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# Catching Flak with Aplomb

by [Elizabeth Mullen](#)

“Be prepared” is more than just the Boy Scouts’ motto; it’s what may get executives and board members through this year’s annual general meetings relatively unscathed.

With the recent economic downfall, shareholder meetings have been packed with incensed stockholders intent on extracting their pound of flesh. Citigroup chairman Richard Parsons joked with a Wall Street Journal reporter that “he was about to ‘enter the Coliseum,’ facing off against shareholders lusting for ‘human flesh’” on his way to Citigroup’s annual meeting in April, where he and his fellow directors and company executives would face questions for over six hours.

However, this potential conflict doesn’t have to mean embarrassment for directors; if they plan ahead and handle irate shareholders with care, they can emerge successful. For example, Parsons left the Citigroup meeting relatively unscathed. If Citigroup can do it, anyone can.

After Citi’s stock price dropped 95.6 percent to a diminutive low of \$0.97 per share in early March, Parson and his colleagues had plenty to fear walking into the shareholder meeting. They were sure to face questions that can leave those on the hot seat red in the face and grasping for the right words, but with a little finesse, patience, optimism, and courtesy, CEO Vikram Pandit and the rest of the Citi crew made it out of the meeting with their confidence and leadership largely intact.

“Where was the board? Where was the risk management? If we had the right to vote for somebody else, anybody else, I don’t care even if it was Bernie Madoff, he’d do a better job than the current board,” ranted Jeff Herdan, a former Citi employee.

“Buffett takes the tough questions and answers as directly as he can. He owns up to ‘dumb mistakes’ and bad calls. The willingness to take questions is all part of respecting and engaging shareholders.” -Karen Kane

“Do you consider this to be talent?” asked another shareholder, Kenneth Steiner, referring to the board of directors. “I don’t. If it is, it’s talent I can do without.”

Shareholder rants and insults framed as rhetorical questions are commonplace at this year’s meetings, especially in the financial services sector, so boards and executives need to be prepared to field these questions in a professional manner.

### **Kill Them With Kindness**

The first rule when handling such vitriol is to keep your composure, say public speaking experts, and to resist the urge to fire back. “Parsons was described as polite and unflappable to those with concerns,” said Karen Kane, founder of Karen Kane Consulting, citing the Citigroup meeting as one of the most successfully managed angry shareholder situations in recent memory. “You need to go in being polite to shareholders,” she emphasized.

Jill Totenberg, President of the public relations firm The Totenberg Group, encourages a balance between courtesy and strength. “You always need to show empathy, but also show courage in your convictions,” she explained.

Practice is necessary for all questions, not just the tough ones. “You can get a softball question but still stumble,” Totenberg said. “Ted Kennedy always practiced the difficult questions, but when he was asked [by CBS News’s Roger Mudd] in his 1980 bid for president “why do you want to be President?” he fumbled.”

Robert Dilenschneider, founder and principal of the communications firm The Dilenschneider Group, also stressed that maintaining the board’s responsibility to shareholders is important. “One trick is to show the management team and board is not just one person, and that they have constant vigilance and oversight on every decision. Another trick is to project ahead, not to look back.”

Totenberg also encouraged companies to establish one spokesperson, who has prepared and practiced methods of defusing anger and confronting difficult questions. “Henry Kissinger used to say at the beginning of every press conference ‘who has questions for my answers?’” notes Totenberg.

### **Substance over Style**

Nell Minnow, editor and co-founder of the corporate governance research and analysis firm The Corporate Library, says boards need to be out in front and give substantive answers. “The board needs to respond to questions. It is no longer acceptable for the CEOs to take all of the questions and for the boards to sit there like potted plants. The board needs to diffuse anger by talking about what they’ve seen, about where they went wrong, and what changes they’re making.”

At this year’s meetings, “the questions are generally going to run along the lines of ‘what the hell were you thinking?’” said Minnow. “But more specifically, shareholders will be asking mostly about compensation and risk management.”

“When I used to attend general meetings,” Minnow continued, “I would always write to the corporate secretary in advance with the questions I planned to ask, in order to not make the board feel assaulted and to ensure I’d get a good answer.” Boards should encourage this practice, she said, not only for the benefit and trust of their shareholders to assist their preparation.

“You should know in advance that you’re going to have tough questions and anticipate what they are going to be and who will be asking them, and maybe meet with them in advance,”

Dilenschneider advised. “You also need to make sure there are people in the audience who are going to ask nice questions.” Many companies are known for packing arenas or large auditoriums with employees, who are more likely to side with management and the board.

This year, expect the worst from shareholders. Be prepared to respond calmly and respectfully to questions posed by shareholders with obviously negative intentions. Most importantly, don’t overreact, and certainly don’t arrest anyone for asking a question you don’t like.

During a conference call, former Enron CEO Jeffrey Skilling famously swore at an analyst for asking a tough question. Many considered it a “tell” that something was up at the energy conglomerate that eventually went down in flames.

Minnow cites State Street’s 2006 shareholder meeting as another example of how not to handle angry shareholders. “They had a shareholder arrested for disorderly conduct at their meeting. He was a longtime shareholder and longtime employee who was asking a question they perceived as rude.”

### **Cruise with Control**

In addition to being prepared and treating shareholders with respect, Richard S. Levick, President and CEO of Levick Strategic Communications advises boards to maintain control of the meeting.

“The critical thing for CEOs and boards is to keep in mind that angry shareholders can’t control the meeting’s agenda,” he said. “Have answers that you’ve discussed with your board, then move on, don’t let them control the narrative.”

Although the meeting cannot be controlled by surly shareholders, their opinions must be listened to and taken seriously.

“When the designated question period at the meeting is over,” Dilenschneider said, “say ‘the time for questions has been exhausted.’” He advises directors to instruct shareholders with further questions to please mail them to the secretary and all of them will be answered in writing.

“Adhering to this plan will prevent a situation like what occurred at a General Motors meeting during the 1970s, he explained, when the board took every question shareholders had, causing the meeting to last a day and a half.

There may be no trail more populated with tough questions than the campaign trail. Totenberg advises those speaking at meetings this year to watch political press conferences to truly learn how to handle these situations. President Barack Obama is one of the best at deflecting a barbed question with grace, and without insulting the questioner. “There are several things we can learn from Obama,” says Dilenschneider. “When he gets a tough question, he pauses and controls his thoughts; he puts his answer in the spirit of the public good. He tends to say if someone wants to attack him, then you’re attacking the general public.”

When it comes to the specific manner in which you answer a question, angry or not, great care must be taken to assure shareholders that they’ve been heard. Not acknowledging their feelings and concerns is simply going to add fuel to their fire.

## **Listening In**

Kane suggested that the questioned “listen to the question, and then take it to heart. Explain that they’ve been working hard in the shareholders’ interests and that they have a plan and strategy to continue to protect those interests. Board members should see this as an opportunity to take what they’ve heard and apply it. They need to really listen to the questions and respond in a way that shows they’re sympathetic.”

Goldman Sachs CEO Lloyd Blankfein did something similar to this when he was interrupted during his presentation at the Council of Institutional Investors’ annual spring conference this past April by two female protesters wielding a banner reading “We want our \$\$\$\$ back” and yelling “why should the taxpayers bail out the failures of Wall Street? Why should the taxpayers bail out the failures of Goldman Sachs?” Although they were removed from the stage, Blankfein made it a point to remain composed. He recognized their concerns, affirmed that their anger was justified, and discussed how Goldman Sachs was addressing the situation.

“Directors need to answer questions in a very straightforward way, and almost pretend the shareholders are journalists,” Kane added.

This year, Berkshire Hathaway’s Warren Buffett made the decision to do more than just pretend the shareholders were journalists; he filtered more than 5,000 questions from the audience through three journalists at the company’s meeting on May 2. This provided for a more focused discussion than in previous years, allowing 300 shareholders to have their question regarding Buffett’s investment in Moody’s, the troubled credit ratings company, answered at once, for instance.

“I think it was a helpful departure from last year because surely one half to three quarters of the questions Warren Buffett and Charlie Munger received last year during the six hour period for Q&A were personal in nature,” Kane explained.

Buffett took on all questions, even those without clear and positive answers. When asked questions about his successor and the successor to Ajit Jain, Buffett’s reinsurance plan writer, he did not imply that there was a plan when one did not exist.

“Buffett takes the tough questions and answers as directly as he can. He owns up to ‘dumb mistakes’ and bad calls. The willingness to take questions is all part of respecting and engaging shareholders,” said Kane.

Of course, there’s no way to prepare for every single question and angry shareholder. If things go wrong, Levick advises avoiding a public battle and settling any disputes quickly and quietly.

“If you do everything right and there’s still angry shareholders, that’s a story that will last for a day, and there has to be two sides, a hero and a villain. If there’s no villain, there’s no story, it requires conflict to breed life into it. If you don’t play the villain, then the story will fade away,” Levick said.

Dilenschneider also cited the importance of performing well in order to stay off the media’s

radar. “Annual meetings are historic, they only happen once a year so it’s important to do it right. If you do it well, it won’t get any attention, but if you do it badly you’ll get a lot of attention. It may result in no result, but that’s a good result.”