

A place at the table

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- Early last year, Martin Stoller went on an Internet discussion board to swap messages with fellow shareholders of United Companies Financial Corp. The high-risk lender in Baton Rouge, La., had just filed for bankruptcy. Mr. Stoller hoped to make sense of the company's troubles.

Thousands of messages later, no one could say why the company's \$500 million book value had suddenly plummeted to zero - or why no one at the company would step forward to explain.

So Stoller, a crisis-management professor at Northwestern University, finally took a show of hands in cyberspace and quickly established that the irate group on the message board controlled 40 percent of the company. With that muscle behind him, Stoller, who earlier could not get calls to the company returned, now chairs a committee overseeing the firm's bankruptcy.

His story exemplifies a fundamental shift in the way shareholders and companies interact. In the past, the boards of directors of "underperforming" companies felt heat only from large, high-stakes institutional investors. The Internet has democratized the system, allowing small shareholders like Stoller to band together and voice their views.

"The Web will definitely change the face of shareholder activism in the future," predicts Aaron Brown, a finance professor at Yeshiva University in New York, who aided Stoller in his cybercampaign.

Already, message boards allow shareholders of a particular company to easily locate each other for the first time.

"Our entire economic system really rests on the tiny pinpoint of the inability of shareholders to find each other and communicate with each other," says Nell Minow, founder of The Corporate Library, a Portland, Maine-based online resource for shareholders, "and the corporate managers have fought very hard to keep it that way."

Ms. Minow was once sued for trying to get a shareholder list from a company, and other times she's been told she would have to pay a heavy fee. "With the Internet, you don't [have to experience] that anymore. You

go to message boards and there the shareholders all are," she says.

That's a tune Les Greenberg, a lawyer from Culver City, Calif., knows well. When his shares in Luby's Inc., a food-services company, slumped 75 percent in the past three years, he posted complaints on a Yahoo! message board. Mr. Greenberg, surprisingly, attracted some prominent supporters, including some former Luby's vice presidents. With their backing, he is now seeking to get himself and four other dissidents elected to Luby's 12-member board in January. Greenberg filed documents with the Securities and Exchange Commission (SEC) several weeks ago to formalize his proxy fight. It's the first proxy solicitation organized over the Internet to reach this stage, according to the SEC.

If the SEC approves, Greenberg's group plans to lobby for votes from other shareholders.

The Web also enables shareholders to go beyond annual reports and other publications for information. "Now, on the Internet, you can chat with ... people who know a lot about the company ... and find out far more about the details of the business than they want to give out in the financial statements," says Mr. Brown.

Activism through the years

The Internet is just the latest ingredient, he says, in the evolution of shareholder activism.

"The torch has been passed," says Brown. "Shareholder activism before the '80s was powerful individual investors." In that decade there were legendary corporate raiders involved in hostile takeovers, he says. "Then a wave of socially conscious activists [followed], such as apartheid opponents."

In the early 1990s, the United Shareholders of America, a grass-roots group formed by activist T. Boone Pickens, influenced Congress to lift restrictions on shareholders. Before the 1992 law passed, 10 or more shareholders of the same company could not meet in a room, or have any discussion about the company, unless they filed with the SEC - a rule that basically squelched any grass-roots shareholder activism.

New rules were later introduced that make it easier for shareholders to pose questions on a company's proxy statement, which is sent out to all shareholders for a vote.

Before the new rules, no one did this, says Brown, because it required the services of a lawyer - or a great deal of research. "Today you can get on the Web and practically find a form to fill out and do it," he says, "and shareholders are starting to take advantage."

Now, for the first time in history, he says, there is the legal framework that lets an individual shareholder really make a difference in corporate governance, and even affect revenues.

"What we're seeing today is a completely new kind [of activism]: by small individual shareholders ... primarily interested in profit," Brown says.

"I think it's a quantum shift, the effects of which have not been felt yet," says Brown. He reasons it will take a few years for these ideas to seep through, and for more people to get accustomed to using the Internet.

But broader access may have a downside. Some experts worry that legitimate long-range business decisions by corporations could be mired unnecessarily by the actions of shareholders not fully aware of the implications. Still, the momentum builds.

Leading the movement are Brown and Stoller. In March, they founded the Web site eRaider.com. Its motto: "If [management] won't take care of business, we will."

The site features a mutual fund, the Allied Owners Action Fund, that buys 5 percent stakes in small, underperforming companies. Purchases are announced on the site and message boards are used to organize a large bloc of the company's shareholders - 25 to 40 percent - through the Internet. eRaider urges investors to participate in shareholder meetings, and to fill message boards with criticisms that supporters hope will nudge management to take steps to increase shareholder value. Fund shareholders make money as a target company's stock recovers.

eRaider also takes legal action to remove management, trying to get the SEC to force disclosure in areas where the company has been noncompliant, and trying to find a potential buyer for the company. A proxy fight is always an option.

Other activist organizations have also turned to the Internet. Minow, cofounder of Lens Investment Management, founded TheCorporateLibrary.com to expose lavish benefits awarded to chief

executives - including monthly first-class plane tickets for visits by a CEO's mother.

And CALPERS, California's retirement fund for its public employees, uses the Internet to conduct shareholder forums that are admittedly less aggressive than those run by eRaider. When the fund began posting its planned votes on proxy issues over the Web last spring, the site got more than 30,000 hits per month, says Kayla Gillan, CALPERS general counsel.

But eRaider's Allied Owners Action Fund is by far the most pug-nacious, and the most reliant on the Internet. Besides connecting the fund's small individual investors on the Web, it also provides them with the necessary data, and a forum so they can easily reach a consensus on what direction companies in the fund should take.

A losing proposition?

Whether eRaider's fund will be around five years from now is uncertain. The fund, which requires investors to initially pony up at least \$2,500, has already lost about 30 percent of its value since inception. But Brown promises any one of its holdings could eventually pay off big.

"It's easy to find companies that are worth twice their stock price when shareholders can force one or two changes," he says.

Regardless of the fund's success, experts say the Web's role in shareholder activism will only get larger. "There is no question this cultural shift is the way of the future," says Rick Bennett, activism coordinator at Lens.

"Legally, shareholders own the business, and they now have the tools to enforce their will," Brown adds. "The only thing that's stopping them is inertia, and I think they haven't realized it yet."

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