The directors, the stocks and the tomatoes

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**OPINION:** A few months ago I wrote a column about the Xero annual meeting and a bit of metaphorical tomato-throwing that went on. The column traced the proactive management of the Xero board of directors, whereby Xero has been able to source the right set of board skills at the right time to speed its growth. Rather than setting and forgetting corporate governance, Xero shareholders have sought to ensure they have the optimum people providing governance to best deliver returns to the shareholder.

After starting with a venture-capital style chair back in 2006, it moved to a seasoned financial services chairman in 2010 and then, with a US listing firmly in its sights, recently moved Chris Liddell into the position. Bringing, as he does, serious cred as former senior vice-president of Microsoft and CFO at General Motors, Liddell is likely to have the skills to help Xero chart the troubled waters towards listing.

In three weeks’ time, a very different business will hold its annual meeting. Market Gardeners Ltd (now trading under the brand of MG Marketing) was established in 1923 by a group of Wellington vegetable growers.

The business is structured as a co-operative to provide support and endeavour for grower-shareholders, and today it is one of the larger fresh produce suppliers in Australasia. Essentially it brings in fruit and vegies from growers and sells them back into the market, mainly on behalf of its grower shareholders and primarily to the two supermarket chains - Progressive Enterprises and Foodstuffs.

While originally set up as an intermediary between shareholders who grow the produce and the big retailers who buy it, MG Marketing may now be plotting a change of course by exerting significant control over a large tomato operation in Nelson and providing the operation with a series of loans.

An interesting question is whether they used shareholder funds to make those loans. If they did, then potentially the co-operative business is becoming a competitor, and using shareholder funds to finance the initiative. To put this in another context, imagine Fonterra extending a loan to Crafar farms.

A year ago shareholders decided they had had enough of the board of directors, who they believed acted too much like an old boys’ club. At the Alexandra annual meeting they tabled concerns about the co-operative competing with its members and raised questions about its lending practices, the governance practices and the share structure.

As a result of this, shareholders called for a review by an independent committee. Although this review was partially carried out, the result doesn't appear to have been made available to shareholders. Curious behaviour, particularly when the organisation is a co-operative and you’d think that some sunlight might prove an effective disinfectant while also taking the heat out of any empty allegations.
Also curious are the board's structural arrangements which allow for independent directors to be appointed by the board itself rather than by shareholder election.

Last year's disaffected shareholders got themselves organised and have now set up a website, www.yourmg.co.nz, where they are tabling their concerns around governance and transparency in the lead-up to this year's annual meeting.

One of the things that caught my eye on the website was the directors' plentiful remuneration, all $1.25 million of it. By contrast, their main competitor - Turners & Growers - pays its directors a paltry $506,000.

Likewise, the total remuneration of MG Marketing's chairman was listed as $382,000. That compares rather generously to the Institute of Directors average of $72,000, not to mention the $330,000 annual remuneration of Spark chairman Mark Verbiest. Keep in mind here also that Spark is a $20 billion listed company, not a vegie co-op.

But the figure that really stood out was the length of tenure of some directors, and particularly their chairman.

According to the website, Market Gardeners chairman Brian Gargiulo has spent more than 21 years on the board and yet is standing for another three years at the annual meeting. This compares to the Institute of Directors average of five years. The freshly resigned deputy chairman was also no newbie, having been there for more than 20 years.

A paper presented at the American Accounting Association last year suggested nine years was the appropriate tenure for directors actually providing value, as opposed to just taking up space. While possibly a bit on the high side, I think it's a reasonable place to start.

A separate issue here is the question put succinctly by the Roman poet Juvenal: "Quis custodiet ipsos custodes (who watches the watchmen)?" No matter how gifted a director or chairman, disciplined rotation and succession is the single best guarantee shareholders have to ensure that not only are their interests being taken care of, but that the carers are themselves kept unaffected.

The next MG Marketing annual meeting is in Napier in three weeks. It will provide shareholders with the opportunity to put their concerns to the board, which can respond to the allegations.

However, it also offers the board an opportunity to prove that the watchmen are themselves being well watched. Given the nature of the business, the tomatoes might not prove so metaphorical at this meeting.

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