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FINANCE

Investors May Not Want This Hot Line

CEOs are leading a charge to get brokers to cough up the names of shareholders

Big business wants to reach out and touch someone: its far-flung owners. Executives, bombarded by a fusillade of shareholder resolutions and challenges to directors, want to break down the barriers that keep them from communicating directly with stock owners. Who could oppose such a plea for openness? Well, investor activists, institutions, and brokers, for starters. They see a power grab by business to tilt the messages shareholders receive and, perhaps, compromise investor privacy.

The dispute turns on a little-known fact: More than 80% of shareholders keep their holdings in "street names," registered to their bank or brokerage. The vast majority of these investors elect to remain anonymous to corporate management. To send out annual reports, proxy statements, and management broadsides, brokers rely on Automatic Data Processing Inc. (ADP), a Roseland (N.J.) outfit that has a virtual lock on the business.

Now a coalition led by the Business Roundtable, a group of big-company CEOs, is trying to wrest control from ADP. It is urging the Securities & Exchange Commission to force brokers to cough up names so companies can make their pitch directly to shareholders. Stock owners who insist on anonymity would pay for the privilege. "Our objective is to make [communications] more efficient and empower shareholders with more information on a more timely basis," says Thomas Lehner, the Roundtable's director of policy for corporate governance.

But more is at stake than smooth communications. Some investor advocates are pressuring the New York Stock Exchange to jettison a rule that lets brokers cast the proxies of investors who don't vote. These "broker nonvotes" -- 15% to 20% of tallies -- nearly always back management. Companies don't want to lose that support without gaining a way to woo shareholders personally.

Business sees an opening at the SEC, now led by tech-savvy Chairman Christopher Cox. On Nov. 29, the agency plans to propose new rules that would let companies post proxy materials on their Web sites instead of sending them via snail mail. Business hopes that will open the door for its plan. Commissioner Paul S. Atkins would like to see the SEC hash out the issue. "I'm sympathetic to [the Roundtable's] petition for new rules. We need more openness in shareholder communications," Atkins says.

"COUNTER-REVOLUTION"

Institutional investors and brokers say business has power, not communications, in mind. "This is the corporate world's counter-revolution," says Greg A. Kinczewski, general counsel for Marco Consulting Group, a Chicago-based investment adviser. "Do you want the people who brought us the scandals to be in charge of a process that's supposed to be fair and trustworthy?"

Activists fear that if business controlled access to shareholders, managers might stall mailings by dissidents or demand rewrites of critical comments. "It would be very easy for companies to put serious obstacles in the way of communications between shareholders and meddle with content," says Damon A. Silvers, associate general counsel for the AFL-CIO.

Brokers are loath to hand over proprietary customer information and doubt that many account holders would appreciate spam or dinnertime phone calls urging them to vote with the CEO. Brokers also like ADP's unbiased, one-stop service and shudder at the prospect of sending data to new firms that companies hire to handle mailings.

To protect its perch, ADP has invested more than \$100 million in its systems in the past decade and eliminated 41% of paper mailings at a \$700 million annual savings. "We can distribute electronically to 70% of shareholders within 24 hours," says Chuck Callan, vice-president for regulatory affairs at ADP Investor Communications Services. Business groups pushing for change haven't spelled out how they would do better. But with dissident shareholders gaining ground -- they won majority support on 20% of their 2005 proposals -- companies figure they need a stronger hand.

By Amy Borrus, with Mike McNamee in Washington

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