

An insight into the busy travel opportunities of a Nuffield Scholarship.

March 2010 monthly update from Desiree Reid

Wow, two months and counting. My second month has flown by. Last time I wrote to you I had just arrived back in the UK having visited Ireland and the Netherlands.

This month I have spent just shy of a fortnight touring England where I was exposed to the disastrous story of Dairy Farmers of Britain. DFoB was put into receivership on the 3rd June 2009. I was able to speak to one of the directors, an executive, and have read through the transcripts from the British government's formal investigation into the failure.

DFoB was the largest of the three dairy co-operatives which essentially rose out of Milk Marque. DFoB started with no processing assets – it was a milk selling group. The company looked to invest downstream to add value to their farmers' milk. Their strategic intent had merit. The execution of the strategy failed.

Dairy Farmers of Britain found a milk processing business to buy from a supermarket chain of reasonable size. DFoB entered a closed-bid tender for the assets, and the right to supply the supermarket. Their bid won. But as it turned out, they seriously overpaid. In addition, their bid relied solely upon "vendor due-diligence" of the manufacturing sites. One of the processing plants had to be closed immediately upon purchase.

The capital outlay on sub-optimal assets led to a downward cycle in the business. After several years of bleeding and reduced milk supply the final effort to save the business involved a rationalization of five remaining factories into three; a plan called "5 to 3". Ironically, the co-op was placed into receivership at 5 to 3 on the 3rd June 2009. Farmers lost all of their investment in their co-operative.

What went wrong? DFoB's governance structure was best-practice. The board was balanced between farmer and professional directors. They had an independent chair. The professional directors were nationally esteemed individuals each with a strong background in big business. The farmer directors had undertaken appropriate training.

On paper governance was sound. But the worst happened.

The questions raised in the aftermath of Enron ring in my ears. What is good governance? The USA went down the road of dictating structure in the Sarbanes-Oxley legislation. Other government reports such as King and Cadbury took a different tact. They found that good governance requires a balance between "conformance" and "performance."

- Conformance is structure.
- Performance is people.
- People drive performance.

A company is like a racing car. You can have a Ferrari structure. But to win you need a Schumacher to drive it, and the equivalent of a Schumacher in every position of the racing team. **Every** member of the team must be focused, engaged and thinking.

Not just accepting.

Not just following.

From the UK I flew to Washington DC to meet up with Paul McGill, Ian Knowles, Stuart Wright, and the rest of the world's Nuffield scholars for the Contemporary Scholars Conference. We had a wonderful week in the US. From there I flew to Missouri to meet Professor Michael Cook, then to a Co-operative Leaders Conference in New York State. Tomorrow I fly back to Ireland.

This is a life-changing experience, and I thank the sponsors and trustees for the opportunity they have granted me.

Kind regards,

Desiree



Left to right: Ian Knowles, Desiree Reid and Paul McGill in Washington for the Contemporary Scholars Conference March 2010.