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Investors, Stirred Up by Scandals, Rally for Corporate Democracy

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Les Greenberg's unsuccessful 2000 proxy challenge at Luby's Inc. taught him how hard it is for shareholders to unseat management-backed directors.

So when the Securities and Exchange Commission said it wanted to hear from the public on possible changes to the proxy rules, Mr. Greenberg went back to the spawning ground of the Committee of Concerned Luby's Shareholders: Yahoo message boards.

There he posted a couple hundred messages -- many on pages devoted to chat about scandal-plagued companies -- urging "those concerned about the lack of personal accountability" of chief executives and boards to follow his links to drop a comment on the SEC's Web site.

"I posted at places like Tyco," said Mr. Greenberg, a semiretired Culver City, Calif., litigator. "I figured that's where there would be ticked-off people who would be more inclined to respond."

Respond they did. More than 600 e-mails, most of them from individual investors, were directed to the SEC's Web site. The writers weighed in on changes they feel are needed to improve corporate democracy, from the rules involving nominations of board directors to those governing shareholder proposals. The commissioners asked the division of corporation finance to report back on potential changes by July 15.

But the onslaught of e-mail from average Americans wasn't entirely spontaneous. Activists such as Mr. Greenberg, pension funds, and even the Council of Institutional Investors, a Washington-based organization whose membership comprises large pension funds, hustled to get individual investors to submit comments to the SEC.

The CII handed out fliers on the streets of Washington near Metro stations telling passersby about the SEC's comment period. Shareholder activist Web site eRaider spread the word on its message boards. The California State Teachers' Retirement System became involved for the first time in corporate-governance outreach, devoting a section of its Web site for nine days to instructing visitors on how to send an e- mail to the SEC, along with suggested language for the missive; the link received 368 hits.

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One of the big themes of the comment letters was shareholder access to the corporate proxy. Investor activists say shareholder rights are undermined by current rules, in which corporations can mail out proxies containing only the names of management-approved nominees for their boards of directors. The only way for dissidents to reach shareholders with an alternative slate of directors is to launch a proxy contest, which can cost more than $25,000.

"It's very clear that this access-to-the-proxy issue is the corporate-governance fault line between those forces seeking authentic boards of directors and those trying to perpetuate a board as a rubber stamp for the CEO," said Bill Patterson, director of the Office of Investments at the AFL-CIO, which sent a rule-making petition to the SEC this year urging reform of the process.

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[A] fairly typical-sounding entry from individual investors came from Arnold Ritterband, "a stockholder."

"After all the corporate crookedness, and the failure of far too many boards of directors to perform proper oversight," he wrote, "isn't it obvious that foxes appointed by other foxes should not be the primary guards for hen houses? Please vote to increase the ability of stockholders to choose corporate directors!"