Investors mull blockchain to improve corporate elections, shareholder votes

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Blockchain, a technology most closely associated with cryptocurrency, is being explored as the solution to better corporate board elections and shareholder votes, which have been plagued by cases of low participation and high-profile miscounts.

The decentralized, distributed ledger technology gained prominence as the backbone of cryptocurrencies like bitcoin because it allows tracking ownership as the tokens change hands. It also provides access and enables verification of pseudonymous information by multiple users in real time. Once entered in the ledger, encrypted “blocks” of information can’t be changed or falsified because the entire network can view the ledger.

It’s these characteristics that make blockchain ideal to track votes cast for corporate annual meetings, according to those exploring the possibility.

Lydia Mashburn, a member of the Securities and Exchange Commission’s Investor Advisory Committee, says such a system would provide the corporate elections system with better accuracy, transparency, timeliness and cost-efficiency.

“I think some of the properties of blockchain that lend themselves well to achieving those are that it’s this immutable, verifiable ledger,” Mashburn said. “It’s designed to keep track of who owns what, when and where. It can distribute that information to multiple parties in real time.”

Mashburn is the managing director of the Center for Monetary and Financial Alternatives at the Cato Institute.

Investors holding shares in a company are eligible to vote in corporate elections on issues like executive pay, board membership and mergers. Shareholders unable to be physically present at the meeting are allowed to vote by proxy. It sounds simple enough but the system is complex and vulnerable to errors, in part because of the number of intermediaries — brokers, investment advisers, banks and trusts — that sit between companies and investors.

Main Street investors who own company shares through retirement funds or other investment products may not even be aware of their stake in a public company. Only about a quarter of shares owned by these ordinary investors get voted each year, according to the financial services firm Broadridge Financial Solutions Inc.

For corporate elections, the intermediaries separating companies from shareholders typically hire third parties to distribute voting materials to investors, advise financial firms how to vote, and tally and relay votes up the chain to reach the company.

Like a game of telephone, all the layers of intermediaries and service providers separating public companies from their owners leave opportunities for mistakes, a panel charged with advising the SEC on investor issues found.

Most of the time, mistakes go unnoticed because the elections have clear winners and losers, the Investor Advisory Committee noted in a recommendation it made to the agency on proxy reform. However, close elections bring the problems into sharp relief.

In several high-profile cases, mistakes at one stage in the proxy voting process have led to errors or confusion in consequential shareholder votes.

As instructions passed through a series of intermediaries and third parties during a vote in 2013, T. Rowe Price Group Inc.'s shares were mistakenly voted in favor of a deal that took Dell Inc. private, a stamp of approval that derailed an attempt by the asset manager to sue for a better buying price. The botched vote cost T. Rowe almost $200 million, The Wall Street Journal reported. The firm settled with Dell for $25 million.

A blockbuster battle for board seats between activist investor Nelson Peltz and Procter & Gamble Co. in 2017 came down to the wire, leading both sides to declare victory, as well as recounts and, ultimately, to P&G adding Peltz to the board despite his narrow loss. Numerous errors were discovered that led votes to be thrown out, according to the committee.

Instead of each intermediary maintaining separate ledgers with votes and comparing and combining them in a final count, in theory blockchain would provide one centralized, secure ledger where all votes would be tallied.

The financial sector is already experimenting heavily with the technology; the progression to other sectors of the corporate world seems inevitable, according to several people interviewed by CQ Roll Call.

Some privately held companies, for example, are beginning to use blockchain to distribute shares to investors. It's a more complicated task for publicly traded companies to follow suit, yet the benefits would be clear, said Andrea Tinianow, a consultant who works with blockchain company Symbiont and formerly was director of the Delaware Blockchain Initiative.

She said blockchain could cut intermediaries out of the proxy voting path and offer security, placing trust in an algorithm rather than people.

"There's promise here," Tinianow said. "People are working toward this. It's happening."

For investors, blockchain could address a lack of confidence that their votes are being cast as they intend by providing clear, immediate vote confirmation. That could make an "incredibly complex" system simpler and cheaper, said Ken Bertsch, executive director of the Council of Institutional Investors, an organization of institutional investors managing more than $4 trillion in assets.

The group has emerged as a leading public voice for blockchain exploration among U.S. investors, who Bertsch said are interested in the technology but only now beginning to grasp its possibilities.

Bertsch noted the technology lends itself to transparency of information, but also of privacy of the users, which he said is particularly important for investors who choose to interact anonymously with companies to avoid revealing their trading strategies.

“I’d underline this is early stages, and we’re not trying to say this is the only solution,” Bertsch said. “We’d be interested in other solutions. We’re not techies. It’s just we’re sold that this is something that should be seriously explored.”

Alex Lebow, co-founder and chief legal officer at A Say Inc., said blockchain is an attractive option because it would solve some of the proxy system’s structural problems, like preserving shareholder anonymity while allowing more direct contact with companies. His company works with brokers, funds and companies to improve communication with investors.

The technology shouldn’t distract from simpler fixes though, he said.

Removing barriers to direct communication between companies and shareholders would go a long way to solving a lot of proxy problems and could be accomplished with the same “1970s relational database technology” that underpins most of the financial system, Lebow said.

“In many cases, blockchain is sort of a solution in search of a problem,” he said. It’s sort of a flashy thing and people look for applications, but in many cases, those applications don’t make sense or are solved with simpler technologies.”