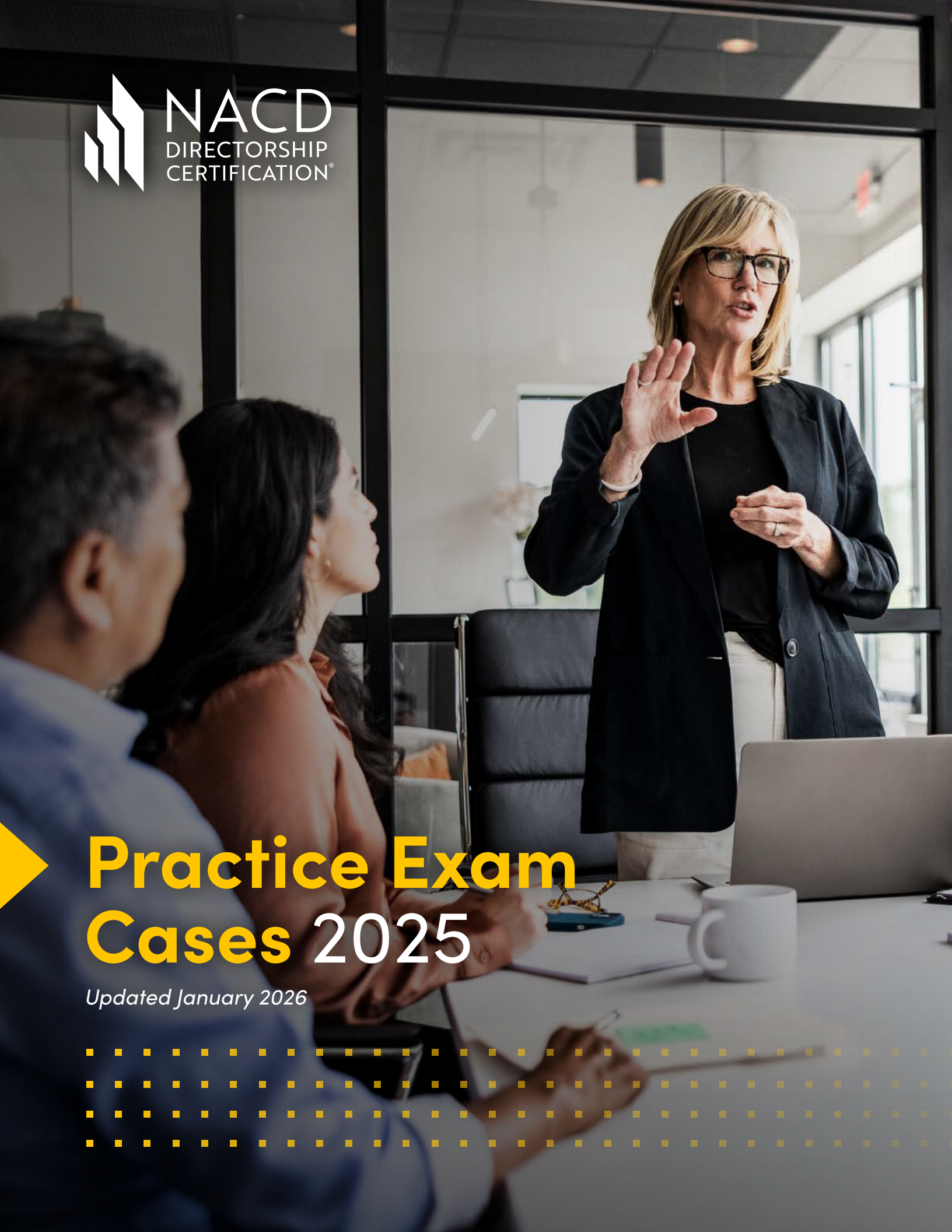
NACD DIRECTORSHIP CERTIFICATION®



Practice Exam Cases 2025

Updated January 2026

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Instructions

TESTING ADVICE

Part II of the certification exam consists of 16 case study problems, each with three or four steps. Candidates will have 150 minutes allotted for this portion of the exam (absent any applicable accommodation). The case study problems provide information about a situation that a corporate director might encounter. A question and several action choices are provided, which are possible actions or decisions that the corporate director might choose *in light of the information provided about the situation at the point that the specific question is asked.*

Subsequent steps will offer additional information about the situation (along with the information presented in the previous steps) and new answer choices. *Remember to only choose answers to the questions about the situation that make sense in light of the information about the situation that has been provided at the point that the question is asked.*

1. For each step, candidates are expected to select ALL of the answer choices that are appropriate for the situation, based on the information provided at that point in the case. Candidates should select as many actions as necessary to respond to the situation presented; however, they should not choose actions that are inappropriate (actions that are not relevant to the situation at hand or that fall outside of the board/director's role) or would be considered optional or not necessary at the particular point in the case study. You must choose at least one (1) action for a step before moving forward in the case.
   Note: In the case studies, new information is shared during each step in the case. During the exam, you are unable to return to any of the previous steps because it may affect prior decisions made. You are encouraged to approach the practice case studies in the same way. While working through the practice case studies, try to complete all of steps with that in mind. Case studies are scored on a point basis, where each step is scored independently of the previous or subsequent steps. For each step, points are awarded for selecting an appropriate action, and points are deducted for choosing an action that is inappropriate or not necessary based on the information provided.
2. Using the table at the end of each case, tabulate the number of correct answers you selected for each step and the number of incorrect answers you selected for each step. Fill out the form and find your final score for that case. You receive one point for each correct answer and you are deducted one point for each incorrect answer.

Part of the 'S' in ESG: Human Capital Strategy

STEP 1

A small, privately owned waste management company that has experienced rapid growth through a series of mergers and acquisitions has recently been sold to a family member of the original owner. The new owner, who is also the Chief Executive Officer (CEO), is a young first-time entrepreneur who has hired friends and family members in key positions to help continue to grow the business. The company's board consists of the new CEO, an independent board chair, and five experienced industry professionals. The new CEO develops a strategic plan, which has been approved by the board.

Five months later, the resignation of several middle managers has generated alarm for the board. In addition, the board is concerned because key business performance metrics indicate that employee attrition rates have increased and productivity rates have decreased. The board invites the Vice President of Human Resources (VP of HR) to the next board meeting to discuss these findings.

What should the board do?

- ☐ A. Schedule meetings with key employees.
- ☐ B. Request that a company-wide employee engagement survey be conducted.
- ☐ C. Ask the VP of HR to report on aggregated data from external employee satisfaction platforms.
- ☐ D. Suggest that the CEO hire an external HR consultant.
- ☐ E. Request that the VP of HR provide a report addressing attrition metrics and associated key findings.

STEP 1: ANSWERS

Rationales:

A. *(-) The HR function is responsible for strategic development of talent and serves as a support the board in its talent oversight role. The board should ask the VP HR to provide requisite information.*

B. *(+) At this stage, it is appropriate to request a company-wide employee engagement survey to determine if there are problems with employee engagement.*

C. *(+) The HR function is responsible for strategic development of talent and serves to support the board in its talent oversight role. It is appropriate at this stage to request the VP of HR to examine anonymous reviews of the company posted on employee satisfaction platforms and provide a summary of the findings to the board.*

D. *(-) Premature and doesn't give HR an opportunity to fix this themselves. Five months is not long enough to warrant bringing in an HR consultant. Consultants should not be part of the first step. You also would not do this before establishing a baseline from the employee engagement survey. Also, answer choices B and D cannot be in the same step.*

E. *(+) The HR function is responsible for strategic development of talent and serves as a support of the board in its talent oversight role. Asking the VP HR to provide an analysis of voluntary and involuntary attrition can help to assess the level of potential risk to the organization's talent pool, and identify root causes for issues.*

STEP 2

Results of an employee engagement survey indicate low engagement scores and a lack of trust in management. Employees surveyed agree there is a disconnect between what the company says is important and what the employee actually experiences, most notably regarding inclusion, corporate culture, and opportunity for advancement. The survey also indicates concerns of nepotism, cronyism, and poor internal communication.

What should the board ask the CEO to do?

- ☐ A. Present the company's organizational structure and identify which key positions are new hires and report the findings to the board.
- ☐ B. Provide data on senior leadership performance metrics and results on how well they develop and advance middle managers.
- ☐ C. Provide a talent management plan that links to the strategic objectives.
- ☐ D. Evaluate the data from the employee engagement survey and make recommendations to address the deficiencies that were identified.
- ☐ E. Replace the VP of HR.
- ☐ F. Create a corporate social responsibility strategy for the company.
- ☐ G. Create a hotline to allow employees to file complaints anonymously.

STEP 2: ANSWERS

Rationales:

A. *(+) The employee satisfaction survey results indicate that there are likely issues with several of the new senior management hires. Asking the CEO to identify organizationally what has changed and what the rationale was for positions that were filled with outside candidates as opposed to inside candidates is appropriate. In addition, the employee satisfaction survey results may point to specific weaknesses in the organization structure.*

B. *(+) The CEO should highlight where there are organizational weaknesses that need to be addressed. Each employee should have a set of measurable performance goals / criteria and development plans to be ready to advance to the next level.*

C. *(+) Oversight of the company's talent development effort should be a full-board responsibility, with the actual planning and execution owned by management. If the talent management plan execution and outcomes do not support the corporate strategic objectives this needs to be rectified.*

D. *(+) It is appropriate for the board to ask the CEO to address the deficiencies identified in the employee engagement survey in order to assess if the CEO fully understands and has a planned way forward to address the issues identified.*

E. *(-) There is no evidence at this point in time based on the information provided that the VP of HR should be replaced.*

F. *(-) A corporate social responsibility strategy was not identified as a cause for employee dissatisfaction and is not necessarily relevant at this time to the identified issues.*

G. *(+) It is a best practice to have methods available for employees to identify and register complaints that can be investigated without bias, and without fear of retribution.*

STEP 3

A third-party HR consultant is brought in to assess the management team and identify opportunities to improve the corporate culture. The consultant confirms organizational cronyism and nepotism, which has led to a lack of fair hiring practices and advancement opportunities for mid-level employees. The consultant also learns of misleading sustainability commitments/claims on the company website. The consultant is scheduled to present the findings to the board in four weeks.

In the meantime, a social justice issue emerges that stirs global advocacy. Many corporations issue responses of support. The CEO gathers the senior team and, without consulting the board, publishes a message of support through social media channels. The CEO also authorizes a financial contribution to a related not-for-profit organization.

Upon seeing the social media release, the board chair calls an emergency board meeting to question the CEO about the strategy and related risks associated with the message. The HR consultant is also asked to present research findings at the emergency board meeting.

What should the board do?

- ☐ A. Request a summary of all charitable contributions by the company.
- ☐ B. Ask the CEO to review the company's environmental commitments/actions and report the findings to the board.
- ☐ C. Direct the CEO to begin a search for a new VP of HR.
- ☐ D. Instruct the CEO to present an updated sustainability strategy.
- ☐ E. Ask the CEO to develop a succession plan for each senior leader.
- ☐ F. Instruct the CEO to review the social media policy and present it to the board.

STEP 3: ANSWERS

Rationales:

A. *(+) It's a board members' duty of care to provide oversight for the health of the workforce and the corporate culture. In this particular case, there should be alignment between the board and management to mitigate reputational harm. There has been no stated impact of the charitable contributions to the issues at hand, but there needs to be alignment between the company's contributions and its stated mission.*

B. *(+) It's a board members' duty of care to provide oversight for the health of the workforce and the corporate culture. The board should direct the CEO to update the strategy regarding sustainability and environmental issues.*

C. *(-) There has been no information provided at this time that the VP of HR is the cause of or has enabled the issues presented.*

D. *(+) Since sustainability issues of misleading statements have been identified by the HR consultant, it is appropriate to discuss what the company's sustainability strategy and rationale is and is not, and reflect that in an updated strategy for communication.*

E. *(+) It is a best practice for the company to periodically assess temporary emergency fill-ins and succession replacements for each senior employee tied to the strategic plan.*

F. *(+) Corporate reputation is a key element of risk. A social media management policy should be in place for emergent media issues and crisis management oversight.*

CASE 1: SELF SCORE

	Step	Score
Correct answers	1. From Step 1	
	2. From Step 2	
	3. From Step 3	
Total Correct Answers	4. Sum of lines 1–3	
Incorrect answers	5. From Step 1	
	6. From Step 2	
	7. From Step 3	
Total Incorrect Answers	8. Sum of lines 5–7	
FINAL SCORE	**Line 4 minus Line 8**	

Merger of Equals

STEP 1

Two major retailers, who have been intense competitors for years, carve out a merger plan driven by declining consumer interest in their industry. The two public company boards are selectively merged; the new 10-person board comprises five board members from each of the two previous boards. Both Chief Executive Officers (CEOs) were relieved of their duties shortly before the consummation of the merger, and the Chair of the new board was designated as the interim CEO for the combined company.

The combined company has "two of everything," including headquarters, chief financial officers, general counsel, and chief human resources officers. One member of the new board is an activist investor who joined the board of one of the original companies just prior to the merger and pushed for the merger. Two of the 10 board members on the new board are his nominees.

The new board holds its first meeting. The five board members from one of the original companies have been on the prior board together for more than a decade. The five board members representing the other company comprise the activist director, the two board members who were nominated by the activist director, a new board member elected less than one year earlier, and a retired CEO whose two-year tenure was the longest on that company's prior board. The tension is high as the new group assembles.

What are the immediate priorities for the board?

- ☐ A. Hire a coach to help the new board adjust.
- ☐ B. Establish the senior management team.
- ☐ C. Establish a search committee and hire a search firm to identify a CEO.
- ☐ D. Create a board and committee meeting schedule with agendas.
- ☐ E. Select the location for the headquarters.
- ☐ F. Request that management develop an interim operating plan.
- ☐ G. Engage external counsel to advise the board as it navigates new governance challenges.

STEP 1: ANSWERS

Rationales:

A. *(-) Recruiting a CEO is the most critical first step this Board should take. The Board must also prioritize strong governance and functioning given the ongoing integration. While the Board does need to gel, having a coach work with the Board as a first step will take up too much of the Board's time, which should instead be focused on the other critical priorities.*

B. *(-) Decisions about the senior management team should be made by the new CEO, not the board. Having an interim operating plan from management will help keep the company functioning until a CEO can be hired.*

C. *(+) Recruiting a CEO is the most critical first step this board can take. Having an interim operating plan from management will help keep the company functioning until a CEO can be hired.*

D. *(+) After prioritizing hiring a CEO, the board must also prioritize strong governance and functioning given the ongoing integration. Advice from external counsel and the creation of a meeting schedule/agendas will assist the board in its governance role.*

E. *(-) Decisions about the location of the headquarters should be made by the new CEO, not the board. The board should prioritize hiring a new CEO and establishing strong governance and functioning given the ongoing integration.*

F. *(+) Having an interim operating plan from management will help keep the company functioning until a CEO can be hired.*

G. *(+) Advice from external counsel and the creation of a meeting schedule/agendas will assist the board in its governance role.*

STEP 2

The search committee hires a new CEO who is tremendously qualified, very driven, and a master at obtaining merger synergies. However, the CEO negotiated a very large salary, creating concerns about disclosing the CEO's compensation to the public. The CEO also has a very "command and control" style.

The CEO immediately makes critical decisions, including selecting the members of the new C-suite and choosing the location for the headquarters. Despite these accomplishments, the board continues to experience tension and factions, including disagreement regarding the CEO's leadership style.

While the company slowly begins to become more functional, the board becomes even more dysfunctional. The activist investor steps off the board, having secured the merger and supported the hiring of the new CEO. The board sets up two years of meetings and priorities.

Which step(s) should the board take to function more effectively?

- ☐ A. Fill the open board seat with a mutually agreed-upon new director who is acceptable to both sides.
- ☐ B. Refresh the board by having the CEO determine which directors should be replaced.
- ☐ C. Initiate a confidential search for a CEO replacement that would be agreeable to all directors.
- ☐ D. Initiate a formal process for the board to address and resolve issues.
- ☐ E. Change the bylaws of the company to reduce the size of the board so that it can be more nimble.

STEP 2: ANSWERS

Rationales:

A. *(+) One step toward integration of the two boards would be to mutually agree on the new board member.*

B. *(-) The CEO should not drive the decisions about who is or is not on the Board.*

C. *(-) Replacing the CEO at this early point in the CEO's tenure would not be reasonable since the CEO is making critical decisions and building the team.*

D. *(+) The board needs to work toward integration of the two sides, and one way to do that is to initiate a process for addressing and resolving issues within the board. Another step toward integration would be to mutually agree on the new board member.*

E. *(-) There is no evidence to support that the tension within the board is a result of the size of the board, so reducing the size of the board will not resolve the issues between the factions. The board needs to work toward integration of the two sides, and one way to do that is to initiate a process for addressing and resolving issues within the board. Another step toward integration would be to mutually agree on the new board member.*

STEP 3

Two years later, the management team is now fully in place, and the company has begun to realize the merger's synergies. Bottom-line results have improved dramatically, but top-line results continue to decline. The board asks management for a strategic plan that includes a longer-term plan for top-line improvement. Management comes back with a plan that is similar to the existing plan.

The board, which is now functioning as a more cohesive unit, believes that the management team is primarily focused on turnaround and not on growth. In the meantime, the CEO is approaching the end of the three-year contractual term. The CEO lobbies for a very large increase in compensation to renew the contract, citing impressive synergy gains. The CEO maintains that Wall Street credits them with the improved results and would be shaken if they depart.

The board continues to deliberate on what type of leadership the company needs. There is no question that the synergy gains are impressive, but they are diminishing and there is no plan in place to guide the company moving forward. There is also a question about the company's ability to attract a new, growth-oriented CEO.

What should the board do?

- ☐ A. Authorize the Compensation Committee to negotiate a new agreement with the CEO.
- ☐ B. Contact a search firm to get advice about realistic expectations for a CEO search.
- ☐ C. Tell the CEO that they will likely be terminated and ask that they begin an exit strategy.
- ☐ D. Instruct the CEO to revise the strategic plan to make it more growth-oriented.
- ☐ E. Conduct executive sessions without management present to gain consensus on the CEO's future with the company.
- ☐ F. Ask an investment banker to assist the board in evaluating the company's strategy.

STEP 3: ANSWERS

Rationales:

A. *(-) At this point, more information is needed about the CEO's intentions and the company's ability to attract a growth-oriented CEO. Will the CEO negotiate a more palatable compensation package to stay or choose to escalate the negotiations? Will the search firm express confidence that they can surface good candidates? Authorizing the Compensation committee to finalize a new agreement with the CEO is too hasty.*

B. *(+) Contacting a search firm will help gather additional information for the board, and discussing the CEO's tenure in an executive session will allow the board to consider more thoroughly how to move forward regarding the CEO.*

This is not a signal that the board is looking for a new CEO, they just want information

C. *(-) At this point, more information is needed. Telling the CEO they will likely be terminated is too hasty until the board collects and reviews more information regarding options.*

D. *(+) The board should not just accept the inappropriate strategic plan put forward by management. The board should reiterate to the CEO that the plan needs to focus more on growth.*

E. *(+) Contacting a search firm will help gather additional information for the board, and discussing the CEO's tenure in an executive session will allow the board to consider more thoroughly how to move forward regarding the CEO.*

F. *(-) The board should reiterate to the CEO that the plan needs to focus more on growth; however, bringing in an investment banker is premature as the CEO should be given a chance to create a plan.*

CASE 2: SELF SCORE

	Step	Score
Correct answers	1. From Step 1	
	2. From Step 2	
	3. From Step 3	
Total Correct Answers	4. Sum of lines 1–3	
Incorrect answers	5. From Step 1	
	6. From Step 2	
	7. From Step 3	
Total Incorrect Answers	8. Sum of lines 5–7	
FINAL SCORE	**Line 4 minus Line 8**	

Organizational Integrity and Respect

STEP 1

A leading national public company in the healthcare sector has steadily grown for several years. Recently, growth has slowed due to the company's inability to recruit and retain sufficient numbers of clinical (medical) professionals to deliver home healthcare to patients. The board now has concerns regarding the company's ability to achieve budgeted earnings.

What should the board do?

- ☐ A. Discuss the results from employee engagement survey data.
- ☐ B. Review employee recruitment strategy.
- ☐ C. Review key findings from exit interviews.
- ☐ D. Review industry turnover rates.
- ☐ E. Observe employee recruitment meetings.
- ☐ F. Replace the Human Resources Officer.
- ☐ G. Revise employee training curriculum.
- ☐ H. Ensure the recruiting strategy aligns with the values of the company.
- ☐ I. Review employee compensation relative to competitors.

STEP 1: ANSWERS

Rationales:

A. *(+) Boards should be engaged with management to ensure appropriate execution, monitoring, and modification of their companies' strategies. To ensure fulfillment of duty of care it is important to review data on recruitment, retention, compensation, and industry turnover rates. More difficult to determine, but just as important, are the non-financial metrics of employee engagement, data from exit interviews, and corporate culture.*

B. *(+) Boards should be engaged with management to ensure appropriate execution, monitoring, and modification of their companies' strategies. To ensure fulfillment of duty of care it is important to review data on recruitment, retention, compensation, and industry turnover rates. More difficult to determine, but just as important, are the non-financial metrics of employment engagement, exit strategies, and corporate culture.*

C. *(+) Boards should be engaged with management to ensure appropriate execution, monitoring, and modification of their companies' strategies. To ensure fulfillment of duty of care it is important to review data on recruitment, retention, compensation, and industry turnover rates. More difficult to determine, but just as important, are the non-financial metrics of employment engagement, exit strategies, and corporate culture.*

D. *(+) Boards should be engaged with management to ensure appropriate execution, monitoring, and modification of their companies' strategies. To ensure fulfillment of duty of care it is important to review data on recruitment, retention, compensation, and industry turnover rates. More difficult to determine, but just as important, are the non-financial metrics of employment engagement, exit strategies, and corporate culture.*

E. *(-) It is not the role of the board to oversee curriculum or training or to sit in on employee meetings.*

F. *(-) Replacing the HR officer is premature and unnecessary at this stage.*

G. *(-) It is not the role of the board to manage curriculum or training or to sit in on employee meetings.*

H. *(+) To ensure fulfillment of duty of care it is important to review data on recruitment, retention, compensation, and industry turnover rates. For the Board to evaluate adherence and alignment to strategy, it is critical to understand demand drivers and human capital needs.*

I. *(+) To ensure fulfillment of duty of care it is important to review data on recruitment, retention, compensation, and industry turnover rates.*

STEP 2

Revenues begin to decline, the company faces financial pressures, and problems recruiting employees worsen. At the same time, the company receives inquiries from medical regulatory authorities about compliance issues.

There is major pushback from the Chief Executive Officer (CEO) and the C-suite when the board asks focused questions.

What should the board do?

- ☐ A. Meet with shareholders to reaffirm growth metrics.
- ☐ B. Reach out to industry analysts to discuss the financial pressures.
- ☐ C. Invite the Chief Human Resources Officer (CHRO) to present new recruiting and retention strategies at the next board meeting.
- ☐ D. Encourage directors to proactively communicate with members of the media.
- ☐ E. Ask the lead director to meet with the CEO to discuss communications between the C-suite and the board.
- ☐ F. Ask directors to meet with employees on an individual basis.
- ☐ G. Review inquiries that are received on the whistleblower hotline.
- ☐ H. Request an updated financial forecast from the Chief Financial Officer (CFO).

STEP 2: ANSWERS

Rationales:

A. *(-) It is not appropriate at this time, for board directors to meet with shareholders.*

B. *(-) It is not appropriate at this time, for board directors to meet with industry analysts independent of management.*

C. *(+) Any issues of open communications between board and management should be addressed by the board chair or lead director to achieve and maintain open lines of communication with the C-suite.*

D. *(-) It is not appropriate for board directors to meet with shareholders, industry analysts, members of the media or employees.*

E. *(+) Any issues of open communications between board and management should be addressed by the board chair or lead director to achieve and maintain open lines of communication with the C-suite.*

F. *(-) It is not appropriate for board directors to meet with shareholders, industry analysts, members of the media or employees.*

G. *(+) Any issues of open communications between board and management should be addressed by the board chair or lead director to achieve and maintain open lines of communication with the C-suite.*

H. *(+) Requesting reports from external auditors and financial reports from the CFO can provide insight into the financial health of the company.*

STEP 3

The board receives additional inquiries from the regulatory authorities. The board instructs the CEO to investigate the regulatory inquiries and report findings to the board.

The board is considering changes to the company's leadership team in order to signal a focus on accountability with oversight.

What should the board do?

- ☐ A. Task the Audit Committee to review the details of the regulatory compliance issues and proposed corrective actions.
- ☐ B. Meet in executive session to consider if the CEO and other members of the C-suite should be replaced.
- ☐ C. Survey the company's employees.
- ☐ D. Engage the company's largest customers to discuss the situation.
- ☐ E. Meet with the CEO to discuss the findings of the CEO's investigation.
- ☐ F. Engage independent legal and financial advisors to report directly to the board.

STEP 3: ANSWERS

Rationales:

A. *(+) The Board needs to be prepared for the potential of litigation from results of regulatory compliance reports. Engaging independent and external legal and financial advisors is necessary to provide unbiased inquiry, obtain reports, and limit liability for the board and shareholders.*

B. *(+) In the event that the board recommends the CEO or other of the C-Suite executives be replaced, this must happen in executive session.*

C. *(-) It is not in the purview of the board to survey employees.*

D. *(-) It is never appropriate to discuss situations with employees or customers.*

E. *(+) It is also essential to meet with the CEO to address regulatory findings until the issue is fully identified.*

F. *(+) Engaging independent and external legal and financial advisors is necessary to provide unbiased inquiry, obtain reports, and limit liability for the board and shareholders.*

CASE 3: SELF SCORE

	Step	Score
Correct answers	1. From Step 1	
	2. From Step 2	
	3. From Step 3	
Total Correct Answers	4. Sum of lines 1–3	
Incorrect answers	5. From Step 1	
	6. From Step 2	
	7. From Step 3	
Total Incorrect Answers	8. Sum of lines 5–7	
FINAL SCORE	**Line 4 minus Line 8**	

Unfortunately, It Could Happen

STEP 1

A high-profile public company is financially successful and has a highly recognized and charismatic Chief Executive Officer (CEO). The company has exemplary policies and is perceived to have a great reputation.

check box

Which practice(s) and procedures should the board make sure are in place to monitor and ensure compliance with all aspects of the company's policies?

- ☐ A. Ensure that a Whistleblower Policy is implemented, effective, and monitored.
- ☐ B. Hold officers to a different standard to protect the market value of the company.
- ☐ C. Create an environment that protects the reputation of the Company by suppressing allegations of misconduct.
- ☐ D. Ensure that management administers annual employee engagement surveys and monitors the results.
- ☐ E. Ensure that a Code of Conduct for all directors, officers, and employees is implemented and monitored.

STEP 1: ANSWERS

Rationales:

A. *(+) The role of the board is to ensure that programs and processes [practices and procedures] exist to oversee risks to the company. This includes both engaging management in the development of programs [practices and procedures] and reviewing the results of those programs [practices and procedures] on an ongoing basis.*

B. *(-) The role of the board is to ensure that programs and processes [practices and procedures] exist to oversee risks to the company. This includes both engaging management in the development of programs [practices and procedures] and reviewing the results of those programs [practices and procedures] on an ongoing basis. Tightly controlling allegations of misconduct and holding certain individuals to different standards are not best practices and may actually create more risk for the company.*

C. *(-) The role of the board is to ensure that programs and processes [practices and procedures] exist to oversee risks to the company. Suppressing allegations of misconduct and holding certain individuals to different standards are not best practices and may actually create more risk for the company.*

D. *(+) The role of the board is to ensure that programs and processes [practices and procedures] exist to oversee risks to the company. This includes both engaging management in the development of programs [practices and procedures] and reviewing the results of those programs [practices and procedures] on an ongoing basis.*

E. *(+) The role of the Board is to ensure that programs and processes [practices and procedures] exist to oversee risks to the company. This includes both engaging management in the development of programs [practices and procedures] and reviewing the results of those programs [practices and procedures] on an ongoing basis.*

STEP 2

An employee files a complaint of sexual harassment against the CEO with the Chief Human Resources Officer (CHRO). The CHRO conducts an investigation wherein the CEO explains that it was a consensual relationship. The employee takes the complaint to a member of the board and demands action.

What should the board do?

- ☐ A. Instruct the CEO to dismiss the employee who filed the complaint.
- ☐ B. Hire external counsel to investigate the allegations.
- ☐ C. Engage a public relations company to manage the reputational risk that may arise.
- ☐ D. Ask management to conduct an all-employee meeting to acknowledge the situation and discuss any concerns.

STEP 2: ANSWERS

Rationales:

A. *(-) The board's responsibility is to act in the best interests of the company, not of the CEO. Providing an open and honest culture that takes accusations of this nature seriously mitigates reputational risk, as well as financial risk, and builds an environment of trust. Firing an employee for lodging a sexual harassment complaint not only shows that the company does not take such complaints seriously, but that it will also retaliate against the complainant.*

B. *(+) The board's responsibility is to act in the best interests of the company, not of the CEO. Providing an open and honest culture that takes accusations of this nature seriously mitigates reputational risk, as well as financial risk, and builds an environment of trust. Hiring external counsel to investigate the situation, and engaging a public relations firm to manage potential reputational risk are actions that build on those principles, while also managing the effects of the event.*

C. *(+) The board's responsibility is to act in the best interests of the company, not of the CEO. Providing an open and honest culture that takes accusations of this nature seriously mitigates reputational risk, as well as financial risk, and builds an environment of trust. Hiring external counsel to investigate the situation, and engaging a public relations firm to manage potential reputational risk are actions that build on those principles, while also managing the effects of the event.*

D. *(-) The board's responsibility is to act in the best interests of the company, not of the CEO. Providing an open and honest culture that takes accusations of this nature seriously mitigates reputational risk, as well as financial risk, and builds an environment of trust. By discussing an employee complaint in an all-employee meeting, the company is failing to respect the privacy of those involved in the complaint.*

STEP 3

Based on the results of an independent investigation, the board dismisses the CEO for misconduct and violation of company policy. The board wants to avoid further violations and maintain a healthy culture of respect and integrity.

What should the board do?

- ☐ A. Ensure that management implements a process whereby employees are required to review and accept company policies on an annual basis.
- ☐ B. Require sexual harassment prevention training for all levels of the company, including the board.
- ☐ C. Establish a Clawback Policy whereby an employee who violates company policy will be required to reimburse the Company for bonuses or other incentives received during the period of the violation.
- ☐ D. Develop a process to protect future CEOs against claims of misconduct.
- ☐ E. Take actions to discourage future reporting of misbehavior.

STEP 3: ANSWERS

Rationales:

A. *(+) Company policies should be available and applied to all employees, and management should ensure that employees regularly review those policies and signify their agreement to abide by them.*

B. *(+) Regular sexual harassment training is a best practice, and boards need to monitor the company's adherence to this practice through regular reporting.*

C. *(+) Clawback Policies hold employees accountable for violations of corporate policies by impacting them financially.*

D. *(-) Protecting CEOs from claims of misconduct and discouraging communications of misbehavior encourages bad behavior and breeds mistrust within the company.*

E. *(-) Protecting CEOs from claims of misconduct and discouraging communications of misbehavior encourages bad behavior and breeds mistrust within the company.*

CASE 4: SELF SCORE

	Step	Score
Correct answers	1. From Step 1	
	2. From Step 2	
	3. From Step 3	
Total Correct Answers	4. Sum of lines 1–3	
Incorrect answers	5. From Step 1	
	6. From Step 2	
	7. From Step 3	
Total Incorrect Answers	8. Sum of lines 5–7	
FINAL SCORE	**Line 4 minus Line 8**	

LIFO Nightmare

STEP 1

The Chair of the Audit Committee for a retail company with annual revenue of $3 billion gets a phone call from the company's Chief Executive Officer (CEO) just before the fiscal year end. The CEO tells the Chair of the Audit Committee that staff have uncovered a $40 million discrepancy with inventory and are unsure how the problem occurred. The physical inventory count matches the data in the inventory systems but is significantly different from what the financial calculations produced, which is what was booked. Staff are investigating the matter, but the possibility of a major earnings miss or a restatement is real and the path to resolution is unsure. The need to find a resolution is urgent due to the timing of the year-end audit. However, the CEO believes that management will identify the cause of the discrepancy.

What should the Chair of the Audit Committee do?

- ☐ A. Schedule an Audit Committee meeting to inform the rest of the committee's members and recommend next steps.
- ☐ B. Schedule a meeting with the Chief Financial Officer (CFO) to better understand the sequence of events that occurred.
- ☐ C. Schedule a meeting with the investor relations department and an external adviser to determine how to respond when the problem becomes public information.
- ☐ D. Schedule a meeting of the full board since an earnings miss or a restatement would carry reputational risk.
- ☐ E. Inform the CEO that the Audit Committee will investigate this matter, and that the CEO should not be involved.

STEP 1: ANSWERS

Rationales:

A. *(+) At this point, the Audit Committee needs to be informed and should begin to get involved. However, until more information is available, there is no need to involve the full board. Much more insight and information is required, and it is important to react but not overreact. To start gathering information and gain insight, the Chair of the Audit Committee should call an Audit Committee meeting to inform the rest of the committee's members and assess next steps, as well as talk to the CFO to better understand the sequence of events leading to this point.*

B. *(+) The Chair of the Audit Committee should call an Audit Committee meeting to inform the rest of the committee's members and assess next steps, as well as talk to the CFO to better understand the sequence of events leading to this point.*

C. *(-) The other answer choices are overreactions at this early stage. There needs to be more information as to the nature of the problem before determining whether and/or when to engage the investor relations department, external advisors, or the full board. Management should continue its investigation and report back to the Chair of the Audit Committee.*

D. *(-) There needs to be more information as to the nature of the problem before determining whether and/or when to engage the investor relations department, external advisors, or the full board. Management should continue its investigation and report back to the Chair of the Audit Committee.*

E. *(-) The Chair of the Audit Committee should inform the board chair and call an audit committee meeting to inform the rest of the committee's members and assess next steps. There is no reason at this point to exclude the CEO.*

STEP 2

After several Audit Committee meetings, it is clear that additional investigation is warranted. The Audit Committee supports the company's decision to bring in an independent accounting firm to conduct an in-depth forensic investigation into the root cause(s) of the problem. In addition, the Audit Committee discusses and debates additional steps to take. The Audit Committee agrees to conduct a half-day meeting at the company's headquarters.

What should the Audit Committee do in this meeting?

- ☐ A. Direct the CFO to publish the pro forma financial statements to reflect the magnitude and effect of the potential earnings miss and/or restatement.
- ☐ B. Appoint a subcommittee to initiate its own investigation to complement the forensic work being performed by the accounting firm.
- ☐ C. Appoint two Audit Committee members with proficiency in inventory accounting to oversee the forensic investigation.
- ☐ D. Direct the CEO to place the CFO on leave until the investigation is complete.
- ☐ E. Investigate the information available to date and establish a timeline for resolution.

STEP 2: ANSWERS

Rationales:

A. *(-) This is beyond the Audit Committee's role.*

B. *(-) The audit committee should not start its own investigation.*

C. *(+) A plan needs to be put in place for a resolution to the problem. Therefore, assigning two of the more proficient Audit Committee members in this field to oversee the forensic investigation and review the information available to date are correct actions to take. It would be appropriate for the Audit Committee to have two experts collaborating with the executive team both for oversight and additional guidance-accountability.*

D. *(-) No one should be put on leave or face consequences until the facts are established. This is especially important because doing so would require public disclosure, which carries additional reputational risk.*

E. *(+) The Audit Committee needs to be involved as the process unfolds to determine what contributed to these events. A plan needs to be put in place for a resolution to the problem.*

STEP 3

The forensic work is now complete and reveals the following:

- The controller uses a complex spreadsheet with a complicated series of equations to calculate the change in inventory value based on the last-in, first-out (LIFO) methodology.
- During the first quarter, the information technology (IT) department changed the inventory tracking systems within the company.
- While preparing the calculations at the end of the first quarter, the controller inadvertently made a manual change to a spreadsheet cell that affected the calculation of the inventory value. This resulted in a small discrepancy between the controller's spreadsheet calculation and the value in the inventory systems. The controller, thinking that this discrepancy was the result of the system changes, chose to disregard the discrepancy and book his spreadsheet value. It is unclear if the company's external auditors were aware of this decision, but they would likely not have been concerned because it was not a material change.
- In the second quarter, inventory purchasing prices rose dramatically.
- Throughout the second and third quarters, the IT department was still validating the earlier system changes and updating the systems for the pricing changes, so the controller decided to continue booking the spreadsheet value for inventory.
- At the end of the fourth quarter, validation of the inventory systems was finalized.
- The investigation found that the inventory systems were accurate, the controller's spreadsheet had an erroneous equation error, and the discrepancy between the two at the end of the second, third, and fourth quarters is material because of the impact of the pricing change. The company needs to announce an earnings miss and make a restatement, but only on an intra-year basis for the current year's quarterly reports.

What should the Audit Committee do?

- ☐ A. Revert to its regular schedule of meetings now that the investigators have delivered their report.
- ☐ B. Schedule a meeting of the full board to explain what happened and what the impact is on the quarterly and full-year results.
- ☐ C. Collaborate with management and the external auditors to prepare for appropriate disclosure.
- ☐ D. Terminate the external auditors for not discovering this error.
- ☐ E. Direct the CEO and the CFO to discipline the controller for lack of judgment in their decisions.
- ☐ F. Direct the CEO to terminate the CFO.
- ☐ G. Terminate the CEO.

STEP 3: ANSWERS

Rationales:

A. *(-) The Audit Committee cannot yet return to its regular schedule of meetings as there are still a number of follow-up steps that need to be accomplished.*

B. *(+) Given the scope of the issue, the full board needs to be convened so the audit committee can explain the cause of the situation and its impact on the quarterly and full-year results.*

C. *(+) The audit committee should continue being involved with management and the external auditors to prepare disclosures and review any public announcements.*

D. *(-) Termination of the chief financial officer (CFO), the CEO, or the external auditors is not warranted as it is very unlikely they would have discovered this strange sequence of events in the normal course of business.*

E. *(+) The controller should be disciplined for displaying such a lack of judgment.*

F. *(-) Termination of the chief financial officer (CFO), the CEO, or the external auditors is not warranted as it is very unlikely they would have discovered this strange sequence of events in the normal course of business.*

G. *(-) Termination of the chief financial officer (CFO), the CEO, or the external auditors is not warranted as it is very unlikely they would have discovered this strange sequence of events in the normal course of business.*

CASE 5: SELF SCORE

	Step	Score
Correct answers	1. From Step 1	
	2. From Step 2	
	3. From Step 3	
Total Correct Answers	4. Sum of lines 1–3	
Incorrect answers	5. From Step 1	
	6. From Step 2	
	7. From Step 3	
Total Incorrect Answers	8. Sum of lines 5–7	
FINAL SCORE	**Line 4 minus Line 8**	

Company Rivals

STEP 1

Two public manufacturing competitors, Company HIGH and Company LOW, are the only competitors in a certain market, both offering a high-end product and a low-end product. Each company competes only in this type of product. Company HIGH is the market leader in the high-end product segment, and Company LOW is the market leader in the low-end product segment.

Company HIGH is holding a board strategy retreat. The board materials for the retreat contain Company HIGH's overall financial information, including the profit and loss statement, the statement of financial condition, and the five-year company-wide projections.

Which information is needed for Company HIGH's board to evaluate the competitive landscape of the market?

- ☐ A. Market share of each company by product segment
- ☐ B. Margins of high-end and low-end products for Company HIGH and estimates for the margins of Company Low's products
- ☐ C. Total revenue for Company HIGH and Company LOW in each product segment (+)
- ☐ D. Organizational structure of each company
- ☐ E. Board diversity of Company LOW
- ☐ F. Compensation programs for the executive leadership team of Company LOW
- ☐ G. Summary of investor presentations by Company LOW
- ☐ H. Product pricing by segment for Company HIGH and Company LOW
- ☐ I. Environmental liability history of Company LOW

STEP 1: ANSWERS

Rationales:

A. *(+) The most important information at the stage is information about the competitive landscape. At this stage we need to review the market share of each competitor. So we want to get market share of each competitor by segment, margins of high-end and low-end products, total revenue in each product segment. The board will want to discuss the future market predictions for each of the product lines.*

B. *(+) Understanding the margins of the high-end and low-end products for Company HIGH and Company LOW are critical for planning the company's future strategy. So understanding the Margins for high-end and low-end products for both companies are relevant. Particularly if there is a big difference between what the two companies are able to achieve, this might provide insight into how to increase the margins for Company HIGH.*

Estimates for company Low because margins are not public information.

C. *(+) Total Revenue for each company is relevant information, although not as important as the market share in each of the two product lines.*

D. *(-) The organizational structure has no relevance to the discussions about the competitive landscape for Company HIGH's market. And since the competitive landscape was the issue we are told is the topic of the retreat, organizational structure is not important at the moment.*

E. *(-) Board diversity, while an important subject, has no relevance to the discussions about the competitive landscape for Company HIGH's market, and since the competitive landscape was the issue we are told is the topic of the retreat, board diversity is not important at the moment.*

F. *(-) The compensation programs for the executive leadership team of Company LOW is not relevant to the Company HIGH's discussion about the competitive landscape for Company HIGH's market so there is no need for this information at this stage.*

G. *(+) Getting as much information as possible to inform Company HIGH's assessment of the competitive landscape is critical. Investor presentations by Company LOW can definitely inform this picture.*

H. *(+) Product pricing by segment for Company HIGH and Company LOW is very relevant to the discussion of the competitive landscape. For example, if Company LOW has different product pricing that enables them to have a larger market share and therefore a larger revenue for one of their products, Company HIGH might want to reconsider their product pricing structure.*

I. *(-) Environmental liability does not affect the competitive landscape and is therefore not relevant to the current discussions of the board.*

STEP 2

One of Company HIGH's board members hears a rumor that Company LOW wants to invest heavily to introduce new offerings in the high-end product segment. Company HIGH is a long-established manufacturing company with a balanced board of skilled directors. Company LOW is a newer, smaller company. The Chief Executive Officer (CEO) of Company LOW was the Chief Financial Officer (CFO) at Company HIGH for 10+ years. Company HIGH's CEO has communicated to the board that they do not believe the rumor and that Company LOW's actions are a nonissue for Company HIGH.

What actions should the board of Company HIGH take immediately?

- ☐ A. Agree with the CEO largely due to Company HIGH's strong history of high returns.
- ☐ B. Mandate the CEO change the sales/marketing organization.
- ☐ C. Discuss the capabilities of Company LOW with the management team of Company HIGH.
- ☐ D. Wait 12 months and assess the impact of Company LOW's actions.
- ☐ E. Request financial scenarios from management reflecting possible changes in market share and margins with an improved product in the high-end segment by Company LOW.
- ☐ F. Hold an executive session of the board, without management present, to discuss alternative responses.
- ☐ G. Call customers to ask their opinion.
- ☐ H. Independent of the CEO's knowledge, engage an outside consultant to assess the market and report findings to the board.
- ☐ I. Review current product offerings and ask management to compare/contrast Company HIGH offerings to those of Company LOW.

STEP 2: ANSWERS

Rationales:

A. *(-) It would not be appropriate at this point to agree with the CEO without further discussion. The board needs to establish known facts about the competitive landscape at this point and should not make decisions based on rumors. It is appropriate for the board to discuss the competition's Company LOW's capabilities with management. To do this they should ask management to also review their own product offerings, along with any planned products in development, while looking at future financial scenarios that take into account the current and projected markets.*

B. *(-) There is no basis at this point to mandate that the CEO change the sales/marketing organization. It is appropriate to review the sales and marketing plans moving forward taking into account the financial analysis that has already been requested, and have a discussion on whether there need to be adjustments made.*

C. *(+) It is appropriate for the board to discuss Company LOW's capabilities with management, to request financial scenarios from management, and to review product offerings based on analysis by management. Bearing in mind that the role of the board is to engage with management and challenge management's assumptions surrounding both Company LOW's capabilities as well as their own capabilities relative to the market.*

D. *(-) Waiting 12 months to take action is not a good strategy. A board should be reviewing strategy throughout the year to ensure that it doesn't need to be tweaked based on external factors, such as a change in the competitive landscape.*

E. *(+) This is a good option, if management decides that major changes within Company LOW's market share and margins are likely based on their ability to develop an improved product in the high-end segment.*

F. *(-) The board needs to establish known facts about the competitive landscape at this point and there is no reason to hold an executive session of the board without management present. Any discussions at this point should include the CEO and Senior leadership team of the company.*

G. *(-) Having the board call customers at this point is overreaching their role. The time now is for internal discussions of Company HIGH's strategy and a deep analysis of the competitive landscape as well as looking at Company HIGH's research and development plans for new products.*

H. *(-) Overreach of the board. Premature actions based on a rumor.*

Contacting an outside consultant at this point is too soon. This could be considered later, if deemed necessary after Company HIGH's management has done a complete analysis of their own product offerings as well as those of their competitor Company LOW.

Bearing in mind that the role of the board is to engage with management and challenge management's assumptions, it would not be appropriate at this point to exclude management from the discussion or to agree with the CEO without further discussion.

I. *(+) This is a good answer. The first thing a company should do is have a table comparison of Company LOW with their own capabilities. No company would review Company LOW's capabilities in a vacuum without looking at their own.*

STEP 3

A few months later, the CEO of Company HIGH comes back to the board and shares that Company LOW is indeed planning to introduce a new high-end product that will compete in the high-end segment, where Company HIGH is the market leader. This will require Company LOW to increase spending in marketing and sales. The CEO of Company HIGH asks for input from the board.

What actions should Company HIGH's board take right now?

- ☐ A. Suggest that management consider reducing the price of Company HIGH's low-end product.
- ☐ B. Suggest that management reduce the price of Company HIGH's high-end product.
- ☐ C. Suggest that Company HIGH add a new product.
- ☐ D. Suggest that management consider an increase in spending for research and development.
- ☐ E. Create a new incentive plan for Company HIGH's sales force.
- ☐ F. Direct the CEO to present an acquisition offer to Company LOW.
- ☐ G. Recruit a marketing expert to the board.
- ☐ H. Reach out to staff at Company LOW to confirm Company LOW's actual plans.
- ☐ I. Recommend that Management present a prompt assessment of the impact from company Low's offering.

STEP 3: ANSWERS

Rationales:

A. *(+) Given that the CEO has asked for guidance, the board should feel comfortable proposing specific next steps for consideration that would address the competitive issues the company is facing.*

B. *(-) This is not a good strategic move given the preferred high-end market position Company High enjoys.*

C. *(-) This is not an appropriate step. It reflects the board taking on too much management of day-to-day operations, which should be left to the CEO and management team. The board could ask the management team to describe their current R&D efforts and recommend whether the R&D budget should increase if there is a need to develop new product lines.*

D. *(+) Given that the CEO has asked for guidance, the board should feel comfortable proposing specific next steps for consideration that would address the competitive issues the company is facing.*

E. *(-) This is not a good choice at this point. There has been no indication that the current incentive plan is insufficient.*

F. *(-) Premature to present an acquisition offer.*

G. *(-) This would be unnecessary at this point. We know that this is already a well-rounded board, and we have been given no indication that the current marketing effort needs to be boosted. Even if it is decided that there needs to be a bigger marketing push, the management team should first be asked to come up with a plan, prior to the board deciding to hire a marketing expert.*

H. *(-) This would be a conflict of interest. Members of Company HIGH's board should not be trying to "spy" on Company LOW by getting their employees to reveal proprietary information.*

I. *(+) If Company HIGH has a good reputation with its customers and a solid R&D program that will be providing enhancements to Company HIGH's products, the impact of Company LOW's new product offering could be minimal. In any case, getting an assessment by Company HIGH should be the first step before anything else is considered.*

CASE 6: SELF SCORE

	Step	Score
Correct answers	1. From Step 1	
	2. From Step 2	
	3. From Step 3	
Total Correct Answers	4. Sum of lines 1–3	
Incorrect answers	5. From Step 1	
	6. From Step 2	
	7. From Step 3	
Total Incorrect Answers	8. Sum of lines 5–7	
FINAL SCORE	**Line 4 minus Line 8**	

Restaurant Strategy

STEP 1

A private company has been developing and operating full-service restaurants for more than 47 years. The 200+ units are a highly differentiated sports-theme concept located in 27 US states. A high percentage of the units are owned by franchisees. The company provides their customers with on-premises and delivery options for convenience.

The company has reported flat customer visit growth for the last six (6) quarters. Unit growth continues in the low single digits as franchisees expand and new franchisees are attracted to the brand. Meager revenue growth has resulted from menu price increases. The board is conducting an early-cycle strategy session in advance of the annual strategy and budget review to examine the current situation.

What information is needed by the board to assess the reasons for flat customer visits?

- ☐ A. Market share of competitors in the specialty sports restaurant segment
- ☐ B. Recent-quarter company marketing promotions across all platforms
- ☐ C. Franchisee views on customer behavior
- ☐ D. Data on evolving customer preferences and impact on the company
- ☐ E. Quarterly supply-chain detail from key distributors
- ☐ F. Information about behaviors that will drive growth in the snacking segment
- ☐ G. Information on the context and motivations underlying current customer purchase decisions

STEP 1: ANSWERS

Rationales:

A. *(+) The issue facing this company is declining customer visits across all units. The board needs data-driven insights to help keep current customers, win new customers, and make strategic adjustments. Market share of competitors in the specialty sports restaurant segment provides that information.*

B. *(-) The issue facing this company is declining customer visits across all units for the last 6 quarters. The most recent quarter will not provide enough information.*

C. *(+) The issue facing this company is declining customer visits across all units. The board needs data-driven insights to help keep current customers, win new customers, and make strategic adjustments. Franchisee input may provide additional insights for declining sales at restaurants.*

D. *(+) The issue facing this company is declining customer visits across all units. The board needs data-driven insights to help keep current customers, win new customers, and make strategic adjustments. Data on evolving customer preferences and impact on the company provide that information.*

E. *(-) Quarterly supply-chain detail from key distributors is information that is not relevant to the situation.*

F. *(-) information about behaviors that will drive growth in the snacking segment is far too narrow.*

G. *(+) Information on the context and motivations underlying current customer purchase decisions provides data-driven insights to help keep current customers, win new customers, and make strategic adjustments.*

STEP 2

After their session, the board confirmed that the restaurant industry and full-service segment were in growth mode in the United States. The board determined that the brand's historically successful approach and offerings in the full-service segment may need a refresh but not an overhaul.

Further analysis confirmed low customer satisfaction scores with restaurant experiences. Management reported that the flat guest count trend was temporary, resulting from weather effects and weak marketing promotions.

What information does the board need at this point to determine the cause of negative customer sentiment?

- ☐ A. Forecasts on the aging population and how this shift will affect visits to the company's restaurants
- ☐ B. A benchmark survey of the prices of menu items by geographical area
- ☐ C. Comparisons of on-premise dining versus delivery in the last quarter
- ☐ D. A plan to convert to the fine-dining segment
- ☐ E. Customized analytics on the company's new, lost, and retained customers
- ☐ F. Impact of promotional efforts on customer counts in the last year
- ☐ G. A comparison of sales in company-operated units versus franchised units for the last year

STEP 2: ANSWERS

Rationales:

A. *(-) The negative customer experience has emerged as a key driver of the declines in customer visits. The board needs to determine the root cause for this decline in customer experience and whether the flat guest count trend is indeed temporary. However, information garnered from forecasts on the aging population and how this shift will affect visits to the company's restaurants is too narrow.*

B. *(+) A benchmark survey of the prices of menu items by geographical area is information that is needed on price/value, marketing, and overall customer intent.*

C. *(-) Comparisons of on-premise dining versus delivery in the last quarter is information that is too narrow and covers too short a period to derive actionable data.*

D. *(-) A plan to convert to the fine-dining segment is too narrow and not relevant.*

E. *(+) Customized analytics on the company's new, lost, and retained customers is information that is needed for insight on price/value, marketing, and overall customer intent.*

F. *(+) Impact of promotional efforts on customer counts in the last year will provide answers on price/value, marketing, and overall customer intent.*

G. *(+) A comparison of sales in company-operated units versus franchised units for the last year will provide answers on price/value, marketing, and overall customer intent.*

STEP 3

The board holds a special session focused on the information they commissioned. Customer-transaction declines continue at the company and further analysis confirmed that visit satisfaction is poor and is negatively impacting the number of returning customers.

This is quite a turn of events, as the company had enjoyed a large and loyal customer base for decades. Customer analytics data uncovered key operational shortfalls as the driver for most of the challenges. In addition, the organization representing the franchisees has been increasingly vocal about their frustrations with the company's direction. The Chief Executive Officer (CEO) has been fully engaged in all the board's recent sessions.

What should the board do at this point to position the company for improved sales and customer visits?

- ☐ A. Instruct management to lower all menu prices.
- ☐ B. Request a comprehensive plan to address operational shortfalls.
- ☐ C. Direct management to focus on the most-valuable customers with a new brand-loyalty program.
- ☐ D. Instruct management to introduce dairy and meat alternatives to the menu.
- ☐ E. Explore the most promising opportunities for growth over the next five (5) years in the full-service segment.
- ☐ F. Direct the CEO to establish metrics for monitoring customer satisfaction.

STEP 3: ANSWERS

Rationales:

A. *(-) Management must address the operational issues associated with the restaurant experience. However, instructing management to lower all menu prices is too narrow, oversteps the bounds of the board's role, and does not completely address the need.*

B. *(+) Management must address the operational issues associated with the restaurant experience. (+)*

C. *(-) Directing management to focus on the most-valuable customers with a new brand-loyalty program is too narrow, oversteps the bounds of the board's role, and does not completely sufficiently address the need.*

D. *(-) Instructing management to introduce dairy and meat alternatives to the menu is too narrow, oversteps the bounds of the board's role, and does not completely address the need.*

E. *(-) Exploring the most promising opportunities for growth over the next five (5) years in the full-service segment is too narrow, oversteps the bounds of the board's role, and does not completely sufficiently address the need.*

F. *(+) Establishing nonfinancial metrics for monitoring customer satisfaction establishes accountability for management and the responsibility of the board to be a resource to management.*

STEP 4

Management has proposed focusing on expanding franchising, updating the menu with trendy items, and accelerating off-premises sales as imperative to improving customer sentiment. Meanwhile, customer visits continue to decline.

What should the board do at this point?

- ☐ A. File for Chapter 11 bankruptcy protection to reorganize the business and emerge as a stronger organization built for the future.
- ☐ B. Approve management's menu innovation with trendy items.
- ☐ C. Require the CEO to address shortcomings and present a revised strategy.
- ☐ D. Direct management to institute a customer-centric culture measured by data and analytics.
- ☐ E. Set new performance standards for the CEO.
- ☐ F. Instruct management to create a plan to address operational shortfalls.

STEP 4: ANSWERS

Rationales:

A. *(-) The CEO's plan ignores the data and demonstrates poor judgment. Filing for Chapter 11 bankruptcy protection to reorganize the business and emerge as a stronger organization built for the future is not yet appropriate and will not work if leadership failures are not addressed.*

B. *(-) Approving management's menu innovation with trendy items does not align with the analysis findings and the board should not disregard the CEO's poor judgment.*

C. *(+) Requiring management address the shortcomings and present a revised strategy are necessary first steps to address the leadership failures and confirm the need for the company to enhance the customer experience.*

D. *(+) Directing management to institute a customer-centric culture measured by data and analytics addresses the leadership failures and confirms the need for the company to enhance the customer experience.*

E. *(+) Setting new performance standards for the CEO addresses the leadership failures.*

F. *(+) Instructing management to create an operational plan to improve customer sentiment addresses the need for the company to enhance the customer experience.*

CASE 7: SELF SCORE

	Step	Score
Correct answers	1. From Step 1	
	2. From Step 2	
	3. From Step 3	
	4. From Step 4	
Total Correct Answers	5. Sum of lines 1–4	
Incorrect answers	6. From Step 1	
	7. From Step 2	
	8. From Step 3	
	9. From Step 4	
Total Incorrect Answers	10. Sum of lines 6–9	
FINAL SCORE	**Line 5 minus Line 10**	

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