Shareholders of the World, Unite!; Activist investors are Increasingly Taking to the Web to agitate for change.

By: **Amy Feldman**

May 2000, *Money.com*

When a couple of rabble-rousing academics discovered that they and other small shareholders posting on a Yahoo! Finance message board last spring controlled 40% of the stock in a nearly bankrupt company called United Companies Financial, they were shocked. This was no shell company or classic penny-stock fraud, after all. Once a significant player in the subprime lending business, United Companies was bleeding millions in losses, but it still held a multibillion-dollar portfolio of home loans and other assets. So when Yeshiva University finance professor Aaron Brown and Northwestern University business professor Martin Stoller realized the potential power this group had, they took action, setting up an online alliance of shareholders. Their goal? To gain a say in the company's bankruptcy-court proceedings and recoup some of the shareholders' money--something that almost never happens when a bankrupt company's assets are divvied up.

Talk about the Net empowering individual investors is nothing new. But what's happening in cyberspace these days goes beyond stock quotes and chat rooms, straight to the role that individual shareholders play in publicly traded companies. Institutions that control large blocks of shares have long been able to prod lagging companies into action. But individuals, unable to pool their power, have rarely had an impact. "Corporate structure depends on shareholders not being able to find each other," says Nell Minow, a co-founder of money manager Lens Inc. who now runs the Corporate Library, an online clearinghouse for corporate governance info. "It had been an insurmountable problem--until the Internet."

Whether professors Brown and Stoller succeed with their plan to make United Companies pay shareholders back is ultimately up to the court, but they are already in the vanguard of a burgeoning movement. In March, the duo launched a mutual fund dedicated to shaking up underperforming firms (see "A Fund That Buys Busted Companies," page 137) and rolled out a site called eRaider, where folks can talk about the fund's targets and share info on other damaged firms. "The idea that public shareholders are scattered, weak and ignorant will be reversed," Brown declares.

Will small shareholders really organize themselves into powerful blocs? Will they start voting on corporate resolutions and elections of directors, potentially changing the outcomes of some votes? And will the changes be positive, or will the Net foster online lynch mobs, uninformed crowds of investors who take out the good companies along with the bad?

The long-term ramifications remain unclear, but the first step, the spread of information, is irrevocably under way. Now shareholders can go online to find out the schedule of annual meetings for hundreds of companies, look up what proposals are on the ballots and find out how institutional shareholders will vote. They can check pending social and environmental resolutions and look up details about executive pay. (See the table on page 137 for details on some of the most important activist sites.) And despite worries about the proliferation of false information, the quantity of credible and easy-to-access data is growing. Broadly speaking, such information falls into two areas: education, where shareholders can look up details on their own holdings or research governance policies before buying a stock; and mobilization, where more active types can try to drum up momentum and apply pressure to underperforming companies.

Investor education

Fund managers and other institutional investors are required to vote their shares during proxy season and they have long had access to pricey, detailed information that helps them decide how to vote. But individuals have lacked the tools to fully evaluate proposals, and few have bothered to wade through the legalistic forms that accompany the ballots. The combination of more plain-English proxy information online and the ability to vote on the ballots of major public companies at sites like **ProxyVote.com** may change that. Last year, an estimated 10% of shareholders voted online, and that number could triple this year. "As you make it easier to access research and execute votes, you're going to see a greater participation rate," says Peter DeSimone, head of online products at the Investor Responsibility Research Center.

A number of sites now offer information that can help individual investors figure out whether to renew a director's term of service, hire new auditors or change management's compensation. This year, the California Public Employees' Retirement System, the heavy-hitting pension fund known as CALPERS, is posting, in advance, its positions on proxy proposals for its 300 largest holdings, up from just 50 last year. Search its online database, for example, and you can quickly discover that CALPERS will vote its nearly 1 million shares of Analog Devices against the appointment of three directors because of potential conflicts of interest.

For those more concerned with social issues, there's been a similar increase in what's available online. Socially responsible mutual fund company Domini Social Investments (**www.domini.com**), for example, discloses its voting plans online. And shareholder proposals from members of the Interfaith Center on Corporate Responsibility, the main umbrella organization for social and religious investor advocates, are available online through the **SocialFunds.com** supersite. "It's one more dimension of shareholder democratization," says Jay Falk, who launched Social Funds last year.

One new online clearinghouse is the Corporate Library, whose expanding database detailing CEO pay includes links to the employment agreements at roughly 100 public companies. Go to the site and you can look up the contract for former Global Crossing CEO Robert Annunziata--which the Library dubbed the worst contract in the country for shareholders--and see that, regardless of his performance, he got a $ 10 million signing bonus, 2 million options at $ 10 below market price, and perks that included first-class air fare for his mom to visit him once a month. Coming soon: directors' compensation and attendance records. Says co-founder Minow: "I am going to add everything I can that will help investors evaluate boards of directors."

Shareholder mobilization

Before the Internet, organizing shareholders meant getting access to lengthy shareholder lists, weeding out all the shares that couldn't be traced to individuals, and paying a bundle to somehow contact them. In cyberspace, it's easier and a lot cheaper because you can post a message or set up a website and let like-minded shareholders find you. Going the furthest is eRaider, which hopes to become the meeting place for activist shareholders. While it's affiliated with professors Brown and Stoller's mutual fund, the site is open to all comers whether investors or not.

Organizing shareholders can get complicated, however, because a consortium of small, would-be cyber-raiders needs to follow the same regulations as its large institutional counterparts. Activists, says John Coffee, a professor of securities law at Columbia University, "have to go this line between Scylla and Charybdis, suggesting what management has done wrong without forming a collective group and triggering a 13-D filing." Securities regulations prohibit shareholders from organizing a 5% voting bloc without first announcing their intentions in a 13-D filing with the Securities and Exchange Commission. Those regulations on organizing--as opposed to just offering up information--"could have the impact of chilling shareholder advocacy," Coffee says. That helps explain why many sites so far remain one-way streets where large organizations post information without providing any forum for user interaction and mobilization.

Still, some small shareholder activists are moving too fast to consider such details and have initiated wide-open dialogue. Consider this: On a shoestring budget and with no staff, 23-year-old Web designer Garret LoPorto last winter mounted an online campaign to stop ice cream maker Ben & Jerry's from being sold to the highest bidder. Though his lobbying effort didn't stop bids from coming in, **Savebenandjerrys.com** did get thousands of people to sign an online petition. LoPorto, who owns a single share, marvels: "How hard would it be to do this offline?"

How hard indeed. Shareholder democratization is continuing at Internet speed. As Yeshiva professor Aaron Brown says of his nascent effort: "It may or may not be a giant success, but I know it is the way of the future."