

Enhancing shareholders' voting process through blockchain

It is in shareholders' interests to remodel the existing shareholder voting approach and bring it up to speed with modern corporate practices. **BY BEN CHESTER CHEONG**

THE theme of the Securities Investors Association (Singapore)'s Corporate Governance Week 2022 was "Advancing corporate governance in an age of disruptions". The discussions, which wrapped up on Oct 14, centred on how stakeholders can address climate change and other environmental, social and governance risks.

One way in which corporate governance can be enhanced from a shareholder's perspective is through the use of technology. In a 1932 paper, professors Adolf Berle and Gardiner Means concluded that shareholders have very little power over the affairs of the company. They argued that even if shareholders could vote, they were not able to use their vote as an instrument of democratic control.

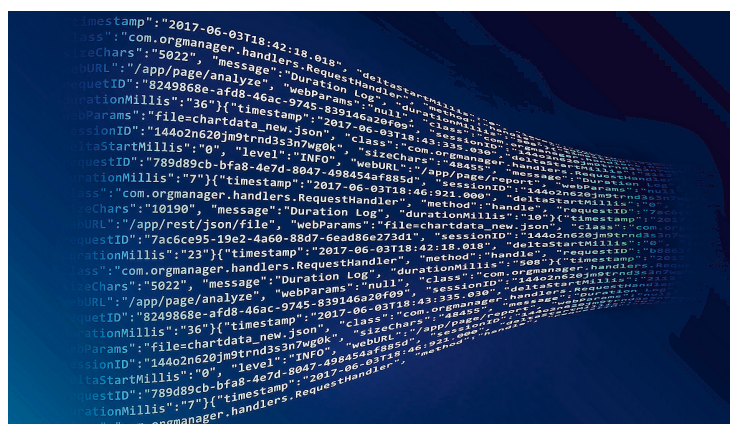
Decades later, in a 2019 study conducted in the United States, researchers Alon Brav, Matthew Cain and Jonathon Zytznick found that, when it comes to corporate polling, only 32 per cent of US retail shareholders voted, which was significantly lower than the 80 per cent participation rate by the entire shareholder base. In total, only 12 per cent of the average company's retail shareholders chose to vote. Their study concluded that retail shareholders played a valuable role through the voting process in disciplining poorly-performing companies, as compared to institutional investors.

Harvard professor Lucian Bebchuk considered voting to be the cornerstone of corporate governance and accountability. One way to enhance shareholder democracy is through simpler voting mechanisms. Shareholders represent an efficient tool for capital market oversight. However, in what's known as "rational apathy", many retail shareholders assume that their minority holdings have no impact on the voting process. Yet, having that mindset and leaving decision-making to other informed shareholders contribute to a weakening of the retail investors' vote as an instrument of democratic control.

One way to reduce rational apathy is through a system to spur shareholders' participation. This could take the form of higher dividends, additional tokens, or by making voting mandatory. The underlying technology to facilitate this transition could be blockchain technology. As blockchain is compatible with mobile operating systems, the voting process can be made easier, since shareholders can conveniently vote on their mobile phones.

Current shareholders' voting system needs to change

Blockchain could serve as a viable substitute for the traditional mail voting or corporate proxy voting system that continues to be used globally. The majority of shareholders cast their votes through a proxy. Proxy voting arises because shares are typically held by intermediaries such as banks, brokers or investment firms on behalf of shareholders. These intermediaries are the ones who ultimately cast the votes. With blockchain voting, the widespread prevalence of nominee owners would diminish because a beneficial owner would



The entire voting system to obtain shareholders' approval can be remodelled with blockchain technology to make it more agile. PHOTO: PIXABAY

be able to vote in their own name. Blockchain would also reduce the costs of voting for shareholders. Shareholders would no longer be required to fill up any registration or proxy form.

Furthermore, shareholders' decision-making in an annual general meeting (AGM) is often protracted. Calling an extraordinary general meeting (EGM) to obtain shareholders' approval for a single resolution is typically tedious and costly, especially when coupled with notice periods and record dates that prevent companies from acting expeditiously. Blockchain technology facilitates the removal of this inefficiency by making it possible to submit proposals directly to the shareholders. Shareholders can then use their tokenised voting rights to cast their votes immediately. This would readily improve the current inefficient model of obtaining shareholders' approval.

Proposals for blockchain voting

The entire voting system to obtain shareholders' approval can be remodelled with blockchain technology to make it more agile.

In a blockchain, a token is a unit of value that represents an asset or utility in digital form. In the context of voting and corporate governance, this would take the form of security tokens. A security token represents a share in the company that issued the token. The token performs the same function and includes the same rights as the securities that they represent.

Instead of an intermediary, shareholders would cast their votes directly. Votes can be instantaneously recorded on a blockchain. The voting process would become straightforward and more accessible. Virtual meetings could become the norm and shareholders would be able to participate more actively. Direct voting through blockchain would eliminate the need for existing middlemen. A blockchain voting system would also increase the transparency and efficiency of the corporate system.

By using a blockchain that records shareholder voting on a private ledger, shareholders' decision-making can become faster and cheaper. Once a voting item is placed on a private ledger, shareholders are notified and can exercise their tokenised voting rights. Corporate decisions that require shareholders' approval can be placed at any time in the blockchain at a significantly lower cost than organising a

general meeting. When a majority is reached, the voting outcome becomes immutable and verifiable. This would result overall in a faster decision-making process and reduced organisational costs.

The blockchain technology developed for corporate voting would need governmental oversight for reliability. In 2019, the Singapore Exchange (SGX) was reported to be exploring blockchain e-voting in Asia-Pacific using distributed ledger technology to simplify the management of shareholder meetings. In response to the pandemic in 2020, Singapore provided the option of real-time remote electronic voting through an electronic voting system for listed and non-listed entities.

A semi-private blockchain run by a central authority (such as a government agency) should be developed. The government agency would need to collaborate with other stakeholders, such as SGX, which would manage the blockchain's protocols. The agency would also have to collaborate closely with software engineers and lawyers who would help translate law into code. Through the use of blockchain technology, shareholders' decision-making would become faster and more cost-efficient for companies in the long term.

Estonia has implemented a form of blockchain-enabled voting since 2007. Estonia's system is unique in that it utilises a PIN and personal SIM card to enable Estonians to cast their votes. This helps to deal with the issue of non-citizen votes. However, there are concerns that another individual may utilise the same hardware to cast the original voter's ballot.

In Singapore, an alternative to a blockchain-based voting system could take the form of a corporate voting system that uses either SingPass or CorpPass (for individuals or companies, respectively) to vote on corporate issues. But such a proposal would still be reliant on a central depository system and may not lead to the benefits that a blockchain-based voting system would bring.

That said, it would be in shareholders' interests to remodel the existing shareholder voting approach and bring it up to speed with modern corporate practices. The long-term transformative potential of blockchain voting should not be understated.

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