

What are the decision-making challenges faced by directors?

Is there agreement on which board decisions have the greatest impact on long-term value growth and preservation? E.g.,

- Set the strategy?
- Hire/terminate CEO?
- Approve CEO's plan to implement the strategy?
- Confirm the ongoing strategic plan implementation is achieving desired results?

Given agreement on the key decisions to be made by each director, what are the implications on director qualifications E.g.

- Ability to learn and innovate?
- Past experience in making these decisions?
- Knowledge and experience in the agreed upon strategy?
- Character, values, ethics and commitment?

Is there an effective decision-making process for those key decisions?

E.g. McKinsey survey²:

- Only 28% of executives thought good strategic decisions were frequent.

Do the directors understand the company? McKinsey survey of directors¹:

- 34% agreed their board fully comprehended strategies.
- 22% said boards completely aware of how firms created value.
- 16% said boards had strong understanding of industry dynamics.

Directors are ultimately responsible for the long-term success of the corporation. The vast majority of public company directors fail to achieve long-term success. The CEO of Constellation Software, in his final annual CEO letter stated: "Qualified and competent Directors are very rare, and not surprisingly, the track record of most boards is awful. According to the 2017 Hendrik Bessembinder study of approximately 26,000 stocks in the CRSP database, only 4% of the stocks generated all of the stock market's return in excess of one-month T-Bills during the last 90 years. The other 96% of the stocks generated, in aggregate, the T-Bill rate over that period. This means that 4% of boards oversaw all the long-term wealth creation by markets during that period. Even more disturbing, the boards for over 50% of public companies saw their businesses generate negative returns during their entire existence as public companies."

¹ "Where boards fall short", Dominic Barton and Mark Wiseman, Harvard Business Review 2015 Jan/Feb

² "The case for behavioural strategy", McKinsey Quarterly 2010 #2