Directors & Boards

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FIRST QUARTER 2011

Fixing the Annual Meeting

Getting more out of the time and investment put into them — for management, the board, and shareholders alike.

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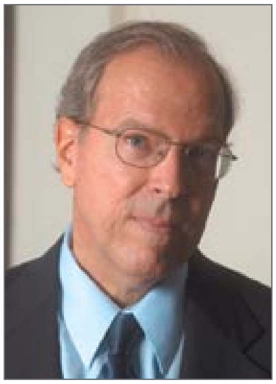
The fix is in

When I first became a business writer and editor, I experienced a sense of anticipation, even excitement, in attending my first annual meetings. I wanted to see top CEOs in action, see how they handled themselves and told their company's story smack dab in front of a roomful — in many cases a ballroom full — of their shareholders. I made it a point to see some of the great ones at conducting this exercise in shareholder relations — the super-smooth Steve Ross of Warner Communications (later Time Warner, see page 28), the feisty Bill McGowan of the early MCI Corp., the tough-as-nails Martin Davis of Gulf & Western, and Reuben Mark of Colgate-Palmolive, who ran the closest thing to a mutual CEO-shareholder "love fest" of an annual meeting that I ever sat in on.



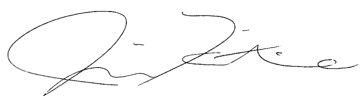
But it didn't take long before I got totally frustrated with annual meetings. Too often the show-and-tell of the CEO presentations was hijacked by the shout-and-yell of the gadflies' disruptions. What really made me mad were the meetings where I had to leave before the chief execs even got around to talking about how things were looking for the company. I didn't count on how longwinded and diversionary the activists could be.

So for about 20 years I eschewed attending any annual meetings. Why waste my time? What was I to learn? Then two years ago I decided to get back in the scrum. There was a meeting being held about a two-hour drive away. It is an interesting company, not performing well — a combination of industry ill winds and shaky management. So I figured the CEO had some explaining to do, and I wanted to see how he took advantage of this opportunity to allay concerns about his leadership in time of duress.

Well, did I get snookered. The meeting was over in 10 minutes. Management ran through the process at a sprint, giving no presentation nor taking questions. The gavel came down on the proceeding before the small group in attendance barely had a chance to settle into our seats. Talk about a "rush to closure" — something that David Silverman criticizes in his article on page 33.

I seethed all the way home at this colossal waste of a day out of the office. The seed was thus planted to devote some attention in Directors & Boards to what was wrong with the annual meeting as an exercise in corporate communications and shareholder relations. Then last summer Gary Lutin (page 31), chairman of The Shareholder Forum, invited me to participate on a panel he formed to explore the pros and cons of electronic participation in annual meetings. That was the trigger to schedule this edition's special focus on fixing the annual meeting. In addition to Gary and David, I recruited two additional participants in the Shareholder Forum study — Carl Hagberg, whose inspired analysis keynotes our cover story on page 25, and Broadridge Financial Solutions (in the person of CEO Rich Daley, page 30), a leader in arranging "virtual" shareholder meetings — for their expert perspectives.

So take your seats, as there is much to cover — and there will be no rushing to closure as we tackle a full agenda of annual meeting matters.



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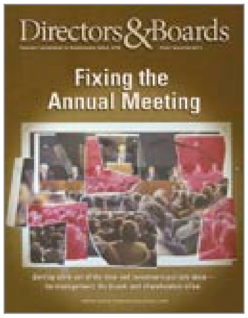


What to do about the annual meeting?

First, a few 'dirty little secrets' about these events, and then some fixes for getting more out of the time and investment put into them — for management, the board, and shareholders alike. **By Carl T. Hagberg**

Billions of dollars and countless hours of valuable senior management and director time are spent each year on annual shareholder meetings. Meanwhile, virtually no "professional investors" show up for these events, and fewer individual investors show up with every passing year. At many companies, the number of individual investors who take the time and trouble to vote their proxies is dropping perilously close to zero: This during a time when the need to have "good corporate governance" is getting more attention from activist investors, and from the press, than ever before.

Against this background, one might well opine that the traditional annual meeting model is badly broken … and maybe not worth fixing either.

Here are a few "dirty little secrets" about annual shareholder meetings and some thoughts from someone who has been attending, writing about and participating in annual meetings of companies large and small for over 40 years — and who does believe they are well worth the fixing. Also to follow are a few suggested "fixes."

What happens? Nothing

Annual shareholder meetings have been required events for publicly traded companies ever since there were publicly owned companies. Having an annual meeting of shareholders is enshrined in state law, in SEC and stock exchange rules and regs, and in the hearts and minds of securities lawyers, proxy solicitors, proxy tabulators, financial printers, mailing houses, hoteliers and various other service providers (including the author, as he feels obliged to confess up front).

Just shy of 14,000 shareholder meetings were held in 2010 by U.S. publicly traded companies, and roughly a *half-billion* sets of proxy materials — or notices that such materials are available — were sent off to shareholders last year, according to the latest statistics from Broadridge Financial Solutions Inc., which is involved to some degree or other in virtually every shareholder meeting that is held. That's a lot of meetings, and a lot of paper, and a lot of emailing, which is rapidly replacing paper mailings — which is good news for our overburdened landfills but bad news for printers, mailers, local postal workers and for most of us who are already severely overburdened with emails.

Aside from the billions of dollars in out-of-pocket expenditures public companies incurred to hold them, these 14,000 meetings consumed an awful lot of very valuable senior management time to prepare for them and to conduct them, which brings us to what we call the first dirty little secret of an-

Carl T. Hagberg is chairman of Carl T. Hagberg and Associates and the editor and publisher of *The Shareholder Service Optimizer*. Both businesses are dedicated to helping public companies and their suppliers deliver better and more cost-effective services to investors. He is an expert on annual meetings and the proxy-voting process. He has attended and served as inspector of election at hundreds of annual and special shareholder meetings over his long career and currently manages a team of 29 independent inspectors of election, whose members served at over 300 public company meetings in 2010. He was the 2008 recipient of the Bracebridge H. Young Distinguished Service Award, the highest honor bestowed by the Society of Corporate Secretaries and Governance Professionals. He has served as a mutual fund director and as a director of a California-chartered trust company and is on the board of Fountain House, a community services organization that works with the mentally ill.

nual meetings: At the vast majority of them, nothing of significance ever happens.

Typically, the chairman of the meeting reads from a carefully prepared script, which is designed to conduct the "business of the meeting" as quickly as possible and which, most times, is simply to elect directors and ratify the appointment of the outside auditors. No discussion is needed and none occurs. Often there will be a few remarks on the past year's performance and maybe on the outlook for the coming year, and maybe a general Q&A period, but at 12,000 or more of these annual meetings, there will not be more than a handful of non-management stockholders in attendance (often none at all) and not a single question or comment. And, of course, essentially all the votes were cast and the meeting outcomes were decided days in advance. That is one heck of a lot of time and money for a literal non-event that's usually over in a half-hour, and often in a lot less time than that.

Well-run annual meetings present a truly unique opportunity to size up the entire leadership team and the real culture of the company.

Average investors don't care

The second dirty little secret about annual meetings is that not only are fewer and fewer shareholders showing up, more and more of them are failing to cast their votes by proxy. Back in the 1970s, when individual investors held roughly 80% of all U.S. listed stocks, they voted about 74% of time. Today, at many companies as few as 10% of the individual investors are casting their proxy votes in time for the meeting.

Attendees can be time and money wasters

Here's another dirty little secret about modern-day annual meetings that few people (and least of all our SEC meeting-overseers) seem to want to deal with: A large number of the people who *do* show up at them are, to put it kindly, out-and-out coo-coo birds.

Some have nothing better to do, and wander in for the free coffee and Danish. Others — the professional gadflies who, under current SEC rules are allowed to file the same tired old shareholder proposals year after year — end up wasting significant amounts of management time, shareholder money, and the valuable time of "regular shareholders" who may be there, as they hog the floor to "introduce" their proposals (which are already introduced in the printed matter, along with the company's official response, please note) and to ask a question or make their own personal comment on every other matter that may come up. Ouch!

Time to ditch the 'annual' aspect?

A few years ago, we floated the idea that maybe an annual meeting of shareholders is just plain dumb. After all, we elect the president of our country to serve a four-year term and our representatives and senators to serve two and six-year terms respectively. But after a lot of soul searching — and allowing as best we could for the fact they we have skin in the game and may be biased accordingly — we concluded that an annual meeting of shareholders *is* a good thing to require. Here's why.

Good reasons to stand front and center

First of all, the senior management team — and all the directors too — really should be required to stand up in front of the shareholder every year, give an accounting as to their stewardship, and answer reasonable, business-related questions from share owners. The deep thinking and heavy prepping that most officers and directors do to prepare for this event actually is one of the best "good governance assurers" one can think of. Thinking back to the days of those imperial CEOs, we could cite many an instance where basically bad governance became quite apparent to the audience, and to the press, and sometimes to startled directors too, during an otherwise routine annual meeting. Think, for example, of the Home Depot meeting a few years ago, where the CEO felt that no directors needed to attend, despite the horrific press coverage he'd earned during a reign that ended essentially on the spot; or the more recent rebellion against super-high executive pay and perks at Occidental Petroleum.

A needed safety valve

Second, and very much worth noting, shareholder meetings provide a wonderful and basically cost-effective "safety valve" for companies and investors alike — a lot like the pressure valves on a steam boiler or the old-time pressure cooker. Most of the time, both the valves, and the meeting attendees too, just sit there, doing nothing — which is actually a good thing if you stop to think about it. But if the pressure from investors, or the press, or maybe from emerging social or environmental concerns becomes excessive, shareholder meetings turn out to be one of the best ways we know of to blow off steam without really injuring anybody. And ideally, the noise will wake up the corporate cooks before there's a huge mess to clean up or maybe a fatal explosion of the corporate cooking pot, which we have seen way too many for anyone's own good in recent years.

Further to the idea of simply blowing off steam: While this writer is not a big fan of the idea that "stakeholders" should have the same rights at the corporate dinner table that shareowners do, we have witnessed many instances over the years where the concerns of social investors and other stakeholders were important for public companies and their shareholders to air and to take into account, if only to preserve the

A modest proposal from Norm Augustine

Ed. Note: The following is an excerpt from an article written by Norman Augustine for the *Directors & Boards* Boardroom Briefing special report on "The Future of Annual Meetings" published in 2004. Augustine is the retired chairman of Lockheed Martin Corp. and has served on a number of boards, including Procter & Gamble Co. and ConocoPhillips, and is a member of the editorial advisory board of *Directors & Boards*.

The question arises whether annual meetings, born as the embodiment of corporate democracy, have become an anachronism from another era — a Theater of the Absurd, wherein anyone can be guaranteed a stage, a captive audience, and a moment in the spotlight… the corporate world's version of karaoke.

Arguments in favor of continuing these events, hopefully in a more constructive fashion than has too often become the case, include the observation that the democratic process indeed forms the underpinning of American business and what could be more democratic than an annual meeting in which all shareholders are given an equal opportunity to confront those who in fact are their employees? Further, it is hard to imagine that there could be a worse time to take a step away from direct shareholder involvement in corporate governance than on the heels of Enron, WorldCom, Tyco, et al. This alone is enough to frighten most prudent CEOs from supporting any proposal to repair the annual meeting. Also, some annual meetings actually are productive — Berkshire Hathaway's gatherings being Exhibit One in this regard. But, then, how many CEOs have as much wisdom to share with their shareholders as does Warren Buffett?

Arguing against continuation of these displays of corporate-democracy-gone-awry include the facts that when such meetings are called to order, the CEO usually has 80-90% of the votes to be cast already safely stuffed in his or her pocket; that 99% of the time devoted to the meetings is consumed by holders of less than 1% of the shares; and that, in this age of global business, almost all the attendees happen to live within 20 miles of where the meeting is being held, which itself was probably selected because that's where the corporation's founder was born a century ago.

Indeed, most of those who do attend the gatherings seem to be either retirees enjoying a reunion, union members seeking to circumvent the collective bargaining process by negotiating a new contract directly with the CEO in front of the media, disgruntled former employees, reporters seeking oddities for the Style section, rebels with a (social) cause — usually unrelated to management's ability to redress their grievance — or gadflies seeking their 15 minutes in the sun. No self-respecting large shareholder would normally be seen dead at an annual meeting, nor would most analysts.

But the really bad news is that staging one of these extravaganzas can easily cost over $1 million — and that assumes there is no value to the time devoted by the members of management whom the CEO has compelled to be present, in spite of their impassioned pleas that they need to be with their sick Aunt Minnie, their injured dog, or even at their dentist, having a root canal.

Norm Augustine: The challenge is to drag the corporate version of the 19th century towne meeting into the reality of the 21st century global marketplace.

With all of these flaws, it must be admitted that annual meetings are, or at least could be, an important venue for institutional investors and individual shareholders to constructively question and interact with those to whom they have entrusted their savings. The challenge is thus to drag the corporate version of the 19th century towne meeting into the reality of the 21st century global marketplace. Fortunately, modern technology makes this entirely feasible. But the correct answer is not the obvious one, which is to videoconference or webcast the annual meeting. This would merely convert what is now a local exercise in gaining 15 minutes of fame into a full-fledged Olympic cybersport.

The proposal I would like to offer is actually quite simple and is intended to permit broader shareholder participation in corporate governance and to enable a richer and more constructive exchange of information between a firm's owners and its management — and to do all this at less cost than is being devoted today. The process would consist of five steps:

- First, management would issue an annual report, both on the Internet and, for those who wish, in hardcopy. The report, in addition to the usual financial information and CEO letter, would contain a plain-English presentation of management's view of the top 10 issues facing the firm as well as management's plans for dealing with them.
- Second, interested shareholders would submit to the firm's outside (and presumably independent) auditor questions and comments that they would like to have addressed by management.
- Third, the outside auditor would compile the shareholder submittals to eliminate duplication and irrelevance, and submit a highly consolidated set of questions and comments to management.
- Fourth, management, thus granted the time needed to carefully consider the content of its reply, would respond to the questions and comments which had been posed.
- Fifth, shareholder voting would take place by electronic mail or snail mail, again according to each shareholder's preferences.

It would seem that the current emphasis on enhanced corporate governance affords the perfect opportunity to revise nonproductive practices that were established in the distant past.

Norm Augustine's complete article along with the entire annual meeting-themed edition of the *Boardroom Briefing* can be accessed on the journal's website (www.directorsandboards.com).

corporate reputation as a good corporate citizen. And often, corporate policies and actions with respect to social issues (like apartheid, to go back to the earliest days of social investing) or today's child-labor or environmental concerns, *can* have an impact on a company's long-term bottom line.

Size up the team

Last — and our own main reason for loving well-run annual meetings — they present a truly unique opportunity for investors of every description to size up the entire leadership team … and the real culture of the company. This in our book is a good reason in itself to have an annual shareholder meeting, especially in light of how easy it's been to demonize the leadership, and sometimes the entire company, when something goes wrong, as inevitably something will.

The big fixes

So if we can agree that the annual shareholder meeting is still worth holding, even while the traditional model could use some fixing, what kind of fixes should we be considering?

• ***"Virtual Shareholder Meetings": A New and Better Model?*** — Over the past two years, a number of companies have been experimenting with "virtual meeting" models, not just as a way to lower costs but to reach far more people, far more effectively than the old in-person-only meeting model can possibly achieve. As annual meeting lovers, we truly love this idea. First off, we'd say that for those 12,000-plus companies that have nothing controversial on their agenda, and who typically have no one show up at the meeting, having the meeting totally in cyberspace is an opportunity to save tons of shareholder money on meeting logistics, with no real downside potential that we can see.

Oddly, several activist investors protested that a virtual-only meeting would allow companies to "hide" from investors, to avoid taking questions or allow companies to take them selectively, or re-phrase them to suit — and would consign shareholders to what one social investor called a "cyber-ghetto" where their cries of protest would not be heard. But as events soon proved, when Symantec Corp. encountered a few technical glitches at its virtual-only meeting held in 2010, there is no place to hide in cyberspace. Quite the opposite: Every little good governance misstep or miscue, whether real or perceived, hits the Internet discussion boards in a flash. And activists, once they thought more on this, seem to be realizing that virtual meetings increase the size of their own audience enormously and essentially at no cost to them to boot. (We also believe we've overcome their objections to the potential cyber-ghetto by recommending that companies that want to have virtual-only meetings allow shareholders to come in person if they really insist, as long as they provide reasonable advance notice of their intention to come.)

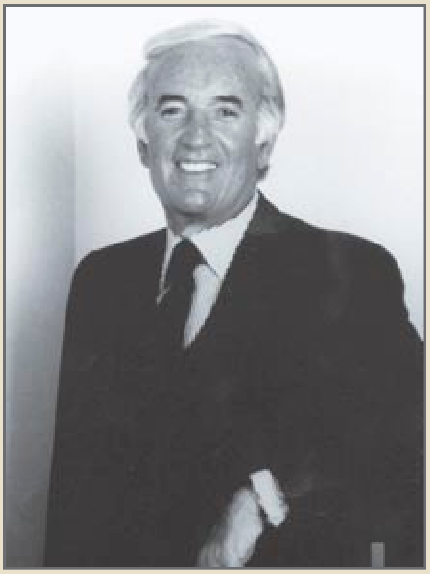
This said, however, at least 1,500 public companies will quickly discover that they are perfectly happy with their tried-and-true "old model" and that they don't want to do away with their in-person venues that are mostly populated by friendly investors like customers, suppliers and retirees. And a huge number of public companies — spanning the range from little local banks to regional gas and electric utilities to big companies like Berkshire Hathaway and Wal-Mart, which draw over

The annual meeting as the (lost) art of romance

Ed. Note: The following is an anecdote about one of the legendary CEOs who ruled the entertainment business — Steve Ross, former head of Time Warner Inc. Connie Bruck tells this story in her 1994 biography of Ross, *Master of the Game: Steve Ross and the Creation of Time Warner* (Penguin Books). Bruck has been a staff writer at *The New Yorker* magazine since 1989, writing about business and politics. Ross died in 1992.

From the start, Steve Ross prided himself on his shareholders' meetings.

Over the years, he would become more polished, but even in the early days of Kinney Service he came to these events like a natural; showcasing his depth of knowledge about the company, his numerical nimbleness, his salesmanship so consummate that it seemed more about the art of romance than about selling.



Steve Ross: He played his shareholder meetings 'to a tie.'

As he did with other business tasks, Ross made his preparation for these meetings into a game; he challenged his associates to find a question that would stump him, as though he were about to appear on one of his favorite television quiz shows.

He had a strategy for these meetings ("You never play a shareholders' meeting to win, you play to tie") as, it often seemed, he did for everything in life. And once he was on the podium, taking questions from the audience like so many lobbed balls, he seemed to want them to go on forever. "To make him stop answering questions," recalled the company's longtime secretary, Allen Ecker, "you'd have to turn out the lights."

30,000 attendees each — couldn't do away with them if they did want to.

Maybe half of the 1,500 or so companies that like their annual meetings and think they add value will decide that a "hybrid meeting" — where people can attend in person or via a live feed over the Internet — is a wonderful option for all concerned, and well worth the added cost. The other half, we bet, will decide the game isn't worth the candle, at least in years when, literally, there is nothing newsworthy going on. But for any company that wants to reach out to a larger and often more sophisticated investor audience, making a shareholder meeting interesting enough for "prime time" presents quite a challenge — and quite a worthy one, we think — and one that often *will* be worth the candle to produce. (Visit the Best Buy Corp. website for a good example of what is possible here,)

• ***Virtual Forums*** — Another great good-governance innovation has been the idea of company-hosted "virtual forums" that will allow investors — and other interested parties, if permitted by enlightened management — to raise issues and ask questions in advance of the shareholder meeting. Aside from contributing to a far richer and broader dialogue than a traditional in-person-only meeting can possibly foster, it can serve as a valuable early warning sign and as a useful pressure-release-valve; plus it assures that the company site, and not a passel of "discussion boards" populated by anonymous bloggers and mischief-makers, will be the authoritative site for such discussions.

• ***Fighting "The Toaster Factor": The Need for Much Better Shareholder Education about Annual Meeting Matters*** — If we could single out only one thing for fixing, we'd cite the "toaster factor." Simply put, most annual meeting materials that cross our desks, or increasingly our desktops these days, are not the least bit compelling. So we put them behind the toaster, or in a little pile somewhere, to maybe look at later. But, more often than not, as the statistics clearly show us, we simply throw them in the trash or hit delete, or do it weeks later, when the meeting is long over.

To get the bigger bang

Here's a short list of "fixes" to better cope with the money-wasting "toaster factor" and to get a much bigger bang for the big bucks your company spends on the annual meeting:

1. *Design and package your annual meeting information to invite and ideally to command a moment of shareholder attention.* More and more companies have ditched the old-time full-color annual report with the eye-catching and easy-to-understand performance charts, the friendly Chairman's Letter and head-shot, and maybe some photos of the leading products, brands, etc. that basically got one's attention and set the stage for at least a casual skim-read. No wonder that people are not voting their proxies or thinking that a visit to the meeting would be worthwhile when we look at the totally awful materials that are being cranked out today as a way to "save money" — and served up to investors looking like a subpoena, or maybe a class action suit. Your company's "wrap" or webpage-opening document doesn't have to be expensively produced, or, God forbid, lengthy, but it *does* need to command our attention or it won't get any!

2. *Get your writers to stop slavishly following the sequence numbers in the SEC rulebook as they organize and present your annual meeting materials.* Ditch the old "playbook" and all those pages of legalese (which still have to go somewhere, of course) and cut to the chase: Start off with a snappy, up-front summary of the matters to be taken up at the meeting and with some information as to why shareholders should care, and push all the legal lingo and footnotes to the end where they belong.

A 'hybrid meeting' where people can attend in person or via a live feed over the Internet may be a wonderful option for all concerned.

3. *Provide shareholders with some information about the fact that their votes do have value.* And provide them with some easy-to-follow information on how to decide on their votes and on how to cast their votes. (Email me at the contact information below for a copy of the author's own little primer on this subject if you're interested.)

4. *Use the Internet as a marketing and educational tool* . . . and not just as a cheap and easy way to dump the legally required info on your already over-busy shareholders. When you can deliver your meeting materials electronically, as increasingly you can, think about emailing a little cover note, or maybe appending a video clip, with a short but sweet message from the chairman, and maybe a place to click to find out how and why their votes have value — and anything else you can think of that will motivate shareholders to pay a bit of attention, cast their votes while they're at it, and, ideally, vote with the management recommendations.

Last, and most important of all, we think, when reflecting on your own company's annual meeting, ask your meeting planners, and yourselves: "Can we be getting *more* for all the time and effort and money we put into the darned thing?" ■

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New technologies for new engagement

Benefits on offer are greater opportunities for shareholders to participate in the annual meeting, higher levels of voting participation, more transparency, and lower costs.

By Richard J. Daly

Annual shareholder meetings are changing for the better, and when it comes to technology and progress it's safe to say there's no going back.

Vast shifts in technology — including online forums, social media, sentiment gathering, and other developments — are enabling annual shareholder meetings to evolve with a rapidly changing world. Certain technologies are creating opportunities for directors to more regularly, efficiently, and broadly understand the views of all of their shareholders, and are affording shareholders levels of transparency, participation, and privacy not previously seen. These technologies can create efficient outreach throughout the year, as well as annually at shareholder meetings and, ultimately, we believe, contribute to improved levels of knowledge and, therefore, trust in equity markets.

If asked to imagine a shareholder meeting, some people might paint a heartland scene — a sports arena filled to the brim with adoring shareholders sipping cherry sodas. Others might describe a more dramatic scene: an issues group hijacks the Q&A session and security guards spring to attention. The reality, of course, for the vast majority of annual meetings is far different.

Most meetings are sparsely attended. Shareholders would like to be more involved but attending in person can be time-consuming, expensive, and inconvenient. As a result, many companies hold their annual meetings in a small conference room and provide only such bare essentials as coffee, donuts and copies of the proxy statement and annual financial statement for the few shareholders who are able to attend in person. Yet, a company's preparations for the meeting, including board travel, security and other arrangements, can be costly and time-consuming whether one or more people attend.

Richard J. Daly is chief executive officer of Broadridge Financial Solutions Inc., a leading provider of technology solutions for shareholder communications and proxy voting. Broadridge was spun off as a publicly traded company from Automatic Data Processing Inc. in 2007. Daly, who joined ADP in 1989, was president of ADP's Brokerage Services Group prior to his current role.

Game-changing technology

Internet webcasts of meetings are, of course, not new, but until recently there was no easy way to assure that questions submitted by participants or votes cast online in real time were, in fact, from actual, validated shareholders of the company. In 2009, Broadridge Financial Solutions unveiled technologies for "Virtual Shareholder Meetings" and "Electronic Shareholder Forums." Although relatively new, these technologies are changing meetings for the better. Among other benefits are greater opportunities for shareholders to participate and lower costs to companies, shareholders and boards. Early results show increases in engagement and information flow.

The Virtual Shareholder Meeting technology provides a means to hold meetings online, with real time voting — either on a "virtual-only" basis, if preferred, or in conjunction with a physical meeting. Busy shareholders can attend more meetings, more conveniently, without the costs in time and out-of-pockets associated with traveling to a distant meeting location.

The Electronic Shareholder Forum technology enables boards and management to interact with validated shareholders at any time of the year, including in advance of an annual meeting. It offers an efficient means for management and directors to understand the views and perspectives of their broad population of shareholders and, among other benefits, it provides shareholders with another means to ask questions of directors or management, take surveys (whose results can be tabulated by share amount), and access company information. This makes broader information more readily and more cost-effectively available to boards, management, and shareholders and enhances the overall communications process throughout the year.

Shareholder verification

These technology solutions differ from typical Internet forums and webcasts in several important ways. That is, while they offer Internet convenience and anonymity they also validate shareholders as actual shareholders, including verification of their share ownership level in a participating company. This enables management, boards, and shareholders to know that the participants are actual shareholders of a company rather than Internet interlocutors or gadflies with no financial stake.

Moreover, because the technologies can be provided through a shareholder's brokerage firm or custodian bank the notification is direct, and users

The opportunity is right now to revitalize the annual meeting

View from The Shareholder Forum on the acceptability of electronic participation. **BY GARY LUTIN**

When controversies developed last year about whether "virtual" annual meetings would be acceptable to investors, leaders of the three constituencies — *Intel Corp.,* a company respected for both its governance and investor relations that wanted to use the new communication technologies for its annual meeting; *Walden Asset Management,* an activist investment fund that had vocalized concerns about depriving shareholders of their rights to confront a company's management; and *Broadridge Financial Solutions,* a service provider that was offering support for "virtual" meetings — asked the Shareholder Forum to moderate an open marketplace definition of standards for the fair and orderly conduct of shareholder meetings that allow electronic participation.

Guided by a panel of corporate and investor influence leaders and advised by invited experts, the Forum's "E-Meetings" program defined relevant issues in exchanges of views among participants representing the full range of decision-maker perspectives. Evolving proposals of standards were presented for discussion at an open meeting in July 2010 that was itself a test of "virtual" communication processes, with about 30 participants convening physically in New York and an equal number joining by webcast. (All of the program reports are available at www.ShareholderForum.com/e-mtg.) What we learned should not be surprising:

• First, everyone, on all sides, likes direct communication and wants more of it. Most investors want to get decision-making information from a company's managers, and most company managers want to find out what will influence their investors' decisions and then respond to those interests. Notably, our surveys of professional investors showed consistently strong preferences for management sources of information compared with proxy advisors. This means that you can expect most investors to welcome a company's taking active control of communications to determine investor interests and define the issues that need to be considered.

• The advantages of applying current technologies to shareholder communications are significant. Inspired by Broadridge's pioneering "virtual" meeting services, Forum participants organized projects to develop a broader set of electronic processes for shareholder verification and related "Forum Tools" that can be made available independently to companies through any qualified transfer agent. You now have an open market choice of service providers for the communication tools you need to compete for investor support.

• Finally, the program's original issue of fairness in shareholder communications was viewed ultimately as a relatively simple matter. With a clear consensus of corporate and investor participants, the Forum published three simple questions for considering whether investors are provided reasonable opportunities to ask questions, know what others are asking, and observe management's responses. Most Forum participants also supported a respectful tolerance of pioneering experiments to develop improved communications. If you want to be sure of the acceptability of a new process, though, you can expect genuinely helpful responses from asking some representative investors how they think it can be done right.

We have an opportunity now to revitalize the annual meeting's function with more practical exchanges of information. A company's directors, with their diverse experience in the basic business practices of determining and responding to customer decision-making criteria, can apply that wisdom to guide the development of similar processes for winning the votes — and the capital — of investors. This competition for investor support is just as important to corporate success as the competition for customer support. And effective communication is essential to both.

Gary Lutin has chaired the open Shareholder Forum programs since they were initiated by the New York Society of Security Analysts in 1999, and organized The Shareholder Forum Inc. to manage the programs and make its "Forum Tools" openly available to qualified transfer agent members of the Securities Transfer Association for their support of corporate communications with investors. (*Ed. Note:* Broadridge Financial Solutions independently offers "Electronic Shareholder Forum" services to its corporate clients as discussed in the accompanying main article.)

benefit from rigorous controls and information security. With connections through a brokerage account, participants are not asked to disclose personal information such as their name, address, and share amount in order to participate — yet linkage to a brokerage account can offer greater levels of decorum and seriousness for all participants.

These technologies offer specific benefits for directors. New lines of communication to both retail and institutional shareholders can provide boards with broader and more complete shareholder perspectives on how their company is performing. Directors are afforded a means to distinguish shareholder views on key topics from populist opinions.

To date, over 30 companies have held virtual shareholder meetings.

Results are promising. For our company, the increase in participation was significant. In 2008, we had a traditional annual meeting; that is, it was held in a physical location in a major city. (This was our first full year operating as a public company.) Fewer than 10 shareholders attended, only three asked questions, and none of the attendees voted. In the following year, as a result of providing a fully virtual shareholder meeting, along with an electronic shareholder forum in advance of the meeting, over 180 shareholders attended the meeting, 15 asked questions either before or during the meeting, and 22 voted their shares online in real time at the meeting. In 2010, we had similar levels of participation and engagement thanks to these new technologies.

The experience is not unique to Broadridge and its meetings. To date, over 30 companies have held virtual shareholder meetings, each offering real-time voting online. Ten firms have also held electronic forums in conjunction with their virtual meetings. These numbers include large and small companies from a variety of industries, both domestic and offshore — some had meetings in which there was significant shareholder interest.

Facilitating flows of information

New regulations, such as say on pay, are causing some companies to seek new lines of engagement with their shareholders. Other companies are seeking new lines of engagement simply because it makes good governance sense. Such firms are committed to enhancing their channels of communication by applying new technologies to better facilitate timely and efficient flows of information, both around and during annual meetings.

Shareholders, as well as companies, are benefiting from efficiencies and conveniences and new avenues of engagement that are more in tune with a changing world. New technologies enable you to know what a high school classmate (who you probably don't remember) has done over the past 30 years (including during the last 30 seconds). It comes as no surprise, therefore, that new technologies for companies, directors, and shareholders can lead to greater knowledge transfer, higher levels of voting participation, and more transparency. ■

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Open your mindset to the bigger picture

For a better annual meeting… look beyond the annual meeting. **By David Silverman**

In the wake of the financial crisis, the long-term trend of boards and management teams listening to the perspectives and ideas of their major shareholders has gathered new momentum. Boards are working harder in an environment of greater regulatory accountability, and more companies than ever are earnestly trying to take good governance seriously. Yet annual meetings remain emblematic of the limitations of the process-oriented approach to corporate governance to which most companies still adhere.

For the most part, companies still approach the annual meeting primarily as a requirement that must be satisfied, and secondarily as an employee communication event. For many companies the annual meeting is the only time during the year when they ostensibly discuss the board with their investors. Despite the fact that boards are generally more qualified, more engaged, and more knowledgeable about their companies than ever, the prevailing goal of most annual meetings — "bring it to closure" — harkens back to an era of unimpressive boards.

I believe companies should be marketing governance as a strength, emphasizing that shareholder capital has the right people and the right structure around it to provide long-term value. A bigger-picture approach to corporate governance by boards and their companies not only would benefit investors, it also could help address the common complaint among management teams over "short-termism" within the investment community.

As a long-term shareholder — Blue Harbour typically takes significant minority positions in companies that are open to our ideas for unlocking value, and we expect to hold our positions for a multi-year time period while companies execute their strategies — I believe the quality of the board and management and their willingness to promote transparency is absolutely critical. Over a three-year time horizon, any company's circumstances can and will change in unknowable ways, whether due to the economy, currency fluctuations, technological developments, new competitors or a host of other variables. So even more important than the quality and credibility of any particular set of assets or business strategy is the skill and experience of the board and management team that I'm relying on to regularly test and reassess the strategy and adjust it or overhaul it as changing conditions require.

Provide the tools

If companies want to attract long-term shareholders — the kind of shareholders who, for example, will support a temporary reduction in earnings for the betterment of long-term value, or stick with a company through a rough period and in so doing dampen stock volatility — they should provide the tools for understanding their long-term potential. No shareholder should expect a company to provide, for example, detailed five-year earnings projections for a new acquisition, but a long-term shareholder needs the tools: What are the com-

David Silverman, CFA, is a managing director of Blue Harbour Group L.P., a firm that invests in the securities of undervalued U.S. companies (www.blueharbourgroup.com). He was a member of The Shareholder Forum's research initiative on "Electronic Participation in Shareholder Meetings" *(see page 31)* that resulted in the September 2010 report, "Standards for Fair Conduct of Shareholder Meetings."

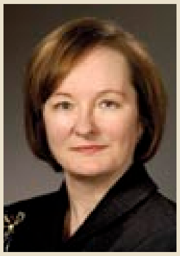
How to fix the annual meeting … in 100 words or less

That was the challenge presented to a network of *Directors & Boards* colleagues and readers of the *e-Briefing* monthly newsletter. Here is a selection of responses.

I would remove the 'annual' — once a year isn't engagement. Have an annual polling session with statutory reports but have other interaction for meaningful exchange of ideas between those annual sessions. David Gonski, a well-respected Australian chairman, once reflected that an annual general meeting with shareholders was like a drunken one-night stand with some total strangers! I tend to agree — not that I have ever tried his analogy… it is just that I find the meetings so unfulfilling.

— ***Julie Garland McLellan,*** author of the new book *Presenting to Boards* and one of Australia's leading governance experts (www.mclellan.com.au)

Fixing the annual meeting begins with proper preparation in advance. Step 1: All directors should read every word of all publicly available documents in advance of the meeting with the intent of seeing the company through the eyes of its most knowledgeable outside stakeholders. Step 2: Directors should meet with shareholders and other stakeholders and prepare and present a report of findings at the meeting. Step 3: The board should prepare and present a report on how it has added value for all shareholders and stakeholders and its plans to improve its performance in future years.



— ***Eleanor Bloxham,*** CEO, The Value Alliance (www.thevaluealliance.com)

The annual meeting should be one of the company's main investor relations events of the year. It should be a showcase for the company's products, its culture, its strategic direction, and its corporate governance. In addition to a regular investment or marketing road show, presentation should be made as to various governance structures and activities the company's board has gone through during the year. Individual board committee chairs should get up and make the presentation of what his/her committee worked on during the year and their goals for the coming year. At a minimum, shareholder input should be solicited and, optimally, dialogue be had. If the above were to be conducted annually and investors could count on it, there would be a build-up of in-person and webcast attendance that would be worthwhile in terms of awareness and positive perception, which would find its way eventually in a higher stock price.

— ***Andrew Shapiro,*** president, Lawndale Capital Management LLC (www.lawndalecap.com)

Shareholder governance pressure will obviously continue during the 2011 proxy season as the Dodd-Frank Act interpretation by the SEC continues to become a reality. Meanwhile, in response, some companies are beginning to consider changing the annual meeting process to include both audit and compensation committee chairs offering planned comments during the meeting. The focus would be to provide a visual awareness of a chair and issues that have been considered by a committee.

— ***C. Warren Neel,*** corporate director and executive director of the Corporate Governance Center at the University of Tennessee (www.corpgovcenter.utk.edu)

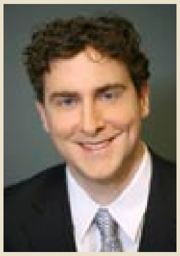
Almost all shareowner meetings are too formal, perfunctory, and sanitized to be useful (apart from the real activities related to proxy voting). Although most likely only a partial fix, I think giving shareowners, and perhaps other non-owner stakeholders, the real ability to place items on the agenda for discussion and reaction by directors (who should be required to attend every AGM) would improve AGM effectiveness.

— ***Michael McCauley,*** senior officer, Investment Programs & Governance, Florida State Board of Administration (www.sbafla.com)

Advance notice, voting by proxy, shareowner dispersion and other factors reduced the meaningfulness of annual shareowner meetings. Yet, "face-to-face accountability" can still change corporate policy. Recent "virtual-only" meetings demonstrate they are not ready for prime time, just as tablet computers needed years of development prior to iPad success. "Hybrid" meetings provide a testing ground for security issues, intuitive interfaces, independent facilitators using published procedures, Q&A sessions around each proxy item and other experiments that can lead to increased accountability. Technology can facilitate real deliberation or devolution into meaningless ritual. The choice is ours.

— ***Glynn Holton,*** executive director, United States Proxy Exchange, and ***James McRitchie,*** publisher of CorpGov.net (http://CorpGov.net)

The constraints are real: limited time, limited participation of shareholders, and legal constraints on what can be said. Investors hoping to discern novel insights at the annual meeting are ripe for disappointment. So spend time on giving shareholders a window on how the board and management interact on an issue of substance. Dispense with serial presentations in favor of a less-scripted discussion of an unusually challenging risk or opportunity, with questions from shareholders online or in person. Bring corporate governance to life to validate shareowner confidence in the stewards of their interests.



— ***Matt Orsagh,*** CFA, director, Capital Markets Policy, CFA Institute (www.cfainstitute.org)

How about letting directors answer questions from shareholders? A rookie meeting attendee once asked me, "Why are the directors sitting at the front of the room with their backs to the shareholders? Shouldn't they be facing the shareholders?" The question was utterly guileless, but I didn't have an answer.

— ***Cornish Hitchcock,*** principal, Hitchcock Law Firm (www.hitchlaw.com) pany's acquisition criteria? How is compensation aligned with performance? What prior experience do the board members and management have in integrating and deriving value from acquisitions, and what are their track records?

Not the only opportunity

Companies who desire long-term shareholders should view the annual meeting as one opportunity to showcase the strength of their boards, but by no means the only one. If a company wants to attract the kind of shareholder who cares about the long term, it should discuss governance issues at its annual investor day and other venues where it interacts with its investors, because governance informs quality decisions over the long term. It should strive to turn the proxy's compensation discussion and analysis section into a marketing communication that also accomplishes a legal requirement, as opposed to a legal requirement in and of itself. Explain to shareholders how the board and management are eating their own cooking via compensation that pays out only upon realization of the longer-term value creation.

I believe companies should be marketing governance as a strength.

Process-oriented, prescriptive approaches only go so far. When boards and managements reach further to adopt a "shareholder mindset," the big picture becomes clearer and they will find the tactical steps that make sense for their particular cases. ■

The author can be contacted at dsilverman@bhgrp.com.

NIRI's suggested steps for a better experience

By Jeff Morgan

Boardrooms throughout the country are rapidly learning that one upshot of Dodd-Frank is greater shareholder influence on corporate governance matters, including increased shareholder interest in communicating directly with boards. Factor in the loss of the broker vote in director elections (thanks to the NYSE Rule 452 amendment), and many companies and their directors are rightly concerned about simple, non-routine director elections.

These new rules serve to highlight the increasing importance of any public company's investor relations (IR) function. I believe that as the key link between the company and the investment community, boards of directors will of necessity rely more directly on IR for information and deeper insight into their shareholders in this new environment. And I believe that companies and boards should view this new environment as an opportunity to develop new and better methods for communicating with these shareholders.

One traditional corporate/shareholder communications opportunity that seems to have fallen on hard times is the annual meeting. Roundly criticized by all sides as an antiquated, ill-attended exercise in regulatory compliance, there are steps that companies and boards could take now to make the 2011 annual meeting a much better experience for all:

• *Change your perspective*. The most important step is to view the annual meeting from the context of your total, year-round communications, disclosure, and IR objectives. The annual meeting is not something to be run for its own sake or simply for compliance, separated from the rest of your investor communications.

• *Offer more ways to connect*. Virtual meeting technologies offer great opportunities for more effective communication and expanding your reach. Like many emerging IR communications applications, it's something you can add, rather than an either/or choice between physical or virtual meetings.

• *Increase transparency*. Make use of all disclosure channels to publicize the annual meeting before the event, and do the same following the meeting to quickly announce voting results.

• *Participate*. Directors ought to attend every annual meeting. Absence sends the absolute wrong message to your investors. Likewise, boards should use this as an opportunity for direct shareholder engagement (subject to common sense ground rules).

Jeff Morgan is president and CEO of the National Investor Relations Institute (www.niri.org). Founded in 1969, NIRI is the largest professional investor relations association in the world, with more than 3,500 members representing 2,000 publicly held companies. He can be contacted at jmorgan@niri.org.

Sponsored by DrinkerBiddle

The Directors & Boards Survey: The effectiveness of annual meetings

From how important the annual meeting is as a governance tool to technology alternatives and even to whether the annual meeting should be eliminated, the Directors & Boards audience 'voted their proxies' for our survey. **Analysis by David Shaw**

Annual meetings are a relic of the past." That's how one director respondent to the Directors & Boards survey on annual meetings put it. And it's no surprise that, according to our survey, the role of annual meetings in corporate governance remains controversial. While the governance community as a whole finds the annual gathering of shareholders to be a valuable corporate governance tool (this includes responses from public, private and nonprofit directors, as well as executives, corporate governance advisers, and shareholders), there is a fairly large schism between the attitudes of public company directors and shareholders. Seventy percent of shareholders (institutional and individual) find the annual meeting to be very important and 20% somewhat important as a governance tool, while 36% of public company directors say the annual meeting is not very important, and an equivalent number rate them as only somewhat important.

Interestingly, we find that private company directors are much more likely to find annual meetings important as a corporate governance tool, but this makes sense, since attendance at private company annual meetings is limited to shareholders who likely hold significant ownership in the company.

The reasons behind the public company director attitude toward annual meetings is shaped by several factors:

1. *The perceived hijacking of meetings by gadflies and small shareholders.* As one director put it: "Setting time limits on

Survey methodology and demographics

This Directors & Boards survey was conducted in January 2011 via the web, with an email invitation to participate. The invitation was emailed to the recipients of the Directors & Boards monthly *e-Briefing*. A total of 400 usable surveys were completed.

The survey was conducted with the financial support and sponsorship of Drinker Biddle & Reath LLP, though all survey questions and responses were designed and analyzed solely by Directors & Boards.

ABOUT THE RESPONDENTS

(Multiple responses allowed)

A director of a publicly held company	35%
A director of a privately held company	45%
A director of a nonprofit entity	47%
A senior-level executive (CEO, CFO, CxO) of a publicly held company	4%
A senior-level executive (CEO, CFO, CxO) of a privately held company	25%
Institutional shareholder	5%
Other shareholder	23%
Academic	3%
Auditor, consultant, board advisor	14%
Attorney	13%
Investor relations professional/officer	3%
Other	8%

REVENUES

(For the primary company of the respondent)

Average revenues $3 billion

Less than $250 million	51%
$251 million-$500 million	9%
$501 million to $999 million	4%
$1 billion to $10 billion	22%
More than $10 billion	14%

BOARD SERVICE

(Average number of boards respondents serve)

Public	1
Private	1.5
Charitable	2

RESPONDENTS' AGE

Average age 58

21-29 years old	1%
30-39 years old	4%
40-49 years old	14%
50-59 years old	31%
60-69 years old	39%
70 years or older	11%

Do you represent a company that conducts annual meetings (whether public, private or charitable), or are you a shareholder in or adviser to such a company?

Yes	86%
No	14%

questions (so people don't use the question time to make speeches) would help some of the larger companies." Another suggested that "the issues of shareholders should be made pro rata with their equity holding."

2. *Low attendance, especially among institutional shareholders.* According to our survey, only about 31% of share ownership is represented at an average annual meeting, and public company directors think the number is closer to 15%. A director respondent noted that annual meetings "will not improve until institutional shareholders participate." Another noted: "Shareholders who have a real stake in the company could actually attend annual meetings and not relegate attendance to those who submit proposals or who only raise personal issues that are not meaningful for shareholders generally." One director suggested that companies "require attendance by large shareholders in order to have a vote."

3. *Shareholder participation.* Of those shareholders who do come to the annual meeting, many directors complained about the lack of real participation and dialogue. "We have to make eye contact with our shareholders or 'pick on them' (i.e., look one in the eye and say 'one shareholder asked me this question before the meeting, I'm sure the others would be interested in the answer if he asked it again')," commented a director. Another noted that, "The number of questions asked by shareholders is low. Other than a few high-profile gadfly cases, are annual meetings truly about shareholder communications?"

Is technology the answer?

The negative view that many public company directors have of annual meetings seems to center on the effectiveness and expense (in terms of both time and money) of the annual gathering, without any real return or value for either the company's shareholders, executives, and board. Said one director: "As much as we probably all like the idea of eliminating in-person annual meetings, there still needs to be a communications channel for the individual shareholder."

For these directors, technology seems to be an answer:

• "Make use of annual meetings as originally intended," said one director. "To exchange information about matters that concern the company's investors, but in the context of modern communications that allow continuous electronic exchanges rather than a physical convening."

• Another director suggested that, with en electronic meeting, "The lack of person-to-person confrontation would avoid the excesses of both angry small shareholders and ambivalent institutions and depersonalize the Q&A sessions."

• Finally, a director-respondent noted that "Annual meetings should not be the critical component of shareholder communications. Boards need to communicate regularly with shareholders to encourage understanding of corporate strategy and direction."

A more complete look at our survey results follows.

THE EFFECTIVENESS OF THE ANNUAL MEETING

How important is the annual meeting as a corporate governance tool?

All respondents

39% Very important
32% Somewhat important
25% Not very important
4% Not at all important

Public company directors only

36% Somewhat Important
36% Not very important
23% Very important
6% Not at all important

Private company directors only

41% Important
33% Somewhat important
20% Not very important
6% Not at all important

How important is the annual meeting in terms of shareholder relations or support?

42% Very important
36% Somewhat important
17% Not very important
5% Not at all important

Does your annual meeting advance your company's corporate objectives?

46% Yes, somewhat
27% Yes, completely
27% No

How effective was the annual meeting in providing a forum for shareholders to communicate with the company?

42% Somewhat effective
22% Very effective
17% Very ineffective
16% Somewhat ineffective
3% Other

Approximately how many shareholders attended the company's last annual meeting?

83

What percent of overall estimated company ownership does this number represent?

32%

Comparing the attendance at the last annual meeting to the year before, attendance was...

68% About the same as the previous year
15% Lower than the previous year
14% Higher than the previous year
3% Don't know

Approximately what percent of attendees at the last annual meeting were institutional shareholders?

60% None
30% 1-25%
10% More than 25%

Given the choice, would you eliminate the in-person annual meeting?

All respondents

63% No

37% Yes

Public company directors

51% No

49% Yes

If annual meetings were eliminated, what format would best serve your corporate governance and shareholder relations objectives? (Multiple responses allowed)

71% Webcasts

45% Teleconferences

44% Pre-submitted questions, answered in a document or on the company website to shareholders

20% Regional shareholder meetings

10% Other

SHAREHOLDER AND PROXY QUESTIONS AT THE ANNUAL MEETING

The majority of questions at the last annual meeting were asked by…

62% Individual shareholders

20% No questions asked

9% Institutional shareholders

4% Employees

4% Other

1% Analysts

0% Media

Did shareholder questions asked at the last annual meeting raise issues and priorities critical to board decision making?

67% No

28% Yes

3% Other

2% Don't know

How did the company address shareholders during the last annual meeting?

(Multiple responses allowed)

83% Speech from the CEO

47% Speech from board chairman

42% Reports/presentations from key executives

16% Reports/presentations from key board committees

16% Written reports

11% One-on-one meetings with board members

6% Other

5% Outside (non-company) speaker

4% One-on-one meetings with senior executives

3% Reports/presentations from other outside director(s)

At the last annual meeting, was the company's proposed slate of directors re-elected in its entirety?

89% Yes

7% No

3% No director elections were held

1% Other

During the last annual meeting, were the company's proposals accepted by the shareholders in their entirety?

81% Yes

12% No company proposals were offered

5% No

2% Other

Did the last annual meeting elect a director or directors or pass a shareholder proposal that was not on the company's ballot (that is, via proxy?)

75% No

18% No proxy directors or proposals were offered

7% Yes

BOARD MEMBER INVOLVEMENT IN THE ANNUAL MEETING

Does the company require its board members to attend the annual shareholder meeting?

78% Yes

17% No

5% Other

Does the company schedule a board meeting to coincide with the annual meeting?

88% Yes

11% No

1% Other

Did the majority of board members attend the last annual meeting?

95% Yes

5% No

What kind of opportunity, if any, is provided to shareholders to address directors at the annual meeting? (Multiple responses allowed)

51% Questions to all directors

42% Networking with directors at social events

26% Questions to designated directors

18% None

10% Individual meetings with directors

7% Other

If questions were allowed to directors, how were these questions asked? (Multiple responses allowed)

74% Live from the floor

29% Informally

15% Submitted in writing

9% Other

7% In one-on-one meetings

How involved is the company's board in planning/setting the agenda for the annual meeting?

55% Somewhat involved

25% Not at all involved

20% Very involved

David Shaw is publishing director of Directors & Boards. He can be contacted at dshaw@directorsandboards.com for more information about the survey results.