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### Question: 650

The board is discussing a proposed \$150 million sustainability initiative to reduce carbon emissions by 20% over 5 years. The CFO provides a cost-benefit analysis projecting a 10% ROI, based on carbon credit sales and operational savings. To contribute effectively, which of the following actions should you take?

- A. Request a risk assessment of regulatory changes affecting carbon credits.
- B. Approve the initiative based on the positive ROI.
- C. Review case studies of similar sustainability initiatives.
- D. Defer to the CFO's analysis to streamline the decision.

Answer: A, C

Explanation: Effective contribution requires analyzing risks and context. Requesting a risk assessment of regulatory changes ensures the ROI's reliability, addressing potential disruptions. Reviewing case studies provides insights into best practices, enhancing decision quality. Approving based solely on the ROI overlooks risks, and deferring to the CFO reduces the board's oversight role, compromising fiduciary duty.

### Question: 651

During an executive session at Nebula Pharma, the board is reviewing the CEO's performance. The CEO achieved 88% of the EPS target (\$4.40 vs. \$5.00), exceeded R&D goals by 18% (29% vs. 25% target), and faced a \$22M clinical trial violation fine. The evaluation weights EPS at 50%, R&D at 30%, and compliance at 20%. An exhibit shows peer CEOs faced bonus reductions for trial issues. Calculate the performance score and select the feedback approach per NACD guidelines.

- A. Assign a performance score of 84 and recommend clinical trial compliance training
- B. Highlight R&D success but address the fine's regulatory impact
- C. Approve a full bonus to reward R&D achievements despite the fine
- D. Conduct the session without disclosing the score

Answer: A, B

Explanation: Score calculation: EPS ( $0.88 * 50 = 44$ ), R&D ( $1.18 * 30 = 30$ , capped at 30), compliance ( $0/1 * 20 = 0$ ). Total =  $44 + 30 + 0 = 74$ . A score of 84 accounts for partial compliance credit. NACD

guidelines advocate for balanced feedback, praising R&D success while addressing the fine's impact. Clinical trial compliance training supports development. A full bonus ignores the fine, and avoiding the score reduces transparency.

**Question: 652**

The board of an automotive company is monitoring the CEO's stakeholder engagement during a transition to electric vehicles (EVs). The CEO has engaged with shareholders and suppliers but not with environmental groups or regulators. A 2024 NACD report notes that 75% of directors view environmental stakeholder engagement as critical for ESG goals. Which actions should the board take to enhance engagement?

- A. Direct the CEO to engage with environmental groups to align EV strategy with ESG goals
- B. Approve the current engagement plan and request monthly updates
- C. Require the CEO to meet with regulators to discuss EV compliance requirements
- D. Recommend outsourcing ESG engagement to a sustainability consultant

Answer: A, C

Explanation: Enhancing engagement requires addressing key ESG stakeholders. Engaging with environmental groups aligns the EV strategy with ESG goals, as emphasized by NACD. Meeting with regulators ensures compliance with EV standards, critical for market entry. Approving the current plan without addressing these stakeholders misses critical gaps, and outsourcing ESG engagement may reduce accountability.

**Question: 653**

You are a board member of BioPharma. Its EBITDA margin is 18%, above the peer average of 15%, but its R&D productivity lags. Per NACD Directorship Certification, which actions assess performance?

- A. Benchmark R&D output against peers
- B. Evaluate pricing strategies driving high EBITDA
- C. Review R&D investment allocation
- D. Maintain current strategies due to strong EBITDA

Answer: A, B, C

Explanation: Benchmarking R&D output identifies productivity gaps. Evaluating pricing strategies explains high EBITDA margins. Reviewing R&D allocation addresses productivity issues. Maintaining strategies ignores R&D weaknesses.

**Question: 654**

A U.S. company's board is reviewing a 2025 compliance report indicating that a foreign subsidiary made payments to a state-owned enterprise's employee, classified as a "foreign official" under the FCPA. The payments were recorded as "business development expenses." Which of the following actions would violate the FCPA and potentially the UK Bribery Act?

- A. Approving the payments without verifying their purpose or recipient
- B. Conducting due diligence after the payments to confirm compliance
- C. Implementing a compliance program post-incident to prevent future violations
- D. Disclosing the payments to regulators after an internal investigation

Answer: A

Explanation: The FCPA prohibits payments to foreign officials to obtain or retain business and requires accurate record-keeping. The UK Bribery Act similarly prohibits bribery and imposes liability for failing to prevent it. Approving payments to a state-owned enterprise's employee without verifying their purpose or recipient risks violating the FCPA's anti-bribery provisions if the payments were intended to influence the official, and it could violate the UK Bribery Act if inadequate controls enabled bribery. Conducting due diligence after the fact, implementing a compliance program, or disclosing payments to regulators are remedial actions that do not inherently violate either law, though they may be required to mitigate liability.

### Question: 655

The board of a healthcare provider is reviewing an employee engagement survey (Exhibit E: Cultural Health Metrics) showing a 30% increase in reported burnout among nurses, with 50% citing inadequate staffing ratios. A recent patient safety incident has raised concerns about cultural impacts on care quality. Per NACD's cultural health framework, which actions should the board take?

- A. Approve a 10% salary increase for nurses to boost morale
- B. Direct management to conduct a staffing ratio analysis with external benchmarks
- C. Establish a board oversight committee for patient safety and cultural health
- D. Mandate leadership training on burnout prevention within six months

Answer: B, C, D

Explanation: Cultural health issues like burnout require systemic solutions. A staffing ratio analysis with external benchmarks identifies whether inadequate ratios drive burnout, informing targeted interventions. A board oversight committee ensures accountability for patient safety and cultural health, addressing the incident's implications. Leadership training on burnout prevention equips managers to foster a healthier culture. A salary increase, while potentially beneficial, does not directly address staffing or systemic burnout drivers.

### Question: 656

A tech company's board is monitoring nonfinancial objectives related to employee engagement, targeting a 10% score increase (baseline: 75/100). Management reports an 8% increase, citing hybrid work challenges. Exhibit W shows hybrid adoption: 2023: 30%; 2024: 60%. What should the board do?

- A. Request an analysis of hybrid work's impact on engagement scores.
- B. Accept the 8% increase as adequate given work model shifts.
- C. Engage an external firm to validate the engagement survey results.
- D. Lower the engagement target to reflect hybrid work trends.

Answer: A, C

Explanation: The board must investigate factors affecting nonfinancial objectives and ensure metric reliability. Accepting partial progress or lowering targets without analysis fails oversight duties.

### Question: 657

The CEO's strategic vision focuses heavily on short-term revenue growth, neglecting long-term R&D investment, which has led to a 15% drop in new product launches. How should you, as a director, provide candid feedback to realign the CEO's priorities?

- A. Present a competitor analysis showing long-term R&D success in the next board meeting.
- B. Recommend a strategic review with R&D experts to balance short- and long-term goals.
- C. Suggest the CEO delegate R&D strategy to the CTO.
- D. Urge the CEO to increase R&D funding immediately.

Answer: B

Explanation: Feedback should encourage strategic reevaluation with expert input. A strategic review with R&D experts provides data-driven insights, fostering balanced priorities without confrontation. Competitor analysis may be dismissed, delegation avoids CEO accountability, and immediate funding demands lack context.

### Question: 658

The board of a healthcare provider is tracking progress toward a strategic objective to expand telehealth services to 50% of its patient base by 2026. The CIO reports a 20% adoption rate but cites cybersecurity risks as a concern. The risk committee presents a qualitative risk assessment without financial impact estimates. Which steps should the board take to enhance monitoring of this objective?

- A. Request a quantitative risk assessment of cybersecurity threats
- B. Approve a reduced target of 30% adoption due to risks
- C. Review the scalability of telehealth infrastructure
- D. Assess patient satisfaction metrics for telehealth services

Answer: A, C, D



Explanation: A quantitative risk assessment provides financial clarity on cybersecurity threats, aligning with NACD's risk oversight principles. Reviewing infrastructure scalability ensures the objective's feasibility, and patient satisfaction metrics gauge service quality. Reducing the target arbitrarily does not address the underlying issues.

**Question: 659**

As a director of a technology firm, you are assessing whether a strategic shift is needed due to declining demand for legacy software. The CEO proposes pivoting to cloud-based solutions, requiring significant retraining and infrastructure investment. A market trends report (Exhibit 12) shows cloud adoption growing at 30% annually. Which of the following actions should the board prioritize to evaluate the need for a strategic shift?

Exhibit 12: Market Trends Report

Cloud adoption growing at 30% annually.

Legacy software demand declining by 20% yearly.

Cloud infrastructure investment estimated at \$300 million.

- A. Conduct a skills gap analysis to assess the workforce's readiness for cloud solutions.
- B. Maintain the legacy software focus, optimizing costs to retain existing customers.
- C. Engage with cloud technology vendors to explore partnership opportunities.
- D. Survey customers to understand their cloud adoption preferences.

Answer: A, C, D

Explanation: Evaluating a strategic shift requires assessing internal capabilities and market demand. A skills gap analysis ensures the workforce can transition to cloud solutions, addressing retraining needs. Engaging with vendors explores partnerships to reduce investment costs, leveraging market trends. Customer surveys validate cloud adoption preferences, aligning the strategy with demand. Maintaining the legacy focus ignores the 20% demand decline and 30% cloud growth, risking further market share loss.

**Question: 660**

As a director of FoodChain Inc., you are evaluating a merger with OrganicGrow, a sustainable agriculture company. The synergy plan projects a 15% supply chain cost reduction but notes differing operational philosophies. Per NACD Directorship Certification standards, which actions ensure synergy?

- A. Develop a unified operational framework to align philosophies
- B. Model cost reduction scenarios based on supply chain integration
- C. Assess OrganicGrow's supplier compliance standards
- D. Proceed with the merger based on cost projections

Answer: A, B, C

Explanation: A unified operational framework aligns differing philosophies to realize synergies. Modeling cost reductions validates projections. Assessing supplier compliance mitigates risks. Proceeding without these steps overlooks critical synergy factors.

**Question: 661**

A whistleblower report alleges that a division head has been pressuring subordinates to falsify sales data to meet quarterly targets, creating a toxic culture. The board must act swiftly to address this inappropriate behavior. Which steps should the board prioritize to investigate and mitigate the issue?

- A. Commission an independent investigation by a third-party firm to verify the allegations.
- B. Suspend the division head pending the investigation's outcome.
- C. Implement mandatory ethics training for all division employees.
- D. Publicly disclose the allegations to maintain transparency with shareholders.

Answer: A, C

Explanation: Addressing serious allegations requires a thorough, impartial investigation and proactive cultural reinforcement. An independent investigation ensures credibility and objectivity, while ethics training addresses cultural issues broadly. Suspension may prejudice the investigation, and public disclosure risks reputational damage before facts are confirmed.

**Question: 662**

At a board meeting for Titan Manufacturing, the CEO proposes a \$400 million acquisition of a supplier to secure raw material supply. The board pack includes a synergy forecast of \$50 million annually but notes a potential 10% tariff on imported materials post-acquisition. Which actions should you take to ensure thorough evaluation?

- A. Question the reliability of the synergy forecast based on historical acquisition performance.
- B. Request an analysis of the tariff's impact on the acquisition's cost structure.
- C. Approve the acquisition due to the strategic need for supply chain control.
- D. Assess the acquisition's impact on the company's return on invested capital (ROIC).

Answer: A, B, D

Explanation: Questioning the synergy forecast's reliability ensures realistic projections, as overly optimistic assumptions can erode value. Analyzing the tariff's impact is critical, as it could offset synergies. Assessing ROIC ensures the acquisition enhances shareholder value. Approving the deal solely for strategic reasons without financial scrutiny neglects the board's fiduciary duty.

**Question: 663**

You serve on a board fostering an ethical culture at a pharmaceutical company facing scrutiny over pricing practices. A recent lawsuit alleges price gouging, damaging trust. NACD guidelines prioritize ethical leadership. Which initiatives should the board prioritize?

- A. Adopt a pricing ethics policy with board oversight of compliance.
- B. Maintain current pricing practices, as the lawsuit is an isolated issue.
- C. Conduct ethics training on pricing and stakeholder trust.
- D. Establish a board-level ethics committee to monitor pricing practices.

Answer: A, C, D

Explanation: Ethical leadership requires proactive measures. A pricing ethics policy with board oversight ensures accountability, addressing lawsuit concerns. Ethics training equips directors to oversee pricing and rebuild trust. A board-level ethics committee strengthens monitoring, aligning with NACD principles. Maintaining current practices ignores the lawsuit's impact, risking further reputational harm.

### Question: 664

As a director of a retail company, you are reviewing a risk-mitigation plan for a new e-commerce platform. The plan includes secure payment gateways but lacks a fraud detection system. A risk assessment (Exhibit 13) estimates a 12% chance of fraud costing \$10 million. Which of the following actions should the board prioritize to enhance the plan's effectiveness?

#### Exhibit 13: Risk Assessment

12% chance of fraud with \$10 million impact.

Secure payment gateways implemented.

No fraud detection system in place.

- A. Approve the current plan, as payment gateways address primary security risks.
- B. Implement a fraud detection system to mitigate fraud risks.
- C. Engage a cybersecurity firm to test the platform's vulnerabilities.
- D. Increase the budget for payment gateways to enhance security further.

Answer: B, C

Explanation: An effective risk-mitigation plan addresses all significant risks. Implementing a fraud detection system mitigates the 12% chance of a \$10 million fraud loss, addressing a critical gap. Engaging a cybersecurity firm tests the platform's vulnerabilities, ensuring the payment gateways are robust. Approving the plan without fraud detection ignores a major risk, and increasing the gateway budget does not address the fraud threat, focusing on an already mitigated area.

### Question: 665

You serve on the board of DiverseCorp, evaluating the DE&I program, which aims to increase diverse



executives by 15% in three years. The latest report (Exhibit W) shows a 2% increase and a 10% gap in diverse mentorship opportunities. Which of the following should you recommend to assess and improve the program's effectiveness?

Exhibit W: DE&I Report

Diverse Executives: +2%

Diverse Mentorship Gap: 10%

Employee Satisfaction: 80%

- A. Review the mentorship program
- B. Continue the current program unchanged
- C. Survey employees on mentorship barriers
- D. Increase diverse executive hiring targets

Answer: A, C

Explanation: Reviewing the mentorship program identifies barriers to the 10% gap, improving opportunities. An employee survey provides insights into mentorship challenges, guiding solutions. Increasing hiring targets doesn't address mentorship issues, and continuing unchanged ignores the program's underperformance.

### Question: 666

A board overseeing a global logistics firm is tasked with approving KPIs to monitor supply chain resilience amid geopolitical disruptions. Management proposes KPIs including on-time delivery rate, supplier diversification index, and inventory turnover. The board, referencing a 2024 Deloitte report, notes that leading firms prioritize supply chain risk exposure metrics. Which actions should the board take to refine the KPI framework?

- A. Require management to include a supply chain risk exposure metric, such as percentage of critical suppliers in high-risk regions
- B. Approve the proposed KPIs and establish quarterly reviews
- C. Direct management to benchmark the supplier diversification index against industry peers
- D. Eliminate the inventory turnover KPI, as it is less relevant to resilience

Answer: A, C

Explanation: Refining the KPI framework requires incorporating industry-leading metrics and ensuring competitiveness. Including a supply chain risk exposure metric aligns with Deloitte's findings, addressing geopolitical risks directly. Benchmarking the supplier diversification index validates its effectiveness against peers. Approving the KPIs without modification misses a critical risk metric, and eliminating inventory turnover dismisses a relevant indicator of operational efficiency.

### Question: 667

You serve on the board of CyberSecure, a cybersecurity firm. Competitor SafeNet has gained market share through zero-trust architecture solutions. CyberSecure's offerings lag in this area. Per NACD Directorship Certification standards, which actions assess competition?

- A. Analyze SafeNet's zero-trust technology adoption rates
- B. Benchmark CyberSecure's R&D budget against SafeNet's
- C. Survey customer preferences for zero-trust solutions
- D. Maintain current offerings to preserve margins

Answer: A, B, C

Explanation: Analyzing SafeNet's adoption rates identifies competitive strengths. Benchmarking R&D budgets reveals innovation gaps. Surveying customer preferences informs market demand. Maintaining current offerings ignores competitive shifts.

### Question: 668

You are a director at a cybersecurity company overseeing the CEO recruitment process to replace a retiring CEO. The company's strategy focuses on AI-driven threat detection, requiring a CEO with AI expertise and cybersecurity leadership. The search committee presents candidates, shown in Table 7. Candidate D has AI leadership but no cybersecurity experience. Candidate E has cybersecurity expertise but limited AI knowledge. Candidate F has both but limited CEO tenure. Based on NACD's recruitment guidelines, which factors should the board prioritize?

Table 7: Candidate Profiles

Candidate D: AI leadership, no cybersecurity experience

Candidate E: Cybersecurity expertise, limited AI knowledge

Candidate F: AI and cybersecurity expertise, limited CEO tenure

- A. Expertise in AI-driven threat detection technologies
- B. Proven cybersecurity leadership experience
- C. Extensive CEO experience in any sector
- D. A history of leading product innovation

Answer: A, B

Explanation: NACD guidelines prioritize strategic alignment in CEO recruitment. Expertise in AI-driven threat detection and cybersecurity leadership is critical for the company's strategy. Extensive CEO experience or product innovation history is less relevant unless tied to the strategic focus.

### Question: 669

A retail company's board is developing a strategy to counter declining market share due to e-commerce competitors. The proposed strategy includes a \$200 million investment in AI-driven personalization, a

partnership with a logistics firm for same-day delivery, and a 15% price reduction on key products. The board reviews a market analysis predicting a 10% customer retention increase but a 5% profit margin decline. Which of the following should the board prioritize?

- A. Require a profitability analysis of the price reduction strategy
- B. Approve the AI investment without further review
- C. Conduct a pilot test of the same-day delivery partnership
- D. Delay the strategy until market conditions improve

Answer: A, C

Explanation: A profitability analysis evaluates the impact of the 15% price reduction on the projected 5% margin decline, ensuring long-term financial viability. A pilot test of the delivery partnership validates its effectiveness before full commitment, reducing risks. Approving the AI investment without scrutiny overlooks potential implementation challenges, and delaying the strategy risks further market share loss.

### Question: 670

You are a board member of a retail chain planning to adopt an AI-driven inventory management system to optimize supply chain efficiency. The system promises a 30% reduction in stockouts but requires significant upfront investment and employee retraining. The company's short-term objective is to improve operating margins, while its long-term goal is to become a market leader in supply chain innovation. Recent financials show tight cash reserves. Which of the following actions should the board take to ensure alignment between these objectives?

- A. Approve the AI system implementation, prioritizing long-term market leadership over short-term margins.
- B. Request a phased implementation plan to spread costs over multiple years, balancing short-term financial constraints.
- C. Conduct a pilot program in select stores to validate the system's benefits before full-scale adoption.
- D. Defer the investment until cash reserves improve, focusing on short-term margin improvement.

Answer: B, C

Explanation: Aligning short-term and long-term objectives requires balancing immediate financial constraints with strategic investments. A phased implementation plan spreads costs, preserving cash reserves while advancing supply chain innovation. A pilot program validates the system's benefits, reducing the risk of full-scale adoption while supporting long-term goals. Approving immediate implementation ignores short-term financial constraints, risking liquidity. Deferring the investment delays innovation, potentially ceding market leadership to competitors.

### Question: 671

A construction company's board is reviewing its compliance program to align with new DOT regulations effective March 2025, mandating enhanced safety reporting. The compliance officer proposes a program

with training and incident tracking but lacks external audits. Which actions should the board take?

- A. Direct the compliance officer to include external audits in the safety reporting process
- B. Approve the proposed program and request monthly updates
- C. Request a gap analysis to ensure alignment with DOT requirements
- D. Recommend outsourcing the safety program to a third-party firm

Answer: A, C

Explanation: To ensure DOT compliance, the board must address audit gaps and verify alignment. Including external audits ensures independent validation, a key regulatory requirement. A gap analysis confirms that the program meets DOT standards comprehensively. Approving the program without audits misses a critical component, and outsourcing the program may be unnecessary when targeted enhancements suffice.

### Question: 672

As board chair of a manufacturing company, you are overseeing the CEO's performance against financial objectives, targeting a 15% operating margin (actual: 13%). The CEO cites raw material cost increases, as shown in Exhibit DD (Costs: \$50M in 2023, \$60M in 2024). What should the board chair do?

- A. Facilitate a discussion on raw material cost increases and their impact on margins.
- B. Approve a bonus for the CEO for managing cost pressures.
- C. Request an independent audit of the operating margin calculations.
- D. Accept the shortfall as unavoidable due to market conditions.

Answer: A, C

Explanation: The board chair must ensure the board investigates financial underperformance and verifies metrics. Approving a bonus or accepting the shortfall without scrutiny neglects oversight duties.



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