



The image of rural Australia many urbanites hold dear is hopelessly out of date.

“Broadly speaking, people have assumed that any enterprise outside a major city is conducted solely by means of brawn and shovels,” says Claire Penniceard, owner and director of The Pig Pen and a director of Goulburn-Murray Water “In fact, farming is changing at least as fast as dot com enterprises do but people don’t have a real sense of that.”

The past half century has seen an inexorable move towards fewer but larger entities and increasingly intense means of production. Over the past decade, the rate of that change increased exponentially. Penniceard points out that, as recently as the 1960s, there were 72,000 licensed pig producers in Australia. Today, there are around 1,500, yet the size of the national herd has not decreased.

“As another example, 15 years ago the only competition for land use was between food and fibre,” she says. “Now you’ve got food, fibre, feed for livestock, feed stock for biofuels, agriforestry, carbon sequestration, infrastructure corridors, conservation, recreational spaces, urban expansion and defence lands. None of these has an uncontested right to do anything, but none can be readily dislodged either.”

The good news is that, even in the face of massive and ongoing change, Australian farmers are controlling the things they can exceptionally well.

“We’ve got great science and we’re regarded globally as being very clean and green,” says Richard Haire FAICD, CEO of Queensland Cotton Corporation Limited. “Our financial system is robust, our system of government is robust...the risk of doing business with Australia is minimal, and that’s a great advantage.

“However, against that, there is a chronic deficit of long-term planning and policy from regulators – and unfortunately, our regulators have a very significant influence over the performance of agriculture. In the last couple of decades we have seen significant shifts in policy and attitude to things like water access and use and land use. Our telecommunications are third world in many rural areas and our road and rail infrastructure is disgraceful. The hand of government is relatively heavy in agriculture in Australia and yet it works in a very clumsy and, I think, unsystematic way.”

The resulting strategic challenges are immense.

“Almost all Australian agricultural companies are exporters and operating in a global environment that plays by a very different set of rules,” continues Haire. “Our international

competition tends to be heavily subsidised; along with the regulations and regulators, foreign policy can have a huge bearing on market dynamics.

“Our prices tend to be very, very volatile – much more volatile than consumer-based prices. And, invariably we’re operating across international currencies, so foreign exchange plays a bit part. If you have volatile commodity prices and a very volatile Australian dollar you’ve got the environment for violent swings in domestic commodity prices. This is a far greater risk for agricultural companies than other enterprises and, while it can be managed, there needs to be real comfort in that space.”

Internationally, decision- and policy-makers struggle with the concept that food can be both a social good – vital to the wellbeing of a community – and a private economic good.

“In Australia, agriculture is nothing more than a business pursuit – and there’s nothing wrong with that,” continues Haire. “At the other extreme – in Africa, say, agriculture is a vital part of the social fabric. This is a complex strategic environment around which directors have to plan and make decisions for their organisation.”

Overarching this complexity is the economic downturn. For farmers still reeling from the impact of three or four years of drought this has a particularly cruel edge.

“Some farmers have survived the drought, some haven’t,” says John Pye, Director of the Murray Goulburn Co-operative. “A lot of those who have are right at the limit of their financial resources – they’ve already exhausted every option for getting more finance.”

“The Murray Goulburn factories are set for a certain flow; if you don’t have that flow they become inefficient. We have been able to maintain a sustainable level so far but now we’ve been hit by a 30 per cent downturn in prices and that’s in question. The change in economic climate really going to test us.”

### **Different kinds of boards**

Many of the directors charged with managing this highly complex environment head up co-operatives or statutory authorities. While the boards of statutory authorities are appointed by the Government with a view to creating an appropriate mix of skills, expertise and experience, by law the overwhelming majority of directors of a co-op must be voted on to the board by members. This can bring a unique set of challenges.

“Farming co-ops are usually formed in order to pool limited resources and take advantage of economies of scale,” says Cindy Coggan, who is a director of the Coggan Partnership and the grower partnership Conservation Farmers Inc. “They can work really well when they have a clear commercial focus but, unfortunately, directors often become involved because of issues they’re facing in their own enterprise. The hardest thing then can be for them to put their own agenda aside in favour of the organisation, and this can make governance a huge issue.”

There are also shareholders to consider.

“As a director of a co-op you’re representing shareholders as you would in an ordinary company but your sole aim is to return all profits back to your members,” says Pye. “Your focus is the wellbeing of the company, but you’re elected by region and that that can create a real conflict of interest. The company must come first, your region second, but you have to decide for yourself where to draw the line. There are no easy answers.”

A sense of responsibility to constituents motivates some directors to break boardroom confidentiality. If they are voted down on an issue which had a bearing on their election, for example, they may be so keen to convey this to the people they represent that they leak the information, possibly damaging confidence in the company on the way. Many rural boards also include directors who are strongly engaged in local, state or even federal politics – and who tend to take very strong positions

“A good example of that is the single desk selling controversy that came out of AWB fiasco,” says Professor Geoff Kiel, chairman of Effective Governance Pty Ltd. “That literally split the wheat industry down the middle.”

“Sadly, like a lot of policy in Australia, that happened by accident and not by design,” says Coggan. “The removal of the single desk was not grower-driven. It had not been a long-term strategy of the company, the Government or the grass-roots grain growers. Agriculture policy tends to be reactive rather than proactive, and very little is strategic.”

The fact many commercial agricultural companies started out as co-operatives can perpetuate the problems.

“A change in legal structure doesn’t automatically bring a change in mindset,” says Kiel. “If the suppliers who were voted on to a co-operative boards stay on there’s still a fundamental conflict of interest.”

“Effectively, these companies are moving from a board which was 100 per cent growers to a board which is 100 per cent professional directors,” says Haire. “You can’t do that in one step. That scale of transition requires business skills to keep the organisation operating; political skills to maintain support of political constituents under whose auspices you operated previously; and social skills to manage growers, because you don’t want to lose your supplier base. It’s a process of diluting the influence of growers and increasing the influence of non-growers and I think most companies are doing that in a very thoughtful and deliberate manner.”

### **Fit for purpose**

Achieving a ‘fit for purpose’ board with an appropriate balance of skills and experience can be difficult in any sector and, yet again, rural Australia faces extra layers of complexity

“Traditionally, farmers only trust farmers, which makes it hard to attract external directors who offer good governance skills, such as accountants and lawyers,” says Coggan. “There’s also the problem that over 70 per cent of rural Australians are in the same personality box on the Myers-Briggs Type Indicator. They tend to be traditional, learn by experience, see things black and white and be more introverted. That makes diversity a huge issue; it’s very hard to have a dynamic board when the directors are from a small pool of skill base and personality type.”

The sector also has a strong male bias and, while Coggan’s own experience has been very positive, she acknowledges that other women can find it very hard to break into a traditional farming board.

“Women need to be mentored and fostered on to these boards,” she says. “They need to realise that they have something to offer, that their opinion is valid and that robust discussion is good.”

Rural boards may even be more limited in terms of age. Younger farmers are inevitably working too hard on reversing a high debt/low equity ratio to fit in a directorship.

“Lack of remuneration makes it hard to attract them away from their business, particularly as attending a board meeting could involve a day or two of travel and the costs associated with that,” says Coggan.

By the time he joins a board, the average director will have notched up decades of experience – though not necessarily experience that is relevant to the boardroom.

“Many will have been running million dollar businesses, but they may never have used a formal business model,” explains Coggan. “A good board functions very differently and farmers are often unprepared for that. They can have trouble making the transition to being

accountable to shareholders, and also working in an advisory role when they're used to being hands-on."

Lack of preparation may also render directors personally vulnerable.

"Many directors of small, emerging companies don't really understand their exposures," says Haire. "I think it's improving but the sad thing is that most are acting in good faith. The overwhelming majority do their duty with what they believe is appropriate diligence and skill. It's only in hindsight that some of their actions are considered to be inappropriate. "

The good news is that both directors and the organisations they serve are starting to acknowledge the unique demands of the sector – and most have a sincere desire to engage in better governance. Training is increasingly encouraged and is even mandatory in some organisations.

"I think that all new board members should do a short course on Governance," says Coggan. "After doing the AICD course myself I would strongly encourage them to do the same."

Haire sees agriculture as an exciting industry in need of talented, capable directors, and one which also offers rich rewards.

"I can't think of many other businesses that supply the same complexity of challenge," he says. "It's a tough industry. It's highly competitive. And it's hard to imagine an aspect of corporate life that isn't represented."