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The One Member-One Vote Rule in Cooperatives

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Cooperatives can achieve better business decisions when their boards of directors maintain a commitment to member consensus. Directors usually try to avoid making decisions by votes, especially by narrow majority victories. Governance on the basis of one member-one vote promotes the search for broad-based consensus that improves board representation of membership interests, but it also leads to more analysis of decisions and search for innovative alternatives. By contrast, proportional voting for electing directors creates incentives for large patron members to form coalitions for controlling the board. Pursuing such incentives would tend to undermine membership consensus and the motivation to develop new solutions to business problems.

Member voting establishes democratic representation for decision-making authority and control in cooperatives. Cooperatives are structured in a principal-agent relationship between members and management, with directors functioning as the elected representatives of the principals. In the context of member voting in cooperatives, whether directors are regarded as agents of the members or as representatives of the principals does not matter. The critical factors are having directors who represent the interests of members, in addition to fulfilling their fiduciary responsibilities to the cooperative, and having management that acts in the interests of members.

Voting power and representation can be defined in several different ways, but the method most widely used by agricultural cooperatives is one member-one vote. Since the early period of expansion of cooperatives during the nineteenth century, there has been a long-standing debate between the advocates of one member-one vote and proportional voting. Although the latter method of voting has persisted, its wider adoption has been restricted by the fact that most of the early state incorporation statutes required cooperatives to use one member-one vote.

There has been a renewed interest in proportional voting in recent years. Several state statutes for cooperative incorporation were recently revised to authorize proportional voting (Reilly 1996). Articles supporting proportional voting have also been appearing in academic publications about cooperatives (Knutson 1985, Royer 1992). In addition, there is also a recent impetus to form new cooperatives, requiring members to make substantial investments in a value-added business. Some of these new associations have experienced lengthy debates about their voting method policy.[1] In view of these recent developments, it is particularly important to give careful and comprehensive analysis to the question about voting methods. Since most of the current advocacy and reform movement is for proportional voting, it is worth taking a critical view of purported advantages of that method and to consider some disadvantages of its use for cooperatives.

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Prevalence of One Member-One Vote in U.S. Cooperatives

According to a U.S. Department of Agriculture Cooperative Services' survey from 1995, the one member-one vote method of electing directors and voting on referendums is used by about 93 percent of U.S. agricultural cooperatives (Reynolds, Gray, and Kraenzle 1997). Survey results showed 1,249 out of 1,340 cooperatives reported using one member-one vote. Although the cooperative incorporation statutes in many states require one member-one vote, it is feasible to incorporate in any state, including one with statutes that permit proportional voting. Nevertheless, restrictions on voting in most statutes have had an influence, so survey results do not necessarily reveal a preference for one member-one vote over proportional voting.

However, in the eighteen states that have permitted both types of voting for a decade or more, about 80 percent reported one member-one vote, 353 out of 439 cooperatives. If we take Illinois, a state that had restrictions on using one member-one vote, out of the sample of eighteen states, this statistic jumps to 91 percent. The survey results for Illinois showed 33 cooperatives using one member-one vote and 54 using proportional voting. The Illinois Constitution established one share-one vote as a principle, and a major court ruling in the 1950s clarified its application to all organizations with stock (Elson and Krausz 1958).

Illinois and California accounted for 73 of the 91 cooperatives that reported proportional voting. In California there were 50 cooperatives reporting one member-one vote, with 19 reporting proportional voting. The one member-one vote cooperatives in California include many of the large, value-added marketing associations, such as Calavo, Blue Diamond, and Sunsweet. These cooperatives have substantial member investment requirements and a wide distribution in the size of active members' equity. There are also large, value-added cooperatives with proportional voting in California and in other states.

At present, one member-one vote is by far the most common method of voting in U.S. agricultural cooperatives. However, there are signs of a movement to expand the use of proportional voting. A brief history of voting regulations in public stock-holding companies and in cooperatives provides background for understanding the current interest in proportional voting and contributes to framing an analysis of voting methods.

Voting in Business Organizations

In businesses financed by publicly traded equity stock, investors, like cooperative members, elect a board of directors. In contrast to cooperatives, consensus among outside stockholders, those not on the board or in management, is not necessary. These stockholders are participants in a vast public market for buying and selling ownership. Furthermore, corporate governance is not intended to be a representative democracy. Board decisions are aligned with the interests of outside stockholders only to the extent of facilitating share price and dividends maximization. An operative principal-agent structure is indirect, through public share valuation, as opposed to being direct, where stockholders would participate in nominating candidates or in running for office on a board.

The above conditions do not mean that governance and control are lacking in corporations. Rather, the methods are more diverse and less overt than in cooperatives. The most overt method for outside or public shareholders to exercise some control is through the opportunity to sell their shares, but that is only effective when exercised by institutional and other large holders of stock.

Another source of control for outside shareholders is the right of having one share-one vote, which works in tandem with the market for stock to create a market for governance and control (Manne 1964). In other words, it relies on the value of having votes to offer to groups that want to take over by offering a tender for the stock. When the value of a stock share declines due to an incompetent board and management, the value of the vote contained in the stock share goes up. In addition, one share-one vote establishes a quasi-political process of governance and control, either formally by means of proxies, or by informal negotiations between the board and coalitions of large stockholders (Pound 1993). Again, the linchpin for these methods of control of investor-owned firms is in having a market for governance where trading can occur for these "one share-one vote" rights.

Weighted voting is a third method that allocates voting power somewhere between the competing standards of one member-one vote and one share-one vote. The latter method provides voting in proportion to equity, while weighted voting is more arbitrary in the manner in which weights are defined and limited. The argument for weighting is that since large owners have more financial interests at stake than small owners, voting power should be in proportion or near-proportion to each individual's financial stake in the company or partnership.

Before 1860, weighted voting was the major contender to the rule of one vote per person in U.S. business organizations of both partnerships and corporations (Kerbel 1987). U.S. cooperatives during the nineteenth century were mostly, but not in all cases, adhering to the one member-one vote rule (Warner 1888). Historical research on governance methods in business organizations is finding that until the late nineteenth century, many partnerships and some corporations also applied one vote per shareholder. Some states even had incorporation statutes requiring unanimous decisions by the stockholders in order to approve fundamental changes to organizations (Dallas 1992; King 1996). Of course, this was an era that did not have the degree of public participation in equity markets that began in the late nineteenth century and accelerated throughout the twentieth century (Skaggs 1975).

General incorporation statutes in many states began converting from weighted voting to the one share-one vote rule during the late nineteenth century (Kerbel 1987). Weighted voting receded in importance, but it continues to be used in some partnerships and cooperatives. With the general incorporation statutes having adopted one share-one vote, cooperatives during the late nineteenth century began to require their own special incorporation statutes to address voting and other issues that were distinctive to a cooperative form of business organization (Warner 1888, Nourse 1927).

Cooperatives use the term "proportional voting" rather than "one share-one vote " because the latter does not accurately apply to non-stock cooperatives. Cooperatives with proportional voting provide a minimum of one vote per member, and then add votes in proportion to a member's equity or volume of patronage. Many cooperatives restrict the amount of voting power allocated to individual members. Since there is no quantifiable rationale for limiting voting power, it is done arbitrarily, either choosing a number like ten votes, or a minority percent share of the total vote, like 5 or 10 percent, as the limit for an individual.

Strictly speaking, these different restrictions amount to weighted, not proportional, voting. The term "proportional" is used in reference to all rules of allocating voting power other than one member-one vote. Advocates for proportional voting believe that it logically follows from proportionality concepts of equitable treatment, an assumption that is critiqued in this paper.

Framing an Analysis of Voting Methods

The debate about voting methods is of long standing, but it is important that current discussions are directed to accomplishing the objectives that contemporary producers want from their cooperatives. The common or shared goals of a cooperative are the achievement of excellence in business performance that provides the most economic benefit to members. A general frame for evaluating different methods of voting is the extent to which they work toward improving business decision making.

Some cooperative economists point out that the farm population is more heterogeneous in terms of differences in farm size than in the past. They regard the one member-one vote rule as unfair when some members have much more equity at risk, and presumably, more interest in the operations of the cooperative than other members (Knutson 1985, Royer 1992). Their argument need not be based on fairness, rather, it can rest on the question of which alternative contributes the most to board leadership and improved business planning and decisions.

Framing the issue of voting methods in terms of fairness detracts from the most critical objective to be accomplished by voting. Cooperatives are businesses, and need not attempt to be arbiters of fairness or economic justice. The criterion of business performance for members' benefit predominates in making choices. This criterion applies to decisions about operating projects, as well as to the choice of a member voting method. Arguments based on fairness often have strategic purposes because of their public salience and power to reinforce belief systems (Elster 1995). The problem with a debate over fairness is the existence of several contending principles and the tendency of both sides to walk away without any further discussion.

The duties of an elected board are a combination of fiduciary control and strategic planning to either capture emerging opportunities or to adapt to changes in the economy. These two duties often amount to the same activity. For example, control can be thought of as protecting the assets or other economic interests of the cooperative from reckless spending decisions or highly speculative activities. Control is also consistent with strategic planning to avoid the decline of a market for member products by taking such actions as promotion, additional processing, or seeking new markets. But, control can be confined to a more protective function. Assume that a large group of people want to jointly purchase a vault to hold their reserves of gold. If one individual owns several hundred ounces, while all the others in the group each own just a few ounces of gold, the larger owner would likely be dissatisfied with a group vote on how much to spend on a vault.

In the above situation, control amounts to achieving adequate protection from a group decision where the opinions of small owners do not contribute any useful information to a large owner. By contrast, in a situation involving a series of complex issues and ongoing strategic planning, individuals often seek consultation and agreement with others in making difficult decisions. In fact, individuals with diverse points of view are likely to provide more comprehensive considerations in making decisions than if a decision must be based on the knowledge of one or very few individuals.

A critical dimension of effective governance is the quality of individuals elected to a board. It is worth asking whether there are systematic endowments of leadership acumen among the largest producers, a capability that might increasingly decline as you move down the scale to smaller producers. But if such capability differences are not systematically manifested in members according to a ranking of them by patronage volume, what would be gained by adopting a method of voting that gave the largest producers more advantage in winning elections to the board?

An argument widely used by proponents of proportional voting is applied to situations where many large producers will not join a one member-one vote cooperative, yet their membership would improve the cooperative's business performance. In such situations, the refusal of smaller patronage members to accept proportional voting is viewed as impractical and anti-business. (Knutson 1985, Smith 1999). Framing the argument in this way makes the choice of voting method a bargaining process that can be analyzed in a game theory format (Reynolds 1997). Yet, this form of argument reflects behavior based on incomplete information and begs the question of what voting system supports superior business decision making.

The task of public economists and cooperative educators is to understand and identify the most economically efficient and superior performance alternatives. To argue that farmers have an incentive to accept proportional voting because they will otherwise be worse off by not having cooperatives with membership of large farmers, is to base the argument on coercion (Nozick 1997). While coercion can be valid in the enforcement phase of some social decisions, it is invalid as an argument when participants have incomplete information about the impact of voting methods on fiduciary control and business decision-making.

Binary Alternatives and Group Decisions

A difficult problem of group decisions is when choices are binary, i.e., a decision must be made either-or (Schelling 1978). An example of a binary choice is driving on the right-hand side of the road in the United States, while in the United Kingdom driving takes place on the left-hand side. Binary choices are not easily adaptable to incremental fine-tuning to balance the intensity of preferences or interests of individuals in the affected group. When binary choices involve timeliness or urgency in their resolution, voting is used in democracies as a method of decision making.

Binary choices without urgency and with no conformity requirement tend to be resolved by processes of custom and norms formation. For example, wearing neckties is a binary choice for an individual, but wearing them might be the preference of a majority and accepted as the norm of a workplace. Individuals who rebel can be socially ostracized and denied promotions, but there is hardly a need to coerce them into conformity.

Non-binary choices can be incrementally adjusted and are often determined by a market process. Specifically, markets with monetary prices and active trading provide a continuum of distinctions for qualities and other attributes of products and services. Even in non-market choices, some seemingly binary choices can sometimes be fractionally distributed. For example, the position of leader of a small group can be rotated among members over time. But in many situations, when a majority decision is accepted as a decision-rule and can be sustained over time, there are no incentives to make any fractional adjustments or sharing arrangements.

Cooperatives follow the "service at cost" principle to establish equitable treatment of members when either quality differences have to be considered or per-unit costs of services vary among members. In such cases, equitable differentiations are feasible and create incentives for more efficiency. This works because the choices are non-binary when applying discounts or premiums or when allocating costs.

Richard Phillips did not consider the distinction between binary and non-binary decisions in his famous article and contribution to cooperative theory (Phillips 1953). He applied proportionality to non-binary decisions about member payments or cost

allocations, but extended the proportionality idea to individual voting power for making binary decisions. Several weaknesses of that approach are pointed out in this paper. Other cooperative economists have advocated proportional voting as well and, although using different arguments, Phillips's assumptions have not been challenged (Royer 1992).

The reason Phillips applied proportionality to voting is that he conceptualized a cooperative as an extreme form of principal-agent relationship, where the cooperative is a non-entity. He also adopted an extreme form of methodological individualism in his conception of members. Decisions are aggregations of proportional votes by individual members and, in a Phillips cooperative, there is no mechanism for an individual to have concern for, or to consider, how other members decide. The organization is a non-entity, and in regard to the voting process, other members are non-entities as well.

Groups often voluntarily defer to an individual or to a subgroup of individuals to make decisions. If they defer to a subgroup, proportional or weighted voting might be practical. The effect of different distributions of weighted votes on who controls decisions and on what coalitions will form can be demonstrated by the "weighted voting game,"[2] expressed by the bracketed variables and relationships (Straffin 1993):

$$[q;\ w_1,\ w_2,\ \ldots\ w_n]$$

There are n voters, w_i is the number of votes cast by voter i, and q is the quota of votes needed to carry the decision. As an example, a group of landowners want to coordinate the leasing of their lands to a user. If the group were comprised of owner A, with 99 percent of the land, and owners B and C, the latter two might be willing to defer decision authority to the former. If their association were required by law to have member voting, the association would not form unless weighted voting were adopted. The necessary weighted voting arrangement is $[3;\ 3_A,\ 1_B,\ 1_C]$, where A's voting power is equivalent to B and C having deferred decision authority to A.

But if land ownership were distributed in a less lopsided fashion you may get weighted voting games like $[3;\ 2_A,\ 2_B,\ 1_C]$, where C has fewer votes than A or B, but has the opportunity to avoid being outvoted by forming a coalition with either A or B. In the setting of four members with voting power distributed as $[4;\ 2_A,\ 2_B,\ 2_C,\ 1_D]$, member D is effectively disenfranchised.

The fact that individuals have varying intensities of interest on different binary choices creates potential for inefficient decisions. A majority victory on a referendum can be had with weak preferences for an action by a majority in comparison to strong preferences by a minority. With proportional voting, a minority victory is possible, where the intensity of a majority preference is far stronger than the victors' preferences. Decision making in these cases would be more efficient if preferences could be distributed more in accordance with marginal valuations.

Advocates of proportional voting believe that their weighting schemes capture *ex ante* the only individual differences of interest intensities that matter, namely, the differences based on either member equity or on volume of patronage. Yet, effective business actions are what ultimately matter. A more specific approach is to say the interest intensities that matter are those that interact to yield the most gain in value-added decisions.

Consider group voting that involves a steady stream of varied decisions. When proportional votes are cast to elect decision makers, a one-time binary choice is made. There is no further exchange that would allow those members denied their preference in the election to have voice or to achieve an incremental gain. The same outcome would occur if all major decisions were not made by elected directors, but by member referendums. Members with relatively large amounts of votes are likely to form a winning coalition.

On each referendum, they determine the decision even if a large, or a vast majority of members, opposed. Compromise or logrolling on different issues would not occur because their dominant voting power is not used up in any way, but persists on all successive voting issues.

A system that satisfies proportionality in member voting power, while also reducing the extent of potential domination, would provide member referendums on a stream of issues with an allocation of non-renewable votes. The largest holders of equity would have the most votes, but they could not renew them once cast on issues within a defined period, before votes would again be proportionally allocated. In this way, members in a proportional voting cooperative would make marginal adjustments with one another. Proportional allocation of non-renewable votes could also be applied to electing directors. The non-renewable, or periodic renewable, method has merit in relation to correcting the potential for domination in proportional voting and is inferior to a decision-making process involving consensus.

The Role of Consensus

The one member-one vote rule has made cooperatives more representative of their membership in terms of all individuals than would be a system that weighed the votes of some more heavily than the votes of other members. One member-one vote has contributed to the development over time of a norm of consensus decision making. Directors generally pursue unanimous decisions, or near unanimity, which can be defined as consensus (Henehan and Anderson 1994, Reynolds 1995). The consensus norm is useful for several reasons, the most obvious being that cooperation is voluntary. Consensus is also important because the principals are also members of the cooperative who use its services, so that no one should be effectively disenfranchised by majority decisions.

James Buchanan and Gordon Tullock have provided analytical and conceptual clarity to the meaning of consensus in voluntary decision-making organizations like cooperatives, in their work *The Calculus of Consent* (1962). According to them, the terms "consensus" and "unanimity" are often understood in the narrow and deficient way of implying immediate and perfect agreement by a group of individuals, as if there were no process of resolving differences. Another misconception about a unanimity standard that they critique is the notion of its use solely as a blocking action to prevent group decisions. Their work provides explicit modeling of how consensus can function to create a market for exchanging individual interests and how it can reduce some of the constraints of binary choices without risking dominance by majority voting power.

According to Buchanan and Tullock, differences in individuals' intensity of preference can be accounted for if there is a process of on-going cooperation and decisions. In other words, actions that may not be approved by a majority in a one-shot referendum might be approved if there were a mechanism to acknowledge high degrees of preference. Likewise, proposals capable of majority approval but having slight intensity of preference could be recognized as such, and rejected.

The Buchanan and Tullock mechanism for more efficient decision making is to create a market process, in what they call vote-trading or logrolling. The terms "vote-trading" or "logrolling" are so closely associated with the political strategy of majority coalitions in democratic assemblies that readers of their treatise may lose the distinction of how it works in a cooperative. In order to work, directors pursue a goal of unanimity and, even if having slight departures from that goal, member preferences will be distributed more efficiently, aiming for a Pareto criterion, over a stream of decisions. Directors find

ways to link separate decisions together or to otherwise make commitments to their partners on the board. Some of the different ways that the Buchanan and Tullock vote-trading mechanism can function in cooperatives have been examined (Anderson 1987).

A consensus norm with one member-one vote elections of directors helps reveal and acknowledge intensities of member interests. If large and small producers have different policy preferences, those differences can be identified and addressed. Experience with cooperatives shows that the interests in the operations and policies of a cooperative are not strictly divided between large and small members. Opinions tend to be distributed across all sizes of members. For example, members with relatively small output, and subsequently low proportions of equity in a cooperative, may have a greater proportion of their individual financial resources in the cooperative than some of the larger producer-members. Many small producers can be more committed to the success of the cooperative than some larger producer-members.

Proportional voting creates incentives for coalitions of large vote holders to control elections to the board. Directors elected by such coalitions have less incentive to adhere to consensus decisions. It is even possible for a coalition of members with the highest proportions of votes to capture all seats on the board and to make unanimous decisions that lack representation of the membership.

But, how does proportional voting work in practice? There are limited examples of cooperatives with long histories of proportional voting. In follow-up telephone surveying of Illinois cooperatives that reported proportional voting in the survey, some of the managers believed that proportional voting did not affect the outcomes of elections. In fact, a few managers reported that their elections were always lopsided and, for convenience, they count by one member-one vote without bothering to calculate the different numbers of votes attached to each member's choice. The predominance of one member-one vote among U.S. cooperatives and the prevalence of the norm of maintaining a membership consensus may influence proportional voting cooperatives to avoid forming dominating coalitions. In other words, proportional voting has the potential to either effectively disenfranchise a majority or to leave outcomes of elections unchanged from what would occur with a one member-one vote rule.

The Representation Dimension of Elected Boards

When a voting system is applied to elections, rather than to direct decision making in referendums, the power of votes is affected by how representation is defined. Representation can be adversely affected by grouping voters into districts to elect representatives rather than by conducting at-large elections. According to Buchanan and Tullock, the use of majority decisions with representative districts has the most potential for control by a minority coalition. In their words, ". . . the minimum-sized coalition required for dominance under simple majority voting approaches one quarter of all voters as a limit."

The figure below shows a smaller example—seven districts with nine voters in each.[3] The minimum size of a dominant coalition controls four seats on the board, with a minimum of five voters in each. This coalition is indicated by the X voters who elect directors D_1, D_2, D_3, and D_4. The voters who elected the minority coalition of directors D_5, D_6 and D_7, voted 100 percent for their candidate, and their cells are left blank in the figure. Their interests cannot be weighed-in on decisions. They are as powerless as voters in districts without their preferred candidate. The dominant coalition is 20 individuals out of a total population of 63.

Figure 1. Definition of Representation Affects Voting Power

D_1	D_2	D_3	D_4	D_5	D_6	D_7
X	X	X	X			
X	X	X	X			
X	X	X	X			
X	X	X	X			
X	X	X	X			

Source: Buchanan and Tullock (1962, 220).

Although the use of districts, rather than at-large seats, can potentially reduce representativeness, in large cooperatives districts serve a critical role as channels of local or regional communication. Members maintain better communications with one another within a district and elect a director who communicates and represents their concerns.

In this example, if proportional voting were introduced, the minimum-sized coalition for dominance can be as low as four individuals. These extreme outcomes are unlikely in most political processes, and are even more unlikely in cooperatives. However, the greater opportunity that proportional voting creates for concentrating power increases the likelihood of destroying consensus decision making in cooperatives.

Alternative Techniques for Representing Interests

The proponents of proportional voting are concerned about protecting the interests of those who have the most equity at risk. Presumably, they regard the potential for a minority to dominate decisions for the total membership with proportional voting as an unfortunate side effect of that voting method. It is worthwhile to consider alternative representation methods that may offer some help in this regard.

Before considering representation techniques, let's inquire whether large producers have been prevented from serving on boards due to biased nominating committees or by majority voting of smaller members. Although there have been no systematic studies of election outcomes in cooperatives, casual observation reveals that large patrons can and do get elected to the boards of one member-one vote cooperatives. Usually, when large patron members are not on the board, they can command more attention from management or directors in having their views addressed than smaller patronage members.

In the event that the largest patrons and owners of equity in a cooperative are a small numerical minority, several policy actions can reduce the potential risk they may perceive. For one, cooperatives adhere to the service at cost principle for equitable treatment. But

if large patron members have opportunities for lower-priced supplies in comparison to their cooperative, they would naturally want those offers matched by the cooperative. Such low prices may represent an ephemeral opportunity, selectively offered as a strategy to gain customer loyalty of large producers. A cooperative may not have the same pricing flexibility, and to match every alternative opportunity that members claim may involve offering service at below cost. Furthermore, incidental availability of advantageous price opportunities may arise because of the existence of a cooperative as a "competitive yardstick" (Reynolds 1997).

Cooperatives have also developed methods for managing member equity more equitably. Base capital plans work to keep equity in proportion to member use. Deliverable rights and special arrangements for transferability of equity have also helped manage the risk to large members. In fact, for cooperatives that require large initial investments, an effective system of transferability might alleviate many of the concerns that motivate the demand for proportional voting. That issue cannot be addressed within the scope of this analysis.

In the example of a significant minority of large members, service at cost and other programs may not provide them with enough confidence that they will not be exploited by the majority under a one member-one vote rule. The idea of a consensus norm by the board of directors does not help if any segment of a membership were to be so outvoted that none of the directors represent their interests.

Various methods of vote counting and proportional representation can significantly improve the degree to which an organization or institution is representative for particular cases. One of these methods is priority voting, used by Danish cooperatives (Gray 1986). Different vote counting methods and proportional representation systems could specifically be used as alternatives to proportional voting to correct the representation failures that large members may perceive with one member-one vote. There are many sources of information about these methods (Levin and Nalebuff 1995).

The membership could be sorted by amount of equity, and representation would be defined by different intervals. Each interval range would comprise a population of members that would elect a director from their group. There would be inevitable debate about how the member-equity intervals would be defined, but such an approach would accomplish effective representation so long as the board adhered to the consensus norm. Representation by equity intervals and the idea of proportional allocation of nonrenewable votes are methods not used by any cooperatives known to the author.

To the extent that proportional voting concentrates electoral power in fewer hands, an unrepresentative board is more likely to be created by using that method in elections. There is also a clear incentive to abandon consensus decisions if a subgroup or coalition of the membership can permanently capture a majority of the board seats in elections. If a coalition controls all seats, they can adhere to a meaningless board consensus that does not reflect member consensus.

Consensus as a Discipline for Better Decisions

Cooperatives with a consensus norm can make profit-enhancing business decisions that may often be unique or even innovative in comparison to organizations with more concentrated decision-making authority. A consensus norm establishes a discipline of finding beneficial solutions for a total membership. It restrains the use of voting to win decisions and, instead, requires boards of directors and management to persist in their search for better alternatives.

Proportional voting is redundant when there exists a commitment to membership consensus. Furthermore, as examined above, proportional voting creates incentives for a faction to dominate decision making. Buchanan and Tullock demonstrate how a commitment to consensus would work in a cooperative to prevent coalitions from seeking policies that transfer benefits from some members to others, without offering value or efficiency in return. They conceive of a quasi-market exchange process with vote-trading to achieve better distribution of individual preferences across issues, but the potential for group interaction to re-configure or develop new ideas was not their concern or topic.

Arguing the case for a particular voting method on the basis of business performance rather than on fairness is also subject to conflicting views and definitions. Business performance is a complex variable that usually shows a mixed record of success and failure for all the alternative forms of business organization. But cooperatives have taken successful initiatives that are influenced by the incentive structure when maintaining membership consensus.

One example clearly stems from the combination of a consensus norm and an open membership policy. Cooperatives made improvements in product quality testing in many commodity industries, and references are noted for examples in the cotton and dairy industries (Sasser and Moore 1992, and Watrin 1992). Many cooperatives have had to deal with the freeriding of some members delivering commodities that lowered the total value of a marketing pool. Non-cooperatives can generally be more selective in the producers they purchase from and in the particular commodities they procure. Cooperatives had an incentive to develop systems for low-cost quality testing because of operating with member consensus and open membership. Their innovations in testing methods and systems have contributed to improving the overall quality of output in many commodity industries.

Investor-owned corporations are increasingly emulating the cooperative attributes of group involvement in decisions and member communications (Pound 1993 and 1995). Many professionals in the field of business decision making regard group dialogue processes as superior to voting or to hierarchical systems (Russo and Schoemaker 1989). One of the early advocates of group dialogue as a source of business innovation, M. P. Follett, had developed her ideas in part from observing U.S. cooperatives during the 1920s.[4] In her studies, Follett found that the most effective way to resolve issues is not by voting, because it forced an outcome without building better alternatives. In her words, ". . . Never think you must agree to either this or that. Find a third way. . . . In domination, you stay where you are. In compromise, likewise, you deal with no new values" (Graham 1996).

A critical attribute of the one member-one vote rule when coupled with a consensus norm is that it tends to induce more dialogue for finding solutions without having to vote. Issues are resolved first and then voted as a formality. Proportional voting, in contrast, increases the incentives for directors to resolve issues by voting without giving adequate opportunity for group dialogue mechanisms. Directors who can win elections by forming coalitions with producers having large allocations of votes are less likely to accommodate member interests other than those of their coalition. When voting power is dispersed with one member-one vote, incentives are created to pursue a complex search for better decisions.

In terms of the smaller member perspective, proportional voting is a disincentive for them to take an active interest in their cooperative and to become involved in the search for business innovation and better decisions. Those who justify proportional voting on

the grounds that small patrons do not take enough interest in the cooperative may create a "self-fulfilling prophesy" by using that voting method.

The Purpose of the One Member-One Vote Regulation

Proponents of proportional voting argue for the flexibility and freedom to choose a voting method because many incorporation statutes restrict cooperative voting to one member-one vote (Smith 1999). In view of the increased movement to reform state incorporation statutes to permit proportional voting, it is important to understand the rationale and circumstances for restrictions that have been in place, and still exist, against the use of proportional voting. Over the past decade, the one member-one vote restriction has either been lifted or selectively modified in Colorado, Texas, and Minnesota. In Kansas, the proportional voting alternative has been re-stated in more explicit terms.

Possible alternative policy positions on proportional vs. one member-one vote voting are: (1) allow members to choose their method of voting, (2) allow only one member-one vote, (3) allow only proportional voting, (4) allow one member-one vote with restricted access to proportional voting, and (5) allow proportional voting with restricted access to one member-one vote. Positions (2) and (4) for one member-one vote are paired with their opposites in (3) and (5) for proportional voting. These opposite positions are argued for different reasons, but when applying them to the problem of majority domination, the argument can run in either direction. Small exploits large, or large exploits small. As discussed earlier, the likelihood of exploitation, or the likely direction of exploitation, depends on the size distribution of members. However, under proportional voting there is more capability and likelihood that large members exploit small members. There are also other asymmetries that increase capability and likelihood of failure in board representation and consensus to the disadvantage of small members. These are discussed below.

It seems rational to establish policies with more flexibility and to allow people the freedom of choice, including the right of members to decide the voting rule for their cooperative. In fact, some cooperative theorists who do not advocate proportional voting, nevertheless, accept the right of self-determination or, as stated by Craig, "The test is whether the process is democratic in the eyes of members" (1993).

But the arguments for flexibility in choosing a method of voting are invalidated when conditions under which free choice can occur are compromised. Even in voluntary and open organizations, a majority may side with a minority view under pressure of bargaining threats or may be influenced by selective access to information. An example of the latter is where a coalition for one type of voting method organizes a closed cooperative. After a method is chosen, the cooperative opens its doors to new members. Although members who subsequently join are aware of the voting rule, they do not participate in a membership forum for discussion and decision about a voting method.

The early state incorporation statutes for cooperatives predominantly restricted voting to one member-one vote, with a 1911 California statute being an exception, where choice of voting method was allowed. Provisions in the Capper-Volstead Act of 1922 asserted one member-one vote, but allowed other voting methods if an ". . . association does not pay dividends on stock or membership capital in excess of 8 percentum per annum." The Capper-Volstead provision was a way to express one member-one vote as a standard method with flexibility. In general, the early statutes mostly denied members the freedom of choice in voting method. More historical research would likely shed light on the motives of legislators for favoring one member-one vote.

If we assume rationality, this early generation of cooperative leaders and legislators established the one member-one vote restriction because they were uncertain about future conditions where free choice might be manipulated. For sure, the reasons these legislators had for favoring the one member-one vote restriction can only be speculation unless, or until, historical research can reveal more insight. It behooves cooperative leaders and policy analysts to make an effort to understand the reasoning of this early generation and to consider its relevance today.

There is an asymmetry in the structure of incentives between the two voting methods. Assuming that both methods are allowed, larger producers have more incentive to pursue coordinated action to promote the adoption of proportional voting than small producers do for one member-one vote. For the latter, there might be the anticipated disadvantage of joining a cooperative without effective representation if proportional voting were adopted. But the anticipated advantage of proportional voting to large producers is more than just special influence on the board, which they have in one member-one vote cooperatives; it is actually a real opportunity to control the board or to be elected. The magnitude of potential disadvantage to small producers from proportional voting is smaller and less salient than the advantages for large producers.

It is generally recognized that smaller numbers of people can more easily accomplish coordination than large numbers. It is advantageous for large producers to promote proportional voting, as it is not only a matter of different sizes in the populations of either large or small producers. Large producers can more easily identify leaders among their group, i.e., the largest, who would initiate strategies for getting a cooperative to approve proportional voting. For small producers, the problems of who initiates actions and incurs the individual cost of leadership in coordinating a campaign for one member-one vote are far more difficult.

Those who support positions (2) and (3) can unite, for different reasons, against position (1) on freedom of choice. Positions (4) and (5) are modifications of (1), where one method is the standard while the other is constrained in its adoption.

The constitutional phase of forming a cooperative is a critical point in time for applying restrictions. In modeling the decision process in forming cooperatives, the founding members are expected to adopt major governance rules by consensus or unanimity, whereas operating policies might be approved by majority vote (Zusman 1992). In other words, producers who disagree with the major governance proposals, such as voting method, will not join the cooperative.

In the recent revision of the Colorado incorporation statute, the procedure for adopting proportional voting is for the membership to vote for its approval on the basis of one member-one vote (Reilly 1996). This restriction prevents a cooperative from adopting proportional voting by a committee decision. Otherwise, potential members might agree to proportional voting when presented in a written membership proposal without discussion with other members.

There remains the problem of restricting the tactic of forming a proportional voting coalition to organize a closed cooperative. When opening its doors to new members, proportional voting is a *fait accompli*. State incorporation statutes can address this problem by requiring proportional voting cooperatives to include in their by-laws procedures for voting method renewal. Each time at least half of the cooperative's membership consists of new members, i.e., those who did not vote on the approval of proportional voting, an individual member may call for a referendum. Proportional voting would have to be renewed by a one member-one vote of the membership and, although potentially creating divisiveness, this proposal establishes open discussion.

The idea behind position (4), one member-one vote with restricted access to proportional voting, is to defend and secure freedom of choice in voting methods. The above proposal is one suggestion for accomplishing that goal. An earlier generation of cooperative leaders restricted voting to one member-one vote for reasons still applicable today. The arguments for restricting member voting to one member-one vote demonstrate that it can be rational to be inflexible.

Summary

Proportional voting is by far the most prevalent method of voting in U.S. businesses. Corporations offering stock to investors provide a one share-one vote rule. But shareholder voting is not meant to represent the interests of the investors at large. Governance and control of these corporations is accomplished by the potential market for takeovers created by the one share-one vote rule.

Governance and control in cooperatives is directly established by member voting on referendums and in board elections. All members are users of the cooperative and gain influence and representation through their right to vote. Directors have fiduciary duties and responsibility for the business success of the cooperative, as it works to the benefit of the membership.

The problem with either proportional or single-vote per person voting is that differences in intensities of interest are not revealed in a majority decision. Advocates of proportional voting believe that method is an accurate index of the interests of members, or at least of the interests that should count the most. But the proportional allocation of voting power applies in successive decisions, so the weight received by a winning coalition is not proportional; it is absolute and total. Proportional voting creates more incentive to neglect representation of member interests than a one member-one vote rule.

Some of the inadequacies of proportional voting would be reduced if the proportional allotment of votes had to be allocated over binary decisions until being renewable after a period of time. Or, when interests of members in specific patronage size ranges are under represented, representation on boards could then be defined in accordance with different population intervals by member size. But these proposals are unnecessary when cooperatives use one member-one vote with adherence to service at cost and consensus.

One member-one vote and consensus norms create incentives for directors and members to make decisions through dialogue rather than by voting. In turn, the dialogue process can lead to better decisions by involving more points of view.

The purpose of restrictions on proportional voting is to prevent its adoption by methods that undermine free choice by members. The pressures to relax or remove all restrictions on proportional voting may, in the long-run, lead to a major expansion of its use by cooperatives without full membership discussion and awareness of the different attributes between the two methods of voting.

Cooperatives, which must coordinate many decisions, can benefit by less voting and more communication and dialogue. One member-one vote will help in that endeavor.

Notes

1. In meetings to establish the recently formed cooperative, Pork America, producers debated the issue of proportional voting vs. one member-one vote to a deadlock. They plan to initially use one member-one vote and to re-open the issue of voting method after members have committed volume and equity to the cooperative.
2. The format for this demonstration is borrowed from P.D. Straffin (1993, 177–78).

3. Buchanan and Tullock use different matrix sizes throughout the *Calculus of Consent*. To demonstrate this particular point they used a 5 × 5 matrix, while in this article, excluding the title row, a 7 × 9 is used.
4. Follett discusses cooperatives and cites examples of business situations involving cooperatives throughout her writings in the recent edition of her works (Graham 1996). The index does not locate topics relating to cooperatives. For some condensed versions of Follett's comments on cooperatives from this book, see Reynolds (1996).

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