

Rethinking Governance | Recording Transcript

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Jonathan Day



Robert C. Wolcott



Monica de Virgiliis



Roland Deiser



Panelists

[Jonathan Day](#) | CEO, Tapestry Networks; Chair of Board, Newman University

[Robert C. Wolcott](#) | Chairman TWIN Global; Adjunct Professor of Innovation, Booth & Kellogg; Author of *Proximity*

[Monica de Virgiliis](#) | Chairwoman of the Board, Chapter Zero France; non-executive Director, Air Liquide

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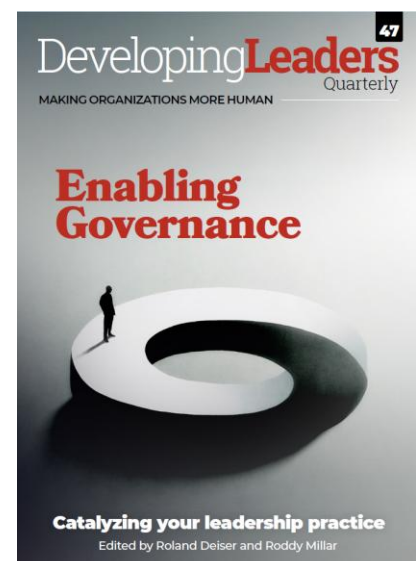
[Roland Deiser](#) | Chairman, Center for the Future of Organization, Drucker School of Management

Roland Deiser

All right, so the webinar is on. I welcome everybody who made it and thank you for taking the time. We have a quite excellent and interesting group here today to talk about rethinking governance.

I mean, you probably read, of course, the introduction, and, you know, the posts about that topic. We do this as the Center for the Future of organization. I'm the chairman of that center at the Drucker School of Management, where we look at issues that really shape the future of organizations in the 21st Century, which are becoming more complex every day, with AI and geopolitical dynamics and whatnot.

Among other things, we publish a regular booklet series called *Developing Leaders Quarterly*, which focuses on key issues leaders and organizations face.



We then always invite authors from an edition to share with us in a very unstructured conversation, their perspectives on this issue, which this time is on governance, as I said.

I'm very pleased to have you here today, the three of you. Let me start maybe with Monica. Monica is a board member. She's been an executive, big part of her life with ST Microelectronics, a major player in the semiconductor industry where she served in various functional roles. Over the last years, you took on board responsibilities. You serve at the boards of Chapter Zero, a climate initiative in France, and also at Air Liquide, the major global industrial gas company. And she will bring in a kind of the practical perspective, what it means to serve on boards these days.

We also have Jonathan Day here. Jonathan is the CEO of Tapestry Networks, an organization that brings together hundreds of directors from all over the world, from major global corporations. I mean, Jonathan, you have seen so many things that are going on in boards - because his life is talking to board members and discussing with these board members what is necessary so they can do their job well, and what may lie ahead in the future. He's written a very interesting piece on the challenges boards face in this context.

And then we have Robert Walcott. Robert is an adjunct professor at the Kellogg School of Management at Northwestern and the Booth School of Business at University of Chicago. He's also the author of a recently published book called *Proximity*, which explores how technology and digital is changing the ball game when it comes to product creation at the periphery of the organization - which of course has leadership and governance implications about which we're going to talk about as well.

So, welcome everybody. Also, welcome to those who made it to listen live. Thank you again. And let's start the conversation. We typically talk for about 45 minutes, and then we'll try to bring in perspectives also from the audience, too.

Maybe we will start with our practitioner. I always like to go with practice first. Monica, you are on several boards. What are the challenges you face these days as a board member?

Monica de Virgiliis

I think multi crisis, poly crisis, unpredictability, yeah. Problems all over the place. Let's take the example of a company I follow with a lot of interest, which is Ørsted. I don't serve on the board of this company, but at this company, one week before starting a major capital increase, their main offshore wind project, which was completed at 80%, was canceled by the US administration.

This type of situation is absolutely new. So - unpredictability, at the intersection between geopolitics, local politics, major disruptions on the supply chain side, climate change, and nationalism. All this is a very, very complex mix. Yeah, that's it. So, I would say multi crisis, poly crisis.

Roland Deiser

And maybe a word about yourself before we move on to the guys. I mean, how did you even get into this role?

Monica de Virgiliis

I started my non executive career a few years ago when I was had the opportunity to join the board of Brisbane, which has Italian roots but is a global company on energy systems, cable, and telecom. I was

selected because they wanted the woman for diversity reasons, but they also wanted a P&L responsibility, a large P&L responsibility experience, and a person with Asian and a China experience. I was matching the role, and this was then my first board. I found it interesting to see the world from the other side of the table. And since then, I had a few others board roles, as a chair an energy infrastructure company in Italy, and more.

Roland Deiser

Maybe Jonathan next. Jonathan - I mean, when I think about boards you are THE person that deals with them. You have a McKinsey history, originally, right? And you were also with a search company, Heidrick and Struggles, in your past. But for the last 10 years or so, you helped build that very impressive network where you address key issues on a global scale. Tell us a little about how you got there and what fascinates you with that role. And then we can also talk about the issues that are close to your heart and that you discover.

Jonathan Day

Sure. Let me quickly say that tapestry networks is much older than my time in leading it, and much bigger than just one person. We have a whole group of people, some in healthcare, some in financial services, some working with corporate governance. I'm very lucky because I am getting to be in the oldest of our networks. And this started long before I joined the company, after Sarbanes Oxley, when a lot of directors woke up one day and realized, oh, I have a real job to do, and bad things will happen if I don't do it well

The founding insight of the company, and it was not mine, was that they would learn more from one another than they would from either consultants or from academics who might have been in a boardroom but might not have the experience. That network has been meeting three times a year ever since. We just met last week in New York with about 20 directors from very large companies. They get around the table, and they discuss the issues that are uppermost on their minds.

Take for example cybersecurity. At one point, many of them said, Ah, this is not really an issue for us. This is, you know, for the people down in the basement. We change our password once a year, so we're just fine. Then it rose and rose and rose and rose and it became issue number one. Then ESG came on to the screen, and suddenly we talked with these directors about what it means to run a large, global company in a stakeholder economy. And then AI, etc, etc.

So, it's been a great privilege. And you know, Roland, I think the thing I like best about it is that I no longer must tell these leaders what they should be doing. That was my job as a consultant- you should do this, you should do that now. Now it's really to ask questions, to bring them perspectives on what's going on out there, to bring experts in, and then to do a lot of listening.

So that's the company. All together I probably have around 800 confidential conversations with directors, either one on one or in groups over a year. And most of these are from very, very large companies, some of them, a lot of them global, some of them more regional. So that's, yeah, that's, that's, that's the world, that's the world I live in.

Roland Deiser

It's a fabulous world. I ran myself for a while a corporate network with about 60 global large companies, not as large as yours, but still. What fascinates me still most about that is that they continue to keep the relationships, that you learn so many different perspectives.

If you are a major consultancy like McKinsey or BCG or others, you also meet so many companies, but in a role where you just facilitate and enable conversation and listen without the pressure of having to sell a lot to them, it's a different story in terms of intimacy. You get lots of insights - and I hope that we hear a little bit of your learnings over the years, or especially the last two or three years that were really bumpy from Covid to now AI and whatnot, and or also the geopolitical dynamics we're facing.

But let's go to Rob. Rob - I invited you back then to publish here in *Developing Leaders Quarterly*, because I was fascinated by what you put together with your buddy Kaihan Krippendorf in that book *Proximity*. We work at my center on business ecosystems, and the challenges companies face by pushing responsibilities and leadership to the fringe and to the edges of the organization, where actually the action happens. So, this is very relevant to me personally. Tell us a little bit about how you came to that topic, and how you relate this to governance. Which you do very, very well, BTW, in the article you wrote, and thank you again for that contribution.

Rob Wolcott

Sure, of course. Roland, thank you for the invitation. Great to be here with you, Monica and Jonathan. But before I answer your quick question, I'd love to synthesize something that Monica and Jonathan said. Jonathan mentioned confidential conversations, and Monica mentioned poly crises. And I think we all feel this, and especially when you have a fiduciary responsibility for organizations, it becomes even more significant and acute sometimes than it was 20 years ago.

I'm not in large corporate boards, but I'm in small, mid-sized private equity. I'm a venture capital investor. So, half my life is teaching and writing, and the other half is investing in technology companies. And even in that context, we have fiduciary responsibilities as board members, and you're doing your best to know what's going on, but you really don't know in the sinews of the organization exactly what's going on.

In an interesting sense, especially since Jonathan mentioned Sarbanes Oxley, what we're all doing as board members is sort of fiction. Don't take this the wrong way. Please don't quote me. But you know, we're reviewing things. We're listening to leadership. We're saying, Yeah, that sounds good. And we're signing stuff. So it becomes even more acute that we need the opportunity to learn from each other and have confidential conversations about fast moving change.

So quickly regarding proximity. Proximity is actually a theory. I don't refer to it in the book as micro economic theory, because then no one would read the book, but it's actually a predictive concept, coming from a question I asked in 2014 which was: what is fundamentally different about all things digital? This could be AI and mobile apps, but it could also be rooftop solar power, or 3D printing, or small modular reactors, anything digitally enabled. What is fundamentally different about digital compared to the industrial age? And when you look at that, you quickly realize the one fundamental difference of all things digital compared to the industrial age is that digital allows us to compress all sorts of capabilities into smaller and smaller packages and distribute them all over the economy ever closer to

each moment in time and space. Therefore, digital compels value creation ever closer to the moment of customer demand in time and space

And Kaihan Krippendorf and I are not just saying little better supply chain management or everything's connected, but we're literally saying that over the rest of our careers, the production and provision of products, services and experiences will continue to be pushed ever closer to the moment of actual demand in time and space, and this will meaningfully change the requirements on governance, the challenges and opportunities of governance. I'll just end there, and we can go back to whatever you like.

Roland Deiser

You know, it's just one of the big, big drivers, which is, let's call it, digital transformation. I know we had digital transformation 10 years ago, actually starting with web 1.0 in the mid-90s. Ever since, things have been changing exponentially. With AI we witness now maybe digital transformation 3.0 or 4.0. I don't know what we're going to see with quantum... It's not stopping, right? Things will go on.

Rob Wolcott

Just to underscore it, this proximity trend has been going on for decades in the sense that business is all about having the right product service or experience at the right moment for customers, it's always been about them. It's just that there are things we couldn't do with industrial age technologies that we can do with digital. So it's been shifting all through all those decades. You mentioned it's been shifting, and it's now accelerating.

Roland Deiser

Yeah, right. So, I just want to build a bridge to a theme which is governance and rethinking governance and the implications for that. I think digital is a major driver of these things, as it also disrupts our notion of how we think of organizations. Traditional structures are disassembling for many reasons. We have now clusters collaborating across industries. There are implications for traditional governance, which looks only more or less at the entity the board is responsible for, right, which is a defined organization with boundaries and laws and bylaws.

But organizations are not entities you can see as isolated units anymore, where you can say, well, here we have the legal framework of a company. It's a much, much larger, interdependent cluster that collaborates, integrates, and reconfigures via digital technology. I don't know how you see that. What do you think about digital being one of the big drivers, apart from geopolitics and all the other stuff that impacts us, like macroeconomics, tariffs, and whatnot.

Jonathan Day

Monica had her hand raised, yeah, why don't you...?

Monica de Virgiliis

You promised that we could interrupt one another. I'm Italian. I'm used to interrupting, right (laughs)? I took note on one point Jonathan mentioned, and another point Robert mentioned - the thing about

cyber security that you said that the reaction of a board member might have been at a certain time, what should I take care of that this is not for me. I had exactly that pretty recently, with a non-executive board member with a law background saying openly during the board meeting, okay, all this story about what we have been hearing from the cyber security officer is super technical. I have no clue. I cannot judge. Don't expect me to give an opinion. And I said that this is not okay. We cannot frame it like this. Otherwise, we have a blind spot. I understand that you feel unable to judge the nitty gritty detail. And, by the way, this is not the role. But so we decided for a training with an academic.

But the interesting point is that we kind of agreed that the role of the board was not to assess whether the investment in hardware, software or people in cybersecurity was right, but the role was really to exert the muscle of crisis management whenever the crisis happened. This is the role of the board. So, I found the reaction of the person you were referring to interesting. It corresponds exactly to my experience.

And sometimes we confuse things a bit. We don't need an expert in cybersecurity, also, because cybersecurity goes very fast. You are an expert today, but you are no longer an expert 20 years from now. We need to think about what the role of the board is exactly. Is it to assess the technical, or is it being ready to react. That's why we organized a crisis exercise. I just wanted to react to that.

Jonathan Day

One of the things, Monica, that we do every now and then is bringing in what we call weak signals. A weak signal is something that is starting to show up, be in the media, might be in discussions, but hasn't really become a kind of a clear crisis, yet. The most recent one, just last week, was a discussion about mental health as a risk to productivity and competitiveness. And we think we obviously don't know, we haven't a clear view of the future, but that this might be what cybersecurity was 15 years ago. So, we brought in a top psychologist and started to discuss mental health. But the problem with weak signals is that there are lots of them. And to your point, they're weak.

I want to connect, though, very quickly, with something Rob said. Because one of the questions that comes up in audit committees and board discussions a lot is the state of the corporate culture - what's the state of the corporate culture at this company, that company. And I'm sure you've heard this before, some director will say, well, it's very simple, I go around and I visit, you know, I visit the operations. I go to the factory, and I go here, I go there. I go to China, I go to India etc. And I think one of the challenges in a proximity world, even before you get to that place,

The company that I always come back here as an example is Walmart. Walmart has 2.1 million employees. It operates last time I checked in 78 countries, and it has 12 people on the board. Well, you just do the numbers, and that's a lot of travel for those 12 people.

Now in a world where the value is created right in the moment, and often online, 2.1 million goes to billions, because the value has been created in the digital interactions with those customers. How is a board supposed to quote, unquote, visit or monitor that? It can be done, of course, but it's a challenge of a completely different order.

You could say that well, I'm a part-time board member and I'm just going to go around. Go around and visit. It's not that that's a bad thing to do. Yes, it's a good thing to do. It's a necessary thing to do. But is that in a standard world, let alone a proximity world, is that going to really create the connectivity to where the value has been created? I don't think it will. And I think there's a real problem.

Rob Wolcott

Yeah, though, to build on that, I agree with you, and this is one of the fundamental challenges of the fiduciary responsibility of board members, and also the leadership of companies. But one of the good, one of the positives, is - those billions of connections and interactions compared to the prior age, almost all of them are instantiated digitally in some way. So, it stands to reason that there would be more and more ways to track on an automated basis, what's going on and look for an interpreter - in this case recognize weak signals far more efficiently, effectively in the moment, and hopefully develop over time systems that are good at drawing out the key points that are necessary at the management level, that are necessary in the C suite, that are necessary for the board. We can't only rely on that, but we really must make that a key part of how we gather information, analyze it and share it with the board.

Monica de Virgiliis

Referring to the fascinating proximity trend - I just wanted to remind you that there is also a lot of long cycle world, another world, that is propelling the digital think about semiconductors. From the moment you start a wafer to the moment you can ship it is between 16 and 30 weeks. So, yes, the signal is at the periphery. But for a company to be able to fulfill the need it takes long time, and then it takes risky decisions. The bulk of the hardware economy is still a very centralized and CAPEX intensive one.

Rob Wolcott

Yeah, agreed. But that's, that's where we're transitioning from. Over a very long period of time that was the standard of industrial age. And Industrial Age created centralized manufacturing at a distance, at great distances, because that's what optimized the use of industrial-age technologies. And also, incidentally, because we had Pax Britannica, and then Pax Americana, and those are clearly going away at this point. Transitioning digital then allows us - slowly over time in some contexts, especially semiconductors - to make more and more things closer to the moment of demand. Look, in 30 years, we'll still have huge plants centralized in certain places where it makes economic sense, but we'll also start to see smaller footprints distributed all over the place.

Roland Deiser

Really go into the hands of the individual, almost, right? I mean yes, we see that, but I see also bifurcation in a way, because there will be large-scale industrial stuff that is still be done, as you just said, Rob. And there's a lot of stuff that is hyper-customized by my own means of production. And I just can't wait till I see quantum really becoming a thing, and that will change the game significantly, again, in my opinion.

Maybe we can look a little bit closer at the key challenges that come with that. What it really means for governance or for control, for the guidance, or the enabling. We called our issue "Enabling Governance" because governance comes obviously with the command-and-control paradigm - which is not unimportant. But as important is the *enabling* paradigm of making sure that an organization can thrive; that there are structures and mechanisms in place that enable people to make decisions also at the periphery of the organization and not cluster everything in the center, especially in large corporate ones.

How can that be done? Maybe again Jonathan. I mean, you list a few things in your article about what boards need to do differently and that they are challenged. You mentioned the Walmart example, and there are many other examples as well. How do you see the future of the board?

Jonathan Day

I wish I had a really good answer to that one, Roland. I see people every day continuing to do the work of boards in exactly the way that they did in the post-war era, and the system has not fallen over yet. They continue to make it happen. As I said in the article, I think that it sometimes involves literally heroic effort, and in some cases, it's not effectively paid as it should be.

I think one thing that would help the "professional governance world", is to recognize that some of the models we have been using simply have no relationship to what actually happens in these boardrooms.

I'll just give you a very quick example. I chaired the board of a UK university for seven years, and on my first day as board chair, the Corporate Secretary called me and said, 'I just want to remind you that it's noses in, fingers out.' And that was, of course, the bright line - noses in, fingers out. The problem is that the bright line moves. There's a line, but it moves.

Rob described the experience in private equity. In private equity boards, those lines move all the time because things happen. And sure enough, we had been in role for little over a year, and the Vice Chancellor decided that he wanted to spend more time with his family and take early retirement. So now we need to find another Vice Chancellor. Then Covid came along, and a university that was completely face to face had to basically close down its face-to-face operations. And then the UK developed a very interesting regulator called the Office for Students, which was, let's just say, a very disruptive regulator. I won't bore you with stories of the Office for Students. And now we've hired another Vice Chancellor, and he had serious health issues, so we had to hire a third one.

So, there were times in those seven years when it was very much all fingers in and sometimes none of them. I think a lot of the views that we have are literally like a map, like one of those old maps, that doesn't actually correspond to where the geographies are, and we need to redraw some of those maps.

There has been very little work done on this. Roger Martin, who is a Canadian academic, wrote a book where he put out some quite radical recommendations on this score, but mostly the models that are out there are the same models we've been using since the beginning of the 20th century industrial age, or maybe the end of the Second World War.

So, Roland, I think that's the biggest change to acknowledge - that the job sometimes does involve getting quite deep into what's going on in the company, and that ultimately, as I said in the article, and legally, the board runs the company. This is the language of the UK companies act. It's what the Delaware code comes down to when you put it on the stove and boil it for a while. As a legal scholar - who you may know Rob because he teaches at Northwestern - Simon Wong will say, a CEO is a best practice. It's a necessary practice. So, for me, this is the starting point - to acknowledge that our maps just don't correspond to what actually happens in the Board.

Rob Wolcott

Well, and especially as the political context gets more challenging. Geopolitical and national political contexts get a lot more challenging. I mean, I think about how you reflected on a university. About what

must be the extraordinary differences between being on a board of Board of Trustees of a university, as opposed to the board of a for profit corporation. There are certainly similarities, but they're very different animals.

My core field is innovation. And I like to tell people, look, all innovation is political. And I don't mean national politics necessarily. Sometimes that's the case, but I just mean anytime you're trying to get people to do something different and new, there's going to be politics, because people have vested interests, and they have those things that they share and that they don't share. But the political context of a university, and I love universities, is so far beyond what most for-profit companies deal with. I'll just share a quick quote from Henry Kissinger - and then I'll shut up - which sums it up for me, and that is, university politics are just so vicious because the stakes are so low. Look, I love universities, and we need them to be strong, but it's an even more complex environment than a for-profit corporation.

Jonathan Day

This is something we've started to discuss with corporate directors - that one of the reasons we're able to have the conversation we're having right now is that all through the late 60s, early 70s and 80s, there was this amazing collaboration. Sometimes they call it the triple helix of universities, businesses and mostly the US, Defense Department. That was what led to the internet and to the communication protocols that drive it. And it was extraordinary because it was very, very, very open. The Defense Department deliberately declassified a lot of that material precisely to enable more people to participate. Sometimes they call it the triple helix, right? Is that going to go away now? No, but it's certainly going to change.

And the duration of the funding. The funding back then was extraordinarily patient. It was much less partisan than it is now. You'd find people working on internet protocols or ARPANET protocols who were from all over the political spectrum, and it didn't matter. And then, last week, as you saw, the administration sent this compact for academic excellence in higher education to nine universities. Some of it is perfectly normal. It's things like, we expect you to obey the law. Okay, fine. But some of it is absolutely game changing. And to Monica's point, over the longer term, this is going to change the very nature of innovation, of technological development.

I am an optimist. I believe it's going to happen, but it's going to happen in a different way than it did before, and I do think boards need to really understand this now. Part of the good news is that when I look at the director population that we're involved with, about half of them are involved in university boards in some capacity or other. They're touching two strands of the triple helix already. But Rob, I think you're dead-right. It's a very different, very different governance role. I hope that didn't send me too far...

Roland Deiser

Well, let me try to bring it back. In. We have actually three levels of governance to look at - which is really the regulatory environment, the large-scale politics that are political in a traditional sense, right? Then you have the governance of corporations. And then you have the leadership that executes whatever needs to be executed, which we call the Board of Management or whatever. And, of course, all three somehow impact what's happening. However, what I see in all the discussions we have, in the mainstream discussions about digital transformation, organizational transformation, and stuff like that, that they very often end at the boundary of the organization.

And they are mostly about the CEO. The CEO should do everything - we need CEO buy-in and so on. Much less is talked about the transformational forces that happen at this interface between the Board of Management and the Supervisory Boards. And even less is done when it comes to looking at organizations as political actors and how they interact with the regulatory side. And finally, the traditional way to look at what business is about stops very often at the boundaries of the organization.

I've become very interested in these topics. My professorship is actually about organizational politics. And to your point, Rob – it's primarily micropolitics that determine a lot of what's going on. What would be the micropolitics between, let's say, the executive team and the board? Let's look at that a little bit, because it's something that in the US, you have the CEO being, typically the chairman of the board, not so much in Europe. And there are issues of compensation and all kinds of stuff. How do you see that? You've been in both roles, Monica, so I'll ask you first, and then maybe we'll move on in the discussion.

Monica de Virgiliis

The question is exactly what?

Roland Deiser

The question is - what are the politics between the board and the CEO, or actually, his team, and then, you know, let's say the senior leadership of the organization, which is tasked with executing and making sure that the corporate goals are achieved.

Monica de Virgiliis

There are all types of situations. One archetype is a management board who is not very interested in having a challenging board. I'm not saying that is prevalent, but there are quite a few where the management team, and in particular, the CEO expects the board to be a rubber stamp on their decision. Because of the multi-crisis, investors want to make sure that the board members are not only competent, but also that they collectively take decisions in an independent way. Remuneration is a very good sensor for investors to see whether the board is independent, or it is just translating what the CEO wants to be his next paycheck.

I like the McKinsey model of a board's evolution: The compliance board with a focus on oversight, with their perspective; then the value enhancing board, that for example adds a cyber security expert or an expert with a China business perspective; and then what McKinsey calls a catalyst board, which is a board that is thinking about the future and provides also inputs for change.

So, there are many different configurations. Many times the type of profiles at the board level are chosen because someone wants to orchestrate a board that is more active, or more traditional. I like to be on a value-added board, where we support the management but also challenge it, because this is more interesting to me. But there are other people who are happy with the privilege of serving on the board of a large company, regardless of its role. And then there's a difference between a listed and a private company. When serving a private company, you sometimes must go very deep, even taking on interim roles. And once the position is filled you can step back to your nomination and remuneration committee chair – an example I know well from my experience. On a public company board, things are much more organized, the role is more traditional.

Rob Wolcott

Roland, I have an observation - obviously, as Monica said, it's very situation-specific. I see a lot of startups, entrepreneurs, some funded and scaling, some brand new - with all levels of sophistication. Sometimes you even must explain what a board is and then in other situations, where boards have been operating for many years and it is fairly effective. But one thing that I've seen across all those environments - whether I've served on the board or just been engaged with a company organization - is some level of clarity about what is the appropriate, most effective relationship between board members and operating executives. I've noticed that some companies don't really have that conversation - it just happens organically.

A board member meets a couple of executives, maybe they connect well with the marketing team or the engineering team, because that's their heritage, because that's their career, and that's great. But as a CEO you should want - and as a board member you should desire - to have some clarity about how free our company wants the board to be in engaging all around the company with different levels. How supportive and active as an advisory to those various executives around the company is the appropriate level of engagement, and how do you make sure that that engagement is coordinated with the CEOs team and the rest of the board?

I've seen cases where it just happens organically, and then all of a sudden, there's a whole lot of anxiety, and there a lot of things upended, because some board members are getting way too involved in the operating decisions of the company, which is really not the board's job, unless things are starting to go bad or they see indicators that maybe it's going in a bad direction - that's different. But you see what I mean - it's important to have some clarity about what's the appropriate relationship between board members and operating executives at the company.

And just to put a fine point on a related topic, which is sort of funny: I remember years ago, my mentor and doctoral advisor, Don Frey, who had a long career as a CEO and chairman of a fortune 500 company said to me one day, you know Rob, a best practice should be that the CEO of a public corporation should never be the chairman. They should be separate roles. And I said, well, Professor Frey, that's great, but you were chairman and CEO of Bell and Howell. And he said, Yeah, well, that's right. As CEO I wanted to be chairman, but I still think it's probably not a best practice anyway (laughs).

Jonathan Day

I think, Rob, you put your finger on where I believe the board-management relationship must start - and that's with the chair. Let's assume for the moment that it's an independent chair and the CEO. If you don't start out by really sitting down - and it could take hours to work out what each one is going to do - it's going to be very difficult.

The best example I ever came across was a UK company where, once a week, the board chair and the CEO sat down - it sometimes took just half an hour - and they talked things through. Okay, here are the issues on the table. Which ones are you going to take, and which ones am I going to take. I was privileged to sit in some of those conversations. It was a very dynamic back and forth. The map and the territory were completely divorced. This was a dynamic relationship that these two had, and in some cases, on strategy for example, the chair got very involved. I could give dozens of examples of M&A situations where the CEO was almost pushed to the sidelines. So, the sort of the old saying, that the CEO runs the company and the chair runs the board, just doesn't work that well anymore.

I want to make a quick comment about independent chair versus combined role. Yes, it's a best practice, but given that the chair really must have a pretty important voice on strategy, I've come to understand at least a bit more the American model. And it's interesting that Larry Fink, who you would think would be a great advocate for 'proper governance', is also the chair of Blackrock and gave a business school speech - you can find it online - where he explains very clearly that the strategy role must come together in one person. And in that case, that would be him. I used to go around saying that they must be separate, and Europeans have got it right, the Americans have got it wrong. But I no longer have that view. It's very situational whether you separate or not.

Roland Deiser

The American model, where the chairman is the CEO, mitigates, in a way, that structural conflict that otherwise would exist between the operational leadership and the supervisory roles. That's somehow a quite challenging role, isn't it? Because you must do both sides.

One thing you mentioned, Rob, about start-ups, I find quite interesting. In startups and smaller emerging companies, you often have tech guys, and very, very often you have unexperienced CEOs that come out of technology and don't really know much about other things. Then investors come in, and the VCs become board members - and I've seen that they are often not very functional investors who can virtually destroy the company because of their board dynamics. I've seen a promising company with five or six large strategic investors who had different interests, and one financial investor. It was a disaster. They served all on the board, and they virtually destroyed the company because of their internal conflicts and a not very able management team in that company. They were supposed to create a great CEO, a great leadership team, and they just didn't.

On the other hand, these established, large Global Fortune 500 companies that Jonathan talked about before, like Walmart, or European companies that have been around for 100+ years like Siemens or Daimlers or what not - that's a very different world of boards.

Now, there's another thing I'd like to discuss: I know it from Germany, from Switzerland, from Japan - and I don't know how it's in the US - but very often board memberships are multiple ones that create a kind of a Keiretsu, which means that very influential top board members - very often the Chair people of the board - guide the whole industry. They guide the whole economic texture of a country. I've seen this extremely in Switzerland, where everybody's on each other's board. I've seen this in Germany. I don't know how it is in the US. What does it do to the quality of boards? You have enough on your plate with Walmart alone; now you have multiple board roles, and they're all part time, and you more or less just politically run around, maybe to shape industry conditions or I don't know what. Any thoughts on that?

Jonathan Day

I am happy to share what I've observed. There was a wonderful article in the Figaro. As only the French can do, they applied social network analysis to board members. And the cross-network was unbelievably compact. It was a tiny little circle. I believe that now the situation is much more distributed in the US, in part because you've had this real push for diversity, and in part because you've had enough disruption between Covid and politics and things like that that it's shaken the system up. So, I don't think you have the little club that you once did of, as you said, Roland, Keiretsu. Rob - I'm interested in your take on this, but I think the network is much less compact than what we had in the US in the 60s or 70s.

Rob Wolcott

I agree. I mean, United States does not have the ENA or the Ecole Polytechnique. We don't have a system where there's a very small number of institutions that lead to top leadership. Sure, we have the Ivy League, we have the top 20 institutions, but that's a fairly small sliver of the wide range of possible people that end up on boards.

But I'd offer maybe a 21st Century US version of it, which is Silicon Valley leadership. There is a relatively small cadre of people in Silicon Valley, or related to Silicon Valley, who have an outsized impact on where things are going. But I wouldn't read too much into that, in terms of an oligopolistic thing. It is that, to some extent, but I wouldn't read too much into it because it's brutal. It's 'I'm going to go out and I'm going to change the world, and somebody else is going to change the world. We're going to fight it out. So, it's not so clubby as some people think that it might be. And there are also doors open, as occasionally some group rises and there's new leadership, and they enter the club.

I'm not saying it's perfect, but it is somewhat more dynamic than, say, the old Japanese model, the Korean model, which they're starting to come out of right now. And some of the fighting you're seeing at the economic and political level is evolving out of having just a few families controlling these industries. And so that's a blessing, I think, of the US system. Are there pockets of oligopolistic leadership within certain industries in the US? Of course there are. But it's such a big, diverse, messy economy, I don't see that as much of an issue.

Jonathan Day

Well, I agree. And the other thing that helped that diversity over the last 40 years was that the doors swung open to extremely talented leaders. I think of India, but it's not the only place that they came from. If you look at the top ranks of many of the tech companies right now, you've got these extraordinary people who came in, and now it is worrying that the administration is trying to slam some of those doors closed. But that need for talent, drove lots and lots of incredibly talented women into senior roles, to the point that the fortune 100 boards are probably about half female.

Rob

Well, the numbers are much better even. By the way, I just like to offer a fun factoid. Many people don't know this, but Nvidia's and AMD's CEOs, Jensen Huang and Lisa Su - cousins!

Monica de Virgiliis

I had the same example in mind!

Roland Deiser

I know Monica - you probably must leave now, unfortunately. Monica had a commitment, and we are happy to have you had for one hour. First of all, Monica, a big thank you! Do you maybe want to say a last word?

Monica de Virgiliis

Yeah, it just was a funny thing that happened to me, referring to the club thing. I live in France, and a couple of years ago, I was invited to a panel, and I was discussing with a French friend of mine, what is the angle, how should I take it? I was very serious. And he said, listen, Monica, don't even think about what to say. The only question that the people in the room have is, how the hell an Italian engineer is ending up serving on the board of such an iconic company as Air Liquide. So, they don't care what you say. They want to know how you did it. Just to show how open the system is.

Listen, Robert, Jonathan, Roland, and the participants - I thank you for this! I must step back and I hope we will see us again. Thank you.

Roland Deiser

Well, we're still two - or three - interesting people. There was one question in the audience that we didn't touch yet, which was: what kind of today's digital tools can help closing the gap between the board and the leadership team, which is created by unexpected new challenges. Rob, especially, I guess, you are interested in digital, but also Jonathan - I'm sure you see your share of discussion around that topic as well.

Rob Wolcott

Yes. Thanks, Frit, for that question. As you probably guess, it's close to my heart. I mean, one thing to do, if you have the time, is look at the article in Developing Leaders Quarterly. I do this often when thinking about governance issues - break the topic into three sights, which is hindsight, oversight and foresight. And there are various ways to leverage digital tools to become more effective at that.

I'll just give you one example that is something that I do personally, not only for board reasons, but also as an investor and a teacher and researcher - that is the big threats and opportunities of any business, any organization, happen at the peripheries. They happen outside the core. They do not happen between you and your core competitors. Occasionally your competitors surprise you, but for the most part, you already know everything they're doing, and they already know everything you're doing. The big threats and opportunities percolate outside the core in the peripheries, most of them fail, and Jonathan talked about weak signals earlier. Most of them are weak signals. You can see them - but somehow you must have better peripheral vision. The question is, what sort of peripheral vision should management have? What sort of peripheral vision should board members be expected to have?

An exciting, almost free sort of thing you can do is to look across a whole range of technologies and industries and be smart enough about all of them to draw lines between them. What I do with ChatGPT 5.0, which costs me 200 bucks a month, is that I have articulated specific technology areas where I want ChatGPT to scan for things that might be relevant and important to me. And then once a week - and you could do it once a day, you could do it once a month - it sends me a little report and says, okay, in additive manufacturing, like 3d printing, in plant automation - here are the things that should be most interesting, and here are links, and I scan it. Occasionally I click on a link. Usually, it doesn't take me very long, but sometimes I see something, I go deep. If you think about using that for some level of peripheral vision that can happen automatically now, and you could design a version that goes to both the management and the board.

So, when you go to a board meeting, everybody knows that they had the opportunity to look at some of the things that are threats and opportunities on the periphery to align everybody about that before the board meeting. That doesn't mean they're going to read it, but if they're properly prepared, they might read it, and then that might start aligning people around the realities that are shifting outside the organization real time. The great part about experimenting with AI tools like that is that it's an example of something that's nearly free and you can iterate and experiment with that at a board level as well.

Jonathan Day

Yeah, I completely agree. And let me just add, I do something very, very similar daily, in fact. Because some of the stuff is moving so quickly that there's just no other way to do it. Usually, the first thing in the morning with that early coffee is a chat with the GPT 5.

Now, the other thing that I find incredibly useful - and I've met some directors now who are starting to do this - is when you need to go deep on a particular technology or legal concept and figure out the state of the question. I'll give you one quick example. You probably saw some press coverage about companies moving their state of incorporation out of Delaware. And what I observe is that even the best news coverage out there is superficial on some of these things. So, you say to chat GPT, go into more detail on the legal forces that are leading some of these companies to move. How many are moving? And just in terms of coming up to speed on what's really going on is enormously helpful.

One more quick example, and then I'll stop. I mentioned the compact that the administration sent to these nine universities. The press missed the most important term in the compact, so I went to Google and said give me the text of the compact. But it couldn't find it. ChatGPT found it like that. And sure enough, there was this clause at the very end that says, if you're deemed to have violated one of these terms, any donor can demand all the donations in the last year be given back, and you have to do it. Whoa, yeah. I mean, you know, Bill Knight gives you \$100 million, and you build a new building, and then somebody in the Justice Department says, oh, you penalized conservative thought...

Rob

So now if they enforce that, then as a university you're going to have to basically have the equivalent of an escrow sitting there and keeping your hands off of it. Otherwise, you could end up having to fire-sell a bunch of assets in order to... I mean, that's a game changer. Well, you know what, Jonathan? This is Henry the Eighth coming for the resources of the Catholic Church! Yeah, there's nobody more like the Catholic church than United States universities - and I love them to death - they have cloisters, and they have hierarchies, we wear robes sometimes for graduation. If somebody wants to be immortal, they give a bunch of money to the university and put their name on a bill. It's basically the Catholic Church.

Jonathan Day

And universities issued all sorts of anathemas over the years. Yeah, we could go on and on about this one, Rob, but my point is simply that it was the digital tool that enabled me to get to the source material, and so now I can at least have an informed discussion on this. As a non-lawyer I want to go into a bit of depth. It's not that I'm going to go out and practice law, but at least now I can have a good conversation with a director who herself is a top lawyer. It's the depth and the breadth that I find useful.

Rob Wolcott

It hasn't occurred to me, Jonathan, but you're right! Because as a board member, you're facing legal compliance, HR, all these different realms. And one of the things that's different from the old search engine now is that you get a good LLM. You can say, tell me about the XYZ regulatory frame and its interpretation in the context of the oil and gas pipeline industry, and it'll do it! Now, you have to be careful that you're not getting occasional hallucinations, but you can very quickly ask it to contextualize terms and concepts, and that's enormously helpful.

Jonathan Day

Yes, of course, the hallucinations are a concern. But guess what - humans hallucinate too. A colleague of mine says I need to get an overview of a particular area, and I could either ask a graduate student to work on that for six weeks or ask ChatGPT for six minutes. But what if ChatGPT hallucinates? - Well, I'll tell you - associates and graduate students and experienced folks like me hallucinate just as often.

Rob

Well, one of the things you can do - you can ask ChatGPT 5 to do it, ask Anthropic to do it, and compare the two. And if it's really important, get some redundancy.

Jonathan Day

Yeah. And in fact, with the so-called agentic AI you can have an agent that comes up with the information and another one that challenges it, right? So, you can have a kind of prosecuting agent, like a devil's advocate, that says, I'm going to go and try to find out where this is wrong. It's not perfect, but I will say this about AI - it's getting better and better and better. It still has flaws, but it's getting a lot better. Fritz. I don't know if that starts to speak to the wonderful question you raised.

Sounds like Roland, you can now open the conversation for people to come on the screen.

Rob Wolcott

While you find somebody, Roland - Jonathan, I have a question for you. You see so many situations and interact with so many different board members in different contexts. Is there anything that seems to be new in the past couple of years about the issues, challenges, comments they're making, things they're seeing, anything that's percolating now that is new is different from, say, five or six years ago?

Jonathan Day

Well, yeah, I think there are. What was a kind of unanimity, almost a Shibboleth around ESG and DEI has changed in a drastic way. This is happening in Europe as well. And again, the simple pictures here don't really work. In the sense that a lot of work is still being done in these large companies on climate. Are they talking about it as much and in the same way as they did before? No, they are not. There's a kind of reset going on about how you approach these issues. Something similar is happening on diversity.

I think another thing that is coming on the radar screen in a big way - and boards really have not figured out what to do with this - is social media and the power of social media. When I first started doing this work, the average age of top board members was probably in the late 60s. It's come down somewhat. It's still difficult to get younger leaders onto these boards, because the economics just don't work out. If you say to somebody in her 30s or 40s, you could either have this million dollar a year top job and have the corporate plane fly you around and so on, or you could go on a board and cut that and have to make your own travel arrangements, which some of these crazy boards make their Directors do... okay, it looks like that we have somebody from the audience.

Roland Deiser

Yes, I want to welcome Anna Simioni here. It's great seeing you again, Anna, after I don't know how many years. It has been ages, really. Back then, Anna was with Unicredit group, a major European Bank, where she led corporate leadership and cultural development. Meanwhile, you went to BCG, you did all kinds of interesting things. Tell us maybe a few words about you, and why did you jump in? Is this topic also something close to your heart?

Anna Simioni

Yeah, thank you! I'm sitting on several boards, and I'm in a major bank. I'm also the chairwoman of the remuneration committee, and I think - also linked to what Jonathan was just saying - age and the length of tenure of a CEO is a critical aspect in governance

What I discovered doing research for BCG is that having a CEO for more than 10 years is not benefiting the company and it's not benefiting the executive team. This is a taboo topic, but it would be an interesting issue for the board to set a lit time limit right at the beginning of a new assignment as a CEO. It's not that the person is not good. It's just that at the very beginning you say that 10 years are enough to lead a major strategy, and so the CEO needs to think about the future, while he is on in the 10 years. So, I think tenure and age are serious issues, because you cannot ask a CEO who is 70 - and unfortunately, we have also these cases - to be the major champion of managing uncertainty in this volatile environment. So that would be my contribution as a member of a board.

Rob Wolcott

I appreciate that. And obviously there's a difference if you've got a founder-led company, and there's a whole lot of complexity there.

I remember, years ago, I worked quite a bit with ITW Illinois Tool Works, a very successful, publicly traded industrial, multi-divisional company, and they have a standard they've had for a long time, which is 10 years. You're going to become CEO, and right up front everybody says, congratulations - what are you going to do with your 10 years? And so, 3, 4, 5, 6 years he's thinking hard and working with his colleagues and the board about who's in the wings. Who are we going to start to groom and then select to be the next CEO of ITW. It related to the comment I made earlier about clarity up front and having some agreements about what we do around here, and what works for us. Knowing it in advance - for them, at least, it has been of enormous value.

Anna

I totally agree. That's the result of my research from talking with several great CEOs. At the end, they recognize that it would have been much better for them and the organization if there was this clarity at the beginning. Because when you are there, you are so in love with your organization that you keep thinking about the future and so on. And this doesn't allow you to create a great successor. So yeah, I think that clarity at the beginning can really change the game. And it is also a very important commitment for the board. They know that they must do things to manage the succession, and it's not something that happens and you're not prepared.

Roland Deiser

Maybe you also want to comment a little bit on what you heard in the first hour of this conversation. Anything that resonated really, especially to you?

Anna Simioni

Many, many things, many things really resonate. I was really listening with a lot of attention. I like the perspectives that you are bringing to this panel - people who talk with board members, people that have been or are board members. Also, the experience of Rob who is studying and working with venture capital, I think it's very rich. And venture capitalists have, in my view, a completely different perspective.

Rob Wolcott

They can be very helpful, and they can also be incredibly destructive. I have two very good friends. I invested with them. One of these companies I invested in, a historically very successful company, was derailed by venture capital board leadership, the CEO was pushed out. And in retrospect, an objective observer would say, yep, it was the VCs fault.

Anna

I fully, I fully agree with that. In fact, one of the things that happened to me, too. It's really also advice for junior entrepreneurs on how to choose your shareholders, understand what you can expect from a certain type of shareholders, and what are the risks?

Roland Deiser

That would be a great, great other topic - looking at innovation also from that type of angle. Because one thing is the business idea, the business model and whatnot. But then you have governance issues, right, your investors. Can you afford to choose your investors? Because you're desperate for funding, you take whatever you can get. But you may end up with the devil, so to say, right at the end of the day.

Rob

One of the things I like to advise entrepreneurs, especially those I invest in is to target VCs that were founders of companies. They've been there. They've done that. That's not to say there aren't fabulous VCs who have always been VCs, but the ones who really understand what it's like to be in the crucible, they tend to be better board members and partners for the CEO and the founders. Sometimes you must take a board member because you really need the capital, and maybe it's even a great venture capital fund. Just make sure you have other members of the board who can balance them out.

Roland Deiser

But you also must look at corporate VCs, which is another very interesting element. Unlike the financial investor, a strategic investor hopes that's through your new idea they can transform their own business or expand it. They also come in with very, very, let's say, huge expectations. They sit in boards. They destroy, very often, the startups as well, So...

Rob Wolcott

I mean, strategics are great, and totally understand why they'd want to be on the board. But I advise entrepreneurs to the extent they can, to start with the assumption that four years later that corporation's priorities have changed. Which means start with the assumption that you will not be important four years from now. Maybe you will be, congratulations. But if you build your governance approach and all to the best you can with that assumption, then you've protected a little bit

I don't know how much time we have left, but there was a very interesting question here about nonprofit boards. I won't say details, but honestly, if there's really needs to be a shift, the board's role is to hire and fire the CEO. At a nonprofit, that's even more poignant, because you can get into a rut for a very long time depending on your capital structure and all that. You can only change a 20-year heritage so much, so you probably need to bring a new CEO and make sure the chairman and the new CEO have a good dynamic. That can drive some significant change.

In my experience it's usually hard with nonprofits that have been around a long time, who had the same CEO for a long time, especially if it's the founder. It's a whole different dynamic if you take a founder who is visionary and great but maybe is not shifting with the future. You move that person up to chairman and bring in a new CEO, that's fraught with peril. But if you can find an alternative structure where they stay on the board, or something like this, and you have an independent board member that is trusted, that moves into the chairman role, and then bring a new CEO in, that works. The best way to do change management is to change management, and that's particularly true for nonprofits.

Anna Simioni

If I can add - I sit also in two, three nonprofit boards, and I think that compared with for-profit, I would be more sensitive to the evolution of the organization than to transformation, because the corporate culture, the purpose, the way to achieve results in a nonprofit, can be very different. With a new CEO, you don't want to throw out the baby with the bathwater. In some ways the cultural resistance is pretty different from the corporate.

Jonathan Day

I will just add one thing as the clock runs out here. If you are invited to join a nonprofit board, and you look at the list and it has 34 members, then as they say on the airplane - locate the nearest exits, because that is not going to be an effective board. If it's a board where many of the members have bought their way in - some by making a six-figure donation which is kind of the pattern to get a seat on the board - is that going to be an effective board? Probably not. Maybe, but a lot of red flags should come up.

By the way I believe Peter Drucker wrote something about this, Roland, like in 1954. He was so far ahead of his time... For some of these nonprofits, including some of the biggest NGOs on the planet, the boards are simply way too big, and there's just no way that they can actually function.

Rob Wolcott

I like the model of a fiduciary board and an advisory board or something like that. Then you can make the case to all those advisory board members: you put their picture on the website, and you celebrate them and tell them how great they are, but you make the case to them that this other board over here, that's a lot of work. You've got to do a lot. You've got to read documents. So, we'll just throw you on this advisory thing. It's so much better, and you can still get free drinks, you know, right?

Roland Deiser

Well, guys, I must somehow step in in my role as the guy who says, hey, we are at the end of the hour. Actually, an hour and a half. And we just started the conversation, it seems to me. Just to wrap it up, there were a couple of really interesting things that came up in the last half hour

Digital, the influence innovation, and what does it mean? We didn't talk about that much anymore, but the issue of strategic investors and corporate venture capital, which is happening a lot right now. How can you really govern that? Because there is so much failure going on in that space of innovation, for many reasons, and there's a lot of money involved and big stakes out there.

And it was great that Anna joined us. We always like to have somebody from the audience, because it is unpredictable and gives a kick to the conversation. Jonathan, Rob and in her absence also Monica - a big thank you to you guys, for sharing your wisdom and your perspective. It was another great round table, a great Fireside Chat. And a big thank you to the audience who stayed with us for an hour and a half, which is a long, long time.

Also - thanks again Rob and Jonathan for your writings in the Developing Leaders Quarterly, and a good evening and nice day to everybody who has joined us. Thank you and bye.