International Year of Cooperatives 2025

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Cooperative Drift and Internal Governance. A case study of New Zealand's Fonterra

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Born and raised in Aotearoa New Zealand, I am interested in how large-scale cooperatives navigate tension between cooperative ideals and corporate structures, governance drift and the risk of "cooperative washing."

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🌏 Context

NZ's economy is heavily reliant on the dairy sector. Fonterra is the largest cooperative in NZ, and one of the largest dairy companies in the world.

As cooperatives grow, their internal governance tends to adopt more corporate practices.

In doing so, they may drift from cooperative principles raising concern amongst members.

🔍 Research Question

To what extent does Fonterra's internal governance reflect cooperative principles — or has it drifted into corporate logic?

📚 Methodology

Literature review of the normative ideals of cooperatives, why and how internal governance changes with growth.

Analytical case study of Fonterra using a framework chosen and adapted from the literature.

⚖️ Theoretical Background

Governance: "system of authority, direction and control to ensure management works in best interest of owners" (Zingales, 1998).

Traditional model of internal governance:

- Members elect Board of Directors who acts as management

Changes as cooperatives grow:

- Managers demand more control or decision making discretion
- Members fear marginalisation

Framework to assess change in cooperatives:

- Bijman et al. (2014): 7 innovations in internal governance
- International Co-operative Alliance's (ICA) cooperative principles

🐮 Fonterra - Background

Legal form and context: Fonterra is registered as a cooperative under New Zealand law (Co-Operative Companies Act 1996), and that law allows generous flexibility in governance

Ownership: ~10,000 farmer members .

Governance structure:

- Board (9 farmer elected + 3 appointed externals)
- Co-operative Council (advisory/oversight)
- Voting historically proportional to milk supply, but now includes share trading

Growth: increasing focus on internationalisation, non-member business, investor logics

📈 Signs of Drift

Governance no longer solely directed at maximising member benefit.

Fonterra adopts many of Bijman's innovations:

- Professionalisation of management
- External directors
- Re-oriented from producers to consumers
- Member Council replaces General Assemby
- Hybrid ownership to attract capital

Farmer members have raised concerns over transparency, voting power, and purpose.

🎯 Why remain a Cooperative?

- Cooperatives address market failures faced in agricultural markets
- Control over supply
- Softer regulation with capital flexibility
- "Farmer owned" branding
- Avoid cost to full corporatisation

Conclusion

Non-traditional internal governance can enable cooperatives to grow, but careful design is crucial to balance that with the preservation of foundational cooperative principles such as: membership ownership, democratic control, and member control.

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