



It from bit

Responsible and Ethical AI:

The Strategic Differentiator for Premium Brands



Executive Summary

In today's competitive business landscape, responsible and ethical AI practices have become the key to building enduring customer trust and loyalty for premium brands. Trust holds special significance for premium brands as it is the driver of most of their value, which is predominantly intangible rather than physical or tangible.

Premium brands go beyond functional attributes and derive a significant portion of their value from intangible social capital. The ability to establish and maintain trust becomes paramount for these brands, as it forms the foundation of their customer relationships and brand reputation. In an era where customer expectations are shaped by issues such as deep fake technology, privacy breaches, and algorithmic discrimination, premium brands must prioritize trust to differentiate themselves in the marketplace.

By implementing responsible and ethical AI practices, premium brands can foster authenticity and coherence, aligning their AI systems with their core values. This alignment enhances customer trust, which, in turn, leads to increased loyalty and higher revenues. Trust has evolved into a crucial factor in customer decision-making, with a significant percentage of consumers advocating for brands based on their beliefs and values.

Trust is not merely a 'nice-to-have' attribute for premium brands; it is a 'must-have' asset that shapes their brand reputation and success. Regulatory compliance represents the minimum requirement, but responsible and ethical behavior builds customer trust and loyalty, providing a distinct competitive advantage. Premium brands that establish themselves as trustworthy through responsible and ethical AI practices stand out in the marketplace and cultivate enduring customer relationships.



It From Bit (IFB), a premium strategy and management consulting company, is well-equipped to support premium brands in implementing responsible and ethical AI practices. Their technical, legal, and social experts can guide brands in developing strategies, establishing governance, ensuring compliance, and achieving a human-centric approach to AI implementation.

Don't let your brand fall behind in the AI race. **Contact IFB today** to ensure your AI strategy is not only powerful but also responsible and ethical. Stand out from the competition, build deeper customer trust, and ensure regulatory compliance with IFB's expertise and guidance. Trust, the driver of most of your brand's intangible value, is within reach through responsible and ethical AI practices.

Introduction

How does your customer-oriented organization approach responsibility and trustworthiness as part of the loyalty-building experience? And how will it continue to do so at scale in the age of AI while keeping authenticity?

Premium brands go beyond functional attributes and build most of their value from intangible social capital. In the rapidly evolving business landscape, the rise of artificial intelligence (AI) as a crucial enabler of competitive advantage and operational efficiency has become undisputed. AI is an unavoidable, powerful tool for premium brands to connect, engage, and create value for their consumers. Yet, as organizations leverage this powerful technology, they face growing risks associated with its misuse. Missteps, either malicious or reckless, may contradict corporate values, damage reputation, and erode stakeholder trust. As customers become more aware of their vulnerability to manipulation and other adverse effects caused by powerful AI technologies, they will seek longer-term relationships with brands they perceive as trustworthy and reputable.

Under such powerful brands, they will seek a shared identity that will channel their voices. Brands that successfully align their AI practices with their core values are the ones that will stand out and cultivate enduring customer trust. The latter is crucial for premium brands that have established their reputation based on trust and delivering high-quality offerings. It is imperative for these brands to responsibly and ethically leverage AI. In this way, they both reap operational and functional benefits and increase social capital.



The Power and Risks of AI in Business

AI technologies promise tremendous benefits for businesses, including improved efficiency, personalization, and decision-making. However, they also introduce significant brand risks. Malicious or reckless use of AI could inadvertently compromise a brand's reputation, particularly if the technology is perceived as conflicting with a company's values or as displaying inauthentic behavior. These mistakes happen even for the greatest and most innovative technology companies. For example, Microsoft had a nasty episode with the Tay chatbot on Twitter in 2016, where it started outputting racist remarks. The 2018 Cambridge Analytica scandal put Facebook into crisis. Currently, global AI adoption across industries, is mostly below 30%.

That matches consumers' usage and experimentation rates. They report feeling both excited and worried at the same time. As customer and stakeholder expectations evolve, brands that reduce these risks, manage conflicting emotions, and use AI responsibly will be able to distinguish themselves in the marketplace and attract customer loyalty.

AI Adoption across industries – Highest adoption rates observed across a variety of departments when compared across different industries

% Of Respondents (Function)	All Industries	Business, Legal & Professional Services	Consumer Goods/Retail	Financial Services	Healthcare systems/ Pharma & Med. Products	High Tech/ Telecom
Service Operations	19%	20%	31%	24%	12%	21%
Risk	19%	16%	15%	17%	22%	38%
Strategy & Corporate Finance	21%	19%	29%	23%	8%	25%
Product & Service Development	10%	8%	4%	31%	4%	7%
Human Resources	11%	11%	14%	1%	15%	6%
Supply Chain Management	9%	12%	11%	2%	8%	8%
Manufacturing	8%	10%	4%	8%	7%	6%
Marketing & Sales	5%	9%	3%	7%	2%	4%

Consumer Good/Retail industry has the highest adoption rates for Service Operations business function

High Tech/Telecom industry has the highest adoption rates for Risk business function

Consumer Goods/Retail industry has the highest adoption rates for Strategy & Corporate Finance business function

Financial services industry has the highest adoption rates for Product & Service Development business function

Source: Artificial Intelligence Index Report 2023

Understanding Responsible vs. Ethical AI

Responsible AI (RAI) and Ethical AI (EAI) are often used interchangeably but entail different considerations: technical and social.

Responsible AI (i.e., “do no evident harm”) involves the technical work of aligning AI systems with legal and regulatory requirements as well as covering different cybersecurity and engineering risks. Since responsible AI works on domains with precise specifications, it is an inherently easier endeavor, and technologists can implement it.

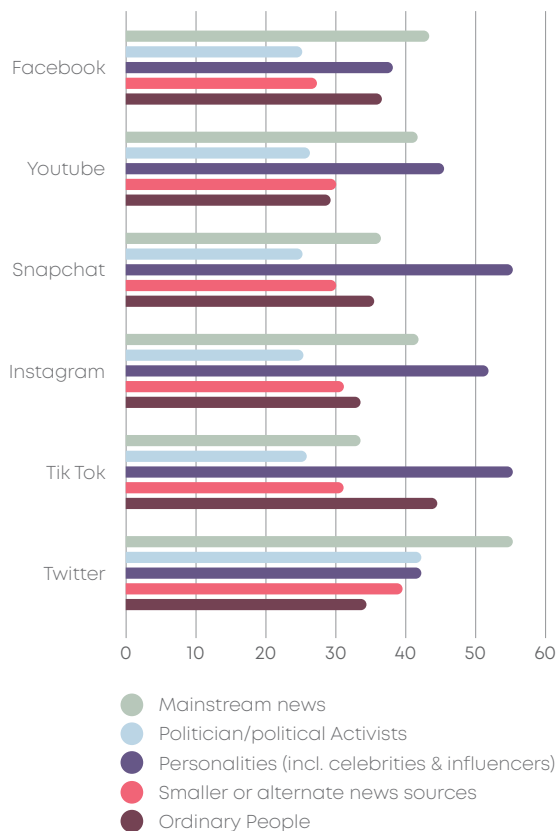
Ethical AI (i.e., “in mutual interest”) requires aligning AI systems with moral principles that exceed legal and security compliance. It involves considering societal impacts, fairness, transparency, accountability, and long-term consequences. Ethical AI requires interdisciplinary collaboration, ongoing dialogue, and societal engagement to address complex questions and ensure AI systems uphold human values. AI ethicists should be humanities persons as it necessitates research procedures not typically taught at engineering schools. It also involves a comprehensive understanding of societal values, cultural norms, and human rights to ensure that AI systems respect and uphold these principles. AI ethics aid must establish guidelines and frameworks that address AI technology’s moral and ethical implications. Also, it must develop codes of conduct for people, conduct ethical impact assessments, and write technical requirements for values-in-design. The latter become parts of responsible AI as soon as they are specified enough with all the desired trade-offs. That becomes an intrinsic part of the AI system through the implementation.

Premium brands should strive to meet and exceed both responsible and ethical AI standards to achieve an exquisite user experience at scale.

Trust: A Vital Asset in the Business Landscape

Trust is the cornerstone of any business relationship. As society grows more digital and interconnected, the importance of trust intensifies. Maintaining customer trust becomes even more challenging in an era characterized by deep fake counterfeiting technology, privacy breaches, and discrimination fueled by algorithms. The upcoming generations, starting with those belonging to Gen Z, are susceptible to these issues. According to the [Reuters Institute Digital News Report 2023](#), younger generations like Gen Z tend to trust influencers over traditional institutions or media outlets.

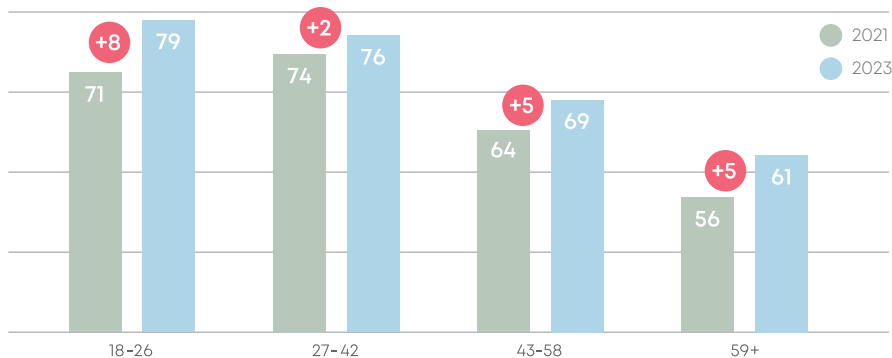
While mainstream news gets attention of viewers on platforms like Facebook & Twitter, a larger proportion of viewers pay attention to personalities & influencers on platforms like Instagram, Snapchat & TikTok



Source: Reuters Institute Digital News Report 2023

The importance of having trust on the brand increases across age groups in 2023, however, it is particularly important for Gen Z who also has the highest emphasis on brand trust as well as the highest increase since 2021

Trust Barometer across different age groups



Source: Edelman Trust Barometer Special Report, The Collapse of the Purchase Funnel Final

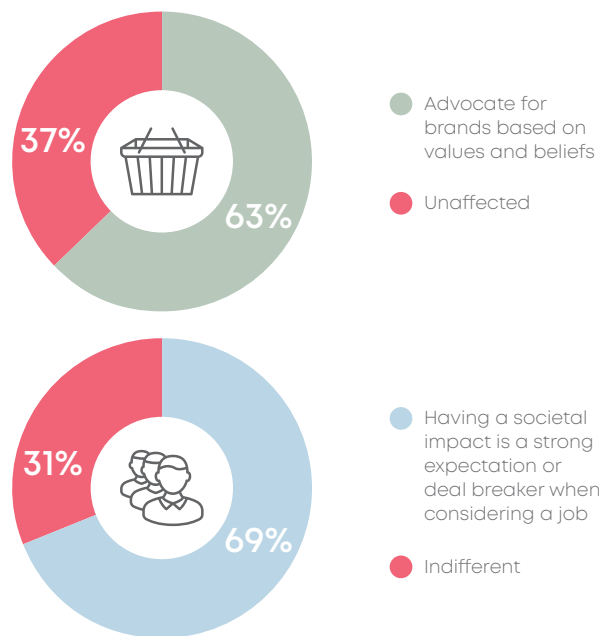
The Edelman Trust Barometer 2023 revealed that 79% of Gen Z consumers emphasize the importance of trust in their preferred brands.

Businesses addressing these challenges and building authentic brands must establish robust trust networks. A well-defined and ethically-aligned brand voice is crucial since 63% of consumers advocate for brands based on their beliefs and values.

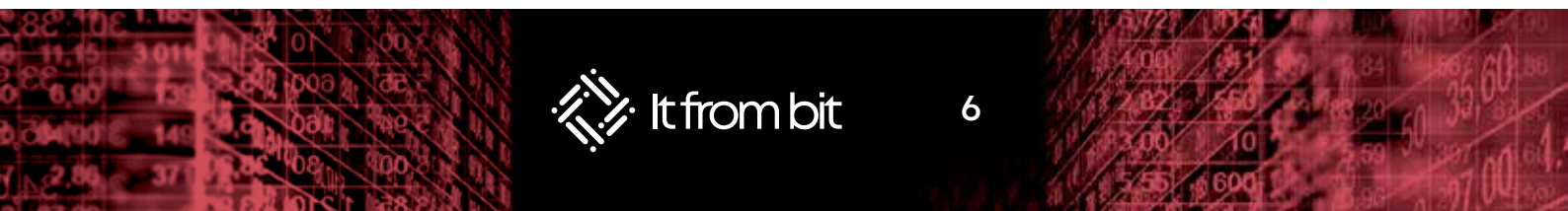
Premium brands, in particular, are responsible for meeting consumers' high expectations while navigating the trade-offs associated with technology adoption. A PwC survey reports that 91% of business executives agree that their ability to build and maintain trust directly impacts their bottom line.

These trends emphasize the need for businesses to establish and maintain trust as a strategic priority. Trust is not simply a 'nice-to-have' attribute but a 'must-have' asset that shapes a brand's reputation and success. In today's business environment, regulatory compliance represents the bare minimum; ethical and responsible behavior builds customer trust and loyalty.

Both consumers & employees pressure business to stand up for them and cater to their values and beliefs



Source: Edelman Trust Barometer Global Report



The Regulatory Landscape: Navigating the Inevitable

Significant regulation of AI is imminent, given AI's proven potential for harm and **broad support for regulation expressed in surveys**. Various countries, including the EU, USA, and China, are actively developing their legislation.¹

Countries are taking quite different approaches, which makes global compliance challenging. This variety is reminiscent of the global fragmentation of patent and copyright laws. We can demonstrate the legal variety in the example of the USA and EU. **AI Bill of Rights** in the USA is representative of a principle-based regulation framework that gives non-mandatory guidelines with freedom for varying interpretations. UK and Singapore have taken a similar pro-innovation approach. On the other hand, **EU AI Act** is representative of a rules-based regulation framework that uses specific statements with narrow interpretations to enforce compliance.

Brands should proactively engage in AI policy development, especially within their respective sectors. Compliance with forthcoming regulations on transparency, data security, consumer rights, and ethical standards will be crucial. However, all businesses will soon have to comply with the regulations, making it a bare minimum requirement. To stand out, companies must surpass mere compliance and showcase their commitment to ethical AI practices in measurable ways. AI ethics will inevitably become an auditable ESG commitment, and brands should prepare for its integration. This preparedness should encompass inclusiveness, transparency, non-discrimination, and protection of minority groups, among other principles¹. Brands should anticipate this shift and be ready to adapt.



¹ [Citibank report, 2023](#)

Human-Centric Approach: Balancing AI and Authenticity

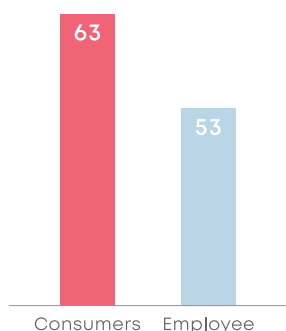
Today, the sales funnel is an outdated approach substituted by the trust loop model. The initial purchase marks only the beginning of a relationship that can flourish through ongoing engagement, fostering attraction, building trust, and driving growth. AI is a powerful tool to help drive the trust loop at scale with greater personalization. However, businesses must understand that successful AI implementation goes beyond deploying cutting-edge technology; it requires forging a relationship with customers based on trust and authenticity while intelligently deploying AI. Consumer preferences lean heavily towards human-centric models. According to the [Edelman Trust Barometer 2023](#), a brand's actions should exhibit competence (70%), ethical behavior (60%), and relevance (59%). Brands must strike a delicate balance between leveraging AI and maintaining authenticity, as there are limits and conditions under which you can achieve success. For example, virtual influencers are gaining prominence. Although they lack persuasive power, they bring [benefits in brand image building](#) when disclosing their virtual nature and avoiding the Uncanny Valley.

According to a [PwC survey](#), poor customer service (36% of cases) and a lack of transparency (23%) are the most common factors leading to a loss of trust in businesses.

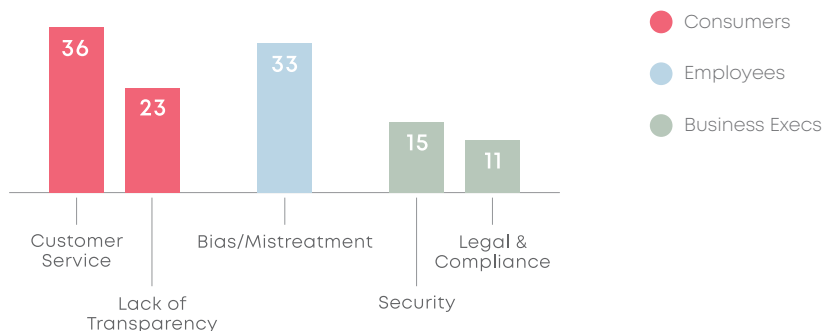
By integrating responsible AI into customer service and public relations in a finely balanced manner, companies can build trust, navigate trade-offs, and handle conflicting stakeholder interests more efficiently. Authenticity in both manual and automated interactions with customers can enhance a brand's reputation. That calls for AI systems that reflect the organization's values and serve as an extension of the brand image, creating a coherent and authentic narrative at scale. As performance standards are raised industry-wide, the stark contrast between those who have effectively established themselves as trustworthy and those who have not will inevitably steer customer flow towards the former, solidifying the importance of responsible and ethical AI practices.

A trust damaging event can lead to serious problems for a business as a majority of consumers & employees are likely to end their relationship with the business after witnessing such an event.

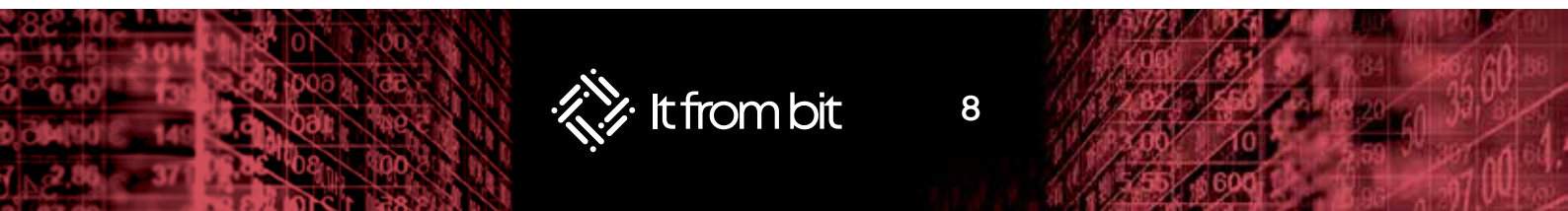
% Turnover across groups post experiencing a trust damaging event



Highest trust damaging events experienced by different groups



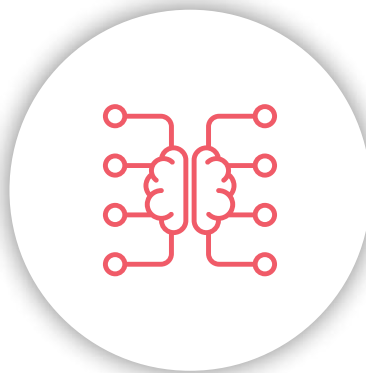
Source: PwC Trust Survey; [link to article here](#)



Implementing Responsible and Ethical AI: A Step-by-Step Guide

Incorporating responsible and ethical AI into your organization demands a holistic approach and engagement at every level. Let's lay down a robust blueprint:

- 1. Establish an AI Ethics Committee:** This should comprise representatives from all your stakeholders, with two pivotal roles being the AI Ethics Aid and the Responsible AI (RAI) Officer. The former, a humanities-oriented individual, will spearhead ethical AI considerations. At the same time, the latter, with a technical background, will lead the Responsible AI initiative.
- 2. Devise a Strategy to Fulfill Legal Obligations:** This strategy should tackle the legal complexity and negotiate the trade-offs associated with various jurisdictions. Your legal team will be at the helm of this endeavor.
- 3. Formulate a Responsible AI Policy:** This policy should embody your organization's values and principles concerning AI development and deployment. It should provide guidelines for risk mitigation and establish a benchmark for regulation compliance. Ensure that your AI systems are transparent and explicable, allowing stakeholders to grasp how AI makes decisions. You should also openly communicate with consumers about AI's role in your operations. Your RAI Officer will drive this initiative, drawing inputs from the AI Ethics Aid and internal AI auditors.
- 4. Draft an AI Ethics Policy:** This policy should extend beyond the regulatory obligations, creating a social dimension to your company's operations. Your AI Ethics Aid will spearhead this project, also factoring in the technical aspects. Part of the latter is codifiable and is the topic of the next step.
- 5. Embed Codified Ethical Values in AI Design and Development:** Ethical issues should underpin AI development, ranging from risk identification and transparency assurance



to societal impact evaluation. Your AI Ethics Aid will devise proposals and specifications for the RAI Officer who will implement them. The committee must give the green light to all values that enter the design phase.

- 6. Continuously Monitor and Assess Your AI Systems:** Regular audits, data quality checks, and societal impact analyses are essential for maintaining the optimal functioning of your AI systems and identifying potential risks. Your RAI Officer will lead these processes, fostering a culture of trust with strategies such as independent auditing and promoting legal and ethical coherence.
- 7. Engage in Continuous Dialogue with a broad spectrum of stakeholders:** customers, employees, regulators, and the public. As trust has evolved into a moving target in today's multifaceted business landscape, it's important to keep track of shifting perceptions and expectations concerning AI. Your AI Ethics Aid will lead these interactions.

By following this step-by-step guide, you can be at the forefront of adopting responsible and ethical AI practices, strengthening your organization's credibility, trustworthiness, and success.

Benefits to Society and Business

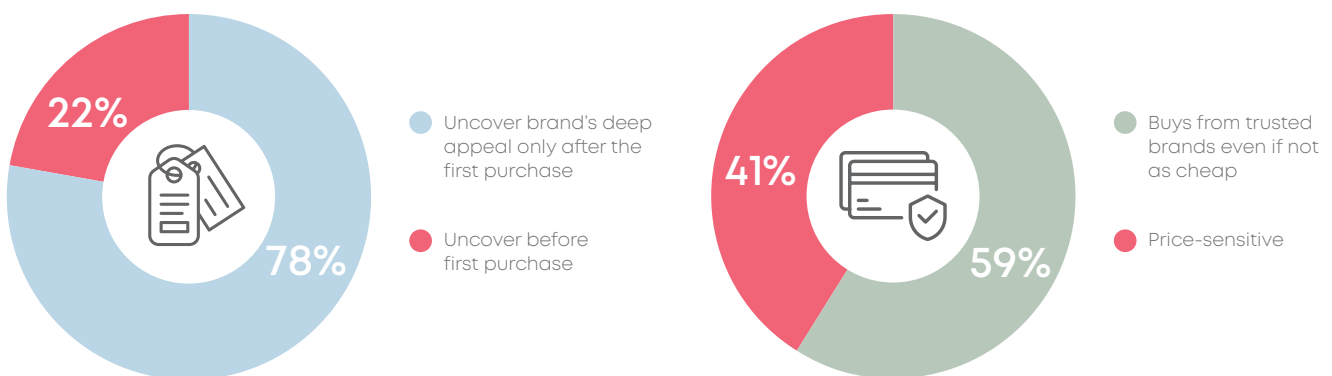
When you implement responsible and ethical AI, you're not just making a positive contribution to society by reducing the risk of harm and bias but also providing tangible benefits to your business:

1. Establishing Customer Trust:

As customers become more aware of the ethical implications of AI, their expectations for responsible AI use also increase. "By adopting responsible and ethical AI practices, you can earn the trust of your customers, which can lead to increased loyalty and higher revenues for your business. The 'trust loop' is emerging as the new buying model, presenting advantages such as continuous engagement and trust building. 78% of consumers uncover aspects that attract them to a brand and drive loyalty only after the first purchase. Even more compelling, 59% are more likely to purchase new products when they trust a brand, regardless of the price.



Most customers uncover aspects of a brand that create trust and drive loyalty only after their first purchase. The developed relationship is visible through the increased willingness to pay.



Source: Edelman Trust Barometer Special Report, The Collapse of the Purchase Funnel Final

2. Risk Management:

AI systems without responsible measures can potentially cause harm. Responsible AI helps identify and mitigate such risks, ensuring reliable and secure AI systems.

3. Reinforcing Reputation:

When you prioritize responsible and ethical AI, it reflects your commitment to ethical and social responsibility, helping your business to stand out from competitors and boost its reputation. That, in turn, enhances brand recognition and customer loyalty.

4. Compliance with Regulations:

Regulatory bodies worldwide have introduced guidelines for AI usage, such as the EU Ethics Guidelines for Trustworthy AI and the General Data Protection Regulation (GDPR). By adopting responsible AI, you can ensure your business's compliance with these regulations, avoiding legal repercussions and demonstrating your commitment to ethical practices through value-in-design.

5. Promoting Innovation:

Don't see responsible AI as a limitation; instead, view it as a catalyst for innovation in your business. By setting clear ethical boundaries, businesses can stimulate creative thinking and promote the development of innovative, socially beneficial AI solutions.

6. Attracting Talent:

Top talent is likelier to choose you as an employer if you demonstrate a clear commitment to ethical practices, especially in AI development and use. By prioritizing responsible and ethical AI, companies can attract and retain skilled professionals, fostering a positive work culture.

7. Broadening Market Access:

You may find your access to markets restricted by regulations like the EU AI Act if your AI products don't meet specific legal guidelines. By adopting responsible AI, businesses can expand their reach and operate globally.



Indeed, trust is the backbone of the relationship between you and your customers. "In a world that increasingly raises fear and distrust towards AI and algorithms, you must ensure your business "walks the walk," creating an environment that values ethical considerations over shady dealings in back alleys. Establishing an emotional connection with consumers remains essential, even in the era of AI dominance. A significant 73% of consumers place a higher value on brands that prioritize their feelings of safety and security², which means they will be looking for manipulative acts that AI will enable.

Source: Edelman Trust barometer 2023 – special report

² Edelman Trust barometer 2023

Risks and Pitfalls

Understanding and integrating Responsible and Ethical AI into your business can be rewarding. Still, it does come with its share of risks and pitfalls. Knowing these potential roadblocks is essential to navigate your journey toward a more ethical AI practice.

- 1. Skills and Expertise Gap:** Crafting and deploying AI strategies require an interdisciplinary team proficient in AI technologies, ethics, and responsible AI practices. However, experts in these areas are in short supply. As such, your organization must prioritize training existing staff and recruiting specialists who can guide the implementation of responsible AI practices.
- 2. Stakeholder Engagement:** Overlooking certain stakeholders introduces bias and blind spots, potentially skewing the AI system towards the perspectives of a narrow group. Regular interaction with all stakeholders, especially customers, is essential. For instance, Google could have mitigated the 2016 controversy involving biased facial recognition systems with better stakeholder engagement and diverse training data.
- 3. Costs:** Adding responsibility ('do no evident harm') and ethics ('in mutual interest') layers into AI practices undoubtedly adds complexity beyond mere base-level AI implementation. Compliance with regulatory requirements necessitates certain actions while evolving customer preferences and market forces dictate others. The 2018 introduction of GDPR, for example, imposed significant compliance costs on businesses but also improved customer trust.
- 4. Lack of Impact:** Valuing all assumptions through experiments and impact measurement is crucial. Avoid falling prey to dogged worldviews and unwise trade-offs. Balancing and understanding the nuances are crucial to preventing scenarios like IBM's Watson for Oncology, which, despite its revolutionary vision, faced criticism for its lack of significant impact in improving cancer treatments.
- 5. Overgeneralizing One Ethical System:** Ethics are inherently cultural. That creates a dilemma between maintaining consistency and adapting to diverse customers and markets. Overemphasizing a single ethical system, regardless of its precision or implementation, can lead to a backlash. Take, for example, Google's Project Maven; its use of AI in military applications sparked internal and public debate about its ethical implications.
- 6. Taming Legal Complexity:** The complexity of AI technologies and the diversity of legal frameworks across different markets can pose a significant challenge. Missteps can lead to non-compliance, fines, or reputational damage. Organizations need to navigate the patchwork of regional regulations such as the GDPR in the EU, CCPA in California, and PDPB in India, ensuring they stay compliant in each market they operate in.

Implementing Responsible and Ethical AI is a challenging feat. It requires a strategic understanding of potential pitfalls and an unwavering commitment to overcoming them. By being aware of these challenges, your organization can effectively strategize and implement responsible AI initiatives, securing your standing as a responsible and ethical leader in the AI era.

Conclusion

In this digital age, businesses are not just defined by the products and services they offer but also by the values they uphold and the ethical practices they implement. Trust is the bedrock of customer loyalty and brand reputation. The advent of AI technology brings an excellent opportunity for businesses to enhance their relationship with customers by demonstrating authenticity, coherence, and a genuine commitment to ethical principles.

As the Edelman Trust Barometer 2023 suggests, businesses need to exhibit responsibility and authenticity in their actions to win over Gen Z - a cohort changing the face of global commerce.

In the context of AI, this translates into:

- Transparent practices – communicate openly and transparently with customers,
- Bias mitigation – reduce harmful discrimination,
- Data privacy – keep entrusted confidential information, and
- Respect for user rights – do not exploit power asymmetry in a relationship brought on by powerful AI that enables manipulation for a means to an end.

To achieve this, companies should establish a comprehensive framework for responsible and ethical AI and ensure ongoing oversight and refinement of guidelines through the following steps:

1. Establish an AI Ethics Committee
2. Devise a strategy to fulfill legal obligations
3. Formulate a Responsible AI policy
4. Draft an AI Ethics policy
5. Embed codified ethical values in AI design and development
6. Continuously monitor and assess your AI systems
7. Engage in continuous dialogue.

Your brand can maintain authenticity, even as you scale, by creating AI that reflects your company's values. Integrating AI into customer service and public relations enables brands to showcase their commitment to trust and transparency in every customer interaction, thus creating a consistent and authentic narrative. In a world where your brand's reputation increasingly influences consumer behaviors, the authenticity that responsible and ethical AI fosters can serve as your ultimate differentiator.

IFB is a premium company that matches and exceeds the needs of premium brands for quality and proactivity. IFB has technical, legal, and social experts that can support you in the human-centric implementation and adoption of powerful AI technologies. This support includes developing strategy, establishing governance, creating internal AI policy, responsible technological implementation, ensuring legal and ethical compliance, and more.

Instead of blindly following the latest fashions, we have set them and already work on the succession of the next big things. Do you identify any areas

for improvement in your current AI strategy? Don't let your brand fall behind in the AI race. Contact us today to ensure your AI strategy is not only powerful but also responsible and ethical. Stand out from the competition, build deeper customer trust, and ensure regulatory compliance. We're here to guide you every step of the way.

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