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Top directors vital for Fonterra's future

By Tony Baldwin

If Fonterra is to deliver on its promises to increase dairy farmers' wealth, directors with vision and courage are vital, says Tony Baldwin.

Fonterra's election roadshow rolled through the Waikato last week.

Eight candidates from all over the country are competing for three positions at the board table of New Zealand's largest company, Fonterra Dairy Co-operative. Postal votes must be in by May 17. Results are expected on May 31.

This is the dairy industry's first nationwide vote for directors. It is a major exercise. Candidates are debating in front of 13 farmer meetings up and down the country. Voting packs and a video of each candidate are to be sent to all 14,000 Fonterra suppliers. Votes are to be cast under the system of single transferable voting (STV).

Why is the election important and what are the key issues?

As New Zealand's largest exporter earner, Fonterra has a huge impact, not only the lives of farmers but on our economy as a whole. We are all affected.

For years, farmers have been voted on to dairy co-op boards as representatives of suppliers within a ward, a lot like local authority elections.

However, the Fonterra board should be different. Directors are not supplier representatives in the traditional sense. This role is now performed by the new 45-member Shareholders Council, whose main job is to monitor the impact of Fonterra's decisions on suppliers. The council also provides an independent person (the Milk Commissioner) to help resolve disputes between suppliers and Fonterra.

Fonterra's directors, on the other hand, have three key responsibilities: appointing the chief executive, setting the company's strategic direction and keeping tabs on management.

Strong farming experience is a useful, but not sufficient, qualification to serve on Fonterra's board. Community standing as "a safe pair of hands" has also carried great weight in previous elections. But neither factor should be decisive at Fonterra's ballot box.

Fonterra needs more directors with better analytical skills. People who can think outside the square. People who can see through and beyond managers' plans. People who can size up complex issues clearly with a probing mind.

Most of all, Fonterra needs people who will have the courage as directors to do what they really believe is in the best interests of the company, not simply to follow the crowd.

Mike Smith's resignation from the board earlier this year was a major loss. He was top notch. Replacing him with a person of equal professional standing will be difficult, especially when Smith resigned because he thought Fonterra was poorly governed.

Shareholders need to ask hard questions about Fonterra's current performance, including:

- Where is the \$320m of much-promised efficiency gains?
- Which parts of Fonterra are performing well and which parts are not?
- Why does Fonterra not set out its results by business units and regions, as various overseas competitors do?

How it grows is the most fundamental issue facing Fonterra:

- What are Fonterra's growth targets? Is it still aiming to grow sales from \$10 billion to \$40 billion over 10 years, as proposed in 1999?
- Or is Fonterra aiming even higher to become one of the top five dairy food businesses in the world within five years, as proposed by Warren Larsen last year?
- How much resource is Fonterra planning to invest into overseas milk?
- How fast is Fonterra planning to grow its ingredients and consumer-end business?
- How much is Fonterra planning to invest in biotech and pharmaceuticals?
- Is Fonterra planning to diversify into other non-dairy food products?
- What risks and rewards will suppliers face under these strategies?

Questions about strategies to counter potential competitors in New Zealand are also important:

- Will Fonterra start to vary payouts between regions? In other words, will Central Waikato, Taranaki and Southland farmers get a higher payout to ward off potential poachers?
- Will Fonterra's costs to farmers remain averaged across the country?

Other key questions include:

- Why is Fonterra making major decisions, like the Nestle alliance, before it has a strategic plan in place?
- Will Fonterra need to raise more share capital in the future?
- Will Fonterra need outside share capital to achieve its growth goals?
- Is the current board too dependent on consultants?

On the Government side, Maf is still investigating Kiwi Dairy's illegal exporting schemes. Will this cause on-going problems? Have all the responsible parties been publicly identified and dealt with? These are some of the key questions directors need to be asked.

The industry's old-style politics are no longer appropriate. Voting for Fonterra's directors should not be a popularity contest or a reward for loyalty. Our largest business needs to be directed by people with an ability to really think and the courage to act.

While I have been a strong critic of Fonterra's structure, it is up and running. Now Fonterra must deliver on its promises to increase farmers' wealth. Top directors are vital if this is to happen.

Tony Baldwin was project leader on the Producer Board project team in 1999 and policy adviser in the Department of the Prime Minister and Cabinet in 1991-98.