BOARD COMMUNICATIONS STUDY:

A **Review** of Board Communication Practices, and a **Vision** for Authenticity in Corporate Governance.

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Specialists in Corporate Board Communications

Executive Summary

In the current crisis, corporate boards are caught in the crosshairs of angry shareholders demanding change. Shareholders—and even the public at large—want to know that directors are bringing oversight to the management of risk across the organization, and they are demanding greater accountability and transparency. Inevitably, boards of directors are being asked to make a clear statement about their roles, their diligence, and their integrity. Karen Kane Consulting undertook a study of Board communications practices to understand what corporate boards are doing to resuscitate public trust in corporate governance. We investigated the communications practices of the Fortune 50 across a variety of measures—from transparency about board roles and areas of expertise, to best practices in social media adoption. Our objective: given the increased level of scrutiny against and dissatisfaction with corporate directors, what are current best communication practices and where do boards fall down in protecting and promoting shareholder value?

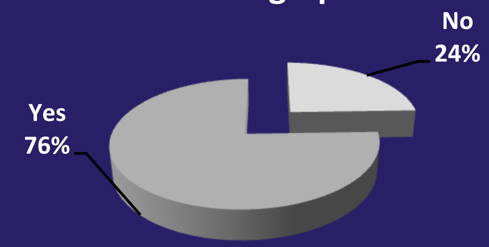
Major Findings

The most stunning finding of our study: Fortune 50 board communications are nearly 100% undifferentiated. Nearly all investor relations portals present information on an as-need basis, offering voluminous SEC-required reporting, but provide very little candid insight or vision on behalf of board leadership. Among our other findings:

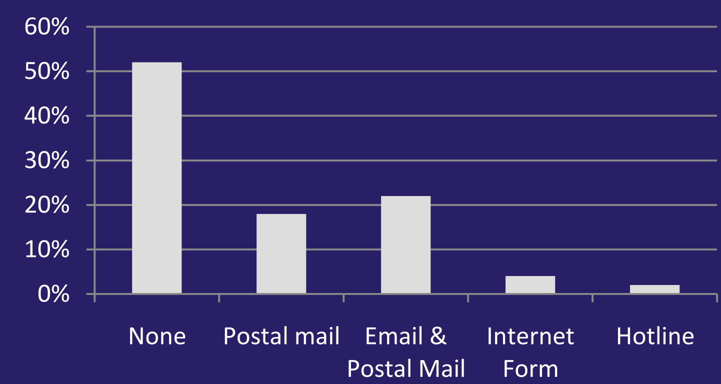
- Compensation Discussion and Analysis (CD&A) reports were usually long, dense, and impenetrable by even a well-versed reader. (See related discussion on page 3).
- Communication between shareholders and directors is discouraged; the most common method of suggested contact is postal mail or email, however, more than half of investor relations portals provide no method to communicate with directors.
- Only Wal-Mart, Sears, WellPoint and Wells Fargo offer a dedicated message from the board Chairman; Bank of America and Verizon feature a message from the Chairman, who is also the CEO.
- Almost one-fourth of company websites provide no biographies of their boards of directors—a glaring oversight given the now-infamous scrutiny of the Lehman directors' level of expertise and competence.

In addition to these quantifiable findings, we also developed a very keen, qualitative sense of "voice" among investor relations sites. The overriding—and most discouraging—feeling about board communications: with the exceptions of Berkshire Hathaway and Proctor & Gamble, corporate boards largely duck or cover under regulatory reports. They fail to honor shareholders with clear and candid language that addresses areas of concern and future vision. This is a tremendous missed opportunity for board directors to promote strategic directives and game-changing governance initiatives.

Does Investor Portal Offer Board Biographies?



What Methods Exist for Shareholders To Access Directors?



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Taking a high-level view of the Board Communications Study, we found these particular areas to be of high interest—and **likely to be a locus of change in the months ahead**.

Stark Homogeneity of Corporate Board Communications

The most relevant finding to our study: Board communications are defined by regulatory bodies and so differ little in format, voice or content. We were surprised to discover so little variability among the Fortune 50—partly explained by the fact that Thomson Reuters is the primary vendor for 5,000 company IR sites, followed by shareholder.com. Of course the vendors will post customized content, but most have settled for formal charters and legal documents. Most investor relations portals are mirror images of one another in what they offer—and what they fail to offer. Among the most glaring omissions: any kind of communication that attempts to make an authentic connection with shareholders and the public.

> *"We were surprised to discover so little variability among the Fortune 50.*

Compensation

No issue has so gripped the global stage during the current financial crisis as executive compensation. While SEC-mandated CD&A reporting ensures that all directors discuss and report on compensation issues, the majority of Boards use highly technical and complex language to describe their compensation methodology and practices. Over 60% of Boards need over ten pages to describe CD&A—and unfortunately, the longer the document, the more likely that it is difficult, if impossible, to understand. A bright spot: Berkshire Hathaway's three-page CD&A document, in which Warren Buffett and Charlie Munger insist that they will accept no more than $100,000 in salary along with other no-nonsense explanations of their practices.

> *"The Compensation and Benefits Committee determines the actual cash incentive, restricted stock and stock option awards after the end of the performance year based on the Committee's assessment of the performance of our company and the executive. In this section, we describe the principled, structured framework for analysis that the Committee uses for this performance evaluation.*
> ***-Bank of America CD&A***

Social Web

While social media was once deemed a Generation-Y distraction, corporate leaders have recently begun to realize the collaborative and viral powers of Enterprise 2.0. Leading-edge executives are experimenting with social media in order to communicate and collaborate with customers and employees—but very few have harnessed this resource for investor relations. IBM's Investor Forum series of podcasts is an excellent first-generation media tool for interested shareholders (interestingly, these were discontinued in 2008). We wonder: will shareholder cries for increased transparency and accountability lead to greater adoption of social media tools, or will board directors find these media too uncontrolled and risky?

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How to Move from Mandated Reporting to Sharing Strategic Vision?

What do our findings imply? What opportunities exist for Boards of Directors willing to question the standard format of investor relations communications?

What is true today in the current economic crisis has always been true: shareholder seek clear communications that do not understate problems nor exaggerate advantages. What's more, shareholders seek evidence that directors have heard—and acted upon—new directives of greater transparency and accountability. For 2009, Board Directors seeking authentic shareholder communications should consider the following practices:

1. Treat strong, authentic communications as a tool under the general umbrella of risk management.
2. Engage an independent communications advisor to ensure that board communications are an effective vehicle to share information clearly and convincingly.
3. Consider how social web strategies could be utilized to bring greater candor to communication without jeopardizing confidentiality and other regulatory requirements.
4. Communicate to all shareholders the path to make shareholder petitions, demonstrating an open rather than combative posture.
5. Plan to make this year's shareholder meeting a platform for best-in-class board communications strategies.

Interestingly, so little innovation in corporate board communication exists, that the opportunity to differentiate is quite high. Companies with a good story to tell could take the opportunity to utilize communication best practices to regain shareholder trust.

Methodology

The Board Communications Study was conducted by Karen Kane Consulting , and included a review of each Fortune 50 global website and investor portal, as well as a careful review of SEC reporting and publicly available corporate board communications. The study was conducted during October through December of 2008.

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