



**Efficient  
Monitoring  
Of The  
Livestock  
Improvement  
Board**

# Efficient Monitoring Of The Livestock Improvement Board

Project assignment

As part of our function as National Councillors clause 25.1 of the constitution requires us to monitor the board.

For all concerned this should be done efficiently and with everyone knowing what is expected to happen and when.

The process should develop to a point that both parties have acceptance and respect for the work each do.

The national council has to show quite distinctly, what the process is, how it has been achieved and what the results are.

Shareholders have to have this sort of information, to be confident that the organisation is abiding by the constitution.

Clause 25.1[b] *reviewing the Board's business plans*; require a clear efficient process involving both the board and the council. The most important part of this is review.

We have had workshops on this subject with suggestions of K.P.I s, scorecards, OCFAID and the like but nothing concrete has been done.

Livestock Improvement must, in my view, lead the way in development of the process of Monitoring the Board.

I would like the opportunity to look at alternative methods to achieving "Monitoring the Board"

## Introduction

I have had discussions with many of my fellow national councillors and shareholders. I also read papers by various commentators on the subject. Very little of this literature was able to focus on a Co-Operative with a split between Governance and representation plus it being listed on the stock exchange.

The only model parallel to ours in NZ is Fonterra and we have some lessons to learn from the Shareholders Council. The fact that we have Fonterra reps on the council and on the Board, I see as a strength. Other National Councillors who are also Fonterra Shareholder Councillors as well, further enhance the experience we can draw from.

There are 2 important differences between the Fonterra Shareholders Council and the LIC National Council however.

1. The budget
2. The amount of information that Fonterra Shareholders Monitoring Committee deal with at a confidential level.

The decision of LIC National Council to share the information with all the national council members, possibly restrains the information flow, particularly around the “**NZAX**” rules.

To give an understanding of the subject, the relevant parts of the constitution must be understood at the beginning. I have highlighted the parts that I consider are most important and I have some suggestions on how the process can achieve a better result.

## Reference Material

### Terms of common use.

**“National Councillor”** means a person either elected by Shareholders within a Ward to represent that Ward on the National Council, or a person appointed to be a National Councillor by a Dairy Company pursuant to the By-laws of the National Council;

**“National Council”** means the National council of shareholders referred to in clause 25 and schedule 4

**“Elected Director”** means a director elected to represent the Shareholders in a Region pursuant to paragraph I of schedule 3;

**“Board”** means the Directors numbering not less than the required quorum acting together as a board of Directors;

**“Shareholder”** means a person whose name is entered in the Register as the holder for the time being of one or more shares.

**“Qualifying Products and Services”** means Premier Sires, all Nominated Semen Options, Sire Proving Scheme, Contract Mating Scheme, MINDA, MINDA Herd Testing, Genemark, Identification Tags, FarmWise and AB Technician Service, as provided by the Company, and includes such other products and services as the Board may specify from time to time, subject to obtaining the prior approval of the National Council;

**“NZAX”** means the alternative market operated by NZX;

The **“Board”** runs the Company,

The **“National Council”** represent the shareholders

The **“Shareholders”** own the company and the amount of their use of products and services qualifies them for the number of Co-operative shares they can hold.

The company is listed on the **“NZX”** Board which brings with it new standards of disclosure and confidentiality . All members of the **“National Council”** and the **“Board”** have to sign confidentiality agreements.

## **Clauses from the Constitution for Livestock Improvement Corporation**

### **25 NATIONAL COUNCIL AND LIAISON GROUPS**

**25.1 Continuation and functions of National Council:** There is a National Council of Shareholders which shall continue and have functions in accordance with this clause and the By-laws of the National Council. The National Council shall have the following functions:

- (a) approving the Company's mission statement and Key Strategic Objectives as proposed by the Board. After such approval the Company's mission statement and Key Strategic Objectives may not be changed by the Board except with the consent of the National Council;
- (b) reviewing the Board's business plans;
- (c) receiving and commenting on reports from the Board on the Company's key business unit operations at least three times each Season;
- (d) preparing the National Council's budget for each Season and, at each annual meeting of the Company:
  - 1. presenting that budget to Co-operative Control Shareholders for approval;
  - 2. reporting on the activities of the National Council in the preceding Season; and
  - 3. reporting on the views of the National Council as to the Company's direction, performance and operations;
- (e) calling a special meeting of Co-operative Control Shareholders, if the National Council has serious concerns about the Company's compliance with its mission statement, Key Strategic Objectives or Co-operative Principles and the calling of that meeting is supported by a majority of 75% or more National Councillors;

(f) considering and, in consultation with the Board, proposing to Co-operative Control Shareholders changes to the Constitution;

(g) considering any proposed appointment of Independent Directors and approving such appointment if the National Council so decides;

(h) considering and making recommendations in relation to the policies and operations of the Company; and

( l ) such other functions as are conferred on it by this Constitution.

**Other clauses to keep in mind.**

## **1 STATEMENT OF FUNDAMENTAL PROVISIONS**

**1.1 Principal activities:** The principal activities of the Company are the co-operative activities of supplying goods and services to its Shareholders with particular reference to:

(a) promoting, organising, carrying out, managing and controlling by such means as may be deemed necessary or expedient the improvement of livestock in New Zealand in general, including (but not by way of limitation):

(1) the measure and evaluation of the growth, yield of milk or milk constituent, and feed conversion efficiency of livestock, and any other factor relevant to decisions on breeding and management of livestock;

(2) the development and commercial application of artificial breeding of livestock;

(3) the purchase, sale and provision of livestock, semen, services and products of all kinds;

(b) improvement of livestock and of farm management practices through products based on genetics, biotechnology, information and advice;

(c) promoting and advancing by such means as shall commend themselves to the Company the adoption of measures and practices designed to bring about greater efficiency in the livestock industry in general and the dairy industry in particular, including the identification of stock, the elimination of unprofitable stock and the encouragement and use of genetically superior stock;

(d) promoting, experimenting with, and carrying out research and development in relation to all such matters, acts and things, which in the opinion of the Company will by breeding and by any other means enhance or tend to enhance the quality of livestock of all kinds and on farm profitability;

(e) such other objectives, goods and services as the Board may determine from time to time.

## **1.2 Co-operative Principles:**

The Co-operative Principles of the Company are as follows:

- (a) the Company will remain a Co-operative Company;
- (b) the Company is controlled by Co-operative Control Shareholders who have voting rights in proportion to their use of the Company's qualifying goods and services;
- (c) core products and services are made available to all Shareholders at fair commercial prices;
- (d) products and services which benefit Shareholders, and which otherwise might not be made available, are developed and made available to Shareholders, provided that the Company receives a commercial return; and
- (e) Shareholders co-operate with the Company and each other, including the sharing of information, to promote their common interests.

**Pricing of products and services:** In setting the prices to be paid for products or services of the Company (whether a supply to Shareholders or other persons) the Company should seek to create wealth for the Company and its Shareholders, and accordingly, as a general rule, the Company should supply goods and services at commercial prices reflecting market conditions, taking into account the Company's Co-operative Principles and the Key Strategic Objectives set by the Board as approved by the National Council.

## **Present Situation**

The “**Board**” has set the Company's mission statement and Key Strategic Objectives to be achieved by end of the 05/06 year and these have been approved by the National Council.

Mission:

- Leading the world with genetics and knowledge to create wealth for pastoral dairy farmers

Key Strategic Objectives by 2005/06

1. Innovation -- Increase Profit to \$10m
2. Performance -- Return on Capital of 10% after Tax
3. Customer Focus – Silver Business Excellence Awards

The “National Councillors” represent the “shareholders” and as stated have duties under the constitution to monitor the Board. The operative word is monitor.

For my recommendations to achieve a more efficient process, the following has to happen:

Standardised format of information on the Business Plans of the 4 divisions of the company.

- Genetics
- information
- Innovation
- International.

Key Performance Indicators of those business units for the period of the Key Strategic Objectives against a known base, 02/03 year.

- The new balanced Scorecard started in Oct 04 is a great help to see trends within the year, but further work has to be done on long term trends over the period of the Key Strategic Objectives.

## **Research and Development and investment strategies – present and future.**

- The \$3.5m spent per year on Biotechnology has a further 18 months to run, i.e. a total of \$10m over 3yrs.
- It is stated in the Price-Waterhouse-Coopers Report 2nd Feb 04 , Overview

Note 36 Given the significant previous investment in the biotechnology, LIC's Board and Management are strongly of the view that the committed expenditure of \$7.0m from 1<sup>st</sup> June 2004 will be at least value neutral. The research spend is being closely monitored by Management and Board for achievement of milestone targets. Should these not be achieved, then investors can expect the continued spend to be reassessed.

- Given that no process can be identified to assess the milestone targets are realistic, or how the \$7.0m is to be assessed for value neutral. The success or otherwise of this project is fundamental to the future directions and progress of the company and the Board has to clearly identify how the \$7.0m is going to be value neutral.
- Any project of over \$1m, that uses capital reserves or income before profit should have a higher level of scrutiny as to how long the investment will be for, and when will it return a dividend to the company. [ is it ever going to repay the investment ? ]

## **Financials – revenue, expenses and net contributions by division**

- The financial Report Card has improved the information transfer, but the net contributions are before overheads and database allocations.

### **(b) reviewing the Board's business plans;**

To achieve compliance with this clause in the constitution the National Council has to have full information about the business plan where it came from, what is the present situation and what is planned for the future. A very good example of this is Livestock Improvement Deer Ltd.

- Each year the National Council should set a goal to review one of the Boards business plans in depth. This should encompass its objectives, resources , relationships with other parts of the business, and returns and or benefits to the company.

3. reporting on the views of the National Council as to the Company's direction, performance and operations;

- This should be more than a paragraph in the annual report . As shareholder representatives this should be on the basis of good information and having a view of the big picture.

(h) considering and making recommendations in relation to the policies and operations of the Company; and

- In my view this is the most important part of a report. It must encompass all aspects of the business, the good and the not so good, how the company can improve and most importantly how it is achieving its Key Strategic Objectives while looking after the **Co-operative Principles**.
- “**NZAX**” rules --- do they hinder or help the National Council to do their job? Further work needs to be done on this subject to clarify the position.
- If, out of the study of a business unit, comes the realisation that something could have been done better, that should be noted.

# Final Comments

While the process needs to improve, there should be a timeframe. I recommend that the objective to get a better result be finalised by July 2005 .

More resources and energy need to be allocated to the subject and the responsibilities of "National Council" have to be clear, and accountable to the shareholders.

In my view the "National Council" should prepare recommendations of what is to be covered by the Feb 2005 meeting and a draft report be ready for signing off by the National Council in July 2005. If the process requires outside independent help, that should be obtained.

For clarity and accountability, the full written report by the "Monitoring The Board" committee should be available to all shareholders. The best way to achieve this is to include it in the AGM report.

Ross Goudie

**References:** Assessing the performance of co-operatives A Robb Senior Lecturer in Accountancy  
Directors Roles and responsibilities KPMG 2001  
European Dairy co-operatives developing new strategies by Adrie C.M > Zwanenberg.