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Farmers in Governance - An insight into the functions of a farmer elected board

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Executive Summary

The board of directors is critical to the success of a business. The board is responsible for approving major strategic and financial decisions and for the critical tasks of both monitoring and partnering with the CEO. In addition to these roles, the board is a resource, providing perspectives on member needs with their knowledge about agricultural production and agribusiness industries (Kenkel, 2020)

The aim of this report to gain insight into diversity on farmer elected boards and how the integration of independent directors has positively influenced board performance. This report investigates boards that have a high representation of farmers, to understand whether this dynamic allows best performance, against an increased ratio of independent directors influencing the board performance. The report also covers the pros and cons of the ward election system.

The report contains analysis of key literature, to understand the functions of a high performing board, as well as how diversity fits into the board room. It reviews the ongoing discussion topic of 'director elections, using the ward system or across the whole country' to understand the impact this has on board performance. The consideration of these factors provide insight as to where and how farmers could better prepare themselves for director roles.

Key findings:

Within the food and fibre sector, diversity plays a huge role, whether that be on a governance board or in the packing room at an abattoir. It is important to consider that diversity might not be just about what we see, but rather the thought and skills of individuals.

We are very quick to judge organisations on the diversity of their board members when we have very little knowledge on the diversity of thought and skills of those people. Throughout the interviews, it was frequently mentioned that a mix of things such as age, gender and ethnic background was needed to achieve diverse thought and skill sets.

Farmers play a significant part on governance boards within the primary sector. As farmers, we must strive to gain the necessary skills required to become valuable directors of these organisations. We must continue to look to the future with regards to our candidate development, but also not lose sight of the value experienced directors bring.

Recommendations

- Boards to convey what skill gaps they are seeking to fill at the time of farmer elections so farmers can vote knowing they are putting the right person into the role
- Candidates at every election to advertise their skills matrix on the candidate profile form
- Farmers with a passion for the progression of the food and fibre industry must seek the necessary skills needed to fill these roles. In turn encouragement must be given

to those with the same passion but are less likely to put themselves forward for election

- Aspiring directors, work in management before working in governance. Governance roles require experience, and experience comes with higher level management roles within organisations

“There’s nothing better for board training than having been accountable to a board”.

– Industry Leader

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1. Introduction

The board of directors is the most important part of a business. The board sets the strategic direction while keeping a strict eye on financial performance. They are an important part of a business’s human capital, bringing their skills, perspectives, and experiences to bear on the decisions facing the business. The general business community have long recognized the importance of the competency of boards and directors. In recent years, the composition of the board has come to be viewed as equally important. Key to this board composition is board diversity (Kenkel, 2020). Board diversity aims to cultivate a broad spectrum of demographic attributes and characteristics in the boardroom (Leung, n.d.).

Whilst ‘board diversity’ is a topic which the business community recognize as being important, there is often differences in opinion as to what makes a board diverse and which features are key to ensure the success of the organization. Throughout this report, insight into diversity on farmer elected boards will be reviewed, looking at how the integration of independent directors has positively influenced board performance. To gain a good understanding of this board composition, the report investigates boards that have a high representation of farmers, to understand whether this dynamic allows best performance, against an increased ratio of independent directors.

This report then discusses how do we as farmers best prepare ourselves for these high-level governance roles, as well as looking at the pros and cons of the ward based election system.

2. Objectives

The purpose of this research is to:

- To learn from literature, what are the functions of a high performing board, as well as how diversity fits into the board room
- Understand the skills farmer elected directors bring to the board table
- Gain insight into how appointed directors positively influence farmer elected boards
- To understand director elections using the ward system or across the whole country

3. Methodology

The idea for this project came from a desire to gain more understanding of how farmer elected governance board's function, as well as how farmers fit into governance roles. The author has endeavored to discover if farmers are overrepresented on these boards, and what can be done to ready farmers to take on governance roles.

To answer the research question, qualitative data was collected through primarily semi-structured interviews, and then through a literature review. The literature review was used to gain knowledge on the topic and to identify areas that have not been researched.

The criterion the author used to select interviewees are as follows: They must be primary industry based and must hold or have held a position on a governance board. The author has used a two-stage interview method. The two-stage interview method is a technique that allows the first set of interviews to be analyzed and further in-depth questions to be produced to either go back to the same or new interviewees. The interviews will be conducted in a semi structured manner to allow the conversation to flow into other areas which may not be captured by the original questions.

The first interviews consisted of 12 - 15 questions that had been set prior to the interviews commencing. When carrying out the interviews the interviewees were asked if the interview could be recorded and that their identity and all information given about others would remain undisclosed.

The data collected was transcribed and analyzed using a thematic analysis (Braun & Clarke, 2013). Using this model, the author familiarized themselves with the data collected from the interviews and the knowledge taken from literature review using critical analysis. The data was then coded to find themes that related to the research question. A mind map was produced using the main themes as the body and ideas as the subsets off this. Results and a discussion have followed.

4. Literature Review

This literature review was used to provide perspective on the importance of diversity on governance boards, the roles of independent directors within these boards and to review any previous information around preparation for governance roles.

4.1 Diversity on Governance Boards

Diversity is something that boards must be consciously aware of as stakeholders look to the board to represent all interests fairly. This section investigates how diversity works in a governance setting along with understanding its importance in the board room.

4.1.1 What is Diversity?

Defining the word diversity can prove difficult. In most cases, according to the *Oxford English Dictionary*, “diversity” is defined as “the practice or quality of including or involving people from a range of different social and ethnic backgrounds and of different genders, sexual orientations, etc.” (Oxford University Press, 2021) However, Webster's Dictionary describes diversity as the "variety" or a "point or respect in which things differ" (Webster's dictionary of the English language, 1992).

4.1.2 How Important is Diversity on Governance Boards?

The literature states that a diverse board is as—if not more—important to both challenge existing norms as well as identify a wider array of strategic options or solution sets for a CEO (Castelán, 2018). In businesses, where customers are often highly diverse across gender, education, income, and geography, having a diverse board will further strategic discussions and be more reflective of a customer centred approach. Recent initiatives on corporate governance recommend increasing board diversity, arguing that a greater diversity both enhances information resources and broadens the cognitive and behavioural range of the board (Idoya Ferrero-Ferrero, 2013).

4.1.3 Types of Diversity

Diversity comes in many shapes and forms. One common distinction is between diversity on observable or readily detectable attributes, such as race or ethnic background, age, or gender, and diversity with respect to less visible, or underlying attributes, such as education, technical abilities, functional background or tenure in the organization. One reason for differentiating between observable and non-observable types of diversity is that when differences between people are visible, they are particularly likely to evoke responses that are due directly to biases, prejudices, or stereotypes. However, these two types of diversity are not mutually exclusive. For example, ethnic differences may be associated with differences on underlying attributes (e.g., socioeconomic status, education, values), but this is not necessarily true (Milliken & Martins, 1996).

Increased awareness of the different dimensions of diversity should sensitize organizations to the many dynamics and out-comes associated with a team's total diversity (Jackson, May, & Whitney, 1995).

4.2 Functions of a High Performing Board

This section looks at all the elements that allows a board to function at an elite level. It covers board structure; looking at who boards represent and the optimum size, as well as the skills required by board members.

If a board is to truly fulfil its mission, it must become a robust team. One whose members know how to ferret out the truth, challenge one another, and even have a good fight now and then (Sonnenfeld, 2002).

The highest-performing companies have extremely contentious boards that regard dissent as an obligation and treat no subject as undiscussable (Sonnenfeld, 2002).

4.2.1 Board Structure

The most effective structure for a given board depends on several things: the industry, the company's organizational complexity, the competitive environment, and the regulatory environment. The appropriate size for a board depends on the complexity of the business. Most boards should have no more than 10 to 12 members (Sherwin, 2003). Some authors believe boards that are too small, for example, under seven, don't have enough expertise and diverse strategic thinking, but those with over 13 often become too unwieldy to be effective (Tahmincioglu & Hall, 2018).

A board essentially represents a group of people, selected for their expertise, who come together to add value collectively to the organization they lead (Ingley & Walt, 2003). Diverse groups have a greater variety of ideas and perspectives presented to search for and design solutions in the development stage (Amason, 1996). Boards that reflect the diversity of a large customer base and understand the challenges they face across collective issues are better able to share customer pain-points, challenge thinking that may occur in an "echo chamber," or present new opportunities for business expansion (Castelán, 2018).

Board composition falls into two categories. First, board diversity, and second,. the mix of director experiences and skills. The underpinning of board mechanics is board interaction. The application of a high-performance team model will advance the board's effectiveness faster than any other action (Sherwin, 2003).

Stakeholders should not apply a one-size-fits-all approach when establishing a board or revisiting an existing board's formation. As businesses offer varying services and products to consumers and operate in diverse environments, organizations need an individualized, customized governance structure to steer them in the right direction (De La Rosa, 2006).

Board composition involves more, however, than director selection and achieving the right skill mix, important as these elements are in building better balanced boards. It is also important to consider group process, especially when diverse perspectives are introduced into the boardroom, and to question what happens to the dynamics of the board when such appointments are made (Ingleby & Walt, 2003).

Board building is an ongoing activity, a process of continuous improvement, which means boards must keep coming back to the same questions about purpose, resources, and effectiveness. However, boards cannot easily change their cultures but as members start to act as a team, board cultures will change. The closer directors get to an engaged culture, the closer they are to being the best boards possible (Nadler, 2004).

4.2.2 Board Member Skills (overview)

Board members need the training and experience to analyse complex financial issues and to understand what kinds of risks a company is taking on (Sonnenfeld, 2002).

The important skills required for governance are listed below, each simple enough in themselves but if one area is missed it can have repercussions for the board (De La Rosa, 2006):

- Possess knowledge of key areas in which the organization does business
- Have experience and know-how in the organization's industry
- Be able to articulate business challenges effectively
- Be well connected within the organization's strategic environment
- Have a reputation for independence and integrity
- Be good listeners and believe strongly in the concept of staff mentoring within an organization
- Be capable of disagreeing without being disagreeable
- Ask probing and follow-up questions
- Possess emotional intelligence
- Self-awareness (self-confidence, realistic self-assessment).
- Self-regulation (trustworthiness and integrity)
- Motivation (strong drive to achieve and organizational commitment)
- Empathy (expertise in building and retaining talent)
- Social skills (persuasiveness, effectiveness in leading change)

Boards must recognize which directors need help, which should not be nominated for another term, and which should be cut loose. Consequently, more boards are adopting formal assessments of individual directors, including peer review (Nadler, 2004).

4.3 Independent Directors

To gain true separation between management and governance, independent board members are often appointed to the board. Some boards can feel threatened by this independence, but in the end their outside thinking can enable the business to grow and develop valuable long-term strategy. Independent directors bring extensive business experience. They will most likely have experienced adversity, risk and possibly had to fight for the survival of their business. They bring an objective viewpoint to the board and are unlikely to have any family or majority ownership ties to the business (Cohen, 2012).

As independent directors do not possess an emotional attachment to the business they are able to cast a critical eye without preconception or prejudice. They bring a one-off business knowledge and experience in many areas. Independent directors introduce a fresh, and usually innovative, perspective and can also sometimes compensate in some of the key areas where management may be weak (Institute of Directors New Zealand). However, there is some evidence that some independent directors are overly sympathetic towards management, therefore compromising the board's ability to make progressive decisions (Cohen, 2012).

Independent directors appointed to a company's board should also not have too many other board appointments at other organizations (De La Rosa, 2006).

Table 1 shows the number of independent directors on a collection of primary industry companies.

Table 1: Independent Director ratio's

Company	Total Directors	Independent Directors	Independent: Elected Director ratio
Balance Agri-Nutrients	9	3	33%
Ravensdown	9	3	33%
Alliance Group (Cooperative)	9	3*	33%
Dairy NZ	7	2	28%
Beef & Lamb New Zealand	9	3**	33%
*Associate Director not counted		**1 Independent + 2 processor/exporter appointees	

<https://ballance.co.nz/Our-People/?key=Specialisation&value=Board%20Of%20Director>

<https://www.ravensdown.co.nz/our-company/our-business>

<https://www.alliance.co.nz/about-us/our-team/board-of-directors/>

<https://www.dairynz.co.nz/about-us/how-we-operate/board-of-directors/>

<https://beeflambnz.com/about-blNZ/meet-the-team>

4.4 Preparation for Governance Roles

This section looks at how aspiring directors can gain the right skills to attain a directorship and explains a holistic approach to seeking election on boards.

(New Zealand Institute of Directors) states that there are four pillars to seeking election and preparing for directorships.

- Connect
- Develop
- Build
- Belong

Connect: Building networks with people in governance roles and with the people who could possibly elect you. Seeking out mentors that have experience as a director to see how they climbed the governance ladder can also be of benefit.

Develop: Never stop learning, commit to ongoing professional development. Enrolling in development courses shows an intent to improve, therefore showing potential fellow board members, and voters, you are committed to being the best you can be.

Build: Build experience in management roles as people look to appoint people with the right experience and skills necessary for the role. Gaining experience for your first directorship by seeking roles within the community or not-for-profit groups.

Belong: Join the Institute of Directors as part of ongoing development and networking.

5. Discussion

MIND MAP

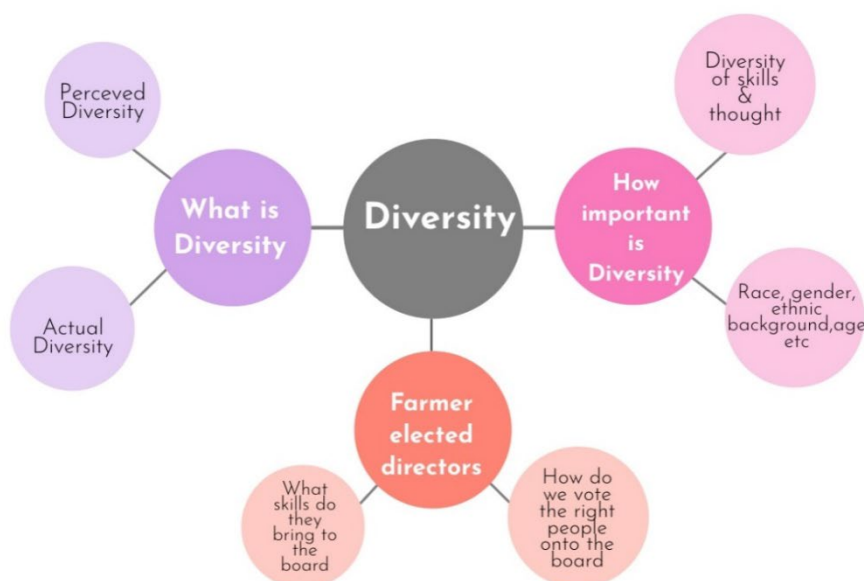


Figure 2 – Mind map of report themes

5.1 The Importance of Diversity on a Governance Board

Diversity was of high priority with all interviewees, however there was a large variation in how diversity was interpreted and the different types of diversity that were seen as a priority. The main theme coming through was that diversity of thought and skills ranked well above other types of diversity.

“Diversity is critical. Otherwise, you might as well just have one person sitting there. If you don't have diversity of thought and diversity of experiences and diversity in the way we see the world, then you'll have a very one-sided one-dimensional conversation. So, diversity is critical to have a well-rounded feel the world and from a representation point of view, I suppose to know that your shareholders or stakeholders or whatever it might be, are represented and, and that kind of way of seeing the world is exposed to the board table” - Industry leader

“Diversity on boards is really, really important. But don't jump to the simple diversity matrix of gender, and ethnicity or whatever. Look for the deeper diversities you know, life experiences, what jobs or roles people have had. Gender diversity is really important, because, you know, let's be honest, woman, they think differently than we do. And I find that massively valuable. So, gender diversity is really important as well as age diversity” – Industry leader

Diversity of thought and skills were heavily prioritized in the industry leader interviews, whereas upon extensive literature research diversity of gender, age, ethnicity etc seems to trump all other types (Idoya Ferrero-Ferrero, 2013). Even though thought and skill diversity is prioritized by almost everyone interviewed, the underlying theme was that to achieve this there must be a mix of gender, age, ethnicity etc as these groups naturally think differently.

“If you are a person of a different gender, or personal disability, or a person with a different ethnic background, then you have had different life experiences just because of who you are” – Industry leader

“For a range of diversity is would always go for a skill mix first. Especially as blokes we've got to put away some of our biases. And it's, it's often it's not a bias, as much as you think, it's taking ourselves outside our comfort zone. It's finding women, other races that have this skill mix, that can sit on the board. That's what will bring a different point of view. Its always skill mix first. But we've got to be brave and look for that skill mix in places that we might not normally look”. – Industry Leader

“In my lifetime of farming, we've never experienced the level of unfettered access to consumers in other markets. And, you know, suddenly 1973, 90% of everything New Zealand saw going into Britain, getting locked out. And basically, being locked out and most of the rest of the world during that time, suddenly access to almost within the next 10 years, almost unfettered access to four and a half billion people. So, what's the skill mix on boards that we're going to need to capture those benefits”. – Industry leader

“Diversity is a mix, of skills, experience, grey hairs that have been tossed around a bit in business, or youthful exuberance, or mature thinking, you know, it's a whole mixture of stuff” – Industry leader

Perceived diversity is where a group of people are 'seen' to be a diverse group, this comes back to gender, age, ethnicity etc. As this is the only type of diversity that can be seen, there is often cases amongst boards where people are appointed because they are seen to bring diversity just because of who they are but don't necessarily bring diversity of thought or skill. Perceived diversity was addressed by most interviewees, as they are now conscious that this is something that boards needed to be aware of going forward, however it isn't necessarily seen as the way to bring success to the board.

5.2 The Role of Independent Directors Appointed to a Farmer Elected Board

Appointed (independent) directors play a key role on farmer elected boards. These directors are used to fill 'skill gaps' left by the elected directors. This is not to be interpreted as filling 'expertise gaps', as several interviewees alluded to the point that expertise can be bought, and they do not need a seat at the table. This mainly concerns legal and financial expertise. Appointed directors bring an unemotional point of view, which brings balance to the debate, as elected directors have an emotional attachment due to themselves either being the customers, levy payers or having invested capital in the company (Cohen, 2012) alluding to the point that appointed directors were overly sympathetic towards management. However, this was not an area of concern for interviewees, as farmer directors were deemed to be particularly strong at holding management to account.

“Most of the directors we've appointed are very respectful because they realize that farmer directors actually have a skill set that they don't have”. – Industry Leader

Appointed directors also have an obligation to understand the core values and purpose of the business that they have been appointed too.

Most of the interviewees agreed that independent directors were key to the success of the business, but some also warned that appointed directors also have a reputation to uphold and can look for a way out when things aren't going as planned. A quick look into the ratio of elected: appointed directors on primary industry company boards shows a common theme of around 1/3 of board members are appointed directors.

“There's a risk profile to a high ratio of independents in wartime because maybe the independents don't quite hold as dearly, the some of the beliefs of the value of cooperatives”. – Industry Leader

“It's critical that you have the clear majority of elected directors on a cooperative board because when the chips are down, and everything turns the custard, it'll be the elected directors that rescue the business and won't be the appointed” – Industry Leader

“When you're in a farming organisation, I think it sends a wrong signal if you have a majority of independents. That's wrong. And often, you can get the wrong behaviors coming through. So, where the independents make up a big portion of the board, you can end up sometimes getting A and B teams within a board”. – Industry Leader

5.3 The Role of Farmers on Governance Boards

5.3.1 The Skills of a Farmer Director

The interview responses clearly illustrated that farmer directors are held in high regard throughout the primary sector. Industry leaders described today's farmer directors to be the mostly highly skilled individuals, with plenty already having commercial experience before taking on a farming business. This proves that the talent pool of farmers is big enough to support the available director seats in the primary sector. All interviewees acknowledged the need for governance preparation and support to bring the next generation of directors through.

There were three key points that came out of investigating the skills farmers bring or need to bring to the board table:

1. The need for shrewd business acumen, directors must be savvy 'businesspeople' as they are essentially being elected into a board to set business direction

2. Farmers make decisions that affect their own pocket every day. Farmers take every decision in the boardroom as if their own profit is at stake, this attribute is a huge asset to any business
3. Farmer directors need to be commercially minded, there is no room for politicians

“I think we sometimes were very quick to downplay the importance of farmers on boards, and the experience that they bring. We are very quick to put farmers all in the same box, that because they're a farmer, they've all got the same level of experience and academic qualification, well as we know, they haven't. And they're very, very different indeed” – Industry leader

“Farmers bring a couple of real key characteristics to boards. Number one is they've run their own business. And there, they live and breathe on the success or failure of decisions that they've had to make. Farmers usually get personal accountability really well” - Industry Leader

“I believe when you're talking about companies of that size and scale, the important thing is that you drive the culture you want. And often that culture is something that you get very strongly from your farmer members” – Industry Leader

5.3.2 Farmer Directors Elected Using Wards or the Whole Country

The ward system, a defined area in which directors are elected from. This way of electing directors has been a continuous topic for boards over the past decade, with some boards choosing to increase ward size and some choosing to disband the wards all together. Following review, the interviewees mostly agreed that the ward system possibly narrowed the selection, as the talent can sometimes lie elsewhere in terms of potential directors. Several interviewees were strongly against any form of ward system saying that wards mixed representation with governance.

“I do not like the ward structure; I think it is you're basically confusing representation with governance. And you've got to be clear about what you're wanting from your board”. – Industry Leader

It was also acknowledged by interviewees that the ward system often has its benefits when a large proportion of the shareholding lies in one region of the country, as often farmers voted for who they knew, or if nothing else, the person from their region.

“If you've got a high concentration of shareholding in one area, a whole country election can be problematic” – Industry Leader

The interviewees also widely stated that farmers have generally always put the best candidate on the board. Only two interviewees could recall a time when they thought the best candidate missed out on election, in their opinion.

The ward system has its place, as often companies such as levy funded industry bodies need directors from the different regions. The benefit of this is often that these farmer directors bring a different perspective on environmental and social issues which may not be put forward by other board members.

6. Conclusion

In conclusion, diversity is hugely important on farmer elected boards. This was highlighted through both the literature review and throughout the semi-structured interviews. Whilst there was agreement that diversity is key to improving performance on elected boards, the literature focused mostly on 'perceived diversity' including age, gender, ethnic background. Whereas the interviews found 'thought and skill' to be more important. However, it is thought that to achieve diversity of 'thought and skill', you need to have diversity of age, gender, ethnicity etc. showing that although the research focus may look to differ, both are equally needed to reach peak performance of an elected board.

Similarly, the literature on independent directors focused on the value of what they can bring to the board table as well as the benefits of having them alongside elected directors. All interviewees that had previously been elected directors reflected on the value of the appointed directors, however the opinions differed when it was asked how many appointed directors there should be.

Farmers clearly bring special individual skill sets to the boardroom as well as overarching values installed in them simply by being farmers. Accountability and the ability to make strategic decisions under pressure were the two main themes that shone through throughout the interviews. These skills are often overlooked by professionals when looking from the outside in.

Very little, if any literature could be found discussing the ward election system in New Zealand. This was yet another point in where opinions differed drastically, but largely due to the organisations in which people were involved in, as some company structures require a ward system more than others.

Throughout this report, the research ultimately reached the same conclusions. Whilst the literature reviews aren't always seen like for like to the interview answers, both can agree that diversity is important on any governance board. Whilst a high representation of farmers is the key to high performance, independent directors also provide beneficial attributes.

7. Recommendations

- Boards to convey what skill gaps they are seeking to fill at the time of farmer elections so farmers can vote knowing they are putting the right person into the role
- Candidates at every election to advertise their skills matrix on the candidate profile form
- Farmers with a passion for the progression of the food and fibre industry must seek the necessary skills needed to fill these roles. In turn encouragement must be given

to those with the same passion but are less likely to put themselves forward for election

- Aspiring directors, work in management before working in governance. Governance roles require experience, and experience comes with higher level management roles within organisations. *“There's nothing better for board training than having been accountable to a board”*. – Industry Leader

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Appendices

Appendix A: Industry leader semi structured interviews

1. What does successful board composition look like to you?

What are the ingredients that make a successful board

2. In an ideal world what board make up would you have with relation to elected : independents?

3a. How important is diversity on boards?

Diversity – Gender, social and ethnic backgrounds

Diversity of skills & Thought

3b. Why is diversity important or not important?

4. What should be the skills composition of a good farmer elected director?

5a. What farmer characteristics are prevalent on successful boards?

5b. What characteristics are common with a poorly performing farmer elected director?

6a. Have you previously experienced an environment when the balance of elected and independent directors hasn't worked?

6b. What were the reasons for this?

7. Can you outline a situation where a board member has become isolated from the rest of the board and subsequently ineffective, even though his/her contribution is still valuable?

8a. What are the benefits of independent directors on farmer elected boards?

8b. What characteristics do you think make up an effective independent director?

9. Have you been on a board when a split has developed?

- What happened?
- How was this issue resolved?

A + B boards

10. What are the pros and cons of farmer directors elected on wards, or across the whole country?