large software companies and innovative start-ups, to say nothing of the increasing knowledge of service providers and consulting firms in this space, there is hardly a reason for companies to commit to building AI technologies solely on their own. Rather, each of the executives we interviewed highlighted the need to maintain a "build and buy" approach, using off-the-shelf capabilities and integrating them into a larger AI strategy and environment. These modern AI organizations come two primary forms: **AI Center of Excellence (CoE)**, and **Embedded AI**. A third, which is both less common and more temporary, is the **AI Governance Board**.

The AI CoE

Building upon the successes of centralized digital and data analytics centers of excellence, a primary form of AI organizational design is the AI CoE. In this structure, an overall Head of AI leads a centralized organization mandated to craft an end-to-end company strategy for AI and put in place governance, capabilities, and ideas for all aspects of the business. The AI CoE is comprised of AI and data science engineers, IT leads, and business representatives who work to select technologies to purchase and implement, to find vendors with whom to partner, and evangelize the capabilities built and offered. In this model, the overall Head of AI may be an academic AI leader, a tenured technologist, or even business leader with a clear plan for how AI will impact the business and a perspective on how to approach and use the latest technologies.

In an AI CoE, the organization is typically part of the larger technology function, reporting into a top technology leader, such as a chief information officer (CIO) or CTO. Though far less common, some companies have placed the AI CoE within the strategy or operations function or as a freestanding organization reporting to the CEO. Some of these CoEs are funded with part of the larger technology budget, while others operate as a cost center, with various lines of business and functions paying to use the AI CoE and its capabilities.

The pros of choosing to build an AI CoE are that it provides the organization with a familiar structure that is easily understood across the enterprise and denotes a clear leader for all things AI. The AI CoE can easily address all concerns and enable the company to speak with one voice. The downsides of this structure include a potential lack of nimbleness with respect to certain opportunities and the reality of competing priorities, as various parts of the business may pull the team in different directions.

Embedded AI

Rather than commit to a centralized team for deploying AI, some companies are choosing to embed AI capabilities directly into lines of business or functions. In this decentralized approach, one function may decide to operate as the vanguard for AI in the organization, choosing to partner with a key vendor or hire a limited team focused on implementing technologies aimed at solving a specific problem. If and when success is shown, other functions may choose to build similar capabilities, allowing AI to grow organically and with clear objectives.

A potential downside of embedded AI is that, ultimately, there is no one responsible for speaking about AI on behalf of the company, and no single leader who makes the key decisions. This situation can pose challenges for CEOs and Boards of Directors who aim to communicate their AI strategies and capabilities to the market or the broader enterprise. Further, as AI grows and expands across the enterprise, redundancies and unnecessary costs may start to accrue.

AI Governance Board

A somewhat less common structure is the AI Governance Board. In this structure, companies take elements of both the centralized AI CoE model and the decentralized Embedded AI model and attempt to marry them. Most often, this means pulling stakeholders from various functions that are both technical (senior leaders in the CIO, CTO, and CDO organizations) and non-technical (representatives from finance, legal, commercial organizations, etc.) into one body focused on driving the firm's AI agenda. Like the AI CoE, AI Governance Boards typically control both the budget and the strategy for AI at the enterprise level. But when pulling from various stakeholder groups, AI Governance Boards have less technical know-how than a CoE, which is designed to emphasize engineering and data science skills.

For the most part, the consensus within organizations who are structured into AI Governance Boards is that the set-up is temporary, more like an initiative than a long-term solution. The majority of the leaders that we interviewed from companies with AI Governance Boards believe they will take the members of the Governance Board and embed them back into the business in the next few years, eventually leading to an Embedded AI model.

Which AI organizational model is right for your business?

Korn Ferry's research shows that a significant majority of CEOs and senior executives planning to spend up to 50% more on AI-related strategies, underscoring the potential of AI. And with the right structure and strategy, potential can become promise. But before deciding on an AI organizational design, organizations must first know a few things about the technologies and their current business. Questions must be answered, namely:

- What AI capabilities currently exist within my organization?
- In what ways am I trying to achieve differentiation and a competitive advantage with AI?
- Which AI use cases apply to my business and which should be prioritized?
- What is my budget for AI, and who is best equipped to manage such a critical team?

Once the answers to these questions are well understood, the process of preparing for AI by simplifying, standardizing, and automating processes should be done with the goal in mind of driving the creation of one of the above AI organizations. In doing so, designating or hiring the right AI leader, empowering them to build a team and deploy technologies, and ensuring thorough governance and focus on driving business value will lead to significant business impact. It's not enough to invest in AI—anyone can do that. But investing in the right AI leaders and organizational structures sets a foundation of strategy, best maximizing the potential of AI to reach new levels of business success.

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