

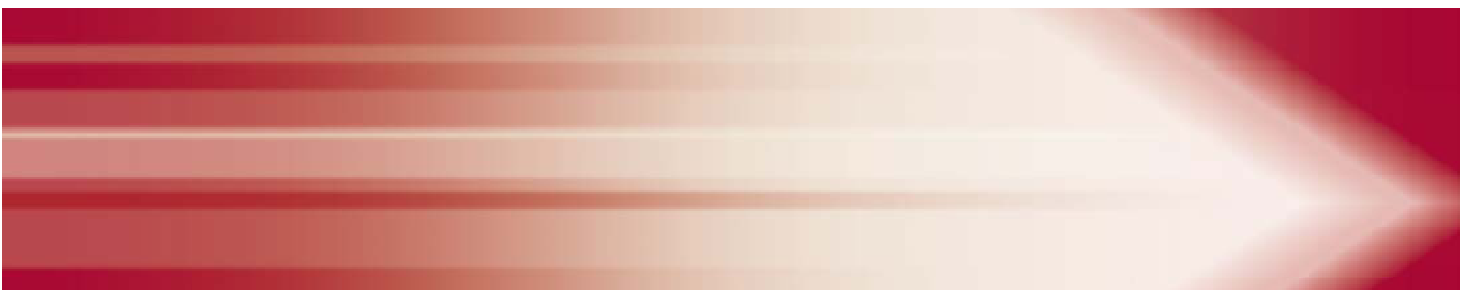


# Australian Wool Innovation

**Three-year independent review of  
performance 2009-2012**

**Final Report**

**June 2012**





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## Disclaimer

The information contained in this document has been gained from anecdotal evidence and research. It has been prepared in good faith and is based on a review of numerous AWI and Commonwealth Government documents, interviews with stakeholders including AWI directors and management, DAFF staff and the results of interviews with industry stakeholders. Neither SED Consulting nor its servants, consultants, agents or staff shall be responsible in any way whatsoever to any person in respect to the report, including errors or omission therein, however caused.

## Acknowledgements

The consultants wish to acknowledge and thank the many people who contributed to the preparation of this report. We are grateful to the AWI staff who provided their time and thoroughly prepared background documentation for our review; to personnel from DAFF; and to the industry members who provided valuable input.



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## **Executive summary**

This report presents the findings of a three-year performance review of Australian Wool Innovation (AWI), conducted as required by an independent consultant under Clause 16.2 of the Statutory Funding Agreement 2010-2013 (SFA) between AWI and the Commonwealth Government.

The aims of the Performance Review, as set out in the terms of reference for the project as agreed with Department of Agriculture, Fisheries and Forestry (DAFF), were to examine:

- The performance of AWI in meeting its obligations under the SFA; and
- The implementation of AWI's strategic and annual operational plans and the effectiveness of AWI in meeting the various KPIs and/or budgets set out in those plans to deliver benefits to woolgrowers and other stakeholders; and
- AWI's implementation of recommendations outlined within the 2006-2009 Review of Performance and the 2009/10 Review of Performance.

In summary, AWI has fulfilled its obligations under the SFA. It has generally implemented its strategic and operational plans and also the recommendations of the 2006-2009 (triennial) and the 2009/10 ('one-year-on') Reviews of Performance. The performance of AWI as judged by this Review represents a significant turnaround from the company's performance as described in the 2009 Review and there is clear evidence of the very significant efforts of the Board and senior management to establish, document and communicate the processes and procedures consistent with good corporate governance.

Notwithstanding these overall conclusions, opportunities for improvement exist and several recommendations are made in this regard.

The approach to the Review comprised a study of over 70 documents relating to AWI's processes, plans and performance; interviews with AWI senior management, directors, a consultant working closely with the company on corporate governance, officers of the DAFF, senior personnel of wool industry representative bodies and other industry personnel; and analysis. Interim and Draft Reports were presented to AWI for comment and, following revisions to amend any errors of fact, this Final Report was submitted.

The period of the Review (July 2009 to June 2012) has seen wool prices and seasonal conditions improve considerably, delivering increased revenues to AWI and greater attractiveness of wool as a farm enterprise option. However, prices for superfine and ultrafine wools are reported to remain below cost of production. WoolPoll 2009 delivered decisive support for AWI's recommended 2% levy option (split 50:50 between R&D and marketing).

The CEO in place at the start of the review period resigned in March 2010 and one of the directors in June 2010. Since then, the governance structure of AWI has been considerably more stable. During the first few months of the tenure of the current CEO, AWI performed creditably to develop a new three-year strategic plan and annual

operating plan, renegotiate the SFA and prepare a submission to the Productivity Commission's (PC's) Review of Rural Research and Development Corporations. A significant process of additional consultation with industry was also undertaken.

The flat organisational structure of AWI reflects the 'open-door' management style of the CEO who is well liked and respected for this approach. However, consultation with senior managers indicates that the relationship between CEO and senior executive, and lines of authority, could be better defined and meetings of the senior executive could be formalised and elevated in significance.

The requirement of the SFA for AWI to establish a Board Nomination Committee has been met, with the Committee fulfilling its duties for the 2011 AGM.

The Board's understanding and observance of the recommended principles of corporate governance is reported to have improved greatly, with a few isolated exceptions, over the period of the review. This has been assisted by the retention of a corporate governance advisor. The Board Charter and other recommended governance documents are in place and have been recently reviewed and updated. Board and director performance evaluations were conducted in 2010 and 2012.

The Science and Welfare Committee is a virtual duplicate of the Board and does not have the appropriate skill mix for its role. Although the establishment of advisory groups in some R&D areas is commended, the existence and structure of the Science and Welfare Committee needs to be reviewed.

AWI has met the obligations of the SFA in respect to the application of funds, rigorously ensuring expenditure is consistent with the outcomes of WoolPoll 2009. External auditing has been completed as required. Risk management, fraud control and intellectual property (IP) plans are in place as are processes to maintain their currency.

At the start of the review period, a hybrid Strategic and Operational Plan 2009/10 was in place. The disjointed structure of this plan makes it difficult to follow but the key performance indicators (KPIs) are clear and meet 'SMART' criteria. The Annual Report 2009/10 is reasonably well linked to these KPIs.

In June 2010, AWI produced the current Strategic Plan 2010 to 2013 and Operating Plan 2010/11 as required under the SFA. The current Operating Plan 2011/12 was produced in June 2010. Annual reports have been published in each of the three years of the Review as required by the SFA.

The Strategic Plan 2010 to 2013 is better structured and presented than its predecessor. However, it is deficient in its articulation of the monitoring and evaluation that the company will undertake. The Operating Plans of 2010/11 and 2011/12 are well linked structurally to the Strategic Plan but they do not clearly show (for on-farm R&D in particular) the priority activities for the year and the KPIs associated with these. This makes it difficult to track the company's performance against its stated intentions.

The Annual Report 2010/11 provides reasonable coverage of AWI's activities but provides few indicators of actual outputs or outcomes delivered. The Annual Report 2011/12 is also

likely to be deficient in this respect because the current Operating Plan 2011/12 does not have clear KPIs.

The consultation process for the development of the Strategic Plan 2010 to 2013, and for the development of each annual operating plan, has been thorough and very clearly communicated to stakeholders. While AWI could make significant improvements in the linkages between planning and performance reporting, AWI has met its obligations under the SFA in relation to consultation during development, content, timing and availability of its plans and annual reports.

AWI has met its obligations under the SFA in respect to liaison with its various stakeholder groups. Industry stakeholders report that AWI's engagement with the industry has improved substantially over the three-year period and that it is seen to be listening more closely to the industry's views. AWI has established comprehensive mechanisms for consultation with levy payers, notably the Industry Consultative Committee of industry representative bodies, which forms a central part of AWI's annual planning cycle. The company presents to state farming organisations on a quarterly basis and hosts Woolgrower Forums in March and October.

The AWI CEO and Corporate Affairs Manager meet with DAFF at quarterly intervals. The Chair has met with the Minister for Agriculture, Fisheries and Forestry on several occasions. AWI's reporting in each case is very thorough, having improved progressively over the review period. DAFF reports a strong and cordial relationship with AWI.

AWI has established a number of Expert Panels in key On-Farm R,D&E areas and consults widely with panels, advisory groups and forums across all parts of the business.

Progress in establishing a system of monitoring and evaluation (M&E) throughout AWI, one of the recommendations of the 2009 Review of Performance, has been slow but progress is being made. AWI has a 'Framework for monitoring and evaluation' that describes the context of AWI's requirements for evaluation, guidelines from other organisations on the conduct of evaluation, the evaluation tools available to the company and the goals and 'process concepts' that will be adopted by AWI to provide M&E of its activities. A Group Manager Market Intelligence & Reporting was appointed in July 2011 with specific responsibility for M&E.

There is evidence from a number of independent reviews of AWI projects delivering positive benefit/cost outcomes. Generally, though, and despite the publication of a commendable 'Performance Report 2011', AWI is not clearly reporting the benefits of its investments as distinct from input and process measures. Notwithstanding the above comments, AWI has met the obligations of the SFA in respect to the delivery of benefits to stakeholders.

AWI can be considered to have addressed and completed actions in respect to the recommendations of the 2009 Review of Performance, although there is further work required to fully address the recommendation to establish a comprehensive M&E framework.



This Performance Review has found that AWI has made significant progress in its compliance with the SFA since the negative performance review of three years ago. AWI is clearly implementing its strategic and annual operational plans and is allocating funding strictly according to the wishes of levy payers as expressed in WoolPoll 2009. There is objective evidence that AWI is delivering benefits to woolgrowers and other stakeholders.

AWI can be considered to have met its obligations under the SFA, particularly in respect to the codification of a range of business processes in policies, procedures and structures. This finding is made in recognition of the external and internal challenges faced by AWI during the period, most notably the large fluctuations in levy revenue, and is a credit to the Board, CEO and management of the company.

There are some opportunities for improvement. Four recommendations are made in this respect:

- AWI should consider developing a firm schedule of regular (2-3-monthly) meetings of the executive team, booked 12 months ahead and carrying clear expectations of commitment to attend by all managers.
- The Board should consider expanding its performance review process to include each of the Committees.
- AWI should review the role and composition of the Science and Welfare Advisory Committee, with a specific view to either: discontinuing it; increasing the level of R&D expertise on the Committee through the appointment of external personnel; or replacing the Committee with a multi-disciplinary advisory group that is entirely separate from the Board.
- AWI should continue to develop and refine its monitoring and evaluation framework, and in particular it should develop and embed a series of appropriate key performance indicators by which the company's performance can be tracked through strategic plan, annual operating plan and annual report.

## Abbreviations used in this document

ABARES	Australian Bureau of Agriculture and Resource Economics and Sciences
AGM	Annual general meeting
AOP	Annual operating plan
AR	Annual report
AASMB	Australian Association of Stud Merino Breeders
ASWGA	Australian Superfine Wool Growers' Association
ASX	Australian Stock Exchange
AWGA	Australian Wool Growers Association
AWI	Australian Wool Innovation
BNC	Board Nomination Committee
CEO	Chief Executive Officer
CRRDCC	Council of Rural Research and Development Corporations' Chairs
DAFF	Department of Agriculture, Fisheries and Forestry (C'th)
EMI	Eastern Market Indicator
ICC	Industry Consultative Committee
INF	Information Nucleus Flock
IP	Intellectual property
(K)PI	(Key) performance indicator
M&E	Monitoring and evaluation
NPV	Net present value
PC	Productivity Commission
PETA	People for the Ethical Treatment of Animals
R&D(&E)	Research and development (and extension)
(R)RDC	(Rural) Research & Development Corporation
SAOP	Strategic and annual operational plan
(Sheep) CRC	Cooperative Research Centre (for Sheep Industry Innovation)
SFA	Statutory Funding Agreement
SFO	State farming organisation
SP	Strategic and operational plan
SWC	Science and Welfare Committee
WPA	Wool Producers Australia

## Introduction

### Purpose of the Review

Under Clause 16.2 of the Statutory Funding Agreement 2010-2013 (SFA) between Australian Wool Innovation (AWI) and the Commonwealth Government, AWI is required to commission a Performance Review of the company by an independent organisation.

The aims of the Performance Review, as set out in the terms of reference for the project as agreed with the Department of Agriculture, Fisheries and Forestry (DAFF), were to examine:

- The performance of AWI in meeting its obligations under the SFA; and
- The implementation of AWI's strategic and annual operational plans and the effectiveness of AWI in meeting the various KPIs and/or budgets set out in those plans to deliver benefits to woolgrowers and other stakeholders; and
- AWI's implementation of recommendations outlined within the 2006-2009 Review of Performance and the 2009/10 Review of Performance<sup>1</sup>.

AWI is required to forward the report of the Review to the Minister for Agriculture, Fisheries and Forestry prior to WoolPoll 2012; to provide the Minister with a detailed response to the recommendations of the Review, including an implementation plan; report at required six-monthly meetings on the implementation of the recommendations; publish the review on the AWI website; and make available the Review report to levy payers and industry bodies with an information memorandum and ballot paper as provided under the WoolPoll regulations.

### Review approach

The methodology for the review comprised:

1. A desktop review of approximately 70 documents relating to AWI's processes, plans and performance. These documents are listed in Appendix 1.
2. Interviews with AWI senior management, directors and a consultant working closely with the company on corporate governance. These interviews provided the opportunity to clarify and explore the findings of the document review and to gain a understanding of the practical implementation of the practices and procedures as codified.

The discussions were informed by the prior preparation for the consultants of summaries of the activities of each of the company departments, under the headings of:

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<sup>1</sup> Following the previous three-year performance review (2009), AWI was required to conduct an additional 'one-year-on' review in 2010. The background to this requirement is described below.

- Contribution of the department towards the achievement of the vision, mission, goal and business objectives outlined in the Strategic and Operating Plans;
  - Alignment of staff resourcing with the Strategic and Operating Plans;
  - Consultation with stakeholders through the departmental annual planning and consultation framework;
  - Systems and processes implemented in the past three years to better serve the business, specifically against the Strategic and Operating Plans;
  - Delivery of returns to levy payers – focusing on benefits to woolgrowers and/or the industry as a whole and/or cost savings to AWI;
  - The business and/or industry/market environment in which the department has operated since 2009; and
  - What AWI and the particular department will need to deliver over the next three years.
3. Face-to-face or telephone interviews with a range of individuals from stakeholder groups, including staff from DAFF, senior personnel of wool industry representative bodies and other industry personnel. The individuals who were consulted are listed in Appendix 2.

In other company reviews, SED has undertaken online surveys of stakeholders in order to gain as broad a view as possible of the performance of the company in question. In the case of AWI, SED has been able to draw upon detailed woolgrower research undertaken by GA Research for AWI in 2008 and 2011. The scale and recency of the survey provides confidence that the results are suitable for use in this Review.

4. Analysis and preparation of an Interim Report and then Draft Report. Following feedback from AWI management and Board on the latter, the report was modified to amend any errors of fact, finalised and submitted.

**A note on the approach to this Review:**

In undertaking this Review, the authors have adopted a whole-of-company approach to the evaluation of AWI's performance. The Statutory Funding Agreement (SFA) contains some very specific provisions; for example, in the timeframes specified for the delivery of the annual operating plan each year or the frequency of meetings with DAFF. Some of the provisions are less tightly defined. For example, clause 7.3 stipulates that AWI 'must apply the Funds in a manner that is otherwise efficient, effective and ethical'.

Whether a company has acted efficiently, effectively and ethically will always be, to some extent, a judgement call and cannot be assessed simply through a checklist-based analysis. Organisational behaviour and performance does not always follow the dictates of policies, procedures and other corporate documentation and therefore requires interpretation.

In some sections of this Review, therefore, the authors have had to interpret and assimilate evidence from a range of sources, some of which were provided in confidence and/or have not been documented. In these cases the bases for such judgments are described.

A summary of AWI's performance against the 'formal' requirements of the SFA is provided in Appendix 3.

## **Overview of Australian Wool Innovation**

### **Role and legal framework of AWI**

AWI describes its mission as being to invest in research, development and promotion in order to:

1. Enhance the profitability, international competitiveness and sustainability of the Australian wool industry; and
2. Increase demand and market access for Australian wool.<sup>2</sup>

AWI was established in 2001 as an industry-owned unlisted public company limited by guarantee under the Corporations Act. The Wool Services Privatisation Act 2000 (Cth) enables the Commonwealth, through its Minister, to declare a Corporations Act company to be the wool industry's research body and to enter into a funding contract (the Statutory Funding Agreement [SFA]) with that body. AWI became this declared body.

AWI has been subject to two SFAs during the period of this Review, the first covering the period 2007-10, the second and current one 2010-13. The 2010 SFA contains significantly more detail than the earlier one.

### **Funding**

The Wool Services Privatisation Act 2000 (Cth) provides for two types of payments to AWI (Clause 31):

1. Payments in relation to wool levy, that is, a fixed percentage of gross proceeds paid at the point of sale of raw wool (category A payments); and
2. Payments per financial year in relation to research and development (category B payments).

Category B payments are a matching contribution from the Commonwealth towards eligible R&D expenditure. These payments are capped at the lesser of 0.5% of the industry's gross value of production or '50% of the amount spent by the research body in

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<sup>2</sup> AWI Strategic Plan 2010-2013

that financial year on activities that qualify, under the contract, as research and development activities' (Clause 31(7) of the Act).

The quantum of levy (category A) payments is determined by a three-yearly vote by levy payers called 'WoolPoll'. The provision for WoolPoll is described in the Act and the details of its conduct are specified in the Wool Services Privatisation (Wool Levy Poll) Regulations 2003 (Cth). The Regulations require, *inter alia*, that the research body propose between three and five different rates of levy including a zero option. These options must be explained, with estimated funding implications, in an information memorandum provided to levy payers. The research body must present and justify its preferred option.

The 2009 WoolPoll saw levy payers support AWI's recommendation to maintain the wool levy at 2%. However, the split of funding between R&D and marketing was changed from 60:40 to 50:50, the new model comprising 30% on-farm R&D, 20% off-farm R&D and 50% marketing. (Commonwealth matching payments – 'category B' – are made only on eligible R&D investments.)

At the start of the Review period, poor wool prices had resulted in a reduction of AWI's levy income by around a quarter from the levels seen over the preceding triennium. This situation turned around in 2010/11 with improved wool prices (Table 1).

**Table 1 – AWI levy income 2006-07 to 2011-12 (\$m) (source: AWI Annual Reports)**

	2006-07	2007-08	2008-09	2009-10	2010-11
Wool levy	46.53	45.11	34.31	35.32	47.03
Government contribution	11.57	12.31	11.40	10.48	11.34
<b>Total</b>	<b>58.10</b>	<b>57.42</b>	<b>45.70</b>	<b>45.80</b>	<b>58.37</b>

AWI also earns revenue from Woolmark licence fees, the sale of goods and services, royalties, interest and other minor sources. The contribution from the various sources of revenue in 2010/11 is shown in Table 2.

**Table 2 – AWI revenue sources (source: Annual Report 2011)**

	FY 2011 (\$'000)	% of total	FY2010 (\$'000)	% of total
<b>Operating revenue</b>				
Wool levy	47,026	64.8	35,319	57.1
Government contributions	11,342	15.6	10,483	17.0
Licence fees	7,380	10.2	10,606	17.2
Sale of goods and services	783	1.1	1,254	2.0
Royalties	1,410	1.9	1,299	2.1
Other	21	0.0	92	0.1
<b>Sub-total</b>	<b>67,962</b>	<b>93.7</b>	<b>59,053</b>	<b>95.5</b>
<b>Other revenue</b>				
Rents and sub-lease rentals	187	0.2	74	0.1
Interest	4,413	6.1	2,713	4.4
<b>Sub-total</b>	<b>4,600</b>	<b>6.3</b>	<b>2,787</b>	<b>4.5</b>
<b>Total</b>	<b>72,562</b>	<b>100.0</b>	<b>61,840</b>	<b>100.0</b>

## **AWI's operating environment**

### **Main points**

- Wool prices and seasonal conditions have improved considerably over the review period, which has resulted in increased revenues to AWI and greater attractiveness of wool as a farm enterprise option. However, prices for superfine and ultrafine wools are reported to remain below cost of production.
- AWI adopted a revised policy on flystrike prevention at the start of the period, on the basis that that 'the 2010 mulesing "deadline" was unlikely to be reached for welfare reasons, based on scientific grounds'.
- WoolPoll 2009 delivered decisive support for AWI's recommended 2% levy option (split 50:50 between R&D and marketing).
- The CEO in place at the start of the review period resigned in March 2010 and one of the directors in June 2010. Since then, the governance structure of AWI has been considerably more stable.
- Between the appointment of the Acting CEO in March, and June 2010, AWI performed creditably to develop a new three-year strategic plan and annual operating plan, renegotiate the SFA and prepare a submission to the Productivity Commission's (PC's) Review of Rural Research and Development Corporations. A significant process of additional consultation with industry was also undertaken.

- During the review period, AWI has also been implementing the recommendations of the 2009 Review of Performance, a process that has included 'one-year-on' reviews in 2010 and 2011.

### The external environment

During 2009 to 2012 there has been an improvement in seasonal conditions for woolgrowers, with the drought that had affected large parts of Australia for up to ten years being largely regarded as broken in 2010, at least in the eastern states<sup>3</sup>.

Economically, the 2009 to 2012 period has presented a tough environment with a continued world slow-down especially in wool's traditional markets of Europe. Yet whilst there has been a global decline in the production and world closing stocks of wool since 2009, there has also been a small increase in the consumption of wool since this time. These factors have contributed to a significant turnaround in wool prices for most Australian producers. The eastern market indicator (EMI) for wool improved from an average of 799c/kg clean in 2008-09 to a forecast average for 2011/12 of 1180c/kg clean, a 48% increase. In fact the EMI has more than doubled in US dollar terms (Figure 1), but the Australian dollar has traded significantly higher over the period, acting to dampen the rise in Australian dollars.

While this uplift in wool prices has been generally experienced across all wool types, for the superfine and ultrafine segment of the clip the improvement in price has not been as significant, and the Australian Superfine Woolgrowers' Association reports that prices remain below cost of production<sup>4</sup>.

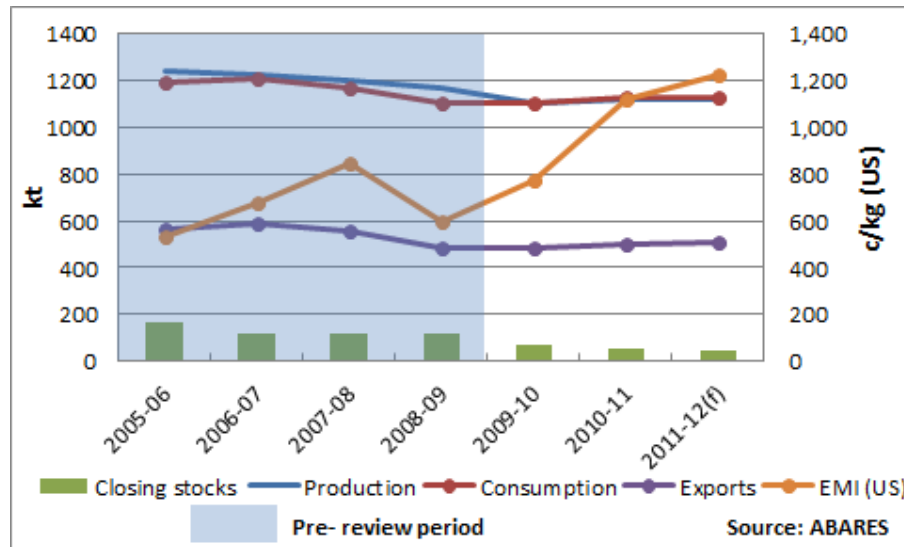
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<sup>3</sup> WoolProducers Annual Review 2010

<sup>4</sup> Helen Cathles, ASWGA, personal communication

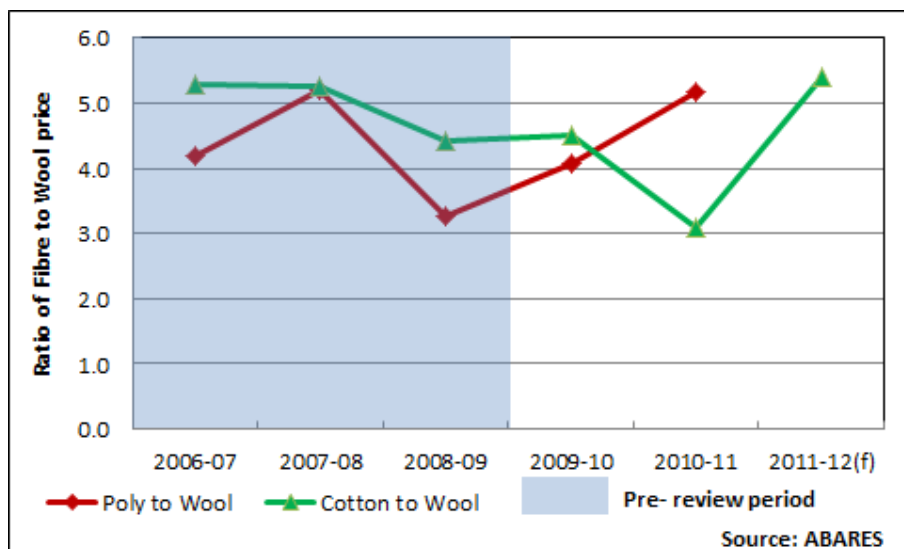


**Figure 1 – World wool production, consumption and the Australian Eastern Market Indicator (\$US)**



The increase in price since 2008/09 has meant that wool’s price competitiveness against substitution fibres has decreased (Figure 2). The slight increase in consumption of wool has occurred despite this easing of price competitiveness.

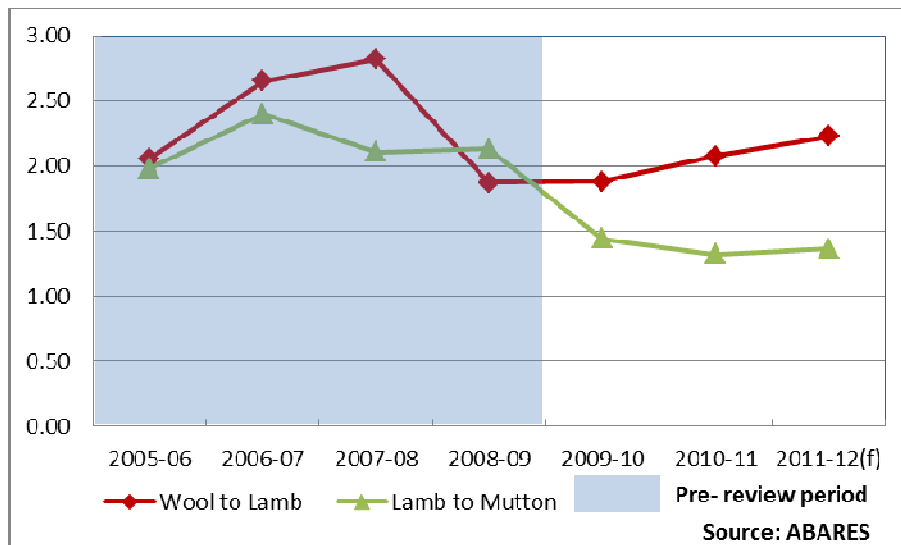
**Figure 2 – Price competitiveness of wool against other fibres**



From the supply side, the improvement in wool prices has increased the attractiveness of wool production to the Australian farmer against other enterprises such as prime lamb

production. The lamb price to wool price ratio<sup>5</sup> has moved from a low of 1.87 to 2.23. While this ratio is not at the level achieved in 2006/07, the attractiveness of running sheep predominantly for the purpose of growing wool is as attractive as it has been for many years, particularly when the favourable movement of lamb to mutton prices<sup>6</sup> is taken into account (Figure 3).

**Figure 3 – Ratios of sheep meat to wool prices**



The net result of improved seasonal conditions and better prices has been improved farm financial performance. ABARES' Farm Survey Results (2012) show farm cash income in the sheep industry rising from \$60,560 in 2009/10 to a forecast \$113,000 in 2011/12, and a much greater increase in farm business profit over the period from \$2,560 to \$60,000.

This turnaround in wool industry conditions after many poor years has provided AWI with a significantly increased funding base.

The other element of the external environment of special note has been the ongoing activities of animal rights groups such as the People for the Ethical Treatment of Animals' (PETA's) campaign against mulesing. PETA has actively campaigned against mulesing since 2004 and since that time AWI has played a central role in the industry's response to the threat of product boycotts. In 2004, a grouping of wool industry organisations (including AWI) calling itself the Wool Industry Taskforce announced an industry commitment to cease mulesing by December 2010. In 2005, AWI launched a Federal Court action against PETA that would not be settled until 2007.

<sup>5</sup> EMI clean vs MLA trade lamb index

<sup>6</sup> MLA trade lamb index vs MLA mutton index

In July 2009, AWI 'acknowledge(d) that the 2010 mulesing "deadline" is unlikely to be reached for welfare reasons, based on scientific grounds'<sup>7</sup>. The declaration attracted widespread support from woolgrowers but also some criticism, not only for the content of the declaration but also in respect to AWI's appearing to speak as an industry representative body<sup>8</sup>. From this time and throughout the review period, AWI has adopted a revised flystrike prevention policy focused on 'a fast-tracked research, development and extension (RD&E) program to reduce the reliance on mulesing and improve the lifetime welfare outcome for sheep', the most recent version of which (September 2011) is available on the web site<sup>9</sup>.

### The internal environment

Financial year 2009/10 was a period of significant turmoil with regards to the governance of AWI. The review of performance for 2006-2009, released in August of 2009, was regarded as quite critical of the company and made a large number of recommendations for improvement. One of the Directors resigned shortly afterwards and there was extensive press coverage suggesting a high degree of conflict among Board members on the issue of marketing strategy.

The CEO resigned in early March 2010, an AWI press release citing that the 'decision had been brought about by her frustration at the ongoing differences of opinion amongst members of the Board particularly since the AGM'<sup>10</sup>. Another of the directors resigned in June 2010. The current CEO was appointed on an acting basis in March 2010 and to the permanent position in May of that year.

Since the appointment of the current CEO the governance structure has been considerably more stable. There was a further resignation from the Board in May 2011 and the AGM of 2011 saw the election of a new director and re-election of two existing directors. The Chair and Deputy Chair were also re-appointed.

Despite the turmoil of late 2009, the WoolPoll of that year, which closed in November, delivered a supportive result for AWI with growers favouring the 2% levy option (split 50:50 between R&D and marketing). Despite low wool prices at the time and extensive negative publicity dogging AWI, the voter turnout was significant with 53.7% of available votes cast and over 73% of votes supporting a levy of 2% or more<sup>11</sup>.

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<sup>7</sup> AWI media release, 'Australian Wool Innovation adopts new animal health and welfare flystrike prevention policy', 27 July 2009, [www.wool.com/Media-Releases.htm?item=6495.htm](http://www.wool.com/Media-Releases.htm?item=6495.htm)

<sup>8</sup> Weekly Times, 'Anger on mulesing backdown', 29 July 2009

<sup>9</sup> Accessible at <http://images.wool.com/pub/Flystrike-Prevention-Matrix-0911.pdf>

<sup>10</sup> AWI media release, 'AWI CEO to resign', 2 March 2010, <http://www.wool.com/Media-Releases.htm?item=6901.htm>

<sup>11</sup> Weekly Times, 'WoolPoll results in: Growers vote for 2pc', 11 November 2009

Following the CEO's appointment in March 2010, AWI was required to develop a new three-year strategic plan; develop an annual operating plan; renegotiate the SFA with the Commonwealth Government; and prepare a submission to the Productivity Commission's (PC's) Review of Rural Research and Development Corporations, all by June. A significant process of additional consultation with industry was also undertaken. That these obligations were all fulfilled within the requisite timeframes is a credit to the CEO and senior management and forms an important backdrop to the current Review.

In addition to meeting its SFA requirements and dealing with the PC Review, AWI needed to implement the internal changes recommended by the 2009 Review of Performance. The new SFA 2010-13 included the specific provision that AWI commission an additional, independent follow-up performance review, itself the subject of the final recommendation of the 2009 Review, to take place 12 months after the 2009 Review.

The 'One-Year-On' Review was published in November 2010. In broad terms the Review found that:

'...implementation of the recommendations has resulted in improved company processes that will ultimately lead to demonstrable outcomes for levy payers and other stakeholders (R&D, marketing, retailing)...stakeholders have acknowledged the genuine efforts of AWI to adopt the review recommendations and have generally been pleased with the direction of change. For those areas where change has not been completed, it would be detrimental to levy payers and other stakeholders if efforts were not continued to ensure the complete adoption of all recommendations prior to Wool Poll 2012.' (p. 62)

The consultant judged that, of the eleven recommendations of the 2009 Review<sup>12</sup>:

- Three were 'completed' (no further action required);
- Four were 'in progress' (on track to meet the 2012 target); and
- Four were 'partial' (in progress but requiring some improvement of approach to meet the target).

AWI decided, of its own volition, to commission a further 'one-year-on' independent review and this was published in September 2011. The 2011 Review focused on the eight areas assessed as 'partial' or 'in progress' by the 2010 Review, expanding these to nine, of which:

- Four were 'completed';
- Three were 'in progress'; and

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<sup>12</sup> The precise number of recommendations in the 2009 Review is not clear. There are actually 17 separate recommendations throughout the report, but only 11 appear in the 'Principal findings and recommendations' section (one of which is the recommendation for a 12-month follow-up review). This current Review has used the full list of 17 recommendations – see 'Changes since the previous performance review'.

- Two were 'partial'.

The 2011 Review made six recommendations. Only two of these were considered 'major', and of these only one reflects a significant shortfall in achievement of the 2009 recommendations.

AWI's progress against the findings of the three reviews are discussed in greater detail below in 'Changes since the previous performance review'.

## **Performance review: Corporate governance**

### **Main points**

- The flat organisational structure reflects the 'open-door' management style of the CEO. The CEO is well liked and respected for this approach.
- However, meetings of the senior executive could be formalised and elevated in significance, and a recommendation is made that *AWI should consider developing a firm schedule of regular (2-3-monthly) meetings of the executive team, booked 12 months ahead and carrying clear expectations of commitment to attend by all managers.*
- The requirement of the SFA for AWI to establish a Board Nomination Committee has been met. The Committee fulfilled its duties for the 2011 AGM. The 2011 AGM saw the Board gain support for a motion to maintain the size of the Board at seven members.
- The Board's understanding and observance of the recommended principles of corporate governance is reported to have improved greatly, with a few isolated exceptions, over the period of the review. This has been assisted by the retention of a corporate governance advisor. The Board Charter and other recommended governance documents are in place and have been recently reviewed and updated. Board and director performance evaluations were conducted in 2010 and 2012. A recommendation is made that *the Board should expand its performance review process to include each of the Committees.*
- The Science and Welfare Committee is a virtual duplicate of the Board and does not have the appropriate skill mix for its role. Although the establishment of advisory groups in some R&D areas is commended, a recommendation is made that *AWI should review the role and composition of the Science and Welfare Advisory Committee, with a specific view to either: discontinuing it; increasing the level of R&D expertise on the Committee through the appointment of external personnel; or replacing the Committee with a multi-disciplinary advisory group that is entirely separate from the Board.*
- AWI has met the obligations of the SFA in respect to the application of funds, rigorously ensuring expenditure is consistent with the outcomes of WoolPoll 2009. External auditing has been completed as required.

- Risk management, fraud control and intellectual property (IP) plans are in place as are processes to maintain their currency.

### Introduction

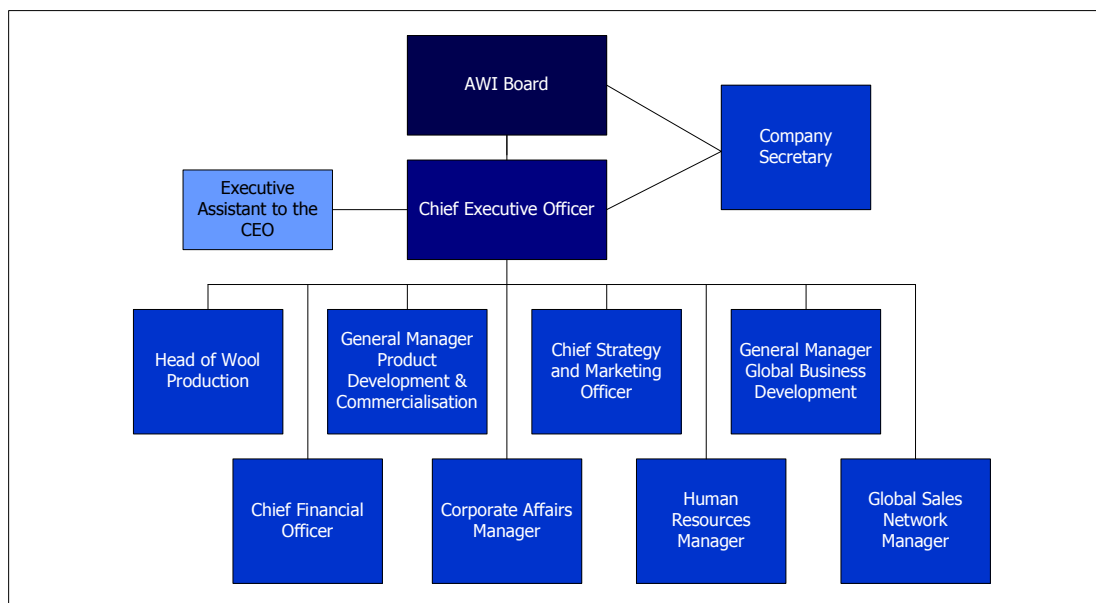
AWI is constituted under the Corporations Act as a company limited by guarantee, the Constitution. AWI’s primary governance requirements are set out in Constitution, in the SFA with the Commonwealth and in the Corporations Act.

This Review has examined AWI’s fulfilment of its corporate governance obligations through a detailed examination of relevant documentation and consultation with directors, management, DAFF and auditors. A particularly valuable source of advice has been the Board’s corporate governance advisor.

### Organisational structure

The organisational structure of AWI is very flat, with nine senior direct reports to the CEO (Figure 4).

**Figure 4 – AWI organisational structure (adapted from Board induction pack, October 2011)**



The flat organisational structure reflects the ‘open-door’ management style of the CEO. The CEO is well liked and respected for this approach. However, consultation with senior managers indicates that the relationship between CEO and senior executive, and lines of authority, could be better defined.

Meetings of the senior executive could also be formalised and elevated in significance. Currently, such meetings are *ad hoc* in timing and structure. Managers reported that they would value the opportunity for a more strategic-level interaction with their peers and with the CEO on issues such as WoolPoll.

**Recommendation:** AWI should consider developing a firm schedule of regular (2-3-monthly) meetings of the executive team, booked 12 months ahead and carrying clear expectations of commitment to attend by all managers.

## Board

### Composition and appointments

The Board comprises seven directors, satisfying the Constitution's requirement for a minimum of five and maximum of ten directors. There is no requirement in the Constitution for the presence of any particular skills on the Board nor is there any reference to a requirement for a minimum number of independent directors.

A motion was tabled at the 2011 AGM by the Board to limit the size of the Board to seven members. The motion was specific to the meeting and was put because a change to the Corporations Act meant that the shareholders needed to vote for the size of Board they thought was most beneficial for the Company. The reasons for the Board's preference were provided in the Notice of Meeting. The motion was passed. It will be repeated at future AGMs in which an election of directors occurs.

A new provision of the SFA 2010-2013 was the requirement for AWI to establish a Board Nomination Committee (BNC) at least four months prior to each AGM. The BNC comprises three external members, one of which is the Chair, and two independent, non-executive directors who are not candidates for re-election in that year.

The role of the Board Nomination Committee is to identify 'necessary and desirable director competencies' on the AWI Board and the balance of such skills given the continuing membership of the Board and the candidates nominated for election. A list of desirable skills, directly reflecting the list of skills that must be demonstrable on the Board as defined in the SFA, is provided in the Board Nomination Committee Charter. The Committee provides a report to the Board, for dissemination to AWI shareholders prior to the AGM, that describes each nominee's qualifications and experience and details of relationships between the nominee and AWI / Board members, and a statement of how, in the Committee's opinion, the appointment of each nominee as a director would affect the Board's balance of the director competencies as listed.

The establishment of the Board Nomination Committee did not require a change to the Constitution. At the 2011 AGM, however, a motion was put by the Board and supported by levy payers to alter the provisions of the Constitution in respect to the nomination period for Board candidates. This was required to allow the Nomination Committee a longer period in which to fulfil its function in future election years.

The Board Nomination Committee was in place for the 2011 AGM. The membership comprised the President of the National Farmers Federation (Chair), two other external members including a senior executive of the ASX, the AWI Chair and the Deputy Chair. The Committee's deliberations on the Board's skills mix was assisted by an external consultant. Expertise in 'product promotion and retail marketing' was identified as an area for improvement, and the potential for one particular candidate to address this gap was described.

The Board Nomination Committee does not have a role in nominating or endorsing candidates. It can only comment upon the nominees who put themselves forward (requiring 100 signatures), or are put forward by the Board, the latter in turn relying upon the Board's recognition that a skills gap exists. In this respect the Committee has a different role to that of the Meat & Livestock Australia Selection Committee (to give one example) which endorses candidates or otherwise.

An in-depth induction process, supported by a comprehensive information pack, is in place for new directors. The most recent appointment to the Board (following the 2011 AGM) received a full-day briefing from the Chairman, CEO, Company Secretary and senior management on all aspects of the business.

#### Meetings and proceedings

The Board meets approximately once every six weeks on a Friday, with the Board Committees generally meeting on the previous day. The requirements for submission of papers to the Board (timing, content, format) are clearly set out in a set of guidelines made available to staff.

By several accounts, the Board's understanding and observance of the recommended principles of corporate governance was poor at the beginning of the review period but has improved greatly over this time. Directors have a clearer understanding of the distinction between the Board's role in setting strategy and management's role in executing the strategy. The CEO has implemented a strict policy concerning meetings between directors and staff which ensures he is kept aware of the nature and outcome of any such meetings and that they take place in meeting rooms rather than offices.

A Corporate Governance Policy was approved by the Board in 2004 and was last amended in 2009. The Policy directly embodies the eight principles of the ASX Corporate Governance Principles and Recommendations. Codes of Conduct for Directors and Officers and Obligations to Stakeholders are also in place and the Board Charter and Charter of Committees of the Board have been comprehensively rewritten and updated during the last six months<sup>13</sup>.

Since 2009, the improvement in the Board's treatment of governance has been aided by the appointment of an external governance advisor who has worked with the Board,

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<sup>13</sup> Accessible at [www.wool.com/About-AWI\\_Shareholder-Information\\_Corporate-Governance.htm](http://www.wool.com/About-AWI_Shareholder-Information_Corporate-Governance.htm)



Company Secretary and CEO to revise the Board and Committee Charters, to speak to the Board on certain topics, to design and manage a 360-degree performance review process for directors and to mentor individual directors. The advisor's input is reported to have been very valuable and he continues to work with the Company as and when requested.

Further, to enhance the understanding and cooperation between the Board and Senior Executive, the CEO, Chief Strategy and Marketing Officer and Chief Financial Officer (to date) have completed the Australian Institute of Company Directors course which encompasses governance among the other content elements.

AWI has a policy on Conflicts of Interest – Directors and Officers and this is available on the AWI web site<sup>14</sup>. The Company Secretary reviews the Board papers prior to release for every meeting against the table of interests disclosed by directors, and takes appropriate action to prevent any director deemed to have an interest in a subject from obtaining information regarding the matter and from participating in discussions on the matter.

A table of disclosed interests is provided with each set of Board papers and is reviewed and updated as the first agenda item at every Board meeting. Additionally, the entire table of interests is regularly submitted for review by the Board outside of the meeting process to ensure the information remains updated.

Whilst the Board is widely regarded (externally and internally) to have greatly improved its governance processes and practices, there have been reports of occasional behaviours by individual directors and senior managers that are not consistent with good practice. The Chairman should continue to insist that directors observe the Board's Code of Conduct at all times and that they behave in a manner consistent with the observation of mutual respect for other directors and managers and recognition of the strategic role of the Board.

The corporate governance advisor designed and led a 360-degree evaluation process for the Board in 2010. A repeat review was completed in May 2012. These evaluations are an important part of a continuous improvement approach for any Board and are to be strongly commended. The Board has committed to continuing regular reviews of this nature (Board resolution 2011).

#### Board committees

There are three Board Committees:

- Finance and Audit;
- Remuneration and Appointments; and
- Science and Welfare.

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<sup>14</sup> Accessible at [www.wool.com/About-AWI\\_Shareholder-Information\\_Corporate-Governance.htm](http://www.wool.com/About-AWI_Shareholder-Information_Corporate-Governance.htm)

A fourth committee, covering Marketing and Intellectual Property, was disbanded in 2010 as the increased expenditure on marketing following the outcome of WoolPoll 2009 meant that marketing was a matter properly now considered in its entirety by the full Board.

Each of the committees has a charter. These were re-written in 2011 by the Company Secretary in conjunction with the corporate governance advisor and the Board, taking into account the 'realities of the company', the SFA and the ASX Principles.

**Recommendation:** The Board should consider expanding its performance review process to include each of the Committees.

The Science and Welfare Committee (SWC) is the largest of the committees, comprising five directors (i.e. all but two of the Board members). The Committee has a number of responsibilities related to policy and budgetary settings for the R&D program, the evaluation of proposed projects and oversight of the existing portfolio. The SWC makes recommendations to the Board on whether project proposals submitted by management should be funded or not.

A number of managers and directors interviewed expressed the view that the existence or charter of the SWC was due to for re-consideration. The Committee was originally established with the primary responsibility to identify areas in which the R&D budget could be cut in the face of the need for AWI to cut spending in 2009. That requirement no longer exists.

There is value in the existence of a committee to advise the Board on matters relating to the R&D portfolio. However, the most successful models for such committees make use of external expertise not otherwise available to the Board. Meetings of the SWC as currently constituted are virtual extensions of the Board meeting itself. The SWC's charter requires that members 'must have a good understanding of methodologies, practices and standards applied to research, development and delivery of required outcomes', but genuine expertise is arguably absent in all but one or two of the Committee members.

An example of an effective committee of this type is the R&D Advisory Committee (RDAC) of Australian Pork Limited. The RDAC is large but incorporates world-class skills in various aspects of pork R&D, as well as APL directors and senior management.

In recent times, AWI has sought to strengthen the input of scientific and commercial expertise to the decision-making process by establishing Expert Panels across a range of R,D&E areas (for further detail see 'Liaison with partners, collaborators and service providers'). The formation of these groups is to be commended, although the incomplete coverage of strategic R&D priorities is noted (for example, there is no group advising on genetic technologies). If the groups are effective, they either obviate the need for the SWC as currently constituted, or they enhance the case for an overarching R&D advisory

body capable of a multi-disciplinary perspective on the portfolio. This advisory body could be a Committee of the Board or it could be separate to it.

The latter option would be preferable because a separation between advisory group and Board allows the Board to retain the appropriate 'distance' and ultimate decision-making authority.

**Recommendation:** AWI should review the role and composition of the Science and Welfare Advisory Committee, with a specific view to either: discontinuing it; increasing the level of R&D expertise on the Committee through the appointment of external personnel; or replacing the Committee with a multi-disciplinary advisory group that is entirely separate from the Board.

#### Decision-making processes

There is a schedule of financial delegations of authority in place related to project and contract expenditure. The CEO can approve projects up to \$250,000 in total value and has unlimited financial delegation for contracts against approved Project budgets. In practice, however, the CEO seeks Board approval for amounts less than this where the Board may have a particular concern about a project.

As noted above, there is a general view that the AWI Board has a much greater appreciation of the distinction between the roles of Board and management and that direct involvement by directors in operational matters (as reported several years ago) is no longer a problem. Despite this, there is a perception among some industry stakeholders that the AWI Board does sometimes interfere with decision-making at a level that should be the domain of management.

As part of this Review, SED undertook a detailed analysis of the decision-making associated with one particular On-Farm project application. The application was for the continuation of AWI support for the Information Nucleus Flock (INF), a genetic research resource managed by the Cooperative Research Centre for Sheep Industry Innovation (Sheep CRC). AWI has funded the existing INF, established in 2007 and now in its fifth year of operation, through its participation in the Sheep CRC. The 'INF2' project was selected as an example of AWI's decision-making because it was particularly topical at the time of undertaking this Review and had received considerable negative coverage in one particular publication.

Following an in-depth study of the process followed by AWI in assessing the application, including scrutiny of the relevant SWC and Board papers, discussion with the CEO and review of the media coverage, this Review has concluded that:

- The process established by AWI for the assessment of project applications, involving management, the SWC and the Board, was followed.

- The Board, appropriately, reserves the right to approve or reject a funding application where the quantum of funding exceeds the delegation of authority of management. This is normal risk management in any organisation. The INF2 project represented a major investment of AWI funds over an extended period of time (nine years). At more than \$0.5m pa, it represented between 3% and 6% of the annual on-farm budget over the last three years.
- There are several possible sound reasons why the Board rejected the INF2 funding. The lack of a clearly described path to market is one such reason. The Board may believe that AWI's investment would be at risk because its products would be sub-optimally adopted.
- On the other hand, the minutes of the SWC meeting and two Board meetings do not make clear why the project was not supported, nor does AWI appear to have communicated the reason(s) for non-approval clearly to stakeholders. The Strategic Plan 2010-2013, which was approved by the Board and provides management with the roadmap of the company's objectives and broad directions, clearly identifies 'Genetics and genomics' as a sub-program of the On-Farm Program 1, 'Sheep health, welfare and productivity'. Further, 'Genomics enhanced breeding values' is identified as one of the outcomes or activity areas for the 2011-12 Operating Plan, also approved by the Board. The onus on the Board to justify decisions apparently at odds with the Strategic and Operating Plans is greater than it is for decisions where the fit is less clear.

This Review believes that the INF2 decision is not the result of an inappropriate decision-making process by the Board. However, the importance of clear communication on decisions – especially where there is widespread industry interest – is highlighted.

### Application of funds

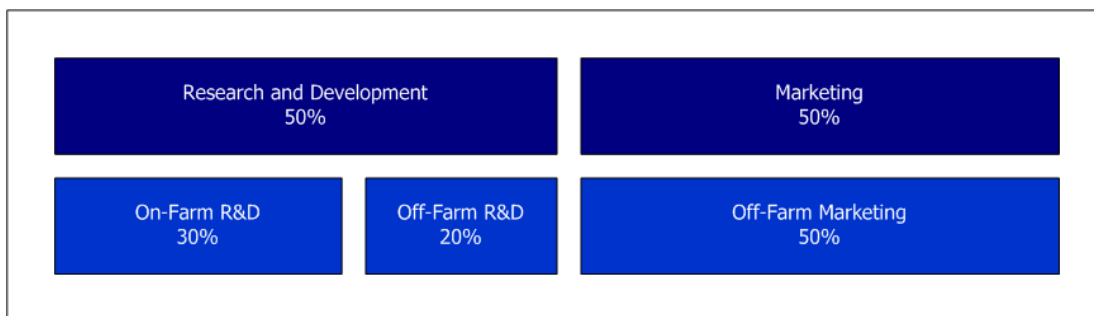
Section 7 of the SFA details provisions in relation to the application of funds provided to AWI by the Commonwealth, notably that:

- Category A payments may be spent on eligible R&D activities (a definition of eligible R&D activities is provided), 'other activities' or both for the benefit of Australian woolgrowers, while category B payments may be spent on R&D activities for the benefit of woolgrowers and the Australian community generally;
- Neither category A nor category B payments may be used to fund the Global Sales Network except with the approval of Government in circumstances of stressed cash flow (the activities of the network are funded only by revenue from Woolmark licence fees and royalties);
- Funds are to expended in a manner consistent with the outcomes of WoolPoll 2009, the company's strategic and operating plans and the Government's Guidelines, and in a manner that is 'efficient, effective and ethical'; and

- There must be no expenditure of funds on agri-political activity, or payments to bodies undertaking agri-political activity except for certain defined activities.

The split of levy funds across investment areas is shown in Figure 5, which is a graphic used by AWI in many of its plans, public documents and presentations.

**Figure 5 – Split of AWI levy investment (source: AWI)**



AWI takes these funding splits very seriously and following consultation with Government allows only a 1-2% tolerance for shifting levy funds between the different areas. Evidence was sighted by the Review team of the close monitoring of expenditure against each area through AWI's accounting systems. AWI briefs the Industry Consultative Committee (ICC) quarterly on its expenditure, with the inclusion of state farming organisations in these briefings annually in October prior to the AGM.

The analysis done for this Review and the advice of DAFF indicate that the SFA requirements for application of funds have been met by AWI over the period of the Review.

### Audit

External auditing of the annual financial accounts has been conducted by Pricewaterhouse Coopers, with unqualified audit reports issued for each year of the review period. The partners involved with the audit, Matthew Lunn 08/09 and 09/10, and Peter Buchholz 2010/11, have been satisfied that the financial reporting compliance and obligations requirements have been.

As part of the 2010/11 Annual Report PricewaterhouseCoopers completed a report on AWI's compliance with sections 6 and 7 of the SFA. The report states that 'nothing has come to our attention that causes us to believe that the accounting systems, processes and controls of Australian Wool Innovation Limited related to the management of the funds, were not operating effectively, in all material respects, in accordance with the requirements of paragraph 6.1 of the Agreement for the period from 1 July 2010 to 30 June 2011.

### Risk management, fraud control and intellectual property (IP) plans

AWI has a detailed Risk Management Policy and Framework (last updated 2009) and Fraud Control Plan (2010) in place. These are managed by Finance. Risk profiles are updated by each department on a six-monthly basis and submitted to the Board for approval.

As required in the SFA, the Intellectual Property Management Plan is updated every three years, the last update in October 2011. Intellectual Property (IP) is managed by the AWI Brand & Licensing Team, which maintains a database of IP held by the company. The team also maintains an IP Manual that provides information on IP types, processes for protection and appropriate use of IP and is available to staff via the intranet; and a Woolmark Program Administration Manual that ensures that AWI administers this program according to the certification rules.

The Finance and Audit Committee is responsible for oversight of management activities concerning IP and keeping the Board informed on a regular basis about AWI's IP portfolio, commercial contracting arrangements and related matters. Regular status reports are provided by the Global Brand & Licensing Manager to this Committee in relation to the above matters and identifying any areas of the IP Management Plan that may need to be reviewed.

## Performance review: Planning and reporting

### Main points

- At the start of the review period, a hybrid Strategic and Operational Plan 2009/10 was in place. The disjointed structure of this plan makes it difficult to follow but the key performance indicators (KPIs) are clear and meet 'SMART' criteria. The Annual Report 2009/10 is reasonably well linked to these KPIs.
- In June 2010, AWI produced the current Strategic Plan 2010 to 2013 and Operating Plan 2010/11 as required under the SFA. The current Operating Plan 2011/12 was produced in June 2010. Annual reports have been published in each of the three years of the Review as required by the SFA.
- The Strategic Plan 2010 to 2013 is better structured and presented than its predecessor. However, it is deficient in its articulation of the monitoring and evaluation that the company will undertake.
- The Operating Plans of 2010/11 and 2011/12 are well linked structurally to the Strategic Plan. However, they do not clearly show (for on-farm R&D in particular) the priority activities for the year and the KPIs associated with these. This makes it difficult to track the company's performance against its stated intentions.
- The Annual Report 2010/11 provides reasonable coverage of AWI's activities but provides few indicators of actual outputs or outcomes delivered. The Annual Report

2011/12 is also likely to be deficient in this respect because the current Operating Plan 2011/12 does not have clear KPIs.

- The consultation process for the development of the Strategic Plan 2010 to 2013, and for the development of each annual operating plan, has been thorough and very clearly communicated to stakeholders.
- While AWI could make significant improvements in the linkages between planning and performance reporting, AWI has met its obligations under the SFA in relation to consultation during development, content, timing and availability of its plans and annual reports.

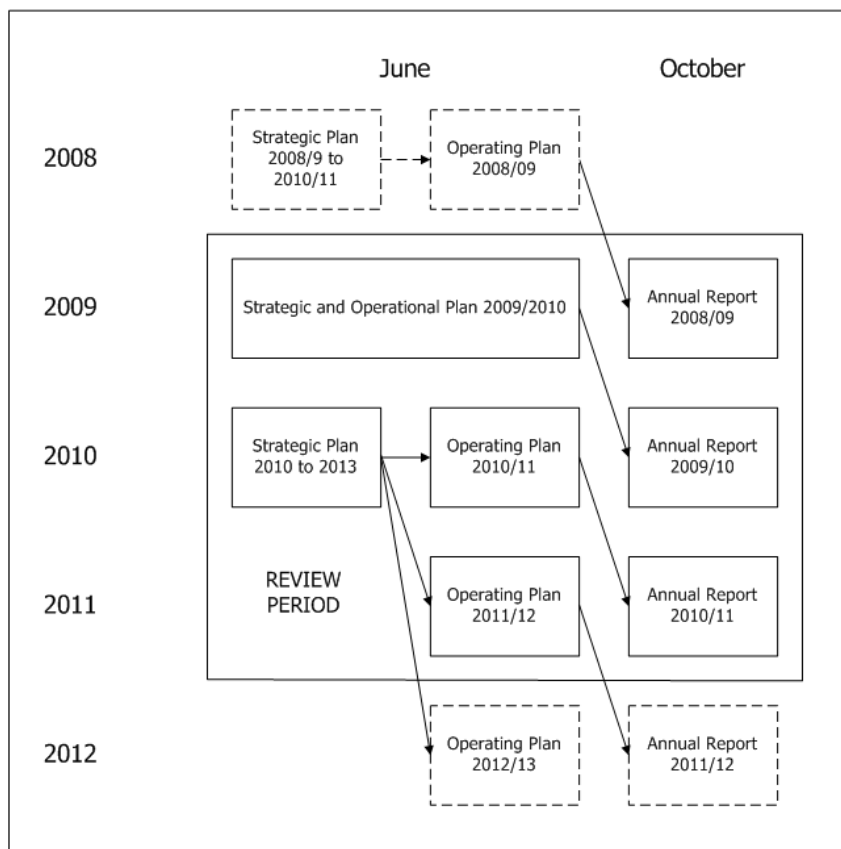
### Introduction

The management of the AWI strategic planning / annual planning / annual reporting cycle has evolved somewhat over the period of this review. In June 2009, a hybrid 'Strategic and Operational Plan 2009/10' came into effect, apparently replacing a 2008/9 – 2010/11 Strategic Plan<sup>15</sup>. In June 2010, under the new CEO, the current Strategic Plan 2010 to 2013 and Operating Plan 2010/11 were published. The Strategic Plan remains current and the company is presently working under the Operating Plan 2011/12 (Figure 6).

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<sup>15</sup> Referred to in the 2009 Review of Performance

**Figure 6 – AWI strategic planning / annual planning / annual reporting during the review period**



### Linkage through planning and reporting cycles

The Review examined each of the strategic plans, annual operational plans and annual reports relevant to the review period. More detailed commentary on these documents is provided in Appendix 4 while a summary of the major observations is presented below.

#### Strategic and Annual Operational Plan 2009/10 / Annual Report 2009/10

The Strategic and Operational Plan 2009/10 (SAOP 09/10) is an unusual document. The structure is not easy to follow. There is an unclear hierarchy of headings and no apparent logic to the ordering of background analysis, strategic intent and short-term actions. The sections on marketing and on R&D are set out quite differently from each other and the language is inconsistent.

While the structure and terminology of the SAOP 09/10 is confusing, the KPIs that are set for the various action plans are to be commended. They generally appear to meet the criteria of SMART objectives, that is, they specific, measurable, achievable, relevant and timebound. It should be straightforward to identify whether or not they have been met.

The reporting in the Annual Report 2009/10 of performance against the KPIs identified in the SAOP 09/10 is quite good, particularly for marketing and off-farm R&D, where the



actions committed to in the SAOP 09/10 are reproduced and can be compared directly with the actual progress achieved (this was not done for On-Farm). In most cases it is possible to discern whether or not each of the KPIs has been met. However, in some KPIs are not addressed or are addressed vaguely.

Strategic Plan 2010 to 2013 / Operating Plan 2010/2011 / Annual Report 2010/11

In June 2010 the AWI Strategic Plan 2010 to 2013 (SP 10/13) was finalised. The SP 10/13 is organised along the lines of Outcomes / Strategies / Programs and Subprograms / KPIs, a format that is consistently applied across all areas of the business. The structure of the document is much more intuitive and logical than that of the SAOP 09/10 and graphics are used to good effect throughout.

These are more than cosmetic features; they make the document much easier to read and understand than the previous SAOP 09/10, which increases the company's transparency to its stakeholders. It is also notable that the 'Strategic framework' summary lends itself to a one-page flyer for distribution to stakeholders. It is also posted on the wall of the AWI offices where it acts to continually remind management of where the company is heading.

As a broader document, though, the SP 10/13 is deficient in its articulation of the monitoring and evaluation of its activities. Performance measures are described in Section 4.2 and KPIs are described under the 'Strategic frameworks' but these do not seem to align, particularly for On-Farm. Also, there is some misalignment in the naming of Strategies between sections (see Appendix 4 for further details).

The confusion over performance measures and even titles of programs and strategies makes AWI's delivery of benefits hard to track. The M&E section contains some useful information on how and when performance data will be collected, but this detail is probably unnecessary in a strategic plan and a reduced version showing the clear link between strategies, KPIs or measures and targets would be more beneficial.

The Operating Plan 2010/2011 (AOP 10/11) maintains the presentation format adopted in the SP 10/13, which is to be applauded for facilitating the tracking of strategic to operational priorities by the reader. The plan reiterates core elements such as the business model and corporate values and provides a summary of current conditions. Section 2, 'Strategies and programs', provides an extensive description of each of wool's main markets and, for each, a summary of competitive activity, a SWOT, targeted markets, desired outcomes, operational priorities and budgets for the year.

However, it is almost silent on on-farm R&D. The only additional information from the SP 10/13 is the budget allocation to each strategy and to On-Farm overall. There is no sense of the priorities for the year and how these were derived, nor are there any SMART KPIs of the type found in the SAOP 09/10, rather a reproduction of the KPIs listed in SP 10/13 which are very broad and do not include targets. KPIs are likewise lacking from the Off-Farm and Marketing sections.

The Annual Report 2010/11 (AR 10/11) provides descriptions of AWI's activities for the year under each of the five business areas. The reporting is reasonable and would give many readers some assurance that issues of importance are being addressed. However, almost all of the facts provided describe inputs, processes, activities, participation (e.g. attendance at workshops) and in some cases outputs. These are useful as partial indicators but they should be accompanied by measures of actual or estimated outcomes to allow readers to judge AWI's delivery of value for money. This also requires linkage back to targets set in the annual operating plan, which are also absent. The same observations apply to the other four business areas.

In this respect, the reporting of progress against priorities identified in the annual operating plan was better in the AR 09/10 than the AR 10/11, especially for marketing and post-farm R&D.

Strategic Plan 2010 to 2013 / Operating Plan 2011/2012 / Annual Report not yet available

The Operating Plan 2011/2012 (AOP 11/12) follows a similar format to the previous AOP 10/11. Again, it is generally well set-out (in the opening sections at least) and easy to follow. A notable inclusion is a graphic which sets out AWI's annual planning and consultation cycle which is complex but comprehensive.

The AOP 11/12 provides some improvement on the previous year's plan in its articulation of the priorities for the year, in on-farm R&D in particular, but the specific activities to be undertaken throughout the year and their associated performance measures remain unclear and there are inconsistencies in presentation (again, see Appendix 4 for further details).

The Annual Report 2011/2012 is not yet available and falls outside the scope of this Review. The structure of the AOP 11/12 will make it difficult for AWI to report against specific commitments for the year because these are very vaguely defined.

#### A note on KPIs

There should be a clear and logical flow of performance indicators from the strategic plan to the annual operating plan and the annual report so that stakeholders can easily track the company's intentions and its performance in delivering against those intentions. There is no single 'right' way to present this flow but one example of how it may be achieved is presented in the table below, using purely hypothetical examples.

**Table 3 – Example flow of performance indicators**

Strategic plan	Annual operating plan	Annual report
<p><b>Strategy 1: Sheep Health, Welfare and Productivity</b>  <b>Program 1: Sheep Health, Welfare and Productivity</b>                      I...                      II. Reduce impact of disease, infestation and predation                      a....                      b. Analgesia, minimise impact of invasive husbandry                      c. Reduce impact of lice and worm infestation                      ...  <b>Key Performance Indicators:</b>                      1. Reduced impacts of illness, infestation, and predation on productivity and/or welfare                      2. Productivity gains through improved sheep resilience, reproduction and/or fleece production                      ...</p>	<p>...                      For at least one commercial product, demonstrate by scientific trial improved animal welfare outcomes through use of a systemic analgesic prior to castration and/or tail docking of lambs.                      ...                      Demonstrate perception of at least 80% of participating woolgrowers that involvement in a control group has significantly reduced the number and severity of dog attacks on the grower’s farm.                      ...</p>	<p>...                      Trial completed showing significant improvement in animal welfare through administration of [x or y analgesic] 5 minutes prior to castration and tail docking.                      ...                      End-of year survey of all control groups showed that 62% of participants believed that their involvement in the group had significantly reduced the number and severity of dog attacks on their farm. Result is below target, possibly due to an increase in dog attacks on one group of farms, linked to burning of fences at [location].</p>

A recommendation on the need for continued improvement of the monitoring and evaluation framework, and the development and embedding of appropriate KPIs through the planning and reporting cycle is made below (‘AWI’s approach to monitoring and evaluation’).

**SFA requirements of plans and reports**

The SFA sets out specific requirements in respect to AWI’s strategic plans, annual operating plans and annual reports. These relate to consultation during development, content, timing and availability.

The annual consultation process is summarised in the graphic presented in the current Operating Plan 2011/12 (Appendix 5). Further details are provided below (‘Liaison with levy payers’).

Examination of the relevant documents, and discussions with AWI management, officers of DAFF and industry stakeholders indicate that AWI has met its formal planning and reporting obligations under the SFA.

## Performance review: Liaison with stakeholders

### Main points

- Industry stakeholders report that AWI's engagement with the industry has improved substantially over the three-year period and that it is seen to be listening more closely to the industry's views.
- AWI has established comprehensive mechanisms for consultation with levy payers, notably the Industry Consultative Committee of industry representative bodies, which forms a central part of AWI's annual planning cycle. The company presents to state farming organisations on a quarterly basis and hosts Woolgrower Forums in March and October.
- The AWI CEO and Corporate Affairs Manager meet with DAFF at quarterly intervals. The Chair has met with the Minister on several occasions. AWI's reporting in each case is very thorough, having improved progressively over the review period. DAFF reports a strong and cordial relationship with AWI.
- AWI has established a number of Expert Panels in key R,D&E areas and consults widely with panels, advisory groups and forums across all parts of the business.
- AWI has met its obligations under the SFA in respect to liaison with its various stakeholder groups.

### Liaison with levy payers

Consultation with levy payers is well summarised in the 'annual planning and consultation cycle' graphic in the 2011/12 AOP.

Following the 2009 Review of Performance, AWI created in 2010 the AWI Woolgrower Industry Consultative Committee (ICC) comprising representatives of:

- Wool Producers Australia (WPA);
- The Australian Wool Growers Association (AWGA);
- The Australian Association of Stud Merino Breeders (AASMB);
- The Australian Superfine Wool Growers' Association (ASWGA);
- Meat sheep breeds; and
- Broad wool breeds (the Australian Corriedale Association currently represents this group).

Once per year (October) the ICC meeting is expanded to include all of the state farming organisations. At this meeting, the group is briefed and presented with audited accounts prior to the Annual General Meeting.

The wool industry differs from many agricultural industries in Australia in not having a single, recognised peak body. The ICC attempts to bring the several bodies that do exist into the AWI sphere specifically for the purpose of consulting with grower representative

groups. The ICC met three times per year during 2010 and 2011 where it was consulted on the company's activities and outcomes and its input to the planning process was sought.

In addition to the ICC, AWI hosts woolgrower forums in March and October. AWI also meets with each of the state farmer organisations (SFOs) on a quarterly basis.

Industry stakeholders interviewed for this Review all reported that AWI's engagement with the industry has improved substantially over the three-year period and that it is seen to be listening more closely to the industry's views. The ICC meetings are regarded as well conducted and a useful initiative. There was some criticism that no directors were present at one of the 2011 Woolgrower Forums, and AWI should note this feedback, as it is important that AWI treat – and be seen to treat – such events as being of very high importance to the company. It is noted, however, that there has been at least one Director present at all other Woolgrower Forums since 2009.

Broader communication vehicles such as the quarterly magazine 'Beyond the Bale' and the AWI website are also reported to have improved significantly in recent years. Clearly, AWI has made robust efforts to better communicate what it does and how, with several one- and two-page flyers developed that graphically represent aspects such as AWI's business model, its funding allocations and its place among other industry bodies in clear, simple terms.

### Liaison with Government

Under the SFA, there are obligations for:

- The AWI Chair or their nominee (a director) to meet with the Minister at not less than six-monthly intervals and brief the Minister on the company's performance of its functions (Clause 14.2); and
- The AWI CEO or their nominated representative to meet with officers of DAFF at least once per quarter to discuss matters relating to the SFA, including developments within the company business, performance against company plans and the impact of the Government's rural R&D policies on the company (Clause 14.3).

The Minister delegated the meetings to DAFF, in response to which the Chair has delegated his attendance at these meetings to the CEO. However the Chair has met with the Minister or DAFF on several occasions: 3 November 2010 (Minister), 10 December 2010 (DAFF), 20 May 2011 (Minister and Senate Estimates Committee) and 7-9 December 2011 (with the CEO and Minister in China).

The quarterly and six-month meetings have taken place at the required intervals. At each of the meetings AWI has supplied a reference pack of key business information to DAFF representatives to support the discussion. These packs are very comprehensive, providing:

- Introductory material on AWI;

- A summary of finances for the year to date;
- A summary of operations, including relevant extracts of the AOP and project lists;
- An SFA compliance report showing performance against specific SFA clauses (to be completed every 6 months);
- Notes to accompany specific meeting agenda items;
- The current AOP; and
- Minutes from the previous quarterly meeting.

AWI intends to continue this practice for each of the SFA meetings and this is to be commended, as it provides DAFF with a thorough, bottom-up summary of AWI's progress and goes beyond the reporting requirements. DAFF has reported a strong and cordial relationship with AWI management.

#### Liaison with partners, collaborators and service providers

AWI has established Expert Panels in the On-Farm areas of:

- Dags;
- Education;
- Wool harvesting;
- Spatial technologies;
- Sheep handling;
- Sheep wheat zone; and
- Shearing shed conditions.

The 29 panel members are drawn from a range of research organisations, extension groups, the Australian Bureau of Agriculture and Resource Economics and Sciences (ABARES), Meat & Livestock Australia, Landmark, WA Shearing Industry Association, Workcover, private consultants and growers. The charter of the panels is to assist AWI management to develop programs of collaborative investment, highlight investment gaps, and review advances in other industries and technologies to identify investment opportunities. As described under 'Board committees' above, the creation of the Expert Panels is to be commended and will assist sound decision-making by management and the Board.

In addition, AWI consults with a number of panels, advisory groups and forums across all parts of the business, including the Wild Dog Management Advisory Group, the Animal Welfare Forum and Trade and Retail Partner Consultation Forums.

## Performance review: Delivery of benefits to industry

### Main points

- Progress in establishing a system of monitoring and evaluation (M&E) throughout AWI, one of the recommendations of the 2009 Review of Performance, has been slow but progress is being made.
- AWI has a 'Framework for monitoring and evaluation' that describes the context of AWI's requirements for evaluation, guidelines from other organisations on the conduct of evaluation, the evaluation tools available to the company and the goals and 'process concepts' that will be adopted by AWI to provide M&E of its activities.
- A Group Manager Market Intelligence & Reporting was appointed in July 2011 with specific responsibility for M&E.
- There is evidence from a number of independent reviews of AWI projects delivering positive benefit/cost outcomes. Generally, though, and despite the publication of a commendable 'Performance report 2011', AWI is not clearly reporting the benefits of its investments as distinct from input and process measures.
- A recommendation is made that *AWI should continue to develop and refine its monitoring and evaluation framework, and in particular it should develop a series of appropriate key performance indicators by which the company's performance can be tracked through strategic plan, annual operating plan and annual report.*
- Notwithstanding the above comments, AWI has met the obligations of the SFA in respect to the delivery of benefits to stakeholders.

### Introduction

The evaluation of benefits delivered to industry and to the broader community by rural R&D corporations (RRDCs) was the key theme of the Productivity Commission's review of 2009. It is a topic that all of the RRDCs have grappled with for many years because evaluation is not easy and it uses resources that many feel would be better spent on actually running projects.

It is not within the scope of this Review to undertake a specific evaluation of the benefits delivered by AWI. Instead, the Review has sought to examine existing evidence that: (i) AWI is undertaking sufficient and robust evaluation of its activities and that (ii) there is evidence from this evaluation that AWI is delivering positive outcomes for its stakeholders.

### AWI's approach to monitoring and evaluation

The need for an overarching monitoring and evaluation (M&E) framework was identified as a priority in the 2009 Review of Performance. One of the recommendations arising from the Review was that:

'AWI, as part of its strategy setting process, establish a comprehensive framework to enable the clear measurement and reporting of performance and the value it delivers to levy payers. This framework should: ensure that all efforts are captured in the performance framework; establish KPIs that measure outcomes; and clearly link KPIs from the company Strategic Business Plan through annual operating plans to the performance agreements of individual staff members' (p. 40).

In 2010, PricewaterhouseCoopers was commissioned to develop an *ex-ante* project evaluation model estimating 'triple bottom line' (economic/social/environmental) outcomes. The model came to be regarded as overly complex and unwieldy for application to every project. In February 2011, AWI commenced a process of reviewing its evaluation approach in the light of trialling the PwC model and AWI's involvement with the Council of Rural Research and Development Corporations' Chairs (CRRDCC) evaluation process. This review culminated in a draft 'Framework for monitoring and evaluation' in June 2011.

The framework succinctly but comprehensively describes the context of AWI's requirements for evaluation, guidelines from other organisations (such as the CRRDCC) on the conduct of evaluation, the evaluation tools already available to the company and other learnings from the review. Finally it presents the goals and 'process concepts' that will be adopted by AWI to provide M&E of its activities.

Since July 2011, AWI has had a Group Manager Market Intelligence & Reporting with specific responsibility for M&E (although with responsibility for marketing support, and market intelligence and reporting in addition to the M&E role). The budget for M&E was increased from \$150,000 at the start of 2011/12 to \$240,000, excluding consumer tracking by Nielsen, which would more than double this budget. Notably, the Clause 12.5(e)(ii) of the SFA requires AWI to increase its expenditure on evaluation of *R&D projects* by an average of 5% per year over the term of the SFA from 'a base level agreed with the Department'.

The Group Manager Market Intelligence & Reporting acknowledges that AWI requires a cohort of documents at the program or portfolio level describing how the program fits with the Strategic Plan, the gap between 'current' and 'preferred' states and the KPIs appropriate to the program. Metrics for on-farm and off-farm R&D in particular, in the evaluation framework, the Strategic Plan and the AOP, are described as being 'identified by project' which potentially means that AWI will report small, isolated groups of outputs or outcomes that are not linked to a bigger picture.

AWI has prepared a two-page brochure 'Performance Report 2011' designed for widespread distribution to stakeholders. Boxes of this brochure have been provided to the ICC and state farming organisations for distribution to members, included in Beyond the Bale and provided at industry events attended by AWI. The initiative is commendable. However, it is notable that many of the deliverables described in the report are inputs (e.g. funds invested in programs) or indicators of activity (e.g. numbers at workshops) rather than outputs or outcomes.



**Recommendation:** AWI should continue to develop and refine its monitoring and evaluation framework, and in particular it should develop and embed a series of appropriate key performance indicators by which the company's performance can be tracked through strategic plan, annual operating plan and annual report.

### Evidence of the delivery of benefits

Notwithstanding the commentary above in regard to the M&E framework, evaluations of AWI projects have been undertaken at various times and these provide some indication of the benefits delivered by AWI. Examples sighted by this Review include:

- An net present value (NPV) of \$11.2m and benefit/cost ratio of 7.0 from the Merino Touch™ investment.
- An estimated increase in value across the wool clip of \$27m or 1.47% from the Gold Woolmark Program in China 2010/11, using the 'Global Wool Apparel Model' developed by the Department of Agriculture and Food Western Australia.
- An ex-ante benefit/cost analysis of the China Luxury Program 2011/12 estimating potential returns of between \$0.10 and \$2.00 on every dollar invested.
- An ex-ante benefit/cost analysis of AWI's Wild Dog investment from 2011 to 2018 estimating the NPV of the investment at \$24m, a return of \$8.60 on each dollar invested by AWI.

Further details of these analyses are provided in Appendix 6.

### Changes since the previous performance review

#### Main points

- AWI can be considered to have addressed and completed actions in respect to the recommendations of the 2009 Review of Performance, although there is further work required to fully address the recommendation to establish a comprehensive M&E framework.

#### 2009 recommendations

The previous three-year review of performance by Arche Consulting (2009) made a series of recommendations. AWI's progress against these recommendations has been assessed twice at annual intervals since the Arche Review.

A summary of progress as at June 2012, as assessed by this Review, is provided in Table 4.

**Table 4 – Summary of progress against recommendations of 2009 Review of Performance<sup>16</sup>**

Recommendation	SED assessment of status
AWI maintain its efforts in integrating the Woolmark Company to streamline duplicate operational arrangements.	This recommendation can be regarded as completed, although streamlining operational arrangements is an ongoing matter.
AWI work with its industry stakeholders to clearly define the company’s position and role in the industry. This position and role should then be clearly communicated to AWI’s stakeholders.	Completed (status assessed as ‘completed’ in first one-year-on review). This is an ongoing matter, but has been significantly advanced over the period and AWI’s position and role now appears to be well understood.
Following WoolPoll 2009, AWI embark on an appropriately designed strategy setting process to provide a clear and detailed plan for the company.	Completed (status assessed as ‘partial’ in first one-year-on review, ‘completed’ in second review). The Strategic Plan 2010to 2013 is in place, is well understood by staff and has been clearly communicated to stakeholders.
To support this process... AWI consider establishing internal structures to support the development and consistent implementation of a planning process that allows rigorous exploration and assessment of value to levy payers.	Completed (status assessed as ‘partial’ in first one-year-on review, ‘completed’ in second review). Significantly advanced over the period but monitoring and evaluation (M&E) is still being bedded down. Dedicated internal resources have been appointed.
AWI conduct an assessment of the structure and the governance of subsidiary companies to ensure that it meets the organisation’s needs and that risks are appropriately managed.	This recommendation can be regarded as completed, although such assessments are an ongoing matter.
AWI consider its internal structure to ensure that arrangements are focused on the effective and efficient delivery of the company’s strategy.	Completed (status assessed as ‘completed’ in first one-year-on review). This is an ongoing matter, but has been significantly advanced over the period with the alignment of the corporate structure to that of the Strategic Plan and the introduction of staff performance review framework.
AWI take steps to constructively engage shareholders and key stakeholders. AWI should work with stakeholders to establish a common understanding and shared expectations for involving the wider industry in strategy setting.	Completed (status assessed as ‘partial’ in first one-year-on review, ‘completed’ in second review).

<sup>16</sup> This list is a composite of the recommendations provided throughout the report and those listed in the ‘Principal findings and recommendations’ section, which differ slightly.

Recommendation	SED assessment of status
<p>The AWI Board comprehensively review its corporate governance practice and take steps to ensure that it meets modern expectations of good practice.</p>	<p>Completed (although this is an ongoing matter – status assessed as ‘in progress’ in first one-year-on review, ‘completed’ in second review). Evidence of thorough reviewing and updating of Board Charter, processes etc, and ongoing provision of advice by governance specialist. Some residual concerns over adherence to code of conduct in isolated instances (see this Review).</p>
<p>AWI, in collaboration with shareholders and industry stakeholders, conduct a review of the architecture for the appointment of directors in the Constitution, to ensure the election of a skills based Board.</p>	<p>Completed (status regarded as ‘in progress’ in first one-year-on review and in second review). Nominations Committee put in place prior to 2011 AGM and Constitutional change made at that meeting to permit Committee more time to complete its functions. BNC Charter to be reviewed.</p>
<p>AWI comprehensively review its risk, fraud and IP plans and management processes. The company should ensure that there is a common understanding of, and responsibility for, the plans, and that they are embedded in company operations.</p>	<p>Completed (status regarded as ‘in progress’ in first one-year-on review and in second review). Risk, Fraud and IP Plans have all been reviewed and updated during 2010 and 2011 and processes for review and update embedded in corporate operations.</p>
<p>The Human Resources team be appropriately resourced to support the change management required to implement the company’s new strategy.</p>	<p>Completed (although this is very difficult to judge objectively).</p>
<p>AWI consider adopting a more strategic approach to communications to ensure that AWI provides its stakeholders with clear messages and that reputation risks are appropriately managed.</p>	<p>Completed. AWI has developed a series of communication tools including presentations, brochures and newsletters that allow it to communicate key elements of its operations very clearly. A structured approach to communications vehicles and events (ICC, Woolgrower Forums etc) has been introduced during the review period and facilitates clear communications. There is evidence from interviews and from the stakeholder survey of significant improvement in AWI’s reputation over the period, due to some extent to this more strategic communication and engagement of stakeholders.</p>
<p>AWI take significant steps to ensure that staff have a common understanding of the systems and processes of the company, and that these are consistently used.</p>	<p>Completed. See above re communication tools, which are used internally as well as externally. Evidence has been sighted of improved processes and steps taken to educate staff in their use.</p>

Recommendation	SED assessment of status
<p>AWI, as part of its strategy setting process, establish a comprehensive framework to enable the clear measurement and reporting of performance and the value it delivers to levy payers. This framework should: ensure that all efforts are captured in the performance framework; establish KPIs that measure outcomes; and clearly link KPIs from the company Strategic Business Plan through annual operating plans to the performance agreements of individual staff members.</p>	<p>Partially completed. See commentary above in Review. Progress has been made but there remains significant opportunity for improvement, especially in respect to the setting of appropriate KPIs at program / portfolio level and the communication and linkage of these through the strategic and annual operating plans and annual reports.</p>
<p>AWI review the structures and processes that operate in similar industry owned companies, as one means of considering improvements in its value creation to levy payers.</p>	<p>Completed (status regarded as 'in progress' in first one-year-on review).</p>
<p>AWI comprehensively document and communicate the actions the company is currently taking to improve business processes.</p>	<p>Completed. A comprehensive framework of business processes, including those covering project approvals, contracting, project monitoring and risk management is in place, and 'Project Vespa' to integrate various software platforms will further streamline business processes.</p>
<p>A formal review be conducted in 12 months time to assess AWI's progress in addressing the recommendations of this review. This will enable AWI to make appropriate changes well in advance of the levy poll in 2012.</p>	<p>Completed, and an additional one-year-on report undertaken voluntarily 12 months later.</p>

### 2011 recommendations

In the report of the 2011 Review, the consultants reported against nine areas of interest from the 2010 Review, rather than reporting strictly against the original 2009 recommendations (Table 5).

**Table 5 – 2010-11 performance ratings (source: GHD 2011)**

Area	Focus	2010-11 Assessment
Strategy	Strategic direction	Completed
	Strategy setting process	In progress
	Internal structures for planning and evaluation	Completed
Operations	Engagement	Partial
	Staff performance management	In progress
Governance	Board governance	Completed
	Appointment of directors	Completed
	Risk, fraud and IP	In progress
M&E	Monitoring and evaluation framework	Partial

The 2011 Review concluded with six recommendations, two of which were 'major', four 'minor'. These are shown in Table 6 along with a description of their current status.

**Table 6 – 2010-2011 Review recommendations and current status**

Recommendation	Status
The shareholder survey should be expanded to include objective measures of all stakeholders' understanding and perceptions of AWI and its programs ( <b>major</b> ).	The 2011 stakeholder survey was initiated prior to the completion of the 2011 Review. The inclusion of objective measures will be considered for the next survey.
A detailed implementation plan [for a monitoring and evaluation framework] is required to manage risk and to ensure the framework is successfully implemented and embedded in AWI to provide sound and rigorous information to: <ul style="list-style-type: none"> <li>• Support strategic and annual operating planning;</li> <li>• Improve performance management and reporting including KPIs; and</li> <li>• Demonstrate value to levy payers (<b>major</b>).</li> </ul>	See commentary above in Review. Progress has been made but there remains significant opportunity for improvement, especially in respect to the setting of appropriate KPIs at program / portfolio level and the communication and linkage of these through the strategic and annual operating plans and annual reports.
AWI should publicly release its Operating Plan to improve transparency to stakeholders ( <b>minor</b> ).	The AOP is not available on the web site at this time. Public release of the AOP is not necessarily desirable (see below).

Recommendation	Status
The Annual Planning and Consultation Cycle should clearly indicate the focus (i.e. seeking input to or communicating intent of plans) of stakeholder engagement in the planning cycle ( <b>minor</b> ).	Completed.
The value of demonstrating AWI’s position could be further enhanced by developing a chart showing the company’s position in the global wool value chain in relation to its core RD&M functions ( <b>minor</b> ).	Not completed, but a minor point.
AWI should continue to expand the explanation of the specific tasks and key supporting documents used in developing the strategic and operating plans in the on-going development of the Strategic Planning Framework, to improve transparency and provide guidance ( <b>minor</b> ).	In progress. This will be an ongoing process.

This Review would debate whether the Operating Plan needs to be released publicly. The AOP can contain information of a sensitive nature that AWI may not wish to make public (for example, R&D on animal welfare issues that AWI may not wish to ‘talk up’) and this is a reasonable posture for AWI to take. The Strategic Plan is required to be a public document and a ‘public version’ of the AOP can be prepared if necessary.

### Summary of findings

This section examines the progress of AWI in its implementation of the recommendations of the previous (2009) three-year Review of Performance. This is considered both in terms of progress against the original recommendations, as judged by the Review team, and against the ‘outstanding issues’ identified at the last one-year-on review in late 2011.

AWI has clearly made an enormous effort to address the recommendations of the 2009 Review and has satisfactorily done so, with the possible exception of that relating to the M&E framework. Progress is being made in this area, but AWI needs to do further work in systematically evaluating and reporting the benefits it delivers to stakeholders.

### Conclusions and recommendations

This Performance Review has found that AWI has made significant progress in its compliance with the SFA since the negative performance review of three years ago. This has been a consistent observation among key industry stakeholders interviewed for the Review, woolgrowers surveyed by AWI in late 2011 and DAFF officers, as well as directors and management of AWI itself.

AWI is clearly implementing its strategic and annual operational plans and is allocating funding strictly according to the wishes of levy payers as expressed in WoolPoll 2009.

There is objective evidence that AWI is delivering benefits to woolgrowers and other stakeholders.

AWI can be considered to have met its obligations under the SFA, particularly in respect to the codification of a range of business processes in policies, procedures and structures. This finding is made in recognition of the external and internal challenges faced by AWI during the period, most notably the large fluctuations in levy revenue, and is a credit to the Board, CEO and management of the company.

There are some opportunities for improvement. Four recommendations are made in this respect:

- AWI should consider developing a firm schedule of regular (2-3-monthly) meetings of the executive team, booked 12 months ahead and carrying clear expectations of commitment to attend by all managers.
- The Board should consider expanding its performance review process to include each of the Committees.
- AWI should review the role and composition of the Science and Welfare Advisory Committee, with a specific view to either: discontinuing it; increasing the level of R&D expertise on the Committee through the appointment of external personnel; or replacing the Committee with a multi-disciplinary advisory group that is entirely separate from the Board.
- AWI should continue to develop and refine its monitoring and evaluation framework, and in particular it should develop and embed a series of appropriate key performance indicators by which the company's performance can be tracked through strategic plan, annual operating plan and annual report.

## Appendixes

### Appendix 1: Documents reviewed

- Arche Consulting 2009, Australian Wool Innovation: 3 year review of performance, 68 pp., August, Sydney.
- ASX Corporate Governance Council 2007, Corporate governance principles and recommendations with 2010 amendments, 2<sup>nd</sup> edition, 52 pp.
- Australian Bureau of Agricultural and Resource Sciences (ABARES) 2012, Australian farm survey results 2009-10 to 2011-12, April, 70 pp., Canberra.
- Australian Institute of Company Directors 2005, Code of conduct, approved by the AICD Board September, 1 p.
- Australian Wool Innovation undated, AWI – Board, management and corporate governance structure [one-page summary for stakeholders].
- Australian Wool Innovation undated, Directors expense claim, 1 p., internal document.
- Australian Wool Innovation undated, Managing your interests: a practical approach – conflict of interest checklist, 2 pp., internal document.
- Australian Wool Innovation undated, Managing your interests: a practical approach – scenarios for discussion, 1 p., internal document.
- Australian Wool Innovation undated, M&E framework: 2011/12, internal document.
- Australian Wool Innovation 2005, Code of conduct – directors and officers, version approved 17 March, 4 pp., internal document.
- Australian Wool Innovation 2006, Code of conduct – obligations to stakeholders, version approved 17 June 2004 and amended 24 May 2006, 12 pp., internal document.
- Australian Wool Innovation 2006, Corporate governance communications strategy, version approved 16 February, 4 pp., internal document.
- Australian Wool Innovation 2009, Annual report 2008/09, 72 pp., Sydney.
- Australian Wool Innovation 2009, AWI fraud risk profile, v3, 13 pp., internal document.
- Australian Wool Innovation 2009, AWI standard contracts user guide, September, 12 pp., internal document.
- Australian Wool Innovation 2009, Corporate governance policy (long form), version approved 17 June 2004, amended 24 April 2008 and 26 June 2009, 12 pp., internal document.
- Australian Wool Innovation 2009, Risk management policy and framework, v0.2, 17 pp., internal document.
- Australian Wool Innovation 2010, 2010/11 Operating plan, 47 pp., Sydney.



- Australian Wool Innovation 2010, Annual report 2009/10, 72 pp., Sydney.
- Australian Wool Innovation 2010, AWI fraud control plan, v04, 23 pp., internal document.
- Australian Wool Innovation 2010, Expense claim form, 2 pp., internal document.
- Australian Wool Innovation 2010, Response to the Productivity Commission's Draft Report, November, 45 pp., Sydney.
- Australian Wool Innovation 2010, Strategic plan 2010 to 2013, full version, 116 pp., Sydney.
- Australian Wool Innovation 2010, Submission to the Productivity Commission's Review of Rural Research and Development Corporations, June, 80 pp., Sydney.
- Australian Wool Innovation 2011, 2011-2012 Operating plan, 59 pp., Sydney.
- Australian Wool Innovation 2011, Annual planning and consultation cycle [one-page summary for stakeholders].
- Australian Wool Innovation 2011, Annual report 2010/11, 76 pp., Sydney.
- Australian Wool Innovation 2011, AWI employee delegation levels, July, 1 p., internal document.
- Australian Wool Innovation 2011, AWI framework for monitoring and evaluation, draft version 1.06, June, 15 pp., internal document.
- Australian Wool Innovation 2011, AWI – investing in innovation for the Australian wool industry [three, one-page summaries for stakeholders], May.
- Australian Wool Innovation 2011, AWI performance report 2011 [two-page summary for stakeholders], November.
- Australian Wool Innovation 2011, AWI research, development, extension & communications strategy: breech flystrike prevention [two-page summary for stakeholders], September.
- Australian Wool Innovation 2011, Board charter, November, 14 pp., internal document.
- Australian Wool Innovation 2011, Board induction pack (572 pp.) and additional information (441 pp.), internal document.
- Australian Wool Innovation 2011, Board induction day 2011 – agenda, 12 December, 3 pp.
- Australian Wool Innovation 2011, Board Nomination Committee report to shareholders [prior to AGM 2011], 11 October, 2 pp.
- Australian Wool Innovation 2011, Briefing material: Minister Ludwig's industry delegation to China, December, 20 pp.
- Australian Wool Innovation 2011, Charter of the committees of the Board, 25 October, 16 pp., internal document.

- Australian Wool Innovation 2011, Constitution, current version effective 18 November, 33 pp., Sydney.
- Australian Wool Innovation 2011, Director expense and travel policy, August, 13 pp., internal document.
- Australian Wool Innovation 2011, Untitled [industry organisation chart – one-page summary for stakeholders], May.
- Australian Wool Innovation 2011, Intellectual property management plan, October, 25 pp., internal document.
- Australian Wool Innovation 2011, Managing your interests: a practical approach (or 'how to avoid a conflict of interest'), August, 5 pp., internal document.
- Australian Wool Innovation 2011, Minutes of Annual General Meeting (extract relating to amendment of Constitution), 18 November, 2 pp.
- Australian Wool Innovation 2011, Project management procedures, v3, April, 28 pp., internal document.
- Australian Wool Innovation 2011, Rules and procedures governing the election of directors, version approved 17 February 2005, amended 24 May 2006, 14 August 2008, 24 July 2009 and 29 April 2011, 5 pp., internal document.
- Australian Wool Innovation 2011, SAFETRAC compliance training, Board paper, 22 August, 76 pp. including attachment, internal document.
- Australian Wool Innovation 2011, Statutory funding agreement (SFA) compliance report, December, 14 pp., report for DAFF.
- Australian Wool Innovation 2011, Talent management succession and development planning by function [Powerpoint template plan], November, 21 pp., internal document.
- Australian Wool Innovation 2012, 09-10 & 10-11 budgets actuals [spreadsheet], internal document.
- Australian Wool Innovation 2012, AWI-DAFF statutory funding agreement quarterly meeting 25 January 2012 [meeting agenda and papers], 138 pp.
- Australian Wool Innovation 2012, AWI planning and organisational chart [draft one-page summary for stakeholders].
- Australian Wool Innovation 2012, Board and committee papers – guidelines, January, 8 pp., internal document.
- Australian Wool Innovation 2012, Finance and Audit Committee – Charter compliance plan, January, 2 pp., internal document.
- Australian Wool Innovation 2012, Review of Board performance [summary by John Harrison], 1 p., internal document.
- Australian Wool Innovation 2012, Summary of actions since 2009, internal document.

- BDA Group 2012, Benefit cost analysis of AWI's China Luxury Program investment, draft report to AWI, May, 7 pp., Canberra.
- BDA Group 2012, Benefit cost analysis of AWI's Merino Touch™ investment, report to AWI, May, 7 pp., Canberra.
- Commonwealth of Australia and Australian Wool Innovation Limited 2007, Statutory Funding Agreement 2007 to 2010, 23 pp.
- Commonwealth of Australia and Australian Wool Innovation Limited 2010, Statutory Funding Agreement 2010 to 2013, 38 pp.
- Department of Agriculture and Food WA 2012, Gold Woolmark Program in China and Global Wool Industries, first draft to AWI, May, 39 pp. South Perth.
- GA Research 2011, Australian Wool Innovation (AWI) woolgrower research report, final report, 66 pp., December, Sydney.
- GHD 2010, Australian Wool Innovation: Report for one year on review of performance, Final report, 77 pp., November, Sydney.
- GHD 2011, Australian Wool Innovation: Report for one year on review of performance 2010-2011, Final report, 71 pp., September, Sydney.
- Wool Producers Australia 2010, Annual review 2010, 40 pp., Canberra.

## Appendix 2: Stakeholders consulted

The following people were consulted during the preparation of this Review:

### Industry stakeholders

- Helen Cathles, President, Australian Superfine Wool Growers Association
- Jock McRae, President, Victoria Stud Merino Sheep Breeders Association
- John Manwaring, Director of Wool Producers, NSW Farmers Association Wool Committee
- Geoff Power, President, Wool Producers Australia
- Will Roberts, immediate past President AASMB, Wool Poll Panel Chair
- Rod Thirkell-Johnston, Australian Superfine Wool Growers Association

### AWI directors and management

- Kirsten Berg, General Manager Global Business Development
- Roger Fletcher, Deputy Chair
- John Harrison, Harrison and Associates, corporate governance advisor to the Board
- Sally Holmes, General Legal Counsel and Company Secretary
- Jimmy Jackson, General Manager Product Development and Commercialisation
- Rob Langtry, Chief Strategy and Marketing Officer
- Jane Littlejohn, Head of On-Farm R&D

- Stuart McCullough, Chief Executive Officer
- Tracy Marshall, Chief Financial Officer
- Wal Merriman, Chair
- Peta Slack-Smith, Corporate Affairs Manager
- Paul Swan, Group Manager Market Intelligence and Reporting
- David Webster, Director

Department of Agriculture, Fisheries and Forestry

- Allen Grant, First Assistant Secretary, Agricultural Productivity Division
- Desley Darby, Director, Wool and Dairy
- Kraig Lowes, Director, R&D Policy and Governance
- Simon Murnane, formerly Assistant Secretary, Livestock Industries and Animal Welfare
- Mike Ryan, Acting Assistant Secretary, R&D Food Security Branch

**Appendix 3: Summary of performance against obligations under the SFA**

The following table summarises the obligations of AWI under each clause of the SFA. The table is not intended to be a full and comprehensive description of all of AWI’s activities in respect to each clause, nor is it intended to provide a scorecard on AWI’s performance – rather, it is simply intended to provide assurance that each AWI’s fulfilment of each obligation has been examined and confirmed.

Requirement	Source 2007	Source 2010	Status
<b>CONSTITUTION</b>			
Consult with C’t’h on proposed changes to the Constitution, copy notice of motion to modify, inform of modification	CI 11.1	CI 3.1	AWI advised Minister of proposed amendments (related to director nomination period) on 25 May 2011, received acknowledgement from Minister 27 June.
Do all things necessary to remain representative of industry’s marketing and R&D interests (2010 only)		CI 3.2	Annual planning and consultation cycle in place (see above). Budget expended according to outcomes of WoolPoll 2009.
Use reasonable endeavours to ensure levy payers are advised of entitlements to become members; ensure company comprises ‘a substantial proportion of levy payers’ (the latter 2007 only)	CI 10.1	CI 3.3	Letters sent to all levy payers prior to AGM (most recently 2 September 2011) inviting them to become members and setting out benefits.
<b>BOARD CORPORATE GOVERNANCE</b>			
Implement framework of good corporate governance practices drawing on ASX Principles – esp: <ul style="list-style-type: none"> <li>• Structure Board to add value (Principle 2)</li> <li>• Establish skills-based Board recommended by Nomination Committee</li> <li>• Processes for evaluating performance of Board and committees</li> </ul> (2010 only)		CI 4.1	See above. Corporate governance advisor engaged to advise Board, skills matrix developed. Nomination Committee established, provided advice for 2011 AGM. 360-degree Board evaluation process established and run in 2010 and 2012 by governance advisor.

Requirement	Source 2007	Source 2010	Status
Report to the Minister 6-monthly on steps taken to improve Board corporate governance (2010 only)		CI 4.2	Progress with implementing Board governance framework part of briefing at quarterly SFA meetings. 2010 quarterly meetings held 1 April, 2 July and 29 September 2010. Six-monthly meetings held 17 June and 10 December 2010. 2011 quarterly meetings held 25 March and 30 August 2011. Six-monthly meetings held 27 June and 1 December (postponed to 25 January). 2012 meetings held 29 March and 26 June.
<b>PAYMENT OF FUNDS</b>			
Payment of funds by the Commonwealth to AWI – any issues with the procedures or timing?	CI 3.1,sch 1	CI 5.1-5.7,sch 1	AWI has complied with the SFA.
C'th must provide, prior to FY start, indicative budget and plan for following FY on levy	CI 3.8	CI 5.8	AWI has complied with the SFA.
<b>MANAGEMENT OF FUNDS</b>			
Accounting systems, procedures and controls in place to ensure funds spent in accordance with SFA, properly authorised etc, readily auditable, must take account of Risk Management and Fraud Control Plans, must notify details of such systems to C'th if required; implement additional systems as required under implementation plan agreed with DAFF	CI 4.1-4.2	CI 6.1-6.3,6.5	Systems, procedures etc in place. No concerns noted by DAFF.
Keep detailed accounts and records etc (check systems for recording R&D vs other expenditure)	CI 4.3	CI 6.4	Systems in place.
<b>APPLICATION OF THE FUNDS</b>			
Application of funds in accordance with the Act – seek audit verification (copy) and check Category and B payments. Cat A not to be spent on Global Sales Network unless approved. Any additional activities approved by DAFF?	CI 5.1-5.2	CI 7.1-7.2	AWI has complied with the SFA.

Requirement	Source 2007	Source 2010	Status
Application of funds in accordance with most recent Wool Poll (2006: sch 3; 2009: 50% marketing, 30% on-farm R&D, 20% off-farm R&D), strategic and operational plans, Guidelines and (2010 only) 'otherwise efficient and ethical' (see definition)	CI 5.3	CI 7.3	See above. Funds used strictly according to WoolPoll splits.
No agri-political activity	CI 5.4-5.7	CI 7.4,7.6-7.9	No evidence of agri-political activity over the period, no concerns expressed by DAFF.
C'th may change Guidelines – has this happened?		CI 7.5	No change of Guidelines noted.
<b>SUSPENSION OR TERMINATION OF FUND PAYMENTS</b>			
C'th may seek explanation of activities if in doubt		CI 8.1	No explanations sought by the C'th during the period.
C'th may issue notice to suspend or terminate payments	CI 6.1-6.2	CI 8.2-8.3	No notices issued by the C'th during the period.
<b>REPAYMENT OF FUNDS</b>			
C'th may require repayment of funds	CI 7.1-7.5	CI 9.1-9.5	No requirement for repayment of funds during the period.
<b>POLLS</b>			
C'th to provide information on levy payments received within reasonable timeframe of end of month	CI 8.1	CI 10.1	C'th obligation. No issues noted.
Maintain record of persons eligible to vote at Polls	CI 8.2	CI 10.2	Share register managed for AWI by LINK Market Services.
Conduct Poll in accordance with Regulations; conduct 2012 Poll	CI 8.3	CI 10.3	WoolPoll 2009 conducted in accordance with Regulations.
<b>ACCESS TO RECORDS AND USE OF INFORMATION</b>			
Permit access to premises and records for audit purposes	CI 9.1-9.8	CI 11.1-11.7	Requirement for access not invoked during the period.

Requirement	Source 2007	Source 2010	Status
<b>STRATEGIC PLAN AND ANNUAL OPERATIONAL PLAN</b>			
Strategic plan <ul style="list-style-type: none"> <li>By 1 Jul 2007, to Minister within 28 days after AWI resolves to accept; to Minister by Sep 2010</li> <li>Review and update if nec by June 30 each year</li> <li>Meet with DAFF to ensure SP and AOPs meet Program Framework (Sch 4)</li> <li>Make Strategic Plan available to levy payers, and industry bodies</li> </ul>	CI 12.1	CI 12.1, Sch 4	2010-2013 Strategic Plan developed in consultation with industry, aligned with the outcomes of WoolPoll 2009. Provided to the minister on 30 June 2010. No issues noted by DAFF. Plan reviewed prior to 30 June 2011 but no changes required Minister advised accordingly on 5 July, acknowledged 19 August. Consultation on AOP with DAFF at 25 March and 27 June 2011 meetings. AOP provided to Minister 5 July 2011 (with prior approval to extend deadline). Strategic Plan available on web site, incorporated into presentations provided to ICC and SFOs on quarterly basis.
Strategic plan must meet content requirements	CI 12.2	CI 12.2	See above. Plan meets content requirements.
Strategic plan – consult Minister, Levy Payers, formal meeting with industry rep bodies, comply with Guidelines	CI 12.3	CI 12.3	See above. A thorough consultation process was followed.
Strat plan (2007 only), annual operational plan must meet content requirements	CI 12.4	CI 12.4	See above. SP and AOP meet content requirements.
Annual operational plan – for 2010 consider directions of Minister, consistency with levy payer expectations etc, support National Primary Industries R,D&E Framework, collaboration with other RDCs, evaluation (structured plan, participate with CRRDCs, increase expenditure on evaluation by 5% pa over life of SFA from base level) (NB differences between 2007 and 2010)	CI 13.1	CI 12.5	AWI has complied with the SFA.
Systems etc in place to support reporting as per Sch 2	CI 13.2	CI 12.6, Sch 2	No issues noted. Reporting carried out as required.
C'th to treat plans as confidential until published	CI 13.3	CI 12.7	C'th obligation, no issues noted.
Submit all plans to C'th within 28 days of adoption		CI 12.8	Strategic Plan 2010 to 2013, 2010/11 and 2011/12 AOPs provided to Government within 28 days of adoption.



Requirement	Source 2007	Source 2010	Status
Report on progress against all plans at 6-monthly meetings and annual reports		CI 12.9	This has been done. Additionally, AWI has provided a formal 'SFA compliance report' to DAFF since December 2011.
<b>OTHER PLANS</b>			
Maintain and implement <ul style="list-style-type: none"> <li>• Risk Management Plan(copy)</li> <li>• Fraud Control Plan (copy)</li> <li>• IP Management Plan (copy)</li> </ul> - prepare in consultation with DAFF, review each 3 years, submit plans and amendments within 28 days of adoption	CI 14.1-14.2	CI 13.1-13.3	Risk Management Plan in place, internally reviewed and updated every six months, reviews submitted to Finance and Audit Committee for approval, in accordance with AWI's overarching Risk Management Policy and Framework. Policy and Framework send to DAFF 26 February 2010, next due 2013. Likewise Fraud Control Plan.  Intellectual Property Management Plan updated 2011, approved by the Board in November. Copy to be sent to DAFF for information in January 2012.
<b>REPORTS AND MEETINGS</b>			
Annual report <ul style="list-style-type: none"> <li>- content requirements Sch 2</li> <li>- copies to the Minister at same time as required by Corporations Act</li> </ul>	CI 15.1, Sch 2	CI 14.1, Sch 2	Annual reports meet content requirements. Copies of the 2009/10 AR provided to Government in September 2010, copies of the 2010/11 AR provided to Government on 21 October 2011 (Minister, key DAFF personnel).
Chair or nominee director meetings with the Minister – at least 6-monthly	CI 15.2	CI 14.2	Minister has delegated the six-monthly meetings to DAFF (see below).
CEO or nominee to meet with DAFF at least quarterly on developments within AWI business, performance against plans, impact of rural R&D priorities on AWI business	CI 15.3	CI 14.3	Quarterly meetings held on 1 April, 2 July and 29 September 2010, six-monthly meetings on 17 June and 10 December 2010. Quarterly meeting held on 25 March and 30 August 2011, six-monthly meetings on 27 June and 1 December 2011. Comprehensive reference pack provided at 30 August 2011 and subsequent meetings.

Requirement	Source 2007	Source 2010	Status
AWI to meet with 'key IRBs' at least 6-monthly to review industry R&D and marketing priorities and report performance against plans (2010 only)		CI 14.4	Industry Consultative Committee of national grower representative groups established 2010, meetings held 16 April, 17 June and 4 November 2010; 23 March, 8 June 2011 and 4 October 2011; and 27 March and 22 June 2012. Meetings held quarterly with state farmer organisations to provide an update on RD&M activities and to seek industry feedback on priorities.
<b>ADDITIONAL REPORTS</b>			
Provide to the Minister any report or explanation on expenditure as required	CI 16	CI 15.1	No report requested during the period.
Report to Minister within 30 days any significant matters which may impact ability to achieve outcomes or meet SFA (2010 only)		CI 15.2	Progress against SFA reported to DAFF every 6 months. No specific report on impending non-compliance required during the period.
<b>REVIEW OF PERFORMANCE</b>			
Conduct follow-up performance review by Aug 2010, forward to Minister by Dec 2010, proposed implementation plan by Jan 2011		CI 16.1	Report provided to Minister on 17 November 2010. Implementation plan provided to and discussed with DAFF at six-monthly SFA meeting in December 2010. Additional independent review of performance in 2010/11 conducted voluntarily and also provided to DAFF.
Undertake performance review before Wool Poll, agree TOR with Minister etc; consultant must be independent	CI 17.1-17.2	CI 16.2-16.4	This Review fulfils this obligation.
<b>COMPLIANCE AUDIT REPORT AND CERTIFICATION REPORT</b>			
Audited financial report to Minister with annual report	CI 18.1		AWI has complied with the SFA.
Compliance audit report on clauses 6 and 7, requirements, need not include consideration re benefit to industry, ethical/efficient etc, agri-political – done? Any audits requested?	CI 18.2-18.5	CI 17.1-17.4	The 2011 Compliance Audit Report, prepared by AWI's independent auditor, PriceWaterhouseCoopers, provided to Government on 9 November 2011.
Certification report – within 5 months of FY – certifying that obligations under Act and SFA met, signed Chair and CEO	CI 18.6	CI 17.5	2011 Certification Report, signed by Chairman and CEO, provided to the government on 9 November 2011.

Requirement	Source 2007	Source 2010	Status
CONFLICT OF INTEREST			
Warrant that none exists, notify Minister if arising – obtain copy of policy	CI 19.1-19.2	CI 18.1-18.2	AWI has complied with the SFA.
ACKNOWLEDGMENT OF FUNDING			
Acknowledge C'th funds in all major publications and publicity	CI 20	CI 19	AWI has complied with the SFA.

#### Appendix 4: Detailed analysis of strategic and annual operating plans

Strategic and Annual Operational Plan 2009/10 / Annual Report 2009/10

The Strategic and Operational Plan 2009/10 (SAOP 09/10) is an unusual document that was developed 'out-of-cycle' by the previous CEO. The structure is not easy to follow. There is an unclear hierarchy of headings and no apparent logic to the ordering of background analysis, strategic intent and short-term actions. The sections on marketing and on research and development are set out quite differently from each other and the language is inconsistent:

- The Branding section includes an 'Action plan' and the 2009/10 Sales and marketing plan includes 'Marketing plans' for PR, Online communications and Potential partners and programs, and 'Action plans' for PR, Increasing sales in apparel, Interior textiles, Endorsements and Merino Perform. In these sections, the 'Action plans' have 'Action steps', KPIs and timeframes.
- The R&D 'Go forward strategy' describes six 'Programs', each with a series of 'Products' (called 'Sub-programs' in the table caption). The R&D 'Action plan' sets out key performance indicators (KPIs) against each of the 'Products' and the timeline against which they will be delivered (Q1-Q4). However, the 'Products' identified in the strategy do not align with the 'Products' listed in the 'Action plan'. For example, the program 'Lower cost wool preparation and early stage selling' lists one 'Product' in the 'Strategy', while three are listed in the 'Action plan'. The 'Programs' are also re-ordered.
- The final area of strategic intent, 'Enabling and support strategies', also lists a series of tables describing 'Action steps' with KPIs and end dates. However, these are not described as 'Action plans'.

While the structure and terminology of the SAOP 09/10 is confusing, the KPIs that are set for the various action plans are to be commended. They generally appear to meet the criteria of SMART objectives, that is, they specific, measurable, achievable, relevant and timebound. It should be straightforward to identify whether or not they have been met.

The reporting in the Annual Report 2009/10 of performance against the KPIs identified in the SAOP 09/10 is quite good, particularly for marketing and off-farm R&D, where the actions committed to in the SAOP 09/10 are reproduced and can be compared directly with the actual progress achieved (this was not done for on-farm). In most cases it is possible to discern whether or not each of the KPIs has been met. However, in some cases KPIs are not addressed or are addressed vaguely. Several examples from the on-farm R&D section are provided below (Table 7).

**Table 7 – Examples of reporting against KPIs in Annual Report 2009/10**

AOP Program (p. 47)	AOP Product (p. 47)	AOP Action Plan KPI (p. 53)	Annual Report (pp. 22-23)	SED Comments
Healthy and profitable sheep	Commercialisation of DNA-based tools	SNP-based parentage technology trialled with commercial breeders	Page 22: Dot point summary – ‘Improved DNA parentage technology likely to be released by private sector in near future’	Unclear whether KPI met
Lower cost wool preparation and early-stage selling	Improved harvesting skills and lower cost alternatives to conventional shearing	Completion of a strategic review of the shed-ship logistics, with recommendations for future investment	Page 23: Dot point summary – KPI not referred to	Unclear whether KPI met
Building and transferring knowledge	Future Leaders and Grower Networks	Revised management system implemented	Page 23: Dot point summary – ‘A new process is under development with a view to reducing overall cost and achieving efficiencies in the model’	KPI probably not met but unclear

## Strategic Plan 2010 to 2013 / Operating Plan 2010/2011 / Annual Report 2010/11

In June 2010 the AWI Strategic Plan 2010 to 2013 (SP 10/13) was finalised. The SP 10/13 is organised along the lines of Outcomes / Strategies / Programs and Subprograms / KPIs, a format that is consistently applied across On-Farm R&D, Off-Farm R&D, Marketing, Global Network and International Trade and Market Access. The structure of the document is much more intuitive and logical than that of the SAOP 09/10, with the Marketing section in particular being much less fragmented in its presentation and considerably easier to follow. Graphics are used to good effect throughout.

These are more than cosmetic features; they make the document much easier to read and understand than the previous SAOP 09/10, which increases the company’s transparency to its stakeholders. It is also notable that the ‘Strategic framework’ summary lends itself to a one-page flyer for distribution to stakeholders. It is also posted on the wall of the AWI offices where it acts to continually remind management of where the company is heading.

As a broader document, though, the SP 10/13 is deficient in its articulation of the monitoring and evaluation of its activities. Performance measures are described in Section 4.2, Measurement and evaluation, where ‘Measurements’ are listed against the ‘Outcomes’ and ‘Strategies’ described in the plan. The ‘Measurements’ proposed for R&D On-Farm appear to be considerably less thought out than those for Marketing and Product Development and Innovation. Whereas the latter two have a broad range of indicators

ranging from inputs ('number of projects completed') to ultimate benefits ('wool consumption'), each on-farm strategy has one indicator and in each case it is simplistic.

For example, for 'Healthy and profitable sheep' the sole proposed measure is 'Quality gains in sheep, pastures, reproduction and labour'. It is far from clear what is meant by 'quality', and the notion of reducing cost of production in some way – which might be expected in this context – appears to be completely absent.

There are separate lists of KPIs provided under the 'Strategic frameworks'. To continue the example above, seven KPIs are provided for the outcome 'Foster sustainable, profitable and ethical animal care and wool production'. These include 'Reduced impacts of illness, infestation and predation on productivity and/or welfare' which would appear to be a much more relevant KPI than the one provided in the dedicated M&E section of the plan. However, the link between this and the other six KPIs, and the 'Measurement' listed under 'M&E', is not explained and is far from obvious.

A further problem is that the 'Strategies' as listed in each section do not line up (and, in fact, even the terminology 'Product development and innovation' differs from 'Off-farm R&D program' used for Section 6). The confusion over performance measures and even titles of programs and strategies makes AWI's delivery of benefits hard to track. The M&E section contains some useful information on how and when performance data will be collected, but this detail is probably unnecessary in a strategic plan and a reduced version showing the clear link between strategies, KPIs or measures and targets would be more beneficial.

The Operating Plan 2010/2011 (AOP 10/11) maintains the presentation format adopted in the SP 10/13, which is to be applauded for facilitating the tracking of strategic to operational priorities by the reader. The plan reiterates core elements such as the business model and corporate values and provides a summary of current conditions. Section 2, 'Strategies and programs', provides an extensive description of each of wool's main markets and, for each, a summary of competitive activity, a SWOT, targeted markets, desired outcomes, operational priorities and budgets for the year.

However, it is almost silent on on-farm R&D. The only additional information from the SP 10/13 is the budget allocation to each strategy and to On-Farm overall. There is no sense of the priorities for the year and how these were derived, nor are there any SMART KPIs of the type found in the SAOP 09/10, rather a reproduction of the KPIs listed in SP 10/13 which are very broad and do not include targets. KPIs are likewise lacking from the Off-Farm and Marketing sections.

The Annual Report 2010/11 (AR 10/11) provides descriptions of AWI's activities for the year under each of the five business areas. Under on-farm R&D, for example, there are three pages of articles on feature issues such as 'Wild dog control initiatives' and 'Breech flystrike prevention'. This is followed by three pages of dot points summarising activities under each of the ten on-farm programs.

The reporting is reasonable and would give many readers some assurance that issues of importance are being addressed. However, almost all of the facts provided describe inputs, processes, activities, participation (e.g. attendance at workshops) and in some cases outputs. These are useful as partial indicators but they should be accompanied by measures of actual or estimated outcomes to allow readers to judge AWI's delivery of value for money. This also requires linkage back to targets set in the annual operating plan, which are also absent. The same observations apply to the other four business areas.

In this respect, the reporting of progress against priorities identified in the annual operating plan was better in the AR 09/10 than the AR 10/11, especially for marketing and post-farm R&D.

Strategic Plan 2010 to 2013 / Operating Plan 2011/2012 / Annual Report not yet available

The Operating Plan 2011/2012 (AOP 11/12) follows a similar format to the previous AOP 10/11. Again, it is generally well set-out (in the opening sections at least) and easy to follow. A notable inclusion is a graphic which sets out AWI's annual planning and consultation cycle which is complex but comprehensive.

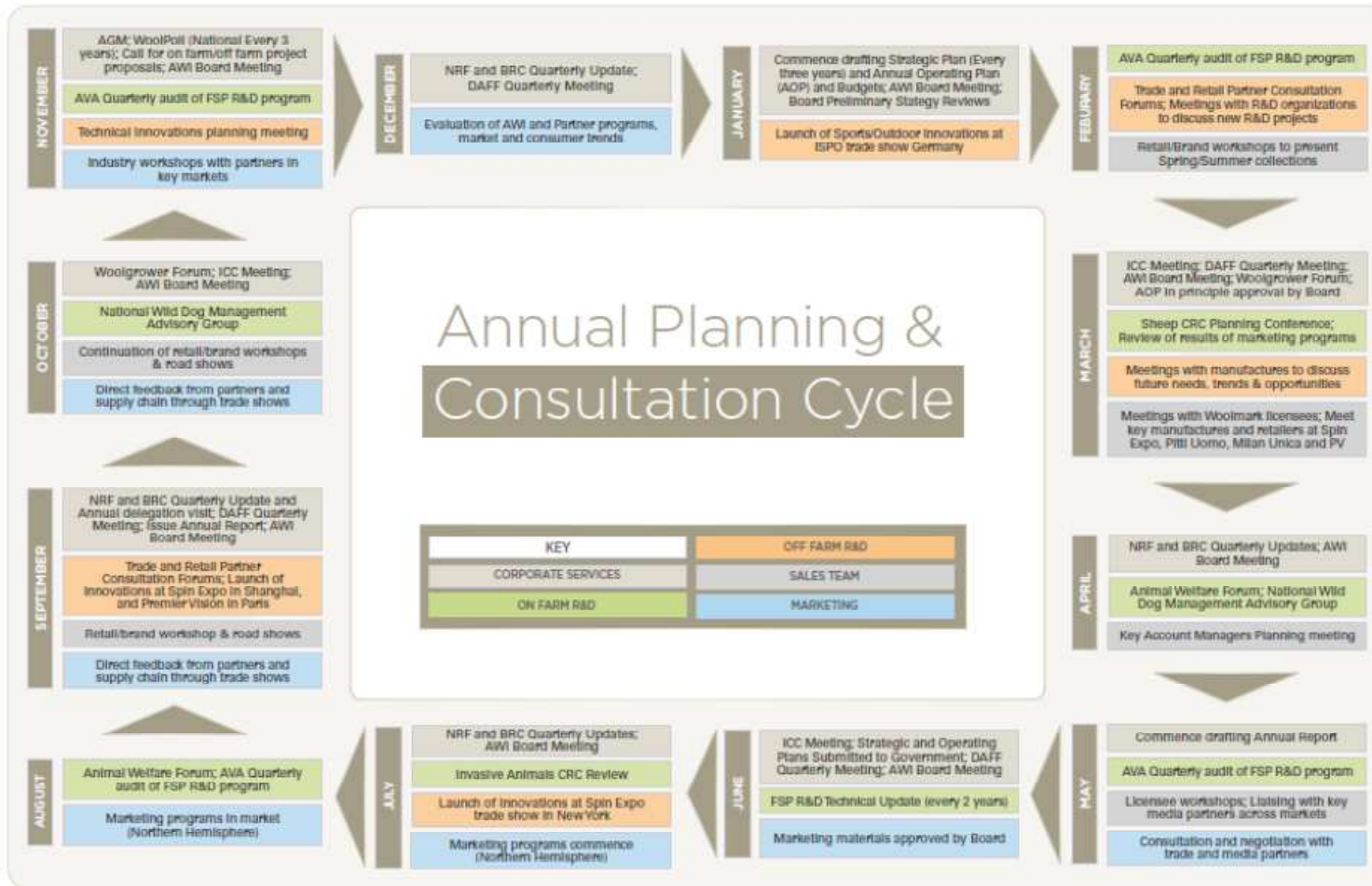
The AOP 11/12 provides some improvement on the previous year's plan in its articulation of the priorities for the year, in on-farm R&D in particular, in that there is a table (p. 28) that appears to list the specific activities or projects that will be undertaken during the year. However, the table does not carry a caption, the items listed under 'description' are only vaguely worded (e.g. under the 'Robust welfare standards' program, 'Electro-immobilisation disputed and may impact labour efficiency' – it is not clear that this is a project, or simply an issue AWI is dealing with), and again, there are no KPIs or even specific actions against which AWI can be measured.

One particular aspect of the structuring of each of the business area sections is confusing. The 'framework' table from the SP 10/13 is reproduced in each case at the start of the section and this is a good reminder of the intent of the SP 10/13. However, a similar version of the same table called 'Annual operating plan [*business unit*] 2011/2012' appears at the end of each section but with a number of cells left blank, including KPIs. It appears that only new or additional programs or KPIs are shown – for example, in on-farm, 'enrolment in VET courses' – but this is not completely clear.

The purpose of this table appears to be to highlight any evolutions in business area intent from the SP 10/13 as well as to present the budget figures. AWI should reconsider how to present these pieces of information, because the current layout is not as effective as it could be.

The Annual Report 2011/2012 is not yet available and falls outside the scope of this Review. The structure of the AOP 11/12 will make it difficult for AWI to report against specific commitments for the year because these are very vaguely defined.

Appendix 5: Annual planning and consultation cycle





## Appendix 6: Examples of project benefit/cost analyses

### Merino Touch™

A benefit/cost analysis of the Merino Touch™ investment was recently carried out by the BDA Group. Merino Touch™ was an R,D&M project. Soft yarns were produced through the treatment of wool tops with a mercerisation process, in which the fibre has its surface scale removed and is treated with a silicone polymer, and garments produced from these yarns were promoted through trade marketing and consumer education.

The analysis estimated the benefits delivered from the increased volume of wool sold and the premium earned by each kilogram of wool. The proportion of this benefit accruing to producers was estimated and the payoff modelled over three scenarios for the sustained interest in mercerised products.

The baseline scenario estimated a net present value (NPV) of woolgrower investment of \$11.2m, a benefit/cost ratio of 7.0.

### Gold Woolmark Program in China 2010/11

The Gold Woolmark Program has focused on building demand for premium fine Merino worsted suiting material, associated with eight key European fabric brands. A campaign was developed that centred on a nine-part television series through the China Business Network offering advice on 'how to dress with style'. Workshops were also held with garment manufacturers and tailors on how to source the fabrics.

The evaluation was conducted using a computable general equilibrium model called the 'Global Wool Apparel Model' developed by the Department of Agriculture and Food Western Australia.

The preliminary modelling conducted for the evaluation has estimated the impact of the program on three different types of Australian raw wool. Overall, it has estimated an increase in value across the clip of \$27m or 1.47%. The report is in draft form and yet to be finalised.

### China Luxury Program 2011/12

While the Gold Woolmark program has targeted men's suiting, the China Luxury Program has aimed at the women's luxury market in that country. The program has sought to reposition wool as a high quality fibre for women.

The main strategy of the Program has been to assist emerging designers to develop a range of inspiring wool garments for the target segment. This has been complemented by marketing activities to change consumer perceptions of wool as a traditional, outdated fibre to one that is stylish and elegant and to encourage the purchase of wool garments from the ranges created by the partner designers.

An ex-ante benefit/cost analysis of the program calculated the potential returns for the period 2012-2023 against the cost of the program of \$3.2m over a two-year period (2012-

13). Based on a discount rate of 5% it is projected that this will represent a return of between \$0.10 and \$2.00 on every dollar invested by AWI in the China Luxury Program.

#### Wild Dog Investment 2011/12

Wild dogs are seen as one of the greatest threats to sheep production in Australia<sup>17</sup>. The AWI wild dog investment was a strategic shift by AWI away from the support of the development of lower cost control technologies to a direct support model for woolgrowers in combating wild dog populations. The investment by AWI for the two year period 2011-12 to 2012-13 is estimated at \$3m and \$1.5m per year.

The success of the program will be measured by the number of new community groups undertaking wild dog control and the value of reduced stock losses in excess of total spend.

An ex-ante benefit/cost analysis of the program over 2011 to 2018 was conducted. Based on the assumptions used, the value of benefit is estimated to reach \$38m and the net present value of the investment, based on a discount rate of 5%, will be \$24m. This would represent a return of \$8.60 on every dollar invested by AWI.

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<sup>17</sup> AWI media release, 'Farming, mining and community unite to battle wild dogs', 8 June 2012, [www.wool.com/Media-Releases.htm?item=8888.htm](http://www.wool.com/Media-Releases.htm?item=8888.htm)



