



KELLOGG
RURAL LEADERSHIP
PROGRAMME



A STRATEGY TO COMMUNICATE AND ENGAGE MEMBERS OF A DAIRY CO-OPERATIVE

KELLOGG RURAL LEADERSHIP PROGRAMME
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I wish to thank the Kellogg Programme Investing Partners for their continued support:



Figure 1: Farmer Wellbeing (Source: Dairy New Zealand, 2018)

I. EXECUTIVE SUMMARY

This report is an analysis and evaluation of the strategies to communicate and engage members of a New Zealand dairy co-operative (co-op).

It has been written with three aims in mind. Firstly, this report has the aim of becoming a discussion piece exploring a new frontier of how dairy co-ops need to connect and engage with their members. The second aim is to highlight the importance of learning from past research and literature, so we can make informed decisions, today. And thirdly, this report aims to share and grow the understanding and effect of co-operative member engagement.

A strong research-based strategy is at the core of this report's methodology. Literature reviews have been conducted to gain an understanding of co-operative lifecycles and connection between financial and social capital. The reviews also establish change in member demographics, generational differences, and connection and engagement models. The method of co-op member strategic analysis includes a survey of 670 farmer shareholders and 3,393 employees, as well as key feedback from six farmer shareholders and six employees who engaged in an overnight farmer bulleting program.

The keys findings of this report highlight the need for dairy co-operatives in New Zealand to apply strategies that align with 4 key member needs; sustainable financial performance, greater purpose, empowering communities through looking after the environment and being a national champion. Engagement is essential for co-operative survival, it is vital these themes are addressed to ensure their license to operate remains strong. Engagement is key for not only shareholders, employees, but also the public who will expect higher social, environmental and economic standards.

As change is inevitable, it is vital shareholders are a part of change journey to ensure their voice is heard in any co-operative strategy. Therefore, I would recommend conducting further research that would entail, exploring the implementation and effectiveness of many of these recommended engagement strategies:

1. Conducting a focus group of participants who are willing to test strategies to measure their effectiveness to overall engagement
2. Identify their initial mindset and level of engagement but conducting formal interviews/ surveys with set questions before the strategies are tested
3. Identify where the participants would like to go to in regard to engagement
4. Implementation of trial strategy and recording of key events with participant's involvement to track overall movement. Key months of implementation and timing would be outside of the calving season, with the variation of trial time varying between each strategy
5. Conduct a further formal interview/ survey to track any movement experiencing during the implementation of the trial strategy
6. Gather feedback from stakeholders involved with strategy trials and seek feedback from participants
7. Implement changes to advance engagement for co-operative members

II. ACKNOWLEDGEMENTS

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I would also like to thank my partner, Theresa Speedy, who has backed me 100% for this course and continues to inspire me to push myself every day. Without her loyal support, mentoring and help during this period this report would not be possible.

To my mentor, Sue Yerex. Sue is an outstanding ambassador to the primary industry and has always been willing to help and support me through this project. Big thank you must go to her for the support and opportunity to get this project off the ground.

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I would like to thank my employer Fonterra for the help and support to get this research project conducted. Without the support of Scott Nelson, and Jonathon Bouda this report would not have been possible. Also to Wendy Paul & Emma Brookes, Fonterra. Thank you very much for all your help, support and feedback and for pushing me to my full potential. You are both inspirational leaders within the business and I want to thank you for what you do for cooperatives and New Zealand.

Lastly, I would like to thank the dairy farmers of New Zealand for their hard work, dedication and passion towards the industry. These individuals are the backbone of the New Zealand economy and rural communities, taking dairy nutrition to the world. Thank you for your inspiration to ensure I live a life which is larger than myself and strive to give back to our farmers and community for generations to come. Thank you for your contribution to this nation.

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1. INTRODUCTION

Co-operatives, “a farm, business or organisation which is owned and jointly run by its members, who share the profits or benefits” (Oxford, 2018).

Farmer co-operatives have been key to the New Zealand dairy industry for generations with the first producer co-op, Otago Cooperative Cheese Co, opening its doors on August 22, 1871 (Co-operative Business New Zealand, 2018). Fast forward 147 years and the farmer requirement of co-operatives has shifted. Now, there are three dairy processing co-operative dairy companies in New Zealand, Westland Dairy Company Limited, Tatua Co-operative Dairy Company Limited and Fonterra Co-operative Group Limited, which have been formed over the years from an amalgamation of co-operatives. These three organisations represent a large proportion of the farmers who make up of the dairy industry, with 83.07% of total milk supply in 2018 being from co-operative shareholders.

It is also clear to see that a new breed of co-op members are entering the industry, and with this brings a new challenge and a need for co-operatives to have engagement strategies to succeed. (Hitching, 2017). “Changes in consumer behaviour, technological development, chain structure power shifts, and globalization have given rise to capital-intensive strategies” (Bekkum and Bijam, 2006, p. 3). It's these changes that have driven the expansion and amalgamation of traditional co-operatives in order to meet the capital needs of economies scale and scope. In the NZ dairy industry, this has been achieved by horizontal and vertical integration growth strategies. But with capital only accessible from farmer shareholders, allocating funds can be difficult due to different shareholders viewpoints, needs and generational philosophies. It's at this point where patron drift can occur due to a large co-operative shareholder base and shareholders feeling like they can't make a valuable input into the company, introducing the risk of a member exit.

This is when member engagement becomes critical, and the need to understand member motivation even more so.

Through the analysis of key literature combined with the survey feedback from 4,063 members, this report establishes four key member motives and makes informed recommendations to bring about positive change. Furthermore, this report looks to the future with hope and aspires to fuel the discussion on the importance of connection, understanding and genuine engagement with dairy co-op members.

2. AIMS & OBJECTIVES

In order to determine a clear strategy, relevant aims & objectives must be created to ensure an effective research outcome is reached. The below aims and objectives will be used to measure the success of my project.

1. Create a discussion piece / new frontier for the way co-ops connect and engage with the members of a dairy cooperative.
2. Learn from the past and apply the research/literature to current market positions to help identify areas of opportunity, co-operative equilibriums.
3. Share and grow the understanding and importance of co-operative member's engagement across the dairy industry by providing a range of strategies for the dairy industry to apply into the future.

3. LITERATURE REVIEW

In order to create a strategy to communicate and engage with members of a dairy co-operative, we must first understand the implications on our core member base and the demographics of both members and cooperative lifecycles effect. This will allow us to assess where we are at in this journey and what the implications are having on the shareholders of these cooperatives.

3.1 DEMOGRAPHICS

Many farmers have been part of co-operatives for generations, with their forefathers being the creator of many of these smaller local co-operative establishments such as the first producer co-op Otago Cooperative Cheese Co on 22 August 1871 (Co-operative Business New Zealand, 2018).

With the average dairy farmer age now being 48 a new breed of members is coming through and therefore different engagement strategies are required for co-operatives to succeed into the future (Hitching, 2017). As seen in *Figure 3*, as of the 2017 dairy session the average dairy herd size in New Zealand was 414 cows up from 240 in the 2001 season with 12,000 herds across the country (Dairy New Zealand & Livestock Improvement, 2017). Furthermore, herd-owning sharemilkers had declined by 1564; during this time accounting for 17% of the industry, with the desire to own a farm dropping from 70% in 1996 to 47% in 2017 (Martin, 2017). Herd sizes and capital requirements have become more demanding empathising the importance of the compelling needs, ownership structures and intrinsic values of both the farmer and processors to ensure farmer engagement remains high for co-operatives.



Figure 2: Otago Cooperative Cheese Co buildings (Source: Co-operative Business New Zealand, 2018)

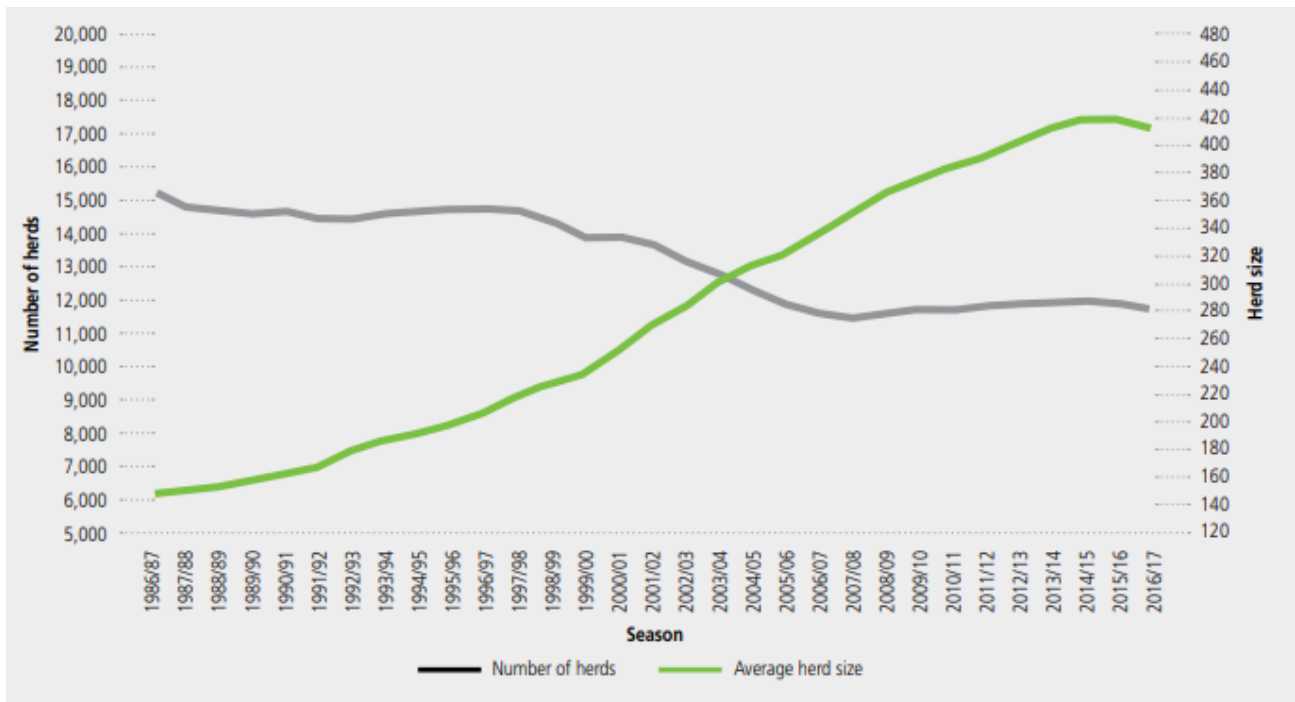


Figure 3: Trends in the number of herds and average herd size for the last 30 seasons (Source: Dairy New Zealand & Livestock Improvement, 2017)

3.2 FINANCIAL AND SOCIAL CAPITAL REQUIREMENTS

In order to understand member engagement within the industry, we must understand the financial and social capital requirements. Over the last two decades, cooperatives have thrived, innovated and developed focusing more on market-led strategies instead of producer lead strategies. As Bekkum and Bijam (2006) stated. “Changes in consumer behaviour, technological development, chain structure power shifts, and globalization have given rise to capital-intensive strategies”. This has resulted in some members becoming disillusioned and disconnected from the strategy of co-operatives in the New Zealand dairy industry.

As traditional co-operatives expanded and amalgamated to meet this capital need there were economies of scale and scope; horizontal and vertical integration to grow their businesses. The development of financial and social capital accelerated. Social capital is the measure of the level of trust shareholders have with the business which co-operatives need to remain competitive. However, as Nillson, Svendsen, Svendsen (2012) found, if they lose this capital found the risk during this phase is decreased social capital which can hinder business growth create alienation, passivity, low involvement and weak democratic governance within the cooperative. Social capital, social networks based on norms of reciprocity and trust can be seen as the most essential asset of cooperatives, comparison to Investor Owned Firms (IOFs) (Hogeland, 2006). Social capital must remain at the forefront of any shareholder co-operative relationship to ensure economic performance prevails.

As seen in *Figure 4* by Hogeland (2006) aggregate economic performance falls when gains from social capital dwindle. Between 1841 and 2000 New Zealand's dairy industry increased economic performance without the drain of social capital due to a high number of local co-operatives as seen in *Figure 4* on T₀-T₁ on the equilibrium. The high economic performance was achieved with dairy co-operatives in New Zealand between 2001- 2014 with the highest payout on record been recorded at \$8.50 in 2015 season by Fonterra (Interest, 2018). New Zealand dairy co-operatives are between T₂-T₃ from the 2015- 2018 season due to stagnated economic performance which resulted in an increased drain on social capital. This is prevalent by Fonterra getting a pass mark for performance but experiencing "challenges connecting with 10,500 owners and plans for future investment in added-value and consumer products" (Wallace, 2018). The risk is if this drain continues co-operatives risk moving to a new frontier of a significant drain of social capital which overall will pull down aggregate economic performance.

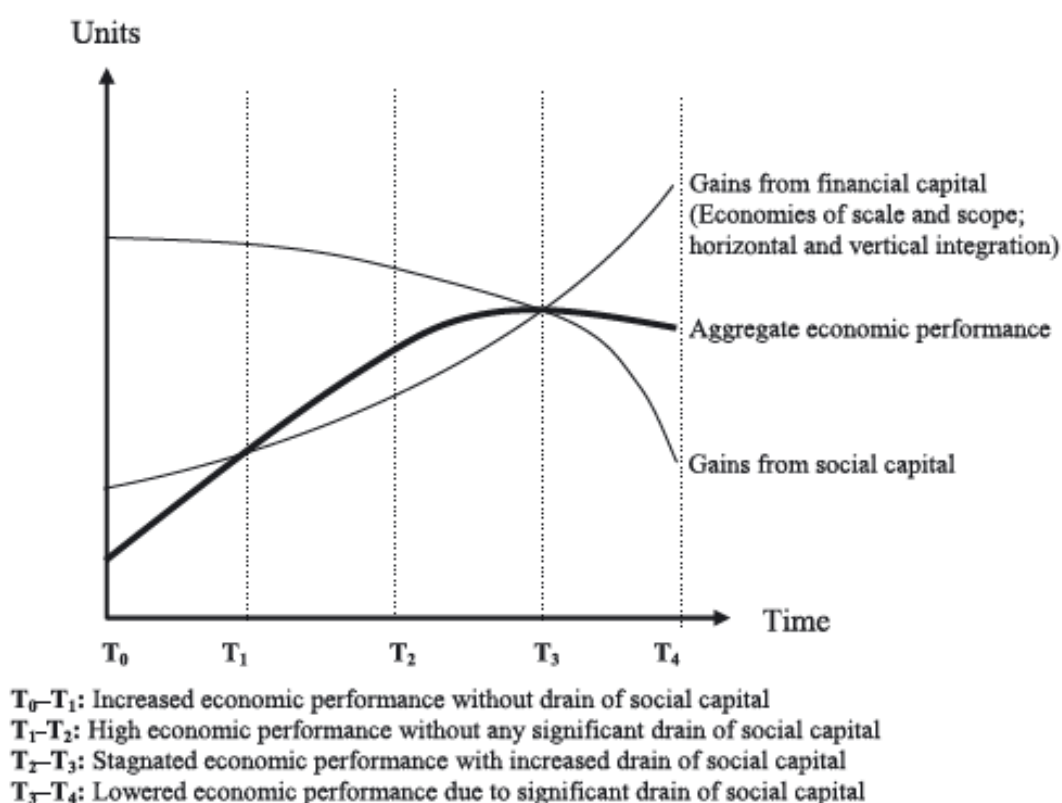


Figure 4: The Development of Financial and Social Capital as a Traditional Cooperative Expands and Becomes Increasingly Complex. (Source: Hogeland, 2006).

Conversely with capital-intensive strategy many argue co-operatives are inferior company ownership models. This is due to restricted capital due to limited member finance and inefficient decision-making process (Bekum, Bijman, 2006). This has required some co-operatives to seek alternative funding avenues.

Over the last two decades, cooperatives have thrived and developed, and this has resulted in co-op business models changing over the years in order to obtain more capital for future growth strategies. For example, some companies have got appreciable and or internally traded shares such as Fonterra who in "2001, created supply-linked, non-tradable, 'interest-bearing voting, 'fair value' shares, annually revalued by the Board of Directors based on external expert recommendations (Bekum, Bijman, 2006, p. 4). Whilst this had added in additional capital into the business it has also resulted in some farmers losing social capital in these co-operatives which can hinder economic performance.

3.3 GENERATIONAL DIVIDE: ENGAGING MEMBERS

In order to understand what each generation requires in regard to engagement, the below differences need to be examined between Baby Boomers, Gen X and Gen Y. Baby Boomers were individuals born between 1946-1964, Gen X; individuals were born between 1965- 1979 and Gen Y are individuals born from 1980 to now (Gibson, Greenwood, Edward, 2011).

Baby Boomers were alive for the beginning of rapid economic expansion, the introduction of the fax machine, Vietnam war, assassination of Kennedy/ King which resulted in traits of optimism and process orientation. Gen X, on the other hand, experienced mass layoffs, excessive inflation, Watergate, anti-war protests, the introduction of the first computers from Apple, along with the first generation to have both parents working which resulted in mistrust and scepticism to the establishment of organisations and institutions. Gen Y is the internet generation, technology savvy, comfortable with change, in the era when the first internet search engine developed, and e-commerce store is opened, furthermore, they challenge tradition, value, organisation or person (Dziuban, Moskal & Hartman, 2005).

As per below table in *Figure 5: Generation Descriptors*, Baby Boomer's value teamwork, inclusion, company loyalty and are self-absorbed. On the other hand, Gen X are independent individuals, who want fulfilling work are self-reliant and can express cynicism to corporates. Gen Y, on the other hand, are globally aware, optimistic, and inclusive by nature, crave feedback and self-centred (Gibson, Greenwood, Edward, 2011). Hence engagement strategies for these three generations are required to be dissimilar. In a co-operative, structure Baby Boomers are naturally company loyal, Gen X lack loyalty due to their experiences growing up where organisations laid off staff and Gen Y treat the relationship like a contract mentality. This highlights the importance of co-operatives changing their engagement initiatives to be more self-centred around the individual to grow loyalty around Gen X and Gen Y who will become more prominent shareholders in the future. If co-operatives do not adapt there is a risk Gen X and Gen Y lose connection, engagement and social capital with these co-operatives.

Baby Boomers	Generation X	Generation Y
Sandwich generation	Latch-key kids	Netters
Company loyalty	Lack of loyalty	"Contract" mentality
Idealistic	Reactive	Civic-minded
Self-absorbed	Self-reliant	Self-centered
Workaholic	Work/life balance	Multi-taskers
Tech conservatives	Computer savvy	Tech experts
Entitled	Cynical/skeptical	Easily bored
Traditional family	Divorced family	Many family forms
Wary of authority	Independent	Crave feedback
Competitive	Entrepreneurial	Serial Entrepreneurs
Materialistic	Fun-loving	Volunteers
Training	Life-long learning	Distance learning
Comfortable with change	Creative	Crave challenge
Optimistic	Want fulfilling work	High maintenance
Security oriented	Career options	Collaborative

Figure 5: Generational Descriptors (Source: Gibson, Greenwood, Murphey, 2006)

3.4 HOMOGENOUS VIEW POINTS/ PATRON DRIFT:

Throughout the lifecycle, longstanding co-operatives who have maintained homogenous viewpoints with senior founding members face a new risk. When these senior members retire, new entrants do not always hold the same interests as remaining member preferences (Cook, & Burrell, 2009). This can significantly affect engagement with numerous viewpoints influencing key member and management decisions. These differing opinions prevail when members have different opinions on investments, yields and consolidation. "Management then has to make a decision of how that opinion should be weighted, which can result in some members becoming disengaged as they cannot satisfy all member interests" (Nilsson, 2001, p. 12).

This can create a lack of control and monitoring by co-op members who feel disengagement which can result in far-reaching implications for engagement. As Boettcher (1980) stated "consequently, the dominating element of collective ownership can create a risk that members lose their interest in monitoring the firm and their ability to do so, with the result that the management being able to promote its own interest take control instead" pp 89-93). This highlights the importance of members engaging with the co-operative to ensure management is held to account. Members can better control co-operative firms when they have a strong concession of how their membership fits in with the values of the firm such as trust, fairness and solidarity (Nilsson, 2001). If these values differ this can cause contrasting issues results in the disconnection between theory and practice.

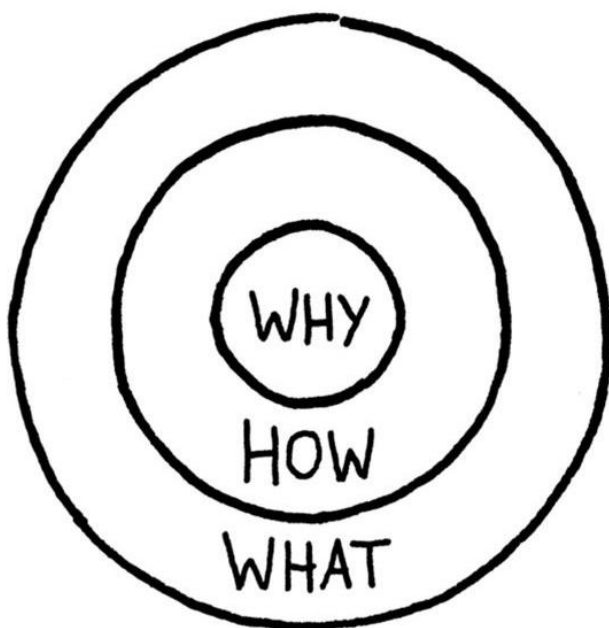
Decision making has always been a concern for shareholders of a co-operative and ensuring their voice is being heard. With decisions being centralised experts are sent out to areas to talk to local shareholders to help implement decisions, the issue is they are not always involved with the decision-making process. These local reps where the entrepreneurs, visionary individuals, who were the common good & leading force of that local co-op risk the connection with producers could be lost (Swedsen, 2004). It is important co-operatives capitalize on these innovators to bring out the best in the co-operative long term.



Figure 6: Fonterra Whareroa (Source: Hutching, 2017)

3.5 CONNECTION AND ENGAGEMENT MODELS:

In order to understand what ways co-operatives can connect with its shareholders, we must first look at a few engagement examples. As seen in *Figure 7*, Simon Sinek (2007) stated in his series “How Great People Inspire Action” the importance of the golden circle. “People don’t buy what you do, they buy why you do it (Simon Sinek, 2007). If co-operatives want to connect more with its shareholders, it is vital they sell the “why”. They must act from the inside out to communicate “why” they do what they do to create a sense of purpose. It is also vital they communicate what they believe in with businesses/shareholders who share similar beliefs to achieve optimal outcomes. They must explain “why” they co-operatives do the things that they do. What gets these organisations out of the bed in the morning to achieve their purpose as an organisation is critical to any co-operative engagement success.



What

Every organization on the planet knows WHAT they do. These are products they sell or the services they offer.

How

Some organizations know HOW they do it. These are the things that make them special or set them apart from their competition.

Why

Very few organizations know WHY they do what they do. WHY is not about making money. That’s a result. It’s a purpose, cause or belief. It’s the very reason your organization exists.

Figure 7: The Golden Circle (Sinek, 2013)

As seen by the Heineken’s “Worlds Apart” experiment, people with divided beliefs can still co-exist if a connection and understanding of their ‘why’ is exists. The experiment places two strangers with strong contrasting views in around topics of politics, feminism, climate change and gender stereotype, and the results are very raw, vulnerable and human. Our strangers are required to work together to build a bar, describe themselves in five adjectives and describe three things they have in common between each other. Once the tasks are complete, it is revealed that the ‘no-longer-strangers’ have contrasting views and they each have to make a choice; they can leave, or they can stay and discuss their differences over a beer. All participants decide to stay on for a beer and talk over the differences. The groups move away from their contrasting views and focus on how they can better understand each other by talking to each, engaging, talking about their upbringings, exchanging contact details.

What you see is genuine relationships forming, along with the individuals putting their viewpoints to the side and understanding they have more in common than they think. The ad highlights the importance of “Open

your mind, open your world” and the importance of building bridges between each other (Heineken, 2018). It shows that despite contrasting views, people can still work together to achieve a common good. Co-operatives are the same. It is vital that this purpose is drawn upon to pull members together to solidify membership desires.

3.6 CO-OPERATIVE LIFECYCLE FRAMEWORK:

In order to understand where co-operative engagement sits, we must first look at the health of co-operative and where that sits for its members.

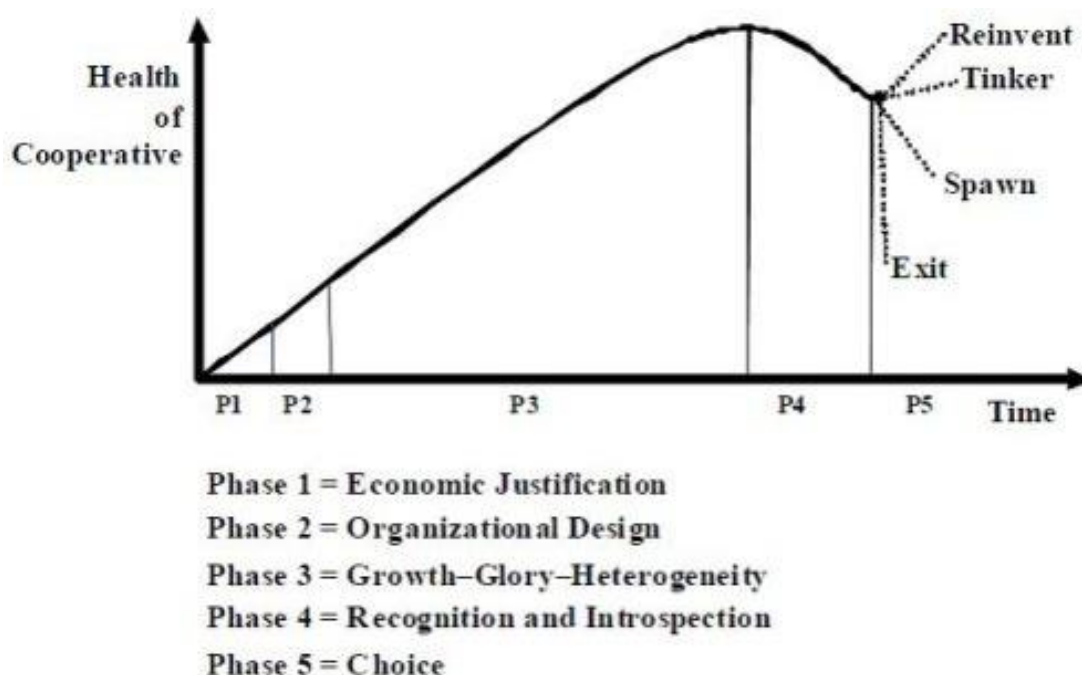


Figure 8: Co-operative Life Cycle Framework (Source: Cook & Burress, 2009).

As per the above imagine, Figure 8. Co-operative Life Cycle Framework, co-operatives have 5 phases which are compared and contrasted to the lifecycle of the New Zealand dairy industry.

- Phase 1 (PH 1) = Economic Justification is when the first dairy co-operative was created in 1871 in New Zealand which resulted in growth and economic justification for many other co-operatives to form. Between 1920 to 1940, 600 dairy factories were created across the country with 85% of them being co-operative owned (Co-op Business New Zealand, 2017 [2]).
- Phase 2 (PH 2) = Organisation Design (1999-2001) is when Fonterra was formed collecting 95% of total raw milk in New Zealand with the passing of the Dairy Restructuring Act. The remaining 5% of milk was processed by Open Country (Investor Owned Firm), Tauta (Co-Operative) and Westland (Co-Operative).
- Phase 3 (PH 3) = Growth-Glory (2001 to 2014) took place within the New Zealand dairy industry in the 2015 season with cow numbers peaking at 5.01 million and milk production at 1.851 billion kgs of milk solids (Dairy New Zealand and Livestock Improvement, 2017).
- Phase 4 (PH 4) = Recognition and Introspection (2014 – 2015). This is when the dairy milk price payout dropped significantly in New Zealand from \$8.40 to \$4.40. As Evans and Guthrie found (2006)

this is when allocative inefficiencies based on poor investment decisions originate. This is when membership demand action on performance and challenges cause rising tensions within many co-operatives.

- Phase 5 (PH 5) = Choice (2016-2019) From the 2016 season competition heated up between milk processors this resulted in establishment of new plants opening/expansions plans being released by Danone in Auckland, Yashili in Pokeno, Fonterra in Te Rapa, Open Country Dairy in Horotiu, Synliat in Pokeno, Happy Valley Milk in Otorohanga, Mataura Valley in Gore, Poutama Dairy Group in Kawerau and Blue River Dairy in Invercargill. This caused pressure on all manufactures with limited milk growth and growing processing plants. Engagement is effected during this time period due to a number of factors and pressure from external competitors offering alternative investor owned structures.

New Zealand co-operatives are currently at a point Phase 5 = choice (PH 5). All shareholders are reaching a point where they have a choice if they can stay in this model or move to other economic models such an investor owned firm. Co-operatives at this point have any opportunity to reinvent, tinker, spawn to ensure the health of co-operative is maintained for future generations. If this is achieved co-operatives can move to a new frontier between phases 1 and 4, by bringing the organization to a new life cycle.

As Cook & Burress (2009) found “Once a choice is made, the organization may elect to begin a new life cycle, *Figure 6* illustrates a cooperative in its fourth life cycle increasingly capable of meeting member needs, experiencing shorter life cycles and exercising different choice options” (p. 14). If co-operatives do not reinvent themselves there is risk that investor owned firms will continue to target milk supply hence decreasing the efficiency of current manufacturing capacity.

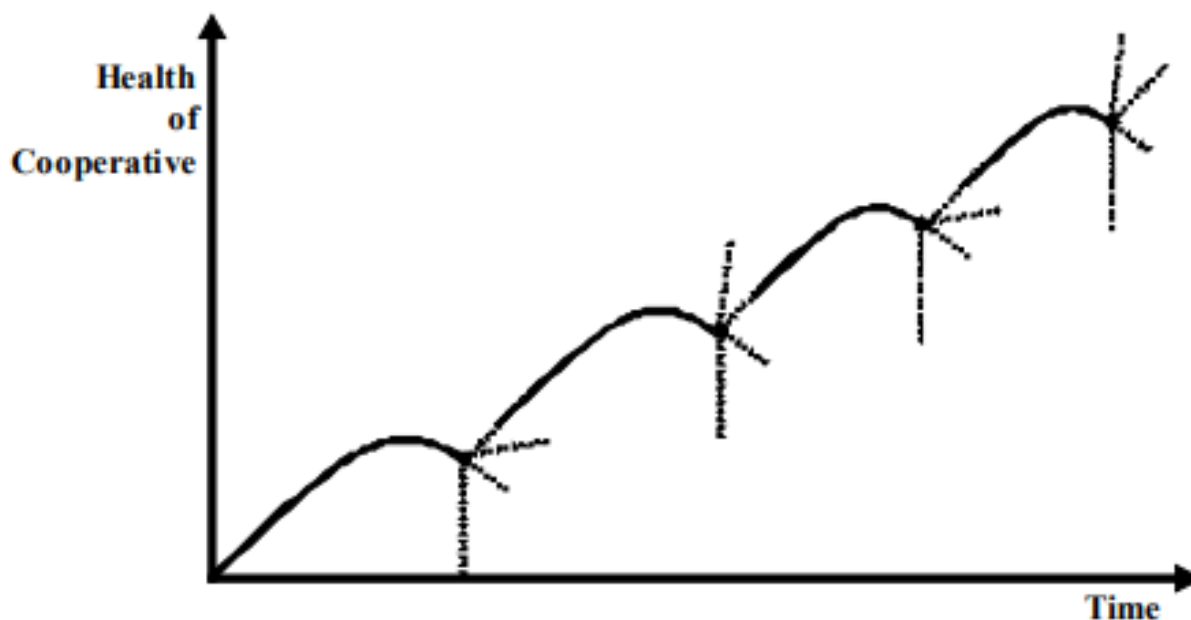


Figure 9: Iterative Life Cycle Hypothesis (Source: Cook & Burress, 2009).

4. METHOD

In order to determine a strategy to communicate and engage members of a dairy co-op key data from both farmer shareholders and employees was critical to the success of this project. This study was focused on collecting the perception and experiences of these co-operative members to determine qualitative responses around what was missing from an engagement point of view for these farmers. To do this, three forms and methods were used to gather information that could then form the census and recommendations of how a strategy could be implemented to build co-operative engagement in the dairy industry for future generations.

Farmer Co-operative Shareholder Survey:

Firstly, a survey with 670 farmer's shareholders was conducted as part of the wider Fonterra purpose review. Four key questions were asked in order to determine how as a cooperative we could connect better with the shareholder basis.

1. What makes you feel you belong somewhere or to something?
2. What makes you feel inspired?
3. What do you want Fonterra to be remembered for?
4. Thinking about a person or organisation you know well and admire that has a strong sense of purpose why do you admire them?

Employee Co-Operative Survey:

Secondly, a survey was conducted with 3,393 co-operative staff members as part of the wider Fonterra purpose review.

1. What do you find the most inspiring or motivating in your professional or personal life?
2. Thinking about making a positive difference in the world through working for Fonterra, which of the statements are important to you?
3. Which of the following statements best represents your views on Fonterra and a role as an organisation?
4. What behaviours are important to you in an organisation you want to belong to?
5. What behaviours make you feel disconnected or uncomfortable with the organisation?
6. Having shared your thoughts in this survey, do you have any other input or suggestions that will help us think about and shape Fonterra's refreshed purpose?

On-Farm Engagement Trial:

Thirdly an on-farm trial was conducted with six farmer shareholders to verify the relationship between farmer shareholder and employee's engagement. A survey was conducted both before and after this analysis to determine the connection and correlation between both parties.

The three response mediums were then analysed to establish key themes in order to determine the best strategy to build engagement for co-operatives in the New Zealand dairy industry. These themes were determined in correlation with each of the three mediums in order to establish the main areas of focus to build engagement.

5. RESEARCH LIMITATIONS

There were many limitations in my report when reviewing a strategy to communicate and engage members of a dairy co-operative, though difficult to speculate the impact on the results. These limitations include:

- **Sample size:** The number of people involved in the on-farm visit between farmers and employees was relatively small due to the inability and limited time to conduct this research outside of work hours. Access was, therefore, an issue in regard to finding a time that works well with these individuals.
- **Legislation:** Health and Safety legislation limited the ability of individuals on the on-farm visit trial to go on any forms of motorized vehicles or conduct some day to day activities that the farmers do in their everyday life hence diluting the experience.
- **Voluntary survey:** Both employee and farmer surveys responses voluntary which meant, every shareholder or employee did not have to opt into this survey and hence provide feedback, this is hard to measure how much impact this had on the survey due to contrasting views.
- **Geographical Responses:** With 25% of the dairy herd being located in the Waikato there was a limited number of responses in the Waikato in relative terms to the rest of the survey responses gathered nationally. More data could have been gathered in this area.
- **Data:** This was taken at two different time points of time which could have resulted in bias or corresponding views due to different national/ local and international events affecting them at that time.
- **Demographics:** Due to the average of farmers being 48 years of age, the majority of the farmers surveyed were the baby generation due to the small number of sharemilker and Gen Y farmers who currently make up the dairy industry. This demographic will become more prominent in the future due to a large number of Baby Boomers and Gen X retiring in the near future.

6. RESULTS/ANALYSIS

In order to determine a strategy that covered all members of the cooperative from both farmer shareholders and employees an analysis was conducted across three mediums to determine the key motives that were affecting engagement across the dairy industry.

Sustainable Financial Performance

The first motive that was prevalent through the survey results for farmers was the importance of co-operatives setting targets “knowing where they are going, why and how to get there by having a

demonstrable track record” is important for members (R190). When the question was asked, *thinking about a person or organisation you know well and admire that has a strong sense of purpose, why do you admire them*, key responses included having a clear vision, achieving targets and delivering results and returning sustainable profits back to its shareholders was important to many members. This was important not only to grow their business but invest in things that mattered to them such as their communities. Profit was important but recirculating that profit to benefit other New Zealanders also come out in the results as seen by the below response “profitable for its shareholders that will benefit other New Zealanders, A company that every New Zealand can be proud of is important (R249). Farmers also felt the large buying power of the co-operative was important “being part of a large international company, which is leading in financial performance” (R507).

Greater Purpose:

The second motive that was prevalent through the survey results was the importance of co-operatives to have selfless desire to live for something greater than themselves. A strong purpose was important, along with trust, honesty and a strong team culture were all strong attributes that farmer shareholders attributed to an organisation that they admired. Living for future generations and passing on to the next generations was prevalent. As a farmer (R370) mentioned “this it is important to support and be of assistance to the future generation to be able to continue farming the way we farm best while continuing to grow products and audience. To develop a way to assist the next generation into a position of ownership/management”. Shareholders in the co-operative wanted to live for something larger than themselves (R63) “everyone working together to achieve that purpose, with purpose comes pride and ability to communicate why we do what we do to others” were common themes throughout the results.

Similarly, values and organisational culture and believing what they stand for were important for cooperative employee members in a co-op. This allowed them to understand how they fitted into the organisation and could drive for something that was bigger than themselves.

Empowering communities and looking after the environment:

The third motive that came through the survey results was the importance of giving back to the community, the next generation, sustainability and producing high-quality products. As more consumers became conscientious about their impact on the environment, so too were farmers and ensuring their land was looked after for generations. This included conducting nitrogen plans and fencing off waterways. Farmers emphasized the importance of “collective effort to improve our farming practices to better the environment/animal health and welfare/safety and happiness of our people” (R297). This was prevalent through the survey farmer genuinely want to “leave the environment in a better place than it was” (R291). Survey results from individuals in were in the Auckland region were more consensus of this.

A strong sense of community was also prevalent with shareholders wanting to “build a family asset a generation provides an anchor and shelter, Fonterra family/community to prosper (R380)”. Giving back to community-driven initiatives and being seen as the face of the community was important for shareholders. The strong purpose based in the community for the community, manage funds well, achieve stakeholder expectation and the customers for those they are here for was important.

National Icons

Prevalent through the survey results for both farmers and employees was the local pride of regional and national organisations. Organisations that came through for farmer shareholders that inspired them to be better than themselves were the All Blacks/NZ Rugby & Air New Zealand. Many of these organisations hold national identity and carry a lot of emotional connection for many of these individuals. Furthermore, farmer shareholders found that organisations such as Air New Zealand (R194) had a “great reputation globally and the ability to do well in a competitive market”. Even though they do not own or get financial benefit from these organisations necessarily they felt national pride and connection with these organisations due to their high performance. This could be seen by comments being made such, (R521) “All Blacks - they set the highest standards/they always look at ways to be better and will adapt to get results”.

On the other hand, employees of Fonterra rated Fonterra/Fonterra Farm Source as the top organisation they had a strong purpose they could relate to, followed by Church, All Blacks and sports clubs. This shows us the importance of members understanding the co-operative to ensure they can relate to it and feel inspired by the work they are conducting. In correlation only a smaller number of farmer co-operative shareholders mentioned a co-operative directly as an inspiring organisation.

7. FINDINGS AND DISCUSSION

In order to build engagement within a dairy co-operative, it is vital members voices are heard. The four motives highlighted the commonality of member thinking and the need to embed this into a strategy to drive effective outcomes for these co-operative members. In order to further my research in the below findings and discussion section key themes will be discussed in relations to events/ strategies co-operatives can implement to build engagement within the New Zealand dairy industry.

Sustainable Financial Performance

Building sustainable financial performance was important for the health of the co-operative and long shareholder return. This ensured farmers had the ability to return profits back into their business. Trust, honesty and transparency are important for farmers, knowing where the business was going and the direction. In order to understand what co-operatives can do to build engagement around sustainable financial performance, we must look at examples of companies who have sustained this for a period of time. Tatua represents less than 1% New Zealand total milk collections and since 2001 has been focusing on high-value product ingredients business. This has resulted in a 22% return on assets in 2016 season and earnings before interest and tax (EBIT) increasing from \$16 million to \$53 million in 2016. Tatua only has 113 farmer suppliers, being a co-operative and has limited access to capital with debt being used to fuel investments at a reasonable level of 2.5 times EBIT (TDB, 2017). It is vital co-operatives in New Zealand increase shareholder wealth to ensure on-going property and the ability to leverage the business to capitalize on growth opportunities for their co-operative. To build engagement around sustainable financial performance the below strategies can be applied to gain shareholder trust that the co-operative will deliver.

- **Honesty:** Many of these farmer shareholders run there on business and have many financial skills that allow them to interrupt statements easily. Being honest about the circumstances. Have interactive financial statements that allow farmers to connect and drill into the data
- **Investing in both short- and long-term investments:** Having a mix of investments that return capital to the business short term is important with long-term investments required that pay off in the long run to build shareholder value. Justifying these strategies to members are important so co-operatives can hold back capital to further invest in the business.
- **Voting Platform and Voice in decision making:** Platform for farmers to get in behind initiatives being conducted in the business and vote on strategies or ideas that will assist on the co-op achieving its long-term vision.
- **Transparency:** Creating an open book that farmers can see where their money is going and how it is returning benefit to the co-op. Have a platform that farmers can any question and a representative will answer it in a prompt time period on behalf of New Zealand.
- **Instilling trust:** Trust that the business will deliver and return what it requires to its shareholders. That if these farmers hold up their bargaining chip so will the business. Genuine connection at the farm gate to ensure this trust is maintained.
- **Experiencing the investment first hand:** Arranging business trips with shareholders that show the importance of this investment overseas, how do they play into the long-term strategy, trade and economic goals of each country.

Greater Purpose:

Members of a dairy co-operative valued the importance of living for a greater purpose and connecting to a purpose wider than there individual or set goals.

Correlation between co-operative and social enterprise business hold the same intrinsic values which is maximizing the benefit to its communities it supports whether it is through its members in milk payout or a donation to a local communication. An example of an organisation that puts its “greater purpose” at the forefront is “Thank You”. This organisation invests 100% of its profits into reducing poverty by selling a range of water and health products. This consumer movement has raised millions by selling these products in Australia and New Zealand to give people in poverty toilets, clean water and maternal services (Thank You, 2018). Co-operatives in the New Zealand industry need to be vocal around the great work they are doing and link the farmer to a common purpose. A purpose that they can connect with in order to inspire those farmers who want to drive for something bigger than themselves. It is vital that this greater purpose is pursued hand in hand with the below strategies to bring this engagement to life.



Figure 10: Drinking water from a tap (Source: Beattie, 2015)

- **Connection of the value chain:** Connecting farmers to employees through on farm visits
- **Empowering famers:** Empowering farmers to sell their story and connect with the greater business and community. Providing open mic events where people can tell their stories, connect and show their passion for the industry with employees and farmers.
- **Growth and development:** Capitalizing on town hall meeting and add an optional health and well-being component. Allowing farmers to grow their skills and capability within the co-op to be better farmers and better people.
- **Connecting farmers to their customers:** Through on farm visit and in market visits.
- **Building capability & connection with sharemilkers:** Utilising older retired farmers to spread the good word about co-operatives and how it builds their net worth through their generations.
- **Opportunities for employees to invest:** Pathway for people working for Fonterra to own a share in a farm and invest in sharemilkers coming through the industry.
- **ERT = Equivalent for mental health and farmer support:** A responsive team that supports and helps farmers in distress times of need. Deployed into the community to pull people across the business together/ support as required.

Empowering communities and looking after the environment:

Co-operative members were well connected to empowering communities and looking after the environment. They wanted their co-operative to give back to local initiatives and wanted to leave the environment in a better state they got it in. In order to understand what co-operatives can do to build engagement with farmers around empowering communities and looking after the environment, we must look to incorporations who are leading by example. In 2007, Mars set an ambitious goal to achieve zero waste to landfill at all 126 global manufacturing sites. By 2015 it achieved this goal by re-using, reducing, recycling or using product as an energy source at 100% of its manufacturing sites worldwide, reducing the amount going to landfill from 146,000 tonnes in 2007 to 0 tonnes in 2015. The company produced 9 million metric tons of product in 2015 and also cut greenhouse gas emission by 25% due to large investments in green energy such as wind farms (Hardcastle, 2016). As Mars show us the bottom lines doesn't need to be compromised to drive engagement within co-operative member local communities and environments. It is vital these initiatives are pursued hand in hand. Strategies that can aid building engagement with empowering communities and looking after the environment include:



Figure 11: Turbines (Source: Freuds, 2018)

- **Nationwide planting schemes for farmers:** Capitalizing on co-operative buying power, with the ability to track tree planting and farmers who are putting in and investing in riparian planting.
- **Highlighting impact on the environment and how we all make an impact on that:** Highlight the great environmental work farmers are doing. Do this in a way that communicates and compares how much we use in relation to the average consumer. Measure the payoff of nutritional value created.
- **Educating future generations:** By investing in programs that are already well established with a proven following and access into schools such as the DairyNZ Education project. This initiative is championed by "Rosie the Cowbassador" and it is her mission to educate all rural and urban children about the importance of all aspect of dairy. They also operate a Find a Farmer programme allowing approx. 8,000 urban children to visit farms each year.
- **Local Funding Link:** Linking the farmer and local community groups together when grants are given out to empower, connect, and highlight the great contribution these farmers are giving back to the community.
- **Inviting wider community to volunteer and contribute:** During open gates have opportunities for community members to plant trees/give back during this visit. Make it memorial and create a personal connection.

National Icons

Building a national icon is not only important for our farmer shareholders, employees but also for the success of the industry and nation. Companies that captivate the minds of its staff, customers and communities by creating a sense of pride and ownership are successful in this space. In order to understand what co-operatives can do to boost this engagement further, we must look at the case studies examples. In 2001, Air New Zealand was in turmoil, it had to do something different. "Air New Zealand had to make the leap from a micro-to-macro-perspective, it was driven by a belief that the



Figure 12: Air New Zealand Flight (Source: Lightwire Business, 2018)

firm needed to build a positive connection in the consumer's mind between the airline and the country's border cultural identity. Air New Zealand clearly realised that this 'origin story' was the heartbeat of their brand" (New Zealand Trade and Enterprise, 2018). To build and engage with members of a co-op hearts and minds must be captivated through national icon awareness. Promoting the brand positively in the limelight that makes farmers and the nation proud of what the company contributes to the economy is important. Things that can aid this national icon identity is:

- **Storytelling:** Connecting farmers & community members closer to where their milk is being processed to share the vision and drive connection.
- **Awareness campaigns:** Awareness of the value and contribution co-operatives contribute to the economy through comparisons to everyday products.

- **Building pride and connection into everyday marketing:** Building marketing models that encourage engagement, connection and positive outlooks on the industry and its products. Marketing that encourages sharing and participation.
- **Being Authentic:** Authentic in who we are, authentic in actions, authentic in our communication to give back to the industry and the nation.
- **Regional Pride:** Shareholders council stronger representation on board and utilisation of AI to determine wants/ needs.
- **Innovation Regional Hubs:** To promote new ideas and involve farmers, community to get involved.
- **Utilising inspiration young farmers:** Engaging them to grow and spread the good image of the industry.

8. CONCLUSIONS

As Benjamin Disraeli mentioned, “Change is inevitable, change is constant”. Over the last 147 years, co-operatives have thrived, developed and re-invented themselves to re-shape the dairy industry in New Zealand. This change will continue to unravel into the future and the way co-operatives adapt to meet member needs will determine their success in the future.

This research highlighted the importance of strategies dairy co-ops use to connect and engage with their members are fundamental for its health. Engagement forms are different for every person with changing demographics and increasing capital requirements, more pressure is being put on shareholder members. Compelling needs, ownership structures and intrinsic values must be at the forefront of any management decisions to ensure engagement is maintained into the future. Market-led strategies by co-operatives have led to capital-intensive strategies which have resulted in the dilution of the most important co-op asset, social capital. In order to build social capital recognizing and identify the generational difference between Baby Boomers, Gen X and Gen Y is important for co-op’s in the future and satisfying their individual needs. This will ensure patron drift does not occur due and homogenous viewpoints are maintained. By having a clear purpose and a “why” co-operatives can break traditional heterogenous viewpoints by breaking down and connect people around a common need. This will allow the co-operatives to move from their current point on the equilibrium “choice” to a new frontier by tinkering and reinventing their co-operatives which will increase their long-term health.

Key motives that came out of the research were sustainable financial performance, greater purpose, empowering communities and looking after the environment, and national icons. Despite more investment by co-operatives to build engagement, more research is needed to develop new engagement technique and models to better engage co-operative members around the four motives.

This highlights the importance of co-operatives creating value both financially and socially. As Edward Oczkowski (2013, as cited in Rao, G, 2017) found “you actually have to every day ... engage in those co-operative principles of leadership and advocacy and want to educate people, so that they can actually set that apart from what their peers are getting in another organisation that's not a co-operative. And that's

what they see, and that's what makes others jealous, and that's why our list is so long. It's not just about milk prices, it's about what we do as producer co-op (p. 55)

9. NEXT STEPS

Although the focus of this report was to provide strategies to communicate and engage members of a dairy cooperative this is not unique to the dairy sector alone. Co-operatives agribusiness in New Zealand are grappling with similar engagement requirements by shareholders; some more than others in industries such as meat processing (Silver Fern Farms and Alliance), kiwifruit and packing (Zespri, East Pack), goat (Dairy Goat Co-Op), fertilizers (Balance & Ravensdown), genetics (LIC), rural services (Farmlands & FMG). Similar demographics are also prevalent across these industries in regards a high number of Baby Boomers and Gen X who are facing retirement in the next few decades. Change is inevitable, and it is vital shareholders are at the forefront of these changes to ensure their voice is heard in any co-operative strategy.

In terms of next steps, I would like to see co-operatives in New Zealand apply strategies specifically around the key themes of sustainable financial performance, greater purpose, empowering communities and looking after the environment and national icon to ensure these core themes are addressed to build shareholder engagement. Where possible these strategies should be implemented in correction with employee and shareholder members to address their needs. Engagement is essential for co-operative survival, I believe it is vital these themes are addressed to ensure their license to operate remains strong. Co-operatives will not only face pressure from its employees and shareholder base for high engagement but also from the public who will expect higher social, environmental and economic standards.

10. RECOMMENDATIONS

Therefore I would recommend conducting further research would be beneficial for my research project to further advance my understanding how dairy co-operatives can build engagement with its members. This may entail, exploring the implementation and effectiveness of many of these strategies in order to satisfy the key themes of sustainable financial performance, greater purpose, empowering communities and looking after the environment and national icon.

1. Conducting a focus group of participants who are willing to test strategies to measure their effectiveness to overall engagement.
2. Identify their initial mindset and level of engagement but conducting formal interviews/ surveys with set questions before the strategies are tested.
3. Identify where the participants would like to go to in regard to engagement.
4. Implementation of trial strategy and recording of key events with participant's involvement to track overall movement. Key months of implementation and timing would be outside of the calving season, with the variation of trial time varying between each strategy.
5. Conduct a further formal interview/ survey to track any movement experiencing during the implementation of the trial strategy.

6. Gather feedback from other stakeholders involved with the strategy trials and seek feedback from participants.
7. Implement changes to advance engagement for co-operative members.

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