



STUFF — WAIKATO TIMES — OPINION — 13 FEB 2002

Fonterra needs to open its eyes

By Tony Baldwin

Despite some 'wonderful goals', Fonterra is missing certain key ingredients, writes Tony Baldwin.

When top-notch business director Mike Smith resigned from Fonterra, New Zealand's largest business, saying it will not meet shareholders' expectations, Fonterra supporters in the Waikato called for an end to parochial in-fighting.

The Waikato Times urged more business expertise on Fonterra's board, in place of ambitious young farmers.

John Roadley said ignorant critics were "throwing stones at glass houses" and knocking a tall poppy.

MP Damien O'Connor saw signs of money-shufflers circling dairy farmers' cash cow businesses.

Two things stand out in these reactions.

First, the emotional and defensive lens through which many Fonterra supporters view the issues is the dairy industry's biggest achilles heel.

A culture of openness and confidence is the essential ingredient for innovation and growth, which is vital in enabling an organisation to adapt to environment changes. Indeed, dairy farmers would not have achieved such an impressive track-record of on-farm productivity improvements without this enthusiasm.

Sadly, this culture has not been a feature of co-op governance.

Fonterra director Harry Bayliss positively beamed with pride when he explained to a Taranaki audience why, contrary to advice, Fonterra would not have a small board and would not appoint nearly half its the directors from the wider business world. "If you're not a farmer, you don't understand the industry. So you have no business being on the board. We've always done it our way and it's worked."

Not surprisingly, Kiwi didn't want any outsiders on the Fonterra board. Three of 13 was a token compromise to appease Dairy Group.

Given the large number of farmer-politicians vying for a place on Fonterra's board, neither side could agree to a board of less than 13.

Before they went soft, McKinseys set eight non-negotiable must-do pre-conditions, one of which was that the board should be no more than nine directors, with nearly half of them coming from the wider business world.

Why was this pre-condition not met? Industry leaders have never explained why, but clearly many dairy farmers endorse Harry Bayliss' view.

Naturally, for a farmer aspiring to elected office, it is much easier to go with the flow of popular opinion.

Leadership means showing people the place they need to be, but cannot see. It is not about pointing grandly to a way-point as it comes into view for the crowd. Sadly, most dairy leaders feel safer following than leading.

And this leads to the second key point to emerge from various reactions to Mike Smith's resignation.

Many Fonterra supporters, like the Waikato Times, have acclaimed the marriage of Kiwi, Dairy Group and the old Dairy Board as a "triumph of overcoming huge obstacles".

However, the obstacles that really mattered were not overcome by being met; they were overcome by being ignored or watered down or put off for a later day.

In short, NZ Dairy Group abdicated to Kiwi -- it moved to the lowest common denominator.

If any obstacles to the marriage were actually overcome, they were things of importance to the personal position of the industry's power-brokers.

Fonterra has some wonderful goals, but it is missing the key machinery it needs to succeed.

Of pressing importance is the need for effective external monitoring. Without it, Fonterra's directors will not perform to a high level over time and poor business decisions will not be detected and corrected in a timely manner. Better external monitoring is possible without losing farmer control. This is needed urgently.

