

Dialogue: Industry too fond of shooting messenger

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Successful organisations welcome new ideas. Enquiry into possible better approaches is encouraged. Criticism is seen as helpful. People focus on the merits of the message, rather than instinctively shooting the messenger.

Sadly, our dairy leaders tend to be instinctive messenger-shooters.

Which is exactly how Fonterra chairman John Roadley reacted to widely expressed concerns about Mike Smith's resignation. Mr Roadley dismissed the critics as nay-sayers who like to knock tall poppies and throw stones in a glass houses.

Having the confidence to encourage people to challenge and criticise is *the* essential ingredient necessary for an organisation to adapt successfully to constant changes in its environment. In business, it is a case of adapt or die. On the farm, dairy farmers have had a strong culture of exploring new ideas to increase production. Their track record in this area is impressive.

However, this openness to innovation is rarely seen when it comes to governance in dairy co-op boardrooms.

And this is the industry's biggest Achilles Heel.

Fonterra was a marriage of convenience. Neither spouse (NZ Dairy and Kiwi) really wanted the other. Neither had a common vision or a shared philosophy. Not surprisingly, the two parties are finding consummation difficult, if not impossible. Even now, Fonterra has yet to establish its overall business strategy.

Self-interested marriage counsellors (like McKinseys) are oogling at their every bodily motion, like mediaeval priests consulting ancient 'How To' books, offering words of encouragement to the reluctant couple, at considerable cost of course.

And like many high-profile couples, the two frustrated parties have tried to snuff out speculation of their weak attraction by issuing public statements asserting their verility and marital happiness.

The façade will continue as long as people want to believe it. In the dairy industry, 14,000 farmers want to believe it (as least they wish it was true).

But this is square peg into round hole stuff.

Rather cynically, many influential people supported Fonterra because they saw it as the only possible transition path away from the old 'single desk' producer board structure.

These heavy-hitters know Fonterra is suboptimal. They know it will seriously underperform in some key areas. But they believed it was better to follow this rather clumsy and costly transition path, rather than risk a continuation of the old regime.

So why did we settle for a structure that international experience has shown can't deliver its goals? Why didn't we shoot for a better solution?

In a nutshell, lack of leadership. Self-interested politicians cow-towing to a wall of highly defensive farmer preconceptions.

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, as John Roadley is doing now in saying he wants more business directors at his board table.

Most dairy leaders feel safer following than leading. Our national politicians, in Labour and National, have chosen to followed suit.

This lack of vision and courage goes to the heart of why our economy has underperformed over the years.

We are an economy still in transition, struggling to find out how to best use our limited resources to generate wealth from the rest of the world.

Since 1972 when Britian entered the EU, meeting consumer demand has been much more important than simply producing stuff. However, our dairy export industry has remained production-driven. Government regulation for the last 80 years has, in effect, insulated dairy farmers from overseas demand. Versatility and adaptation to buyer needs are not therefore among the dairy industry's natural strengths.

Yes, the Dairy Board has grown export sales; but the real question is, what return did they achieve on all the resources used? Real increases in wealth are what count, not raw sales.

Despite recent high export prices, net returns on total assets in the dairy industry for the last 30 years are likely to have been relatively low. And the medium term outlook for commodity dairy prices is not good.

Looking at the big picture, Fonterra is the dairy sector's response to the challenge of operating in a more consumer-driven world.

The main winners are the niche dairy exporters, who are now free to grow their businesses.

For the vast majority of farmers, however, Fonterra is simply the closest thing they could get to the status quo, where a small handful of people manage all dairy exports and farmers are left to produce as much milk as they can.

So while political rhetoric trumpets Fonterra as a flagship for the Government's new innovative economy, it is in substance a powerful demonstration of our dairy sector seeking to avoid change – a rather defiant leaderless culture imprisoned by fear of the unfamiliar and a high dependence on not-so-independent consultants. A sad indictment of our approach to innovation. Dairy leaders were warned in strong terms that a single mega co-op would create serious inefficiency problems. McKinseys found that *two* competing exporters would be better than one unless the problems inherent in a near-monopoly could be overcome.

But the dairy industry's godfathers strongly favoured a single mega co-op.

In a rather heroic and client-friendly leap of logic, McKinseys concluded in 1999 that the problems of weak accountability in a near-monopoly co-op could be overcome.

To many people, this is a like kidding yourself that human technology can beat nature's most powerful forces.

Even if it was possible, the 'technological safeguards' much vaunted by McKinseys do not seem to be in place at Fonterra, even though consulting boss, Andrew Grant, assured farmers before last year's merger vote they were.

Either Mr Grant has information farmers lack or he has significantly watered-down his non-negotiable preconditions. I fear the latter. So do others who have reviewed McKinseys' 1999 report.

The urgent task now is to implement disciplines and performance pressures similar to those that drive Fonterra's key competitors. These vital changes will require Fonterra's constitution to be amended. The burning question is whether John Roadley has the leadership ability to do what needs to be done.

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