New Zealand Nuffield Farming Scholarships Trust

2005 SCHOLARSHIP REPORT
(Completed: 31/1/2006)

Tom Mason

75 Carruthers Road
RD 11
Rakaia
Phone: 03 3020033
Fax: 03 3020034
Email: suzietom@sassicaia.co.nz

Topic: Corporate Governance in Agricultural Co-operatives

Sponsored By:

DairyInsight

31/1/2006

Table of contents

Executive Summary

This report investigates aspects of corporate governance as it should apply to New Zealand agricultural co-operatives. It looks at best practise corporate governance in public listed companies and identifies areas which pose challenges to agricultural co-operatives.

The author attended the 55th Advanced Course in Agricultural Business Management at the Imperial College Wye campus in Kent where he received valuable understanding of EU and UK farming policies, practises and challenges. He visited agricultural co-operatives, training organisations, co-operative associations, co-operative directors and chairmen, farms and farmers in England, Ireland, Scotland, Netherlands and the United States on his self-study tour. He met Australasian co-operative directors at the eighth annual Monash University Agribusiness Co-operative Leadership and Governance Forum held at Hamilton Island in Australia. He met people involved in consumer co-operatives and members of the International Co-operative Alliance at the 2005 co-operative congress in Glasgow where Cooperative UK corporate governance review group presented their final report and had it ratified by the congress.

A key recommendation of this report is that New Zealand co-operatives should voluntarily comply with the corporate governance guidelines published by the New Zealand Securities Commission in 2004.

There are some areas of corporate governance where co-operatives have their own particular challenges. A democratically elected board sourced from the co-operatives members can often result in a board with a wealth of ability, but in a narrow range of skills. There is often a lack of diversity around the board table, directors can be elected without adequate experience or understanding of the role, and there is a tendency for them to stay in the job for too long. To overcome these issues it is even more important in a co-operative, than in a public company, that there is quality training available for directors and prospective directors and that the performance of the board and individual directors is evaluated so that the dead wood can be removed. There needs to be a process to identify skills required on the board and ensure that the candidates put to a members vote have the skills and experience required

for the position. If skills gaps can not be filled by training existing directors, or from the membership base then boards should look to appoint from outside the organisation.

The other major point of difference is in a cooperatives relationship with its members. Co-operatives need their members to be united by common goals, and committed to participating in the co-operative to achieve them. This is a communication issue that often receives insufficient attention. Effective communication is two-way. Newsletters are useful but only one way, hence regular meetings with members and shareholders, perhaps in small regional groups, can be very beneficial. There needs to be a culture of openness in the board's dealings with its members, with a requirement to disclose more information to members than a public company would to its shareholders. Co-operatives need to be sure that they are meeting their member's needs and are following a strategic direction that will continue to meet their member's needs.

This report raises the issue of conformance versus performance. Conforming with corporate governance principles requires a lot more commitment than just going through the motions ticking the boxes. Good corporate governance on its own cannot make a cooperative successful, it needs a balance of conformance and performance. The performance dimension focuses on strategy and value creation. The focus is on helping the board to make strategic decisions, understand its appetite for risk and its key drivers of performance, and identify its key points of decision-making. Co-operative ownership is no excuse for poor performance.

Finally there are comments made to the author by people involved with co-operatives around the world. These comments represent the wisdom gained through decades of experience serving on and chairing co-operative boards in different sectors of agriculture and in different countries. They offer a balance to the more theoretical content of the report.

Study Aims

The aim of the study was to research the different approaches to corporate governance in co-operatives and what lessons could be learnt that could improve the standard of corporate governance in New Zealand agricultural co-operatives.

Study Objectives

To understand the corporate governance standards applicable to publicly listed companies and how to apply those standards to agricultural co-operatives.

Study Goals

To meet with directors and chairmen of co-operatives and question them about their experiences.

To meet with organisations involved in training co-operative directors and evaluating board performance.

To find out how co-operatives in other business sectors have approached corporate governance issues.

To identify the areas where New Zealand co-operatives could improve their governance.

To increase the awareness of governance issues amongst the members of New Zealand agricultural co-operatives.

Introduction

The New Zealand economy is dominated by agriculture and New Zealand agriculture is dominated by co-operatives. The author is a member of Fonterra which collects, processes and markets 95% of New Zealand's milk. His cull cows and bobby calves are processed by PPCS, a co-operatively owned meat processor; the dairy cows are bred, herd tested and recorded by Livestock Improvement; fertiliser is purchased from either Ravensdown or Balance and a lot of other farm inputs are purchased from either RD1, the Fonterra farm supplies store or ATS a Mid Canterbury rural retailing and purchasing co-operative.

The current generation of New Zealand farmers have had 20 years of farming in an environment of little or no government support. Our prosperity is dependent on the decisions we make as farmers and the success of the strategies of the co-operatives we are members of. Agricultural co-operatives must be commercially successful if New Zealand agriculture is to prosper. Good corporate governance in itself is not a reason for success, but poor governance is a common theme in corporate and co-operative failures.

This report is a mix of observations from people involved as directors and chairs of co-operatives, excerpts from guidelines on corporate governance from the corporate and co-operative world and some observations on how agricultural co-operatives are applying best practise in corporate governance.

What is Corporate Governance?

"The system by which companies are directed and controlled" (Cadbury Report 1992)

Companies and their boards work within boundaries. These boundaries are set by laws and regulations, by the providers of funds, by the shareholders in general meeting, by the constitutions of the companies themselves and by public opinion.

What is a Co-operative?

A co-operative is an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs through a jointly-owned and democratically-controlled enterprise. (ICA definition)

Farmers should not get too hung up on the word co-operative. English Food and Farming Partnership (EFFP), an organisation that was formed in response to a recommendation in the 2002 Curry Commission report, uses the term Farmer Controlled Business rather than co-operative. Farmers need to control as much of the supply chain as they can to enable them to benefit from the opportunities to cut costs and add value within the supply chain. Co-operatives are the most common structure to achieve this but not the only way of structuring a farmer controlled business

Corporate Governance Codes and Regulations

USA (Farm Credit Administration presentation March 2005)

US Corporate Securities Laws

The Securities Act of 1933 and Securities Exchange Act of 1934 had the following objectives:-

- Provide oversight of stock sales to investors
- Eliminate misrepresentation of fraud in stock sales.
- Protect investor's through full financial disclosure.

The Securities and Exchange Commission

- Enforces U.S. corporate securities laws
- Oversees securities markets – exchanges, brokers, advisors, etc.
- Regulates and reviews corporate registrations statements.

Sarbanes-Oxley Act of 2002

This Act was enacted because of a loss of public trust and confidence in the financial marketplace due to grievous misdeeds/fraud by large corporations such as Enron and WorldCom.

- Created an independent oversight board for public accounting firms
- Creates greater independence for public accounting firms and board audit committees.
- Provides standards and penalties for fraud.
- Provides rules of conduct for companies and their officers
- Requires financial statement certification, and
- Requires reporting of violations.
- Makes financial reporting more timely and detailed

- Requires a report on internal controls.
- Grants additional authorities to regulators and courts

.

Co-operative Response to Sarbanes-Oxley

- Co-operatives are not subject to Sarbanes-Oxley.
- Need to improve board efficiency.
- Need to enhance board independence.
- Need to establish and/or strengthen board committees

\

- Need to strengthen board disclosure requirements

The general view of the co-operatives visited in the US was that the Sarbanes-Oxley legislation was an over-reaction to corporate scandals that had occurred in recent years. Many felt that the cost of compliance was too high and they would comply with the provisions where it made sense to do so and did not impose too great a cost upon the co-operative.

United Kingdom

The Cadbury Report 1992

This report was a watershed in establishing a code of best practise for corporate governance in UK companies. Companies were expected to comply with the provisions of the code or explain to their shareholders why they were not complying. *Comply or explain* is also the approach to corporate governance that has been adopted in New Zealand as opposed to the more regulatory approach of the US.

The Combined Code (2003)

This is the latest update of the code incorporating recommendations from the 2003 Higgs report. Co-operatives are not subject to the Combined Code.

Co-operative response to the Combined Code.

Co-operatives UK established a group in April 2003 which reviewed the Combined Code and published a corporate governance code of best practise for co-operative societies in membership of Co-operatives UK. The final report and revised code was ratified at the Co-operative Congress in Glasgow, May 2005. Co-operatives that are members of Co-operative UK are required to include in their annual report, a statement relating to compliance with the Code. The chief executive, chair/president and secretary should sign off this statement.

Co-operatives UK has the right to expel or suspend any society that persistently fails to significantly comply or explain.

More detail on the governance review completed by Co-operatives UK, including the report and appendices are available at:-

www.co-opunion.coop/live/welcome.asp?id=327

English Food and Farming Partnership (EFFP) is an organisation that has been established in response to a recommendation in the 2002 Curry commission report into the future of farming and food in England. Its mission is to strengthen the profitability, competitiveness and sustainability of England's farming, food and related rural industries. It aims to achieve this through the growth of market focused farmer controlled businesses and other initiatives and by developing co-operation and partnership activities not only between farmers but also between farmers and the food chain.

EFFP in conjunction with the Scottish Agriculture Organisation Society (SAOS), a long established Scottish organisation with similar goals, have published governance standards for co-operatives which are very closely linked to the Combined Code guidelines.

More detail on the work of EFFP including case studies of Farmer Controlled Businesses is available at:-

www.effp.com

New Zealand

Securities Commission report 2004

The New Zealand Securities Commission published a report titled Corporate Governance in New Zealand Principles and Guidelines in February 2004.

The Principles are intended to contribute to high standards of corporate governance in New Zealand entities. This will be achieved when directors and boards implement the Principles through their structures, processes, and actions, and demonstrate this in their public reporting and disclosure. The report also sets out guidelines on the types of corporate governance structures and processes that will help entities achieve each Principle. It explains the Commission's view on each area covered and includes detailed information on the extensive consultation carried out prior to publication.

The report is available from www.sec-com.govt.nz

Co-operative Response

There has been no formal co-operative response to the New Zealand Securities Commission report. A key recommendation in this report is that boards of New Zealand Co-operatives should voluntarily comply with the principles and guidelines published by the New Zealand Securities Commission in February 2004.

The approach in the body of this report is to work through the nine principles and guidelines published by the New Zealand Securities Commission and highlighting points of interest, practises observed overseas, and areas where New Zealand Agricultural Co-operatives need to improve. Little comment is made on principles where they should be directly applicable to co-operatives.

NZ Securities Commission Principles for Corporate Governance

- Directors should observe and foster high ethical standards.
- There should be a balance of independence, skills, knowledge, and experience, and perspectives among directors so that the Board works effectively.
- The Board should use committees where this would enhance its effectiveness in key areas while retaining board responsibility.
- The Board should demand integrity both in financial reporting and in the timeliness and balance of disclosures on entity affairs.
- The remuneration of directors and executives should be transparent, fair, and reasonable.
- The Board should regularly verify that the entity has appropriate processes that identify and manage potential and relevant risks.
- The Board should ensure the quality and independence of the external audit process.
- The Board should foster constructive relationships with shareholders that encourage them to engage with the entity.
- The Board should respect the interests of stakeholders within the context of the entity's ownership type and its fundamental purpose.

Should NZ Co-operatives voluntarily comply with NZ Securities Commission Principles and Guidelines?

Being a co-operative is no excuse for accepting poor corporate governance standards. For many New Zealand farmers their livelihood depends upon the success of agricultural co-operatives and in some cases they have significant amounts of capital invested. Members should expect standards of corporate governance to be at least as good as in a public company and in some areas of governance, such as member relations and disclosure, the expectation from a co-operative should be higher than for a public company.

In all the countries visited there was a willingness for co-operatives to comply with the guidelines or regulations comparable with the NZ Securities Commission report, or as in the case of Co-operativesUK review the guidelines and publish guidelines tailored to their member co-operatives.

It needs to be recognised that New Zealand co-operatives differ in scale, size, trading profiles and resources, it is inevitable that levels of implementation will differ. Co-operatives unable or unwilling to implement specific recommendations should identify the recommendations concerned and give reasons for non-compliance in their annual reports.

The Capricorn Society, a co-operative with members in Australia, New Zealand and South Africa outlines its position in its corporate governance statement.

> *…although there is no regulat1atory requirement for co-operatives to comply with these principles, they are acknowledged as best practice standards within Australia and as such the Board has chosen to adopt those recommendations it considers are complementary and that would add value to the operations of Capricorn.*

Dairy Farmers of America has implemented Sarbannes Oxley requirements '*where it makes sense to do so and it leads to improved efficiency and mitigates risk'*.

Dairy Farmers of Britain states on its website...

> *DFB is committed to the principles of corporate governance and this is reflected in the way the Board operates in conjunction with its committees, our internal processes and controls and our commitment to open communication with members.*

Ethical Standards.

Ethical behaviour is central to all aspects of good corporate governance. '*Unless directors and boards are committed to high ethical standards and behaviours, any governance structures they have put in place will not be effective*'. (Sec Com report 2004).

The Professional Accountants in Business Committee (PAIB) of the International Federation of Accountants (IFAC) in its 2004 report Enterprise Governance - getting the balance right, identified culture and tone at the top as one of four key corporate governance issues that underpinned both success and failure in companies.

It is accepted good practise to have a written code of ethics. The lead and example to ensure that such codes are taken seriously has to come from the top. Boards, therefore, have the dual role of framing codes of conduct and living by them.

Values

Discussions on values in a public company context relate to the company staff. A potential commercial advantage for a co-operative is the opportunity to align values throughout the organisation. This concept is explained by Dr Peter Davis, from Manchester university in his book Managing the Co-operative Difference. The Co-operative Bank which trades in the UK has been very successful commercially by aligning its values with those of its members.

The chairman is the guardian of the co-operatives values, as the ultimate responsibility for actions carried out in the name of the co-operative rests with the chairman. Chairmen need to ensure that the values for which their co-operative stand are maintained. Without a clear lead from the top there will be confusion down the line as to what the real values are.

Jack Welch, former CEO of General Electric is an example of a leader who made it clear that his company's values count.

> *GE managers are judged on two things, whether they can 'make the numbers' and whether they live the company's values. Managers who don't make the numbers or live the values are out. Those who live the values but don't make the numbers are given chances to improve. Those who make the numbers and don't live the values are the worst, he says. 'These are the people that too many companies keep, because they kiss the boss's ass. Unless you get these people out you get your values wrong.*

Board composition and performance

Independence

Co-operatives have boards dominated by elected directors who have a relationship with the co-operative which means they are not independent as defined in a public company context.

It is important that directors maintain an independent perspective on the organisations business. The Higgs report recommended that public company directors should serve no more than ten years on a board. Higgs felt that directors lost their independent perspective after having served a longer period. Implicit in Higgs' recommendation was the belief that, after a number of years service, directors inevitably become "institutionalised" and therefore provide no independent check on the work of the executive.

The Co-operatives UK review group supported the Higgs view and in their guidelines recommended the adoption of one of two approaches to help ensure healthy board renewal. The first was a suggestion that a director at age 68 was not eligible for re-election. There were reservations about this approach as it could be viewed as discriminating on the basis of age. The second approach was to limit service to three consecutive three year terms.

Age limits are common within agricultural co-operatives. A limit on length of service is less common. Campina, the Dutch dairy co-op, has a maximum length of service set at 15 years.

Ideally, co-operatives should be aiming for the best possible combination of experience and innovative thinking. Co-operatives with long serving directors need to explain to their shareholders why they are still the best person for the job.

Appointed directors are "independent" as they have no supplier relationship with the co-operative. The attitude towards independent directors varied around the world. US dairy co-operatives such as Foremost Farms and Dairy Farmers of America felt that although they were a good idea in theory, that their members would not accept them at this time. They argued that they could purchase the expertise when it was required rather than appoint to the board, a view largely supported by Adrie Zwanenberg and others at Rabobank in the Netherlands.

The co-operatively owned banks and associations in the Farm Credit System which finances much of rural USA are required to have at least one outside director on their board. Otis Molz, who is a past chairman of Cobank, the largest bank in the Farm Credit System, expressed the view that consultants will not question management with the same vigour as the same person will if a board member. Consultants are on the management side, as it is management that will provide them with more work. Therefore he favoured appointing someone with the skills required to the board, rather than employing them as an advisor.

Within UK co-operatives independent directors were readily accepted and in some cases, such as Anglia Farmers and Dairy Farmers of Britain, the co-operative is chaired by one of the independent directors. Anglia Farmers is an agricultural buying group based in Norfolk, England. It was formed in 2003 with the merger of Loddon Farmers and Mid Norfolk farmers. The merger has been very successful, and one of the reasons given for the success, is that the appointment of an independent director as inaugural chairman of Anglia Farmers cut out a lot of the petty politics that could have been a problem in such a merger.

Skills

A danger for co-operatives is that the democratic process may result in a board that lacks sufficient expertise and range of skills to direct the affairs of the co-operative. Occasionally the incompetent will be elected, but more common is for a board to have a richness of skills in one area and a deficit in another. This can be more of an issue in agricultural co-operatives than it is for consumer co-operatives, as farmers generally have similar skills and experiences, while the membership and skills of consumer co-operatives is more diverse.

'You don't want to get the same kind of advice from everyone on your board'
Ruben Cardenas

Co-operativesUK recommend that boards establish a search committee that, amongst other things regularly evaluates the balance of skills, knowledge, and experience on the board, and informs the Secretary of any skills deficiencies on the board and ensure that the necessary training is provided.

The board may also inform members about the skills gaps and encourage any members with the necessary skills to come forward to stand for election. If skills gaps can not be filled by training existing directors or from the membership base then boards should look to appoint from outside the organisation. A board that identifies skills gaps and fails to fill them might be found negligent for carrying on trading in the knowledge that it did not have the necessary skills to direct the business.

The Curry Commission drew attention to the need for Farmer Controlled Businesses to engage individuals with a strong business background, outside the farming industry, to equip their boards with skills such as marketing, finance and strategic planning as well as the ability to challenge, guide and mentor executive colleagues.

A problem for New Zealand agricultural co-operatives when seeking to appoint outside directors is that corporate New Zealand is small; hence the talent pool of outside directors is also small.

Induction

The objective of induction is to educate the director such that they can become as effective as possible, as quickly as possible, in their new role.

The board should have a policy and procedures for the recruitment, induction and development of new directors. Induction should be provided by the co-operative and must be attended by the individual directors to ensure they fully understand the business. Directors should be familiar with the main provisions contained within the business's constitution and other associated agreements. They must clearly understand the purpose of the business, its ownership, control, investments and rewards.

A director must know the constitutional structure of the business that they are directing, the features of that structure; understand why it was selected and why it is still appropriate. Directors should understand the financial structure of their business, how it is capitalised, what options are open to them to raise further capital, and what the obligations are to pay back capital.

Evaluation

There are two aspects to evaluation, the evaluation of individual directors, and the evaluation of board performance as a whole. Generally co-operatives felt uncomfortable with performance evaluation, especially of individuals. The more traditional co-operatives still put forward the view that the ballot box was the ultimate evaluation of performance. If the chair and board members were adequate, they would be reappointed; if not, they would be removed.

Co-operatives UK thought these responses misunderstood the nature of evaluation.

> *Boards need to examine their working procedures periodically to see whether they can be improved; they need to assess the skills that are available to them to see whether they are complete; they need to assess the way board meetings are conducted to see whether they are efficient; they need to discuss the changes that might be required and the options available should they find deficiencies in any of these areas.*

In a well run co-operative appraisal is unlikely to lead to major changes in behaviour, but more likely to be about making incremental improvements.

In the United Kingdom SAOS and EFFP are working together developing evaluation processes. The author spoke with members of boards who had been through the evaluation process and they were pleased with the process as it highlighted areas they were doing well, and areas they needed to improve.

Evaluating Board Performance

SAOS and EFFP have published a handbook outlining governance standards for Co-ops and Farmer Controlled Businesses. This publication arose from discussions at an SAOS Foundations Skills Course (see training) about best practise corporate governance. These discussions resulted in a down to earth, easy to understand booklet which provides information in a bullet point format. It was designed as a quick reference rather than as detailed reasoned justification.

The booklet was compiled with reference to the combined code with some adaptation from actual experience. It positions SAOS/EFFP as guardians of best practise for governance in agricultural co-operatives and farmer controlled businesses.

A copy of the booklet has been sent to directors of agricultural co-operatives in Scotland and England

The Board Health Check

The publication of governance standards created interest and a desire for checking conformance against the standards and to identify areas for improvement. There needed to be a way to do this that:

- Involved the whole board
- Achieved fast overview and understanding
- Didn't threaten, didn't expose individuals
- Didn't cost too much

Every director scores 40 statements about governance of their co-op on a scale from 1 (I know nothing about this) to 5 (I think we do this really well). The exercise is anonymous and takes place at a board meeting. It takes approximately 15 minutes to complete at the start of the meeting with feedback later in the meeting when scores have been entered in a spreadsheet.

The exercise is a trade off between the comprehensiveness and cost of an external evaluation, and a commitment from the board to do something which is easy, low cost and of immediate value.

The findings are presented with an overview scoring of different aspects of governance.
The questions with the top 10 and bottom 10 scores are highlighted and a high-low, mean chart produced to highlight the variance of response of individual directors to each question.

The results are discussed with the whole board. The exercise generates a very good response from the boards involved and has initiated follow up improvements in practise.

Evaluating Performance of Individual Directors

Individual evaluation should aim to identify how the training needs of a director have been met. It should also identify the effectiveness of a director's contribution to the board and should demonstrate their commitment to the role (including their contribution to board and committee meetings). It is the role of the chair to ensure that development plans are in place for individual directors and, where a director is not performing at the level required, to discuss that with the director. It is difficult for a democratically controlled organisation to get

rid of a director that is not performing. A well structured and managed evaluation process at least gives the chair objective information to discuss with a director and may help to encourage that director decide to exit the organisation with dignity.
Appraisal of the chair should be carried out at least annually, in their absence, to evaluate their performance, and on other such occasions as are deemed appropriate. The process would normally be led by the vice-chair or carried out by a professional external director.

Training

The importance of training existing and prospective directors can not be emphasised enough.
All the countries visited had training for co-operative directors through national and/or regional cooperative organisations such as, the Irish co-operative society, Wisconsin Federation of cooperatives, Netherlands Institute for Cooperative Entrepreneurship.

An excellent example of a well thought out and implemented training program is that run by the Scottish Agricultural Organisation Society (SAOS) for directors of rural co-operatives in Scotland. I outline in some detail the approach taken by SAOS, as explained by the chief executive, James Graham.

SAOS is a specialist in the development of co-operation and joint ventures amongst farmers, growers and rural businesses, and within food and drink supply chains. SAOS is owned and governed by 80 member co-ops. It has close working relationships with several public and private sector agencies where objectives overlap. The development and advisory services are part-funded by the Scottish Executive Environment and Rural Affairs Department.

SAOS has 80 co-op members with a collective turnover of 1.5 billion pounds. The business activities of its members include purchasing, marketing, primary and secondary processing, machinery and labour ring services. Between them these co-operatives have 650 farmer directors.

Why Devote Resources to Governance?

- The performance, reputation, expansion, potential for, and future of, co-operation

ALL DEPEND ON EFFECTIVENESS OF DIRECTORS

- SAOS success as a development organization is interdependent with its members' success
- ***Improved governance and more effective directors*** is one of four core strategies in the SAOS business plan.

Services for Directors provided by SAOS

- Governance standards & introduction to governance.
- Foundation skills course
- Masters seminars
- Board health check
- Financial "health check'
- Induction manual
- Risk management
- Board Policy Charter
- Confidential advice line
- Directors update newsletter
- Annual Directors conference
- Global network and 'learning journeys'

It all began with Training Needs Analysis (TNA)…

Typical profile of farmer director

- 35-49 years old, family farmer.
- Over stretched time and financially.
- Agriculture qualification, but no training since.
- No corporate experience.
- Aware of pressure of member's expectations.
- Feeling ill equipped to be a director and frustrated by their experience so far.

Another typical profile of farmer director

- 59-70 years old, semi retired, son working the farm, Agriculture qualification but no training since.
- Been on the board for years but remote from the commercial front line on any side.
- Has depended on the CEO to do all strategy and everything else.

- Worried the co-op is not doing so well, feeling uncomfortable and ill-equipped to contribute.

TNA conclusions

- Majority of directors feeling unable to perform their role (75% unable/25% able).
- Directors needed to be enabled and empowered.
- Wide range of training/development needs were identified.
- Designed and introduced the Foundations Skills Course.

Foundations Skills Course

5 day course designed for the 75%

- Roles of the Board and Directors.
- Business planning.
- Financial budgeting, capitalization, control.
- Marketing.
- Managing change.
- Communications in a co-op.
- Managing people.

Points worth mentioning

- Engaged an academic partner to deliver the content.
- Secured funding from Scottish European Social Fund Objective 3 Partnership.
- 112 graduates by end of January 2005.
- Each presented with a certificate and photo in the SAOS annual report.
- Feedback is excellent – directors are motivated, empowered, new networks are created, and they leave with a desire to continue development.

The flow on effect of participating in the foundation skills course has been demand for more advanced training in aspects of governance.

Training of potential directors

A number of larger co-operatives also identify members with the potential to become directors and run their own training programmes.

The approach taken in Campina, a Dutch dairy co-operative is that board members and staff identify farmers with potential. These people then go through an evaluation process and selects those best suited to entering the training programme.

The training entails 1-2 days per month for a period of 3 years. The topics covered include; director responsibilities; meeting process; public speaking; company finance; EU politics; marketing etc.

Members of the Campina supervisory board receive training at the Netherlands Institute of Cooperative Entrepreneurship. Campina has members in the Netherlands, Germany and Belgium. In that situation it is very desirable for directors to be multi-lingual so they can communicate effectively with all members.

Board Committees

The use of committees is well accepted by the larger co-operatives visited. As a minimum, a medium sized co-operative should have an audit committee and consideration given to establishing remuneration and appointment committees. There is no reason for a co-operative board to use committees any differently than a public company.

Committee members must clearly understand the committee's purpose and role and the extent of any formal delegations from the board. A clear, formal committee charter agreed by the board is an efficient way to achieve this. Disclosing the charter and information on the composition and work of committees will assist members of co-operatives to assess the effectiveness of board committees.

An audit committee should have at least one member with financial expertise. This can be a problem if there is no provision in the co-operatives constitution allowing the appointment of external directors, as the financial expertise is often provided by an appointed director in agricultural cooperatives. The approach of Dairy Farmers of America, which has no independent directors, has been for the audit committee to appoint two retired "big six" accountants to act as advisors. These advisors attend all board and audit committee meetings.

Reporting and Disclosure

Disclosure

Co-operatives need to have a culture that promotes openness and transparency in relations between the board and members. Because of the special relationship between a co-operative and its members you would think that disclosure is one area of governance where co-operatives would be showing a lead to the corporate world, yet in too many cases disclosure is a real weakness of co-operatives.

How many New Zealand agricultural co-operatives make their code of ethics, board committee charters and other standing documents important to corporate governance readily available to interested members as recommended by the Securities Commission? Do they even have these documents?

The principles based approach to corporate governance relies on meaningful disclosure. Reporting should not be by "tick-in-the-box". It should involve boards saying how they have implemented each principle, i.e. the actions they have taken that suit the legal form, business type and stage of development of the entity. Describing governance structures in this way will enable co-operative members to make an informed assessment of the governance of the entity. The disclosure process can also be used as a facilitation process to assist the board in its assessment of the co-operatives processes and internal control.

New Zealand Agricultural co-operatives need to improve the disclosure of corporate governance practices in their annual reports. The disclosure requirements recommended by the securities commission should be seen as a minimum level of disclosure. A Co-operatives UK checklist of what they believe should be in the annual report is included as an appendix to this report.

Remuneration

When the Co-operatives UK review group looked at this they concluded that it found no arguments to dissuade it from the view that the approach which co-operatives take should be similar to that taken by public companies. Indeed, they felt that the stronger traditions of democratic accountability that are embodied in the co-operative ethos meant that standards of transparency and member involvement should be at least equal in the co-operative sector to that of the public companies; if possible the co-operative sector should be in the lead in this very sensitive area.

Risk Management

The need to identify and manage risk is just as relevant in a co-operative as it is in a public company. Even the largest agricultural co-operatives can and do go bankrupt as was illustrated in May 2002 when Farmland Industries, the largest USA agricultural co-operative filed for bankruptcy.

SAOS tapped into the financial sector in Edinburgh for expertise when it developed a risk management process for Scottish co-operatives.

- Each department in the organisation identifies risks and assess those risks as either High, Medium or Low
- Risk that applies to the organisation or group are identified and assessed as High, Medium or Low
- A risk management framework is collated for the risks identified.
- Each risk is evaluated and each control is colour coded as either
    - Effective - green
    - Non Effective - orange
    - Absent - red
- A reporting procedure is established.
- Board reporting requirements are established.

Auditors

This is another area of corporate governance where the standards that apply to public companies can be applied directly to co-operatives. Key findings from the NZ Securities Commission consultation were:-

- The role of auditors is important to good corporate governance.
- Rotation of audit firms should not be required.

- Audit partners should be rotated, preferably every five years.
- Auditors should not do work which could compromise their ability to produce independent audit reports.
- Disclosure of fees paid to audit firms should identify specific types of non-audit work.
- Non-audit work should not be capped to a specific proportion of all fees paid to an audit firm.
- Boards should have whistleblower policies and disclose them.

Shareholder Relations

Edgar Parnell, the former chief executive of the Plunkett Foundation, believes that "*hands on democracy should include the opportunity to participate in a two-way communication process, with members expressing views on how the business ought to be run…and being kept informed about what is happening*".

The relationship with members is one area where co-operatives are different from public companies. The difference is captured by the work of co-operatives UK with their code guidelines on members which is reproduced here.

The Co-operatives UK Corporate Governance review group believed that members of a co-operative should be at the centre of its corporate governance. The following are the review group recommendations.

Members at the centre

Co-operatives are member-owned democratic organisations and the board should seek to encourage members to play their part in the governance of the business.

Members have clearly defined rights and responsibilities and should hold the board to account for the policies and performance of the society. Members should ensure that policies and performance are in accordance with the stated aims of the society and the International Co-operative Alliance Statement of co-operative identity which is the basis of all co-operative enterprises.

Identifying the membership

The secretary should maintain an accurate and up to date membership register. This involves taking action from time to time to cleanse and refine the society's membership records in accordance with the society's rules.

The board should then seek to identify 'active' members and to maintain close relations with them.

Encouraging Active Members and New Members.

It is the responsibility of the board to encourage the expansion of membership and encourage members to become involved in the governance of their society. Societies should develop structures and policies that permit and promote greater active member involvement at a level below the board.

The board has a responsibility to ensure that members are aware of their right to stand for election to the board and/or regional boards and area committees, and what that will entail, and to make clear what the relevant qualifications for standing for office are.

Member Education

The board should ensure that preparatory training is available to members indicating an interest in participating in election to main boards, regional boards, and/or area/branch committees.

The board should ensure that information on the availability of such programmes is widely publicised.

Monitoring of Member Participation Policies

In monitoring member participation policies the board should take note of the following:-

- Number of members joining and leaving the society.
- Number of members attending member's meetings
- Number of members' committees and/or other member groups and schemes, and the number of members attending.
- Turnout at elections to ascertain whether the electoral turnout is demographically representative of the membership.
- Extent of member economic involvement in the society.

- Number of employees becoming members of the society.
- Participation of members in training and education.

The board should monitor the experience of other societies in all these areas and seek to implement best practise. Significant efforts should be made to improve these figures on an annual basis.

The board should endeavour to put inclusive and enthusiastic member participation policies into practice and ensure that elections are contested.

EFFP in their guide to best practise also make some good points on the relationship with members.

- Co-operatives need their members united by common goals, and committed to participating in the co-op to achieve them. This is a communication issue that often receives insufficient attention.
- Effective communication is two-way. Newsletters are useful but only one way, hence regular meetings with members and shareholders, perhaps in small regional groups, can be very beneficial.
- Successful companies are open and transparent with their owners, but commercial sensitivities should be recognised and treated in confidence by the board.
- Most business problems have a communication element to them.
- Any crisis must be dealt with immediately and effectively with open dialogue to appropriate stakeholders.

Stakeholder Interests

In addition to members and shareholders, the term ‘stakeholders’ includes: customers, suppliers, employees, investors/lenders and anyone else who has a ‘stake’ in the business. Stakeholder interests include employee, environmental, social and economic matters.

The board should have policies for managing relations with all stakeholders, and not just react when an issue arises. Members and shareholders are the primary stakeholders in a co-operative, as they own the business and the board is responsible to them, but cooperatives should consider the interests of other stakeholders.

Conformance and Performance

A criticism often made of corporate governance codes, principles and guidelines is that they encourage a culture of conformance rather than performance. The conformance aspect of governance has been emphasised in this report in an attempt to raise the awareness of farmers and directors of these issues and because there are aspects of conformance where co-operatives are different to a public company. When it comes to the need for performance there are no differences between a co-operative and a public company.

Enterprise Govemance

Enterprise governance is defined as:-

> *The set of responsibilities and practises exercised by the board and executive management with the goal of providing strategic direction, ensuring the objectives are achieved, ascertaining that risks are managed appropriately and verifying that the organisations resources are used responsibly*
>
> (Information Systems Audit and Control Foundation 2001)

Enterprise governance constitutes the entire accountability framework of an organisation. There are two dimensions of enterprise governance – conformance and performance, that need to be in balance. Conformance is also called corporate governance. It covers issues such as board structures and roles and executive remuneration. The performance dimension focuses on strategy and value creation. The focus is on helping the board to make strategic decisions; understand its appetite for risk and its key drivers of performance, and; identify its key points of decision-making.

At the heart of enterprise governance is the argument that good corporate governance on its own cannot make a company successful. Companies must balance conformance with performance.

The report of the Professional Accountants in Business Committee of the International Federation of Accountants looked at case studies and identified some key issues that underpinned both success and failure in companies.

There were four key corporate governance issues that underpinned both success and failure.

- Culture and tone at the top
- The chief executive
- The board of directors
- Internal control

The four key corporate governance factors underlying failure were interrelated – no single issue dominated. In the cases of success, a virtuous cycle emerged based on a conscious decision to take good governance seriously because it was good for the company rather than required by law or formal codes of best practise.

Similarly there were four key strategic issues underlying success and failure:

- Choice and clarity of strategy
- Strategy execution
- Ability to respond to abrupt changes and/or fast-moving market conditions
- Ability to undertake successful mergers and acquisitions (M&A).

Unsuccessful M & A was *the* most significant issue in strategy-related failure.

Qualitative Governance

Mervyn King, a South African governance expert emphasised the importance of qualitative governance, rather than quantitative governance (tick the box) when he delivered a series of lectures in New Zealand in 2004.

Directors must fulfil their duties in good faith, with care, skill and diligence. They need to be aware of human frailty and the three sins that come with it, greed, fear and laziness. They must operate on the foundation of intellectual honesty as they apply their mind in the best interests of the company.

Mervyn King posed eight questions that directors should be asking themselves:

1. Is there any conflict?

2. Do I have all the facts to enable me to make a decision?

3. Is this a rational business decision based on all the facts?

4. Is the decision in the best interests of the company?

5. Is the communication to stakeholders transparent?

6. Is the company acting in a socially responsible manner?

7. Am I acting as a good steward of the companies assets?

8. Would the board be embarrassed if its decision and the process employed in arriving at its decision appeared on the front page of a national newspaper?

Comments from Co-operative Chairs and Directors

The chair of a co-operative is the most influential person in the organisation. The author had the privilege of meeting people who had learnt a lot as they chaired co-operative boards. Their observations about the role of the chairman and other corporate governance issues are included in this section. Some of these bullet points are contradictory which illustrates the differences in views. The comments are not attributed to individuals.

Relationship with the chief executive

- This is the most crucial relationship in the organization.
- If it doesn't work there will be trouble.
- Selecting the right chief executive is important, but not as important as making sure the chief executive is very clear on where the company is headed.
- The chief executive needs to understand the boards/stakeholders vision for the future.
- The vision needs to be doable.
- Set a plan, task the chief executive to deliver or explain/plan/review outcomes.

- If you don't have a good chairman the chief executive will take on the role of the chairman.
- A non executive chair sometimes needs reminding that is what they are.
- Tread the line between a non executive and an executive.
- Be accessible when possible.
- Be consistent.
- Act as a mentor to senior staff, push them and mentor them.
- Complement senior management on good results, don't just castigate on mistakes.
- Encourage staff to think outside the box.
- Recognise capabilities and limitations of yourself and of staff.
- Personality issues are crucial and unplanned.
- There must be complete confidence and trust between the chair and chief executive.
- The chief executive has to know the chair will not undermine their position.
- Regular discussions are required .
- The chief executive is a friend, but do not socialize – speak 1-2 times per week.
- A lot of time needs to be put into relationship.
- Staff will try to bypass the chief executive to deal with the chair.
- Chair has to be careful about how to relate to senior staff.
- NEVER talk to staff on a management issue.
- Chief executives have a tendency to make things look complex.

Strategy

- **The boards' vision for the co-operative should reflect the members.**
- Make sure you are going where the members want you to go.
- Give strategic leadership
- Act as a catalyst for change.
- Must not be risk adverse.
- The board needs to establish a plan for the future and set targets along the way.
- Know where you want to go.
- Monitor that you are getting there.
- Be a policy making board not a management board.
- Strategy needs to be developed in an informal environment.
- At strategic planning sessions sit and listen, tease out and point out differences.

- Planning sessions can benefit from a good facilitator to tease out the best thoughts.
- Tease out the real industry dynamics.
- Split the board and ask half to act as the competitor.
- Scenarios will come out and then sensitivities.
- Position the company to deliver in a set of circumstances.
- Agree on the vision and the steps to get there.
- Get the right language in the strategic document.
- Get everyone to understand it.
- Liaison is required between the board and management to ensure they agree on direction at a strategic level.

Monitoring

- **Monitor to maintain integrity.**
- Stockholders want honesty and integrity.
- You can honestly tell stockholders your goals, but if you repeatedly fail to achieve those goals then your integrity will suffer.
- Know why targets are reached or why they are not.
- Feasibility study accountability is a way of avoiding a Farmland Industries style collapse.
- Monitor the last 5 major projects the Board approved.
- Four of the projects need to have achieved 100% of business case.
- All five need to be within 80% of business case for staff bonuses.
- Senior reports need to reflect the chief executives key performance indicators.
- Understand the 4 key measures; solvency; liquidity; profitability; efficiency.

Solvency – Members Equity

Members Equity Divided by Total Assets

Liquidity - Working Capital

Current Assets Divided by Current Liabilities

Profitability – Return on Assets (ROA)

Net Savings Divided by Total Assets

Profitability – Return on Equity (ROE)

Net Savings Divided by Member Equity

Profitability & Efficiency – Return on Sales

Gross Margin Divided by Sales

Efficiency – Productivity

Labour Divided by Gross Income

Efficiency – Expense Ratio

Other Expenses Divided by Gross Income

Efficiency – Accounts Receivable

Current	%
30 – 60 days	%
60-90 days	%
Over 90 days	%

Actual Ratio targets depend on industry benchmarks and previous performance.

- Trends in the ratios is just as important as the ratios themselves
- Ratios/Benchmarks should not be picked out of the air.

Managing the Board

- A Chairman should want to make every Director the best than can be by lifting them up.

- Need to extract views from individual board members, exploit their potential and fill any gaps.
- Need to know what makes a director 'tick'.
- Board has an oversight role – should not be interfering in management.
- Farmers tend to forget the strategic, monitoring role and need constant reminding that they are not managing the business.
- Very difficult for farmers to keep out of the business.
- Chair has written a letter of reprimand to directors who step into management area.
- The chair has responsibility for board room confidentiality and integrity
- There is a temptation for directors to divulge information to friends and fellow farmers to ingratiate them.
- The chair needs to be strong and remind board members of their role.
- Training in board protocol is important for directors – most mistakes come from ignorance.
- Need to create a cohesive unit but must have people who will challenge.
- A 'pain in the ass' board member can be valuable if they are positive and constructive.
- Skills change as organizations change, so need a time limit for appointees.
- Formally appraise the board.
- Train members to be effective board members.
- The only thing more expensive than training is ignorance.
- Use outside appointments to fill skill gaps.
- Get Board members into the market.
- There is a lack of board performance evaluation or desire for it.
- Evaluation is of little use if going through the motions.
- Ask the board member to articulate their vision for the organisation.
- People can be trained in governance, behaviour and responsibilities.
- Training can not make a silk purse out of a sows ear.
- The really good people are too busy to serve on co-operative boards, especially young people
- Encourage outhouse training and in house training to help board members understand what is happening outside the farm gate
- Chairman appoints board members to committees.
- Complex issues need to be reduced to a level to allow decisions to be made.

Board Size

- Ideal Board size of 8 – 12 which could include senior managers.
- Ideal Board size 7-8 members and farmers need to have a majority.
- Too big and factions develop.
- Large boards are good in that they bring in the range of members views.
- A large board can neutralise extreme views.
- Big Boards need to be formal in their approach.
- A strong board member can take others with them following their own agenda
- Hard to find enough good people for a big board.
- Members can not drift away at meetings in a small board.
- Focus on the issues, this is easier with a small board.

Meetings

- **Focus time on what is important.**
- The chair should be involved in setting meeting agendas which must reflect their style.
- It is vital that chair is well prepared.
- Needs to take ownership of issues.
- In a Board meeting make certain all the members who want to be heard are heard.
- Allow people to contribute.
- Know the Board members skills and draw them out.
- Tease out the meaning of off the wall thoughts – don't cut them off because they seem irrelevant, it may be a very good idea that is being poorly articulated.
- Know what the meeting outcome or options are.
- Lead the process of discussion – not the decision.
- Drive the meeting forward.
- Meetings of 2 hours – concentration span – if longer organize breaks.
- Limit discussion to 20 minutes.
- If after 20 minutes it is not clear cut then something is wrong and delay the vote.
- If numbers are clear – put the vote.
- Discuss one point at a time in a motion, i.e. first decide the destination, and then decide on how to get there.

- Bring the discussion on to topic.
- Don't be afraid to modify a motion to make it better after discussion.
- With big issues raise at one meeting. Next meeting discuss in the morning and put the motion in the afternoon.
- Discussions outside meetings can be good, it is how those discussions occur that matter as they need to be conducted with integrity

.

Co-operatives in the Market

- **Co-operatives are the policemen in the market**
- If a public company is taking too much margin then a co-operative that enters the market needs to take the same margins and return a dividend to members.
- If margins are cut then all farmers benefit through higher price not just the co-operative members.
- Producers struggle to appreciate the worth of staff and manufacturing plants
- All members have the same opportunity to earn premiums for milk volume.
- Competition forces a co-op to pay members in a way that is not totally based on economics.
- Policies are in place so farms of the same size get the same price.
- Rapid growth can be frightening for farmer directors.
- The standard of corporate governance in the UK is one of the key reasons milk price lags behind the continent.
- Consumers have no interest in buying from a co-operative so it must deliver products as any company would.
- Large mainstream farmers need to collaborate to get some market power although issues of the Office of Free Trade will need addressing at a political level.
- The biggest obstacle is to persuade farmers to work together.
- Need to demonstrate that farmers working together will deliver benefit, especially for those farmers contributing capital through retentions.
- The structure does not have to be co-operatively based but needs to reward farmers who work together.
- Farmers are isolated and out of touch with the consumer and economic realities.
- Farmers overlook the fact that they are price takers and should focus on their costs rather than on price which they have little influence on.

- Liquid milk is now an undifferentiated commodity, price is easily moved down but very difficult to move up.
- Members who supply more to a co-op or buy more from a co-op expect a better price.
- Premiums/Discounts to large suppliers/purchasers of 10% not unusual.
- The challenge for co-ops is to retain the larger supplier.

Comments from others about co-operatives

- Agriculture co-operatives need to control the supply chain, earning money, saving costs and adding value.
- Farmers have become more professional, there are less complaining small farmers
- Communication is vital to explain what the co-operative is doing.
- The co-operative needs to meet farmers short and long term needs.
- The Anglo Saxon corporate model does not have a clear division of responsibilities between the board and management.
- Farmer directors have "balls" when running there own business, but are easily impressed by academic credentials when on a board.
- Farmers are easily impressed and enjoy being pampered.
- Need a Board of farmers who appoint professional management.
- Make non – executives advisors with no voting rights.
- Use the knowledge and skills of the farmer base
- If the management does not perform then dismiss them.
- UK co-ops have a bad tradition because for too long government support isolated farmers from market realities and co-operatives only developed in inputs.
- Holland has had little government interference in the market
- There was an Ag crisis in Holland 100 yrs ago and farmers had to find their own solutions thru co-operatives.
- In co-operatives there is potential for management to be less commercial than could be.
- Most of the historic blunders in the UK dairy industry have been a result of decisions made by farmer elected directors.
- Most co-ops in USA are legislated to have 1 member one vote.
- Very few vote in proportion to patronage.
- Boards are made up of older farmers with smaller farms.

- New co-op law (in Wisconsin)will allow investors into co-ops with both members and investors having Board members.
- Management on the Board adds more insight
- Value add co-ops require capital investment.
- Capitalisation is a big issue especially if wanting to grow value add
- Structural changes on farm are putting stress on co-ops
- Small farmers dominate boards and are very inward looking
- There is a challenge to get larger farmers and youth onto boards.

Conclusions

There are significant differences amongst the structure, attitudes and operation of co-operatives around the world.

The Rochdale pioneers were members of a consumer co-operative and that is still the largest co-operative sector in the world. In England the consumer co-operatives come under the umbrella of Co-operatives UK an organisation that sees co-operation not only as a means to achieve economic goals, but also social and political goals. These mixed objectives also dominate the thinking of the International Co-operative Alliance (ICA).

New Zealand farmers need to be aware that the co-operative principles and philosophy that are taken for granted have originated from a very different idealistic background. There is no place for mixed objectives amongst New Zealand agricultural co-operatives. They are there to deliver financial rewards to their members.

Agriculture is the second largest co-operative sector in the world. Within agricultural co-operatives there are significant differences within countries and around the world. Industries that operate in a regulated and protected environment (USA dairy) have a traditional approach to co-operation and have governance structures and a culture that tends to be more political than commercial. Perhaps that is just a reaction to farming in an environment where government support to agriculture is so significant, that lobbying Washington DC is more rewarding for the members than the business success of their co-operative.

At the opposite end of the scale to US dairy co-operatives are those in the UK. Here is an industry under severe pressure from fragmentation, supermarket power, competition from the rest of Europe, and historic scepticism of co-operatives. The dairy co-operatives have embarked on ambitious strategies to move from being essentially milk brokers, into processing and developing brands. Their objective is to try to control more of the value chain. This strategy requires significant amounts of capital to be retained from members at a time of historically low milk prices. The governance structures and culture, are by necessity extremely commercial, almost to the point of alienating some of their members.

There are co-operative sacred cows around the world – but they are different. A traditional US dairy co-op which operated on the basis of one member one vote, had a very large board and no independent directors, totally accepted paying its larger suppliers a premium for their milk.
New Zealand farmers need to recognise that their attitudes to how a co-operative should operate have been formed by our own relatively short history. Paying large suppliers a premium or offering large purchasers a discount is no more "unco-operative" than is voting in proportion to patronage or appointing independent directors to the board. Farmers should not be afraid of challenging the co-operative sacred cows that exist in New Zealand.

There are no agricultural co-operatives in the world that face more commercial challenges than those in New Zealand. For exporting cooperatives, is not good enough to benchmark against co-operatives that operate in a more protected environment elsewhere in the world, or to benchmark against New Zealand public companies where our corporate sector is small and weak. New Zealand agricultural co-operatives need to be internationally competitive. They need to adopt best practise in all aspects of their business and they need extremely good corporate governance.

Recommendations

1. New Zealand co-operatives should make a commitment to their members to voluntarily comply with the 2004 New Zealand Securities Commission guidelines on best practise for corporate governance.
2. New Zealand agricultural co-operatives should consider limiting the number of terms a director may serve on their board.
3. There needs to be more cooperation amongst New Zealand agricultural co-operatives so that directors have the opportunity to gain governance experience in

the smaller less complex co-operatives and other organisations. Those directors who show ability at this level should be targeted to stand for the boards of the large and complex agricultural co-operatives.

4. There needs to be more resources put into training co-operative directors and prospective directors. The logical organisation to co-ordinate this is the New Zealand Co-operative Association, but it would require a lot more financial and staffing resources to be able to implement a SAOS type training programme.

References

Cadbury, Adrian (2002). *Corporate Governance and Chairmanship – A Personal View.* Oxford: University Press

Coles, Adrian and others (2005) *Report of the Corporate Governance Review Group.*

Coles, Adrian and others (2005) *Corporate Governance The Code of best Practise for Consumer Co-operative Societies in membership of Co-operatives UK and appendices.*

EFFP & SAOS (2005); *Governance Standards for Co-ops and Farmer Controlled Businesses.*

Davis, Dr Peter (1999) *Managing the Cooperative Difference.* Geneva: ILO publications

International Federation of Accountants (2004) *Enterprise Governance getting the balance right.*

King, Mervyn (2004) *Corporate Governance Workshop papers*

Garrison, G.P. and Bromilow, CL. (2005) *Current developments for audit committees* Price Waterhouse Coopers.

New Zealand Securities commission (2004) *Corporate Governance Principles and guidelines*

Parnell, Edgar (1999). *Reinventing Co-operation – the challenge of the 21st century* .Oxfordshire: Information Press

Welch, Jack (2005). *Winning.* London: Harper Collins

Acknowledgments

I would like to thank the New Zealand Nuffield Farming Scholarship Trust for offering me the chance to undertake this study.

Special thanks go to DairyInsight and all the New Zealand dairy farmers who contribute a levy to that organisation for funding my scholarship.

Thanks also for the support of the other providers of funds to the New Zealand Nuffield Farming Scholarship Trust :-

- Meat and Wool New Zealand
- Rabobank
- Landcorp
- Federated Farmers of New Zealand
- Mackenzie Charitable Foundation

A special thanks to John Wright the other New Zealand Nuffield Scholar in 2005 for his help and encouragement.

Thankyou to the Worshipful Company of Farmers for the opportunity to attend the 55th Advanced Course in Agricultural Business Management at the Imperial College at Wye, Kent. In particular the Master of the Company Nick Fiske, the course liaison officer Jeremy Courtney and the course Director Professor Paul Webster. I also wish to thank the Trustees of the C Alma Baker Trust and the Fonterra Shareholders Council for the financial assistance given to me so I could attend the course.

There were a lot of people and organisations who helped me on my travels and with my information and ideas for this report:-

Neil Adams	Prof John Alliston	Bob Andros	Robert Balicki
Richard Bell	Kevin Bellamy	Ed Brooks	Lord Carter
Centaur Grain	Poul Christensen	Bryan Clark	Don Clark
Elvis Cordova	Norman Coward	Prof Bob Cropp	Sir Don Curry
Peter Dawson	Bob Donnelly	John and Chris Downes	AlexDuncan
Steve Ellwood	Doug Flory	Quinton Fox	Walt Gardiner
Sir Ben Gill	Dave Gneiser	James Graham	Ron Grusenmeyer
Ned Harty	Jo Horner	Prof David Hughes	Mark Johanson

Prof Wynne Jones	Scott Kirby	Wim Krol	Mark & Clare Leggott
Steve Matthees	Otis & Mary-Lee Molz	Duncan More	Michael Oakes
Fergus O'Meara	Edgar Parnell	Bill Patterson	James Price
Russell Price	Duncan Rawson	Tom Rawson	Meurig Raymond,
Ian Reid	Laurie Ritchie	Bill Siebonborn,	Don Shriver
John Stones	Mark Stroude	Onno-Frank Van Bekkum	Wim van Diepenbeek,
Wim J. Verzijlenberg	Jeff Von Portvleit	Lori Weaver	Prof David Wieckert,
David Wilkinson	Clarke Wills	Rob Wonderlich	Colin Woodward
Peng Xu	Adrie Zwanenberg		

Appendix one Co-operatives UK annual report checklist

The annual report should record:

- A statement of how the board operates, including a high level statement of which types of decisions are taken by the board and which are delegated to the management executive.
- The names of the chair, the deputy chair(s), the elected directors, any co-opted professional external directors, the chairs and members of the membership, search, audit and remuneration committees and any other committees of the board which may exist and the names of the chief executive, secretary and members of the management executive.
- The number of meetings of the board and its committees, and individual attendance by directors.
- The other significant commitments/directorships of board members and members of the management executive and any conflicts of interest such as relationships with suppliers etc.
- How performance evaluation of the board, its committees and its directors has been conducted and the results of this evaluation.
- Whether any elections to the main board or any regional/area or other committees of the society were uncontested and any action being carried out by the board to encourage further participation of members in the governance of their society.

The annual report should also include:-

A separate section describing the work of the search committee, where one exists, including the process it has used in relation to the co-option of professional external directors.

A separate section describing the work of the membership committee.

A separate section describing the work of the remuneration committee.

If the remuneration committee has obtained external advice on remuneration/fees this process should be explained.

Details of the remuneration packages of the society's chief executive, members of the management executive, professional external directors and the fees of individual elected directors should be provided in the annual report.

Any compensation payments for loss of office that have been mad to any members of the management executive and any inconsistencies with their current employment contracts should be disclosed in full in the annual report.

In instances where the management executive has a service contract of over twelve months the reasons for this must be stated.

An explanation from directors of their responsibility for preparing the financial statements and the governance compliance report and a statement by the auditors about their reporting responsibilities.

A statement from the directors that the business is a going concern, with supporting assumptions or qualifications as necessary.

A report that the board has conducted a review of the effectiveness of the society's system of internal controls.

A separate section describing the work of the audit committee in discharging its responsibilities.

Where there is no internal audit function, the reasons for the absence of such a function.

Where the board does not accept the audit committee's recommendation on the appointment, reappointment or removal of an external auditor, a statement from the audit committee explaining the recommendation and a statement from the board explaining reasons why it has taken another decision.

An explanation of how, if the auditor provides non-audit services, auditor objectivity and independence is safeguarded.

A description of any other committees of the board.

A description of the mechanisms in place to retain control over any trading subsidiary business.

- An outline of any director or potential director training conducted by the society, or outside organisation.
- Any recommendations from the Corporate Governance Code of Best Practise that the society has failed to comply with, and the reasons for non-compliance.

Disclosure of corporate governance arrangements

Co-operatives UK require a statement to be included in the annual report relating to compliance with the Code. The chief executive, chair/president and secretary should sign off this statement.