

All Over the Board - Internet/Web/Online Service Information

Mark Schapiro

Shareholder activists are using the Web to crank up me neat on corporations. Some demand social reforms; others push for maximizing profits.

As a finance professor who runs his own mutual fund, Aaron Brown sees more than his share of business plans. So it didn't take him long to spot a weakness in the strategy of Employee Solutions, a human resources company that serves tech-related businesses and associations. Given the booming economy and its demand for temporary workers, Brown figured that an outfit like Employee Solutions should be flying high. But last April its stock was in the doldrums, and management was preparing to renegotiate an \$85 million debt that, in Brown's view, was a bum deal for shareholders.

Unlike most investors, Brown had a plan to fix the company's problems -- and perhaps make a few bucks in the process. He began buying up shares on the quiet. Then, last May, after notifying the company and the Securities and Exchange Commission that his fund owned 4 percent of Employee Solutions' stock, he turned up the heat with his new Web site, eRaider.com.

Brown began flaying Employee Solutions' business strategy on eRaider's message boards, and used the Web to reach out to other shareholders -- eventually recruiting investors representing one-quarter of the company. He then used eRaider to direct a campaign in which these investors deluged company headquarters with faxes pledging support for an alternative plan proffered by Brown.

Employee Solutions relented and invited Brown to participate in restructuring. Soon thereafter, it announced the resignation of longtime board member Robert Mueller to make way for representatives of the new investors. "Aaron Brown raised a lot of questions, and I think the company has been handling them well," says Dan Matsui, a spokesman for the firm that handles Employee Solutions' investor relations.

Brown, who teaches at Manhattan's Yeshiva University, and Martin Stoller, an economist at Northwestern, co-founded eRaider last spring as a tool to wrest control of underperforming companies from management and deliver it to shareholders. "Stockholders have the legal power to run the company Problem is, they don't know it' says Brown. "They get information and exercise control in a deeply filtered way. But with instant access to information and analysis, that is changing rapidly."

The Internet, in fact, is coming to haunt corporate executives, who face an online pincer movement from shareholder activists on both ends of the ideological spectrum. On one side are those inspired by corporate raiders like Carl Icahn and T. Boone Pickens (Brown's idol, he admits), who use the Net to pressure execs into tightening up the bottom line. ERaider is perhaps the most colorful in this approach, but a handful of new sites, including InvestorsBullhorn.com (its slogan: "Democracy for Capitalists") and Corpmon.com, also encourage shareholders to get active in companies they own. On the other side are social reformers -- including Shareholder Action Network, SocialFunds.com and Interfaith Center on Corporate Responsibility (ICCR.org) -- that use the Web to rally shareholders and pressure corporate management to heed environmental, labor and human rights issues.

While the agendas of these factions often conflict, the capitalists and social reformers have one thing in common: Each recognizes the Web as a critical tool for making companies accountable. "The Internet is smart and flexible, while big companies are mostly pretty stupid," reads Brown's welcome to eRaider visitors. "While business is trying to take over the Internet, the Internet will take over business."

Perhaps. The Net is certainly haven for stock-owning rabble-rousers. In the newsletter of Institutional Shareholder Services, which provides proxy voting services, company VP Richard Ferlauto reported last February that stock owners who cast proxy votes online are up to three times more likely to vote against management. "People who use the Net to manage their accounts are generally more engaged," explains Ferlauto. "Active investors using the resources of the Net would probably use all the tools available to influence corporate management."

eRaider could serve as a model in that regard. Inspired by co-founder Stoller's inability to get any answers from a failing company in which he owned a stake, the site overflows with revolutionary zeal. While profits are paramount, the cofounders are equally passionate about their ideological mission: to radically alter the relationship between shareholders and executives.

By Brown's estimate, just 15 to 20 percent of stock owners pay any attention at all to the companies they own. To allay this, eRaider employs a rotating cast of several dozen academics and financial analysts who steer discussions on the site's boards and recruit fellow raiders. After a company is targeted, all of its stockholders are contacted and invited to participate in the online discussions. "The Internet makes it possible to combine the expertise of shareholders who together often have far greater expertise than management," says Brown. "And they have only one common self-interest: higher profits."

According to the Social Investment Forum, a nonprofit advocacy group, each year more than \$2 trillion is channeled through investment firms that factor some level of corporate responsibility into their stock picks. That's about one of every eight dollars in play on the stock market -- and that means leverage. While social activists have long used shareholder pressure to promote their goals, these groups now say the Web is making their strategy more effective.

Over the past year, for instance, a coalition of activist groups led by the ICCR has used the Net to mount a shareholder campaign against genetically modified foods. The activists have filed resolutions asking some two dozen companies to label products that contain GM ingredients or to halt sales and distribution of these items. Several companies, including Heinz and Gerber, caved in to shareholder and public pressure, and pledged to phase out the ingredients. "The ability to share information quickly over the Internet, and rally shareholders to action, has had a huge impact on speeding the process," says Theodore Van Dyck, managing director for Social Equity Investments Group -- a \$500 million fund at U.S. Bancorp Piper Jaffray in San Francisco -- and founder of the nonprofit As You Sow Foundation, which filed some of the resolutions.

At a BP Amoco shareholder meeting last April, one resolution asked executives to abandon plans for oil exploration in the Arctic Ocean and the Arctic National Wildlife Refuge, and instead divert the money to the company's solar-energy subsidiary. The resolution won more than 13 percent of the vote, surprising both management and the resolution's sponsors. Within a month, BP responded with a plan to invest \$250 million to develop alternative energy sources.

Initiative sponsors attribute their success to extensive coverage of the campaign on their Web sites, including indepth research on environmental implications of Arctic drilling. They also disseminated contact information for BP CEO John Browne, who was deluged by thousands of letters and e-mail messages as a result. "We were not sure where all of those votes came from," admits Simon Billenness, a senior analyst at social investment firm Trillium Asset Management, which co-authored the BP initiative with U.S. Public Interest Research Group and Greenpeace U.K. "We suspect that many people picked up information on the issue that was posted on the Web."

Since activists employ a range of tactics in any given campaign -- from shareholder actions to street protests to phone and e-mail campaigns targeting board members and CEOs -- it is difficult to link specific corporate policy changes to the Web alone. By all accounts, though, the Net has gained stockholders a stronger voice in the boardroom. "The Web has dramatically altered the landscape, allowing dissatisfied shareholders to find each other and together issue a much more powerful statement," says Michael Flaherman, chairman of the Investment Committee at CalPERS, the nation's largest public pension fund with \$175 billion in assets.

Social activists are doing their best to exploit this newfound organizing ability. The Web site of the As You Sow Foundation carries status reports on shareholder campaigns and prompts its visitors to e-mail CEOs directly. It also links to sites like Shareholderaction.org and investment portal SocialFunds.com ("the Web's largest socially responsible investment site"), which endorse stock ownership as a vehicle for corporate reform.

Apart from selling mutual funds, SocialFunds maintains an impressive database of pending resolutions that lets investors read a proposal, check on its status, get instructions on how to cast their vote and e-mail the company's investor-relations department.

Shareholder Action Network, a nonprofit that helped orchestrate the anti-GM foods shareholder campaign, is currently targeting Associated First Capital Company for allegedly jacking up loan rates in low-income communities. "It used to be you'd call 20 people you know on the telephone and ask them to write a letter or introduce a resolution at the next annual meeting," says Tracey Rembert, the site's project director and a veteran activist. "Now you can bring together many more people with one e-mail. You can accomplish

in one year what it might have taken 10 years of pickets and protests in the streets to accomplish."

The contrast between the goals of the capitalist raiders and the mission of the social activists is stark enough that Brown felt compelled to address it in eRaider's media kit. The social reformers, he writes, need to recognize when their political opinions are not widely shared, and should not ask other stockholders to pay for these views. But many activists counter that acting on labor and environmental concerns can improve a company's bottom line. One telling example: The Domini 400 Social Index and Citizens Index, a list of investments screened by social and environmental criteria, consistently outperforms the S&P 500.

Sites like eRaider are, in fact, indebted to the social activists in one sense: The push to reform SEC regulations in the early 1990s by a coalition of activist groups -- led by U.S. PIRG and the ICCR (which pioneered shareholder activism in the 1970s) -- sparked the rule changes that made eRaider's tactics possible. The reforms made it easier for shareholders to press for resolutions and communicate directly with corporate board members. "Almost all of the provisions we rely on now were prompted by [social activists]," Brown acknowledges. "They forced greater democracy in the market."

Today, social and capitalist reformers are united in pushing for expanded proxy voting online, which they hope will further enhance owner participation in corporate governance. "I predict," says Brown, "that in 10 years all companies will be effectively controlled by their shareholders over the Internet."

If he's even half-right, the expression "going public" could one day take on a new, and rather literal, meaning.

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