

Activist Investors Turn to Social Media to Enlist Support

By RHEA WESSEL | March 24, 2011

Social media has proved to be a powerful tool for a wide range of constituencies, including revolutionaries in the Middle East and corporations in the Midwest. But hedge funds and other investors have yet to really embrace sites like Twitter and Facebook as they rally support for their causes.

That could soon change.

Activist investors are testing online technologies to reach out to small shareholders, find potential allies and coordinate proxy votes.

While it remains to be seen whether such efforts will ever reach a critical mass, Wall Street stalwarts are starting to pay attention. At an industry conference in Berlin this month, David Rubenstein, a co-founder of the [private equity](#) giant [Carlyle Group](#), predicted shareholder activism would move to the Web.

“Let’s suppose somebody wants to buy a company and has to get shareholder approval,” Mr. Rubenstein said. “Employees and shareholders could use Facebook to rally support against an acquisition.”

The Internet is a natural vehicle for investors. In the early days of the dot-com boom, individuals and day traders used message boards to exchange stock tips. In a way, it was a forerunner of today’s social media efforts. Although sites like the [Motley Fool](#) still exist, they remain mainly a forum for sharing investment ideas rather than a gathering place for activists.

Investors have also used the Web for one-off campaigns over the years. In 2007, Eric Jackson, a private investor, posted videos on YouTube and set up a blog to detail what he saw as flaws in [Yahoo’s](#) business strategy. He soon got the attention of the Internet company’s small shareholders, a group that collectively held some 2.6 million shares. With that base, he took his concerns to larger institutions, mobilizing an effort that helped bring down Yahoo’s chief executive, [Terry Semel](#).

“You need to make a case that is going to resonate with large shareholders,” Mr. Jackson said. Otherwise “it becomes nothing more than a group of people from Yahoo Finance complaining about the company.”

Today, more established players are turning to the Web, even if their activity remains on the fringe. [Carl C. Icahn](#) set up a scathing Web site to drum up support in his proxy battle against [Lionsgate](#), a movie studio. The site detailed how shareholders could help “save” the studio by approving his deal, which eventually failed. Elliott Advisors is taking to the Web to urge small investors of the Swiss biotech company Actelion to register their shares to vote and support Elliott’s slate of directors.

Academics and industry experts see a growing place for the Internet and social media in the activist’s arsenal, much as companies rely on Twitter or Facebook to get feedback or test new ideas. Gap, for example, decided not to change its logo after consumers on various social media platforms began to label the move a branding failure.

“It has the potential to move groups of shareholders from passive administrators to active participants,” said [Marcus Birkenkrahe](#), a professor of business information technology at the Berlin School of Economics and Law. “The financial industry in particular ought to be wary of social media as a means of creating assemblies where people learn to articulate, sell and distribute their adverse views.”



Laura Pedrick for The New York Times

Mark Schlegel of MoxyVote, a two-year-old Web site that helps small shareholders vote on corporate issues.

A number of online firms are popping up to help facilitate the process. Moxyvote.com, a two-year-old site that estimates it has thousands of users, is trying to make it easier for small investors to vote their shares. “MoxyVote was designed to get the little guys together,” said Mark Schlegel, a co-founder of the company. “We’re a proxy adviser for the individual. We’re crowd-sourcing opinions.”

Investors at MoxyVote can vote on corporate issues independently or as part of a broader group. For example, [As You Sow](#), a nonprofit focused on environmental and human rights issues, is using the site to get shareholders to vote in favor of its resolution calling for a study at the [Coca-Cola Company](#) about the effects of a certain chemical on its aluminum cans. The beverage maker is set to vote on the issue at its annual meeting in April.

“It’s just like writing a letter to your congressman,” said Andrew Behar, the chief executive of [As You Sow](#).

MoxyVote claims at least one big success. Small shareholders in On2 Technologies, a technology developer, banded together on the site to block a takeover bid by [Google](#). Collectively, the group of investors accounted for roughly 20 million shares, or about 11 percent of the outstanding shares. They cast a no vote, helping to spur Google to sweeten its offer by nearly 25 percent to roughly \$133 million. Google acquired On2 last year.

Still, Internet activism isn’t without its critics. Some assert that short-sellers and others can hide behind the Web to inflict unwarranted harm on a company’s stock price. That’s what the chief executive of China MediaExpress Holdings claimed after research firms, including Muddy Waters — an upstart research outfit that also makes bets against stocks — published a report online in February that questioned the accounting of the company. The report was discussed on Twitter, and [Muddy Waters Research](#) posted videos about the company on YouTube. Shares of China MediaExpress dropped more than 33 percent the day the report was published.

“The manner in which the short-sellers seem to have timed and coordinated their efforts plays into their ultimate strategy,” the chief executive of China MediaExpress wrote in a letter to shareholders on Feb. 7. “By using the anonymity of the Internet and publicizing as many unfounded allegations as they can craft, they can make it look as if there is a ground swell of criticism against the company when in reality all the claims emerge from a small group of self-interested parties.”

The founder of Muddy Waters, Carson Block, makes no effort to hide his bets against China MediaExpress and other companies on which he blogs or posts online reports — and he says he provides a useful service by exposing what he considers dubious corporate practices.

In mid-March, the chief financial officer of China MediaExpress resigned. And the independent auditor, Deloitte Touche Tohmatsu, said an investigation would be necessary to find out whether prior financial statements were reliable.

Despite such controversy, experts say the emergence of social media and other online grass-roots efforts is a development that cannot be ignored.

“If I was a senior executive in a major corporation, I would have this on my radar screen of things to keep an eye on,” said Andrew Stephen, a professor of social media strategy at Insead, the business school in Paris.