Governance models for DAOs

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One of the main aspects of DAOs is the lack of hierarchy in its structure, so that the courses of the organization are decided democratically by its members. To this end, many different models of governance may be adopted when structuring a DAO according to the definitions established in its smart contracts.

Among the models commonly adopted, are:

1 Token = 1 Vote: this is the most common governance model nowadays, in which the owner of a token has the right to one vote (1t1v), and where the appreciation of a particular proposal, which may be approved by a simple majority, depends on the participation of a certain number of members. Defining the appropriate quorum for proposals may be challenging, as long as requiring an elevated number of votes may imply that most proposals are not appreciated due to the frequent low participation of members in some DAOs.

However, the imposition of insignificant quorums may result in risks for the governance of DAOs once the approval of proposals would turn extremely simple and unrepresentative for the community. Furthermore, in such a system where the value invested by one member is directly proportional to its influence power in the decision-making process, problems such as the centralization of voting power, the seizure of the governance by members owning many tokens, and the buying of votes from members discouraged to participate, are frequent.

In DAOs adopting this model of governance, if there is no limitation on the number of tokens a member may acquire, the economic condition becomes extremely relevant and may allow one participant to own effective power over the DAO.

1 Person = 1 Vote: this other common system is very similar to the traditional democratic model of governance, where each person has the right to one vote (1p1v) regardless of how many tokens it possesses. This model engenders some specific difficulties, including the so-called sybil attacks, which occur when the same person has multiple wallets that, for the voting process, are taken as different identities.

Mechanisms that permit the identification of natural persons have been employed by some DAOs, aiming to avoid one sole individual from gathering more than one vote and obtaining undue advantages over the decision-making process. Nonetheless, these strategies may create hindrances to the ideals supported by part of the community once its members would no longer be, in theory, anonymous (even though, in reality, their identity is pseudoanonymized information, not an anonymous one).

Quadratic Voting: in this model, although each member has a single vote, it is possible to acquire a package of credits according to the tokens owned, which will be spent in a particular proposal to demonstrate the great interest the member has in its approval.

The main aspect of this model is the cost in credits by the number of votes, which follows a quadratic equation (cost = $(\text{votes quantity})^2$). Once there is a price attributed to the votes, its cost turns the square of the number of votes the member is willing to make. Hence, if one vote costs one token, two votes will cost four tokens, three votes will cost nine tokens, and so on.

The quadratic voting solves the problem of a relative majority of votes because it requires each member to "invest" in the proposals it understands relevant, even though the hindrance of sybil attacks remains a reality under this governance model, so that the identification of members keeps being pertinent to avoid misconduct.

Vote Delegation: not always all members of a DAO will feel able to vote on certain proposals, especially if they involve themes ignored by them. To solve this problem and ensure that proposals receive expressive voting, an alternative is allowing the delegation of votes.

In this model, the votes will be transferred to a third party – usually a member with a recognized reputation or expertise in a particular area. In practice, the member would grant a proxy letter with representation powers for the voting on a certain proposal.

Although the models of governance mentioned above are the ones mostly used nowadays, other models are being employed recently with the aim to circumvent the deficiencies of the frameworks described.

In any event, it is fundamental that the governance model of the DAO is cautiously evaluated before its building in order to ensure that it will represent the best model expected for the particular organization, avoiding major problems in the future.

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