

## **Patronage Thresholds for Voting Privileges**

*Phil Kenkel*

*Bill Fitzwater Cooperative Chair*

Democratic member control is a fundamental cooperative principle. Participation in governance has been shown to be highly correlated with member satisfaction and future patronage. Member control is one of defining differences between cooperatives and investor owned firms. All of those factors suggest that cooperatives should make every effort to have as many members as possible participate in director elections and other voting opportunities. However, most agricultural cooperatives operate under a one member-one vote system. The group of producers providing the majority of the business volume is typically a small subset of the total membership. Under the one member-one vote system, there is always a possibility that a group of inactive members could vote for a decision that is not in the best interest of the active membership.

One structure to address this issue is to specify the requirements for maintaining voting privileges in the cooperative's bylaws. Some bylaws state that if a member has breached a contract with the cooperative or remained indebted for over 90 days the cooperative can revoke their voting privileges. It is also possible to add a stipulation that a member must have done a specific amount of business (example:\$5,000) in the previous year to be eligible to vote.

There are obvious advantages to limiting voting privileges to active members. From a practical standpoint it makes quorum requirements easier to obtain and simplifies due notice for elections. It is also logical to have the cooperative controlled by the members who are actively using it and who are most interested in its continued success. As in most attractive goals the devil is in the details. Many cooperative are reluctant to define a specific patronage threshold for voting rights. If the threshold is set too high small producers or producers who are just beginning to transition their business to the cooperative might be alienated. On the other hand, setting the threshold at a trivial amount defeats the purpose since many largely inactive members might make incidental purchases.

If you cooperative has not established a patronage threshold for voting privileges that might be a good topic to discuss at your next board meeting.

11-20-2015