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Opinion

Directors Need a Working Knowledge of Their Companies

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Directors should be expected to be familiar with their companies' products or services, but they should not be expected to have the same level of knowledge as management.

In November, *Agenda* published a provocative infographic on **Twitter** directors that don't tweet, which raised the question of to what extent directors should be involved in using what their company offers. In the case of Twitter, a director who rarely tweets may nonetheless be a follower of those who do. We should not then expect a Twitter director to also tweet if they don't want to share their thoughts publicly, because it is enough to understand the product without actively using it.

At a recent conference, a director affiliated with a hedge fund activist spoke about his knowledge of the fast-food industry and how he took photographs of a competitor's business to illustrate how his own company could improve its performance at one location. While this level of engagement may be helpful, this is not the level of detail we should expect a director to aspire to. Directors should not seek to fill the role of managers, and knowledge of one facility is not necessarily indicative of the rest of the company. No director should be expected to conduct a competitive analysis of all of the company's facilities. That said, directors should be expected to spend sufficient time to understand their company's business beyond just attending meetings and reading briefing materials.

A director of a retail store, for example, should be expected to visit its stores to understand firsthand how it feels to be a customer and to see how the policies and principles the company puts forward actually play out in real life. Corporate secretaries frequently fulfill the role of arranging for such informational briefings, but directors should not feel that they need to have a company officer arrange a special briefing. In fact, sometimes it is best not to be identified when visiting a site in order to see how the company typically operates.

In a manufacturing company, getting firsthand experience is more difficult, but not impossible. Car manufacturers frequently provide their directors with vehicles to test-drive. Computer companies also typically provide directors with their products. Manufacturers that do not produce consumer products provide directors with opportunities to experience firsthand the manufacturing operations in circumstances where the directors can speak directly with employees. This allows directors to see how the policies the board has endorsed are actually carried out on the manufacturing floor. For example, a director can get a better picture of the company's safety measures by seeing how safety rules are complied with at a facility. When touring the facility, directors should take note of whether they are required to use the same safety equipment as employees, such as hard hats, safety goggles and ear protection, and given briefings on emergency procedures. If not, why not, and what does that say about how employees are complying with posted safety procedures?

Site visits can also help a director get a better understanding of how the company creates value. At an industrial company I was affiliated with, the board took annual trips to visit facilities, which frequently took a week or more of the directors' time. Spending that much time on the road visiting different facilities in various locations helped answer a number of questions: Is there consistency in how these operations are being managed? Are they adhering to the highest standards we expect? What is the quality of worker and manager interaction? Am I proud of being associated with this organization, or are there things that should be changed? All of these observations contribute to an understanding of the intangible assets that form the real value of today's companies.

In order to hold directors accountable, director evaluations should include an assessment of a director's knowledge of the business and industry dynamics, and governance guidelines should set an expectation that each director will have or acquire familiarity with the business beyond attending board meetings. Boards should also clearly address expectations of the time commitment required to do this. With increasing scrutiny of director quality, companies that can demonstrate that their directors are actively engaged in the business and understand the dynamics of the industry are in a good position to receive investor support.