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The debate about virtual shareholder meetings

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October 22, 2010 | By Neil Stewart

The best – and the worst – of the 2010 proxy season

It was a meeting about meetings, a webcast about webcasts, and a lot of the questions were about questions. Very meta.

One day last summer, in a bunker-like conference room beneath midtown Manhattan, an experiment took place: a hybrid meeting, virtual and physical, with around 30 participants in the room, others connected by phone and a few dozen more listening to a webcast and sending questions and comments electronically. It was not a shareholder meeting; it was a meeting about shareholder meetings, in particular electronic participation, and it was designed to test some of the technology and techniques starting to be used in them.

Financial journalist Avital Louria Hahn and I were interlocutors of a sort, reading questions and comments coming in over the web and conveying them into the physical meeting. We were inspired by Berkshire Hathaway (<http://www.berkshirehathaway.com/>), which asked shareholders to email their questions in advance of its annual meeting to three financial journalists who then posed the best ones at the live event. At shareholder meetings with an online audience, this role is often undertaken by the investor relations officer.

Our meeting was organized and chaired by Gary Lutin, an investment banker and governance advocate who runs the Shareholder Forum (<http://www.shareholderforum.com/>), and it included institutional investors, corporate executives, lawyers and others involved in devising or participating in shareholder meetings.

As we worked to feed online participants' views into the live discussion, it dawned on me that Louria Hahn and I were probably the most powerful people at the meeting: we could prioritize, rephrase or ignore questions; we could disguise a questioner's identity or reveal it when we weren't supposed to. We could have made everything up. (We didn't.)

Still in the self-referential vein, the discussion focused a lot on the transparency around shareholder

questions and management's answers before, during and after the annual shareholder meeting. Should management members answer all the questions during the meeting? Could they answer some afterwards? Should questions be visible to everyone? Should questioners' identities be shown?

That is a small sample of the growing debate around virtual shareholder meetings (VSMs), a debate that recently came to a head with computer security and storage company Symantec (<http://www.symantec.com/>)'s September 20 annual meeting.

Adding voting to webcasts

Webcasting stockholders' meetings is not new. According to a survey by NIRI (<http://www.niri.org/>) at its annual conference in June, 31 percent of companies do it. Another survey from TheCorporateCounsel.net (<http://www.thecorporatecounsel.net/>) confirms that around one third of companies webcast their meetings.

What *is* new is letting shareholders not only listen or watch on the web but also vote online during the meeting. Intel (<http://www.intel.com/>) did it first in May 2009 using Broadridge Financial Solutions (<http://www.broadridge.com/>)' VSM platform in conjunction with a traditional physical meeting. Then Broadridge itself did the first virtual-only meeting in November 2009. The company says an audio VSM can cost as little as \$4,000, while using video and other add-ons can push the cost toward \$20,000 to \$30,000.

Broadridge doesn't have a lock on the game. Wells Fargo Shareowner Services (https://www.wellsfargo.com/com/shareowner_services) did a hybrid meeting for Charles Schwab (<https://www.schwab.com>) in May, and in July Computershare (<http://www.computershare.com/>) announced a new virtual meeting platform. For a VSM organized by a transfer agent, beneficial shareowners need to have obtained legal proxies from their brokers beforehand if they want to vote online during the meeting. Broadridge's advantage is being able to qualify any shareowner to vote in real time.

Intel spurred a backlash against virtual meetings when it announced late in 2009 that it was going to follow Broadridge's example and go virtual-only. After complaints from shareholders, Intel backtracked and stuck with a hybrid meeting for 2010. Then Procter & Gamble (<http://www.pg.com/>) had no sooner changed its bylaws to make a virtual-only meeting possible than shareholders pounced on it. After discussion, P&G promised not to go all-electronic for at least five years.

Likewise, Symantec triggered protest when it announced it was making this year's annual meeting virtual-only. In a response to a question about the format during the half-hour meeting, chairman John Thompson said the idea was to reach a broader range of shareholders. CEO Enrique Salem added that two to three times as many people were attending virtually than had previously attended the live meeting.

Before Symantec, 13 out of 25 meetings on Broadridge's VSM platform were virtual-only. But this time sparks flew because Symantec was the first Fortune 500 company to go all-electronic. Objections came from the likes of CalPERS (<http://www.calpers.ca.gov/>) and CalSTRS (<http://www.calstrs.com/>), helped along by a letter-writing campaign staged by the United States Proxy Exchange (USPX (<http://us.proxyexchange.org/>)), a shareholder rights group. The kerfuffle hit the big time when Gretchen Morgenson brought it to the cover of the Sunday *New York Times* business section (<http://www.nytimes.com/2010/09/26/business/26gret.html?pagewanted=all>) on September 26. Symantec quickly announced it would return to a hybrid meeting next

year.

Hybrid versus virtual-only

Symantec's about-face was declared a victory for shareholder activists fighting against virtual-only meetings. But Lutin says such gloating misses an important point: labeling a meeting physical, virtual-only or hybrid can distract from abuses that could strike any kind of meeting. Many investors think a hybrid meeting is ideal, but that doesn't make the format immune to criticism or flaws.

In Symantec's case, a spokesperson said near the meeting's conclusion that all the questions had been answered. But Bruce Herbert from Newground Social Investment (<http://www.newground.net/>) in Seattle complained that the company hadn't answered a question he had submitted and that a colleague's remarks had been made puffy through rephrasing.

Herbert also objected to not knowing who submitted the questions Symantec did answer. Meanwhile, only eight out of 11 directors participated in the meeting, although that fact was obscured by the meeting being audio-only, a feature shared by 20 of the other 25 online meetings that Broadridge had organized up to mid-October.

As for Broadridge, the company is steadfastly neutral about hybrid versus virtual-only meetings. 'We provide a platform and it's up to the company to decide how it wants to conduct a meeting for its shareholders,' says Cathy Conlon, vice president of strategic development at Broadridge.

Conlon is, however, keen for issuers and their investors as well as vendors to have an honest dialogue about all the choices. For example, if a company has no shareholder proposals or contentious issues on its proxy, could it save money by doing a virtual-only meeting? When – if ever – is a virtual-only meeting acceptable?

The answer is never, responds Tim Smith, senior vice president at Walden Asset Management, which filed resolutions against virtual-only meetings at Intel and P&G. He says institutional investors are keen on virtual meetings as an add-on to physical ones, but most don't want virtual-only meetings – even for routine agendas. If a company starts doing virtual-only meetings, what's to prevent it from continuing when circumstances change for the worse?

One idea that has been floated is to set criteria for when a physical meeting is required. 'But who's going to take that decision?' Smith wonders. Better not to go down the route of virtual-only meetings at all.

'As soon as shareholders hear a company is going virtual-only, there's a high percentage chance that some will stand up and complain or even file a resolution,' Smith predicts. He adds that the Council of Institutional Investors (<http://www.cii.org/>) has called virtual-only meetings poor governance practice and he expects governance ratings firms to weigh in with negative scores for companies that adopt them.

Other investors are a little more sanguine. 'Virtual meetings may make sense at companies where there are no significant issues and the meeting is going to be routine,' said a pension fund representative at the Shareholder Forum meeting. 'But they should not be used in situations where there are serious performance or governance issues. The annual meeting is the only time of the year when boards need to face shareholders'

directly and virtual meetings should not be used to insulate directors from those that they represent.'

Despite his campaign against Symantec, Glyn Holton, executive director of the USPX, doesn't entirely rule out virtual-only meetings. 'As technology develops and as guidelines and safeguards develop, maybe virtual-only meetings will be possible,' he says. USPX, which had been promising a conference on the matter, is now planning an online forum to establish guidelines.

Waiting for the technology

As Broadridge continues to tweak its VSM technology, Conlon is focused on two current challenges: the transparency around questions, and the demand for shareholders to have better communication with each other. Broadridge is preparing a tool that would let the issuer show all questions to all participants. Plus, some issuers, acknowledging that hearing a question straight from the questioner is different from reading it or hearing it from a company representative, have allowed shareholders to speak on a teleconference bridge instead of just listening to a webcast.

Seven of the virtual meetings done with Broadridge have also had shareholder forums on Broadridge's Investor Network during the lead-up. Some companies displayed all questions along with their answers, while others answered directly to the questioner or at the meeting itself. One company that did forums in 2009 and 2010 saw double the traffic the second time around.

Lutin wanted to find out whether anyone besides Broadridge could easily do online verification of beneficial stock ownership. If so, an issuer could launch a shareholder forum on its own website. It turns out it's straightforward using the Open Financial Exchange (OFX (<http://www.ofx.net/>)), a protocol used for online banking and account management. Having proven the practicality of verifying shareholders to participate in online discussion – though not to actually vote – Lutin is now working on developing his system to the point that any company or its transfer agent could use it.

The Shareholder Forum meeting was just one stage in a whole proxy season worth of study (<http://www.shareholderforum.com/e-mtg/index.htm>), including clear-eyed weekly articles by Louria Hahn. She began using the word continuum to describe the way companies are starting to have more dialogue with shareholders before, during and after the annual meeting, spanning a growing time period and various platforms from the web to traditional means. For example, one idea that has been floated is a 'pre-meeting meeting' several weeks before the AGM to answer shareholder questions before they vote, instead of after.

Lutin is committed to considering any conceivable model. 'People should experiment, and we should cut them some slack to allow for that experimentation,' he concludes.

Season highlights

Best Buy

Best Buy (<http://www.bestbuy.com/>)'s 2010 hybrid meeting (<http://www.bby.com/2010/06/23/livestream-of-2010-annual-shareholder-meeting>) showed off the company's 'connected world' theme with a webcast,

internet voting and online questions. It even had a director attend via satellite-feed, proudly smiling from a giant flat-screen TV on the stage. Best Buy launched a shareholder forum about five weeks before the meeting, with validated shareholders posing questions. Management members answered as many as possible during the meeting and later posted the rest of the answers on the message board or replied to individuals directly.

Intel

Intel used Broadridge's Investor Network to gather shareholder questions in 2009 and again in 2010 (<http://www.virtualshareholdermeeting.com/intc10>). This year it got around 160 questions via the internet, answered more than two dozen before the meeting and others during the meeting, and committed to answering the rest later. While most companies using the Investor Network keep their message boards going for about six weeks before the meeting and close them right afterward, Intel is keeping its message board going year-round.

Google

The internet bellwether hasn't done a true virtual meeting with voting. But its YouTube webcast (<http://www.youtube.com/googleir#p/u/7/FfE3LrywluA>) set a new standard for production quality, and an application of its own devising, Google Moderator (<http://www.google.com/moderator/#0>), is a brilliant way to manage shareholder questions. It was used for Google (<http://www.google.com/>)'s annual meetings in 2009 (<http://www.google.com/moderator/#15/e=1958&t=1958.40>) and 2010 (<http://www.google.com/moderator/#15/e=1958&t=1958.41>), with questions submitted by shareholders voted on by the audience to identify the most relevant ones.

Pansoft

This NASDAQ-listed Chinese company, whose meetings are held in China, used a VSM to reach its shareholders in 2009 and 2010 (<https://east.virtualshareholdermeeting.com/vsm/web.do?pvskey=pansoft10>), a great example of the global reach of the technology.

Standards for fair conduct of shareholder meetings

A company should provide all shareholders a reasonable opportunity, before voting, to:

1. ask management questions relating to director elections and other matters to be decided at a shareholder meeting,
2. present questions or views to management publicly for consideration by other shareholders,
3. observe any management or director candidate responses to the questions other shareholders have chosen to present publicly.

Source: The Shareholder Forum, September 30 Forum Report

Who's done it?

Centerline Holding Company

Company	Meeting date	Audio/visual	Virtual/hybrid
Intel	May 20, 2009	Video	Hybrid
Pansoft	July 20, 2009	Audio	Hybrid
Atlas Mining Company	October 27, 2009	Audio	Hybrid
Broadridge Financial Solutions	November 18, 2009	Video	Virtual
Coxexant Systems	February 18, 2010	Audio	Virtual
Warner Music Group	February 23, 2010	Audio	Virtual
SH Group	April 26, 2010	Audio	Hybrid
Winland Electronics	May 4, 2010	Audio	Virtual
American Water Works	May 7, 2010	Audio	Hybrid
Artio Global Investors	May 11, 2010	Audio	Virtual
Illumina	May 12, 2010	Audio	Virtual
PICO Holdings	May 14, 2010	Audio	Virtual
NVIDIA	May 19, 2010	Audio	Hybrid
Intel	May 19, 2010	Audio	Hybrid
Orion Marine Group	May 20, 2010	Audio	Virtual
W2007 Grace Acquisition I	June 3, 2010	Audio	Virtual
TechTeam Global	June 4, 2010	Audio	Virtual
Graham Packaging Company	June 9, 2010	Audio	Virtual
Applied Minerals	June 10, 2010	Audio	Virtual
Best Buy	June 24, 2010	Video	Hybrid
Pansoft	June 30, 2010	Audio	Hybrid
Dell	June 24, 2010	Video	Hybrid
Location Based Technologies	August 25, 2010	Audio	Virtual
Symantec	September 20, 2010	Audio	Virtual
Lectec	September 22, 2010	Audio	Hybrid
Centerline Holding Company	October 6, 2010	Audio	Virtual

Upcoming

Company	Meeting date
Broadridge Financial Solutions	November 17, 2010
ANTs Software	November 19, 2010
DynaVox	December 1, 2010

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