Decentralizing Voting Power

by Nathan Herrmann, John McInnis, Brian Monsen, and Laura Starks

Discussion by

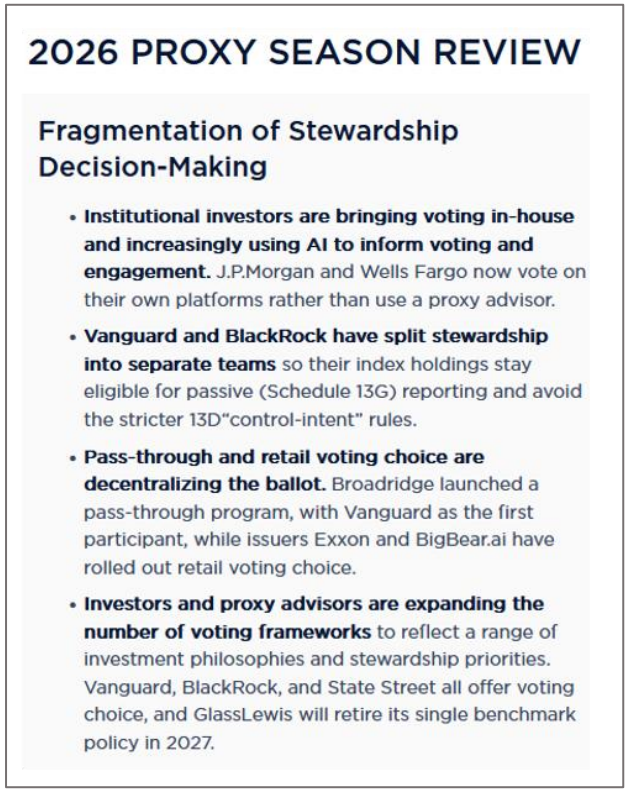
Nadya Malenko

Sir Oliver Hart Conference

November 2026

The changing organization of stewardship

- **Cross-sectional variation**
  - Centralized stewardship vs. fund-manager delegation
  - Different reliance on proxy advisors
- **Changes over time**
  - Increasing decentralization and pass-through voting
  - Growing customization of voting policies
- **What drives these changes**
  - Political and regulatory pressures; technology
  - Heterogeneous investor preferences and beliefs



2026 PROXY SEASON REVIEW

Fragmentation of Stewardship Decision-Making

- **Institutional investors are bringing voting in-house and increasingly using AI to inform voting and engagement.** J.P.Morgan and Wells Fargo now vote on their own platforms rather than use a proxy advisor.
- **Vanguard and BlackRock have split stewardship into separate teams** so their index holdings stay eligible for passive (Schedule 13G) reporting and avoid the stricter 13D"control-intent" rules.
- **Pass-through and retail voting choice are decentralizing the ballot.** Broadridge launched a pass-through program, with Vanguard as the first participant, while issuers Exxon and BigBear.ai have rolled out retail voting choice.
- **Investors and proxy advisors are expanding the number of voting frameworks** to reflect a range of investment philosophies and stewardship priorities. Vanguard, BlackRock, and State Street all offer voting choice, and GlassLewis will retire its single benchmark policy in 2027.

How does the organization of stewardship affect voting decisions?

What the paper shows

- Vanguard's 2019 reform: voting authority shifts to external advisers

- External advisers oppose management more
  - 27 p.p. more support on ESG shareholder proposals
  - Pre-existing adviser voting preferences predict subsequent voting
  - Vanguard's business ties help explain some voting differences

- External advisers do not simply follow proxy-advisor recommendations
  - Concentration and voting experience → less voting according to ISS benchmarks

Discussion outline

Paper: Changing the organizational structure of stewardship substantially changes voting decisions

Discussion: What are the trade-offs in decentralization?

1. **Classic delegation trade-off**: Information vs. preference alignment
2. **Two additional considerations in shareholder stewardship**:
   - Who is the ultimate principal? Heterogeneous fund investors
   - Shareholder power: The benefits of concentrated voting
3. **Implications for institutional design**

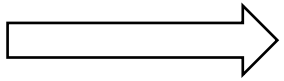
The classic delegation trade-off

Holmström (1984); Dessein (2002): Allocation of authority in organizations; teams; governance

Principal

Has objectives; may lack information

Decentralization



Delegates authority

Agent

Better informed; own objectives

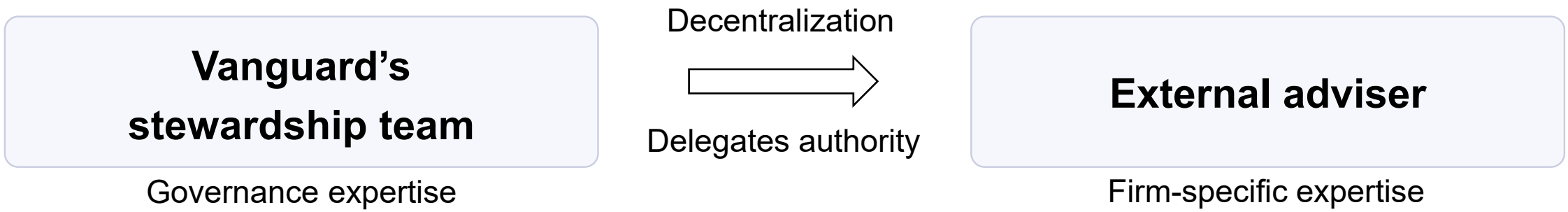
Benefit of decentralization

Better use of the agent's information

Cost of decentralization

Potential misalignment of preferences

Vanguard decentralizing authority over voting



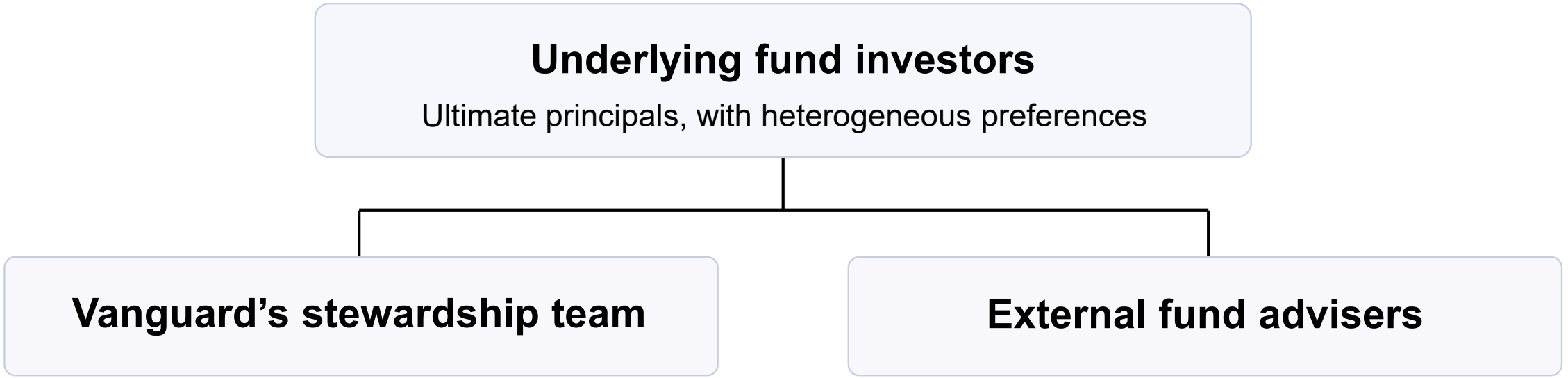
Benefit: Information

- Investment decisions may give external advisers firm-specific knowledge
- **Paper**: Concentrated stakes and experience predict less voting with ISS

Cost: Misaligned preferences

- Advisers may have objectives different from Vanguard's
- **Paper**: Advisers' pre-existing voting preferences predict their votes

What is different in stewardship: (1) Vanguard is itself an agent

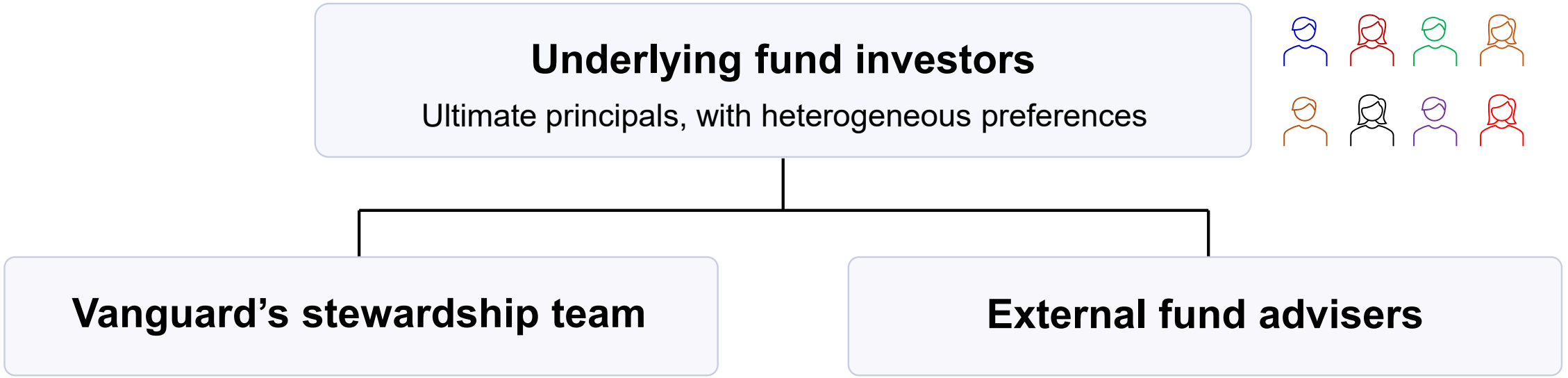


- Vanguard brand and reputation → potential alignment with investors' preferences (+)
- **Paper**: Potential business conflicts (–)

- Potential alignment through investor sorting into funds
  - **Paper**: weak evidence of additional flows

Which arrangement better represents fund investors' preferences?

Pass-through voting

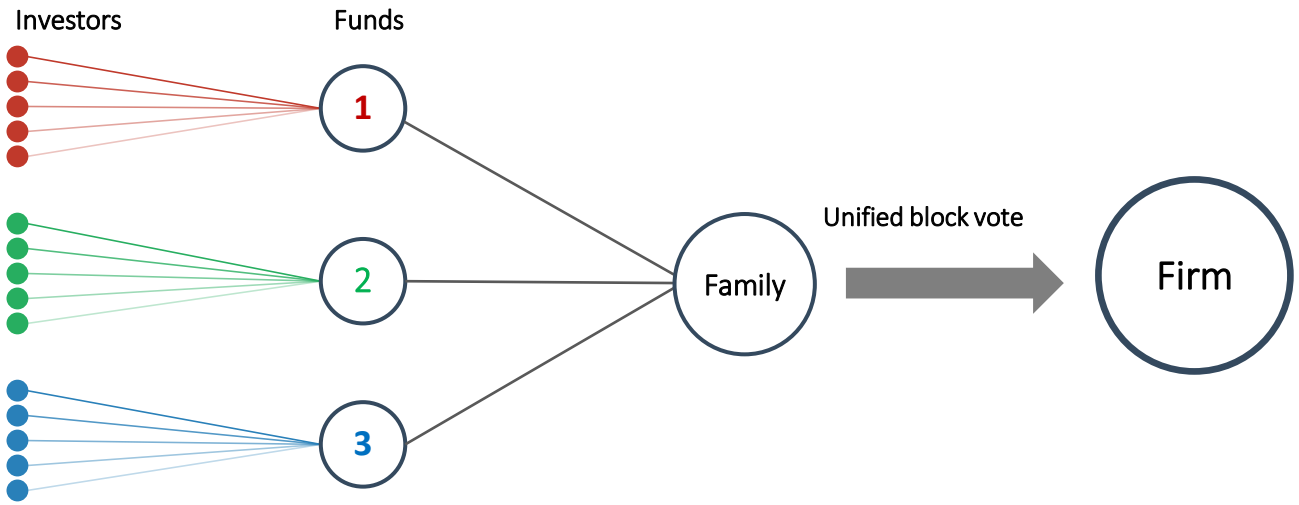


- **Pass-through voting** – extreme form of decentralization
  - authority stays with principal (fund investors)
- Same information-preference trade-off: Dessein 2002; Malenko, Malenko 2026
  - preferences: given **investor heterogeneity**, most direct way to achieve full alignment
  - but potential lack of information, relative to both Vanguard and external advisers

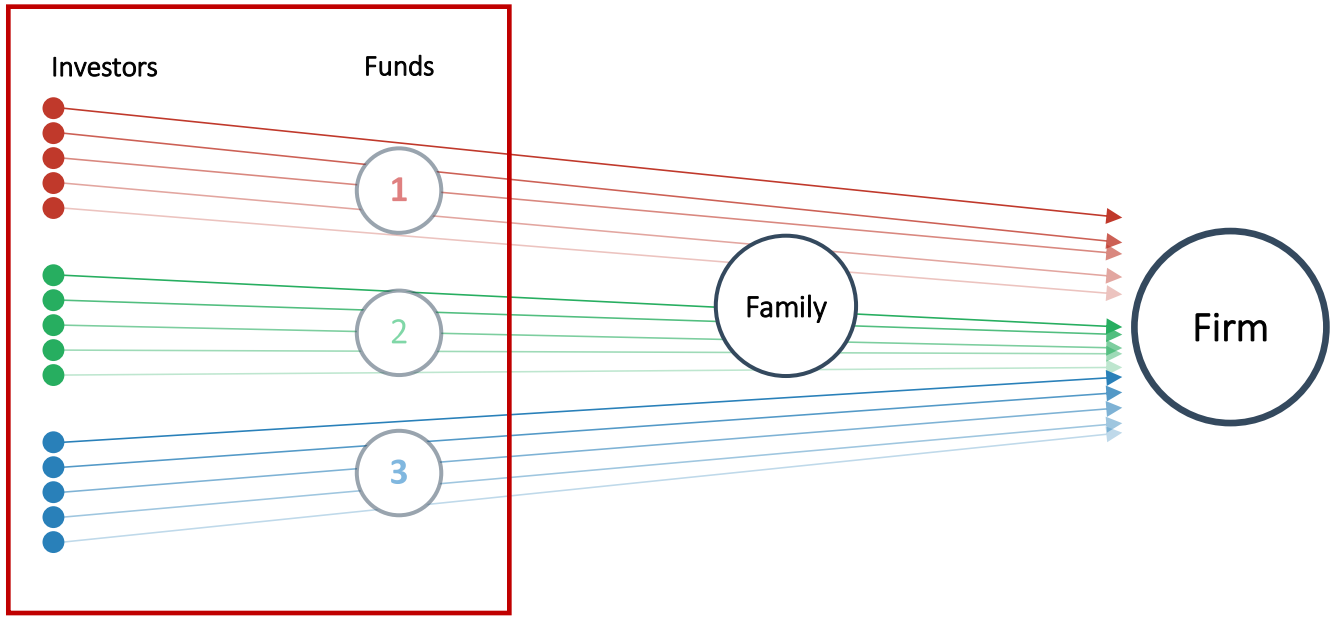
What is different in stewardship: (2) Benefit of concentrated stakes

- In addition to the information–preference trade-off, decentralization risks **fragmenting shareholder power**

- Concentrated shareholder power can provide:
  - **Influence**: Greater coordination → ability to affect corporate decisions
  - **Engagement**: Better access to management and more effective dialogue
  - **Incentives**: Stronger incentives to acquire information and monitor management



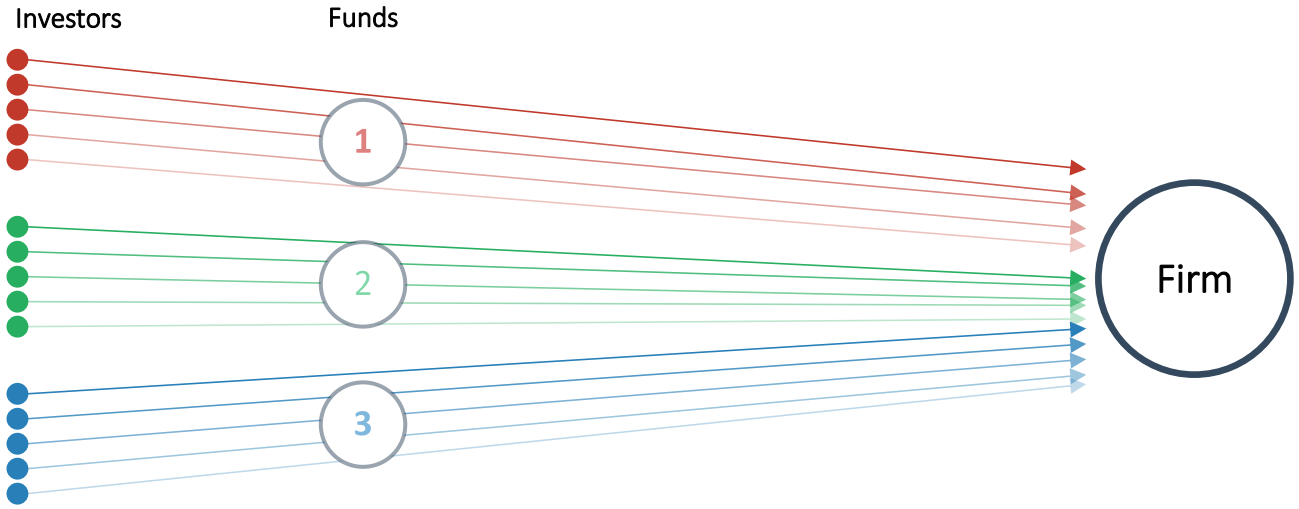
Centralized stewardship



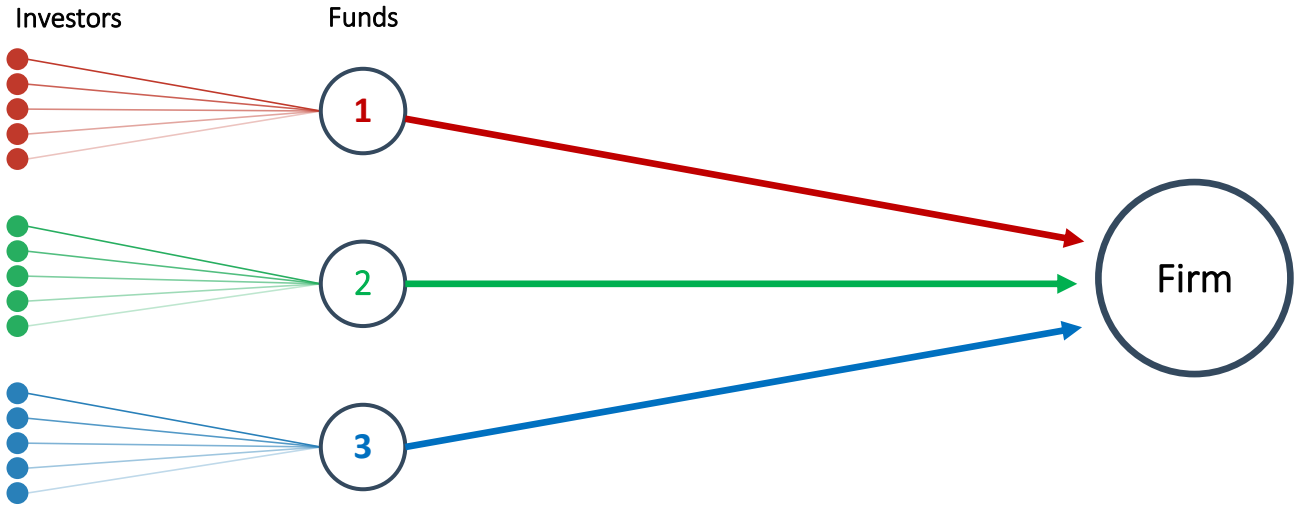
Decentralization

Malenko, Malenko, Tsoy 2026

Form of decentralization matters



Pass-through voting
to fund investors



Concentrated blocks can strengthen monitoring, potentially even relative to a family block

Delegation
to fund managers

Malenko, Malenko, Tsoy 2026

Putting it together: Three considerations

Preferences

Whose objectives should guide the vote?

Investor heterogeneity; sorting

Information

Who can evaluate proposals and acquire information?

Investment research; stewardship expertise

Shareholder power

Who can monitor, engage, and influence firms?

Coordinated action; incentives

Different allocations of voting authority affect all three

Institutional design more broadly

- How to improve representation, but prevent the costs of fragmentation
  - to preserve information and shareholder power?

- **Potential mechanisms**
  - Centralization – Delegation to fund managers – Pass-through voting
  - Investor assemblies — Hart, Landermore, Zingales 2026; Bauer et al. 2026
  - Surveys of investor preferences — Fisch, Schwartz 2023; Fintech platforms
  - Pass-through voting on a subset of proposals
  - …