

Agri-sector governance

What has changed in our thinking around governance in the last five years? What are the attributes of good farm governance and what are the future expectations of individuals taking on governance roles?

Recent changes

In the last five years much has changed in what we think about governance in our agri-sector. We now expect more from our elected directors, gender diversity in our boardrooms is better understood, governance structures within farming businesses are emerging and governance development is a hot topic.

Many factors are influencing this change of thinking. Changes are growing organically as we look to implement more robust business practices to respond to an increasingly volatile and rapidly changing environment. They are also growing artificially as universities and organisations, such as the Institute of Directors, see the sector and its needs as a market for governance development. As this growth is occurring one thing is certain – the governance landscape and what we think about it is evolving.

Director evaluation screening

We have changed the way we think about governance and the expectations of our directors. There is more information available now to make better informed decisions about who we are electing onto our agri-business boards as we move towards director evaluation screening. This helps shape our thinking on defining what competencies a candidate has and helps to educate us about what competencies directors need.

The current evaluation processes are not perfect systems, or without their critics, but they are a good start to changing how we vote. Eight years ago when I was researching governance and leadership in the sector there was a lot of anecdotal evidence about directors being elected on personality, on their farming practices/competencies, for being 'known' or for standing on a platform. That doesn't cut the mustard any longer. Our sector is growing up and is looking for highly competent directors with proven track records. Candidate screening has helped provide the transparency around competencies that directors both have and need.

Director competencies

These competencies fall into four major categories, the first being behavioural. How does a director's personality and leadership play out in the boardroom? What is their

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ability to utilise their skills and knowledge within a board environment, to be part of a strong decision-making team and interact well with all stakeholders? To understand, and then accept, the board acts as one?

The next competency is their governance knowledge, experience, appropriate training and a commitment to their ongoing development. Directors need strong financial acumen, the ability to think and act strategically, and to be able to identify both opportunity and risk.

Directors should also bring an area of technical skill or expertise to their board role. This does not mean they should be an accountant or lawyer, but they should provide specific expertise to aid the business and a skill that it needs.

Finally, they need industry knowledge. Do they really understand the business they are governing, the environment that it operates in (both nationally and globally) and the challenges it faces?

Passion and vision not enough

When we start to understand competencies, we start to realise why sometimes the boards we have inadvertently elected will not deliver the results we need. The red meat sector has some fine examples of boards who have directors endorsed by ginger groups, who intentionally aim to change an organisation or industry's strategic direction and have industry reform on their minds. They endorse candidates who have a passion for change fuelled by frustration about the industry – fine people, but with a passion and a vision that isn't enough.



AWDT Founder and Executive Director Lindy Nelson co-facilitates one of the Trust's programmes that develop leadership, governance and business skills and the confidence of women in agriculture

Directors have to do due diligence, they have to truly understand international markets, and to understand this they must act in the best interests of the company and to realise this may be at odds with the best interests of the industry. It is not acceptable any more to stand on a platform or single issue. We need, deserve and should expect more from our directors and we have to keep thinking about who those people should be.

Gender diversity

Our thinking has also changed around gender diversity and the value this adds, with more women contributing in our sector. Yes, commentators may say we need more, but what pleases me most is women are not standing on the 'gender card' but on what they bring to the board table. They are accessing programmes like the Agri-Women's Development Trust's (AWDT) Escalator Programme to ensure they have the skills and competencies needed and to find alignment with those skills in the right leadership role or direction.

I have seen women in our agri-sector women creating tangible changes:

- Traci Houppapa leading Landcorp
- Mavis Mullins (AWDT's patron) chairing Atihau, Poutama and Taratahi
- Escalator Programme graduates like Dawn Sangster (Alliance) whose work around due diligence won

national recognition and who is making a real difference to how women stakeholders engage with and understand their cooperative

- Kirsten Bryant, a Beef + Lamb NZ director who gained huge industry respect for her work within the land and water forum.

These are only a few outstanding agri-women directors who are working differently on their boards and shaping our future.

New initiatives

Our thinking around governance and why it is important has changed in many practical ways in the last five years. More organisations and education providers are developing specific programmes and offerings to meet our governance development needs. Banks are starting to insist that farming businesses have a governance structure in place. As a sector we are trying to figure out its importance, how it fits within our organisations (maybe our businesses), and perhaps starting to think about our own personal aspirations to become a director.

Tertiary institutions such as Massey University, Agri One and Waikato University all offer various governance development programmes aimed at either developing rural professionals to work with clients or developing individual's governance skills. Our industry organisations

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are offering development opportunities as well – Fonterra, Dairy NZ, Beef + Lamb NZ through the AWDT Farmer Council training, Silver Fern Farms-Burnside Hart cooperative training and the ADWT's Escalator Programme. So depending on what a person wants to be or do, there is an offering which varies from being totally free, highly subsidised or completely user pays.

The Institute of Directors have recently spotted a market opportunity and have released their Rural Governance Essentials Programme aimed at helping farmers understand succession planning, farm safety, risk management and whether or not they should have an independent director. Simon Arcus, CEO of the Institute, stated in a recent media release that 'the agri-sector is starting to wake up to the value of good governance.'

What good governance looks like

There is now a greater awareness about the need for good governance. We are recognising that we are operating in an increasingly volatile environment, our risk profile is changing and as directors, as business and farm owners we have increased responsibilities around health and safety. However we have a long way to go in helping people understand what better governance looks like and then in assisting them to find an easy system for its implementation, especially within our farming businesses.

Currently we run the risk of potential disaster by confusing farming businesses about what good governance actually looks like. We need to dispel some myths that it equals a board and independent directors. There is increasing awareness that most farming businesses need improved governance, a push from the financiers of those businesses to ensure better governance, and a pull from some governance development providers offering training. We need to help farming businesses think about what governance actually means, what it delivers, and assist them develop a fit-for-service solution.

The Organization for Economic Cooperation and Development (OECD) states that governance is 'the system by which (business) organisations are directed and controlled.' The Institute of Directors definition is: 'governance means thinking about strategic issues, rather than operational day to day running of the business.' Dairy NZ's Mark and Measure describes governance as 'a process of leading, controlling and directing a business so that it delivers a desired set of outcomes for the owners.'

Farm business governance

Most farmers' understanding of governance is that it is a formal board, usually with an independent director. This leads them to believe they are not ready for this step and they can worry that governance means they will lose control of the business and feel they cannot afford it. They often have a real fear that implementing a governance structure will mean they will be found lacking as a business person and put under scrutiny. It is a valid reaction given the stresses many of our farming business are under – often carrying too much debt, not dealing adequately with it, lacking robust business and strategic planning, and having poor financial literacy. Combine this with the drivers for increased governance and a farming business can feel like change is being forced on them.

We need to help farming families see the benefits of governance and understand that it is a system that separates the strategic direction, risk and policy-making part of the business and determines what it is here to do and why. The management is delivering the operational part of the business – the how. Governance is about accountability and adding value – management is the doing.

Journey analogy

We need to demystify governance and simplify what it does. When working with reluctant farmers I often explain it like a car or tractor going on a journey. Governance is the windscreen. Side and rear mirrors monitor where you have got to on your journey. We plot our strategic direction into the GPS, then look forward through the windscreen at the future and where we are heading, looking for both risk and opportunity. The side mirrors help us understand and adapt to what is currently happening around us and the rear window monitors what has happened and ensures we travel the road we set out to.

The management of a business is more concerned with how we are actually operating the car or tractor to get to the destination. As managers we are in the driving seat, and using governance we are checking the GPS mapping system to see how we are going, as well as putting the vehicle into four wheel drive in hazardous terrain and/or shifting and changing gears and braking when required. As the driver, we know when the terrain is changing and can adjust and alter direction to ensure we achieve our destination. In this way farming businesses can see governance not as separate from the business, but integral to it.

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Adding value

Farming businesses need to see that governance is a system for achieving and adding value to the shareholders of the business, which could be the farmer/equity investors/family. It does not need to be a formal board and it can be achieved and implemented in a stepped process to suit business aspirations and growth. The attributes of a good farm governance system are those that support the farmer and the business achieve goals, is fit-for-purpose, adds value and will be implemented.

As professionals advising farming families who have no current governance systems it is necessary to help them become comfortable with governance, demystify it, design with them something that suits them, develop an annual work plan and support them through the implementation phase.

Development days are crucial where farmers can be taken through a process, and hear case studies from peers on the value and impact an implemented governance system has created for their business. We need to let farmers make their own minds up about the value. It aligns well with Mark Elliot's research for the Red Meat Profit Partnership about how the sector can help farmers adapt to change. His key findings included that farmers need to own the idea, implementation needs to be easier and the process needs to be smoother – listening and then tailoring. Key to this was the need to work with the farming partner (often women) and provide an environment where farmers can see success in action (other farmers).

Role of rural professionals

Rural professionals can be pivotal in helping farming business make the transition to good governance, but will need to think carefully around their own role in this. Professionals will be increasingly approached and will need to clarify both for themselves and the client what that involvement looks like. How much accountability are they prepared to take – balancing the client's needs, their professional role, and their own personal aspirations around their own governance career?

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Ready for future challenges

This leads me to the last question – what are the future expectations of individuals taking on governance roles? Regardless of where the governance journey starts, as farm businesses face the future they will be operating in increasingly more challenged and volatile environments. Potential directors will need to ensure they are also armed to meet these challenges. Farming family businesses will face intergenerational challenges as business models change and they transition through ownership succession. Businesses will face increasing environmental compliance, water issues, and licence to farm and health and safety requirements. Directors will need to balance all of these issues while working to the current shareholders' aspirations and needs.

There will invariably be the balancing of management versus governance, and professionals may often feel their value-add will be in their expert topic knowledge, yet they will need to think and act as directors. They will need all the general competencies required of directors, as well as strong communication and sector skills and experience. Directors will need to recognise the motivations of stakeholders and investors and be able to coach, persuade and influence around the board table – working with competing needs and interests. They will need to increase their cultural competencies and understand the rapidly changing and growing Maori agri-business sector. Finally, they will need to understand where the business they govern sits, not only within the national landscape, but how it stacks up in a global setting.

Growing good governance systems

Our agri-sector's understanding of governance is changing, the need for better governance will keep growing in demand, and the quality of people to nurture and support this will need constant investment. If we can grow good governance systems then we can grow a sustainable and thriving sector.