

Twitter's Corporate Governance a Mixed Bag

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By Maxwell Murphy

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Corporate governance mavens have something to cheer and something to jeer following Twitter Inc.'s initial public offering [filing](#) late Thursday.

Unlike rival [Facebook](#) Inc., Twitter didn't split its equity into two classes of stock. Dual-class structures can let founders or other shareholders retain control of the company even when their ownership falls below 50% of the outstanding shares, typically by giving one class more votes per share.

As CFO Journal [wrote](#) in February 2012, ahead of Facebook's IPO, many hot Silicon Valley firms planning to go public have adopted dual stock classes, a trend inspired by [Google](#) Inc.'s 2004 IPO.

As a result of opting against dual classes of stock, Twitter won't be eligible for the so-called controlled-company exceptions that Facebook enjoys. Controlled companies aren't required to maintain a majority of independent directors on the board, though some do, and their boards can eschew the compensation committees required at other companies.

Because of its status, Facebook was able to appoint a board that raised eyebrows among governance watchers, as CFOJ [noted](#) after its IPO filing.

But Twitter will have a so-called classified board, in which elections of its seven directors will be spread out over a three-year period. Critics of the practice, including many activist investors, say that such staggered elections entrench management and the board by preventing a complete board shakeup in any given year.

Shareholders have put increasing pressure on companies to declassify their boards, with aid from Harvard Law School's Shareholder Rights Project. According to the SRP, which is led by governance expert and Harvard Law professor Lucian Bebchuk, [board declassification proposals](#) represented over 11% of all governance proposals submitted to companies in the Russell 3000-stock index during the recent proxy season. It said nearly all of those proposals were submitted by pension funds that coordinated with the SRP.

Facebook in its IPO documents said that it will move to a classified board when its Class B, super-voting stock no longer represents a voting majority.

A Twitter spokesman couldn't immediately be reached.