Network for Innovative Corporate Governance

# Board Dynamics

## The Muscle of Strategic Responsibility

we are curious and
free spirits,

NICG 2025/1

# NICG – Network for Innovative Corporate Governance

Reflection. Responsibility. Resilience.

***«Companies are not just economic actors. They are cultural forces.»***
Quote from Prof. R. Edward Freeman, globally known as the Godfather of Stakeholder Theory.

Firms have a far-reaching influence on our lives, for better and for worse. This places a significant responsibility on those entrusted with guiding these powerful cultural forces. Although the boards of directors carry a particularly high degree of responsibility, true leadership also means taking the entire organization and all its stakeholders along on the journey.

In an age marked by geopolitical fragmentation, unpredictability and information overload, firms are increasingly confronted with highly polarized debates on a wide range of issues, both within their own organization and across the broader societal landscape. Managing these debates constructively and leading through them in a meaningful way is no easy task. Yet it is a crucial one.
Looking ahead, this challenge is only set to intensify. The ability of boards of directors to strengthen the muscle of internal and external alignment is becoming a core competence of successful companies. What was once dismissed as a distraction must now move to the very center of strategic thinking, communication and leadership.

Boards of directors must also recognize that human adaptability has its limits and today, those limits are being tested more than ever before. Decision-making must therefore take into account not only what is technologically possible but what is socially and culturally acceptable. This boundary, however, must not be used as an excuse for inaction. On the contrary, it should serve as an invitation: to reflect more deeply, to listen more carefully and to shape change in a way that is both responsible and inclusive.

This edition of Board Dynamics (2025/1) is intended as such an invitation — to reflect, to listen and to help shape the future of your organization. With a wide range of contributions this issue highlights how responsible leadership, meaningful dialogue, and forward-looking governance are deeply interconnected. At NICG, a curious academic network of free spirits, we are proud to advance these conversations with courage, depth, and creativity.

Kind regards

Michèle

**Prof. Dr. Michèle Sutter-Rüdisser**
Director ILE-HSG

Cornel

**Dr. Cornel Germann**
Vice-Director ILE-HSG

Patrick

**Patrick Zbinden**
Research Associate ILE-HSG

# List of Contents

# **Board Talk:**
# Interview with the Father of Stakeholder Capitalism

Few academics reach legendary status, but Prof. R. Edward Freeman is unquestionably one of them. Widely recognized as the «Godfather of Stakeholder Theory,» his groundbreaking contributions have fundamentally reshaped our understanding of corporate governance. We had the rare privilege of engaging in a thought-provoking conversation with Prof. Freeman on the future of corporate governance, with a particular focus on board ethics, leadership responsibility, and the evolving role of artificial intelligence.


**Prof. R. Edward Freeman**
Professor of Business Administration, Darden School, University of Virginia, globally known as the «Godfather of Stakeholder Theory» and author of the book «Strategic Management: A Stakeholder Approach»

**Prof. Dr. Michèle Sutter-Rüdisser**
Director at the Institute for Law and Economics of the University of St.Gallen (ILE-HSG), Independent Board Member of various companies

**Patrick Zbinden**
Ph.D. Student and Research Assistant at the Institute for Law and Economics of the University of St.Gallen (ILE-HSG)


**Prof. Sutter-Rüdisser**
Dear Professor Freeman, Thank you very much for taking the time to be with us today. It is a fantastic opportunity, a great honour, and a real pleasure to welcome you here.

Let me begin with a short introduction: I personally have the strong conviction that every board of directors carries a profound responsibility, not only for the products and services their company offers but also for the long-term social and ethical implications of their decisions and actions. At the same time, we are witnessing an unprecedented pace of change. Our ability to understand and anticipate emerging technologies often lags behind their rapid deployment and this gap seems even more pronounced with artificial intelligence than with previous innovations. Looking at past technological shifts, such as the rise of social media, it becomes evident that many of the most far-reaching consequences only emerged after widespread adoption, often unforeseen and with significant ethical impact.

In your view, would a shift from a reactive «let's open Pandora's box and see what happens» approach to a more proactive consideration of ethical consequences improve our ability to responsibly navigate innovation?

**Prof. Freeman**
There are several ways to approach the question of how society, and especially companies, can responsibly navigate the ethical complexities posed by emerging technologies like AI. Often, we think in terms of reactive versus proactive responses, reacting once something has happened, versus anticipating consequences in advance. But there is a third, and I would argue, more powerful approach: interactive planning. This concept was championed by one of my mentors, Russell L. Ackoff, a pioneer of systems theory.

Interactive planning involves engaging directly with stakeholders, understanding how your actions affect them, how their actions affect you, and co-creating solutions together. This stakeholder dialogue is, in my view, absolutely critical when we think about the challenges posed by new technologies such as AI.

Now, when it comes to ethics and progress in society, we often begin with certain core principles derived from past cases and lived experience. Over time, we generalize these into theories. But when new technologies emerge, they often introduce novel cases that test our principles. We are then faced with a choice: Do we apply our existing principles as-is, or do we refine and adapt them? A good example is the case of abortion. Two deeply held principles come into conflict: the right to bodily autonomy and the sanctity of innocent life. For much of history, this was a theoretical dilemma. But the advent of safe, affordable abortion technology made it an urgent, real-world issue, one that forces society into serious ethical debate and reflection.

This process, where we test, revise, and sometimes reinvent our ethical principles in light of new experiences, is what philosophers call reflective equilibrium. It's not about discarding old ideas but refining them, so they remain relevant and useful.

This applies, too, to fundamental ethical constructs like property. Traditionally, property implies exclusivity: «This is mine, not yours.» But in the digital world, most «property» is simply code, zeros and ones. I can have it, and you can have it, at virtually no cost. This undermines the old paradigm. So, we try to invent new categories like intellectual property. But technologies like peer-to-peer sharing challenge the enforceability of those ideas, and we're again forced to rethink. The real challenge is that in many societies, our ability to have meaningful conversations across different perspectives is weakening. And that, more than anything, makes these ethical dilemmas harder to resolve. Especially in the case of AI, where the pace of technological change outstrips our ability to deliberate.

So, how do we catch up? We need more interactive processes, not just within companies but across society. I believe companies, especially those that operate globally and touch millions of lives, can and should take a leadership role in fostering these conversations.

Universities, too, have a crucial role to play. They must prepare the next generation not only to innovate, but to think critically and engage constructively in difficult ethical conversations. We also need to put more pressure on our political institutions to create space for these debates.

Yes, these conversations take time. But they are essential, because without them, our ethics will always lag behind our innovations.

**Prof. Sutter-Rüdisser**
what you just shared really resonates. It reminded me of something you've said before about Japanese culture, how they tend to not end discussions, but rather not start them until the time is right. That concept has stayed with me.

So perhaps as a follow-up to your last point, I'd like to ask: How did we get to this point, where the level of tolerance, not only in broader society but even in everyday interactions, seems to be diminishing?

Why is it that this iterative, ongoing, open-ended style of dialogue, the kind of conversation that allows values and ideas to evolve, feels increasingly rare?

Is it that we don't value time anymore? Are we too distracted, too overstimulated? Is the breakdown a reflection of how our brains are changing, especially among younger generations who are constantly exposed to fast media, short attention spans, and rapid stimuli from video games, social media, and streaming?

Or, in your view, is this erosion of dialogue more of a cultural shift, a deeper sign that our institutions and habits no longer encourage sustained ethical reflection?

**Prof. Freeman**
I'm not entirely sure whether what we're seeing is a cause or an effect, or perhaps both. But what does seem clear is that the pace of change today is extraordinarily fast. And it raises a critical question: we often talk about planetary limits but is there such a thing as human capacity for change?

Sometimes, it feels like it's simply too much, too fast. We're inventing technologies we don't yet understand how to control. In some cases, we don't even know what control would look like until it's too late. But if we don't want to give in to that uncertainty or chaos, then what we must do, both individually and collectively, is reinvent ourselves alongside the technologies we create.

This isn't just about managing risk. It's about asking deeper questions. For example: What would social media look like if we had built it with a conscious design to avoid its more damaging effects? Or more fundamentally: What is this doing to our relationships, to our capacity for genuine, fulfilling, unmediated human connection?

So perhaps the real question isn't only about unintended consequences, although those are important, it's also: What are these technologies doing to our humanity? What is thinking about AI doing to us, not just in terms of jobs, skills, or regulation but to the way we experience being human?

That's why I believe boards of directors have a moral obligation to ask these questions. Because companies aren't just economic actors. They are cultural forces. They shape the world we live in and they must be active participants, ideally leaders, in the ethical dialogue around technology. It is a huge responsibility. But I think it is a necessary one. And if we do it right, it can also be a hopeful one.

**Patrick Zbinden**
Let's say you're sitting on a board and you emphasize that meaningful ethical reflection takes time. A likely concern from others at the table might be: «Yes, but we have to move fast, our competitors are already ahead.» This seems to highlight a real tension, a possible trade-off between taking the time to thoughtfully consider the ethical and societal implications of innovation, and the pressure to get products to market as quickly as possible to stay competitive. My question is: Is it truly possible to foster a culture where speed and responsibility can coexist or do we need to fundamentally rethink what «moving fast» should mean in today's world, especially in the context of transformative technologies like AI?

**Prof. Freeman**
Well, economists and many business professors often talk about trade-offs. I don't. In fact, I really dislike the concept. Trade-offs can be a way of giving up too soon. They are sometimes a form of intellectual laziness. Because if all you look for are trade-offs, then that's all you're going to find. But if you look for ways to achieve both goals, if you look for win-win solutions, you may not always succeed but if you don't even look, you certainly won't find them.

A typical excuse I hear is that ethical reflection makes sense in the long run but we need to act fast now. I think that is just a way to avoid responsibility. The truth is, we need to figure out how to do the right thing now, in the present. The long term never really arrives. Life is lived in the short term and ethical thinking has to be lived there as well. Another important point is this: if you are doing something simply because your competitors are doing it, you are heading toward failure. Decisions should be guided by a clear sense of purpose and by what you stand for. Yes, competitors matter. They give people choices in a free society. But that should not be the reason for your strategy. Board of directors in particular must take their company's purpose seriously. Purpose should not live in glossy statements or on coffee mugs and mouse pads. It has to be reflected in how the company is run, every single day.

I am not saying that making money is unimportant. On the contrary. The idea that profit is somehow bad or shameful, which you sometimes hear from the political left, is simply not serious. Businesses need to make money in order to survive and invest in the future. At the same time, I reject the idea that talking about responsibility and ethics makes someone a socialist. That kind of thinking, often heard from the far right, is just as misguided. I truly believe that business is the most important social institution we have ever created. It shapes lives, societies, and the future. With that power comes responsibility. Not just to make money but to lead in a way that reflects values, purpose, and humanity.

**Prof. Sutter-Rüdisser**
Maybe this also has to do with why you've been so successful, and one of the things I personally love most about your work is this inclusive way of thinking in terms of «and» rather than «either-or.» What you just described really reflects that mindset: it's not about labeling things as inherently good or bad.

It's about embracing complexity and holding different values together in tension. It's about «and.»

Let me follow up on that in the context of AI, and more broadly, decision-making in real time, especially from a board's perspective. You mentioned the importance of pausing, taking the time to reflect, even delaying decisions when needed. If we assume that time is the one resource everyone shares equally, 24 hours a day, then maybe the real issue is not time itself, but our capacity to adapt to the speed of change. As you said, sometimes things move faster than we can process.

Beyond simply «taking a break,» are there practical tools, methods or even habits we could develop, individually or at the board level, to stay smart in fast-moving environments? How can we improve our ability to make thoughtful decisions when innovation outpaces our natural cognitive limits?

**Prof. Freeman**

The real time constraint I see is that technology moves faster than our ability to have meaningful conversations about it. No matter how much we want to discuss the implications, dialogue and especially ethical dialogue takes time. And beyond time, it requires an attitudinal shift. Too often, people think of ethics as something purely personal. They say things like, «I have to be able to look myself in the mirror. I have to live with myself». That's fine. Your values do matter but so do ours. Ethics isn't just about you. It's about you and us. It's both personal and interpersonal.

Take any major ethical issue such as abortion, AI, end-of-life decisions, these aren't just private questions. They are questions about how your life intersects with others, how we coexist in a society. That's why we need to shift from purely private conceptions of ethics to something more civic and shared. This is, in fact, one of the great innovations of liberalism: the idea that we can each hold different worldviews, and still reason together about how to live side by side. But that's incredibly difficult in practice.

Let me give an example: Suppose you're a Christian or a Buddhist, and I'm a strict materialist, I believe when we die, we return to dust and that's it. You believe in the soul and an afterlife. Now suppose we have to make a joint decision on a moral or policy issue. If all we do is trade our private convictions, we'll never get anywhere. Your religious revelations won't persuade me, and my arguments won't persuade you. So we need to create what I call a civic space, a place where we don't try to convert one another but instead try to understand each other and look for overlapping reasons. For instance, you might say, «I believe in the sanctity of life.» I might say, «I do too, but I'm not sure when life begins or what counts as a person». We try to construct a shared understanding, not perfect agreement but enough common ground to form workable policies.

That's what makes ethics work in a society. But in many countries today, this civic process doesn't function well. And I worry that it's not working as well as it used to, even here.

**Patrick Zbinden**

Following on from your point about ethics being both personal and interpersonal, I'd like to turn to the role of boards in the age of AI.

Ensuring that AI initiatives are developed and deployed responsibly is not merely a technical issue, it is a governance challenge, and one for which boards of directors carry significant responsibility. However, an additional and increasingly relevant question emerges: What happens when boards themselves begin to use AI?

Looking ahead, it seems likely that many of the traditional business skills we consider essential today may lose their centrality, as more of these functions are enhanced or replaced. This leads to a broader reflection: Will the profile of effective, value-adding board of directors evolve as a result? Plato imagined a state ruled by philosopher kings. Building on that idea, do you see a future in which board of directors adopt a more philosophical role, one focused less on operational oversight and more on guiding the deeper moral, societal, and human direction of the organization?

**Prof. Freeman**
Plato believed that, because of their superior knowledge, philosophers should rule and tell everyone else what to do. In that sense, he was fundamentally authoritarian. I don't believe this is the kind of leadership or governance that companies need in the future. We certainly don't want boards or executives acting like authoritarian philosopher-kings, cut off from dialogue, dissent or stakeholder engagement. Interestingly, I just finished a book on Plato titled Models of Leadership in Plato and Beyond.

What I found is that Plato didn't propose a single model of leadership. He actually used multiple metaphors for leadership: the teacher, the shepherd, the doctor, the sower, the navigator. But he didn't try to unify them into one essential definition.

Plato understood leadership more like what philosophers call a «family resemblance» concept. Think of something like «games»: some are competitive, some are cooperative, some are solitary. There's no single definition that fits all, but we recognize what a game is when we see one. Leadership and I'd argue business itself works the same way. There's no single model, but rather a cluster of overlapping examples. Now, importantly, Plato did not have a concept of ethical or responsible leadership. For him, you were either a leader or a tyrant. And frankly, we need to recover that distinction. Because in today's world, whether in politics, business, or academia, we see plenty of people acting as tyrants: trying to force others to act in ways that primarily serve their own interest, not the collective good. What we need, especially at the board level and especially in the context of AI and other ethical challenges, is responsible leadership. Or if you prefer, ethical leadership.

And we need to start calling tyrants what they are – whether they're board of directors, CEOs, politicians, professors or sometimes even students.

**Prof. Sutter-Rüdisser**
I think it's important to call that out and maybe this brings us to a broader reflection on the role and composition of boards today. Take financial services, for example. Regulations like those from the European Central Bank require board of directors to pass assessments in areas like financial literacy. That is understandable and necessary. But after hearing your reflections on leadership, values, and responsibility, I wonder: Should we go further? What if board of directors were also assessed on character? What if, alongside competence tests, we introduced some form of psychological screening, not to invade privacy but to help ensure that those in positions of power aren't driven by narcissism, authoritarianism, or a lack of empathy?

I know this raises complex questions, how would we define the criteria, who gets to decide, and how do we avoid overreach? But could this kind of character-based accountability help us better identify responsible, ethical leaders? Or is that crossing a line, trying to formalize something that might always remain too human, too nuanced, to be tested?

**Prof. Freeman**
The challenge is that it is easy to reduce something like character to a checkbox exercise. And until I see a test that reliably captures the kind of moral and psychological depth you're talking about, I'd be skeptical. After all, if it were that simple, we would already be doing it and we are all familiar with the limits of standardized testing, even in areas where we do it well. Now, should character matter when selecting board of directors? Absolutely. It should be part of the decision, alongside skills, experience, and diversity of thought. But character isn't something you can fully quantify. At least at this point. Now, you raised another important point: Why don't we call out the «tyrants» more often? We live in a world that is more transparent than ever and yet we still see people in power acting unethically, while others look away. Why? I'd suggest part of it is social conditioning. Think back to childhood, many of us were taught not to be a «tattle-tale,» not to tell on others. That instinct to stay silent, even when we witness wrongdoing, runs deep. It's framed as a kind of loyalty or respect. But there's a fine line. On the one hand, we don't want to create a culture where people are constantly pointing fingers, that kind of hyper-surveillance makes trust impossible. On the other hand, if everyone stays silent, the bad actors continue unchecked. So, what we need is not more tests or tools, necessarily but a culture that encourages moral courage, where calling out abuse of power isn't seen as betrayal, but as part of responsible leadership.

**Patrick Zbinden**
Is responsible leadership an innate trait, something you're born with or is it a skill that can be cultivated, developed, and strengthened through experience and education?

**Prof. Freeman**
In real life, it's always both – nature and nurture. How do we teach ethical leadership? We use methods like the case method and the Socratic method.

We place students in real-world situations and ask them to reason their way through, ideally in conversation with their peers. They also need to know some theory, what others have written about ethics, leadership, and values. But real learning happens when they are immersed in the problem. When they stop searching for abstract formulas and start grappling with real context, real stakes, and real people. A poor approach would be to say, «the greatest good for the greatest number, end of story.»

That's an oversimplification. A better approach, I'd call it the pragmatist's approach, is to get inside the situation, understand the details, and ask: What's the best thing to do here, given what we know? And sometimes, that even means creating new theory as we go. But all of this requires humility, a mindset that acknowledges we don't have all the answers. Because the truth is, we humans are masterful rationalizers. We are great at deceiving ourselves and I'll admit, I'm especially good at it. I can justify almost anything and back it up with a couple of TED Talk references to make it sound convincing. That's why we need people around us who will tell us the truth. People who will call us out when we are fooling ourselves. I am lucky my three children are excellent at that. I also have a few colleagues and friends who don't hesitate to give honest, often uncomfortable feedback. And that's invaluable.

At the core of ethical leadership is one thing: humility. The ability to reflect. To listen. To accept that you're not the center of the universe. To recognize that your ideas, however brilliant they seem, might not be right. And to resist what we jokingly call «drinking your own bath water». Because the moment you start believing in your own infallibility, that's when the real trouble begins.

**Prof. Sutter-Rüdisser**
If I may, I'd like to ask a question that's really been at the center of my thinking these past few weeks, especially around decision-making in the age of AI. As a board member you try to make thoughtful, well-informed decisions. We go back and forth, we engage in dialogue, we include management, and ideally, we listen to broader stakeholder voices. But now, with AI and advanced technologies, the landscape is shifting. I come from a generation that still remembers looking things up in the library, we didn't grow up with instant access to information. And now, suddenly, we can access nearly everything, all the time, more data, more opinions, more metrics, more tools.

I sometimes find that instead of clarity, all this access creates a kind of decision fatigue, too many pros and cons, too many «what ifs,» too much reaching out. It can feel like there's no clear moment to decide anymore, just endless analysis. Does this new level of access and information liberate us to make better decisions, or does it in some ways paralyze us, making good judgment harder to reach?

**Prof. Freeman**
Sometimes, especially under uncertainty, the real skill lies in developing good judgment: knowing when you have enough information to make a decision, and when you don't. In that sense, AI can be incredibly helpful. That's where I see its real potential, as a tool to help us navigate uncertainty and make more confident decisions, rather than drowning in data.

But the real challenge is figuring out how to make these technologies work for us, not the other way around. How do we use them in a way that enhances our decision-making rather than complicating it?

There's no one-size-fits-all answer. I'd go back to John Dewey, who reminds us that how we think should always depend on the problem we're trying to solve.

Some decisions genuinely require gathering as much information as possible. Others require something different: patience, timing, and the humility to pause. Sometimes the right move isn't to act quickly, but to recognize that you're not even solving the right problem yet. And ultimately, good judgment is being able to tell the difference, to know what kind of problem you're facing and adjust your approach accordingly.

**Prof. Sutter-Rüdisser**
One of the things we've observed, particularly here in Switzerland, is a deep-rooted cultural desire for certainty. We invest heavily, in regulation, risk management, and decision frameworks, to reduce uncertainty as much as possible. We're always trying to reach that 99.9%.

But in real life, certainty is rare. It's even an illusion. And especially with fast-moving technologies like AI, that illusion becomes harder to maintain. Do you think this desire for near-perfect certainty is becoming a problem, maybe even a barrier, in how we make ethical and strategic decisions today?

**Prof. Freeman**
It depends on the problem. Let's take something urgent and deeply human; The life of one of my children is at risk. In that case, I don't need 99.9% certainty to decide. I need to feel the weight of that decision, step into it fully, and act. Because ethical problems are not abstract puzzles. They're not something you solve purely with logic or spreadsheets. When you feel that your instinct is to act, to explore every possibility, even without perfect information. Knowing when you need more data and when the situation itself tells you to move, that's part of good judgment. Sometimes, yes, we do need more time and more information. But at other times, the urgency and the stakes make it clear that we must act, even if the uncertainty is still there. What concerns me, and I think this speaks to your point, is when people treat ethics as merely intellectual. If someone tells me they're grappling with an ethical dilemma but feels nothing, no discomfort, no internal conflict, I worry.

That's not ethics. That's detachment. So yes, this relentless pursuit of certainty, while useful in many domains, can block our ability to act ethically. Because the truth is: we live in a world of uncertainty. And real leadership means being able to move through it, not wait for it to disappear.

**Prof. Sutter-Rüdisser**
That resonates deeply. And yet, much of our business education – and even governance models – still treats uncertainty as something to eliminate. That probably explains why, in business schools, we put such a heavy emphasis on numbers, models, and predictive tools.

**Prof. Freeman**
There is nothing wrong with understanding finance or economics, those are table stakes. You need those skills. But they're not enough. We've spent far too long teaching future business leaders that money is the only thing that matters.

But great leadership isn't about maximizing shareholder value through models. It's about having judgment, navigating ambiguity, and staying grounded in values, especially when the models fail. Take general equilibrium theory, it's mathematically elegant but it's not reality. It's a heuristic – a tool, not a truth. When business leaders mistake elegant models for how the real-world works, they get lost.

That connects well to what we see with entrepreneurial thinking. Some of our students, or early-stage founders, say, «I'm starting a business to get rich.» But is that really what drives sustainable ventures? Almost never. And when it is, my advice is: «If you just want to be rich, get a job. It's easier.» Entrepreneurs who build lasting businesses usually don't start with money in mind. They start because they care, they're passionate about something. They want to fix a problem, make something better, do something meaningful. A friend of mine helped start Noma, now one of the world's most celebrated restaurants. For the first 19 years, they weren't chasing profits. They were chasing purpose and excellence. And eventually, yes, the money followed. But the fire came first. That's what I believe we need to emphasize more, not just the stories of failure or greed, but the stories where people did it right. Where they followed their values and created something real. And as academics, we need to immerse ourselves in those real-world cases, not just abstract them into models. Because ultimately, if you frame every decision as a trade-off, that's all you'll ever see. But if you ask, «How can we do both?», you start seeing possibility.

**Prof. Sutter-Rüdisser**
As professors and even thinking back to when I was a student here, it strikes me how often we tend to focus on what went wrong. The cases we study, the stories we tell – they're usually about failure or mistakes. And that's how we're taught to learn: «Here's what not to do.» But when I look back, out of hundreds of case studies, only a few focused on what went right. That feels unbalanced.

I wonder: should we shift something in how we teach? Could we bring more attention to positive examples, to what actually works, and maybe change the language we use, not just in our teaching, but in how we approach business more broadly? As you said earlier, the entrepreneurial spirit isn't just about solving problems. It's also about joy. Maybe that's what we're missing in education: more joy.

**Prof. Freeman**

That absolutely makes sense and I think your generation is already sensing this. You don't just want to get by. You want to do something that matters, something that makes a difference in people's lives. And that's powerful. We want to live fully and leave something meaningful for our children, our communities. And that desire to make a difference that's not rare. I think most people feel it. But acting on it? That takes something else. It takes imagination, creativity, and the willingness to go beyond critique. We don't just need critique. We need to be able to critique through creation.

And maybe part of the answer, as you suggest, is to bring more of the arts, more history, more music into our understanding of business. Because business isn't just numbers and strategies, it's also stories, emotion, and rhythm.

And maybe, just maybe, doing that could help us regain the joy that sometimes gets lost along the way.

# **Securing Legacy:** How Family Governance Strengthens the Future of Family Businesses


**Alessandro Minichilli**
Full Professor of Management, Bocconi University, Dean for Faculty and Director of the Corporate Governance Lab, SDA Bocconi School of Management

**João Pedro Bastos Castilho**
Academic Fellow, SDA Bocconi School of Management


With increasing levels of uncertainty and volatility that permeate the markets, businesses worldwide face new challenges in terms of organization, supply chain strategies and risk management that eventually require a broader set of governance tools in order to better predict, evaluate and cope with. This is true also for family business in which – even though being recognized for bearing alive twice as long with respect to non-family companies[1] and having demonstrated a good level of resilience in light of the recent COVID-19 pandemic[2] – family governance has become more crucial than ever for family firms aiming to navigate complex economic, social and political landscapes. Factors such as market fluctuations, geopolitical tensions, and rapid technological advances make it essential for family enterprises to invest in an adequate governance structure – both at the business level and at the family level – that can adapt to a changing and challenging environment while preserving the family's core values and business continuity.

## 1.0 Understanding Family Governance

From the resource-based view of a firm[3], the case of family businesses is a specific and unique one since they are characterized by a long-standing involvement of the family, leading to the creation of resources that are family business-specific and that enable family firms to present a sustained competitive advantage. Such feature makes them to share the concept of familiness[4], which is mainly rooted in their inherent social capital[5], giving emphasis to the benefits that family-owned businesses share towards a more sustainable growth.

1 Davis, J (2014). Explaining Family Company Success and Survival. FFI Practitioner. https://ffipractitioner.org/explaining-family-company-success-and-survival/
2 Calabrò, A., Frank, H., Minichilli, A. and Suess-Reys, J. (2021). Business families in times of crises: The backbone of family firm resilience and continuity. Journal of Family Business Strategy, 12, issue 2.
3 Barney, J. B. (1991). Firm resources and sustained competitive advantage. Journal of Management, 17, 99 – 120.
4 Habbershon, T. G., & Williams, M. L. (1999). A resource-based framework for assessing the strategic advantages of family firms. Family Business Review, 12(1), 1 – 25; Carnes, C. M., & Ireland, R. D. (2013). Familiness and innovation: Resource bundling as the missing link. Entrepreneurship: Theory and Practice, 37(6), 1399 – 1419.
5 Pearson, A. W., Carr, J. C., & Shaw, J. C. (2008). Toward a theory of familiness: A social capital perspective. Entrepreneurship: Theory and Practice, 32(6 SPEC. ISS.), 949 – 969.

The aspects that characterize the social capital framework, such as the interactions and ties between family members, and also with stakeholders, are entitled to be governed in order to maintain and preserve a close and healthy relationship between the family and the business. In other words, an entrepreneurial family consists of a mix of family, business ownership and family business that translate into a values-based system of wealth that has an inherent complexity that must be governed, one way or another.

An essential tool to achieve this goal is family governance, which can be defined as a set of structures, practices and agreements that formalize the interaction between the family and the business. It provides a framework for addressing issues that may arise from the intersection of family and business, such as conflicts of interest, succession planning, and shared ownership. In practical terms, this governance structure typically includes mechanisms like family constitutions, family councils, shareholder agreements and advisory boards, which collectively establish transparency, accountability and mutual respect within the family business setting.

## 2.0 The relevance of Family Governance

At its core, family governance helps business-owning families to avoid potential drawbacks that can jeopardize both family harmony and business continuity. In a multi-generational family business, family governance becomes the backbone of progression, setting standards that shall adapt to both generational and business context changes over time. Such is done by allowing family members to align their personal and professional goals with the company's long-term objectives, aiming at fostering trust through a structured set of information flow[6] that helps in the mitigation of common challenges like sibling rivalry, generational divides, and conflicts over ownership and management control:

- Conflict mitigation: by establishing clear guidelines on roles and expectations, family governance works to minimize the risk of personal conflicts spilling over into the business. This is particularly valuable in managing sibling relationships or differing opinions between generations regarding the conduction of the business, so to ultimately preserve it.

- Succession planning: an essential function of family governance is to provide a structured approach to succession planning, which ensures that the leadership baton is passed on effectively and at the right time with the prevail of the interest of the business and its stakeholders. Succession planning often becomes a sensitive issue, as it involves balancing tradition with the skills and vision of the next generation. An effective governance setting has the role to nurture a sense of responsibility among potential successors, providing them with tools so to prepare them to lead with confidence when the time comes.

- Education towards responsible ownership: linked to the succession planning, family governance processes often incorporate an education path for family members, both formally — through recognized education solutions — and informally — mainly on a value-based approach. Such is directed mainly towards the younger generation, instilling a sense of responsibility and providing the necessary skills for carrying out the inherent role of ownership, at the first place. This incentive for a structured learning approach is key to help each family member in understanding their roles and aligning their expectations with the family's legacy, values and the business priorities.

## 3.0 The role of succession planning in Family Governance

Succession planning is one of the core pillars of family governance, directly impacting the continuity and stability of family-owned businesses. For family businesses, succession is not merely about choosing the next leader; it involves a deliberate process of preparing the next generation for leadership, preserving family values, and fostering a shared vision for the future. Successful succession planning aims at strengthening family unity and cohesion and positioning the business for a more sustainable growth path across generations.

6 Berent-Braun, M. M., & Uhlaner, L. M. (2012). Family governance practices and teambuilding: Paradox of the enterprising family. Small Business Economics, 38(1), 103 – 119; De Groot, M. B. T., Mihalache, O., & Elfring, T. (2022). Enhancing enterprise family social capital through family governance: An identity perspective. Family Business Review, 35(3), 306 – 328.

About only one-third of family businesses manage to put into paper a succession plan, with clear benefits in terms of performance metrics compared to the businesses that instead do not count with a clear succession plan in place.[7] In the lack of a structured plan, transitions can be disruptive, leading to potential conflicts among family members and even threatening the business continuity.

Several challenges can make succession planning particularly complex for family businesses:

- Emotional attachments and legacy: for many family members, the business represents more than just an economic asset – it is an extension of the family identity. This emotional connection can make objective decision-making more challenging, as some family members may resist change or struggle to accept non-family successors if they feel it could undermine the family's legacy.

- Founder's dilemma: often, the founding generation faces difficulty in «letting go», with founders being reluctant to relinquish control due to a deeply rooted sense of responsibility and attachment. This hesitation can stall the transition process, leading to what is known as the «founder shadow», where the incumbent exerts influence over decisions, potentially undermining the authority of the new leader.

- Primogeniture vs. meritocracy: many family businesses traditionally follow the principle of primogeniture, where the eldest child, and usually the first male-born, is expected to inherit leadership. However, this approach may overlook the capabilities and commitment of other family members. Research shows that family businesses that take a leap of courage when making the choice for an open, merit-based leadership selection tend to perform better than those bounded strictly by birth order.[8]

- Intra-family conflicts: succession often intensifies existing rivalries or unresolved conflicts within the family. These tensions may surface as competing interests between siblings or between branches of extended families. Without clear governance structures, these conflicts can become disruptive and even lead to business fragmentation.

- Generational conflicts: different generations may have differing views on the direction of the business, with older generations favoring stability and tradition, and younger family members pushing for innovation and change. Effective governance structures can mediate these generational differences, making a balanced path forward possible.

For such reasons, an effective succession planning requires a structured, long-term approach that encompasses several best practices:

- The sooner the better: succession planning should begin years before the actual transition. Ideally, when a new generation enters the business, it should already start thinking about the following transition. This allows the family to identify potential successors, provide them with the necessary training, and gradually introduce them to leadership roles. Early planning also allows flexibility to adapt to changes related to the business, family dynamics or market context.

- Putting it into paper: a documented succession plan provides a clear roadmap, outlining the qualifications, responsibilities, and expectations for the future leader. This reduces uncertainty and ensures that all family members understand the criteria for aiming at the leadership role and duly prepare for it.

- Nurturing competent successors: the role of education and experiential learning cannot be overstated in preparing future leaders. Both education and experience are essential in making successors ready for leadership, either in terms of nurturing the family values since early days, either through formal education proposals that prepare the future generations for their roles, accordingly to the guidelines set out by the plan.

7 PwC Global Family Business Survey (2021).

8 Calabrò, Andrea & Minichilli, Alessandro & Amore, Mario & Brogi, Marina. (2017). The Courage to Choose! Primogeniture and Leadership Succession in Family Firms. Strategic Management Journal.

Structured training also introduces successors to emerging technologies, management strategies, and global business trends, ensuring their capacity to navigate the challenges of modern business environments and their complexities. Additionally, it is a good practice to establish mentorship programs and rotational roles that expose potential successors to different aspects of the business, helping them to discover potential areas of interest and develop the skills needed to lead effectively.

- Building Trust and Autonomy: trust is a crucial element in succession planning, particularly between the incumbent generation and the successors. Founders and senior leaders must allow successors the autonomy to make decisions and shape their vision for the business. When successors are trusted and given decision-making power, they are more likely to be committed and engaged.

- Leveraging on external advisors: external advisors bring objectivity and expertise to the succession process. By providing an unbiased perspective, advisors can help mediate family conflicts and ensure that the succession process aligns with industry best practices and the long-term goals of the family business.

Successful transitions in family businesses often rely on finding a successor who embodies the family's values and can promote continuity regarding the family's traditions and commitment to social responsibility. Family governance encourages the successor to understand and embrace the family's legacy, helping to balance traditional values with a modern vision for growth.

Moreover, open discussions facilitated by family governance structures allow family members to collectively define the legacy they wish to pass down. This shared vision helps ensure that even as the business evolves, the core values that define the family's identity remain intact.

## 4.0 Practical mechanisms of Family Governance

For family governance to be effective and support the succession planning, a set of mechanisms should be put in place, each tailored to the unique needs of the family and the business and according to the values that they share:

- Family Constitution: it is a formal document responsible for outlining the family's core values, vision and mission. It also embraces policies related to the business, formalizing the family's commitment and involvement into the business and ensuring that each generation is aware of the principles guiding its long-term strategy. This document helps to maintain consistency across generations, ensuring that the family's legacy and goals remain aligned with the business' strategic direction.

- Family Council: it provides a structured space for family members to discuss issues pertinent to both the family and the business, being instrumental in fostering open communication and inclusivity and helping to keep the family united around shared goals and values that are nurtured by common trust.

- Advisory Boards: they are responsible for offering an impartial perspective, helping to guide family members and provide valuable insights on business strategy, financial planning, and succession management. For greater effectiveness, the inclusion of external members on advisory boards bring expertise that can strengthen objectivity and professionalism, especially during decision-making processes.

- Shareholder Agreements: they are responsible for formalizing the rights and duties of family shareholders, providing guidelines for ownership and control. They are essential in preserving family unity, as they prevent misunderstandings and protect the interests of minority shareholders.

Hence, family governance, through the establishment of formal institutions and processes, aims at assisting on the relationship between the family and its wealth – in its many facets – with the business, nurturing the sense of belonging among the members of the family. In other words, family governance not only helps to enhance business resilience but also strengthens the family's collective identity, supporting the family's emotional connection to the business and fostering a shared sense of purpose and achievement across generations.

## 5.0 Psychological traits of Family Governance

However, such tools and practices result less efficient if not accompanied by a second order of mechanisms with psychological features that promote sharing and unity towards a strong emotional connection within the family and with the business. Both orders of mechanisms, when working together, support associability, a fundamental aspect that favours cooperation in collective action between individuals in a group and around a set of values.[9]

One of the psychological mechanisms that can decrease the incidence of conflicts between family members and increase associability in family firms is psychological ownership,[10] i.e. the feeling of possession over a target – an object, concept, organization, or other person – that may or may not be supported by formal ownership. Psychological ownership can have three drivers: control, knowledge and self-investment. By leveraging on these three routes, it is possible to develop a shared purpose, vision and goal commitment by the family members involved in the family business. In practical terms, the psychological aspect can be translated in a set of moments and gatherings that work towards building cohesion within the family by:

- Stimulating engagement: it begins with a structured communication effort that aims at promoting bonding and connection within the family with respect to common aspirations and values, that will ideally evolve to a setting in which the family members are able to create and express their beliefs together. An example of effective way to achieve that goal and create a sense of connection at any age is the tool of storytelling for inspiring and motivating the younger generation about family goals and giving.[11]
- Promoting family gatherings: comprise moments of great commitment and essential bonding towards promotion of decisions in a collective way, and as such, must be carefully structured and prepared with the goal of informing, but also inspiring and engaging.
- Instigating philanthropy activity: usually an intrinsic feature of entrepreneurial families due to their social capital, philanthropy reveals a tool not only for giving, but also to integrate and foster collaboration within the family and its members. Research has found that the practice of philanthropy results in overall enhanced family dynamics,[12] improved performance,[13] enhanced reputation,[14] and creates opportunities to educate and involve family members who are not directly engaged in the business.[15]

Family governance frameworks offer a component of stability and resilience by setting clear roles, transparent decision-making processes, and agreed-upon rules that help the family respond cohesively to external pressures and uncertainties. Such translates into a number of moments and settings where talks take place and choices are made, each requiring a unique set of skills. Ultimately, family governance helps family businesses withstand the test of time by embodying the ideals of both tradition and adaptability, safeguarding a business's legacy while allowing it to evolve together with changing markets and societal expectations.

By institutionalizing these structures, family businesses become better positioned to make agile and well-informed decisions that align with both family interests, business needs and stakeholders best interests and expectations. Furthermore, a strong family governance foundation, together with a traditional corporate governance structure, supports succession planning and ensures that future generations are prepared to lead amid evolving challenges, reinforcing the family business's continuity and ability to thrive in uncertain times.

9 Leana, C. R., & van Buren, H. J. (1999). Organizational social capital and employment practices. Academy of Management Review, 24(3), 541; see also Uhlaner, L. M., Floren, R. H., & Geerlings, J. R. (2007). Owner Commitment and Relational Governance in the Privately-Held Firm: An Empirical Study. Small Business Economics, 29, 275 – 293; Berent-Braun, M. M., & Uhlaner, L. M. (2012). Family governance practices and teambuilding: Paradox of the enterprising family. Small Business Economics, 38(1), 103 – 119; Pearson, A. W., Carr, J. C., & Shaw, J. C. (2008). Toward a theory of familiness: A social capital perspective. Entrepreneurship: Theory and Practice, 32(6), 949 – 969.

10 Pierce, J. L., Kostova, T., & Dirks, K. T. (2001). Toward a theory of psychological ownership in organizations. Academy of Management Review, 26(2), 298 – 310.

11 Vogel, P. and Kurak, M. (2020). How family businesses can inspire the next generation of philanthropists. IMD – International Institute for Management Development.

12 Feliu, N., & Botero, I. C. (2016). Philanthropy in family enterprises: A review of literature. Family Business Review, 29(1), 121 – 141.

13 Niehm, L. S., Swinney, J., & Miller, N. J. (2008). Community Social Responsibility and Its Consequences for Family Business Performance. Journal of Small Business Management, 46(3), 331 – 350.

14 Fernando, M., & Almeida, S. (2012). The organizational virtuousness of strategic corporate social responsibility: A case study of the Sri Lankan family-owned enterprise MAS Holdings. European Management Journal, 30(6), 564 – 576.

15 Pharoah, C., Bolognesi, D., Ebermann, T., Gemelli, G., Keidan, C., & Neuke, H. (2009). Family Foundation Philanthropy 2009. London. Schillaci, C. E., Romano, M., & Nicotra, M. (2013).

# How Boards can Benefit from an Integrated Assurance Model and Function in Corporations



**Dr. Klaus Moosmayer**
Member of the Supervisory Board of Deutsche Bank, Former Group Executive Committee, Novartis, Co-Chair of the Global Future Council on Good Governance, World Economic Forum and Board Member Business at OECD.

To effectively oversee enterprise risk and integrity management in corporations, boards need to rely on and foster sound information architecture and solid structures and processes in the company.

However, after decades of investment in risk and compliance management systems, corporations are still struggling with the complexity of the global risk landscape, ever-increasing regulatory activities, and a lack of trust by society in their ability to manage ethical dilemmas and crisis situations.

Recent laws on supply chain due diligence, human rights and environmental, social and governance (ESG) standards, along with responsible artificial intelligence (AI) advancement, pose challenges for boards. Despite receiving detailed risk and compliance reports from management, it is increasingly difficult for boards to understand the overall risk and integrity situation of the company they are overseeing. This issue arises from the traditional, siloed approach in companies of how to manage and structure crisis, risk and compliance topics.

Risk management is often detached from the strategy of the company and reduced to number-driven financial risks. Compliance is in many companies divided into different functions, such as anti-bribery, data privacy, quality, human rights, health and safety, trade sanctions and cyber security. But a siloed governance approach lacks the capability to offer comprehensive horizontal alignment for assessing risks and integrity challenges.

And crisis management is too often seen as a technical tool of the security department instead of putting it into the wider context of risk management, business continuity and constant monitoring. Given this situation, how can the board effectively assess the risks and integrity challenges of a company?

## 1.0 Integrated assurance as a new model for horizontal ethics, risk and compliance management

The term 'assurance' is frequently applied too restrictively within the context of audit and accounting. Horizontal alignment is achieved though integrated assurance, which involves unified, comprehensive and consistent taxonomy and accountability across the four dimensions of governance, risk management, compliance and internal controls, because these four areas are interconnected. Good governance sets the framework for integrated enterprise risk management, which informs an effective, risk-based compliance program based on internal controls with clear accountabilities.

The four interconnected assurance areas are outlined below.

- First, governance provides assurance that accountability within the enterprise is clearly defined, and that policies, controls and technology are well-structured and linked.
- Second, risk management provides assurance that organisational risks are being identified and managed effectively, and that a crises and business continuity system is in place.
- Third, compliance provides assurance that the organisation is complying with relevant laws, regulations and policies by applying a comprehensive prevent-detect-respond approach for all compliance risks.
- And fourth, internal controls provide assurance that the organisation's internal controls are properly designed, implemented and run within the risk and compliance framework.

To bring these four components together, some corporations (mainly from regulated industries) have combined ethics, enterprise risk management and compliance into one organisation. The aim is to get the often isolated and fragmented second line of defence functions out of their organisational and process silos. This provides executive management and supervising boards with an integrated solution on how to address and manage regulatory and reputational risks across the enterprise.

Of course, a pure organisational integration of various risk and compliance functions is not sufficient to deliver effective integrated assurance. It is of crucial importance that the organisational setup improves coordination and efficiency across the different assurance activities and controls by harmonising the policy and process landscape as well. Acknowledging that no single function within a corporation 'owns' ethics, an integrated assurance function also has the role of a 'catalyst' to foster an environment of integrity, using principled based decision making and behavioural science rather than over-controlling and over-regulating.

Last, but not least, the collaboration with the internal audit function is key to achieving the aim of a joint taxonomy and root cause analysis to enable management to exercise their duties. The independent audit function, which often has a formal reporting line into the board's audit committee, is an important partner for an integrated assurance function – but is clearly distinct from it, as the third line of defence in a company's governance model.

A functional and organisational approach toward integrated assurance requires a seat at the table of senior management, to make an impact across all business units and functions. If done well, it has the potential not only to increase the overall durability and effectiveness of the assurance level within the corporation, but also to avoid organisational fatigue or resentment caused by unnecessary complexity and duplication of a fragmented, decentralised assurance approach.

## 2.0 Board benefits of an integrated assurance model and function

The advantages for boards of adopting an integrated assurance model are evident. Rather than receiving detailed yet fragmented information derived from equally fragmented processes and structures, the board receives a comprehensive assessment from management regarding the status of integrity, risk and compliance. This allows the board to focus on strategic risks and important operational challenges, to better observe and make sounds decisions based on the interconnectivities between them.

By way of example, a dialogue on geopolitical risks between the board and management frequently remains on a too high a level to enable the board to comprehensively grasp the implications for strategy and business operations. But if linked to the overall risk and crisis management of the company in the sense of integrated assurance, it can be extremely valuable.

Very often, geopolitical risks are impactful amplifiers for a company's existing strategic, operational and reputational risks; for example, the business of a multinational corporation with US and China, given the US-China tensions on trade and technology transfer. Specific mitigation measures, such as adopting an alternative sourcing strategy for supplies from China, can be more effectively evaluated and formulated within an integrated assurance model.

Setting up an integrated assurance model is unlikely to be straightforward. There will be pushback from individual management functions that fear losing power. There may be concerns about establishing a function within the organisation that is perceived as too powerful. The legal department may object, concerned about the creation of too much 'non-privileged' information in the company, with the risk of discovery proceedings. Given the benefits of such an organisation for effective ethics, risk and compliance management, these concerns should be manageable. It is evident that legal counsel needs to be involved in the assessment of certain pertinent risk areas that create legal exposure for the company.

Having the head of the assurance function and the chief legal officer as peers in executive management will help to foster a healthy collaboration on how to manage these interfaces. Furthermore, it may be advisable to keep some functions outside the organisational setup of the integrated assurance function in case their organisational complexity and required technical knowledge could be considered a differentiating factor.
An example within pharma industry is the 'quality organisation'. To maintain an integrated assurance approach, a standalone organisation should, however, fully participate in the enterprise's risk and crisis management and control activities, led by the integrated assurance function.

## 3.0 The role of the board in implementing an integrated assurance model and function

The decision to set up an integrated assurance model and organisation is of strategic relevance and changes the organisation of the company. Therefore, the board needs to take the initiative and ensure that the function is empowered and sufficiently resourced. To be impactful and visible, the function head should be a member of the company's executive leadership team, which also requires a vote by the board. These decisions should not be taken against the will of the chief executive and the C-suite, but in close alignment between board and management.

An integrated assurance model and organisation has significant relevance for the functioning and organisation of the board itself. It is, however, advisable that the integrated assurance function does not report formally to the board or one of its committees. The function head, as part of management, should rather be a permanent attendee of relevant board sessions, especially of the audit (and compliance) committee and – if existing separately – the board's risk committee. The integrated assurance function is the second line of defence, and distinct from internal audit as third line of defence.

The board may also consider mirroring the integrated assurance model in its own board committee structure. Instead of separate audit (and compliance), risk and sustainability committees, the board may consider bundling these committees into an 'audit and assurance committee'. Considering the footprint and complexity of their business structures and operations, this may pose challenges for large multinational companies. However, it is worth exploring for smaller publicly listed corporations.

It is important to emphasise that the role and responsibility of the board does not stop with the decision to set up an integrated assurance function. The board – and its relevant committees – would need to ensure continuous oversight of the new model and must make time for reporting and discussion on the board calendar.

Beyond monitoring and reporting, the board should align on how input from the integrated assurance function feeds effectively into board decision making, and that it aligns with the company's strategy as new risks and compliance challenges emerge.

# Non-Core Board Committees:
## Bane or Boon?

**Dr. Annette M. Schüller**
CFA, LL.M., Board Member, Ethics & Compliance Switzerland

### 1.0 Introduction

«Committees are people who take minutes and waste hours!»

Who hasn't heard that dictum, usually accompanied by some rolling of the eyes? But are committees really a bane of corporate life or do they have a use?

Board committees are a fact of corporate life. The core board committees – audit, nomination and remuneration / compensation – have long been a «must» for boards, necessary to oversee management and company performance.

Yet, in recent years, many listed companies, including in Switzerland, started establishing additional committees to advise the board on a variety of topics such as risk, sustainability, innovation / technology, finance, investment, M&A, public / regulatory affairs, DEI or ethics. In 2023, the average number of committees at SMI companies was 4.1 and at SMI Mid companies, 3.4.[1] These additional committees mainly cover risk, innovation / technology and lately, sustainability. The number of Swiss companies with board committees covering sustainability rose from 12 in 2022 to 19 in 2023.[2]

But do these committees respond to genuine increased governance needs and enhance board effectiveness or do they create unnecessary bureaucracy and dilute board accountability?

### 2.0 Context: History and Swiss Legal Framework

### 2.1 History

As early as the 1940s, the New York Stock Exchange suggested, and the Securities and Exchange Commission endorsed, the establishment of an audit committee composed of non-executive directors.[3] Compensation and nomination committees followed more recently and tended to be more informal.

1 https://www.spencerstuart.com/research-and-insight/switzerland-board-index/committees.
2 SpencerStuart, ibda.
3 Marie-Estelle Rey, «The role of board-level committees in corporate governance», OECD Corporate Governance Working Papers No. 24 (2022), https://dx.doi.org/10.1787/8a97a3f6-en.

Committees were further regulated in the wake of the corporate scandals of the late 1990s / early 2000s and the development of the Sarbanes Oxley Act of 2002 and further stock market regulations in 2003.[4]

## 2.2 Swiss Legal Framework

Art. 716a, al. 2 of the Swiss Code of Obligations (CO) allows boards to «(...) assign responsibility for preparing and implementing its resolutions or monitoring transactions to committees (...).» However, unlike other jurisdictions, the only committee required by Swiss law is the remuneration committee for listed companies (Art. 626 al. 2 no. 3 CO); a consequence of the «Minder» reform to combat excessive remunerations.

The main guidance on committees is found in Principle 21 of the Swiss Code of Best Practice for Corporate Governance (SCBP) issued by economiesuisse[5] which states that boards may form additional committees as appropriate to enhance efficiency and effectiveness. *«In addition to the Audit, Remuneration and Nomination Committees, further committees may be established (e.g. in the areas of corporate governance, sustainability, digitalisation / technology, innovation, risk and investments or ad hoc committees to review specific transactions)»* or any suitable combination of areas.

## 3.0 What are the arguments for and against setting up committees?

According to their critics, committees:

- introduce complexity and slow down governance processes if not properly managed,
- put extra resource and time burden on boards as well as on management, especially in smaller boards,
- can lead to parochialism, with committee members concentrating on their own committees and showing limited involvement in other areas of importance to the company despite relevant expertise,
- create silos and information asymmetries among directors on the committee and outside,
- may be created symbolically, to «tick the box» to satisfy investor or societal pressure without real integration into board governance (e.g. sustainability committees),
- may lead boards to inadvertently encroach onto management responsibilities on topics that are deeply operational, creating inefficiencies and blurring oversight and execution,
- risk fragmenting board oversight, especially if there is poor coordination between committees or topic overlap, for example in the case of ESG which touches areas such as risk, strategy and compliance.

Committee defenders point out that committees:

- allow boards to address specific complex or fast-evolving topics (e.g., cyber risk / AI, sustainability / ESG) in greater depth leveraging directors' specific expertise and allowing more informed decisions at the full board level.
- foster individual directors' accountability reducing free-riding problems («social loafing»),
- help incoming directors (especially first-time directors) to adapt by providing a psychological «safe space» where they can make themselves heard and play to their personal strength while gaining deeper insight into the company,
- foster collaboration between board and executive management where board members can function as «sparring partners» for new ideas / innovation,
- facilitate bringing external expertise to the board (speakers),
- counteract potential board inefficiencies, especially in larger boards, alleviating problems of inadequate board co-ordination and communication as well as problems caused by dominating board members, groupthink or deferral to the expert in the room,
- improve board efficiency as delegating complex issues to committees streamlines full board meetings and allows the board to concentrate on strategic questions,
- provide structured monitoring of exposures not traditionally covered by the audit function and enhance risk oversight especially in companies facing operational complexity or regulatory scrutiny (risk committees),
- respond to investor and stakeholder expectations for formal structured ESG oversight by boards (sustainability committees).

4 Including Regulation S-K, Item 407, NYSE Listed Company Manual § 303A.04, NASDAQ Rule 5605.

5 https://www.economiesuisse.ch/sites/default/files/publications/swisscode_d_web_1.pdf.

Given that neither criticism nor defence of board committees can be discarded out of hand, boards must conduct a cost-benefit analysis to ensure that the value of an additional committee outweighs its costs and potential governance challenges. To do that, boards first need to understand what alternatives to board committees exist.

## 4.0 Alternatives to board committees

### 4.1 Full Board Discussion

Rather than creating separate committees, boards may address certain topics that are integral to a company's strategy at the full board level. This ensures strategic alignment and comprehensive oversight but requires directors to have a certain level of competence in these topics to allow for meaningful discussion.

### 4.2 Board of Advisors («Beirat» / «Conseil consultatif»)

Swiss law permits the establishment of a so-called board of advisors («Beirat» / «Conseil consultatif») with very flexible rules. Unlike a board committee, the board of advisors doesn't have to consist of board members and is seen as a good way of bringing in outside expertise on a long-term basis to gain access to deep knowledge in areas like technology or innovation. The main risk of a board of advisors is to become a «de facto corporate body» with corresponding liability.

### 4.3 Informal / Ad Hoc Working Groups, Task Forces

Some boards establish temporary or informal working groups or «task forces» to explore complex issues like climate transition or digital transformation. These task forces do not have formal committee status but provide insights, often with short-term mandates and more agility. They can also include members of management.

## 5.0 Do Committee Structures Influence Company or Stock Price Performance?

The key question for boards (and investors) is whether governance structures such as (additional) board committees have an impact on a company's financial performance and valuation.

While board structures are only one of many inputs that influence market perceptions and company valuation, a growing body of academic and market research suggests that certain board committee structures can influence investor confidence and stock price performance, though causality remains difficult to prove.

### 5.1 Academic Evidence

Academic literature does not offer a unanimous verdict on the impact of non-core board committees on company performance, but several studies have identified positive effects under certain conditions:

- Research in financial firms in the aftermath of the 2008 financial crisis, has shown that the presence of a dedicated risk committee correlates with lower cost of equity and more stable stock returns, particularly in volatile environments.[6]

- Companies with dedicated ESG or sustainability committees tend to have better ESG ratings and stronger environmental disclosures, which can improve access to capital and enhance valuation multiples, especially among ESG-sensitive investors.[7]

- Companies that actively govern technological transformation through board technology committees are sometimes rewarded by markets, particularly when facing disruptive trends (e.g., cybersecurity risks or digital platform shifts).[8]

However, these benefits appear linked to the perceived credibility and substance of the committee work. Simply establishing a committee without a clear mandate or qualified committee members does not appear to impact market appreciation.

6 Andrew Ellul, Vijay Yerramilli, «Stronger risk controls, lower risk: Evidence from U.S. Bank Holding Companies», Journal of Finance, 68(5), 1757 – 1803 (2013).

7 Robert G. Eccles, Ioannis Ioannou, George Serafeim, «The Impact of Corporate Sustainability on Organizational Processes and Performance», Management Science, Volume 60, Issue 11, pp. 2835 – 2857, February 2014, Available at SSRN: https://ssrn.com/abstract=1964011 or http://dx.doi.org/10.2139/ssrn.1964011

8 George Westerman, Didier Bonnet, Andrew McAfee, «Leading Digital: Turning Technology into Business Transformation», Harvard Business Review Press 2014.

## 5.2 Empirical Evidence

Empirical studies outside Switzerland suggest that board committees are linked to improved company performance. Studies have shown positive correlations between:

- the existence of well-management committees in general and reduced misconduct and better reporting,[9]
- the presence of advisory board committees in general and company performance especially in companies with greater complexity,[10]
- the presence of a corporate governance committee and the financial performance and firm value of listed companies in Turkey and Nigeria,[11]
- the diversity of professional experience of audit, strategy and sustainability committee members and market-based financial indicators and total shareholder return in Russian large public non-financial companies,[12]
- a strong governance committee and outperformance on shareholder return and decreased share price volatility,[13]
- the presence of a risk committee and lower stock return volatility, improved risk disclosure and maturity of enterprise risk management programmes in Australian companies,[14]
- the presence of an ESG committee and positive abnormal stock returns around sustainability-related announcements, especially when combined with credible disclosure, in Chinese companies.[15]

9 Marie-Estelle Rey, «The role of board-level committees in corporate governance», OECD Corporate Governance Working Papers No. 24 (2022), https://dx.doi.org/10.1787/8a97a3f6-en.
10 Mohammed A. Alhossini, Collins G. Ntim, Alaa Mansour Zalata, «Corporate Board Committees and Corporate Outcomes: An International Systematic Literature Review and Agenda for Future Research», The International Journal of Accounting (TIJA), World Scientific Publishing Co. Pte. Ltd., vol. 56(01), pages 1 – 73, March 2021.
11 İrge Şener & Abubakar Karay, «The Effect of Ownership Concentration and Board Committees on Financial Performance: Evidence from Turkish and Nigerian Listed Companies». ICAN Journal of Accounting and Finance, special Edition 2015, Volume 2. 118 – 135.
12 Konstantin Popov «Board Committee Diversity and Its Effects on Financial Performance. A Study of Russian Firms», Journal of Corporate Finance Vol 18 No. 4 (2024), https://cfjournal.hse.ru/article/view/21462.
13 Edward Vesely, «The Value of a Corporate Governance Committee», Lighthouse Services, 2019, https://hotline.lighthouse-services.com/newsletters/the-value-of-a-corporate-governance-committee/.
14 Edward Vesely, «The Value of a Corporate Governance Committee», Lighthouse Services, 2019, https://hotline.lighthouse-services.com/newsletters/the-value-of-a-corporate-governance-committee/.
15 Liao, Lin and Teng, Lin and Zhang, Yuyu, «Corporate Board and Corporate Social Responsibility Assurance: Evidence from China» Journal of Business Ethics, 150(1), 211 – 225 (2018), https://ssrn.com/abstract=3375161.

It also appears that there is an upper limit to the number committees the market will appreciate. While the existence of committees is positively correlated to board size, financial research from the US suggests that the number of committees is positively associated with company performance only up to six committees regardless of board size.[16]

The only committee that doesn't seem to curry favour with investors is the so-called «chairman's committee», or «board executive committee».[17] This used to be the most frequently set-up non-required committee in the US, but a recent financial study showed that this committee had a negative effect on company value.[18] As of today, only four SMI companies have a «Chairman's Committee» of sorts; two companies with large family shareholdings, and two with large boards.[19]

Finally, a recent meta-analysis concluded that committee effectiveness and not mere existence is the key determinant of financial impact.[20] When committees are chaired by individuals with sector-specific or functional expertise, the market impact is more favourable.

## 5.3 Observations from the Swiss Market

In the absence of empirical data specific to Swiss listed companies, anecdotal evidence suggests the following:

- Proxy advisors may assign higher governance scores to companies that show effective committee structures for emerging risks. However, some governance ratings firms tend to reduce governance scores if they deem the number of committees to be too high (which can be as low as four committees in smaller boards).

16 David Reeb, Arun Upadhyay, «Subordinate board structures», Journal of Corporate Finance 16, (2010), 469 – 486.
17 This board committee is not to be confused with the executive management team in Swiss listed companies which is frequently also called «executive committee».
18 Nikos Vafeas/ Adamos Vlittis, «Board executive committees, board decisions, and firm value», Journal of Corporate Finance 58 (2019), 43 – 63.
19 Kühne + Nagel (Chairman's Committee including the family «Honorary Chairman»), Roche (Chairman's Committee also having the role of the Nomination Committee), Swiss Life («Chairman's and Corporate Governance Committee») and Nestlé («Chair's and Corporate Governance Committee»).
20 Thi Thanh Binh Dao, «A Meta-Analysis of Corporate Governance and Firm Performance», Journal of Governance and Regulation / Volume 9, Issue 1 (2020), https://ssrn.com/abstract=3979489.

- Companies with ESG committees are more likely to attract capital from ESG-focused investors / funds, which now account for a rising proportion of assets under management in Europe and Switzerland.

### 5.4 Limitations and implications

Despite the positive association between the presence of certain non-core committees and financial performance shown above, several caveats apply:

- Correlation doesn't equal causality. Financially stronger companies may be more likely to institute non-core committees.

- The positive signalling value of (being the first) having a certain committee may decline over time, especially if many firms adopt similar committee structures.

- The positive market impact is contingent upon consistent disclosure. Investors cannot price in the benefit of a committee they don't know about.

- Market appreciation depends on committee effectiveness.

Therefore, boards of Swiss listed companies should consider the potential market benefits of establishing non-core committees on topics that are material to their business model while ensuring the effective running of those committees and consistent reporting.

## 6.0 Considerations for Committee Establishment

Given the positive impact that a well-run committee structure can have on board effectiveness and company valuation, the following items are necessary for the effectiveness of a non-core committee.

### 6.1 Charter Clarity and Mandate Design

Each committee needs to have a clear, written charter defining its mandate, responsibility, authority and integration into the full board. Overlapping mandates between committees (e.g. for ESG reporting) need to be coordinated to avoid duplication or ambiguity.

### 6.2 Committee Composition, Independence, Chairperson, Secretary

Committees require the best group of people to fulfil their purpose. Members must have relevant personal, sector and committee matter expertise as well as the right profile and commitment. Independence is required by best practice for audit committee members but can enhance monitoring effectiveness beyond that.

Common membership on committees is a necessity for smaller boards, but board bandwidth should be carefully evaluated. For the same reason, common chairs on committees should be avoided and the board chair should not chair more than one additional committee. Similarly, the committee secretary needs to have sufficient expertise and resources to support the committee / chair.

### 6.3 Collaboration with Full Board and Management, Attendance

Committees are supporting structures and need to report regularly to the full board. Meeting minutes should be shared with the full board absent legal constraints.

Collaboration with management is equally essential and committee members need to find a balance between monitoring and mentoring of management.

Attendance at committee meetings needs to be dictated by the purpose of the meeting and the committee and should be on a «need to be there» basis.

### 6.4 Committee Self-Assessment, Review

Like the full board, a committee should also carry out formal self-assessments. The key indicator for committee assessment should be how the committee work translates into real world outcomes for the company.

To ensure that the governance remains fit for purpose and aligned with the company's situation, the full board needs to review each committee's mandate regularly and be prepared to stand down a non-core committee that is no longer required.

### 7.0 Conclusion

The expansion of board committee structures reflects broader trends in corporate accountability, complexity, and stakeholder expectations. While non-core committees can offer benefits in terms of expertise, efficiency, and signalling to the market, they are no panacea.

Swiss listed companies should evaluate non-core committees based on:

- the company's strategic need,
- the board bandwidth,
- integration with broader governance processes.

Alternatives such as integration of matters into the full board agenda, boards of (external) advisors or informal task forces may suit certain situations better.

Ultimately, committee effectiveness – like board effectiveness in general – depends not on structure but on substance. Well-run committees with good disclosure can enhance governance, poor ones won't. The Swiss regulatory framework provides boards with the flexibility to choose different governance structures. This flexibility should be used deliberately, and governance structures regularly scrutinised to ensure they remain fit for purpose.

In so doing, non-core committees take more than minutes and – far from wasting hours – they enhance board effectiveness and add value to the company.

# In God They Trust: Understanding the Catholic Moment in American Politics

*or Why You Need to Be Religiously Literate to Understand America. Today More than Ever.*

**Claudia Franziska Brühwiler**
Professor of American Political Thought and Culture, Academic Director of St.Gallen Collegium

In a recent podcast conversation, trade economist and IMD professor Simon Evenett made light of the «micro-industry» of people trying to decipher a master plan or a grand strategy guiding President Donald J. Trump's trade and foreign policy.[1] And indeed, while the 47th president's interior policy is consistent with his campaign promises, it is still hard to pin down anything amounting to a Trump doctrine of foreign relations. In general, Trump is guided less by ideology than by interests and instincts, even though the cited micro-industry ascribes to him various far-right beliefs. Trump is not a conservative,[2] and it is thus futile to look for such ideological patterns in his thought and action. But while Trump himself must be read in a mainly transactional logic, members of his Administration – and thus the likeliest heirs to Trumpism – are a different matter. While we find, as per usual in American politics, different varieties of conservatism at Trump's table, one group has risen to unexpected prominence and has started to dominate public discourse: conservative Roman Catholics.

The C-suite and corporate board rooms are unlikely places to discuss matters of faith. Yet when the faithful become key players in the world's biggest superpower and start influencing, potentially steering, geopolitics, it is crucial to understand them and their values. Just as no one can comprehend the bond between the United States and Israel without grasping the importance of evangelical voters and their interpretation of the Book of Revelation,[3] Catholic thought will become increasingly relevant to understand US conservatism.

1 Episode 17 of «Grüezi Amerika» can be found here: https://www.unisg.ch/en/newsroom/podcastdetail/news/grueezi-amerika-episode-17-rollercoaster-economics-101-with-simon-evenett/.

2 The many ways in which Trump contradicts conservative beliefs are covered in: Robert P. Saldin and Steven M. Teles, Never Trump: The Revolt of the Conservative Elites (New York: Oxford University Press, 2020).

3 Motti Inbari, Kirill M. Bumin, and M. Gordon Byrd, «Why Do Evangelicals Support Israel?» Politics and Religion 14.1 (2021): 1 – 36.

## 1.0 Between the Vatican and Mar-a-Lago

«Habemus papam Americanum!» – With Chicago native Robert Prevost becoming Pope Leo XIV, the Catholic Church is, for the first time and rather unexpectedly, under American leadership. The timing is auspicious, many believe, as the Pope might be the only one to withstand the pressures of America's 47th president and counter-balance Donald J. Trump's power, at the very least morally. While Trump himself will hardly seek papal guidance, roughly 20 percent of the general US population identify as Roman Catholic[4] – and they are overrepresented in American politics, against the historic odds.

Catholics have come a long way in US politics: When John F. Kennedy sought the presidency in 1960, he felt compelled to hold a speech on his Catholic faith to alleviate fears that his government might be guided by the Vatican rather than the US constitution.[5] For centuries, America's Catholic population had been stereotyped and exposed to deeply ingrained anti-Catholic sentiments among the protestant majority. After the Civil War, President Ulysses S. Grant even feared that the next societal divide would be between «patriotism and intelligence on the one side, and superstition, ambition and ignorance on the other.»[6] Grant's voters understood that the «superstitious and ignorant» meant Catholics. Fortunately, the 20th century saw a political and cultural thawing between Christian denominations. Shortly after the US elected with Kennedy its first Catholic president, «Catholic identity lost its determinative character»[7] and the Republican Party started gaining conservative Catholic voters.[8] In fact, Catholics nowadays are not a voter block – in contrast to evangelicals – and are instead as politically diverse as the general population.

4 See the report by Pew Research here: https://www.pewresearch.org/short-reads/2025/03/04/10-facts-about-us-catholics/.

5 «Transcript: JFK's Speech on His Religion,» NPR Dec. 5, 2007, https://www.npr.org/2007/12/05/16920600/transcript-jfks-speech-on-his-religion.

6 John T. McGreevy, Catholicism and American Freedom: A History (New York; London: W.W. Norton & Company, 2003): 91.

7 Patrick Allitt, Catholic Intellectuals and Conservative Politics in America, 1950 – 1985 (Ithaca and London: Cornell University Press, 1993): 12.

8 E.J. Dionne, «There Is No 'Catholic Vote.' And Yet, It Matters,» Brookings Institution June 18, 2000, https://www.brookings.edu/articles/there-is-no-catholic-vote-and-yet-it-matters/.

Still, 59 percent of US Catholics voted for Donald J. Trump,[9] and they contributed to what can be termed a Catholic moment in American politics.

In the current 119th Congress, Catholics are slightly less overrepresented than in the past, as they hold 150 instead of the usually roughly 160 seats,[10] with more Catholics on the left than the right side of the aisle. But while liberal Catholics work alongside (or in opposition to) conservative Catholics in the federal legislature, the other branches of government are unprecedentedly dominated by the Catholic right. The Supreme Court has in fact become a conservative Catholic bastion: of the six conservative Justices, five are Roman Catholic – and the only Episcopalian, Justice Neil Gorsuch, was raised Catholic.[11] With liberal Justice Sonia Sotomayor, two thirds of the highest Court is in Catholic hands. And while the domain of the Court is the law, not faith, Justices are notably guided by their beliefs, as has been on display in recent cases.

The conservative Catholic dominance in the Supreme Court has not been an overnight occurrence, in contrast to their importance in the executive: President Joe Biden's cabinet had already set a record with eight Catholic members, who were, however, mainly considered «cafeteria Catholics,» i.e., they were raised Catholic, some practiced Catholics, but none seemed devout.[12] Under Trump, the cabinet is more Catholic and of an altogether different brand of Catholicism.[13]

9 Megan Messerly, «The Catholics in Trump's administration could take GOP in whole new direction,» Politico Dec. 15, 2024, https://www.politico.com/news/2024/12/15/conservative-catholics-second-trump-administration-000917; Matthew Schmitz, «Catholic Converts Like JD Vance Are Reshaping Republican Politics,» New York Times Aug. 14, 2024, https://www.nytimes.com/2024/08/14/opinion/jd-vance-catholic-convert-republican.html.

10 See data by Pew Research: https://www.pewresearch.org/religion/2025/01/02/faith-on-the-hill-2025/.

11 Steven K. Green, «Supreme Court justices in the pews and on the bench – and where Neil Gorsuch fits in,» The Conversation March 21, 2017, https://theconversation.com/supreme-court-justices-in-the-pews-and-on-the-bench-and-where-neil-gorsuch-fits-in-74595.

12 Jonathan Liedl, «Joe Biden's Cabinet Full of Catholics – at Odds With Church Teaching on Settled Issues,» National Catholic Register Jan. 21, 2021, https://www.ncregister.com/news/joe-biden-s-cabinet-full-of-catholics-at-odds-with-church-teaching-on-settled-issues.

13 Tim Busch, «The Trump Administration: More Catholic Than You Know,» National Catholic Register March 6, 2025, https://www.ncregister.com/commentaries/trump-administration-catholic-christian-faith.

## 2.0 The Conservative Discovery of Catholic Social Thought

The sheer number of Catholics in high offices is unprecedented in American history, but this alone does not make the current a Catholic moment. It is rather the way the Catholic faith shapes the political beliefs of these officeholders that warrant close attention. Two key cabinet members have repeatedly underlined the importance of their faith: Vice President JD Vance, only the second Catholic to serve in that role, and Secretary of State Marco Rubio. Vance and Rubio are not only exemplary for the rising influence of conservative Catholics in the Republican Party, but also for two different avenues to the Church. While Rubio stands for the 31 million Latinos who have helped the Catholic Church keep its membership stable,[14] Vance is one of many recent converts who are leading the conservative discourse.[15]

At first glance, both Vance and Rubio are unlikely poster children of Catholic conservatism. Rubio launched his political career amid the Tea Party movement with a libertarian economic agenda. Vance's memoir Hillbilly Elegy (2017) conveyed a similar economic outlook which was, as he wrote in an essay after his conversion, paired with atheism.[16] Yet in light of Trump's 2016 triumph they re-considered their beliefs and sought a new approach in their economic thought. Similar to Robert Lighthizer, they have in fact discovered Catholic Social Teaching (CST) as a guideline.

Already during Trump's first term as president, then Senator Marco Rubio started to write and speak on what he termed «common good capitalism.»[17]

Inspired by the encyclical Rerum Novarum (1891) of Pope Leo XIII, which also guided Lighthizer, Rubio started speaking of it being «the concern of communities and nations to provide productive labor to their people.»[18]

Practically echoing Vance's description of his native Ohio, Rubio decried the loss of not only «productive labor,» but, more importantly «dignified work» to sustain not only livelihoods, but also communities. His vision of an alternative economic order thus builds on the insights of CST:

> *«The Church emphasizes the moral duty of employers to respect workers not just as means to profit, but as human persons and productive members of their community and nation. The tradition sees past our stale partisan categories and roots our politics in something larger: the inviolable dignity of every human person, the work he or she does, and the family life that work supports.»*[19]

In other words, Rubio rejects the former GOP orthodoxy of pairing a free-market approach with social conservatism and instead sees a more fruitful basis in what Europeans would recognize as an old form of Christian democratic stances.

JD Vance has been steering in the same direction, for leading up to his conversion and baptism in 2019 he started to shed his erstwhile belief in laissez-faire economics. As he explained in an interview, he started to think that

> *«the Republican Party has been too long a partnership between social conservatives and market libertarians, and I don't think social conservatives have benefited too much from that partnership. Part of social conservatism's challenge for viability in the 21st century is that it can't just be about issues like abortion, but it has to have a broader vision of political economy, and the common good.»*[20]

14 Hosffman Ospino, «Analysis: Is the U.S. church's Hispanic Catholic hope slipping away?,» Catholic Review Sept. 28, 2023, https://catholicreview.org/analysis-is-the-u-s-churchs-hispanic-catholic-hope-slipping-away/.
15 Matthew Schmitz, «Catholic Converts Like JD Vance Are Reshaping Republican Politics,» The New York Times Aug. 14, 2024, https://www.nytimes.com/2024/08/14/opinion/jd-vance-catholic-convert-republican.html.
16 JD Vance, «How I Joined the Resistance,» The Lamp April 1, 2020, https://thelampmagazine.com/blog/how-i-joined-the-resistance; see also my article «Er tat, was dem Herrn gefiel – Amerikas Konservative sehen den Liberalismus scheitern und propagieren eine neokatholische Wende,» Neue Zürcher Zeitung Nov. 23, 2024, https://www.nzz.ch/meinung/jd-vance-amerikas-konservative-setzen-auf-eine-neo-katholische-wende-ld.1858131.
17 Marco Rubio, «Common Good Capitalism and the Dignity of Work,» The Public Discourse Nov. 5, 2019, https://www.thepublicdiscourse.com/2019/11/58194/.
18 Marco Rubio, «What Economics Is For,» First Things Aug. 26, 2019, https://firstthings.com/what-economics-is-for/.
19 Ibid.
20 Rod Dreher, «J.D. Vance Becomes Catholic,» The American Conservative Aug. 11, 2019, https://www.theamericanconservative.com/j-d-vance-becomes-catholic/.

And on the latter, Vance also seeks guidance in CST, as he explained recently, as he derives from it the insight that «the market is a tool», but it is not the purpose of American politics.[21]

Traditionally, CST is more likely to be invoked by liberal Catholics, wherefore the two cabinet members are frequently challenged in the way they reconcile faith and policy. Knowing the Catholic doctrine they reference might not automatically lead others to the same conclusions. A case in point is Vance's attitude on migration for which he has been heavily criticized, especially in light of his faith: Vance specifically invoked St. Augustine's principle of ordo amoris, i.e., of «rightly-ordered-love,» to justify why he believed that American citizens and Christians did not owe migrants the same compassion as they do to their next of kin. However, both Cardinal Prevost – now known as Leo XIV – and Pope Francis – disagreed with Vance's interpretation, in no uncertain terms.[22]

### 3.0 Conclusion

Papal scoldings do not always change minds. Vance still insists that «social solidarity is destroyed when you have too much migration too quickly.»[23] His understanding of ordo amoris is less informed by the Pope and rather rooted in his Augustinian view of mankind. Moreover, Vance differentiates between his roles as a politician and an officeholder:

> *«[On] the world stage, I'm not there as JD Vance, a Catholic parishioner. I'm there as the vice president of the United States... And so some of the protocols about how I respond to the Holy Father were much different than how I might respond to the Holy Father, or how you might respond to the Holy Father purely in your capacity as a citizen.»[24]*

This, however, is a more circumstantial stance. Whenever it suits Vance, the officeholder, to invoke his faith he will do so – his thought and action will be informed by his Catholicism. And as Vance seems the likely heir of the Trump Administration and conservative Catholics have moved to the highest echelons of power, those interested in or even tied to the United States need to understand their beliefs. We may prefer a wall between Church and boardroom, but we cannot afford to remain religiously illiterate when we look across the Atlantic.

21 Ross Douthat, «JD Vance on His Faith and Trump's Most Controversial Policies,» New York Times May 21, 2025, https://www.nytimes.com/2025/05/21/opinion/jd-vance-pope-trump-immigration.html.

22 John Hudson, Anthony Faiola and Michelle Boorstein, «Vance and Rubio meet with pope in push to reset relations with Vatican,» Washington Post May 19, 2025, https://www.washingtonpost.com/world/2025/05/19/pope-vance-rubio-trump/.

23 Ross Douthat, «JD Vance on His Faith and Trump's Most Controversial Policies,» New York Times May 21, 2025, https://www.nytimes.com/2025/05/21/opinion/jd-vance-pope-trump-immigration.html.

24 Ibid.

# **Characteristics of the Business Judgment Rule:** in the Context of Artificial Intelligence

**Dr. iur. Felix Horber**
Attorney-at-law, Executive M.B.L. HSG, and VR-CAS HSG, served as Corporate Secretary (Generalsekretär) of Swiss Re until April 2024. He is a lecturer at the University of St. Gallen and also served as a part-time senior judge in the canton of Zug until December 2024.

The Business Judgment Rule states that a decision by the board of directors which, in retrospect, proves to be «wrong» is not to be classified as a breach of duty, provided it was made in a formally correct manner and based on an adequate informational foundation.

## 1.0 Problem Statement

The Business Judgment Rule is a methodology applied in the decision-making process of the board of directors. It is based on the fact that the board's decisions fall within a sphere of business discretion and are, by their very nature, associated with limitations. Decisions often have to be made swiftly under competitive pressure, without the possibility of conducting all investigations that ideally should have been undertaken. In hindsight, such a decision made under time constraints may prove to be «wrong» because information has since become available that was lacking at the time the decision was made. Had this information been available at that time, the board might have decided differently.

How is this deviation from the ideal state to be assessed in legal terms?

## 2.0 Relevance of Due Care in the Procedure

The object of assessment is a «wrong decision.» In retrospect, the board of directors has made an «incorrect» decision. However, this does not necessarily constitute a breach of duty.
The Federal Supreme Court has held that management decisions do not amount to a breach of duty merely because they later prove to be inappropriate or incorrect.
Whether the duty of care was observed in the decision-making process is assessed more in terms of the legality and procedurally correct formation of the resolution than by the substantive justifiability of the specific decision.
Accordingly, formal criteria are of significance, with due care being evaluated in terms of procedural conduct.

## 3.0 Assessment Criteria

According to the methodology of the Business Judgment Rule, a business decision made by the board of directors is retrospectively deemed proper and diligent if:

- it does not violate mandatory legal or statutory provisions,
- it is consistent with the corporate purpose and aligned with the company's best interests,
- it was reached through a procedurally correct process (e.g., proper notice, orderly meeting management, and minute-taking),
- it was based on an adequate informational foundation,
- it was made in the absence of a relevant conflict of interest, and
- it appears, in principle, to be understandable and objectively justifiable.

If these assessment criteria are met at the time the resolution is adopted, the business decision constitutes a «valid» business judgment that must be respected by the courts – even if, in retrospect, an alternative solution might have been possible and preferable. A decision made in this manner may be «wrong» from a business perspective, but from a legal standpoint, it does not constitute a breach of the duty of care.[1]

### 4.0 Requirement of a Sufficient Informational Basis

The Business Judgment Rule must not be reduced to the fulfillment of formal and procedural criteria alone. Central to its application is the aspect of sufficient informational content. A business decision can only be retrospectively deemed legally sound if, at the time of the resolution, the board of directors – beyond meeting the formal and procedural assessment criteria – possessed the necessary, relevant, and sufficiently comprehensive information required for the decision.

The board of directors is required to make reasonable efforts to obtain an adequate informational basis, ensuring access to those pieces of information that can reasonably be clarified and that provide insights relevant to the decision.

If clearly indispensable information – either readily available or easily obtainable – is lacking, the legal standard of adequacy is not met.[2]

It is customary for the board of directors to be provided, in advance of a meeting, with documents relating to an agenda item requiring a resolution. These documents contain all essential decision-making foundations.
This enables the board to assess the scope of the matter and to evaluate the associated opportunities and risks.
The documents must be well-structured and must explain the subject matter of the resolution in clear language, illuminating all factors relevant to the decision. Accordingly, a level of information is required that enables the board of directors to make a proper decision in the interest of the company, by weighing different aspects, options, and alternatives (such as offers).
It is also important that the weighing of the advantages and disadvantages of a specific decision is recorded in the minutes.

As already indicated above, the required informational content cannot be determined in abstract and general terms, but must be assessed based on the specific circumstances of the individual case.

In evaluating the necessary quality and quantity of the decision-making materials, the following considerations are decisive:

- The decision-making materials must be tailored to their intended audience. Specifically, this means that the board of directors should not be provided with the same documents previously submitted to executive management. Unlike executive management, the board – as a governing and strategic body – does not concern itself with operational or technical matters, but with the company's overall strategy and high-level oversight. Accordingly, the decision-making materials must be prepared in such a way that the board can assess them within its scope of responsibility and evaluate their appropriateness and comprehensibility.

1 Roland Müller, Minute-Taking and Evaluation of Minutes in Meetings and Assemblies, 3rd ed., 2023, pp. 55 et seq.; Peter Böckli, Swiss Company Law, 5th ed., 2022, pp. 2370 et seq., paras. 260 et seq., in particular paras. 264 et seq.

2 Sandro Gauch, Foundations and Significance of the Business Judgment Rule, RiU Vol. 14, Zurich / St. Gallen 2018, pp. 48 et seq.

- The ideal state of complete knowledge and total information disclosure cannot be achieved in practice. Accordingly, the decision-making materials are not required to contain all theoretically available information. Rather, from the abundance of available data, those pieces of information relevant to the decision-making process must be selected.

- While the decision-making materials form the basis for the board of directors' deliberation, additional information may be incorporated during the meeting through targeted questions, thereby completing the informational content. The decision-making process is ultimately a dynamic procedure, reflecting the fact that the board bears both a duty to provide and a duty to seek information. The full scope of relevant information is only finalized in the course of the board meeting itself.

## 5.0 The Requirement of an Adequate Informational Basis in Light of Artificial Intelligence

Do the quality and quantity requirements for decision-making materials change in light of artificial intelligence (AI)? AI systems are capable of performing tasks that typically require human intelligence, such as automated decision-making. With the assistance of AI, additional sources can be accessed in the problem-solving process, which diversify the range of options and thereby broaden the spectrum of viewpoints. AI systems enrich the informational foundation for decision-making, thereby increasing the overall informational content. The board of directors would therefore be well advised to generally consider the use of AI systems in the decision-making process. The extent to which AI systems can meaningfully enhance the informational content depends on the specific subject matter of the resolution. The assessment of which sources are to be taken into account in the decision-making process ultimately lies within the discretion of the board of directors.

The preparation of information is one aspect; drawing the correct conclusions from it is another. During the decision-making phase, the board of directors must weigh the various options, exchange differing arguments, and – based on this discourse – reach the decision that is «right» from the company's perspective. AI therefore does not replace the methodology used in the final resolution process. However, it does expand the framework for assessment and thereby enhances the informational content of the decision-making materials.

AI, in this sense, does not lead to a modification of the Business Judgment Rule. However, the board of directors must consider, in selecting the relevant decision-making materials, whether the use of AI systems can, in the specific case, meaningfully enhance the informational content. This is the case when relevant informational gaps can only be closed with the help of such systems, and when the board thereby becomes capable of making a decision – well-informed and properly documented – that serves the best interests of the company. Accordingly, in the process of adopting resolutions, the board of directors is subject to an elevated duty of care with respect to the preparation of the decision-making materials.

## 6.0 Conclusion

The Business Judgment Rule is a methodology applied in the decision-making process of the board of directors. In addition to formal and procedural criteria, due consideration must also be given to the aspect of an adequate informational basis.
What qualifies as adequate cannot be determined in abstract and general terms, but must instead be assessed based on the specific circumstances of each individual case.
In preparing the relevant decision-making materials, AI systems should also be included where their use is reasonable and conducive to the decision-making process. In this respect, the board of directors is subject to an elevated duty of care.
If the aforementioned assessment criteria are satisfied at the time the resolution is adopted, the business decision is legally sound – even if, in hindsight, an alternative solution might have been possible and preferable.

# Five Step-Ups for Boosting Board Performance Self-Awareness

**Gabe Shawn Varges**
Senior Lecturer, University of St. Gallen,
Senior Partner, HCM International

When making investment decisions, investors tend to give primacy to who the CEO is and who may be the successor, not to who sits on the company's Board of Directors (the «Board»). Typically, the CEO is perceived as more determinative for company success than the Board or any of its members.[1]

At the same time, who serves on the Board is far from inconsequential. First, in many jurisdictions the Board plays a final or at least a critical role in selecting and dismissing the CEO. Wrong decisions here could lead to a low-achieving or even value-destroying CEO being chosen or tolerated.

Second, with the duty to provide oversight, the Board has to perform a daunting ongoing balancing act, often under shifting business conditions. It has to monitor the CEO closely enough to detect early any signs of underperformance or mismanagement. But it has to do this in a way that does not unduly curtail the CEO's operational latitude or stifle entrepreneurial initiative.

Third, in the task of looking after the company's long-term interests, Board members enjoy a privileged vantagepoint. This derives not simply from their independence, experience, or healthy distance from the company's daily ups-and-downs. It also relates to the often-longer office tenure of Board members compared to CEOs.[2]

1 The influence of the CEO on corporate outcomes has long interested scholars and investors. A CEO's vision, convictions, leadership strength, and track record are often seen as indicators for the chances of a company accomplishing growth, profitability, or other goals. For example, in the area of sustainability one study suggests that some 30% of variances in company performance in this area can be attributed to the CEO. Academy of Management Discoveries (AOM Journals, 2022, «How Much Influence Do CEOs Have on Company Actions and Outcomes? The Example of Corporate Social Responsibility»).

2 It is possible that the difference between these tenures may be growing in some countries as the average number of years a CEO remains in office shortens. One global study suggests that 70% of CEOs do not plan to remain in their roles for more than 5 years. PWC «28th Annual Global CEO Survey». Among the world's largest public companies, a 2018 study found an average of just under 5 years. See «CEO Success Study», Strategy&, 2018. Last year, 43 CEOs of quoted companies across the globe lasted less than three years, a new record. See, Russell Reynolds, "2024 Global CEO Turnover Report ". In Switzerland, the median tenure of Board members in SMI companies having served between 2022 – 2024 was 10 years, while for CEOs it was 7 years. Of the 20 SMI companies, 11 CEOs left their post in 2023 – 2024 (including 2 ad interim CEOs), compared to an annual average of 2.5 CEOs in the prior 9 years. Source: HCM International Data. The author would like to thank Kateryna Bulda of HCM for her contribution in providing the above Swiss data and the data on number of Board member mandates shown on footnote 10 below.

Fourth, as the company's highest organ, the Board has ultimate accountability for company strategy and performance. When a company fails – even when the failure may be more attributable to actions by executives – investors and regulators are prone to ask, «Where was the Board?»[3] Paradoxically, when a company succeeds, few are those who applaud the Board's contributions.

## 1.0 Own-Work Cognition

Given these formidable Board accountabilities, investors and other stakeholders have an interest not only in how a company chooses its Board members. They also care about how well these Board members deliver once in office.

In light of this, it should also matter to stakeholders how self-aware a Board is of how good a job it is doing and how it evaluates its progress. Shortcomings in this regard could result in the Board recognizing too late a particular weakness or misjudging the overall quality of its work.

Yet this angle of corporate governance continues to be insufficiently explored. Post-mortems of company failures typically point to Board deficits such as inadequate oversight of management, misguided decisions, or poor Board composition. But the analyses rarely probe deeply enough into the degree of self-cognition by the Board of the caliber of its work or the robustness of the methodology it employs to monitor and appraise its actions and accomplishments.[4]

For example, following the 2019 WeWork scandal commentators criticized the Board for having failed to challenge the CEO sufficiently on his financial assumptions, to recognize his conflicts of interest, and to bring members with more diverse experiences onto its ranks.[5] But the analyses did not explore the extent of Board performance self-awareness or the nature and quality of the Board assessment process. Might WeWork Board members have thought they were doing a good job?

More rigorous approaches in this area can also aid a Board to deal timelier with internal differences. This can prevent disruptive outcomes such as in a real scenario playing out at the time of the writing of this article.[6] In this case, a Board member of a major company carried out in effect a «noisy withdrawal»[7], accusing fellow Board members of ignoring serious problems at the enterprise. Some reports suggest that personal interests may also be involved.[8] But once the dust settles, it will be revealing to see what the Board had been doing to identify and address any own-performance weakness areas.

## 2.0 The Five Step-Ups

The author's work with Boards around the world suggests five essential «step-ups» when the Board is looking to elevate its performance self-awareness and earnestly answer the question, «How do we know how well we are doing?»

3 This has been evident in various cases of corporate wrongdoing or financial failure across the world, such as in the Wells Fargo cross-selling scandal in 2016. See, e.g., L. Zingales, «Where was the Wells Fargo Board?», Bloomberg Online 20.11.2016. A recent example in Switzerland is the collapse of Credit Suisse in 2022. The regulator's report attributed the collapse to multiple factors, including instability brought about by frequent changes at the Board level. In the public, however, some observers were more critical of the Board and its Chair. See, e.g., «Die Crédit Suisse hätte nicht untergehen müssen», Tagesanzeiger, 16.3.2025. See also H. Hau et al., «Insufficient Supervisory Board Competence as a Risk Factor for Banks», Center for Economic Policy Research, 10.6.2024, available at https://cepr.org/voxeu/columns/insufficient-supervisory-board-competence-risk-factor-banks.

4 There is a considerable volume of writings on the importance of Board self-assessments and how to conduct them. But there is a dearth of empirical studies on the quality and outcome of such assessments in practice, both in the context of corporate mishaps and success stories. Furthermore, there is less emphasis on the notion of stimulating the Board's cognitive awareness, such as by parsing and deconstructing the multiple strands of performance within the Board and embracing active performance management.

5 See e.g., D. Byrne, «What Exactly Happened at WeWork», Corporate Governance Institute, available at https://www.thecorporategovernanceinstitute.com/insights/case-studies/what-exactly-happened-to-wework/?srsltid=AfmBOoqc4StxVPqz4SXMGIGCgVmqlusB9K0QAjygR3as24W4YhV67abT, Y. Cheng and S. Maiden, «WeWork: But Does the Corporate Governance Work?», Darden School Case Study, University of Virginia, 30.4.2021.

6 The case involves the U.S. motorcycle maker, Harley-Davidson. See, «The Boardroom Eruption Over the Future of Harley-Davidson», Wall Street Journal, 18.4.2025. The matter coincides with the company announcing search for a new CEO. See «CEO Process Confirmed», PRNewswire 8.4.2025.

7 The term is being used in extrapolated form. It derives from the option a lawyer has under the U.S. Sarbanes Oxley Act to withdraw from representing a client when he or she believes the client is committing or is about to commit wrongdoing.

8 The Board member represents an investor wishing a different CEO than the other Board members. See, «Harley-Davidson board member resigns, cites 'grave concerns' about company», Reuters 10.4.2025.

### #1 Make the Sporadic Regular

Boards of regulated or quoted companies in many jurisdictions are required to conduct periodic own assessments. How often and in what depth can differ. Even where no such rule exists, a Board eager to enhance its own-work cognition recognizes the value of regular assessments.

In some instances, carrying out the exercise every two years suffices[9], while in others a yearly process is de rigueur. Factors that support higher frequency include:

- A higher company risk profile
- Material new business challenges
- Changes in the company's strategic direction
- Frictions in the Board-Management relationship
- Significant alteration in Board composition such as a new Board Chair or investor representative
- Evidence of unresolved Board internal tensions
- Evidence of any Board members not carrying their own weight
- Company or market changes requiring new skills or experience on the Board
- Need to increase Management or Board succession readiness

One effective practice for bringing discipline to the self-assessment cycle is to define it in the Board's operational rules, multi-year plan, or similar Board document. This has the advantage of securing a place for assessments on the Board's calendar.

To bring more value, the timing of assessments is aligned with other major Board activities. For example, if the tenure of one or more Board members is expiring, it is sensible to hold the assessment well in advance of such expiration. The findings can help inform what qualities and expertise to look for in the search for a new Board member.

Another benefit of regularity in Board assessments is that it permits multi-year tracking of Board progress. In this regard, it is important for the Board to establish the means to preserve each year's findings, learnings, and methodology employed. This will ensure that the company's future Boards will also benefit from the insights.

### #2 Pivot to Active Performance Management

Board assessments traditionally have been positioned as an assurance check that the Board is meeting its legal and other prescribed obligations. Some call this a hygiene or boundary condition test. But this approach detracts from the equally important question, «How much added value is the Board's work generating?».

Thus, a fundamental mindset shift is needed, from mere duty fulfillment to performance mindfulness. This requires a will by the Board to probe into the extent and quality of its work. But this shift is incomplete if limited to the formal Board assessments carried out annually or with other frequency.

Here the Board can learn from the discipline of performance management long established in human resources practice. This discipline itself is undergoing considerable change. Whereas earlier it was acceptable practice to assess an employee yearly or semi-annually, today it is generally recognized that better results can be achieved with more active performance management.

Among other things, this involves pursuing more conscious engagement with the employee and not postponing comments or suggestions for improvement to some future point. Ideally, such input is delivered in real time, such as immediately after a presentation, project delivery, or other event displaying the employee's prowess and performance. Such early steering helps the employee know where to course correct in his or her way of working.

Board members, of course, are not employees. Care has to be exercised to make the process in content and tone appropriate for a Board context. Yet the insight that assessing performance is not an event but an active, ongoing process, transfers well to Boards.

Practically, this has two implications. First, it means that the Board needs to reserve time at the end of or immediately following each Board meeting to reflect on how well it did at such meeting. This is different from recapping the agenda items or action steps from the meeting. Instead, it is a session focused on the Board's own performance.

9 Some Boards hold a more rigorous assessment every two years and a light version yearly.

To promote more candid exchange, the above is done at a Board-only session, without Management presence. It is helpful to pose each time a few standard questions to guide discussion, such as «How did we do compared to our last Board meeting?», «Where were we insufficiently critical?», «In which way were we helpful / not helpful to Management?».

Second, active performance management at the Board level also means recognizing the special role of Board leaders and of all Board members, as described in points 4 and 5 below.

### #3 Look Beyond Collective Board Performance

Of all the appellations one may attach to a Board, there is probably none more fitting than «team». The Board is a team and, to be effective, it has to work collaboratively as such. Thus, there is considerable value in probing the collective Board awareness of its performance and evaluating the Board's work as a whole.

But a Board also consists of single members. Each has a duty to think and carry out his or her responsibilities independently. Each has also to contribute singularly. In addition, a Board has sub-teams in the form of committees. If performance is to be thoroughly evaluated, it has to be measured also at each of these levels.

With regard to committees, Boards today are increasingly including questions in the periodic Board assessments exploring the dynamics and quality of work in committees. Here a fitting methodology is also essential. For example, it is helpful to distinguish between how the members of a committee view the committee's performance and how those outside that committee perceive it.

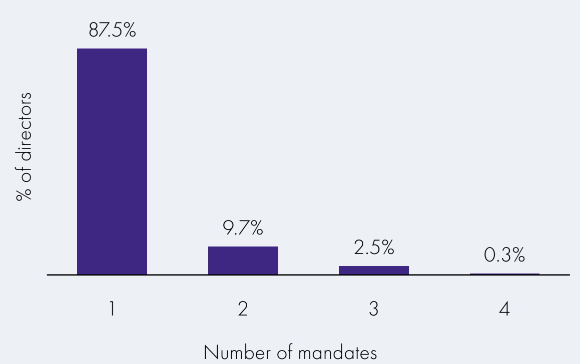
It is also of value to assess a committee's interaction with the full Board and with other committees. For example, there are topics – such as data protection and privacy – that may cut across the work of the Audit, Risk, and Compensation & Human Resources committees. How well these committees share information and collaborate can impact overall Board effectiveness and merits appraisal.

Far more challenging for many Boards, however, is addressing the topic of individual Board member performance. The hesitancy is understandable. Given the senior composition of a Board and the collegial relationship among its members, there can be a tendency to simply count on each member's sense of duty to deliver. From this angle, any evaluation of individual performance may be thought of as superfluous or even inappropriate. It may also be believed that the contributions of individual Board members will anyway tend to equalize in the long run.

But similar to employees, the performance of individual Board members in reality can vary considerably. For one, there are often notable differences in the degree of energy and time members devote to the task.

One factor that can affect the time spent by a Board member is the number of additional mandates he or she exercises, whether on another Board or as an executive at another enterprise. In the market there is growing appreciation that an otherwise brilliant prospective addition to a Board may make less sense if the Board will not be able to reliably count on such person's full participation and contribution. By one measure, Board members in Switzerland today show caution in this regard, with only some 13% carrying out more than one quoted-company Board mandate simultaneously.[10] However, this statistic does not reveal additional mandates in non-quoted companies or in other organizations.

**Mandates within SPI (BoD and EM)**




10 The data regards Boards in companies quoted in the Swiss Performance Index (SPI), based on 2025 disclosures where available, if not on 2024 disclosures. The reference is to Board or executive mandates in other SPI companies. Source: HCM International.

Competing external time demands can also adversely affect a Board member's willingness to volunteer for tasks, to engage in «in-between-meetings work», and to contribute to the work of committees. The latter has been on the rise in recent years.[11]

The above also includes the quality of preparation for Board meetings. For example, it is not infrequent that Board evaluations reveal one or more members perceived by peers as skimping in the advance study of Board meeting materials.

Of course, there can also be wide variance in the quality of individual Board member performance in the boardroom itself. Some members shine more than others in asking the right questions of Management, in distilling insights, in generating ideas, and in contributing to fashioning solutions for the company's central challenges.

The above-mentioned differences make a compelling case for assessing individual Board member performance.[12] After all, the contributions of each individual member can substantially enhance or detract from the overall Board performance.

Practically, this means incorporating in Board evaluations a safe means for members to provide their frank views on the individual contributions of their peers. Another technique is a self-assessment by each Board member. The latter encourages personal reflection and a sense of ownership for one's work, but it comes up short on objectivity. More importantly – different from peer input – self-assessments do not help a Board member identify any personal performance blind spots.

### #4 Recognize the Special Duty of Board Leaders

In promoting Board self-awareness and on-going appraisal of its work, Board leaders play a special role.

First, the Board Chair bears the main responsibility for setting the right tone. This may include persuading unconvinced Board members of the utility of Board feedback sessions and periodic formal assessments.

Second, as head of the Board, the Chair works to gain and maintain an overview of the Board's performance. He or she remains vigilant of any tensions or deficits – whether at the Board, committee, or individual performance level – and acts to timely address them. This may include holding targeted performance discussions with individual Board members. These are most productive when they are constructive in tone but do not shy from pointing to areas where the individual can be more effective.

Third, the Board Chair ensures that suitable formal Board performance assessments are held in accordance with the agreed cycle. He or she also helps shape decisions on the methodology to use and on the potential use of an independent party to facilitate or carry out the assessment.[13]

Fourth, the Board Chair guides the Board discussion on drawing lessons from the assessments and ensures they lead to action. Without visible follow-through, the process can quickly lose credibility. In the case of an individual Board member who continues to underperform despite being granted multiple opportunities to improve, the Chair may face the arduous task of recommending a resignation.

Where a Board has a Vice-Chair or a Lead Independent Director such person may share some of the responsibilities outlined above. At minimum, those in these roles step up when the Chair is not carrying out the performance management responsibilities satisfactorily.

11 See, G.S. Varges, «The Adaptive Borders of the Compensation Committee» in NICG Journal 23/2 at p.30.

12 One financial regulator specifically requires assessment also of individual Board member performance. Australian Prudential Authority SPS 510, Standard 21 (2024).

13 Multiple options exist for the design and execution of the Board assessment. This includes making use of an external independent expert for the development of the methodology, for carrying out and moderating the process, and/or for independently assessing. Whatever the approach, it is critical to provide anonymous, confidential means for Board members to provide their input and to dedicate enough time for Board self-reflection on the results. This should be done before moving to agreeing on improvement measures where needed. See e.g., G. S. Varges, «Board Assessments: Von «Compliance-Übung» zu Leistungsbeurteilung» in Schulthess, Recht Relevant für Verwaltungsräte», 3.2020. One financial regulator is considering requiring that at least every three years the assessment be carried out by an independent third-party assessor. Australian Prudential Authority, Corporate Review (proposal), March 2025.

The Vice-Chair or Lead Independent Director offers an alternative voice, one that is also useful for ensuring that the Board Chair's own performance is also subjected to assessment. In some Boards, the lead for Board assessments may lie with the Chair of the Nominations Committee.

Committee chairs similarly have special responsibilities. Their focus is committee-level performance. They work closely with the Board Chair to align assessment approaches and serve as conduits between committee-level and full Board improvement actions.

### #5 Bake into the Board Culture

The efforts of Board leaders to elevate Board performance cognition and active performance management constitute a necessary but, alone, an insufficient condition. Ultimately, staying focused on continuous improvement requires contributions from each Board member.

The contributions by each Board member break down into four main action areas:

- Accepting accountability for one's own performance and improvement
- Supporting fellow Board members with their own development, such as by providing timely constructive bilateral feedback
- Vigilance that Board appraisals also include confidential means to provide input on the leadership of the Board Chair and the chairs of each committee
- Supporting an ethos of open dialogue within the Board where members feel supported when pointing to where the Board could do better

Together, the above demonstrate why active performance management can best be achieved when it is viewed as a shared responsibility to be built into the Board culture.

Practically, the embedding process begins with an explicit articulation of continuous self-improvement as a Board value. Some Boards now include such commitment in their charters or other internal Board principles.
Promoting a Board learning culture also requires transparency. While individual feedback is confidential, the assessment process and cumulative outcomes are shared within and owned by the entire Board.

Cultural embedding takes time and consistency. It requires regular reinforcement through Board discussions, development opportunities, and leadership messaging. But when successfully established, a culture of self-examination creates a foundation for the Board's continuous growth.

## 3.0 Conclusion: From Self-Awareness to Sustained Board Excellence

By implementing the five «Step-Ups» suggested above, a Board can stimulate a mindset shift in support of Board excellence. This includes moving from the notion of Board «duty fulfillment», to «performance self-awareness», and ultimately to «performance optimization».

Board leaders, particularly the Chair, play a central role in this effort. They view assessment as an ongoing responsibility, not a periodic event. This means continually monitoring Board progress, providing real-time feedback, and addressing issues as they arise rather than waiting for formal assessment cycles.

In managing Board performance, multi-layer assessments bring the most value. They provide a richer picture of how the Board is doing and help with the early identification of improvement opportunities. This approach recognizes that different issues may require different interventions – some at the individual level, others at the committee level, and yet others at the full Board level.

With respect to individual Board member performance, better results are generated when multiple methods are used, including self-evaluation and peer input. This allows insights from different angles. Whatever the method, the assessment of the individual Board member encompasses both technical competencies (such as financial know-how, digital expertise, industry knowledge, etc.) and behavioral attributes (such as teamwork, emotional intelligence, judgment, fortitude, etc.).

The journey to higher performance self-awareness – a kind of metacognitive understanding of how the Board learns and improves – is not instant. It moves from sporadic to regular assessments, from passive to active performance management, from a collective to a multi-tiered focus, and from a leaders-only to a shared-accountability mindset.

# The Boardroom Digital Deficit: Rethinking Governance for the Digital Age

**Ara Abrahamyan (Ph.D. Eng.)**
Board Member and Senior Advisor for Digital Transformation, helping start-ups grow and incumbents stay relevant in the digital age

## 1.0 Abstract

Digital transformation is the combination of what you do and how you do it. The 'what' consists of the technological tools used to enhance your business and operational model. The 'how' refers to new ways of working, such as agile at scale. This same framework applies to modern boards of incumbent companies. Boards must improve their 'what' by significantly increasing tech expertise – bringing in people who have deep technological knowledge and understand areas like AI. At the same time, they need to change the 'how.' Instead of being traditional, gray-haired controllers who ask polite but largely irrelevant questions, boards should become active partners – sparring companions, coaches, and sounding boards for the executive team

## 2.0 Introduction: Why Boards Must Undergo Their Own Digital Transformation

Digital transformation is often portrayed as a technical overhaul of systems and processes, but in reality, it is a multi-dimensional journey. It involves what you do – deploying the right technologies to sharpen your competitive edge and how you do it – implementing new ways of working that foster agility, collaboration, and innovation across the organization. While many companies may excel at adopting modern platforms and tools, they frequently neglect the benefits of better use of their own governance structures, particularly at the level of the board of directors. This oversight can be a critical barrier to achieving genuine digital progress.

In the context of incumbent companies, those with long histories, well-established product lines, and entrenched organizational structures, the stakes are even higher. Such firms often have substantial market share but face the risk of disruption from small and aggressive startups that harness cutting-edge technologies and new ways of working more naturally. Most incumbents invest heavily in technology upgrades yet fail to recognize that strategic oversight and direction must also be updated if they want to truly thrive in the digital age.

There are many studies that show that, companies with a tech-savvy board performed better. For example, according to Deloitte[1] *«such companies experienced, on average, 5% greater revenue growth over a three-year period, and 8% better stock performance year over year, over three-, five-, and 10-year periods, than companies with non-tech-savvy boards»*. The same study also shows that *«Of the 100 companies analyzed, 31 were found to have a tech savvy board (i.e., at least 33% of the board members were tech executives, held a tech or tech-related degree, or had held a tech position in the past).»*

The result is a governance gap: the board lacks the capacity to evaluate, question, or redirect the executive team's digital initiatives. Consequently, key opportunities may be missed, compliance vulnerabilities ignored, and strategic blind spots left unaddressed. By reframing digital transformation as both a «what» and a «how» challenge at the board level, incumbent companies can significantly elevate their chances of sustainable success.

## 3.0 The «What»: Bridging the Technology Expertise Gap

While the upgrade of modern enterprise software, migration to cloud solutions and use of AI (especially Gen AI, AI Agents and so on) continue to reshape industries, many boards remain uninformed or unconvinced about the critical value these tools bring. They keep chasing simple business cases, direct Return on Investment (ROI), which is hard, if possible, to calculate on something that constitutes a strategic bet. This creates an alarming disconnect. The board's role is not merely ceremonial; it must drive vision, cater for long time perspective, hold the executive team accountable, and ensure the right strategic moves are made. For that to happen, a baseline understanding of technology, along with an appreciation for its disruptive potential, is indispensable.

## 3.1 The Risks of Non-Tech-Savvy Boards

- 1. Strategic Blindness: Without board-level familiarity with emerging trends in AI, cloud computing, and machine learning, the discussion around organizational strategy becomes shallow. Long-term investments, such as transitioning a core product to a cloud-based solution or adopting AI-driven analytics to personalize customer experiences, may be delayed or dismissed due to lack of comprehension.

- 2. Inefficient Resource Allocation: A common pitfall arises when boards approve large IT budgets without the expertise to challenge specific plans or question the ROI of certain technology initiatives. The result can be over-investment in outdated systems or under-investment in the very innovations-like AI-driven customer analytics or next-generation cybersecurity platforms – that could drive competitive advantage. In the worst cases, entire digital transformation projects collapse under their own weight due to misaligned objectives and oversight.

- 3. Missed Disruptive Threats: From fintech to direct-to-consumer brands, incumbents across sectors are experiencing fierce competition from tech-savvy entrants. Boards lacking digital foresight may view these threats as minor or temporary, only to discover that the disruptors have already eroded significant market share. The cautionary stories of Kodak, Blackberry, and more recently, traditional retailers, underscore how quickly market dominance can fade when a board dismisses the impact of emerging technologies.

## 3.2 The Misconception of AI Literacy: More Than a Quick Workshop

The contemporary approach to AI education for senior leaders often falls into a dangerous trap of superficial understanding. Many organizations believe that a few days of training can transform a board member or executive into an «AI-aware» leader. This approach fundamentally misunderstands the nature of technological expertise.

1 Deloitte. (2022, February). Tech-savvy board members: A common language for transformation and the impact on performance. Center for Board Effectiveness, Deloitte & Touche LLP.

A typical «AI for Executives» workshop might cover basic definitions of machine learning, a quick overview of neural networks, trendy use cases and high-level ethical considerations. But is this enough? No! What these workshops fail to deliver is the most crucial element: an engineering mindset. True technological competence isn't about memorizing technical terms or understanding the mechanical constituents of large language models. It's about developing a fundamental problem-solving approach that sees technology as a strategic toolset.

An engineer doesn't just know how a tool works – they understand how to identify meaningful problems, which technological approaches might be relevant, what the limitations and potential of different solutions are, how to integrate technological solutions into broader strategic contexts, and finally, the iterative nature of technological innovation.

The ideal board member with technological expertise is not a lawyer or corporate finance professional who has completed a crash course in AI, but someone who has a deep understanding of technological ecosystems, can translate technological capabilities into business strategy, understands technology as a means, not an end and can navigate complex technological and business landscapes. An extremely important ability of tech- and digital-savvy board member is practical experience of the ways to navigate the complex regulatory landscape surrounding their use, ensuring innovation aligns with compliance, risk management, and public trust.

This requires continuous learning, hands-on experience, a holistic understanding of technological evolution, the ability to think beyond current technological limitations, or in short, a genuine and profound interest in technology. At the end of the day, if we have a serious legal problem to crack, we do not go to an engineer or a dentist who did a crash course on corporate law, equally, in the case of a serious health condition, we do not consult a person who follows a YouTube channel for healthy living.

### 3.3 Solutions: Practical Implications for Board Composition and Introducing Real Tech Know-How

Organizations need to shift from checkbox AI training, superficial technological awareness, and compliance-driven technological education to deep, ongoing technological engagement with the use of profound technological expertise.

- 1. Recruit Digital Experts: A pivotal step is to actively recruit board members who possess substantial experience in areas like AI development, cloud infrastructure, cybersecurity, or digital product innovation. Former CIOs, CTOs, and founders of digital-first startups can bring fresh perspectives. Their presence often catalyzes more candid, forward-looking discussions within the boardroom.

- 2. Establish Tech Committees: Rather than relying on the entire board to be technology proficient, many companies set up dedicated technology advisory committees. Comprised of board members and external experts, these committees offer in-depth evaluations of emerging tech trends, potential threats, and strategic opportunities. They then distill their insights into actionable recommendations for the broader board, enabling informed decision-making without requiring every director to be a tech guru.

- 3. And only then put in place ongoing education: Technology evolves rapidly, so even directors with tech backgrounds need continuous updates. Forward-thinking boards organize workshops, invite guest speakers from tech giants, or partner with specialized consulting firms to run targeted training sessions. Topics could range from the fundamentals of machine learning to the complexities of data privacy laws. By weaving ongoing education into board culture, incumbents ensure that directors remain equipped to tackle new challenges as they arise.

Through these measures, boards begin to bridge the gap between traditional oversight functions and the demands of a digitally driven marketplace. This bridging process, however, also needs to be accompanied by a significant shift in how boards operate and engage with management.

### 4.0 The «How»: Evolving the Board's Role

Bringing in tech expertise is crucial, but it is not the sole ingredient for a successful board in the digital age. Equally important is how these boards conduct their duties – whether they remain reactive, compliance-driven bodies or transform into proactive, agile leadership teams that champion innovation.

### 4.1 From Passive Oversight to Active Engagement

Traditional board governance often involves reviewing financial statements, hearing periodic updates from the CEO or CFO, and asking polite questions that rarely challenge the technological status quo. In a rapidly evolving digital environment, this detached stance can be dangerous. Instead, boards must see themselves as strategic coaches and sparring partners, using their collective expertise to guide the organization.

This shift starts with a mindset. Directors should also feel accountable for driving digital transformation from the top, not just approving budgets or glancing at quarterly reports. They must:

- Insist on real-time data and performance dashboards that reflect key digital metrics instead of consuming outdated and heavily curated presentations and reports.
- Engage with cross-functional innovation teams, providing feedback on pilot projects or proofs of concept. Participate in workshops, whiteboard discussions, and why not prototyping exercises.
- Actively challenge executive assumptions by asking tough questions but also bringing outside perspectives from their current and previous roles in tech companies.

Boards that adopt a more hands-on approach often find themselves forming tighter bonds with the executive team. This leads to a more collaborative environment where potential missteps can be caught early, and new ideas can rapidly gain the support or constructive criticism they need.

### 4.2 Some of Applicable Agile Governance Practices

- Frequent Check-Ins: The fast pace of technological change renders quarterly or semi-annual updates insufficient. Some boards have introduced monthly or bi-monthly video conferences focusing specifically on strategic tech initiatives and digital KPIs. This more frequent cadence allows for quicker pivots and ensures the board remains in sync with ongoing digital projects.
- Deep Dives on Tech: Rather than lumping all technology discussions into a generic agenda item, best-in-class boards designate entire sessions to exploring technologies like blockchain, quantum computing, or agentic AI systems. These deep dives go beyond mere theoretical talk, examining how such innovations could reshape the company's product lines, customer interactions, or supply chain.
- External Collaboration: In the spirit of open innovation, boards increasingly invite startup founders, venture capitalists, or academic researchers to speak about emerging trends. This practice broadens the board's horizons and can spark creative thinking. By establishing direct connections with external innovators, boards also become better equipped to facilitate strategic partnerships or acquisitions, further enhancing the firm's capabilities.
- Failure as an integral part of innovation and growth: Boards should embrace failure as a natural component of innovation by promoting a culture of experimentation, learning, and calculated risk-taking. This involves valuing lessons from failed initiatives and ensuring psychological safety for open dialogue instead of permanent pressure on executives for delivering «good news only».
- Culture of Openness: Agile governance thrives in an environment that encourages curiosity and debate. Directors should feel comfortable challenging an executive's digital roadmap and proposing alternative solutions. This requires trust and mutual respect between the board and management. In many organizations, it can be beneficial to promote certain cultural norms, such as the «no idea is too small» principle, to foster a sense of collective problem-solving.

### 5.0 Conclusion: A Board-Level Digital Imperative

Digital transformation extends beyond software upgrades and AI pilots – it fundamentally challenges how an organization governs and leads. For incumbent companies, the problem is twofold: bridging the technology expertise gap and overhauling traditional governance models. Without addressing these issues, even the most well-funded digital initiatives may falter, hindered by a board that is ill-equipped to assess, guide, or champion them.

In the face of accelerating change, the cost of inaction is high. Boards that remain bound to outdated thinking risk overseeing a stagnant organization, incapable of adapting to new customer demands or responding to disruptive newcomers. Conversely, boards that proactively elevate their «what» (tech knowledge) and «how» (agile engagement) stand to amplify their companies' capacity for sustained innovation. I want to see more constructive, content- and expertise-driven, strategic involvement.

Key Takeaways

- 1. Prioritize Tech Savvy Board Members: Seek out individuals with demonstrated digital expertise and consider creating dedicated tech committees.
- 2. Adopt an Agile, Hands-On Mindset: Evolve governance from passive oversight to dynamic, ongoing collaboration with the executive team.
- 3. Commit to Continuous Learning: The digital landscape is fluid; ensuring the board stays updated is a perpetual endeavor.
- 4. Embrace External Ecosystems: Forge ties with startups, academic institutions, and innovators to keep ideas fresh.

By modernizing the boardroom, incumbent companies can transform what might be a vulnerability – lack of digital leadership – into a powerful source of competitive advantage. In a marketplace where technology moves at breakneck speed, responsive and informed governance is not a luxury; it is a prerequisite for long-term survival and success.

2 Heidrick & Struggles International, Inc. (2020). Boards' role in sustaining digital transformation.
3 David Kenny & Nora Denzel. (2024, 8. Oktober). Technology leadership in the boardroom: Driving trust and value. Harvard Law School Forum on Corporate Governance.

# How Boards can use Integrated Reporting as a Strategic Tool

**Jan Meyer**
Partner in Deloitte's Audit & Assurance practice in Switzerland and leader of Deloitte Switzerland's Audit Committee engage («ACe») programme. Jan is a Swiss Certified Accountant and a US CPA (Oregon).

**Abetare Zymeri**
Director in Deloitte's Audit & Assurance practice in Switzerland leading the Sustainability and Emerging Assurance team. Abetare is a Swiss Certified Accountant.

**An earnings call with a difference**

Fast forward a few weeks and imagine the following: ByteSoft Labs, a software company, has just released its earnings for the year ended 30 June 2025. The CEO welcomes participants to the earnings call and provides an overview of the past year's main operational, product and service offering achievements. He or she then hands over to the CFO to present the financial highlights. Revenues have significantly improved, exceeding investors' consensus expectation by 4%. New, innovative, AI-powered services and reliable product offerings have boosted the company's market position and noticeably enhanced its competitive advantage. The EBIT margin has remained stable in the high thirties and the company has continued to invest in R&D, as well as maintaining high levels of CAPEX spending.

Most earnings calls would then continue with a Q&A session. But not at ByteSoft Labs. Instead, the CEO continues to reflect on the increased engagement scores of the company's workforce, the reduction in the number of cases of personal data loss incidents from cyber-attacks, and the increased supply of renewable energy to run the company's data centers.

The CEO also then announces major new investment initiatives, explaining with quantitative metrics why ByteSoft Labs' workforce is uniquely positioned to contribute to R&D innovation and how the company considers different CAPEX investment scenarios in various geographies given the current global political uncertainties.

A "what if" matrix on workforce engagement and diversity as well as CAPEX investment illustrates how the CEO is thinking about the future performance of the business, its drivers, and its growth.

Only then does the Q&A session begin.

Shortly after the earnings release, the company issues its integrated reporting, which includes a management commentary – covering aspects such as the business model, strategy, and risks and opportunities – sustainability-related information, and financial statements. The company's integrated reporting is well received by the investor and stakeholder community. Not only does it set out the value created for shareholders, it also coherently explains how the company generated sustained improvements in its financial performance through its handling of human capital, the business model, innovation, and the environment over the last couple of years – and how it is positioned to continue doing so in the future.

ByteSoft Labs reporting is highly integrated. What does this mean? Integrated reporting is "a concise communication about how an organisation's strategy, governance, performance and prospects, in the context of its external environment, lead to the creation, preservation or erosion of value over the short, medium and long term."[1]

This form of reporting calls for integrated thinking within a company, making different functions not only understand how their activities, relationships and interactions sustain value creation, but also making them accountable for creating value and reporting on it. And integrated thinking can enhance how boards direct a company's strategy.

To understand why integrated reporting is crucial in a company's communication with its stakeholders, one should first understand how sustainability reporting has evolved over time. It is the evolution of sustainability reporting that has significantly contributed to stakeholder's demand to integrate various aspects of corporate reporting and to provide a 360-degree view of corporate performance.

### The evolution of sustainability reporting and the call for integration

Sustainability reporting began a few years ago as a loosely defined practice and was mainly used as a public relations tool to improve a company's image. Now it is subject to numerous legislative efforts and far more stringent reporting requirements – even though still subject to political debate.

The application of sustainability regulations like the EU's Corporate Sustainability Reporting Directive (CSRD) and European Sustainability Reporting Standards (ESRS) may now be amended by the EU's Omnibus proposal. The new focus is on reducing the reporting burden for companies to help them remain competitive.

1 Definition as per the Integrated Reporting Framework. IFRS Foundation (2021). International <IR> Framework, p. 10, accessed June 2025.

This new proposal shows that the "how", "who" and "when" of sustainability remain under discussion but sustainability reporting in the EU is here to stay.

Globally, the first set of International Financial Reporting Standards (IFRS) Sustainability Disclosure Standards, with a strong focus on information for investors to help their decision-making, is beginning to be widely accepted. The number of countries which have adopted these standards has increased significantly during the last year. Canada, China, Japan and Singapore have already confirmed that they are adopting the Sustainability Disclosure Standards, and many other countries have announced their commitment to implementing these standards going forward.[2]

In Switzerland the Swiss Federal Council has proposed to amend the legislation on the Swiss Code of Obligation's transparency reporting to strengthen sustainability reporting requirements and bring them into line with those of the EU's Corporate Sustainability Reporting Directive (CSRD), and will decide on the potential revisions to the code by Spring 2026 at the latest. Since 2023 Swiss public interest entities with more than 500 full-time employees have been subject to reporting on non-financial matters.

### Reporting on sustainability in one integrated framework

According to a current Deloitte study which analyses the state of sustainability reporting in Switzerland, approximately 40% of the Switzerland's top 50 listed companies on the SMI Expanded index provide an integrated report on sustainability and financial matters to their stakeholders, rather than separate standalone reports.[3] This shows the increased efforts being made to give stakeholders the full picture on company performance.

However, the study also shows that connectivity between financial and sustainability reporting can be significantly improved. Nearly 60% of companies have made disclosures on their plans to transition to net zero, but only a minority disclose the financial resources, such as the future CAPEX demands, needed to bring about this transition.

2 Refer to Adoption of IFRS Sustainability Disclosure Standards by jurisdiction. Deloitte, accessed June 2025.

3 Lay Boon Tan et al. (2025). Navigating the Swiss sustainability reporting landscape, p. 10. Deloitte Switzerland, accessed June 2025.

Integration involves far more than simply putting financial and sustainability reporting into a single document. The question is how to improve sustainability reporting by combining it in with financial reporting in one integrated framework.

The fictional case above of ByteSoft Labs showed a company that had come a long way. Its integrated reporting had required the company to: (1) understand the various stakeholders' information needs; (2) take stock of the reports already provided to both external and internal stakeholders; (3) involve functions beyond finance and accounting, such as procurement and HR in the reporting; (4) implement a system of procedures, controls and oversight allowing for timely and reliable communication with investors and other stakeholders.[4]

### What are the key aspects for boards to consider?

We see three key aspects for boards to consider when asking management to build a truly integrated approach to shareholder and stakeholder communication and reporting. These are:

1. Improve connectivity of financial and sustainability reporting through management commentary;
2. Strengthen cross-functional collaboration; and
3. Integrate sensitivity and scenarios analysis in stakeholder communication and reporting.

### 1 Improve reporting connectivity through management commentary

Management commentary was the earliest effort to provide investors and other stakeholders with non-financial disclosures – long before sustainability was even a topic. Now that sustainability reporting is significantly advanced, management commentaries need to evolve to provide stakeholders with information that feeds their decision-making.

Integrated financial reporting must convey information on how the company creates value.[5] Management commentary is one instrument that can connect both lines of reporting, especially by discussing entity-specific matters of performance.

Many financial and sustainability reporting frameworks require disclosures following a standard set of guidance. Management commentaries provide scope to apply an objectives-based approach and focus on the most relevant information to discuss a company's strategy and business model, its external environment and related risks and opportunities.[6]

In the case of ByteSoft Labs, the CEO discussed how the company relies on its engaged workforce to drive innovation and future business success. Without that engagement, there is no innovation, the fuel of the tech industry.

A meaningful management commentary should therefore discuss the resources that are specific to the company, such as its infrastructure and human capital, and key relationships with government, regulators, and local communities, among others, on which its business depends. It should provide a clear picture of how all of these factors have generated value and cash flows in the past, and how they can do so in the future. It should also disclose relevant key performance metrics.

Boards should therefore see their company's management commentary as a means to improve connectivity between financial and sustainability reporting, enhancing communication with investors and other stakeholders. Questions boards can ask in this context include:

- What are the most relevant matters that could impact the achievement of our long-term strategy? What most affects the scalability, resilience, adaptability, and durability of our business model? What are the key opportunities and risks?

4 For practical guidance on how to implement integrated reporting, readers can refer to: Transition to integrated reporting: A Guide to getting started. IFRS Foundation.

5 EFRAG (2024). EFRAG Connectivity Project. Connectivity considerations and boundaries of different Annual Reporting sections, p. 75, accessed in June 2025

6 See for example: IFRS Foundation (2021). Exposure Draft ED/2021/6 Management Commentary, p. 5, accessed June 2025

- What are our key intangible resources – whether accounted for or not in our financial reports – and key relationships? Has our management explained in an understandable way how these create value and generate cash flow?

- What environmental and social matters could impact our business? Has management reflected on these matters appropriately in its commentary?

Questions like these can help assess whether the management commentary is balanced, complete and verifiable, and whether the financial and sustainability reporting and disclosures are thoroughly interconnected in the discussion.

### 2 Strengthen cross-functional collaboration

Historically, corporate reporting has largely been driven by the finance and investor relation functions. While financial stewardship remains essential, integrated reporting fundamentally shifts the reporting lens. The goal is not just to discuss past performance but also articulate a compelling, cohesive, forward-looking vision of the company's business.

By incorporating future-oriented data and analysis, such as potential sourcing or regulatory risks, organisations can develop strategies which make them resilient and adaptable to changing circumstances. This shift in lens requires organisations to adapt their structures to achieve an integrated way of thinking.

Traditional corporate structures often compartmentalise responsibilities, with each function focused on its own objectives, generally measured in financial terms. Integrated thinking challenges this approach by encouraging every function to understand and manage its impacts across multiple dimensions of value creation – for example, how procurement purchases low-carbon materials that have not involved the use of child labour while respecting cost targets; or how software engineers programme enhanced user interfaces in response to customer feedback. To create this common understanding and to support teams embarking on an integrated thinking and reporting journey, ByteSoft Labs initiated a change management programme and training sessions to upskill the entire organisation.

Boards play a critical role in breaking down functional silos. To establish a common understanding of a new way of working and instil integrated thinking they need to foster multidimensional decision-making and collective accountability and incentivise teams to collaborate and achieve shared goals.

As integrated thinking becomes embedded in the operating model, it is also more likely to provoke integration of the information systems that support both internal and external reporting and communication.

The following questions can help boards assess the level of integrated thinking and reporting across functions and identify areas to be further integrated:

- Are governance structures and incentives in place to support cross-functional collaboration and integrated thinking? How visible are these structures in the operating model and reporting processes?

- Is there a clear, company-wide view on how financial, operational, intellectual, human, social and natural topics are interconnected? How actively are our business functions collaborating to identify and manage interconnected risks and opportunities?

- How aligned are the company's internal processes, such as strategy development, performance management and capital allocation, with the principles of integrated thinking? How are individual functions incorporating integrated thinking in day-to-day decision-making?

### 3 Integrate sensitivity and scenario analysis in communication and reporting

In our fictional case above, ByteSoft Labs had prepared a "what if" analysis to communicate to investors and the broader stakeholder group how it intends to address varying levels of future risks and opportunities, and where it expects to make its main investments. Its approach is highly proactive.

Corporate reporting and communication should be transparent on the options companies are considering. Tools like the "what if" analysis from our fictional case or other means of scenario planning and sensitivity analysis can help companies formulate and frame their communication. Speed is more important than achieving perfection.

Transparency can significantly increase investors and other stakeholders' trust.

Also important to consider is the frequency of communication. Most companies need to communicate more with stakeholders, for the reasons laid out above.

A company's approach to communication should also be balanced. Companies may otherwise risk competitive disadvantages, risk misinterpretation of the sensitivities and scenarios provided, or lose investor and stakeholder confidence if the sensitivities and scenarios play out significantly different than communicated.

We believe boards should discuss with management the following questions when it comes to consideration of sensitivities and scenarios:

- How do we integrate sensitivity and scenario analysis in our communication with investors and other stakeholders? What are the most likely scenarios, and how do we demonstrate our preparedness? How do we balance the need for speed against the desire for perfection, while remaining accurate enough for our investors and stakeholders to remain confident?

- How does management strike the right balance between transparency and prudence? Is management communicating openly about its "what if" measures – without putting the company at a competitive disadvantage, or creating room for misinterpretation, or legal risks?

- How is management going to handle any follow up questions on the sensitivity and scenario analysis the company is going to share?

### Final thoughts

An integrated approach to reporting is far more than just combining financial and sustainability reporting. Boards that direct their management to communicate on entity-specific matters and relationships that impact strategies in the long term, to break down functional silos and improve cross-functional collaboration, and to disclose sensitivities and scenarios in their communication with stakeholders, will not only shift the lens of corporate reporting to a more integrated approach. These boards will also build into processes the discipline needed to be prepared for future disruption and uncertainties.

Furthermore, implementing an integrated reporting approach also comes with benefits for internal processes. Working through the questions above may reveal how flexible a company's strategy is or how resilient the organisation is. Conducting for example a sustainability double materiality assessment in which not only the impact on financials, but also the impact on environment and society of a company's business must be considered, can help to obtain a comprehensive view of the risks and opportunities to address.

Integrated reporting is ultimately about integrated thinking – and a strategic tool boards can use.

# Annual ILE-NICG Conference

**The annual ILE-NICG Conference took place on the beautiful Novartis campus and featured a rich, four-part program:**

1. Opening Keynote: The conference began with a keynote by Prof. Dr. Michèle Sutter-Rüdisser on the topic «Corporate Governance in a New World Order of Business.»

2. Panel I – Integrated Assurance & Ethics: Moderated by Dr. Klaus Moosmayer, this panel featured insights from Prof. Dr. Michèle Sutter-Rüdisser, Dr. Peter Maurer, and Dr. Katharina Weghmann.

3. Panel II – Attractiveness of Business Locations: Prof. Dr. Peter Hongler led the discussion, joined by panelists Samuel Hess and Dr. Samanta Cimitan.

4. Panel III – How to Win the Global AI Race? Moderated by Prof. Dr. Michèle Sutter-Rüdisser, the panel included contributions from Franziska Janorschke, Nicole Büttner, and Prof. Dr. Ara Abrahamyan.

# Keynote: Corporate Governance in a New World Order of Business

**Keynote by Prof. Dr. Michèle Sutter-Rüdisser**
**Academic Director, NICG and Independent Board Member**

In her opening keynote at the NICG Annual Conference 2025 in Basel at the Novartis campus, Prof. Dr. Michèle Sutter-Rüdisser set the stage by offering a sharp, reflective lens on the new world order of business and its impact on good corporate governance. Drawing on her experience in academia and boardrooms alike, she identified three defining shifts that are reshaping how boards operate: the move from globalisation to fragmentation, from uncertainty to unpredictability, and from acceleration to overload.

These shifts are not merely conceptual. They are real, structural changes that demand new forms of awareness and leadership.

- From Globalisation to Fragmentation: Geopolitical instability, regulatory divergence, and the redesign of global supply chains are contributing to a more fragmented business environment. The notion of globalisation as a harmonising force is giving way to national interest, proximity over efficiency, and competing legal frameworks. Boards must now navigate increasingly complex landscapes that challenge long-held assumptions about markets and governance.

- From Uncertainty to Unpredictability: While traditional risk models train us to manage uncertainty, where outcomes are unknown but probabilities are calculable, the current environment is defined by unpredictability. In this «chaos world», there is no playbook. Boards and executives must develop new reflexes, not just to react, but to anticipate and adapt. Strategic foresight and mental agility become crucial tools.

- From Acceleration to Overload: Technology, regulation, and communication channels are evolving at an overwhelming speed. This creates not just a need for faster response times, but also for deeper, more structured thinking. Prof. Dr. Sutter-Rüdisser noted how this overload leads to decision fatigue, misinformation, and reduced capacity for strategic reflection, even at the board level. Yet despite this, she reminded participants that boards operate from a position of privilege and influence and therefore carry a responsibility to act.

### A New Imperative for Board Leadership

Faced with these systemic shifts, Prof. Dr. Sutter-Rüdisser challenged boards not just to adapt, but to lead. «Not everything needs to change,» she remarked, «but we must rethink how we engage with aspects that do change.» Her message was clear: boards must evolve from oversight bodies into strategic, dynamic, and ethical stewards of long-term value. She proposed three core dimensions for this transformation:

### 1. View More Topics Through a Long-Term Strategic Lens

Boards can no longer afford to focus solely on risk oversight and backwards-looking compliance. They must become forward-facing sparring partners to the executive team. This requires:

- A shift from oversight to insight – actively shaping direction, not merely reviewing it.
- Continuous learning – especially on emerging issues such as cybersecurity and artificial intelligence.
- Deep collaboration with management – anchored in openness, mutual respect, and shared accountability.
- More dynamic governance processes – and a recognition that increased engagement comes with a greater workload and responsibility.

### 2. Ensuring a Reflective Equilibrium

In a world of ethical tension and rapid change, boards must build the capacity to pause, reflect, and respond with clarity. This reflective equilibrium includes:

- Rethinking values and belief systems considering emerging realities.
- Accepting that change must be human-scaled. Leaders must give time and space for people to adapt.
- Strengthening the «governance muscle», combining ethical integrity with governance expertise.
- Moving beyond technical compliance to enable true ethical evolution, because even the most sophisticated processes are meaningless without the right people at the table.

### 3. Rethinking the Way Boards Work

Effective governance transformation begins within the board itself. Words must align with actions, and principles must be embedded in daily practices:

- Boards must model the change they expect, starting from the top.
- Strategic alignment between leadership behaviour and public messaging is critical.
- Artificial Intelligence is entering the boardroom not to replace judgment, but to enhance it. Large Language Models (LLMs), for example, can serve as intelligent sparring partners, enabling faster access to insights and broader perspectives.

### Key Takeaways: Governing in an Age of Flux

«The world is changing faster than ever before. And it will never be this slow again.» With these words, Prof. Dr. Sutter-Rüdisser concluded her keynote. This truth underscores the urgency for boards to lead with vision, reflection, and integrity. Governance today is not merely about regulation or risk; it is about readiness. Boards must embrace their evolving role not as passive overseers but as strategic enablers of sustainable transformation.

As participants reflected on these insights, it became clear that this shift is not about abandoning core governance principles but about elevating them. The privilege of board leadership comes with the responsibility to create clarity amidst complexity, purpose amidst pressure, and trust amidst turbulence.


# Panel I: Integrated Assurance & Ethics

**Panel Discussion moderated by Dr. Klaus Moosmayer | Participants included Prof. Dr. Michèle Sutter-Rüdisser, Dr. Peter Maurer, Dr. Katharina Weghmann.**

### Opening Statements

In Panel I, distinguished experts Dr. Klaus Moosmayer, Dr. Peter Maurer, Dr. Katharina Weghmann and Prof. Dr. Michèle Sutter-Rüdisser discussed the pressing need for integrated assurance frameworks that embed ethics at the core of corporate governance. The discussion was framed by Dr. Moosmayer, who shared insights from his vast experience across multiple industries, including Siemens, Novartis and Deutsche Bank.

He highlighted the systemic challenge of fragmented risk, compliance and assurance functions and emphasized that silos impede the ability of boards and executives to respond holistically to today's complex risk landscape. According to Dr. Moosmayer, true integration of governance, risk, compliance and ethics is essential to restoring trust and enabling proactive, value-driven decision-making.

Dr. Maurer, drawing on his leadership experience with the International Committee of the Red Cross, the Basel Institute on Governance, Zurich Insurance Group, and others, highlighted the strategic and operational value of integrated assurance.

He called for governance systems that move beyond box-checking compliance to a behavioural, context-driven understanding of risk and ethics. Maurer stressed the importance of co-creation, cross-sectoral learning and building consistent ethical frameworks across institutions. He highlighted that many anti-corruption systems are outdated and fail to address today's systemic corruption, advocating for updated legal frameworks and ethically grounded, preventive approaches.

Dr. Weghmann focused on the ethical paradoxes and internal fragmentation faced by boards. She described the tension between what is ethical, what is legal and what is politically expedient as a defining challenge for modern leadership. Weghmann called for a rethinking of outdated models like the «three lines of defence» and argued for embedding ethics not just structurally through governance but also culturally within organisations. She emphasised that trust is the most valuable and simultaneously most threatened corporate asset and that without ethics as a central frame, trust cannot be meaningfully built or governed.

Prof. Dr. Michèle Sutter-Rüdisser added an academic and practical perspective, challenging the traditional committee-based structure of boards, which she argued is not fit for managing today's interconnected issues. She underscored the need for courageous leadership that takes clear ethical positions, rejects silo thinking and prioritizes long-term value creation over short-term reactionism. According to Prof. Dr. Sutter-Rüdisser, proactive engagement and taking a stand on values are crucial to regaining societal respect and legitimacy.

**Summary of the Plenary Discussion**

The plenary discussion further deepened the conversation around the structural and cultural prerequisites for integrated assurance and ethical governance. One central topic was whether current board committee structures are fit for purpose. Dr. Maurer argued that the interconnectedness of today's challenges requires better bridging mechanisms between specialised committees and the board at large.

He called for dedicated time and space to build these connections and emphasised that ethical dilemmas should not be resolved top-down but through structured dialogue across organisations.

Dr. Weghmann advocated for institutionalising ethics within both board structures and corporate functions, suggesting ethics or values-based committees or at least clear guardrails across all governance bodies. She highlighted the importance of future-proofing governance with critical and collective thinking.

Prof. Dr. Sutter-Rüdisser shared practical examples of how informal, learning-based engagements within boards can enhance alignment and strategic insight. She emphasised the importance of board members investing in shared knowledge and internal ethical discourse. She also emphasised that ethics discussions must happen outside of crisis moments and become part of the board's regular rhythm.

A question from the audience focused on situations where ethical actions may conflict with legal norms. Panellists acknowledged the prevalence of such dilemmas and the need for boards to navigate them with transparency, humility and contextual understanding. Dr. Weghmann referenced the example of whistleblowing to show how these tensions are longstanding and still unresolved.

In conclusion, the panel agreed that core principles like human rights, anti-corruption, transparent governance and ethical behaviour must remain central to all governance frameworks, regardless of how ESG is labelled or rebranded. As Dr. Moosmayer noted, only through integrated assurance structures and ethics-driven leadership can organisations truly «walk the talk» in the face of today's complex and evolving risks.

# Panel II: Attractiveness of Business Locations

**Panel Discussion moderated by Prof. Dr. Peter Hongler | Participants included Samuel Hess and Dr. Samanta Cimitan**

### Opening Statements

Panel II convened Prof. Dr. Peter Hongler, Dr. Samantha Cimitan (CEO of Celonic Group), and Samuel Hess (Head of Economic Affairs Canton of Basel-Stadt & Senior Economic Advisor) to examine how Switzerland can maintain its economic appeal in a rapidly changing global landscape.

Their discussion focused on navigating geopolitical uncertainty, regulatory challenges and intensified international competition through strategic investment, innovation and cluster development.

Prof. Dr. Hongler opened with a data-driven analysis of Switzerland's economic strengths. Based on global export data, he demonstrated that Switzerland has a distinct comparative advantage in highly specialised sectors such as pharmaceuticals, watches and chemicals. These so-called «clusters» form Switzerland's business model. Economic policy, he argued, must be aligned with these existing strengths rather than arbitrarily shifting focus.

Dr. Cimitan shared an industry perspective, outlining the key factors that drive investment decisions in the biopharmaceutical sector. Critical aspects include access to highly skilled talent, advanced research and production infrastructure, efficient regulatory support, and long-term legal and political stability. Despite geopolitical uncertainties, she emphasised that Basel remains a strong life sciences hub thanks to its dense concentration of expertise and its global reputation for quality.

Samuel Hess offered insights from an economic policy standpoint. While Switzerland remains an attractive destination for business, increasing global competition has made it necessary to move from passive to active economic policies. Key levers include openness to international talent and targeted innovation funding. Hess highlighted Basel's new approach to economic policy: moving away from a traditional «hands-off» model toward actively promoting innovation through direct R&D incentives to sustain its innovation ecosystem.

**Summary of the Plenary Discussion**

The plenary discussion focused on the transformation of economic policy from classical liberal frameworks toward targeted intervention. Hess emphasised that in today's hypercompetitive environment, simply providing favourable conditions is no longer sufficient. Active support for innovation and R&D has become essential to maintain Switzerland's edge.

Dr. Cimitan underlined the strategic importance of research and development, which cannot easily be outsourced or relocated. The combination of academic excellence, regulatory expertise, and entrepreneurial leadership makes Basel uniquely positioned to serve as a global innovation centre. While production may be partially relocated for economic reasons, innovation must remain locally rooted.

A key theme was the importance of clusters. All panellists agreed that regional clusters like Basel's life sciences ecosystem play a crucial role in driving value creation. Cimitan illustrated how daily operations benefit from physical proximity to complementary service providers and research institutions. Hess added that Basel's economic strategy deliberately supports existing strengths rather than trying to artificially establish new industries.

The discussion also touched on geopolitical risks, including the possibility of new U.S. tariffs. Dr. Cimitan remained optimistic, arguing that Switzerland's high specialisation and reputation in biotech mitigate such risks. She pointed out that Basel is seen as part of the transatlantic innovation corridor and continues to attract U.S. partners and talent.

The panel concluded that safeguarding Switzerland's economic attractiveness requires a proactive and focused approach, centred on supporting innovation, nurturing talent and strengthening existing industry clusters. Basel was highlighted as a model region, demonstrating how strategic alignment between policy, business and research can sustain competitiveness in a rapidly evolving global environment.

# Panel III: How to win the global AI race?

**Panel Discussion moderated by Prof. Dr. Michèle Sutter-Rüdisser | Participants included Franziska Janorschke, Nicole Büttner and Prof. Dr. Ara Abrahamyan**

### Opening Statements

In Panel III, leading voices from industry, entrepreneurship and academia gathered to discuss how to position Europe, Switzerland in particular, in the increasingly competitive global AI landscape. Prof. Dr. Michèle Sutter-Rüdisser opened the panel by framing the debate with a sense of urgency and opportunity, noting the diverse international expertise present on stage.

Franziska Janorschke, Head of Data Privacy, Digital and AI Compliance at Novartis, brought the perspective from within a highly regulated global industry. She underscored that although there is no definitive blueprint for winning the AI race, Novartis has already embarked on a structured and strategic journey. In pharma, AI is central to R&D acceleration, manufacturing efficiency and overall productivity. She emphasized that AI is already deeply embedded in their operations and highlighted the importance of robust governance frameworks and ownership models. Notably, the business units, not compliance teams, must own the deployment of AI.

She described Novartis' comprehensive approach to risk and compliance, highlighting its alignment with the EU AI Act. Central to this strategy are cross-functional collaboration, clear policy frameworks and targeted capability building across the organisation. A key takeaway was the need to embed transparency, accountability and ethics directly into operational models and organisational culture.

Nicole Büttner, entrepreneur, investor and political advisor, set the focus on human-centred adoption of AI. She argued that Europe's lag in the AI race stems less from technical inferiority and more from a shortfall in «human-engineering». The latter is the ability to effectively deploy an AI solution in real-world settings. Drawing on her experience Büttner stressed the importance of usability, trust-building and value alignment. Friction in implementation, whether due to poor user interface design or cultural resistance, hampers adoption even when the technology is sound. She called on leaders to ensure that technological capabilities are aligned with societal values. To truly drive adoption, she emphasised the need to tackle human factors that often undermine the success of AI initiatives.

Prof. Dr. Ara Abrahamyan, with a strong background in digital transformation focused on the governance and structural challenges of AI at the board level. He critiqued superficial understandings of digitalisation and argued that many boards misunderstand what meaningful AI integration entails. Sharing anecdotes from healthcare, he illustrated how digital transformation often gets reduced to ineffective token gestures. His core thesis: boards lack sufficient technological expertise, and this gap results in misaligned strategies and missed opportunities. Abrahamyan called for deep, lifelong engagement with technology by decision-makers and advocated for greater inclusion of technologists in supervisory and executive boards.

### Summary of the Plenary Discussion

Panellists emphasised that technological excellence alone is insufficient; winning will require institutional readiness, cultural adaptation and a pragmatic focus on real-world applications.

Nicole Büttner argued that adoption begins where people experience real benefit. She called for AI use cases that solve tangible, everyday problems, such as automating healthcare appointments, rather than focusing on abstract promises. Trust, she noted, must be earned through usefulness and success depends on recognising the social context in which technologies are deployed. Franziska Janorschke highlighted the importance of both top-down governance and bottom-up engagement in organisations. Citing her experience at Novartis, she stressed the need for clear AI inventories, shared ownership and relevance-driven training to foster responsible use. She advocated for simplifying complex content to reach a wide range of digital literacy levels. Prof. Dr. Abrahamyan underscored the importance of cognitive diversity in boardrooms, calling for technical competencies to complement traditional backgrounds in law or finance. He likened the ideal board to a chessboard, each member covering the other's weaknesses. He also emphasised the role of partnerships with external experts to inform critical decisions.

The panellists agreed that a narrow focus on foundational models is insufficient when discussing AI, and that such a limited view does not do justice to Switzerland's and Europe's AI potential. Büttner called for defining the «playing fields» where Europe and Switzerland can lead, such as healthcare, life sciences and regulated industries. They advocated for a shift in rhetoric from AI hype to data literacy and quality, pointing out that winning the race also means knowing what data to use and how. Finally, panellists reflected on the profound social transformation underway. Prof. Dr. Abrahamyan mentioned AI's capacity to surpass human cognitive abilities and called for cross-disciplinary engagement. Büttner introduced the concept of «liminality», the unsettling space between past norms and future realities. Janorschke echoed these concerns, urging action in education systems and cultural readiness. Prof. Dr. Sutter-Rüdisser concluded that curiosity and the human factor remain irreplaceable and should guide our response to technological disruption. The panel closed with consensus that winning the AI race is less about dominance in one domain and more about thoughtful integration, inclusive governance and societal alignment.

NICG
Network for Innovative Corporate Governance
Varnbüelstrasse 19
CH-9000 St. Gallen

Website: www.nicg.net
E-Mail: info@nicg.net
Telephone: +41 71 224 76 36

University of St.Gallen
Institute for Law and Economics

In partnership with

Swiss Re

HCM International .GECN GROUP company | Governance. Finance. Compensation.

SIX

McKinsey & Company

NOVARTIS