

Seven Smart Practices for Shareowner Meetings

For many public companies, the annual meeting of shareowners is, like Mother's Day, a yearly ritual to be endured. Smart companies know better: It is an opportunity to tell the company's story and engage with investors to find out whether the company's owners like the way the story is going.

With the proliferation of majority voting in director elections and the elimination of discretionary broker voting on certain matters, shareowner meetings are no longer routine affairs. At the same time, new technologies are transforming the way shareowners participate in meetings.

Companies have vast leeway in how they conduct shareowner meetings. While federal law governs the proxy materials for a shareowner meeting, much of what occurs at the meeting is a matter of state law—and states give

companies considerable discretion. How a company uses that discretion speaks volumes about its regard for its shareowners.

This brief attempts to distill best practices for companies conducting shareowner meetings in this new, more open and dynamic era. Culled from interviews with more than 30 representatives of Council member funds—public, corporate and union—it identifies seven ways companies can organize meetings for the mutual benefit of the company and its shareowners.

1. Talk to your shareowners long before the big day.

It is easier for executives, directors and shareowners to find common ground away from the glare of the annual meeting spotlight. Engaging concerned shareowners before the meeting can diffuse or resolve issues that might otherwise become ballot items. Reaching out to concerned investors before the meeting also helps avoid unpleasant surprises and misunderstandings on annual meeting day. All participants—directors, senior managers and investors—need to be prepared.

A board-shareowner communication policy can be useful to establish the breadth of issues that are appropriate to bring to the board's attention and to ensure that shareowners' concerns reach directors, especially independent directors.

2. Make sure the meeting is reasonably accessible.

In choosing a meeting location, give strong consideration to the cost and convenience for most shareowners. Companies should disclose the meeting's time and location as soon as practicable, and avoid making abrupt changes to either.

Cramming people into a room makes for an uncomfortable atmosphere. Reserve a venue that will accommodate the approximate number of shareowners expected to attend. Use overflow space indiscriminately, to avoid the impression that particular shareowners are being excluded deliberately from the main meeting room.

3. Set fair policies for admission, disclose them clearly and enforce them consistently.

It's a company shareowners meeting, not a White House briefing. Shareowners should not need the equivalent of security clearance to attend. Companies should make good-faith efforts to admit all shareowners of record or their designated representatives with valid legal proxies.

Companies should disclose in the proxy materials not only the credentials required for attendance, but also any critical information that must be included for the credentials to be considered valid. If a company decides that a widely-used credential is unacceptable for its meeting, it should make that clear in its proxy statement.

Respond promptly when shareowners, in a reasonable period of time prior to the meeting, seek confirmation that their particular credentials will be acceptable to enter the meeting.

Meeting admittance requirements should be enforced consistently. All shareowners should have to satisfy the same criteria to attend. A shareowner with a reputation for asking challenging questions should not have to leap additional hurdles to gain entry.

4. Broaden participation without sacrificing the in-person meeting.

Relatively few shareowners have the time and resources to attend meetings in person. To enable more owners to participate, companies are increasingly using virtual meeting technology. Using an online platform, shareowners can remotely attend the meeting, submit questions and even vote their shares as the meeting takes place.

Virtual meeting technology has the power to expand shareowner participation dramatically. At the same time, the in-person meeting provides a special opportunity for face-to-face interaction between shareowners and the company's managers and directors. Fortunately there is no requirement that companies must choose one format over the other. A "hybrid" approach allows a company to take advantage of the benefits of both formats.

The practice of holding a "virtual-only" meeting should be avoided. The opportunity for face-to-face interaction between shareowners and the company's leadership is rare and should be preserved. A virtual-only format may create the impression that the company is insulating management and the board from shareowners.

5. Promote a substantive Q&A period.

A question-and-answer period, through which shareowners can obtain candid responses to legitimate concerns, should always be a component of the shareowner meeting.

The moderator should refrain from declaring a particular issue “off limits” unless it is clearly irrelevant. Prior engagement with shareowners on a relevant matter is not, in itself, sufficient reason to bar the issue from being introduced again at the meeting.

Answer non-duplicative questions in order, to avoid the impression that preferred questions have priority.

The Q&A period is most useful to shareowners when answers are candid. While preparation for anticipated questions is expected, avoid scripted answers.

The moderator need not—and should not—answer all shareowner questions. Shareowners elect directors to represent their interests as owners and expect to hear directly from them. Directors with special knowledge are often best-suited to respond. For example, a question about a new CEO pay practice could be directed to the compensation committee chair. All directors should attend the meeting.

Time limits on shareowner questions may be acceptable to keep the meeting from bogging down. The company may want to disclose time limits on questions in advance so that shareowners can plan accordingly. Moderators should interject when necessary to prevent any single shareowner from dominating the floor. If the allotted time for Q&A expires before all questions have been answered, the company should provide those answers after the meeting, verbally or in writing.

6. Treat presenters of shareowner resolutions with professionalism.

Those who present shareowner proposals, whether the actual proponent or a designee, should be treated with the same courtesy and respect afforded to all meeting attendees.

Once a shareowner proposal is on the ballot, the proponent and the company should communicate in advance of the meeting to minimize the risk of “eleventh hour surprises” related to the proposal’s formal presentation. For example, the company should be willing to confirm the specific documentation required for a representative of the proponent to present the proposal at the meeting.

Procedural powers should be used to maintain order at the meeting—not to make the presentation of a shareowner proposal unnecessarily cumbersome. A “second” should not be required for a proposal once it is on the ballot and presented at the meeting.

Professionalism is a two-way street. Companies have the right to expect proponents to act with courtesy and respect.

7. Ensure the integrity of the vote.

Proposals should clarify the will of shareowners to the greatest extent possible. Therefore, companies should avoid bundling multiple proposals into one ballot item.

Shareowners should know the source of the proposals on which they are voting. Proxy materials should identify at least the primary sponsor of each shareowner proposal.

Adjourn the meeting early only for compelling reasons, such as technical complications with the vote or a lack of quorum. Management should not adjourn the meeting with the aim of soliciting additional support for the company to prevail on a given proposal.

Polls should remain open throughout the question-and-answer period. Shareowners may find information during the Q&A helpful in deciding how to cast a vote.

Always use an independent tabulator to tally the final results once the polls have closed.