PHILANTHROPY IN SUB-SAHARAN AFRICA: IMPACT OF AI ON CORPORATE GOVERNANCE

Abstract

Corporate governance is key to growth and sustainability of an organisation be it private, government or non for profit. Nature of corporate governance structures in place need to be reviewed to embrace increased use of artificial intelligence (AI). This more so in philanthropic organisations that largely rely on donations and donors for their survival. The current study explored the nature of corporate governance within philanthropic organisations in Kenya. Issues explored included the evaluation of use of conventional corporate governance structures, the role of AI and application of AI in corporate governance in the philanthropic sector. The findings revealed that to a large extent the sector has embraced the conventional corporate structures and use of AI is on the increased. However, there is limited intersection between AI and corporate governance structures in the sector.

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INTRODUCTION AND BACKGROUND

Donors are the key drivers of philanthropic activities worldwide. This observation is supported by Nino (2015) through the argument that many philanthropic activities fail due to shortages of willing and supportive donors. According to Charani (2022), historically, a huge chunk of the donor funds are derived from developed nations and in particular Europe and USA. However, the international sources of donor funds continue to dwindle within the last decade (Charani, 2022). The situation has exacerbated post COVID – 19 and the trend continues (Brown, 2021). This being the case then, there is need to therefore diversify source of donor funding for African philanthropic activities to include local sources. At the same time as noted by Natenzi (2009), willingness to participate in philanthropic activities is largely dependent on donor confidence about the area of focus (programmatic area) and the entity charged with the responsibility of managing the funds. This largely talks to good cooperate governance of the recipient of the donated funds.

Africa has the willingness and the potential to fund its philanthropic activities. Ooro, Ndwiga and M'Raiji (2023) noted that culturally, Africans are philanthropic. This is as evidenced by the emotional approach they use to extend support to one another when there is a need. Adeleye, Layode, Fawehinmi and Esho (2019) supported this view with their observation that among the top ten (10) countries that are most likely to welcome and support a stranger, five (5) were from African countries namely; Libya, Liberia, Sierra Leone, Gambia and Kenya. With regard to potential, since independence the number of African entrepreneurs continue to increase. According to Henley & Partners (2024), it is estimated that the number of millionaires in Africa will increased by about 65% within the next ten (10) years. Increased entrepreneurship and wealth results in willingness to participate in philanthropic activities (Dorothy A. Johnson, 2023).

The key question therefore is, how come Africans have the willingness and the potential to fund their philanthropic activities and at the same time, there is tendency for the continent to continue relying on donor funds from international communities. Ooro et al. (2023) noted that, philanthropy in Africa can be influenced by emerging technologies driven by 4IR. This view is supported by Ahdadou (2024) with the observation that increasing use of emerging technologies has enhanced corporate governance through use of artificial intelligence (AI). The view is supported by an article cited in KASNEB (2024). This is through the observation that incorporation of AI in organisational activities is inevitable. This is mainly because AI improves decision making, organisational efficiency and risk management, aspects that directly influence corporate governance levels. The same article (KASNEB, 2024) pointed out that incorporation of AI associated with several challenges. These challenges pertains to compliance with ethical standards, transparency and risk management, all of which directly relate to corporate governance.

The focus of the current study is to explore ways and means through which corporate governance can be enhanced. This is at a time when AI has become an integral part of philanthropic organisational activities and could be utilized in promoting the corporate governance of the players in the industry. Good corporate will then boost donor confidence and the end result being increased participation in philanthropic activities by current and potential donors.

PROBLEM STATEMENT

Philanthropy is a crucial component of any community. This is more so when it comes to developing countries, a majority of which are located in Africa. Due to scarcity of resources in developing nations, there is a weak social welfare scheme to cater for the less privileged members of the society. In addition, governments in these nations have limited funds to provide assistance

in case of emergencies such as floods, epidemics and fires. Developing countries therefore largely rely on international funds to drive the philanthropic initiatives.

International sources of funds for philanthropic activities as previously pointed out continue to dwindle. To meet the community needs that cannot be adequately met by the government, diversification of sourcing of funds is a must. At the same time, Africans have the will and potential to fund a substantial portion of their philanthropic activities. That is if the current and potential donors have confidence in management of their donations. This can be made possible when those managing donations embrace good corporate governance practices. Such practices will enhance donor confidence and motivate their participation in philanthropic activities. However, with increased use of AI, the issue of corporate governance is becoming of great concern. There is need to therefore explore ways and means through which, corporate governance can be enhanced through AI.

RATIONALE, SCOPE, OBJECTIVES, EXPECTED OUTCOMES

Rationale

Philanthropy depends on the donations from well-wishers for survival. For philanthropic activities and organisations to attract funding, they have to create donor confidence. These they do achieve through embracing good corporate governance among others. However, with increasing use of emerging technologies, it is imperative that AI be incorporate in to the organisational governance structures to effectively cater for the needs of key stakeholder of philanthropic organisations, the donor.

Scope

The study is limited to philanthropy at an organisation level within Africa. The aspect under focus is the level of incorporation of AI in philanthropic organisations, the impact this has on corporate governance and how these organisations could leverage on AI to improve on the effectiveness and efficiency of their corporate governance structures.

Objectives

The primary objective of this study to enhance African participation in philanthropic activities. The specific objectives include to;

1. explore corporate government practices in philanthropic organisations;

2. identify the role of AI in philanthropic organisations;

3. identify the challenges AI pose to corporate governance in a philanthropic organisation; and

4. propose a framework to enhance intersection of AI ad corporate governance.

Expected Outcomes

The findings of the study are expected to at the initial stages enhance donor confidence. This is by improving on the corporate governance practices of donor recipient organisations in Africa. This will then lead to increased donor participation in philanthropic activities in Africa.

LITERATURE REVIEW

Introduction

This section of the study explores existing literature relating to the issue under focus. Focus will therefore be narrowed to corporate governance, role of AI in organisations, influence of AI on

corporate governance and how an organisation could leverage on its AI to enhance corporate governance at the workplace (Coen, 2023).

Corporate Governance in Charitable Organisations

With growth in corporate size, the interest of all the key stakeholders need to be protected. According to Banda and Mwange (2023), increasingly there is separation between ownership and management. The implication being that the shareowners are not the ones responsible for the day to day management of an organisation, hence the need to embrace corporate governance best practices.

Corporate governance according to KASNEB (2024) are the systems, rules, practices, and processes through which an organisation is directed and controlled. The article KASNEB (2024) further opined that, it is through corporate governance that interest of shareholders are maximised. As noted by Safitiri and Nani (2021), as an organisation operates in a community, there are many other key stakeholders whose interest have to be considered. For instance, in philanthropy, the key stakeholder is the donor. The implication being that, if the donor confidence is not ensured, then funds directed towards philanthropic activities will dwindle. It is imperative that their interests in INGO and NGOs disseminating their donations be enhanced if they are to be motivated to continue with their support in terms of donations.

There are several structures that are required if an organisation is to exhibit good corporate governance. According to Banda and Mwange (2023), these structures commence with the board of directors (BOD) composition in terms of the proportion of the independent members, education levels, experience, diversity of their experience, level of involvement and appointment thereof. The size of the board also matters as it will determine the number of BOD committees and their

independence. Another aspect is the auditing and compliance systems and applicability. In summary, there must be a functional oversight mandate and compliance enforcement system in place for there to be good governance in an organisation. It is to be noted that good governance boosts the reputation of an organisation. Good reputation is known to boost investor confidence, which in the philanthropy space is synonymous with donor confidence and increased participation in terms of donations.

AI in Charitable Organisations

Integration of AI into the operations of an organisation manifests in many forms. According to Daidai and Tamnine (2023) the resulting benefits is largely dependent on the nature and mandate of the organisations. However, the common benefits accrue from the element of efficiency and effectiveness that result from incorporation of AI into the operations of an organisation (Davies, 2022).

The efficiency and effectiveness is not limited to operations but extends to corporate governance aspect of the organisation. Ahdadou (2024) outlined good governance practices/areas that could leverage on AI. These include board of directors (BOD) performance, prediction/forecasting of possible future financial distress, fraud detection, the sustainability of cooperate social investment (CSI)/corporate social responsibility (CSR) initiatives, decision making, oversight mandate, compliance and balanced approach to stakeholder engagement. Drawing parallels to philanthropy, incorporation of AI ensures that donor confidence is enhanced. This is largely because, the organisation is better positioned to improve its communication with its current and potential donors.

AI and Corporate Governance

Incorporation of AI in operations of an organisation is coupled with a multitude of challenges. According to Gregory and Austin (2023), these challenges have to be addressed if the organisation improve on its image as being transparent and responsible.

There are many challenges associated with AI. For the purposes of this study, the challenges cited touch on corporate governance aspect of an organisation. According to Ahdadou (2024), Gregory and Austin (2023), the challenges are:

1. misuse if data gathered through AI;

2. creation of new social, legal, economic and environmental problems;

3. ethical use;

4. loss of control as AI takes over decision making;

5. unregulated use of data;

6. privacy violations;

7. harm caused by AI generated decisions;

8. bias;

9. resources for technology, equipment and human capital; and

10. maleficence.

The good news is that a majority of the cited challenges that impede AI driven corporate governance could be addressed. Ahdadou (2023), Gouiaa and Huang (2024), Daidai and Tamanine (2023) made several suggestions with regards to effective management of intersection of corporate governance and AI such as:
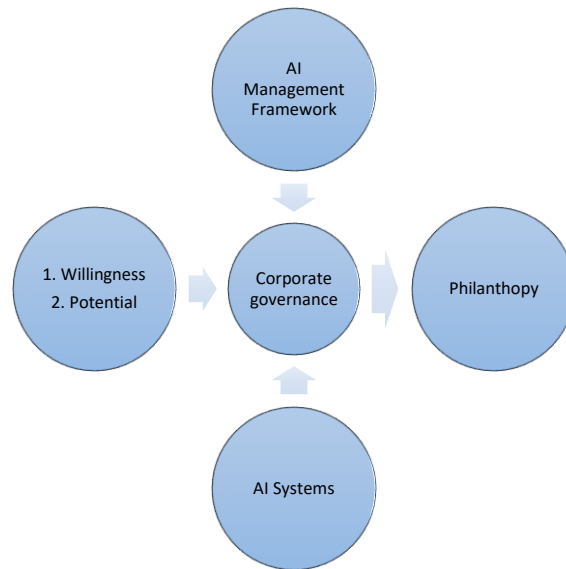
1. formulation of policies and procedures for development and deployment of AI systems;

2. policies, procedures and systems on data privacy, security, transparency in decision making, oversight mechanisms to ensure AI is used ethically and in compliance with legal and regulatory requirements;

3. systems to ensure that there is transparency, justice, freedom and autonomy, trust, dignity and non-maleficence while leveraging on AI to enhance corporate governance;

4. stakeholder involvement in design and implementation of AI systems;

5. incorporate strong authentication controls such as complex passwords, biometric, and limited access to authorized personnel;

6. always maintain the principle of privacy, safety and inclusion by design;

7. always promote the principle of data confidentiality and integrity; and

8. have a code of conduct.

Conceptual Framework

This study is based on the pictorial conceptual framework shown on Figure 1. The framework is derived from the arguments and suppositions posed by Ahdadou (2024) that corporate governance can leverage on AI. When this happens, however, their intersection has to be managed to enhance good corporate governance.

Figure 1   Conceptual Framework

Ndwiga and Ooro (2024)

Definition of Conceptual framework terms

1. Willingness – Africans embrace philanthropy

2. Potential – within Africa, there are potential donors

3. Corporate governance – systems that ensure that interest of all stakeholders are maximized

4. AI systems – AI aspects that prop corporate governance activities

5. AI management framework – structures that ensure that leveraging on AI does not impede good corporate governance

6. Philanthropy – philanthropic activity levels

METHODOLOGY

A triangulation research design was employed. The rationale being that it was important that data if gathered from multiple sources using different methods. The sources being desk research and primary sources.

Desk research focused on review of existing published publications and articles. While doing so, best practices in corporate governance in the field of philanthropy were explored. In addition, the level of incorporation of AI in philanthropy organisations was examined as well as the impact this had on good corporate governance.

With regards to primary data, an open ended questionnaire was used to gather information at from ten (10) non governments' organisations (NGOs) in Kenya. The targeted participants were purposively chosen. To make sure that there was representation, five (5) largest and five (5) smallest NGOs were invited to participate in the study. The rationale being that the largest NGOs should have fully incorporated AI in their operations, while the smallest ones are assumedly in early stages of AI incorporation to their operations.

FINDINGS AND DISCUSSIONS

The order of the formulated objectives were followed for ease of presentation and linkage.

Corporate Governance Structures

Philanthropic organisation in general are aware that they have to incorporate corporate governance structures into their operations. The cited corporate governance structures include internal management control systems, external and BOD effectiveness. The findings are in line with observations made by Banga and Mwange (2021) that for there to be good governance, there are certain basic structures that have to be in place. Despite this being the case, it was determined that there was still room for improvement. This could possibly be alluded to the observation by Ahdadou (2023) that with increased use of AI in an organisation, the same has to trickle down to corporate governance structures if an organisation is to continue meeting the needs of all its stakeholders. The detailed findings on governance structures are tabulated as follows.

There are two types of internal management controls namely operational and policies. The first cited category was the operational controls focusing on financial, process, and compliance audits. The second are the policies/frameworks that include; monitoring and evaluation (M&E), resource mobilisation, quality control, HR, communication, procurement, and finance. Based on the cited internal controls, it is apparent that philanthropic organisations generally embrace good governance structures.

The external control systems identified, are those carried out by independent parties. Such control systems included the financial audit, which all philanthropic organisations seem to comply with. Other cited external control systems closely linked to philanthropy sector included baseline studies, midterm evaluations, end line reviews, and project accountability studies.

Another cited key component of corporate governance is the BOD and its effectiveness. The cited issues of concern included the size, composition, % of independence from management, skills and competence, diversity and ability to offer oversight role through the set BOD committees.

Role of AI

There is increased use of AI and incorporation in most aspects of all the sampled organisations. This has enhanced the efficiency and effectiveness of these organisations especially in communication, accounting, reporting and procurement. The findings are in line with Gregory and Austin (2023), with their observation that, AI incorporation has led to organisational operational efficiency. However, the organisational operational efficiency should not be considered in isolation and calls for cost and benefit analysis of the adopted AI.

AI and Corporate Governance

There seems to be low levels of intersection between AI and corporate governance. This is evidenced by the fact that a majority of respondents were not aware of AI and corporate governance measures taken. At the same time, they were not in a position to make suggestions on how the issue could be addressed as well as whether if any measures taken have yielded positive results. The finding is contrary the observation Ahdadou (2023), Gouiaa and Huag (2024), Daidai and Tamanine (2023) that with AI, an organisation needs to ensure certain structures are in place to enhance good corporate governance.

CONCLUSIONS AND RECOMMENDATIONS

Conclusions

Based on the findings it can be concluded that the sector has to a large extent embraced the conventional corporate governance structures. However, the impact thereof is below expectations. The sector's use of AI in the operations is on the increase. Finally, the level of intersection between AI and corporate governance is limited, which calls for course of action.

Recommendations

Two types of recommendations are made namely; for further studies and to the philanthropy sector. For further studies, it is recommended that a case study approach is adopted. This should review a minimum of least two case studies each of INGOs and those in Africa with regards to intersection of AI and corporate governance. Undertake a comparative analysis, document lessons learnt and in the process make relevant recommendations. This will build on this study's findings as the scope will be expanded beyond Kenya and Africa.

The following recommendations are relevant to the philanthropy sector in Africa:

1. ensure that all the conventional corporate governance structures are all in place;

2. formulate of policies and procedures for development and deployment of AI systems;

3. have in place policies, procedures and systems on data privacy, security, transparency in decision making, oversight mechanisms to ensure AI is used ethically and in compliance with legal and regulatory requirements;

4. create systems to ensure that there is transparency, justice, freedom and autonomy, trust, dignity and non-maleficence while leveraging on AI to enhance corporate governance;

5. ensure stakeholder involvement in design and implementation of AI systems;

6. incorporate strong authentication controls such as complex passwords, biometric, and limited access to authorized personnel;

7. always maintain the principle of privacy, safety and inclusion by design;

8. always promote the principle of data confidentiality and integrity; and

9. have a code of conduct.

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Questionnaire

Dear Participant

We are in the process of exploring how well non-government organisations (NGOS) have leveraged on artificial intelligent (AI) to improve of their corporate governance. This is in the realization that, incorporation of AI is increasingly influencing conventional mode of operations. The information you do provide will be treated in confidence and its only purpose is to provide insights in to the intersection of AI and corporate governance and increased us of AI. Participation in this study is purely on voluntary basis. To enhance confidentiality, you do not have to append your name and that of the organisation on this questionnaire.

1. Type of NGO [ ] Large (over 20 employees) [ ] Small (Below 20 employees)

2. What corporate governance structures/systems do you have in your organization?

3. In your own opinion, are the corporate governance structures/systems effective?

    [ ] yes [ ] No

4. If the answer to the above is no, could you please make suggestions of how they can be improved?

5. On a scale of 1 to 5 where 1 is limited and 5 is high, Could you please rate the level of incorporation of AI in the activities of your organization?

6. What measures has your organization taken to ensure that corporate governance is enhance due to increased use of AI?

7. Would you say that the measures taken have been effective?

   [ ] Yes   [ ] No

9 if the answer to the above is no, could you suggest measures that should be taken by your organization to enhance corporate governance?