

## Improving democracy at Dairy Australia and increasing engagement with dairy farmers

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### Context

The annual election of directors at Dairy Australia (DA) is the one formal opportunity for farmers to convey to the Board and management how they assess DA's performance, as there are no shares to trade, no opportunity to move their levies to another service provider, and levy votes are now a rare occurrence. However, director elections are generally poorly supported by farmers with just 4%-6% of eligible votes traditionally being cast (2%-3% of total dairy farmers), and around one third of all dairy farmers ineligible to vote as they have not registered to do so with DA. This situation confirms a significant level of disengagement with DA by most dairy farmers in Australia.

Although there was a lift in the number of votes being cast at the 2020 AGM, this was primarily a result of having all three director positions contested by farmer-nominated candidates, something that has not occurred previously. Unfortunately, there are a number of barriers to farmers fully expressing their democratic rights, with farmer-nominated candidates finding DA places multiple obstacles in their way, including not organising a single opportunity via post, email, web-based or in-person meeting for farmers to familiarise themselves with the candidates. DA officeholders then get directly involved in supporting their chosen candidates after the candidates are announced, with DA's nominated candidates confident of winning the vote with little, or no, direct communication by them with the wider group of levy payers. If left unchanged, the present election process is likely to continue to discourage farmer-nominated candidates from standing, as has been the case historically, and create an ongoing feeling amongst many levy payers of being substantially disenfranchised.

If DA wishes to increase engagement by dairy farmers, then there is an opportunity to review the director election process with the goal of running open, fair and transparent elections in future. If the election process is left unchanged, then it could reasonably be concluded that DA is comfortable with less than 5% of dairy farmers taking part in this democratic process, with the DA board then making decisions on behalf of all levy payers without a demonstrated mandate to do this.

### Executive Summary

Dairy Australia (DA) is the national services body for the Australian dairy industry, funded by a combination of compulsory levies paid by dairy farmers and matching payments from the Commonwealth Government for eligible research and development activities. In 2019/20, dairy farmers contributed \$31.6m in levies and the Commonwealth Government contributed \$21.9m in funding out of DA's total revenue of \$56.4m, with total expenses being \$55.3m. However, there is a low level of engagement by dairy farmers with DA, evidenced by an estimated 4%-6% of eligible votes being cast at recent AGM's (excluding 2020), with these votes estimated to represent just 2%-3% of all dairy farmers in Australia (DA rarely report any voting statistics). This exceptionally low level of engagement by dairy farmers should become a major focus for DA, with improving democratic processes, including in the election of directors, being an important area to address.

DA should set a target for both the percent of levy payers that are registered as Group A members, and the percent of Group A member votes that are cast at an AGM. These measures could be reasonably inferred to confirm the level of engagement levy payers have with DA. At present it is estimated that around 60%-65% of levy payers are registered as Group A members and a proposed target is greater than 85% of both farm business numbers and of national milk supply. At most recent AGM's (excluding 2020) it is estimated around 4%-6% of total Group A members' votes were cast and a proposed target is greater than 30% of Group A members' milk supply and greater than 25% of Group A members by number.

The following changes to the Dairy Australia election process are recommended with the goal of ensuring future elections are open, fair and transparent:

1. Inclusion of a clause in the DA Board Charter that commits the Board to running open, fair and transparent elections for director appointments, as well as committing the Board to limiting its involvement in the election process to nominating some candidates and developing a format that ensures Group A members can familiarise themselves with all candidates so that they have an opportunity of making an informed decision.

2. Change the composition of the director Selection Committee to increase the representation of levy payers and to add director appointment skills. This could result in the 5-member selection committee changing to include one appointment from DA Board (as presently), one appointment by Australian Dairy Farmers (**ADF**, two presently), two appointments of successful, highly respected farmers that have **not** held DA, ADF or other industry organisational leadership positions, and one appointment from an international director recruitment firm. Although in time this would require a change to the Constitution, it could be implemented immediately by ADF and Australian Dairy Products Federation (**ADPF**) using three of their four nominations to effect this change.
3. Change the Constitution so that the director Selection Committee is to make two nominations for each vacancy rather than just one as at present. This will ensure Group A members always have a choice of candidates to elect to each vacancy, as well as encouraging these candidates to engage directly with levy payers both for their own benefit and for the benefit of levy payers.
4. Within the board skills matrix, include the desirability, if not the requirement, for **farmer** directors to have demonstrated an ability to develop and grow a profitable dairy farming business. An understanding of the principles of profitable dairy farming, and the ability to implement these principles, would ideally be a prerequisite for a director of an organisation tasked with improving dairy farm profitability.
5. Within the board skills matrix, include the desirability, if not the requirement, for **non-farmer** directors to understand the profitability and productivity drivers of pasture and livestock production, preferably in relation to dairy farming. This understanding would ideally be a prerequisite for a director of an organisation tasked with improving dairy farm profitability.
6. Change the Constitution so that a farmer-nominated candidate requires nominations from 1% of Group A members (e.g. 35 nominations in 2020) rather than the 100 members at present. This will reduce the 'hurdle' number of nominations required that in percentage terms has been progressively increasing as farmer numbers decrease, and it should encourage more candidates to nominate as directors and more farmers to become engaged in the election process.
7. When there is more than one farmer director vacancy to be filled, all farmer candidates should stand for these vacancies and the candidates receiving the highest number of votes should fill the vacancies. The present situation of the Selection Committee deciding which candidates would stand for which vacancies reduces the selection options for Group A members and leaves the Selection Committee and the Board open to accusations of bias and meddling in the election.
8. The Board should develop an election 'calendar' so that farmer-nominated directors have a minimum 6-week period to secure their nominations from the date the Board announces the Selection Committee nominations. In recent years, this period has been as short as 3-4 weeks for some candidates, which can create an unreasonable barrier for potential farmer-nominated directors to secure nominations.
9. The Board should develop a standardised election events program over a minimum two-month period prior to the AGM with the goal of ensuring all candidates have equal opportunity to present themselves to levy payers so that Group A members can make an informed election decision. This should entail 1-2 mailouts (via email or physical post), and 1-2 'events' (in-person and/or electronic) where all candidates can both make a presentation and answer questions from levy payers.
10. The following information should be provided in relation to voting at the AGM:
  - i. Before any voting is undertaken at the AGM, the total number of proxies the Chair holds should be disclosed, as well as the number of open (non-directed) proxies and how these open proxies will be cast.
  - ii. After voting is undertaken at the AGM, the meeting should be informed of the results once these are available, with this including the number of votes cast for each option and the number of invalid votes.
  - iii. After the AGM, DA should publish on their website the full results of voting including points 10. i. and ii. above, as well as the total number of votes cast as a percentage of total votes allocated to all Group A members and the total number of Group A members that cast a vote as a percentage of total Group A members.

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## Introduction – my own experience

My recent experience participating as a farmer-nominated candidate in the DA election process did highlight a range of issues that suggest the Board is not focused on running open, fair and transparent elections. My own concerns are similar to the concerns of the other farmer-nominated candidates from 2020, although in this paper I am solely representing my own views. I am also aware that many of the issues I experienced were similar to the ones the sole farmer-nominated candidate experienced in 2019, and although that candidate raised these issues with DA, I believe none have been addressed to date.

I initially responded to the advertised notice for the non-farmer director role, and I had my application recognised by the recruiting firm being utilised by DA. My name was one of those sent through to the Selection Committee for consideration for interviewing, however the Selection Committee decided not to interview me. Although I had not expected to win selection as the Board nominated candidate, I did think the Selection Committee would be interested in interviewing me given my overall skill and competency in all the areas being sought, and given my specialised knowledge in the areas of dairy farm profitability and production systems. With the industry experiencing a two decade decrease in both profitability and national milk production, including a loss in international competitiveness, I had thought there may be some recognition that my specialised knowledge may be worthy of consideration by the Selection Committee. The 2019 farmer-nominated candidate similarly had internationally recognised skills in this area, and was also not selected to be interviewed.

Once the Selection Committee decided not to interview me, I was **not** then notified of this decision. After some time I contacted the recruiting firm and they apologised for the delay in notifying me, confirming the Selection Committee's decision. The delay in notification was not significant though it did reduce the limited period I had as a potential farmer-nominated candidate to secure the 100 signed farmer nominations. For those candidates that are successful in being selected for interviews, they may have as little as 3-4 weeks between being notified of their non-selection as the board-nominated candidate and the final date for submitting 100 signed nominations.

The next step for me was to request a list of Group A members as is the right of any candidate. Farmer nominations need to be correctly completed, including entry of the Dairy Enterprise Number (DEN) which is unique to each member and has no link to any other farm registration or license number. Less than 5% of the farmers I contacted knew their DEN, so I needed the Group A member list to provide this to them.

The first list DA provided to me included the Nominated Members, but not the Joint Members. As I knew DA made this error with the farmer-nominated candidate in 2019, I recognised the problem and requested DA supply me a full list including Joint Members. This second list was provided to me with Joint Members, though I subsequently noticed there were 134 fewer members on this list compared to the first list. My third request for a complete list of Nominated and Joint Members yielded a correct list to the best of my knowledge.

All three farmer-nominated candidates in 2020 and the one farmer-nominated candidate in 2019 were instructed by DA that each nomination must have the signature of the Nominated Member and **not** a Joint Member. However, I was informed by DA three weeks **after the AGM** that both Nominated and Joint Members can sign nomination forms, with both Nominated and Joint Members potentially able to provide separate nominations for the one Group A member. This information would have made the task of gaining 100 farmer nominations significantly easier and less time consuming for any potential farmer-nominated candidate, and the absence of this information may have resulted in potential candidates choosing not to stand for election due to the perceived difficulty in securing 100 signed nominations from Nominated Members alone.

In all my communication with DA staff in relation to the election process, I found them courteous, helpful and relatively prompt in responding to my queries. My impression was that they were very competent in their roles. A possible explanation for the absence of robust election procedures, including the preparation of an inaccurate and incomplete Group A member list and the provision of incorrect information on how farmer nominations are to be completed, is that the election process is a low priority activity within DA and the Board are not concerned if farmer-nominated candidates are inconvenienced or inadvertently misled.

The next challenge for me was to secure 100 signed nomination forms. The Group A member list only had postal addresses and no other contact details, and it would be unrealistic to expect potential candidates to send a mailout to

around 3,500 addresses. In addition, all three farmer-nominated candidates found quite a number of errors in the Group A member list, including farmers on the list who had retired or sold their farm several years earlier. Covid-19 created additional barriers to securing signatures in 2020 as farmer meetings could not be organised. DA provided no practical assistance for prospective candidates to contact farmers. However, DA and the industry did benefit from having three individuals seeking farmer nominations as this resulted in quite a number of additional farmers registering as Group A members.

Once I had secured the 100 nominations, there was an opportunity to contest the election. DA organised nothing to assist Group A members in making an informed choice about who to vote for in the election, outside announcing the candidates and then including some brief information in the AGM Notice of Meeting. This would appear to confirm that DA does not presently have a commitment to running an open, fair and transparent election for directors.

Of additional concern is that the Chair of DA and other officeholders engaged directly in the election by supporting and promoting the board-nominated candidates at the expense of the farmer-nominated candidates. This direct involvement by the Chair and other officeholders results in the board-nominated candidates needing to do little, if any, canvassing on their own behalf, and leaves these candidates in debt to the Chair for their election. As I will explain later in this paper, this is most unhealthy for board and organisational culture.

Finally, there was a lack of transparency during the AGM, or subsequently, given the non-disclosure of voting results or the Chair's influence on this. This included the AGM not being informed of the total number of proxy votes held by the Chair, nor the number of open (non-directed) proxies held by the Chair. Once the votes were counted for the election of directors, the successful directors were announced, but not the number of votes cast for each candidate. And then after the meeting, the Board's intention was to announce nothing further. DA should not expect levy payers to consider this board behaviour as open, fair or transparent, and should not be surprised if a significant proportion of farmers lack trust in DA as a result and choose not to engage with it. Although a relatively full breakdown of the voting results was released by DA around three weeks after the AGM, this was only released as a result of multiple requests and protestations from the three farmer-nominated candidates and a number of Group A members.

Although all three farmer-nominated candidates were unsuccessful in getting elected to the DA Board, around 160% more votes were cast in 2020 than in previous years (approx. 16% of eligible votes cast in 2020 versus 6% in 2019). I personally polled significantly more votes than the entire number of votes cast in 2019, and the other two farmer-nominated candidates were not far behind this. I had many discussions with farmers during the election, with these farmers describing to me their reasons for being concerned and/or disillusioned with DA's performance. I have had no contact from the Board to date enquiring about this or asking me for feedback on how I thought DA might respond to these farmers concerns.

### **Where to from here – a review of the election process?**

As my experience highlights, there is an opportunity for a more democratic election process to be developed. At present there is a lack of openness, fairness and transparency. The Board gives the impression to those people interested in standing for election that if they are not the candidate proposed by the Selection Committee, then they should not stand for election. This impression is supported by the Chair and other officeholders engaging directly in the election by supporting and promoting the board-nominated candidates at the expense of the farmer-nominated candidates.

In all elections for organisations like DA, just as for State or Federal elections, every effort should be made by those empowered to manage the process to act in an open, fair and transparent way, and to be seen to be doing this. If not, then the organisation managing the election can reasonably be accused of attempting to influence and manipulate the result, including potentially for their own gain. This will lead to disillusionment and disengagement by significant numbers of people, with these people then likely to engage in other 'combative' activities in an attempt to have their concerns addressed. Unfortunately, this would appear to be the present situation with Dairy Australia.

If DA were to review the election process and demonstrate their desire for open, fair and transparent elections free of the perception that the Board is influencing the result, then this could be an important first step in having those disillusioned farmers start to positively re-engage with DA. This election process should openly encourage candidates to stand for election and make it relatively easy for farmer-nominated candidates to stand. DA should organise an

election ‘calendar’ of activities to ensure all candidates get fully exposed to farmers, so that farmers can make an informed decision about who they elect to the Board, with DA trusting levy payers to make sound choices when fully informed.

If farmers feel they can more directly influence the director election process, they are likely to become more engaged with DA and this will positively feed through to a wide range of activities, from increasing the number of farmers registering as Group A members through to higher attendance and engagement with DA projects.

### First set some targets

As most organisations do when they want to change outcomes or behaviour, some targets are set against which change or improvements can be measured. This provides individuals and an organisation additional focus, and provides an opportunity to review progress and reset the allocation of resources in support of attaining the targets. The two primary measures for engagement in the election process would be the number of levy payers that are registered as Group A members and the percentage of group A member votes that are cast at an AGM. Both targets would reasonably be based on farm business numbers and percentages of milk supply.

At present there is an estimated 60%-65% of farm businesses registered as Group A members and potentially a somewhat higher percentage of the total milk supply. **The proposed target could be to have greater than 85% of levy-paying farm businesses and greater than 85% of national milk supply registered as Group A members.**

At present it is estimated that around 4%-6% of total Group A members’ votes were cast at recent AGM’s (excluding 2020 when around 16% were cast) and around 3%-4% of Group A members’ businesses. **The proposed target could be to have greater than 30% of Group A members’ milk supply and greater than 25% of Group A members cast their votes at AGM’s.** Table 1 confirms that DairyNZ, DA’s peer group in New Zealand, averages 28% of national milk supply and 20% of all levy-paying farm businesses voting in director elections. These average percentages convert to 43% of milk supply and 31% of farm businesses if around 65% of the New Zealand farmers were registered to vote like in Australia.

**Table 1. Election participation rates by dairy farmers in New Zealand**

Source: DairyNZ

DairyNZ / Dairy InSight / Dexcel		National Milk Supply		Adj <sup>1</sup> to 65% of Milk Supply	
Year	Election Participation Rates	Percent of Levy Payers	Percent of Milk Supply	Percent of Levy Payers	Percent of Milk Supply
2003	Dairy InSight BOD <sup>2</sup>	30.4%	35.7%	46.7%	54.9%
2005	Dairy InSight BOD	26.0%	30.1%	39.9%	46.2%
2006	Dexcel Trust BOD	15.5%	21.1%	23.8%	32.5%
2008	DairyNZ BOD	17.4%	23.3%	26.7%	35.8%
2009	DairyNZ BOD	21.1%	29.2%	32.5%	45.0%
2011	DairyNZ BOD and AM <sup>3</sup>	18.7%	26.5%	28.8%	40.7%
2013	DairyNZ BOD and AM	18.0%	25.2%	27.7%	38.7%
2014	DairyNZ BOD and AM	19.3%	28.4%	29.7%	43.7%
2015	DairyNZ BOD and AM	16.5%	24.8%	25.4%	38.1%
2017	DairyNZ BOD and AM	21.1%	32.7%	32.5%	50.3%
2018	DairyNZ BOD and AM	18.1%	26.6%	27.9%	40.9%
2019	DairyNZ BOD and AM	19.0%	26.8%	29.2%	41.2%
2020	DairyNZ BOD and AM	18.9%	28.7%	29.0%	44.2%
<b>Average Participation Rate</b>		<b>20.0%</b>	<b>27.6%</b>	<b>30.8%</b>	<b>42.5%</b>
1 : Adj = Adjusted by author to the equivalent of having 65% of levy payers registered to vote					
2 : BOD = Board of director elections		3 : AM = Annual meeting resolutions			

### Specific recommendations

There are 10 specific recommendations for improving the director election process outlined below in italics, with further explanation in relation to each point after the italicised recommendation.

1. ***Inclusion of a clause in the DA Board Charter that commits the Board to running open, fair and transparent elections for director appointments, as well as committing the Board to limiting its involvement in the election process to nominating some candidates and developing a format that ensures Group A members can familiarise themselves with all candidates so that they have an opportunity of making an informed decision.***

This recommendation is firstly intended to clarify for the Board of DA and each director that there is a commitment to run **open, fair and transparent** elections for directors. Many people might presume that a statement to this effect would be self-evidently true and presumably already accepted by everyone, so that there is no need to state this in the Board Charter, and yet my experience and the experience of many others is that the election process has appeared to be opaque, unfair, and lacking transparency.

In a similar way, to ensure elections appear free from bias or manipulation, directors should **not** become personally involved in supporting and promoting individual candidates, but rather as a board, focus on developing an election process that ensures Group A members can make an informed decision on which candidates they will support.

2. ***Change the composition of the director Selection Committee to increase the representation of levy payers and to add director appointment skills. This could result in the 5-member selection committee changing to include one appointment from DA Board (as presently), one appointment by Australian Dairy Farmers (two presently), two appointments of successful, highly respected farmers that have not held DA, ADF or other industry organisational leadership positions, and one appointment from an international director recruitment firm. Although in time this would require a change to the Constitution, it could be implemented immediately by ADF and Australian Dairy Products Federation (ADPF) using three of their four nominations to effect this change.***

Although it is the Constitution that stipulates the composition of the Selection Committee, for any independent party it would appear unusual and conflicting to have two members of the committee appointed by an unrelated but commercially interested party, namely ADPF (the milk processors). For ADPF to have 40% of the influence on the committee, when ADPF and its members contribute **no** funding to DA and have often been in conflict with levy payers, would appear to be commercially unwise and naïve for a farmer-funded organisation.

It would also appear ADPF either feels conflicted or considers its role is to follow the lead of DA and ADF when selecting candidates. This would be the most logical explanation for ADPF appointing to the Selection Committee second level processor executives with little or no directing experience, rather than individuals with significant directing experience. These comments are not intended to imply that any ADPF appointees to the Selection Committee have not been highly skilled and competent in their specialised field of expertise.

An argument can also be made that ADF may be a conflicted party, or at the least should reduce its role on the Selection Committee. ADF has a very small membership base, and yet it has been a reasonably common occurrence for ADF directors and National Councilors to subsequently serve as DA directors, or for the reverse to occur. This can give the impression of a small group of politically motivated farming leaders determining who they would like to see serve as directors of DA. Again, this comment is not intended to imply that ADF appointees to the Selection Committee have not been motivated and acted with the best of intent, though it is important that the **perception** of Selection Committee member motivation is beyond reproach.

The recommendation is for ADPF to relinquish both their Selection Committee appointments, and for ADF to relinquish one, with these three appointments being replaced by two Group A member levy payers and one professional recruiter of directors. These changes would significantly increase the influence of levy payers on the Selection Committee, who are the effective 'shareholders' of DA, as well as adding substantial director recruitment experience and knowledge.

To reduce the risk of conflict and improve the independence of the Selection Committee, the two Group A member levy payers should not have previously held leadership positions with DA, ADF or other industry organisations. These farmers should be commercially successful and highly respected by their peers, and ideally would have some commercial director experience. The professional recruiter of directors should be Australian based, though from an international director recruitment firm, have deep and lengthy experience in this field, and not be from a recruiting firm being employed by DA for director or executive appointments.

Although the Constitution would need to be changed to mandate the recommended changes to the Selection Committee, ADF and ADPF could effectively implement these changes immediately via their appointments.

3. ***Change the Constitution so that the director Selection Committee is to make two nominations for each vacancy rather than just one as at present. This will ensure Group A members always have a choice of candidates to elect to each vacancy, as well as encouraging these candidates to engage directly with levy payers both for their own benefit and for the benefit of levy payers.***

There are several weaknesses with the present system where DA nominates just one person for each vacant director position as mandated in the Constitution. Firstly, it places the DA Board in a win/lose situation that encourages the Board to do what it can to support its nominated candidate and 'win'. Secondly, it places its nominated candidate in a position where they can assume the Board will act to get them elected, which allows these candidates to make little or no effort to engage with levy payers. This is evident in most DA elections and can mean the candidate has a lesser understanding of the industry and the organisation that they subsequently direct. And thirdly, this results in the director effectively owing their position to the Chair and potentially other leaders of the Board, which is most unhealthy for board and organisational culture as it is a rare individual that does not repay their 'debt' to the Chair by supporting the Chair irrespective of their own views on a matter.

The recommendation is that the Selection Committee should make two nominations for each vacancy rather than just the one at present, although it could be that the committee should make 'two **or more**' nominations. This changes the committee's role from one of selecting their top choice of candidate to one that is more akin to selecting candidates that in the committee's view would be suitable as directors. On the presumption that DA also developed an election events program that ensured all candidates had an opportunity to present themselves to levy payers so that Group A members could make an informed election decision, then all three weaknesses outlined above are overcome. The DA Board is no longer in a win/lose situation supporting one candidate, all candidates would need to engage with levy payers to secure enough votes to become a director, and then the successful candidates would owe their position to the Group A member levy payers, as they should.

4. ***Within the board skills matrix, include the desirability, if not the requirement, for farmer directors to have demonstrated an ability to develop and grow a profitable dairy farming business. An understanding of the principles of profitable dairy farming, and the ability to implement these principles, would ideally be a prerequisite for a director of an organisation tasked with improving dairy farm profitability.***

Farming organisations, including farming cooperatives, have always struggled to identify and appoint appropriately skilled farmer directors. History is littered with failed farmer organisations here in Australia and internationally. In most instances, farmer directors have no experience or deep knowledge of the organisation they are directing, which immediately places them and the organisation at a major disadvantage. This is true of DA. As a result, potentially the most important skill a DA director requires would be the knowledge and experience from operating and growing a profitable dairy farming business, as this matches the primary object of DA's research, development and extension. A director with this background will have the highest likelihood of understanding, and being capable of scrutinising, the projects that executives are proposing and managing.

Unfortunately, the most important traits presently being sought for DA farmer directors are in relation to their experience on industry committees of one form or another. Agri-political skills rather than farm business capability are the essential skills required in the selection process. Numerous highly competent farmers that have been commercially successful and/or built multi-farm businesses have applied to become DA directors and been rejected. And if DA's performance can be judged by the level of farmer profitability and the growth in national milk supply, then its performance over the last 15-20 years has been poor both in absolute terms and when compared to Australia's international competitors, as reported by [Beca \(2020\)](#).

A glance at the 2020 director elections for DairyNZ highlights how a successful industry like the one in New Zealand operates compared to Dairy Australia. The two successful candidates for DairyNZ, both being re-elected in this instance, include one of New Zealand's most profitable and successful farmers who built a large, multi-farm business with other farmer investors, while the other is the long-term CEO of New Zealand's largest

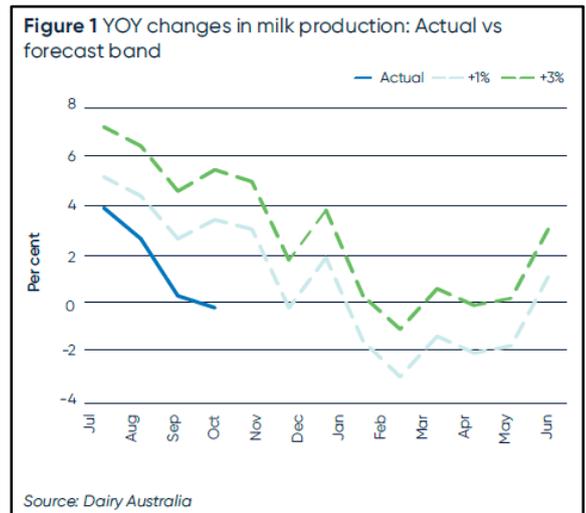
corporate dairy business. Neither of these candidates would be considered suitable for appointment by DA’s Selection Committee as evidenced by their recent decisions.

- 5. **Within the board skills matrix, include the desirability, if not the requirement, for non-farmer directors to understand the profitability and productivity drivers of pasture and livestock production, preferably in relation to dairy farming. This understanding would ideally be a prerequisite for a director of an organisation tasked with improving dairy farm profitability.**

Appointing non-farmer directors to the boards of farmer organisations is intended to add skills that are not available from the farmer directors. There are two well-known pitfalls with these appointments, with the result being that history continues to be littered with failed farmer organisations even though the use of non-farmer directors has been commonplace for over 40 years. The main pitfall is that most non-farmer directors also have no experience or deep knowledge of the organisation they are directing. So just as with the farming directors, they are not able to fully understand and scrutinise the projects that executives are proposing and managing.

The second pitfall is what is outlined in point 3 above. These directors are most often appointed to the Board by being nominated by the Board, and primarily owe their position to the Chair and leading directors, and not the ‘shareholders’ or levy payers in DA’s instance. In most cases this results in non-farmer directors being prepared to follow the lead of the Chair and executive, especially where the subject matter is not in their area of specialisation. This makes it particularly important for non-farmer directors of DA to have an understanding of the profitability and productivity drivers of pasture and livestock production, including the business of dairy farming if possible.

The potential problems that can arise from the issues outlined in points 1-5 above can be illustrated with a couple of examples. The ‘Dairy Situation and Outlook’ report released by DA in December 2020 states “Dairy Australia predicts milk production will end at the lower end of the forecast range of 1% to 3% growth this season.” However, Figure 1 (at right) was included in the same report, with this confirming actual 2020/21 milk production was running very significantly below DA’s own minimum forecast for a 1% increase in national milk production. Every monthly variance year-to-date is well below the 1% growth forecast, with this ranging between 1% and 4% **below** the forecast. This confirms a reasonable person would conclude that 2020/21 national milk production is most likely to be 2%-3% **below** DA’s 1% forecast, with annual milk production ‘growth’ likely to be **negative** 1%-2% in 2020/21.



**Table 2. Australian Milk Production Report October 2020**

Source: Dairy Australia. Shaded rows added by author based on data in table.

Dairy Australia		Milk production report (Litres '000s)						
		National						
Month		NSW	VIC	QLD	SA	WA	TAS	AUSTRALIA
	October-18	106,525	669,963	33,708	52,093	36,621	117,910	1,016,820
	October-19	98,941	630,212	29,109	49,382	34,999	119,941	962,585
	October-20	100,002	628,127	28,616	50,304	34,150	118,892	960,092
	<b>% change 2019 &amp; 2020</b>	<b>1.1%</b>	<b>-0.3%</b>	<b>-1.7%</b>	<b>1.9%</b>	<b>-2.4%</b>	<b>-0.9%</b>	<b>-0.3%</b>
	<b>% change 2018 &amp; 2020</b>	<b>-6.5%</b>	<b>-6.7%</b>	<b>-17.8%</b>	<b>-3.6%</b>	<b>-7.2%</b>	<b>0.8%</b>	<b>-5.9%</b>
Year To Date		NSW	VIC	QLD	SA	WA	TAS	AUSTRALIA
	2018/2019	403,247	2,195,442	134,037	172,394	132,149	268,434	3,305,703
	2019/2020	375,111	2,071,745	115,340	160,813	127,422	265,844	3,116,275
	2020/2021	378,153	2,109,909	109,501	167,733	127,166	274,185	3,166,647
	<b>% change 20/21 &amp; 19/20</b>	<b>0.8%</b>	<b>1.8%</b>	<b>-5.1%</b>	<b>4.3%</b>	<b>-0.2%</b>	<b>3.1%</b>	<b>1.6%</b>
	<b>% change 20/21 &amp; 18/19</b>	<b>-6.6%</b>	<b>-4.1%</b>	<b>-22.4%</b>	<b>-2.8%</b>	<b>-3.9%</b>	<b>2.1%</b>	<b>-4.4%</b>

Table 2 (above) is also produced and published by DA, with the data being utilised in Figure 1 and available to all board members and all dairy farmers. It confirms that in October 2020, milk production was 5.9% **below** that for October 2018, while milk production year-to-date to 31 October 2020 was 4.4% **below** the same period in the 2018/19 year. The results for November 2020 were monthly production 3.3% **below**, and year-to-date production 4.1% **below** the same period in the 2018/19 year, although these November results may not have been available in advance of the Dairy Situation and Outlook report being published.

Total national milk production in 2018/19 was 0.2% **lower** than 2019/20 in litre terms and 1.2% **higher** in milksolids terms, so again, based on both Figure 1 and Table 2, any reasonable person would conclude that the forecast for milk production ‘growth’ in 2020/21 would be **negative** 1%-3% in 2020/21 and well below DA’s updated forecast of “...the lower end of the forecast range of 1% to 3% growth this season”.

So putting to one side the poor quality of the report produced by DA’s executive team, what could explain the Board’s approval of this report when any reasonable person would have requested the incorrect information be reviewed and corrected? There would normally be four plausible explanations. Firstly, the directors did not read the report, nor do they regularly monitor national milk production data, and they just assume anything produced by the executive team on this subject is correct, with the directors not believing they have the capacity to question the executive. This describes a board that is ‘captive’ to the executive, one of the most common issues faced by farmer organisations.

The second plausible explanation is that the directors read the report and regularly monitor national milk production data, though they were unable to interpret this information and understand that it was in conflict with the forecast of annual milk production growth in the report.

The third plausible explanation is that some directors identified the incorrect information and understood that it was in conflict with the forecast of annual milk production in the report but were unable to convince a majority of directors that the forecast and report should be corrected. This describes a board where the culture is one where directors would rather maintain comfortable personal relationships as opposed to report correctly and adhere to sound governance standards.

The fourth plausible explanation is that the Board identified the incorrect information and understood that it was in conflict with the forecast of annual milk production in the report but decided that it was politically expedient to report the incorrect information. This describes a board that is more focused on political issues rather than operational or commercial performance, another common issue faced by farmer organisations. In this instance, DA has been heavily promoting the idea that the industry has ‘turned the corner’ and can now be expected to increase milk production over the next few years, with this promotion strongly based on the industry growing national milk production in 2020/21. Several papers published by DA as part of the Australian Dairy Plan (ADP) are underpinned by a presumption that national milk production in 2020/21 will increase. There will have been pressure on both the DA Board and the executive to maintain the perception of increasing national milk supply. Similarly, the perception of the industry ‘turning the corner’ and increasing national milk supply will have assisted the two sitting directors that were standing for re-election in 2020.

Each of the four plausible explanations outlined above would reasonably concern levy payers, especially given this is not an isolated instance. One other recent example is the decision by DA to monitor the profitability of dairy farmers by rejecting the use of the one ratio that is universally understood to define profit, but rather choose a margin ratio. This decision by DA defies 300 years of researched and published economic thought and was described by Bill Malcolm, professor of agricultural economics at University of Melbourne, as “economic illiteracy”. A sound basis for the dairy industry to measure farm profitability, including through utilising accepted economic principles, was outlined by [Beca \(2020, unpublished\)](#). Once again, the plausible explanations for the Board approving DA’s measurement of profitability paper (Australian Dairy Plan, Appendix F) are similar to the four explanations listed above in relation to DA’s forecast of 2020/21 milk production.

6. ***Change the Constitution so that a farmer-nominated candidate requires nominations from 1% of Group A members (e.g. 35 nominations in 2020) rather than the 100 members at present. This will reduce the ‘hurdle’ number of nominations required that in percentage terms has been progressively increasing as farmer numbers***

***decrease, and it should encourage more candidates to nominate as directors and more farmers to become engaged in the election process.***

The requirement for a farmer-nominated candidate to secure 100 nominations is a significant barrier for any potential candidate. Barriers that discourage potential farmer-nominated candidates from standing for election are counter-productive. If all elections were contested, then this would be an important step in increasing the number of farmers participating in the election process and engaging with DA.

The requirement for 100 farmer nominations is unchanged since DA's inception in 2003. Since deregulation of the industry in 2000, the number of dairy farmers in Australia has reduced from 12,896 to around 5,000, resulting in the percentage of farmers required to sign a nomination increasing by around 160%. If the requirement was changed to 1% of Group A members, then this would result in a consistent ratio of nominations to total members as member numbers increased or decreased. At under 50 nominations, this should mean any person seriously considering standing as a candidate could reasonably secure the required number within a moderate timeframe.

- 7. When there is more than one farmer director vacancy to be filled, all farmer candidates should stand for these vacancies and the candidates receiving the highest number of votes should fill the vacancies. The present situation of the Selection Committee deciding which candidates would stand for which vacancies reduces the selection options for Group A members and leaves the Selection Committee and the Board open to accusations of bias and meddling in the election.***

On average, one year in every three there are two farmer director vacancies to fill. If there are more than two candidates, then the Selection Committee decides which candidates would stand for which vacancies, including which of the board-nominated candidates will face which, if any, of the farmer-nominated candidates. This opens both the Selection Committee and the Board up to accusations of bias and meddling in the election, including the possibility of having the two highest polling candidates **not** selected for the two vacant positions.

The fairest and most democratic option is to have Group A member levy payers determine which of the candidates standing for election are their preferred directors, and not have the Selection Committee and the Board reduce their options.

- 8. The Board should develop an election 'calendar' so that farmer-nominated directors have a minimum 6-week period to secure their nominations from the date the Board announces the Selection Committee nominations. In recent years, this period has been as short as 3-4 weeks for some candidates, which can create an unreasonable barrier for potential farmer-nominated directors to secure nominations.***

A second barrier for potential farmer-nominated candidates is the indeterminant timeline for securing signed nominations. This can be as little as three weeks if a potential candidate is selected for interview by the Selection Committee and then waits until they know that they have not been nominated by the Board. This barrier can be overcome by mandating that there is a fixed period from the time the Board announces its nominated candidates until nominations close. The recommendation is that this period should be six weeks, although if point 6 above was adopted and the number of nominations required dropped below 50, then this period could potentially be reduced to four weeks.

- 9. The Board should develop a standardised election events program over a minimum two-month period prior to the AGM with the goal of ensuring all candidates have equal opportunity to present themselves to levy payers so that Group A members can make an informed election decision. This should entail 1-2 mailouts (via email or physical post), and 1-2 'events' (in-person and/or electronic) where all candidates can both make a presentation and answer questions from levy payers.***

For any election to be 'fair, open and transparent', then it is essential that the electorate knows about the background and experience of the candidates, and has had a chance to hear their views on relevant issues and been able to put questions to them. This is required for electors to make an informed choice about who they would like to represent them, including who they believe would contribute the most as directors in this instance. DA organises nothing to assist farmers familiarise themselves with the candidates outside announcing the candidates once nominations close, and then including some brief information in the AGM Notice of Meeting. In 2020, covid-19 made it difficult for farmers to hold physical meetings of any description which further reduced

the opportunity for candidates to be invited to attend these meetings. However, many farmers were using Zoom, Skype or other electronic meeting software. And yet DA did not organise a single opportunity via post, email, web-based or in-person meeting for farmers to familiarise themselves with the candidates, which appears to be inconsistent with any commitment to running 'fair, open and transparent' elections.

The recommendation is that DA should develop a standardised election events program over a minimum two-month period prior to the AGM, where all candidates have an opportunity to present themselves to levy payers and where some of these events provide levy payers the opportunity to put questions to the candidates. This might reasonably include 1-2 mailouts to all Group A members (via email or physical post), and 1-2 in-person or electronic events.

**10. The following information should be provided in relation to voting at the AGM:**

- i. Before any voting is undertaken at the AGM, the total number of proxies the Chair holds should be disclosed, as well as the number of open (non-directed) proxies and how these open proxies will be cast.***
- ii. After voting is undertaken at the AGM, the meeting should be informed of the results once these are available, with this including the number of votes cast for each option and the number of invalid votes.***
- iii. After the AGM, DA should publish on their website the full results of voting including points 10 i. and ii. above, as well as the total number of votes cast as a percentage of total votes allocated to all Group A members and the total number of Group A members that cast a vote as a percentage of total Group A members.***

These final recommendations in relation to disclosing the results of AGM voting would appear to be self-evident and this would be standard practice in the great majority of organisations, both commercial and not-for-profit. It is most unusual for any organisation to not fully disclose election results given non-disclosure will always result in a negative impression and create questions of 'what is the organisation trying to hide?' Again, the comparison with DairyNZ in New Zealand is illuminating. Appendix A to this paper outlines the standard release by DairyNZ, whereas DA's standard release is the names of the elected directors and nothing else.

DA did respond in 2020 to multiple requests and protestations from the three farmer-nominated candidates and a number of Group A members by releasing a relatively full breakdown of the voting results. This was completed three weeks after the AGM. It is recommended that with all elections in future, the information outlined in 10. i. and ii. above be provided at the AGM, and the information outlined in 10. iii. be provided immediately after the AGM.

All the recommendations outlined in this paper are intended to assist discussion and debate in the Australian dairy industry so that open, fair and transparent elections for directors of Dairy Australia can be undertaken in the future. If these issues were to be successfully addressed, then this should consequently prompt a higher level of engagement by levy payers with all DA activities, as well as positioning DA to make significant progress on the issues central to improving dairy farm profitability and the industry's competitiveness.

## References

- Australian Dairy Plan, Appendix F, 'Measurement of profitability on Australian dairy farms – Historical trends and future targets', *Dairy Plan website*, [https://www.dairyplan.com.au/en/about-the-dairy-plan/key-documents#.X\\_Y7rtgzZaQ](https://www.dairyplan.com.au/en/about-the-dairy-plan/key-documents#.X_Y7rtgzZaQ).
- Beca, D. (2020), 'Evaluating the Loss of Profitability and Declining Milk Production in the Australian Dairy Industry', *Australasian Agribusiness Perspectives* 23, Paper 9, pp. 136-164.
- Beca, D. (2020, unpublished), 'Measurement of profitability on Australian dairy farms (Option B) – Historical trends and future targets', *Red Sky website*, [http://redskyagri.com/page/redsky\\_53.html](http://redskyagri.com/page/redsky_53.html).

## Appendix A: DairyNZ 2020 Board of Directors Elections &amp; Annual Meeting Resolutions Published Results



Profitability. Sustainability. Competitiveness.

## DairyNZ Inc

### FINAL RESULTS

#### 2020 Board of Directors Elections & Annual Meeting Resolutions

The final results of the 2020 elections are:

#### Board of Directors (2 vacancies)

(Single Transferable Vote)

Total Valid Ballots	2,214
Total Votes (Weighted)	542,600,950
Quota	180,866,984
Percent of Total Electors	18.85%
Voting Return Percentage (Weighted)	28.71%

The successful candidates (in alphabetical order) are Colin Glass and Jim van der Poel.

The unsuccessful candidate was Cole Groves.

I therefore declare Colin GLASS and Jim VAN DER POEL to be elected to the Board of Directors of DairyNZ.

#### Annual Meeting Resolutions

(First Past the Post)

##### Resolution 4 – Approval of director remuneration

Votes FOR the Resolution	489,169,654	88.61%
Votes AGAINST the Resolution	49,667,226	9.00%
Blank Votes	13,173,019	2.39%

I therefore declare Resolution 4 CARRIED.

##### Resolution 5.1 – Ratification of board appointed director – Peter Schuyt

Votes FOR the Resolution	520,962,833	94.38%
Votes AGAINST the Resolution	19,282,211	3.49%
Blank Votes	11,764,855	2.13%

I therefore declare Resolution 5.1 CARRIED.

##### Resolution 5.2 – Ratification of board appointed director – Mary-Anne Macleod

Votes FOR the Resolution	499,955,128	90.57%
Votes AGAINST the Resolution	39,224,057	7.11%
Blank Votes	12,830,714	2.32%

I therefore declare Resolution 5.2 CARRIED.

Dated at Christchurch this 21<sup>st</sup> day of October 2020.

Anthony Morton  
Returning Officer - DairyNZ  
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