

Fonterra's Shareholders Council

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Fonterra, headquartered in New Zealand, is one of the largest dairy cooperatives in the world with almost \$10B in sales and approaching \$200M in after tax profit. Over the years Fonterra has implemented some very interesting structures. On the governance side, Fonterra operates with both a Board of Directors and a Shareholders' Council. As in most cooperatives the Board of Directors is responsible for leadership and strategy and for oversight of the CEO and the cooperative's performance. Fonterra has a thirteen member board, nine of whom are elected from the membership and four outside independent directors who are appointed by the board and approved by the shareholders.

Fonterra also has a 37 member Shareholders' Council which is elected from the membership on a geographical district basis. The Council's role is to communicate and represent the views and opinions of the membership to the Board of Directors. They also review the board's performance. The Council is involved in educational efforts with the membership to increase the members' understanding of the cooperative structure and operations. The Council serves to develop potential Council members and well as potential Board of Director members.

In most cooperatives the Board of Directors is charged with responsibilities for member communication and member education in addition to their roles of developing strategy, working with the CEO and monitoring the cooperative's performance. The member communication and education roles often fall off the radar scope due to other urgent issues. The concept of creating a separate governance component to focusing on the communication channel between the Board and membership is an interesting one. Cooperatives struggle to be efficient and agile. Their boards must be focused and immersed in the critical business issues facing the firm. At the same time, user control is a fundamental aspect of the cooperative business model. It is what sets the cooperative off from other firms.

Fonterra's two tier governance system is an interesting approach to the challenges of engaging the membership while competing as a world class firm. Perhaps there is room in our cooperatives for a liaison committee linking the board to the membership.

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