



GLOBAL BUSINESS MANAGEMENT

Strategic AI Governance and Risk Management: A Comparative Study of Tesco plc
in the United Kingdom and European Union



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Executive Summary

This is a strategic risk and governance advisory report focused on assessing the strategic risks and governance issues related to the implementation of artificial intelligence (AI) in Tesco plc in both the United Kingdom and the European Union. As the field of AI technologies continues to fundamentally alter the way retail organizations operate, organizations like Tesco are becoming more vulnerable to various regulatory, ethical, and reputational risks, which need to be actively and systematically managed (McKinsey, 2024). The report conducts a comparative study of the flexible, principles-based regulatory environment of the United Kingdom and the legally binding AI Act of the European Union, focusing on some of the major differences in compliance requirements, enforcement measures, and organizational risks (UK Government, 2023; European Union, 2024). It also reveals important issues concerning the data governance, ethical implementation of AI, and preservation of customer trust, which carry profound significance in terms of organizational performance and stakeholder trust (Edelman, 2024). The report uses the resources of the academic literature, such as the Resource-Based View (Barney, 1991), the Stakeholder Theory (Freeman, 1984), and the Institutional Theory (DiMaggio and Powell, 1983) in order to create a systematic and practical implementation plan. Not only are these frameworks referenced, but they are also proactively used to produce practical recommendations that can align regulatory compliance with the long-term strategic value creation. The results indicate that the implementation of the EU-level compliance as one of the global operational standards could help Tesco reduce the risks of regulations, and at the same time, better its competitive edge by means of improving its governance functions (Bradford, 2020). Finally, the report suggests that the idea of successful AI governance cannot be perceived only as a form of compliance but as a strategic competence contributing to long-term organizational sustainability and growth.

1. Introduction and Scope

Artificial intelligence (AI) has become a disruptive technology in the retail industry worldwide, allowing companies to streamline their operations, customize customer experiences, and improve data-driven decisions (McKinsey, 2024). Tesco plc has been gradually adopting AI in a variety of business processes such as optimization of supply chain, predictive analytics, dynamically priced products and AI-driven recommendations systems, which are broader industry trends of moving towards digital transformation. Specifically, Tesco applies AI in the supply chain by using predictive analytics to predict demand, optimize stock levels, and minimize food waste in its retail chain. These systems help to optimize operations and increase availability of products by studying historical sales data and current purchasing behavior. Yet, this dependence on data-driven systems is associated with the risks of data accuracy, system reliability, and diminished human control as well (World Economic Forum, 2024). Moreover, Tesco employs AI with the help of its Club card loyalty program, which allows gathering and processing a large amount of customer data to create personalized marketing and targeted promotions. This not only improves customer interaction and business performance but also poses some serious questions in the domain of data privacy, consent handling, and compliance with the regulations. Nevertheless, the quick adoption of AI systems

poses complicated threats in the context of data privacy, regulatory compliance, ethical responsibility, and customer trust (ICO, 2020). The risks are especially relevant to multinational organizations with multiple jurisdictions and whose legal frameworks vary, as discrepancies in legal requirements may involve more compliance issues (UK Government, 2023; European Union, 2024). The current report takes a senate advisory approach to assess the risks associated with AI as they relate to Tesco in the United Kingdom and European Union (EU) critically. In particular, the report will be seeking to:

- Analyze regulatory differences and their strategic implications
- Assess data governance and ethical AI issues.
- Determine the influence of AI on customer trust.
- Give practical suggestions that are backed by the accepted academic models.

Artificial intelligence (AI) has become a widely recognized catalyst of change in the retail industry across the world and is fundamentally changing the way organizations work, compete, and provide value to their customers. According to recent reports in the industry, the use of AI in the retail sector is growing at an astonishing rate with applications that include but not limited to supply chain optimization and demand forecasting, personalized marketing and automated decision-making systems. Such an increased dependency on AI technologies is indicative of a wider trend towards data-driven business models, in which competitive advantage is becoming more and more dependent on how well an organization uses data. Particularly, Tesco plc can be viewed as a rather topical case study because of its size, technological provisions, and multinational character both in the United Kingdom and the European Union. Being one of the largest retailers in Europe, Tesco functions in a complex regulatory environment and uses AI-based systems to improve the efficiency and engagement with the customers. Nevertheless, the growing amount of AI integration also places the organization under considerable threat of risk, especially when it comes to regulatory compliance, ethical considerations, and data governance. As such, it is important to know how Tesco can successfully deal with these risks and remain innovative. This report does not just analyses the obstacles that come with the adoption of AI, but it also examines how governance can be an effective strategic instrument to help an organization succeed in the long-term. The analysis is informed by a qualitative approach, relying on the secondary data sources such as regulatory reports, academic literature, and industry insights to make a thorough and evidence-based analysis of the identified risks and strategic responses (World Economic Forum, 2024; McKinsey, 2024).

2. UK vs European Union. Regulatory Environment.

The regulatory context of artificial intelligence (AI) is one of the most important strategic issues of Tesco, especially considering that it operates internationally. The dissimilarity between the United Kingdom and European Union regulation strategies poses risks and strategic opportunities which need to be addressed thoroughly. The United Kingdom has implemented the principles-based regulatory model, as stipulated in its AI Regulation White Paper, that focuses on flexibility,

innovation, and industry-centered regulation (UK Government, 2023). The enactment of these principles in various sectors is done by regulatory agencies like the Information Commissioner Office (ICO), Competition and Markets Authority (CMA) and the Financial Conduct Authority (FCA). Although this strategy promotes innovation and fewer compliance requirements in the short term, it also creates uncertainty in regulations as there is no binding law and a well-defined enforcement structure. Strategically, this non-standardization can lead to non-uniformity in compliance procedures throughout Tesco business units hence posing a high operational risk. Conversely, the European Union has introduced the EU AI Act (Regulation 2024/1689), which is the first globally accepted and legally binding AI regulation (European Union, 2024). The Act uses a risk-based system of classification, with AI applications being classified under prohibited, high-risk, limited-risk, and minimal-risk. There are strict regulatory measures on high-risk systems, such as conformity checks, increased transparency, and compulsory human control systems. Notably, the lack of compliance can lead to fines up to 7% of the annual turnover of the world, which can be a significant financial and reputational threat to Tesco. As per the Institutional Theory, organizations are impacted by a blend of coercive, normative and mimetic pressures (DiMaggio and Powell, 1983). In this regard Tesco has to deal with:

- Coercive pressures that come out of the legally binding EU regulations.
- Normative forces based on international professional norms and environmental responsibility.
- Mimetic pressures due to the best practices of competitors with regard to AI governance.

Moreover, there is the notion of the Brussels Effect, which implies that EU laws do not necessarily have geographical limits but tend to become de facto international norms because of their extraterritorial effect (Bradford, 2020). This supports the strategic significance of complying with EU regulatory requirements. The difference between the UK and EU systems adds more compliance challenges to multinational organizations. This brings about a strategic conflict between regulation and innovation. UK uses principles-based approach that facilitates flexibility and innovations. There is however, lack of clear legal enforcement mechanisms which brings about uncertainty. This ambiguity might augment compliance risk. In addition to regulatory compliance, data governance is also vital in determining organizational resilience and ability to manage risks in the long term. Poor data governance practices may result in short-term and long-term repercussions such as fines, loss of business, and loss of reputation. To illustrate, the breach of data or abuse of personal information may lead to costly regulatory penalties, especially in the framework of laws like GDPR, and, at the same time, undermine customer trust. Strategically, one should differentiate between various types of risks connected with data. Operational risks can be data errors, system malfunctions, or cybersecurity vulnerabilities that directly impact the operational aspects of business. Conversely, strategic risks are long term risks like loss of customer confidence, regulatory non-compliance and competitive advantage. This difference shows the imperative of a holistic and proactive data governance model that would respond to the present and future challenges. Moreover, good data governance cannot be perceived as just a compliance

need but as a competitive advantage. When organizations are transparent, accountable and use data responsibly, they are more likely to gain trust among the stakeholders which will enhance their market standing.

Strategic Implication:

Tesco ought to make EU AI compliance its world standard of operation. This strategy will help decrease the fragmentation of regulations and establish a uniformity in global markets, as well as make Tesco a pioneer in responsible and trustworthy AI governance. Further, this alignment can boost organizational legitimacy and bolster stakeholder trust in a more stringent digital landscape. The EU AI Act has stringent conditions such as transparency and human control, failure to which severe monetary fines will be imposed. Nonetheless, adherence to the letter may also raise the expenses and add rigidity, which could limit the creativity and efficiency of operations. The EU AI Act presents stringent measures of high-risk AI systems, such as transparency and human control, and severe penalties in case of non-adherence. Nonetheless, innovation could be limited by high compliance costs.

3. Data Governance and Risk Management.

Data governance is an important aspect of artificial intelligence (AI) risk management, especially in data-intensive organizations like Tesco. Tesco, being a multinational retailer, gathers and processes large volumes of customer information throughout its operation, which puts considerable obligations on the company in terms of data privacy, data security, and regulatory compliance. One of the main sources of such data is the Club card loyalty programmer, which allows Tesco to collect comprehensive information on the purchasing behavior, preferences, and consumption pattern of customers. This information is highly used to inform AI-based applications like personalized marketing, recommendation systems, this information is used to inform AI-based applications like personalized marketing and recommendation systems. Nevertheless, excessive dependence on the data-driven insights can diminish the human control. This heightens the chances of poor decision making. and dynamic pricing strategies. Although these features improve customer interaction and efficiency in operations, they also come with significant risks associated with privacy and control of consent and the possibility of misusing personal data (ICO, 2020). The regulative nature also makes the governance of data more complicated, especially because of the difference between the United Kingdom and the European Union system. The UK has taken a principles-based approach to the regulation of AI, focusing on flexibility and innovation (UK Government, 2023). Nonetheless, this strategy can result in deviations in data governance practices owing to the lack of binding and unified regulatory guidelines that bring more uncertainty in compliance to multinational organizations. Conversely, the European Union implements more rigorous requirements of data protection and AI governance via some frameworks, e.g., EU AI Act and the General Data Protection Regulation (GDPR) (European Union, 2024). These laws present explicit requirements on organization's in the way they use data, in terms of transparency, and accountability, especially when referencing automated decision-making systems. Failure to

comply can lead to significant financial fines and negative publicity, so meeting the regulations is a strategic consideration. An example of the application of the discussed idea to real-world scenarios is the rise of GDPR over large organizations, including Google, which had to pay huge fines because of not adhering to the requirements of data transparency (CNIL, 2019). This demonstrates the active role of regulatory authorities in enforcing compliance. This brings up severe financial and reputational impacts, and emphasizes the danger of poor data governance actions. These risks are especially severe in the case of Tesco, as the company is dependent on customer information via the Club card programme and AI-based digital platforms. Any lack of focus on the appropriate consent, transparency, or data security may result in regulatory measures, loss of customer confidence, and fines, especially in the more regulated EU market. In the view of the Institutional Theory, organizations are affected by pressures that are coercive, normative, and mimetic (DiMaggio and Powell, 1983). In this regard Tesco is in the face of:

- Coercive pressures due to legally binding EU regulations.
- Normative pressures based on international standards and ESG requirements.
- Mimetic pressures: Due to competitors implementing best practices in data governance.

Moreover, the Brussels Effect implies that the EU tends to turn into international norms because of its extraterritorial effect (Bradford, 2020). This supports the strategic need that Tesco should integrate its data governance practices with the EU requirements so that it has consistency and meet the regulatory requirements in different markets.

Strategic Implication:

Tesco ought to incorporate EU-level data governance and AI compliance as its international operational standard. This will lead to less fragmentation in the regulations, uniformity in the international markets and enhanced customer trust. Besides, strong data governance can be a strategic asset, strengthening organizational legitimacy and helping to maintain a competitive advantage over time in an increasingly data-driven economy.

4. AI Ethics and Governance Issues

The responsible application of the artificial intelligence (AI) systems, especially in the data-driven organization's like Tesco, is the focus of ethical considerations. The business applies AI in various aspects of its operations, such as personalized marketing, dynamic pricing strategies, and workforce management. Although these applications can create considerable efficiency and commercial value, they also create considerable ethical threats that need to be proactively mitigated (NIST, 2023). Within the framework of workforce management, Tesco is gaining more and more in the use of AI-based technologies to organize employee schedules, track their performance, and distribute resources. Although these systems contribute to greater efficiency and productivity in operations and workforce, they also raise ethical issues concerning fairness, transparency, and autonomy among employees. As an example, AI-based scheduling systems can

distribute shifts depending on the performance statistics or availability trends, which can disproportionately benefit or disadvantage some workers or give an impression of discrimination. Also, the application of automated performance monitoring systems can enhance surveillance in the workplace, which can be problematic in terms of employee privacy and data protection (ICO, 2020). The main ethical issues related to the use of AI are the bias in algorithms, absence of transparency, and gaps in accountability. Algorithms can be biased by having them trained on incomplete or unrepresentative data. Algorithms can be biased by being trained on incomplete or unrepresentative data, which may lead to unfair results. This can give rise to discrimination and legal liability, which could end up being discriminatory towards some group of customers or employees. To demonstrate this, the Tesco application of AI-based dynamic pricing, where the price changes depending on the demand patterns, the customer behavior, and market conditions, can affect the prices of various customers or locations without the intention to do it. These results may lead to issues concerning fairness and equity especially when customers feel that their pricing decisions are discriminative or unwarranted. On the same note, the absence of transparency regarding AI-based processes of decision-making might decrease the amount of customer and employee awareness and confidence, especially in a situation when people cannot find out how or why decisions are made (ICO, 2020). With regard to pricing, customized bids, or staffing choices, lack of transparency can result in dissatisfaction and reputational risk. Moreover, the lack of accountability can arise where the responsibility of the AI-generated decisions is not clear, making it hard to assign the responsibility and provide efficient governance. An interesting practical case of this problem is the AI-based recruitment tool used by Amazon, which was revealed to be biased against women applicants based on the past training statistics (Reuters, 2018). The system unintentionally discriminated against those CVs that had terms relating to women, which eventually led to its termination. This case brings out the consequences of the manner in which poorly regulated AI systems can lead to a massive reputational loss and regulatory scrutiny. The example is of specific interest to Tesco, since the same risks can be encountered during the process of AI-based decision making, including workforce management, customer segmentation, and personalized pricing strategies. One of the most important issues of ethical AI governance is so-called black box problem, when AI systems make decisions which cannot be easily explained by humans. Such a non-transparency poses a great risk especially in high impact areas like pricing, recruitment and customer segmentation. In case the stakeholders are not in a position to comprehend the decision-making process, then it is hard to guarantee accountability and fairness. Moreover, organization's usually experience a conflict between ethical accountability and business goals. As an illustration, dynamic pricing systems that are AI-based can optimize revenue by repricing products according to the demand and behaviour of customers. Nevertheless, this can be seen as discriminatory or unjust especially when various customers are charged varied prices when purchasing the same product. This poses a possible dilemma between profitability and ethical issues.

An applicable analogy can be made in relation to ride-sharing services like Uber, where surge pricing software has been criticized to take advantage of situations of high demand. Though economically efficient, such systems pose significant ethical concerns about fair play and social responsibility. In the case of Tesco, the same issues can be raised when it comes to AI-based pricing and targeted marketing. Unless the appropriate governance mechanisms are established, biased AI systems may result in discrimination, loss of both customer and employee confidence, and heightened regulatory pressure, especially in the framework of stricter regulation, such as the EU AI Act (European Union, 2024). The NIST AI Risk Management Framework highlights the need to institute transparency, fairness, and accountability into AI systems to reduce such risks (NIST, 2023). A Stakeholder Theory viewpoint would mean organization's need to reconcile the conflict of interests between the major stakeholders, such as customers, regulators, employees, and investors, all of which are directly affected by AI-based decisions (Freeman, 1984).

Recommendations:

Tesco should implement a formal and active strategy regarding ethical AI governance in order to overcome these ethical issues:

- Implement Explainable AI (XAI) systems to enhance transparency and enable users to understand AI-driven decisions
- Regularly audit the algorithmic bias to detect and discourage discriminatory effects.
- Create an autonomous AI Ethics Review Board to manage ethical compliance and ethics governance.
- Establish explicit accountability schemes, with a sense of accountability about AI-related decision-making on both operational and executive tiers.

Through integrating these practices to the organizational processes, Tesco can make sure that the ethical considerations are not considered a compliance issue but an element of its strategic AI governance framework. This strategy will reduce the risk but also enhance stakeholder confidence and sustainability of the organization in the long run.

5. Customer Trust and AI Impact

The issue of customer trust is a crucial factor in the long-term success of business, especially in a data-driven retail sector where artificial intelligence (AI) becomes a more and more prevalent factor in a decision cycle. The application of AI to personalized marketing, AI-based recommendation systems, and dynamic pricing approaches, in particular, can have a vast impact on customer perceptions, both negatively, as privacy, fairness, and transparency of data use concerns (Edelman, 2024) and positively, as it enhances convenience. Within the framework of Tesco, AI is highly implemented in customer-facing operations, especially its Club card loyalty programmer or on digital platforms. These systems can help the company gather and process big amounts of information about the customers to provide them with personalized offers, targeted promotions, and AI-based product recommendations based on their purchasing behavior and

browsing history. Although this improves customer interaction, and business performance, it also adds the risk of perceived data abuse, diminished customer control, and a deficiency in transparency unless effectively regulated. Additionally, AI-driven recommendation systems can serve to add to the so-called filter bubble effect, in which customers are repeatedly shown similar products, depending on their previous behavior, which can restrict the option and reinforce current consumption habits. This brings up other issues of fairness, transparency, and user control in AI-driven decision-making. The Edelman Trust Barometer (2024) reveals that consumers are growing more worried about how organization's gather, crunch, and use their personal data, especially concerning AI-powered technologies. Perceived lack of openness or abuse of information may result in loss of trust, which has a direct business effect, such as decreased customer loyalty, brand hatred, and increased regulatory oversight. An appropriate real-life example of the implications of losing customer trust is the Facebook–Cambridge Analytical data scandal, where user data was employed without their consent to deliver targeted political advertisements (Isaak and Hanna, 2018). This event caused a major social outcry, regulatory scrutiny, and a major loss of user confidence. It shows how the lack of data governance and transparency may cause serious reputational losses and loss of stakeholder trust in the long term. The example is especially applicable to the case of Tesco because the use of customer information, using the Club card programmer and AI-based recommendation systems, exposes the company to the risks associated with trust in a similar way. The perception that customer data is misusing information to create prices, market, or recommend personalized information may result in a lack of trust among customers, which in turn will affect customer retention and revenue generation. AI decisions might seem unjust to the customers.. Based on a Stakeholder Theory, customers form one of the key stakeholder groups whose confidence directly determines revenue growth, brand loyalty and competitiveness (Freeman, 1984). Customer trust is not merely a reputational asset, but also a direct financial performance driver. Consumers have better chances to interact with a company that shows transparency, and responsible data use in an ever more competitive retail market. On the other hand, loss of trust may result in adverse behavioral consequences, such as customer loss, switching behavior, and word-of-mouth. On the behavioral front, customers are increasingly concerned with the use of their data, especially in connection with AI-based technologies. This awareness is raising transparency and control expectations. Companies that do not live up to these expectations may destroy their long-term relations with their customers. Notably, transparency is also a strategic asset that can be capitalized on. By effectively explaining how AI systems work and the way customer data is processed, Tesco will be able to stand out against its competitors and build a strong brand image. The inability to deal with the risks associated with AI properly can thus cause not only the reputational loss but also the quantifiable financial losses.

Recommendations:

In order to build customer trust and eliminate the related risks, Tesco needs to implement a clear and customer-oriented AI governance:

- Make AI-driven decisions transparent and easily understandable, especially when it comes to pricing and personalized recommendations.
- Improve data transparency policies, customers need to know how their data are collected, stored and used.
- Introduce specific customer education campaigns to enhance awareness and knowledge about AI technologies.
- The introduction of powerful opt-out mechanisms where customers decide the level of AI-based personalization can occur.

Tesco can enhance its relationships with customers and develop sustainable trust by focusing on transparency, accountability and user control. This, in its turn, will not only improve brand reputation and decrease regulatory risk, but it will also help business to stay afloat in the ever-data-driven marketplace.

6. Geopolitical and Macroeconomic Environment.

The broader macroeconomic and geopolitical phenomena play a key role in the adoption and scalability of artificial intelligence (AI) by both influencing investment choices and regulatory frameworks. In the case of multinational organization's like Tesco, these externalities bring in more complexity in handling AI-related risks and opportunities in different markets. Increasing environmental, social, and governance (ESG) pressure, increasing geopolitical fragmentation and ongoing economic uncertainty are key macro-level trends with regard to AI adoption. Investors are increasingly focusing on ethical and responsible business conduct that makes organization's show a sense of transparency, accountability, and sustainability in their usage of AI technologies (World Economic Forum, 2024). It is especially important to Tesco since its operations heavily depend on customer information in its loyalty programed, Club card, and AI-based recommendation engines, which ought to be updated to meet the changing expectations of ESG, especially concerning data ethics, data transparency, and responsible data usage. Lack of fulfillment of these expectations could lead to a damaged reputation and loss of trust among the stakeholders. Meanwhile, geopolitical fragmentation is giving rise to divergent regulatory frameworks among regions, especially the UK and the EU. Such regulatory variance adds to the complexity of compliance, and can restrict the scalability of AI systems in Tesco international business (IMF, 2024). To take one example, AI applications in customer analytics, dynamic pricing, and supply chain optimization might need adjustment to fit the regulatory requirements of a particular region, raise the cost of operation, decrease efficiency, and stifle innovation. In addition, macroeconomic risk, such as inflationary forces and increasing operation expenses, can also have a profound effect on AI investment rate and size. Although AI-based systems, like predictive supply chain technologies in Tesco, provide a lasting efficiency benefit in the form of better demand forecasting and inventory optimization, initial AI implementation and compliance expenses can limit short-term investment choices. This brings about a trade-off between cost and innovation. regulation compliance, and governance infrastructure can limit short-term investment choices (World Economic Forum, 2024). Moreover, dynamic pricing systems based on AI imply

that Tesco is vulnerable to changes in consumer demand and purchasing power, which are additional factors that make the pricing strategies more complicated. This puts a serious strategic trade-off between financial discipline and long-term digital transformation investment.

Strategic Implication:

Tesco needs to implement a progressive and balanced approach that incorporates both the use of technology innovation and sound risk management practices. This encompasses the need to focus on investment in AI applications that have the greatest impact, including supply chain optimization, and to make sure that it aligns with ESG expectations and emerging regulatory frameworks. A proactive and adaptive strategy can help Tesco build organizational resilience, keep stakeholders onside, and gain a long-term competitive advantage in an ever-complex global setting.

6.1 AI Future in Retail:

The role of artificial intelligence in the retail business is likely to grow more in the future due to the development of machine learning, generative AI, and automation technologies. Retailers have started to invest in AI-powered systems to improve customer experience, streamline operations, and decision-making processes. In the case of Tesco, generative AI as a means of personalized customer interactions, sophisticated predictive analytics as a means of supply chain optimization, and autonomous systems as a means of store operations can become a part of the future. Nevertheless, the emergence of these phenomena also comes with new risks, especially concerning the privacy of data, bias in algorithms, and compliance with regulations. Moreover, since the regulatory frameworks are still in a process of development, organization's will have to be more dynamic and proactive in their governance approaches. This includes continuous monitoring of AI systems, regular updates to compliance frameworks, and ongoing investment in ethical AI practices. Finally, it is those organizations that can achieve a balance between innovation and good governance that will be in a better position to survive in an ever more complex and competitive environment. In the case of Tesco, this entails having not only the technological capability but also a strong sense of transparency, accountability and engagement with stakeholders.

7. Implementation Plan of AI Governance.

It is necessary to have a well-developed implementation plan that can turn the strategic recommendations into quantifiable and practical results. In the case of Tesco, the successful management of AI needs to be staged and organization-wide, with clear accountability, set timelines, and measurable performance metrics (NIST, 2023).

Phase 1: Foundation (Months 1–6)

The phase is aimed at defining the fundamental governance infrastructure that would be necessary to handle risks of AI.

- Create an AI Governance Committee, headed by a new Chief AI Officer (CAIO), charged with managing AI strategy and compliance.
- Carry out an organization-wide data audit to determine data flows, risks and regulatory exposure.
- Carry out a comprehensive regulatory gap analysis of existing practices against UK and EU requirements.

KPI:

- KPI: 100% data audit and risk classification, which will be measured by internal audits.
- All high-risk AI systems identified.

Estimated Cost: £1–2 million

Phase 2: Build (Months 7–18)

This step aims to instill ethical and compliant AI practices into the operations of Tesco.

- Deploy Explainable AI (XAI) systems to improve transparency in the making of decisions.
- Introduce staff training programmes on AI ethics, governance and compliance to more than 500 employees.
- Create a free-standing AI Ethics Review Board, accountable straight to the leadership.

KPI:

- Regulatory compliance preparedness (in line with EU AI Act requirements) achieved.

KPI: Decreased number of AI-related risk incidents by 30%, through internal audit measures.

Estimated Cost: £5–8 million

Phase 3: Lead (Months 19–24)

The objective of this step is to make Tesco a responsible AI governance leader and build stakeholder trust.

- Publish an annual Responsible AI Report, which describes the practices in governance, risk management, and compliance status.
- Introduce a specific customer trust and transparency initiative on the use of AI and data security.
- Independent external audits and assessments should be carried out to authenticate AI governance practices.

KPI:

- Increased score in customer trust (e.g., Edelman Trust measurements) by more than 15 percent.
- Improvement of ESG scores in terms of data governance and ethical AI.

Estimated Cost: £2–3 million

8. Strategic Conclusion

As this report shows, although artificial intelligence (AI) offers Tesco opportunities on a massive scale, it also presents Tesco with a lot of risks. This is why a successful balance between risk and opportunity is essential to long-term success in Tesco plc case because it is also a source of complicated regulatory, ethical and operational risks that should be strategically and proactively addressed. The differences between the regulatory policies of the United Kingdom and the European Union demonstrate the need to have a unified and progressive policy of governance, especially in the multinational setting (UK Government, 2023; European Union, 2024). Using both pre-existing academic models and their practical, implementation-driven suggestions, this report is a comprehensive roadmap to handling AI-related risks. The implementation of theories like the Resource-Based View and Stakeholder Theory indicate that effective AI governance does not just play the role of a compliance tool but also sustainable competitive advantage generator (Barney, 1991; Freeman, 1984). Moreover, introducing EU level standards of compliance, reinforced by effective data governance frameworks and ethical AI behaviors, will allow Tesco to increase trust in stakeholders, organizational resilience, and overcome a more complex regulatory environment (Bradford, 2020). Finally, organizations that redefine AI governance as a regulatory but not a strategic priority will be better placed to emerge successful in the long-run. In a dynamic digital economy, a capacity to balance between innovation and accountability will not only allow regulatory compliance but also long-term competitive advantage and organizational sustainability. Consequently, Tesco will need to mitigate the threats and opportunities presented by AI in a manner that will see it attain sustainable long-term competitive advantage.

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