



The Business School  
for the World®

# Discussion of “Is There Wisdom Among the DAO Crowd? Evidence from Vote Delegation” by Chuxuan Fan, Tao Shu, Fei Xie

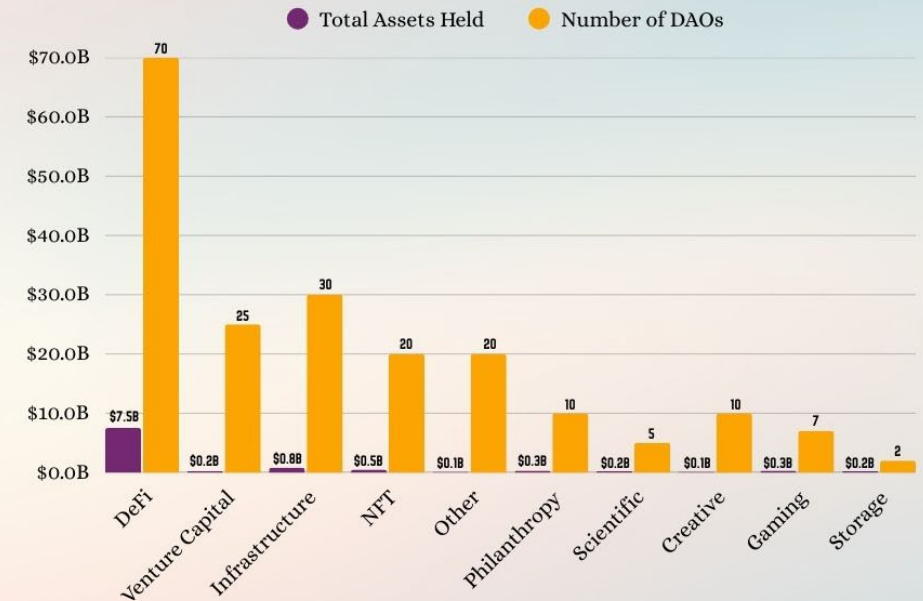
Ben Charoenwong  
INSEAD

ACFOW March 24, 2025

# Summary

- **Research Question:** Studies vote delegation in DAOs, focusing on MakerDAO Key questions: Do token holders reward "correct" voting by delegates?
  - How do incentives and expertise affect delegate voting?
  - Does effective delegation impact DAO performance?
  - What determines token holders' delegation decisions?
  - Contribution: First empirical analysis of DAO delegation effectiveness
- **Empirical Setting: MakerDAO**

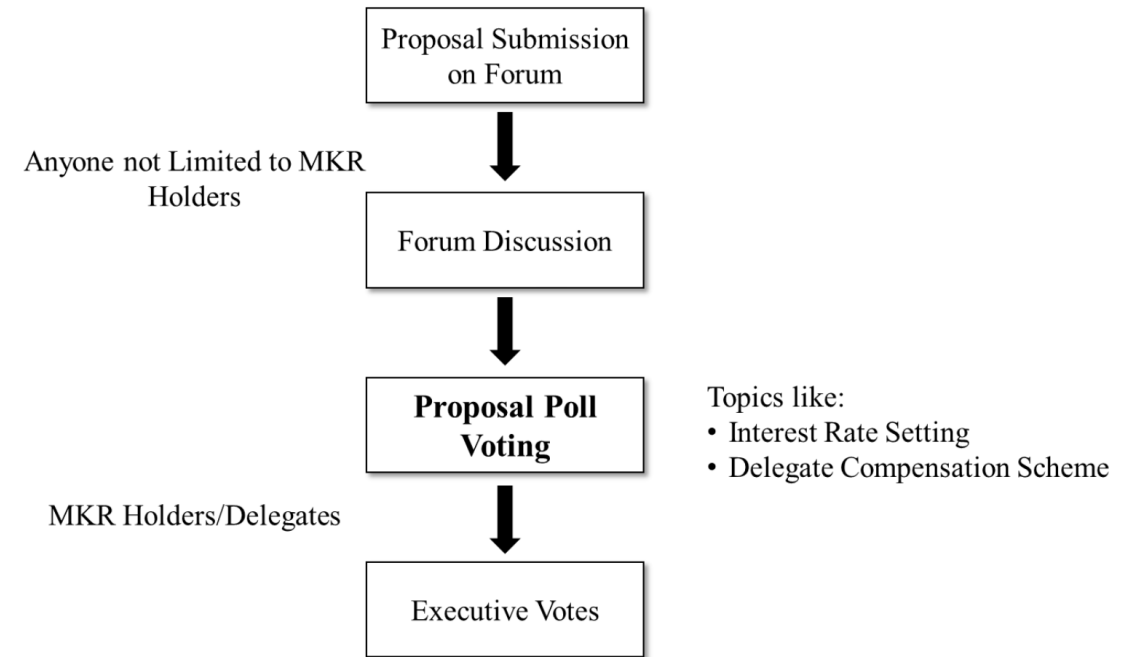
**TOTAL ASSETS HELD & NUMBER OF DAOs BY WEB3 CATEGORY**



Source: CoinLaw.io

# Summary

- Token holders reward delegates for “correct” votes with increased delegation
  - Correct → defined as value-increasing when pivotal vote comes in. More on this later.
- Delegates with strong incentive alignment (MKR holdings) vote “better”
- Conflicts of interest (holdings in competing tokens) lead to incorrect votes



# Direct Democracy in Platform Policy

[< Back to Executive Proposals](#)

## SP-BEAM Initialization, Sky Token Rewards Rebalance, Set Aave Lido Market (Prime Market) DDM DC to 0, SBE Changes, Launch Project Funding, Spark-Aave Revenue Share Payment, AD Compensation, Atlas Core Development Payments, Spark Proxy Spell - April 17, 2025

0xe4710...1749 ↗

Spell Address

0

MKR Support

1

Supporters

[Proposal Detail](#)
[Spell Details](#)

PASSED ON APR 18 2025 14:14 UTC. EXECUTED ON APR 21 2025 14:00 UTC.

The Governance Facilitators, Sidestream, and Dewiz have placed an executive proposal into the voting system. MKR/SKY Holders should vote for this proposal if they support the following alterations to the Sky Protocol.

If you are new to voting in the Sky Protocol, please see the [voting guide](#) to learn how voting works.

---


### Executive Summary

If this executive proposal passes, the following **actions** will occur within the Sky Protocol:

- The Stability Parameter Bounded External Access Module (SP-BEAM) will be initialized as described below.
- The Sky Token Rewards (SKY to USDS) Annual Percentage Yield (APY) will be adjusted.
- The Aave Lido Market (Prime Market) Direct Deposit Module (DDM) Debt Ceiling (DC) will be set to 0.
- The Smart Burn Engine (SBE) hop parameter will be updated as described below.
- **5 million USDS** and **24 million SKY** will be distributed to the Launch Project.
- A total of **256,888 DAI** will be distributed as SparkLend-Aave Revenue Share payment for Q1 2025.

### Supporters

ⓘ Updated every five minutes



BONAPUBLICA

100.00%

95.74 MKR

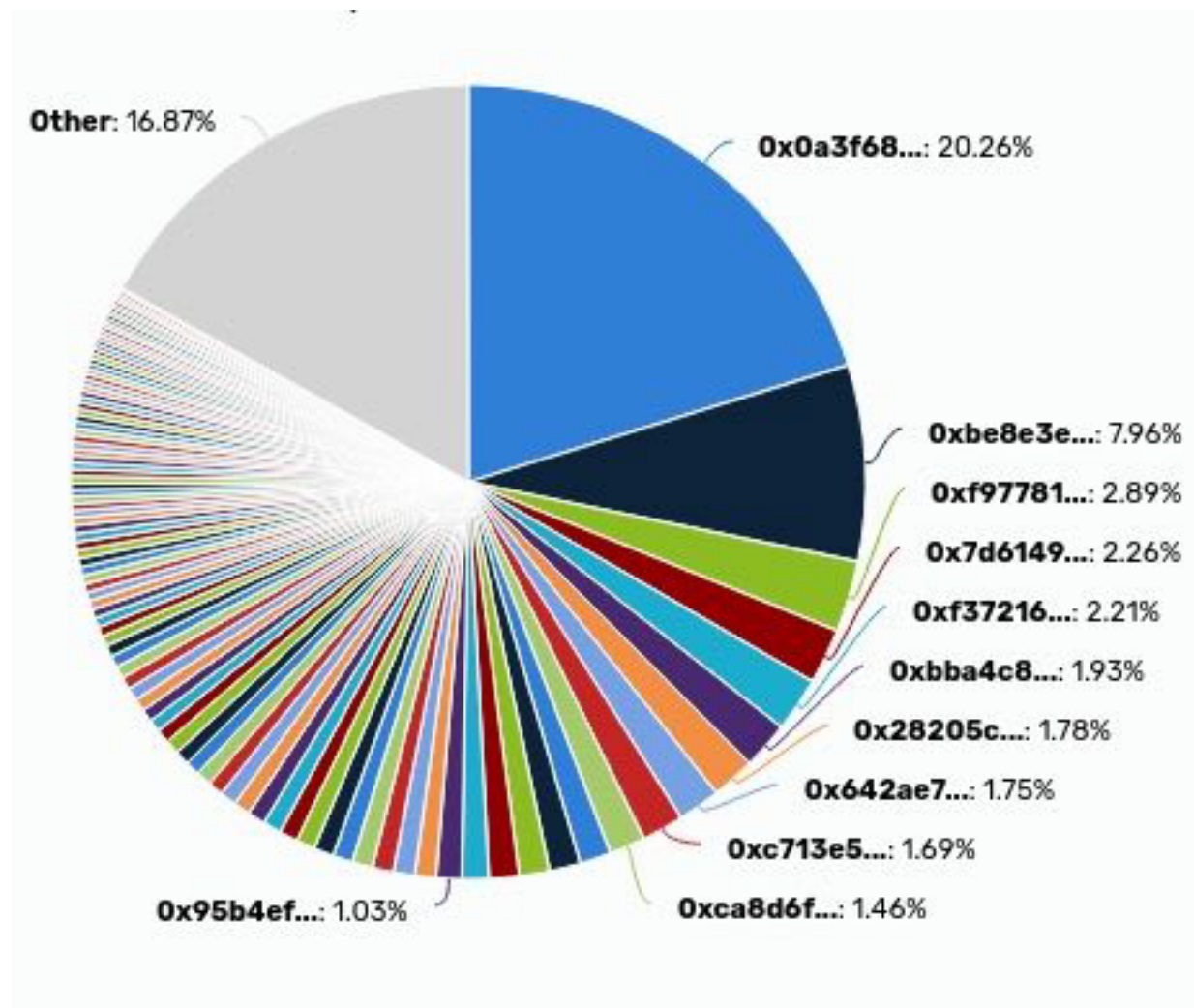
### Executive Proposal FAQs

- [How to participate in MakerDAO governance? ↗](#)
- [What are Executive Votes? ↗](#)
- [How to manually verify Executive Spells? ↗](#)
- [How is voting weight calculated? ↗](#)
- [How to vote in on-chain governance? ↗](#)

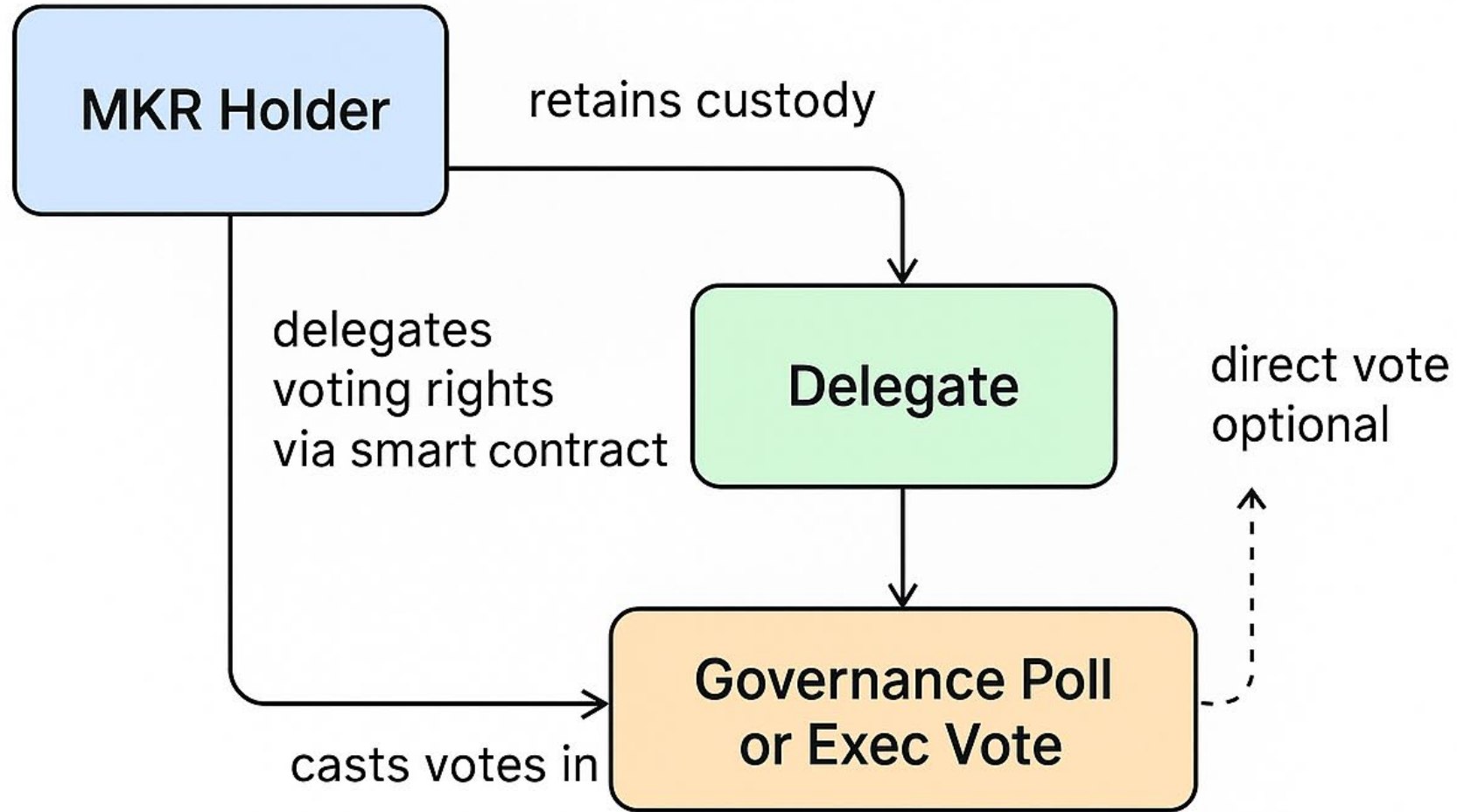
### General Maker Resources

- [Learn about Maker and Dai ↗](#)
- [Learn about Maker Endgame ↗](#)
- [Governance Forum ↗](#)
- [Governance Documentation ↗](#)
- [Governance discussion on Discord ↗](#)

- Paradigm: Purchased about 5.5% of all MKR tokens in a late 2019 investment round
- Andreessen Horowitz (a16z): Acquired 6% of the MKR supply in 2018
- Dragonfly Capital and Polychain Capital also participated in early funding rounds and are among significant holders
- Additionally, over 81% of the MKR token supply is held in whale wallets, indicating a high degree of concentration among a relatively small number of large holders



# MakerDAO Vote Delegation



# MakerDAO Delegations

- **Transparent Delegation Registry:** Delegations and voting records are on-chain and publicly visible.
- **Delegate Accountability:** Delegates are often public whose activity can be audited.
- **Revocability:** Holders can reassign or reclaim their voting rights at any time.
- **Multi-level Delegation (Optional):** Technically feasible to chain delegations (Delegate A → Delegate B)

## Key Differences in Governance Models

Factor	Beanstalk	MakerDAO
Voting Power Source	Transient LP token holdings	Locked MKR tokens (withdrawable anytime)
Proposal Execution	Immediate via <code>emergencyCommit</code>	24-hour delay via <code>ds-pause</code> contract
Attack Surface	Off-chain snapshots with on-chain execution	On-chain continuous approval voting
Historical Precedent	Exploited in 2022 (\$181M loss)	Flash loan voting attempted in 2020 (mitigated)



(Actually can also theoretically chain delegates, a la pyramid control structure)



Aligned Delegates

📅 LAST VOTED MAY 13 2025 09:49 UTC

V2



**PBG**  
0xcfe1c...2aa2

Delegate MKR

📊 98.17% PARTICIPATION    💬 95.64% COMMUNICATION    ⓘ


View Profile Details

903.38  
Total MKR delegated

CURRENTLY SUPPORTING MKR-TO-SKY UPGRADE PHASE ONE, ADDING PROTEGO TO THE CHAINLOG, SPARK PROXY SPELL - MAY 15, 2025

📅 LAST VOTED MAY 14 2025 04:02 UTC

V2



**JuliaChang**  
0x5d4a9...1396

Delegate MKR

📊 100% PARTICIPATION    💬 100% COMMUNICATION    ⓘ


View Profile Details

53.5  
Total MKR delegated

CURRENTLY SUPPORTING MKR-TO-SKY UPGRADE PHASE ONE, ADDING PROTEGO TO THE CHAINLOG, SPARK PROXY SPELL - MAY 15, 2025 & 1 MORE PROPOSAL

📅 LAST VOTED 2 MONTHS AGO

V2



**Shadow Delegate**  
0x3e11b...da9d

Delegate MKR

📊 UNTRACKED PARTICIPATION    💬 UNTRACKED COMMUNICATION    ⓘ

View Profile Details

30,000  
Total MKR delegated



# Comment #1. Conceptual Framing

- In addition to Malenko & Malenko (2024) on delegating voting, maybe should connect to broader corporate finance literature:
  - Demsetz & Lehn (1985) – Ownership structure
  - Harris & Raviv (1988) – Corporate control and capital structure
  - Edmans (2014) – review on blockholders & corp governance
  - Fos & Holderness (2023) – potential issues on record dates (does “blockchain solve this”?)
- Posner & Weyl (2014) - Voting mechanisms and allocative efficiency
- Can calculate delegated cost vs. ex ante cost as payment for doing research and building coalition in %.
  - Compare with the avg gain

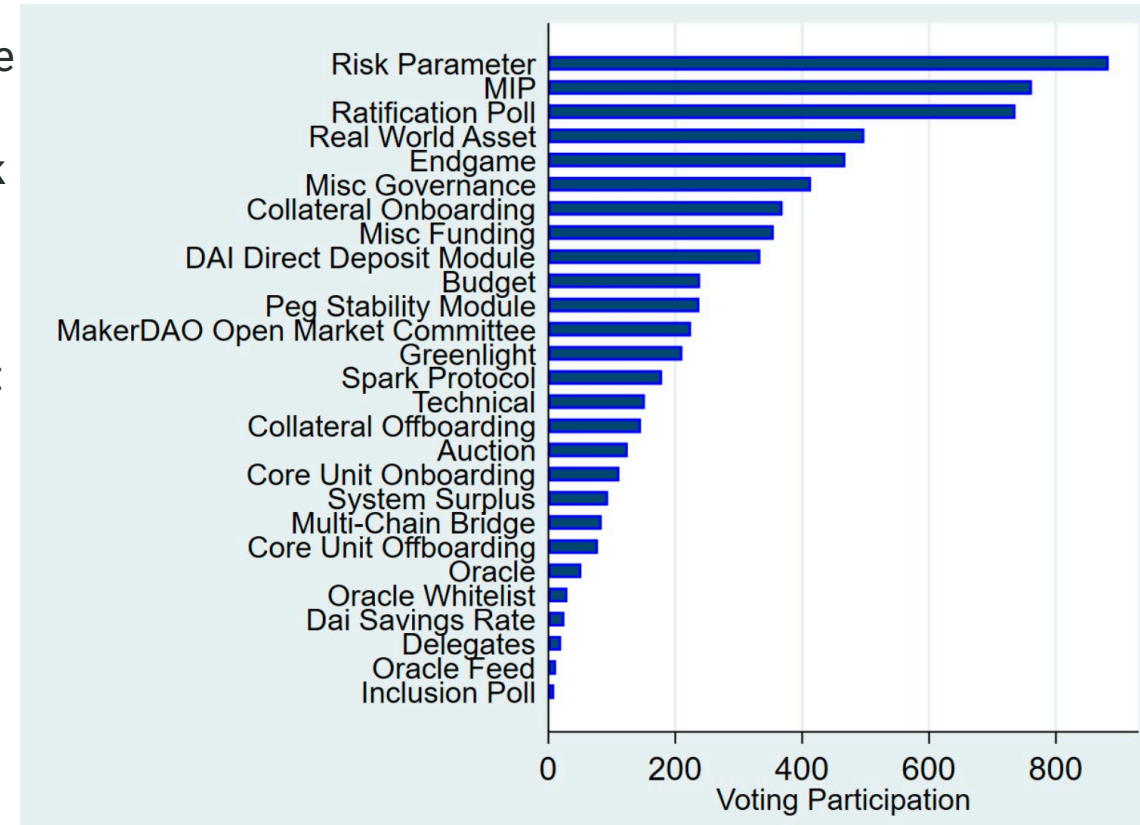
# Speed running corporate governance?

to unlocking this value. Chief amongst these obstacles is that as Maker has scaled its operations it has become increasingly complex, placing substantial burdens on MKR holders tasked with guiding the protocol's every twist and turn via on-chain voting. A direct consequence of this, and entirely consistent with the Ringelmann effect, is voter apathy. This is hardly a positive development for a protocol whose *raison d'être* is decentralization because it means just a handful of voters can, potentially, dictate how Maker evolves. Moreover, given Maker's intention to widen further its underlying collateral to include real world assets (RWA), the burden on Maker voters will only increase further absent a change in the way governance is implemented.

- MakerDAO → Sky transition

# Comment #2. DeFi Platform Context

- Is MakerDAO decisions to traditional "corporate governance" the right framework?
- **These are more like monetary and banking policy decisions, or bank policy:**
  - Risk parameters (collateral ratios, stability fees) similar to central bank functions
  - Should contextualize within monetary economics literature: Committee decision-making (Blinder & Morgan, 2005)
  - Incentives in monetary policy (Walsh, 2005)?
- **Missing analysis: Is MakerDAO's voting mechanism strategy-proof?**
  - Strategic delegations and coalitions (Bartling & Park, 2010)
  - Delegate coalitions and coordinated voting behavior
  - Vulnerability to Sybil attacks (creating multiple delegates)
  - Should discuss vote-buying concerns and pre-voting coordination
- Relate to DeFi policy parameters more explicitly



# Comment #3. Voting Mechanism

- Need a bit more on the institutional details. Defining:
  - Value-enhancing if returns  $> 0$  on pivotal vote date and “yes” (or decreasing and “no”)
    - Continuously available voting is a different mechanism than
    - Time series of coalition building makes it a dynamic game
  - Yet, avg delegate correct vote is only 44%?
- Free-riding in information production (timing) as well as whether to participate, which affects the balancing pool of whether the vote passes
  - Paper could use a model
- Coalition building process is interesting: “We find a correlation of 30% between proposal-level sentiment scores and our classification (where value-enhancing proposals are coded as 1 and value-destroying proposals as 0).”
  - Is it about value-increasing or also ideologies? Maybe worth parsing the text



jamesj · 4y ago

Is it a goal to move away from a dollar peg and instead have something even more stable than the dollar backed by a diverse basket of assets? I know DAI is already backed by diverse assets but it seems to be like it'd be a strength to unpeg from the dollar.

What advice would you give to someone interested in starting a DAO? What have been the best solutions you've come up with that have helped MakerDAO?



2



Reply



Award



Share



Rune4444 OP · 4y ago

I believe that the climate crisis plus the existing political instability could very easily result in the hyperinflation of the USD and america basically turning into a desert locked in endless civil war. It's certainly not guaranteed, and for now the USD is undisputably the currency of the world, so I think Dai should be prepared to unpeg if the worst case scenario happens, but not actually do it unless it is clear there is no other option.

The resilient currencies of the future are things like NZD and CAD, and I think Maker should have as much collateral as possible denominated in those currencies and located in such "super countries" that are both politically stable and climate resilient. That means Dai could play a unique role for the world in the worst disaster to ever happen to humanity, becoming the ultimate source of stability if things start falling apart because it would be backed by the few places that are well positioned to weather the storm.

Taking advantage of the knowledge of what will happen with the climate and its consequences is what's called Climate Alpha. Climate Alpha is one of the biggest financial opportunities to have ever existed because climate change right now is a so-called black elephant meaning the financial system is refusing to consider its own future because it would be too troublesome and inconvenient, so instead it is naively pricing everything as if catastrophic climate change simply isn't a thing. Conditions that are not unlike the runup to the 2007 financial crash, just on a much larger and more horrible scale.



# From yest...

First Prize Brattle  
Group Prize winning  
paper 2024



ARTICLE | Open Access | CC BY-NC-ND

## Trading and Shareholder Democracy

DORON LEVIT, NADYA MALENKO, ERNST MAUG

First published: 03 November 2023 | <https://doi.org/10.1111/jofi.13289> | Citations: 2

SECTIONS

PDF TOOLS

### ABSTRACT

We study shareholder voting in a model in which trading affects the composition of the shareholder base. Trading and voting are complementary, which gives rise to self-fulfilling expectations about proposal acceptance and multiple equilibria. Prices and shareholder welfare can move in opposite directions, so the former may be an invalid proxy for the latter. Relaxing trading frictions can reduce welfare because it allows extreme shareholders to gain more weight in voting. Delegating decision-making to the board can help overcome collective action problems at the voting stage. We also analyze the role of index investors and social concerns of shareholders.

# Overall

- A set of important facts regarding MakerDAO which is useful for understanding DAOs more generally.
- Finding an analogy to corporate governance is tougher than it first seems, I think, given the context and nuances of the institutional settings





The Business School  
for the World®