

TUESDAY, 28 MAY 2002

RURAL STORY

Finding Fonterra directors with right skills big task

28 May 2002

Also published in:

The New Zealand Herald

Rural delivery: Let's forget the politics and elect board members on merit

24.06.2002

By TONY BALDWIN*

It is always difficult to make much of popular elections, but three things stand out in the Fonterra director elections:

- The low turnout, at only 56 per cent. In important votes, the dairy industry normally gets 80 per cent.
- Two of the three incumbent directors were returned. Both had high profiles. The one who missed out did not.
- NZDG suppliers got one back on Kiwi suppliers, with Jim van der Poel replacing Gerard Lynch.

What does this add up to? It suggests that, following their merger decision last year, dairy farmers are cautious about changing the ship's officers, though word is many farmers are not happy.

It also suggests that within a couple of years pre-merger divisions in the industry, with Kiwi at about 35 per cent and NZDG around 65 per cent, could be reflected on Fonterra's board. Thirdly, it suggests that politics is still a big part of Fonterra.

Perhaps the politics are less murky and back-handed than under the old ward system. And perhaps the candidates' road-show promoted greater equality of opportunity.

But the process is still inherently political. To win a seat on the Fonterra board, farmers are obliged to campaign like politicians. They have to present to crowds in

community halls up and down the country. They have to mobilise their supporters. They have to project an image that lets ordinary people feel comfortable with them. In short, they have to be liked as people.

What is wrong with that, you may say. It is how we elect governments. But political government is quite different from corporate governance.

A few people have serious skills in both fields: winning elections and running big businesses. But very few. The two activities are so different. So are the skills required.

Does it matter if a director is not good in front of a crowd? Does it matter if a director is cold and aloof, rather than warm and humorous? Does it matter if a director does not know how to campaign among farmers? Does it matter if a director is not a dairy farmer?

It should not matter at all, but the Fonterra process makes it matter. It effectively excludes people unless they have these personal and political skills. Is this what Fonterra needs to be a successful multinational? I think not.

Look at Fonterra's rivals. Nestle's chairman was chief executive and chairman of a leading international bank. Nestle's vice-chairman and chief executive has a background in economics and is fluent in English, German, Spanish and French, with 30 years' experience in dairy and food marketing around the world.

Other Nestle directors include the chairman and chief executive of Sony Corporation, the former head of British Aerospace, a top professor in human nutrition from Harvard University, a top professor from a leading European business school, and the head of a highly innovative television and computer technology company.

This is not to say that politics is not a part of life on the boards of listed companies. It certainly is, but it is a different sort of politics, which is moderated by the power of shareholders to buy, sell or hold their shares - an option not readily available to dairy farmers.

Success in dairy production is useful, but it is not sufficient to be good at corporate governance. Fonterra needs a diversity of strong thinkers around its board table, with deep experience of corporate finance, international marketing, emerging technologies, human resources and government relations around the world.

Most of all, Fonterra needs directors who can bring a healthy scepticism and independence to the role of seeing through and beyond proposals brought to them by management.

Requiring the bulk of Fonterra's directors to be suppliers adds no significant protection for New Zealand dairy farmers. On the contrary, it seriously limits the range of available talent.

The next big decision for Fonterra shareholders comes next month, when they vote on removing from the board a farmer director and replacing him or her with an independent. Will 75 per cent of suppliers agree? If so, who will go? Which director has contributed the least? Or will it be decided on politics, not merit?

Under the current constitution, the Shareholders Council is toothless.

At the very least, it should be actively assessing directors' performance, using outside advisers to help analyse financial results, and it should play a leading role in appointing the independent directors.

For now, it largely serves the interests of Fonterra, not its suppliers.

It should be about looking ahead, seeing the bigger picture, anticipating what is likely to happen. It is about being honest.

* Tony Baldwin

Leader of the Producer Board Reform Team 1999

Policy adviser in the Department of the Prime Minister and Cabinet 1991-98.