

Unlimited Magazine

Friday, 1 March, 2002

"The Fonterra Way"

"Sullen, unresponsive, controversial and uncomfortable in the spotlight?"

By Vincent Heeringa

The Fonterra drama has been a frustrating one. While dairy farmers are keen to share their thoughts about the controversy of the last few months, a veritable milk shed of silence has fallen on the directors and executives of New Zealand's largest company.

That's a shame, because until the Fonterra board speaks with more than platitudes (chairman John Roadley) or in generalities (ex-director Mike Smith), the shareholders and the public are left to speculate that New Zealand's largest company is riven with differences, led by executives implicated in dodgy deals, and unsure about its strategic direction.

The odd thing about Fonterra is that no one wants to think these things. Most people want it to succeed, so they view the last four months of trouble with the sort of frustration reserved for watching the New Zealand cricket team: so much opportunity met with so much disappointment.

The newly formed \$12 billion company has been rocked by a series of controversies starting with the Powdergate scandal late last year — a potentially illegal, \$50.3 million, milk-exporting rort performed by Kiwi Cooperative Dairies, one of the three merger partners in Fonterra. The dodgy deal was done during the tenure of then-Kiwi chief executive Craig Norgate, now Fonterra's chief executive. Fonterra's board has investigated the deal and apparently taken the action of sacking a few staff. I say apparently because, publicly, little has been said about the report or about Powdergate.

Then, on February 1, director Mike Smith resigned unexpectedly, saying problems with Fonterra's corporate governance are leading it into mediocrity. The resignation shocked farmer shareholders, who viewed Smith as one of the few independent and expert directors on the board. Smith isn't elaborating on his reasons for leaving. Nor is anyone within the company.

Underlying all this are internal divisions, thanks to the mutual hatred of the merger parties: Kiwi, Dairy Group and the Dairy Board. These "legacy issues", as they are delicately put, are based on cultural, historical and procedural differences that seem to be causing ongoing problems at board level. How significant these divisions are, and what's being done to solve them, is unknown. Nobody from the company will talk about it in any meaningful fashion.

Roadley has spoken publicly about developing the "Fonterra Way". Excellent. All great companies have distinct, articulated cultures. What can we conclude about the

Fonterra Way? Based on the evidence to date, it seems to be divisive, controversial and uncomfortable under scrutiny. And that's a fair conclusion, until we get answers to a few questions:

- Is Fonterra sliding into "mediocrity" because the directors (10 out of 13 of whom are farmer representatives) are too parochial and farm-based to run an international commercial enterprise?
- Has the management team been given too much freedom to make decisions by a rubber-stamping board, as former Kiwi Cooperative Dairies executives (who now dominate the management team) were alleged to have had?
- What is being done to overcome its historical differences, especially the suspicions regarding the valuation of Kiwi Dairies and the role of the Kiwi executives in the Powdergate scandal?
- How can the board have confidence in Norgate when he either didn't know what was happening in his company, or turned a blind eye? Would his resignation earn the company dearly needed respect?
- If, as many insiders say, Powdergate was an example of how dairy executives routinely broke the law to skirt around the Dairy Board's statutory monopoly, what confidence can shareholders have that the Fonterra team will now operate within the law?
- How can Roadley say "When that damn Powdergate thing came along", as if it were a surprise, when he found out about it in April last year?
- Why was Helen Clark so quick to defend Fonterra at the expense of Smith?
- Does Smith's silence mean he's sorry, following some code of conduct or being threatened?
- What influence does management consultant group McKinsey and Company have within Fonterra?
- What exactly is the "Fonterra Way"?

Don't hold your breath waiting for answers, however.

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