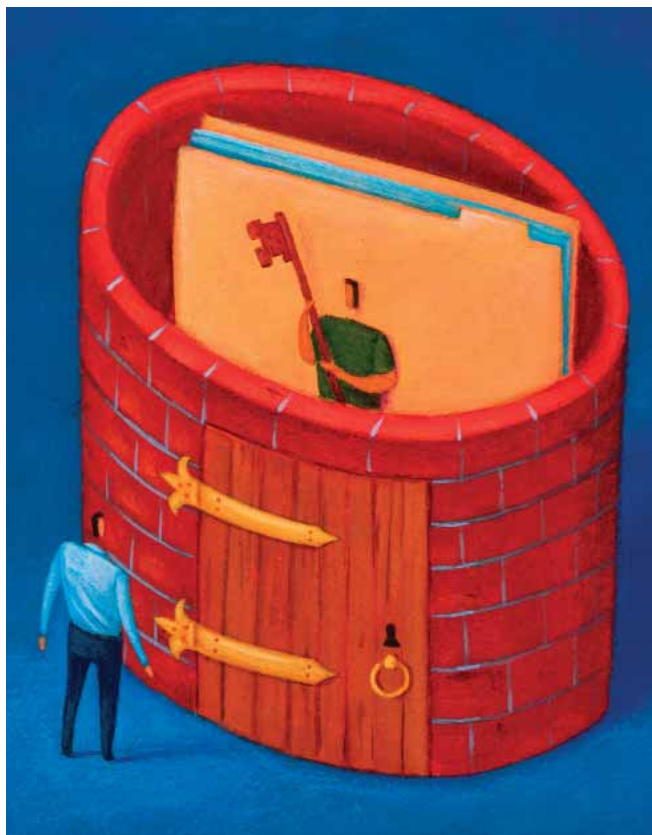


Breaking Past the Knowledge Barrier

Directors should have access to crucial competitive intelligence
By Leonard M. Fuld



When it comes to Sarbanes-Oxley and audit committees, directors are keenly aware of their responsibility to understand their corporations' fiscal reporting and accountability issues. Yet these same directors will tell you they are wholly unprepared to speak intelligently about competitive threats or opportunities facing these same companies—except in the most superficial or self-

taught manner.

This summarizes what I heard repeatedly in an informal survey of 14 highly experienced directors of mostly Fortune 1000 corporations during conversations concerning the directors' competitive knowledge. More than three-fourths have served on boards for more than four years, and their answers reflect experiences with multiple boards—probably 35 or more companies.

The directors say they are

largely unaware of internal corporate resources, receive little or no communication from within the corporations they serve, and aren't prepped by their companies before entering board meetings. You might say there is an intelligence blood-brain barrier within major corporations, blocking the flow of competitive knowledge from reaching the board.

One board member confirmed that "Sarbanes-Oxley is only about the numbers, not about the customers or about a competitor." According to this director, Sarbanes-Oxley may have actually dampened management's inclination to share competitive data and issues that boards need to have in order to direct their corporations. In his words, "In the last few years, boards have not become more productive, they've become more careful." A recent article in the *Harvard Business Review* supports this position, stating unequivocally that most boards are in the dark about their companies' strategies.

Board members I interviewed had no problem quickly supplying their laundry list of intelligence shortfalls:

- ◆ Executives may have ready access to competitive and market intelligence; not so directors.

- ◆ Although companies often have competitive intelligence departments or competitive assessment groups, board members generally have no knowledge that they even exist.

- ◆ Board members are handicapped or limited by almost exclusively using their own networks and self-read knowledge of the competition, rather than being prepared by the company with its own assessments.

- ◆ Directors frequently know about short-term threats or opportunities but lack insight on long-term intelligence that could affect a company's future.

Why do directors suffer behind this intelligence blood-brain barrier in the first place? It should not even exist. Generally, good, timely intelligence fails to reach directors either because it may be information someone does not want the director to hear or for simple lack of attention to the problem. Do not imagine that this intelligence blockage is due to technological impediments or lack of money.

The solutions to the problem are relatively simple and can be best explained in terms of five realities of competitive intelligence:

1. **Knowledge comes in many forms.** Directors require the right kind of data, not overworked, overproduced data. For example, a client of ours in the textile business some years ago was concerned about a rumor that a knockoff product was soon to be manufactured in Indonesia. When we asked our analyst where these knockoffs would be produced, he sent us a picture of a goat grazing in a field. That allayed our client's fear—and contradicted news reports that the plant would open within months. The picture told us otherwise, since the animal apparently was grazing where the plant was supposed to be.

Certainly, we had other questions for the analyst, but the photo—simple as it was—conveyed critical intelligence. No PowerPoint slides and no Excel spreadsheets were necessary. Sometimes, this may be all a director needs to answer a

question or to spur other, smart questions.

2. People have blind spots. When Guinness, the Irish beer brewer, saw its sales suddenly dip in Africa, a market in which it had seen nearly continuous growth for decades, it was concerned. It turned out that management at Guinness (along with the other brewers) had not seen the threat posed by another product: cell phones. Young consumers with discretionary spending were beginning to see phones as a sexier product than beer.

Board members, just like their executive counterparts, need to constantly challenge their company's assumptions. They can do so with a series of information filters. Too often board members are blinded by valuations that are purely driven by the numbers and ignore outside factors. The AOL-Time Warner merger in 2000 was a case in point. Originally valued at \$165 billion, the deal seemed to ensure blockbuster success. Reality soon overcame hype, but the board members and executives who brought the deal to fruition had apparently been blinded by optimism.

3. War games can outsmart the competition. Brainstorming—unstructured bunting around of data across the boardroom table—may raise awareness of critical issues but rarely moves the agenda ahead. Directors, like their executive counterparts, need to use intelligence strategically, forcing themselves to examine the options a company realistically has arrayed before it.

When Larry Ellison decided to pounce on PeopleSoft as soon as it made an offer to buy competing software house J.D.

Edwards, he did so after running a series of war games with his staff. These so-called games forced his organization to confront the reality of a consolidating software marketplace—one that would threaten Oracle's future if it was not in the lead position. Ellison was one of many corporate leaders who have used war games to force decisions by compressing future options, despite the inertia that may exist within a board or within executive ranks.

4. On the Internet, things

petitor had suddenly allowed its scientists to publish the article was simply to let them maintain their professional stature. The Internet can be tricky. Board members cannot walk into meetings after conducting amateur Internet searches—and more than they can rely on their own "little black book" of contacts to explain a situation or a product.

5. Intelligence must be planned for. Boards need their own monitoring services. They require simple mechanisms

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may not be what they seem. Do not assume that just because the board is made up of some very business-savvy individuals that they fully appreciate the quirkiness of the Net. Here is a simple example to illustrate this point: Scientists at pharmaceutical giant Novartis became alarmed that one of its compounds, with potential for treating depression, was the subject of research articles suddenly appearing on a rival's site. Novartis had spent many millions developing this potential product and feared that the competitor was about to steal its march.

But another scientist, whose job it was to monitor early-stage competitive projects, concluded that the competitor was actually declaring defeat—announcing that it was giving up on developing this compound. The scientist came to this conclusion based on his assessment that the reason Novartis' com-

whereby they can ask questions and exercise their fiduciary responsibilities to safeguard the company for investors. Perhaps the board needs an intelligence committee as much as it does an audit committee.

Outside directors are smart, industry-hardened executives, but they need help understanding the competition and competitive threats (or opportunities). To deny board members critical intelligence assessments and data is to handicap good decision-making by ensuring the blood brain intelligence barrier remains in place. **D**

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