

Is Boardroom Blogging For You?

by Dominic Jones

A “web log” or “blog” is far more than just an ongoing, personal internet rant. Blogs are a powerful, inexpensive communication tool that taps the internet for a democratic, two-way interchange. Though blogging is a new phenomenon, its openness and immediacy could make it the ideal tool to shake up communications between your board and investors.

Despite all the changes that new laws like Sarbanes-Oxley have brought to how companies are governed and managed, one thing has still not changed—directors still do not talk to their shareholders.

Sure, boards and directors may have private meetings with high powered institutional investors on issues of corporate governance, but they almost never communicate in an informal way with rank and file shareholders and other stakeholders.

Board blogging is a new and dramatically different approach to investor relations. However, it offers a highly attractive opportunity for forward-thinking directors and boards.

The blogging technology platform, when properly executed, provides boards and legitimate shareholders with a transparent platform to seriously engage one another on the issues. It can provide boards with a low-cost, highly effective means to establish a credible dialogue and allow directors to obtain feedback from a wider variety of shareholders with differing viewpoints.

To be sure, the concept of director bloggers is a new and dramatically different approach to board/shareholder communication. However, this is simply a case of taking an existing, proven technology and customizing it slightly for another purpose.

After carefully studying how blogs work and how the blogging community interacts, we are con-

vinced that the technology offers a highly attractive opportunity for forward-thinking directors and boards. It enables boards to get their message out, and at the same time provide a forum for shareholders to offer informal input to their elected board representatives.

In spite of all the upheavals in boardrooms recently, directors are still as inaccessible as always. They are largely cut off from the people they are supposed to represent. Except for the annual meeting and annual reports, shareholders rarely hear from directors.

Boards themselves seem to recognize that there is a problem. In January, the Conference Board issued a report on the future of annual meetings, which expresses frustration that annual meetings are not effective forums for discussion. “Formal annual meetings do not lend themselves to serious, informal discussion.”

The report’s key recommendations include using the web more in shareholder communications and annual meetings, and creating “a series of alternate forums where investors and corporate management can examine critical, long-term issues.”

Similarly, in a joint National Association of Corporate Directors and Council of Institutional Investors task force report in March 2004, both sides agreed that current practice is not working.

“Many shareowners have been frustrated over the years by what they see as a wall between them and their elected representatives, the board of directors. [Many shareowners] feel that they have no input into selecting director nominees, no meaningful choice in their election, and, generally, no hope of ever hearing from or exchanging views with them.”

Among working investors, defined as those owning at least \$5,000 in stocks, bonds and mutual funds, only seven percent indicated that Sarbanes-Oxley had increased their confidence as an investor. Likewise,

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among this group, only seven percent said SOX had increased their confidence in the leadership of public companies.

So, despite companies spending millions of dollars and hundreds of hours meeting new Sarbanes-Oxley requirements, there is very little awareness from the public at large. This cannot be helpful to business, especially if it wants to have its voice heard on public policy.

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Directors must accept that governance done behind closed doors is not governance seen to be done. Companies and boards will not get credit for the improvements and efforts made unless they tell people about them. Boards must be more accessible to shareholders—and the internet, more especially the blogging approach to internet communications, is the best way to achieve this.

A directors' blog would be an inexpensive, technically simple, but highly honest way for people to interact and dialogue on the web under a set of accepted rules. Blogging sites include features that can give corporate boards a direct link to the desktops of people who care about the company, regardless of how many shares they own.

Blogging is a more honest and inclusive way of communicating on the web because it is difficult for any one party to dominate the discourse. Shareholders would be able to comment on web postings by directors and other commentators. They would also be able to post comments on their own blogs and have these linked from the board's blog. Anyone with a right to have their say as a shareholder would have an opportunity to do so.

A board blog is like an electronic Town Hall, something recommended by former SEC chair Richard Breeden in his report on WorldCom. With a blog, however, the board has a *perpetual* online meeting.

Blogging Terms

Boardroom Tech Talk

- Blog*: A website that includes a commenting system, a subscription feed, and a trackback feature.
- Trackback*: A technology that lets one blogger attach a comment on his or her blog to a post on your blog via a link.
- RSS feed*: A tool for bloggers to notify subscribers and blog search and aggregation tools that their blog has new content. Now used by CNN, *The New York Times* and *IR Web Report*.

It can call together shareholders at any time to seek input or inform them of important developments at the board level.

How would board blogging work? It is not as radical an idea as it might sound. Blogging has already been given credibility by some high profile companies. In January 2005, for instance, General Motors vice chairman Bob Lutz launched a blog which is little more than a sales tool, but which promises to be more [<http://fastlane.gmblogs.com/>]. He follows the likes of Sun Microsystems' Johnathan Swartz, and SAP AG has one of the best executive blog programs on the web. In fact, blogging is less radical than the discussion forums which forward-thinking companies like Shell, with its "Tell Shell" forum, host on their sites.

Furthermore, blogging technology would help boards to more easily implement the aforementioned NACD/CII task force recommendations. In their report, the groups call for boards to improve shareholder communication on the web by posting all "non-trivial" shareholder questions and the company's answers on the web to "help ensure a regular stream of information of interest to shareholders."

With traditional websites, providing a regular stream of questions and board answers is burdensome and time consuming. That may explain why, almost a year later, none of the more than 500 companies we track currently meets the joint task force's best practices.

To Blog Or Not To Blog Ten Excuses Vs. Benefits

You may already hear the wringing of hands of corporate secretaries and general counsel over the idea of their boards blogging. The idea that boards might use some technology to communicate directly with shareholders may sound frightening, but it is a development whose time has come.

Here are the top ten objections you will hear to the idea of board blogging—along with some responses:

□ *“There is no law saying the board has to blog, so why would we open ourselves up to potential additional risk?”*

A board blog is simply a website under the direct control of the board. It allows for direct, informal communication between the board and shareholders, unfiltered by management of the company. It would help boards make better decisions with the benefit of understanding the perspectives of the people they represent. If anything, this would reduce the risk of directors making bad decisions that will get them sued.

□ *“Our culture dictates that we are never early adopters, but followers. So let’s wait until our industry board peers are blogging and then we’ll follow.”*

The leaders will reap the benefits sooner. Given how quickly some companies are already adapting to blogging, there is little relative lag time for followers to not be seen as completely unresponsive to shareholders. Indeed, there is more risk in not blogging. Like a “no comment,” the perception is that you have something to hide.

□ *“This is something new, a big change, and the tech-*

nology is complicated. We need time to figure it out.”

Once you are shown what blogging is all about, how easy it is, and what it means to your stakeholders, you will want to blog. It is quick, simple and easy-to-use technology. No, you need not fear the oddballs. You are only blogging with shareholders—the people you are accountable to.

□ *“More processes would be needed. Who would run the program and manage it internally/externally? Approval processes? Whose budget would it come out of?”*

Again, blogging is simple, cheap technology. If your directors can type and have an internet connection, they can post information to a blog. Yes, you need to establish some protocols, but that will be second nature to boards.

The costs to customize an off-the-shelf blogging software platform to accommodate shareholder IDs will be small. In some cases where boards adopt a completely open approach, it would be free. Preferably, the blog should be managed by the board directly, but it can be outsourced to an outside firm or run through existing corporate structures. Most likely the latter would be corporate secretaries, with input from investor relations, public relations and new media/web departments.

□ *“Who on the board would be authorized to blog on behalf of the board? What if there were diverse board member opinions on topics? And what would protect the brand reputation of the board/firm from the odd rogue director?”*

All directors should have the right to express their opinions. However, the non-executive board chair or lead independent director should speak on behalf of the

Blogging software makes the process of receiving and responding to questions and issues easy for boards to control and manage. They can establish and enforce rules of procedure for questions and comments on the blog. Boards would have the option to permit questions to be posted immediately without prescreening, or send them into a queue to await approval for posting.

By setting up the site so that only shareholders with a valid, identifiable code could post questions, the system would be more efficient than the current practice of receiving questions via an open

email address or email form. There would be fewer misdirected questions from general traffic to the company’s website.

The commenting system would be directly contracted and administered by the board, or an appointed outside intermediary, to give directors guaranteed unfiltered access to the questions from shareholders. Shareholders, in turn, would also gain greater confidence knowing that the board will hear them uncensored.

Of course, boards may agonize at the prospect of having to exercise judgment over what comments to

whole board. Committee chairs should be able to write on behalf of their committees, with the approval of the full board. If there is dissent on an issue, the dissenting directors should have the right to put forward their views alongside those of the board majority. If you have a “loose cannon” on the board, let them expose themselves and allow the shareholders to make up their own minds.

□ *“How much time will this consume? How practical will it be to get back to investors within 48 hours or less?”*

More time will be required in the beginning as the blogging set-up gets established, but less than existing shareholder correspondence and meetings over the longer term. Also, you can set the policy as to how soon you will respond. Although some in the blogging community will tell you that you need to blog every day, it is unnecessary for board blogs. Your site should be updated when you have something to report or when you want to ask shareholders for input on a specific issue or topic.

□ *“Someone will say: ‘Well, if Joe Director can blog, I want to blog too. We are all equal board members.’”*

Each director is accountable to shareholders. Each board member should have a say and blog if they want to, either through comments or through official posts.

□ *“If the board communicates more and uses blogs to do so, what will the policy implications be for the rest of the company? Under what circumstances will all employees be allowed to blog?”*

There has to be a coordinated roll-out and update of employee conduct codes and compliance procedures to

include the world of blogging. We believe every employee has the right to blog on their own time at home, provided such blogging does not contravene their current employment contracts for protecting confidential, proprietary and material information. Special allowances can be made for marketing/sales and PR/investor relations folk who should blog on company time through company owned blogs.

□ *“What’s wrong with how we do things now? We already are meeting with shareholders to discuss issues. I don’t see why we need to bring these discussions out into the open?”*

A board blog is more inclusive. Currently, only the biggest, most powerful investors get to meet with directors. You can still have private meetings with those who choose that route. However, we believe shareholders will prefer to use the blog so that their views can be seen by all of the shareholders. The board wins by taking this major step and being accessible and at the cutting edge of shareholder communication.

□ *“Why on earth would we provide a forum for people to criticize us?”*

Open communication leads to *less* criticism. Shareholders with illegitimate or poorly thought out concerns will show themselves. The board can demonstrate its accountability to all shareholders by dealing with criticisms constructively and decisively, showing respect for differing opinions and providing the context for why the board has taken a particular position on an issue. The choice is simple: boards can either own the debates or be the subject of them.

permit and which to exclude. Also, some shareholders would be skeptical of the openness of the debate if boards were seen to have total control.

However, the blogging medium offers a counterbalance to the board’s control over any debate through a technology called *trackbacking*. Trackbacks allow anyone with a blog, or in this case, shareholders of your company who have a blog, to provide a link from a post on your site to a related post on theirs.

For example, if CalPERS decides to respond to something on your board blog, it can write and post its comment on its own blog. Also, though, it can

issue a trackback ping that would alert shareholders on the board’s blog that CalPERS has a related post on its site.

Trackbacks are an insurance policy for transparency because even if you delete a trackback from your blog or refuse to post comments on your site, people who search the web or follow other trackbacks are likely to find the post anyway.

It seems, though, that boards have little to worry about when it comes to maintaining an orderly discourse via a blog. The experience thus far in the blogosphere, which is much less controlled than a

board blog environment, is that there is very little unruly behavior. This is especially so of trackback comments. It seems that when people or organizations post responses on their own sites, they tend to be careful and considered in what they say because they are accountable.

Noted internet commentator and academic Clay Shirkey notes that weblogs provide “proof that you can have broadly open discourse without suffering from hijacking by (nuisance commentators), by creating a social structure that encourages or deflects certain behaviors.”

What would boards blog about? Anything they want. In the blog environment, however, shareholders are party to the discussion, and can come to their own informed conclusions.

So what would boards blog about? Anything they want. The board blog could be used to give investors updates on the board and its committees’ activities. It could be used to solicit input from shareholders on issues. Such input would help directors to make decisions with the benefit of having some understanding of where shareholder sentiment rests. Some topics open for discussion would include:

- Board policies and procedures.
- Board structure, size, and tenure changes.
- Director nominations (suggesting qualified nominees).
- Director selection and evaluation (suggesting criteria for candidates and boards).
- Shareowner proposals, including those addressing corporate governance or corporate responsibility issues.
- Discussions on major corporate events, such as mergers and acquisitions, or capital changes.

Indeed, the agenda could include all of the current issues that get discussed with institutional investors behind closed doors. In the blog environment, howVever, all shareholders would be party to the discussions. They read both sides of an argument and come to their own, more informed conclusions.

What about Regulation FD? The legal risks of board communications are always an issue, but nothing under current regulations would prevent boards from establishing their own websites using the blogging platform.

If boards hold fewer private meetings with shareholders by using a blog, there would be less danger of selective disclosure.

Indeed, a blog can be viewed by anyone and comes with a built-in syndication system via a technology called RSS. Blogging would thus reduce the already minimal risk of boards releasing material information selectively and thus falling foul of Regulation FD.

Furthermore, if boards hold fewer private meetings with shareholders as a result of having a publicly accessible blog, there would be even less opportunity for selective disclosure. The information would be available to any shareholder at the same time as all others. All they need to do is subscribe to the board’s RSS feed.

Blogging offers a highly effective and credible way for boards to open the channels of communication. By limiting participation only to legitimate shareholders, a blog can provide an informal way for boards and shareholders to virtually look each other in the eye.

Since shareholders would have access to the arguments and positions of a full spectrum of stakeholders, they would have more information on which to make up their own minds. This would conceivably reduce the influence that proxy advisory firms like Institutional Shareholder Services and Glass Lewis currently have on the proxy voting decisions of institutional investors.

The open communications model of blogging would lead to serious, open dialogue between directors and the shareholders they represent. It would bring credibility back to boards of directors and ultimately lead to better relations between directors, management, employees, shareholders and other stakeholders. ■