

AUSTRALIAN WOOL INNOVATION

3 YEAR REVIEW OF PERFORMANCE

FINAL REPORT

Prepared For: **Australian Wool Innovation**

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August 2009



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Acronyms & Abbreviations

AOP	Annual Operating Plan
AWI	Australian Wool Innovation
AWS	Australian Wool Services
B2B	Business to business
B2B2C	Business to business to consumer
CRC	Cooperative Research Centre for Sheep Industry Innovation
DAFF	Commonwealth Government Department of Agriculture, Fisheries and Forestry
HR	Human Resources
IP	Intellectual Property
IPCC	Intellectual Property and Commercialisation Committee
KIM	Knowledge, Innovation and Marketing
R&D	Research & Development
RDI	Research, Development and Innovation
SFA	Statutory Funding Agreement
VAM	Verification of Australian Merino

EXECUTIVE SUMMARY

INTRODUCTION

Australian Wool Innovation (AWI) was established in 2001. AWI's mission now is to drive research, development, innovation and marketing that will increase the long-term profitability of Australian wool growers. The company invests in global research and development, innovation and marketing through the entire wool supply chain.

AWI is funded predominantly from the statutory wool levy collected from Australian wool growers. The Commonwealth Government matches the contributions made by growers for research and development activities (up to 0.5% of the gross annual value of production) with additional funds generated from royalties and the sale of licences.

This independent external review was undertaken in accordance with Australian Wool Innovation's (AWI) Statutory Funding Agreement (SFA) with the Commonwealth Government. The SFA requires a performance review to be conducted prior to any WoolPoll, and for the findings of the review to be made available to levy payers prior to the poll.

REVIEW METHODOLOGY

The evaluation criteria for this review were established against the background of the most recent poll of Australian Wool growers (WoolPoll 2006), The Wool Services Privatisation Act, the Statutory Funding Agreement with the Commonwealth and AWI's Constitution.

On the basis of these requirements, the evaluation criteria for the review were:

- alignment with AWI's key objectives;
- progress towards or support for the achievement of objectives; and
- efficiency of this progress and any improvements made.

The Review Team has been informed by review of AWI documentation and interviews with AWI directors, staff, service providers, industry stakeholders, business partners and government. A total of fifty five people were consulted by the Review Team at least once.

PRINCIPAL FINDINGS AND RECOMMENDATIONS

AWI'S POSITION IN THE WOOL INDUSTRY

Over the 3 year period, AWI has responded to levy payer requests to conduct marketing activities. AWI acquired the Woolmark Company to enable the integration of research, development, innovation and marketing activities of the Australian wool industry.

AWI has worked hard to merge the global operations of the two companies into one. AWI has taken a number of steps towards having a fully integrated company, with compatible cultures, aligned activities and common systems.

It is recommended that AWI maintain its efforts in integrating the Woolmark Company to streamline duplicate operational arrangements.

Over the 3 year period AWI has not been proactive in emphasising the service role of the organisation when participating in public arenas on industry issues such as trade and mulesing. AWI and its stakeholders have a mixed understanding of the role and position of the company within the industry, its relationship with other industry participants and its role in a range of issues. This uncertainty has recently been exacerbated by AWI's move to increase its focus on marketing activities. The conclusion of WoolPoll is an opportune time for AWI and the wider industry to reflect on the company's role and priorities.

It is recommended that 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.

STRATEGY DEVELOPMENT AND IMPLEMENTATION

The strategic plans developed during the three year period, while supported by significant commissioned research, have not been based on structured and transparent processes that involved stakeholders and allowed robust cross business comparison.

Over the 3 year period, the management culture of the organisation was not based on consistent documentation of plans and performance, and there has not been a coordinated focus on high level strategy setting. The Review Team has not seen evidence of consistent, systematic and detailed approaches to assess the performance of previous plans to inform the development of new plans.

AWI planning processes have been focused at a department or portfolio level over the 3 years of the review. This focus has hindered across company comparison and discussion, and strategic resource allocation.

Over the 3 year period, the processes used to develop the company's operational and departmental plans fall short of what the Review Team would expect to find in a company of this nature. The level of planning lacked the documented depth of analysis, detailed discussion with stakeholders, and thorough consideration of options and implications that occur in other like organisations.

Despite the lack of robustness in its planning process, AWI has had some successes over the 3 year period. Stakeholders cite programs such as sheep genetics, shearer training, product innovations such as the shower suit, and the Japan Test Marketing project as examples.

The Review Team recognises that the current operational plan 2009/10 has been developed in a short time during a period of significant upheaval within the company. It is noted that the current combination of strategy realignment and operational specification in one new operational plan document is an issue for transparency and clarity for stakeholders.

It is recommended that, following WoolPoll 2009, AWI embark on an appropriately designed strategy setting process to provide a clear and detailed plan for the company.

To support this process, it is recommended that AWI consider establishing internal structures to support the development and consistent implementation of a planning process that allows rigorous exploration and assessment of the value to levy payers.

CONSULTATION, LIAISON AND COLLABORATION

Over the 3 year period of the review, AWI has not had a consistent and transparent process for involving stakeholders in its strategy setting process. Industry stakeholders commented that consultation processes had been ad hoc, and focused on informing stakeholders of directions AWI is taking rather than involving them in the development of strategy and directions. Research partners and providers, while often having good informal relationships with AWI; cite a lack of formalised consultative mechanisms to enable joint consideration of future directions.

Over the review period, AWI has met the formal obligations of the SFA required by Government. This includes providing plans and reports and the convening of regular meetings with the Minister and the Department. AWI's relationship with the Commonwealth Government on policy issues has drifted over the 3 year period, with the quality of interactions subject to the quality of individual relationships between Department and AWI representatives.

AWI's capacity and commitment to deliver stable, long term marketing strategies is concerning to supply chain stakeholders. Recent efforts to engage with these stakeholders has provided some reassurance and boosted confidence. Selected stakeholders spoken to by the Review Team included spinners, weavers, manufacturers and retailers in Europe, Japan, China and North America. These discussions revealed a reserve of favourable regard for Australian wool, AWI and its predecessors built up over a long period. The commercial viability of such businesses relies on the demand for woollen garments remaining buoyant and they look for opportunities to collaborate with AWI in marketing activities that will grow demand for their products.

These stakeholders are looking for more continuity in AWI programs and staffing; comment on the performance of (relatively) recently appointed regional managers was very favourable. Awareness of declining wool production and levy funds was high and this appeared to underscore the urgency of the stakeholders' needs for effective, responsive, commercially pragmatic joint marketing activities with AWI.

It is recommended that 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.

CORPORATE GOVERNANCE

AWI has met all but one of the governance obligations set down in the company's constitution and those of the Commonwealth Government with respect to governance aspects of the Statutory Funding Agreement and the Wool Services Privatisation (Wool Levy Poll) Regulations 2003.

Over the 3 year review period there have been significant changes in the Board composition, leadership and structure. The Board has been factionalised, and this has led to a Board culture and dynamic that is lacking in transparency and openness. These issues have affected the stability of the company and its focus on delivering value to levy payers.

AWI has adopted procedures to manage conflict of interests including conflict declarations, directors absenting themselves from discussions and directors receiving blacked out minutes. Directors are divided as to how well conflict of interest is managed, and the Board is not perceived by stakeholders as effectively managing Board conflict of interest issues. AWI's policy and procedures for managing conflicts of interest inside and outside the Board room are not sufficiently robust and transparent.

Over the period of the review, the Board has not measured its performance. The Board has not set KPIs for itself and reported against these to stakeholders and shareholders. Furthermore, it has not conducted any formal or informal reviews of the Board or directors.

It is recommended that the AWI Board comprehensively review its corporate governance practice and take steps to ensure that it meets modern expectations of good practice.

The architecture of the constitution for the appointment of directors does not ensure that the AWI Board is skills based. These structural issues are of concern to many of AWI's stakeholders.

It is recommended that 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.

AWI has developed risk management, fraud control and intellectual property plans for the company's operations. AWI directors, management and staff do not have a shared understanding of key risks to the company, and the strategies and processes in place to manage risks. Application of the company's IP policy and contracting procedures is not consistent across the organisation.

It is recommended that 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.

PERFORMANCE

Over the three years of the Review, AWI has not had a consistent framework to measure and report performance to levy payers and stakeholders. AWI's does not have performance assessment processes that clearly cascade from strategy to implementation and to performance measures of individual staff members.

During the consultation phase of this review, AWI's stakeholders had difficulty in making an assessment of AWI's value to levy payers, and levy payers surveyed by AWI in 2008 perceived that AWI did not perform well.

Furthermore, AWI has not established processes and a culture of explicitly and systematically assessing value to levy payers in planning stages. Many activities are assumed to add value to levy payers without question. AWI's practice falls short of processes used in other like organisations that have substantial off-farm and international marketing efforts.

The Review Team is unable to draw specific conclusions on the long term value AWI delivers to levy payers across the company. Cost benefit assessments have been carried out at a Department level, but these are not consistent or coordinated. This is consistent with the concern identified by the last 3 year review, which concluded that the way projects were monitored and measured did not allow for the reporting of overall net benefits to growers and government.

It is difficult to assess whether the changes in operations and processes of the company over the review period have increased the likelihood of returns to levy payers in the future.

It is recommended 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.

It is recommended that 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.

It is recommended that 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.

1 INTRODUCTION

1.1 OVERVIEW

Australian Wool Innovation (AWI) was established in 2001. This followed a plebiscite of Australian wool growers in 1998, which voted to replace the Australian Wool Research and Promotion Organisation with a not for profit company. The plebiscite endorsed the establishment of a corporation, to undertake research and development, innovation and other activities for the benefit of wool growers.

AWI's mission now is to drive research, development, innovation and marketing that will increase the long-term profitability of Australian wool growers. The company invests in global research and development, innovation and marketing through the entire wool supply chain.

AWI is funded predominantly from the statutory wool levy collected from Australian wool growers. The Commonwealth Government matches the contributions made by growers for research and development activities (up to 0.5% of the gross annual value of production) with additional funds generated from royalties and the sale of licences.

1.2 PURPOSE OF THIS REVIEW

This independent external review was undertaken in accordance with Australian Wool Innovation's (AWI) Statutory Funding Agreement (SFA) with the Commonwealth Government. The SFA requires a performance review to be conducted prior to any WoolPoll, and for the findings of the review to be made available to levy payers prior to the poll.

This is the third such review, and covers the three years 2006/07, 2007/08 and 2008/09. The first review conducted by Pricewaterhouse Coopers was published in 2003 and the second by ACIL in August 2006.

In accordance with SFA, this review must take into account:

- the performance of the company in meeting its obligations under this Agreement;
- the implementation of the company's strategic, annual operational, risk management, fraud control and intellectual property management plans and the effectiveness of the company in meeting the various targets/budgets set out in those plans; and
- the delivery of the benefits to wool growers foreshadowed by those plans.

The terms of reference for the project also require an assessment of nine major AWI research, development and marketing projects for their return on the investment of levy payers.

1.3 REVIEW METHODOLOGY

The terms of reference for the review required an assessment of AWI's effectiveness in the delivery of:

- the objectives and priorities of the strategic plan, against its operating environment and mission statement;
- research and development outcomes aligned with its strategic goals and objectives;
- the provision of industry services not otherwise widely commercially available to wool growers;
- collaboration by AWI with government and industry;
- AWI's performance and management indicators;
- AWI's accountability with stakeholders;
- AWI's contribution towards Government's research policy, priorities and the delivery of public benefits; and
- The application of wool levy funds against the Statutory Funding Agreement.

The evaluation criteria were established against the background of the most recent poll of Australian Wool growers (WoolPoll 2006). At this poll, wool growers agreed to extend the scope of the company's operation to include product marketing. The Wool Services Privatisation Act, the Statutory Funding Agreement with the Commonwealth and AWI's Constitution have also been taken into account.

On the basis of these requirements, the structure for the review was based on the following areas of investigation:

- Strategy development and implementation;
- Structure;
- Consultation, liaison and collaboration;
- Corporate governance; and
- company operations.

The evaluation criteria for each of these elements were:

- alignment with the key objectives;
- progress towards or support for the achievement of objectives; and
- efficiency of this progress and any improvements made.

The Review Team was informed by review of AWI documentation and interviews with AWI directors, staff, service providers, industry stakeholders, business partners and government. A detailed methodology, outlining the consultation process and documents reviewed, is presented in Appendices 1, 2 and 3.

2 SUMMARY OF THE 3 YEAR PERIOD

This review covers the period 2006/07, 2007/08 and 2008/09. Over the three years, there have been significant events, changes and challenges for the Australian wool industry and for AWI. These are summarised below.

The three year period has been characterised by declining sheep numbers and an overall reduction in the size of the Australian wool clip. Between 2006/07 and 2008/0, there was an overall decline of 17% in the total clip (Table 1).

Table 1 Key characteristics of the Australian wool industry 2006/07- 2008/09

	2006/07	2007/08	2008/09 (est)
Opening number of sheep as of 1 July (million head)	91	85.7	76.9
Sheep numbers shorn (million head)	101.4	90.2	81.0
Shorn wool production (million kg greasy)	430	400	359

Sources: Australian Wool Production Forecast Reports July 2009, Dec 2008 and June 2008

The decline in the size of the wool clip has meant a reduction in the levy revenue base of AWI, and the matching contributions of the Government for research and development activities (Table 2)

Table 2 Decline in AWI levy income

	2006/07	2007/08	2008/09 ¹
Revenue from levies	46.53	45.11	32.02
Revenue from government matching funds	12.31	11.57	11.25

Source AWI Annual Reports (2006/07, 2007/08) and AWI Strategic and Operational Plan 2009/10 (2008/09)

Notes:

¹ Forecast

The review period included the renewed collaborative investment in efforts to make the Australian sheep industry more efficient, productive and competitive. The second phases of the Cooperative Research Centre for Sheep Industry Innovation (the CRC) commenced in July 2007. The CRC is a partnership of Australia's leading sheep industry organisations, supported under the Commonwealth Government's Cooperative Research Centres Program. The wool industry through AWI and other industry organisations including Wool Producers and the Australian Wool Testing Authority are participants in the CRC initiative.

Over the 3 year review period, the industry faced considerable pressure from animal welfare groups in relation to mulesing husbandry practices. Over the period, the Australian Sheep and Wool Industry Taskforce (which was disbanded in 2008) reiterated its commitment to phase out mulesing by 2010. AWI commenced legal proceedings against two animal welfare groups in 2006. In 2007, AWI reached agreement with People for the Ethical Treatment of Animals (PETA) to stop threatening global retailers over the practice of mulesing until 31 December 2010, and Animal Liberation consented to the Federal Court case being dismissed.

In addition to the trade challenges posed by animal welfare groups, the review period included challenges for the industry in relation to exports. In 2007 the Chinese Government announced that the quota for wool imports into China had been fully allocated for 2007. The role of the Australian Wool Industry Free Trade Committee (which is supported by AWI) is to ensure that the trade interests of the Australian wool industry are well represented by the Commonwealth Government and that market access issues for wool in its key global markets are addressed. In response to the Chinese quota issue, the Trade Committee implemented an intensive engagement strategy with the Chinese wool processing industry, Chinese Government and Commonwealth Government. This resulted in improvements to the quota administration rules and transparency of their implementation.

In November 2006, Australian wool growers voted at WoolPoll 2006 to keep the current levy rate of two per cent, for investment in research, development, innovation and product marketing by AWI. In responding to industry requests, AWI's investment and activities have tracked increasingly towards marketing over the period of the review. AWI has maintained some focus on farm productivity, animal welfare outcomes, improvements in fibres and the supply chain and product development and innovation.

In October 2007, following a fifteen month period of negotiations with Australian Wool Services and with the support of the Commonwealth Government, AWI formally acquired the Woolmark Company. A key focus of AWI since that time has been the integration of the Woolmark Company into AWI's business. This integration process has involved significant change including the closure of offices, reduction in staff numbers and the merging of the systems and operations of two companies.

The three year period has seen changes in leadership and executive management of AWI. From 1 July 2006 to 30 June 2009, the company had three Chairmen and three Chief Executive Officers. In the period, the company also developed 3 strategic plans, each of which asserted substantial change in the company's direction.

3 AWI'S POSITION IN THE WOOL INDUSTRY

3.1 OVERVIEW

AWI was established as, and remains, a service company for the Australian wool industry. Service organisations are distinct from representative organisations in that: their services were once (or continue) to be delivered under statutory authority; their objects are to provide a range of services to members; and they do not participate in agri-political activities. In undertaking research, development, innovation and marketing activities along the wool supply chain - AWI provides services to wool growers, merchants, processors, designers and retailers. Under its Statutory Funding Agreement with the Commonwealth, AWI is precluded from undertaking agri-political activities.

Industry organisations view AWI's service delivery role as an important component of their sustainability. Individual wool growers are small businesses that lack the technical, scientific and financial resources to undertake some important research, development, innovation and marketing activities that will lead to improvements in productivity and value generation from the products they produce. By pooling their resources and, with support from Government, there is evidence that research and development corporations - like AWI - can deliver benefits to the entire industry and the economy.

3.2 WOOLPOLL 2006

In 2006, wool growers voted to expand the focus of AWI and to keep the levy rate of 2 per cent for investment in research, development, innovation and product marketing. Growers also voted to apply the levy to all wool, no matter how it was harvested; and to amend AWI's statutory funding agreement. The purpose of this amendment was to give the company more flexibility to address emerging issues, so long as it is for the benefit of Australian wool growers (Table 3).

Table 3 Results of WoolPoll 2006

WoolPoll Question	% total votes
Maintain current levy rate of 2 per cent for investment in research, development, innovation and product marketing	56%
Apply levy to all wool, no matter how it was harvested	90%
Amend AWI's statutory funding agreement to give the company more flexibility to address emerging issues, so long as it is for the benefit of Australian wool growers.	80%

Source: The Final Report of the WoolPoll 2006 Panel

AWI'S ROLE IN WOOL RESEARCH, DEVELOPMENT AND INNOVATION

AWI provides research, development and innovation (RDI) services to the industry, both pre and post farm gate. AWI does not directly carry out research, but forms partnerships and funds research providers to conduct RDI activities. RDI efforts include those to improve productivity and animal welfare, fibre sciences, and new and innovative products for the market.

AWI'S ROLE IN MARKETING WOOL

AWI's position as a provider of research and development services to the industry has not changed since it was established. Following growers' decision at WoolPoll 2006 to allow AWI to spend levy funds on marketing activities, there has been a shift in the mix of services that company provides levy payers and the industry.

In July 2006, AWI and Australian Wool Services (AWS) signed a Memorandum of Understanding for the two organisations to integrate their activities. A process of due diligence commenced in May 2007, and in July 2007, the two parties concluded a share purchase agreement, specifying pre-condition tasks. In October 2007, on the execution of a completion deed, AWI formally acquired The Woolmark Company from AWS.

Figure 1 is a schematic of the changing relationship between AWS, AWI and the Woolmark Company since 2001.

Figure 1 AWI's changing relationship with the Woolmark Company



3.3 FINDINGS & RECOMMENDATIONS ON INDUSTRY POSITION

Over the 3 year period, AWI has responded to levy payer requests to conduct marketing activities. AWI acquired the Woolmark Company to enable the integration of research, development, innovation and marketing activities of the Australian wool industry. AWI has worked hard to merge the global operations of the two companies into one. AWI has taken a number of steps towards having a fully integrated company, with compatible cultures, aligned activities and common systems.

It is recommended that AWI maintain its efforts in integrating the Woolmark Company to streamline duplicate operational arrangements.

Over the 3 year period AWI has not been proactive in emphasising the service role of the organisation when participating in public arenas on industry issues such as trade and mulesing. AWI and its stakeholders have a mixed understanding of the role and position of the company within the industry, its relationship with other industry participants and its role in a range of issues. This uncertainty has recently been exacerbated by AWI's move to increase its focus on marketing activities. The conclusion of WoolPoll is an opportune time for AWI and the wider industry to reflect on the company's role and priorities.

It is recommended that 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.

4 STRATEGY AND RESOURCE ALLOCATION

4.1 STRATEGY SETTING PROCESS

AWI's approach to identifying key strategic issues is articulated in its draft strategy for 2008 (Figure 2).

Figure 2 Articulated strategy development process



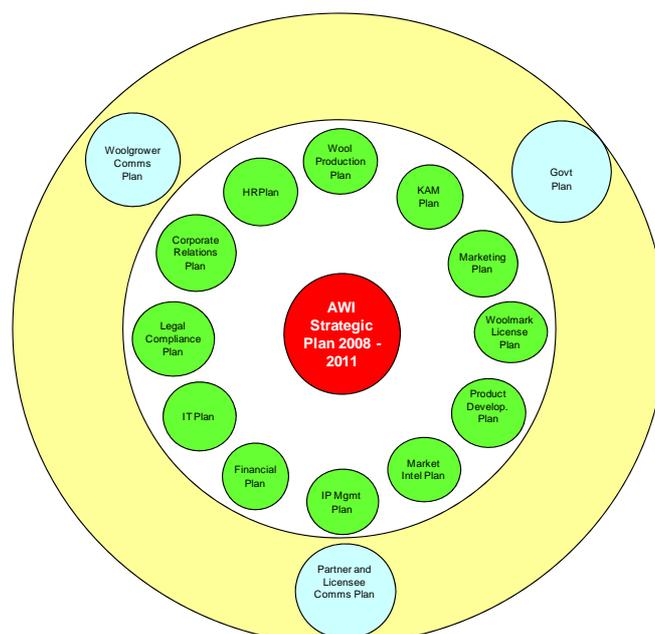
Source: AWI Strategic Plan 2008/09-2010/11 Draft 1 - May 2008.

The planning process includes:

- situation analysis;
- forecast of production, prices and clearance rates;
- articulation of the draft strategy; and
- financials.

The draft strategic plan also presents the company's "strategic plan architecture" (Figure 3).

Figure 3 Strategic plan architecture (2008/09)



Source: AWI Strategic Plan 2008/09-2010/11 Draft 1 - May 2008.

The business plans presented to the Review Team were generally not comprehensive and do not provide a coherent strategic understanding of the role and operation of a particular department. It was apparent that not all departments used plans as a tool to actively manage their operations.

It should be noted that the practice of summarising plans into a format that was a suitable tool for summary reporting has implications for the level of sophistication and understanding that can be contained in the plans. Alignment with the company aims is not articulated in sufficient detail to allow strategic consideration of the worth of individual projects or activities. Over the three year period the individual plans have been used to varying degrees by management.

The lack of a formal and functioning executive management team through much of the review period has meant that the role of planning processes and documentation was uncertain. There were various attempts made to improve planning and reporting, however, the management culture of the organisation is not based on consistent documentation of plans and performance. It is important that any attempt to improve internal planning processes articulates the role of plans in AWI's decision making processes.

It should be noted that many of the measures of success articulated in the current planning documents are introspective, that is, they are specific to each program or even project. Measures of performance do not align with or enable assessment of an activity's contribution to the aims of AWI.

The resource allocation process is transparent at a program level. However, the rationale for within program allocations of funds is less apparent.

AWI has not developed a robust process that assesses value to the levy payers of activities. Though difficult for AWI activities that are located away from the farm, this is viewed as a deficiency.

The consideration and rationale for investments at a project level is understood by relevant AWI staff. The Review Team was made aware of the strategic foundation of specific investments. However, there is no apparent comparison of projects and programs using a consistent approach and methodology for assessment. Development and implementation of a common approach would improve project selection, encourage interactions between departments and greatly increase the transparency of decision making.

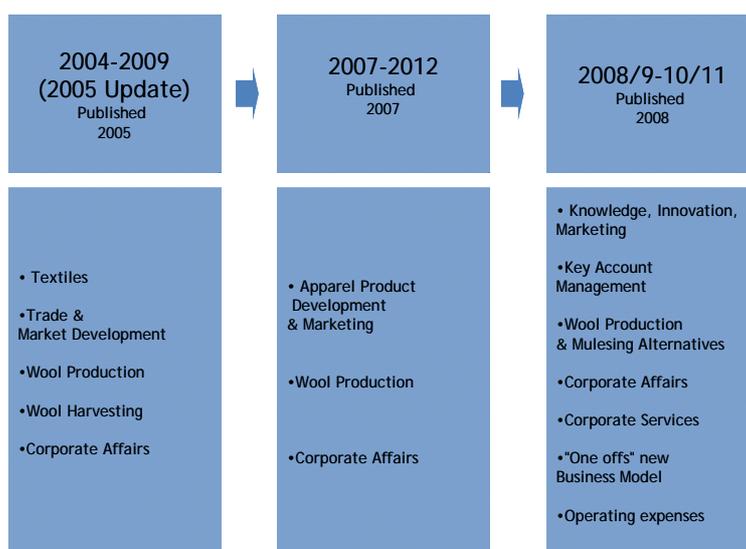
The development and consistent implementation of a process that allows rigorous exploration and assessment of the value to levy payers is critical, considering AWI's shift to focus increasingly off-farm. The Review Team has some concern that AWI will not have the resources to establish a framework to assess value to levy payers.

AWI is under budgetary pressures to reduced corporate and program expenditure. The lack of a consistent and well understood strategy setting and evaluation process is a risk to the organisation and its focus over the short term. This is reflected in some confusion as to the role of the 2008/9-2010/11 Strategic Plan for the organisation in 2009/10.

4.2 STRATEGIC PRIORITIES

Over the 3 year period of the review, AWI has had three strategic plans in place (Figure 4). AWI's strategy has tracked increasingly towards marketing over the period of the review. The company has maintained some focus on farm productivity, animal welfare outcomes, improvements in fibres and the supply chain and product development and innovation.

Figure 4 Summary of AWI's strategic plans



Source: AWI Strategic Plans 2005 Update, 2007-2012 and 2008/09-2010/11.

4.3 MARKETING STRATEGY

Marketing activities of AWI commenced in the first year of the review period following the WoolPoll of 2006, although collaborative activities with wool-using businesses along the supply chain to retail had been ongoing. In 2006/07 AWI reports show that expenditure on 'product marketing' amounted to \$18.85 million, mainly (75%) comprising Business to Business (B2B) activities.

Documentation available to the Review Team does not disclose the process by which the marketing strategy was formulated following the WoolPoll of 2006. The annual operating plans of the two following years, 2007/08 and 2008/09, comprehensively describe the key elements of the marketing programs planned for each of these years.

Notably, each successive plan asserts substantial revision or change to the previous one. Detailed reasoning behind the changes is not disclosed, except in broad terms. Reduced funding is cited as a major reason but the way priorities were reordered is not clear. The full extent of the successive changes is hard to track and the changes may be more in description than substance. Many of the activities of the two plans suggest substantial continuity.

The acquisition of the Woolmark Company, completed in October 2007, and the commissioning of advice from McKinsey and Co at the same time, clearly led to some further reconsideration of the AWI longer term strategy. The 2008/09-2010/11 Strategic Plan and 2008/09 Annual Operating Plan placed greater emphasis on AWI brand revitalisation, based on a core brand

hierarchy (Table 4). This brand hierarchy, with its emphasis on AWI Merino brands appears to place less emphasis on reinvigorating the Woolmark brand than does the previous and subsequent plans. It does however identify the need for the repositioning of the Woolmark brand and business.

The recently released 2009/10 Annual Operating Plan suggests that the strategy has shifted again over the past year. The hierarchy model (Table 4) has however been maintained as the basis for the updated branding strategy.

Stronger support for the Woolmark within the branding strategy, re-emphasis and alignment of the B2B (now B2B2C) and a refreshed value proposition for licensees now apparently identify the AWI marketing strategy.

Table 4 Overarching brand strategy (hierarchy model)

2008/9-2010/11 Strategic Plan	2009/10 Annual Operating Plan
<i>"Australian Merino"</i> 100% Australian merino, top 20% retail price points	<i>Upper Tier</i> Un-branded by invitation exclusive group of 15. 100% merino or 70:30 merino/noble fibre
<i>Woolmark Superior Merino</i> 100% wool (70% Australian) up to 24.5 micron	<i>Premium Tier /Gold Woolmark</i> - Premium offering, 150 licences, B2B2C support, supply chain verification/corporate social responsibility
<i>Woolmark Superior Merino Blend</i> 50% minimum Australian wool, up to 24.5 micron	<i>Woolmark</i> - Offered to licensees that meet Woolmark standard
<i>A non-apparel wool brand</i>	

Source: AWI Strategic Plan 2008/09-2010/11 and 2009/10 Operating Plan.

The annual operating plans for the three years of the review period contain measures of performance to assess the success of all program elements. The plan for the final year, 2008/09 was particularly detailed, with a very precise statement of the overarching target to create an additional 20 million kilograms of demand for Australian Merino wool. Whether these measures have been applied in systematic reviews of the outcomes of programs has not been revealed to the Review Team. A reference in the 2009/10 plan indicates that the overarching target has not been achieved.

The tracking of actual expenditure on all the marketing elements of each operating plan has not been available to the Review Team. Tracking the expenditure on elements that continued across years would have been particularly useful. It would have identified the extent to which like-activities have changed and facilitated assessments of the success of these activities.

Systematic assessment of the performance of the various marketing initiatives/activities will be important in prioritising future programs, especially because of the deteriorating funding position of AWI. Although the new emphases of AWI marketing effort for 2009/10 represents some change from those of the previous year, formal review of the KPIs of the last plan should not be overlooked.

Assessment of overall marketing program performance has not been reported by AWI, though there has been reporting of the success of individual initiatives such as the Japanese test marketing program. In the absence of systematic compilation of activity outcomes, no conclusion can be drawn about the overall returns achieved by the marketing programs over the three year period under review.

4.4 RESEARCH, DEVELOPMENT AND INNOVATION STRATEGY

ON-FARM

The strategic themes of the on-farm are shown in Table 5.

Table 5 On-farm R&D strategy

Strategic Theme	Initiatives
Increase productivity, lower costs and address key industry threats	<ul style="list-style-type: none"> • Mulesing Alternatives • Productive and Easy to Manage Sheep • Wool Harvesting
Supply wool that meets customer needs in terms of quality, environmental and animal welfare standards	<ul style="list-style-type: none"> • Ethically and Sustainably Produced Wool • Wool Harvesting
Increase uptake of new innovations within the industry	<ul style="list-style-type: none"> • Increased Grower Pride and Profit Through Adoption of Innovation

Source: 2008/09 Annual Operating Plan.

The description of success includes a package of husbandry and management systems for blowfly control to meet 2010 commitment to phase out mulesing. The articulated aim of the mulesing alternative program was “By December 2011, 80% of clip from properties that have ceased mulesing” .

The research areas and activities in the wool production portfolio have not substantially changed over the review period, though the emphasis and resource allocation has changed.

OFF- FARM

The innovation part of KIM operates as an external R&D provider to B2B partners, delivering premium value-adding innovations. The group provides innovations commercialised to suit the range of AWI’s partners, or they develop specific innovations. This effort is supported by

developing a series of communication tools, from brand development to collateral and related point of sale materials which highlight the innovative benefits in a product range created in partnership with AWI.

Table 6 Off-farm R&D strategy

Service Offer	Initiatives
Upgraded VAM and Supply Chain knowledge	<ul style="list-style-type: none"> • Reconnecting With Retail • Premium Collection (High End) • Innovative Collection (High Street) Knitwear, Wovens, Sports/Outdoor, Workwear (Corporate/Uniforms)
Seasonal Innovations and Product Platforms	<ul style="list-style-type: none"> • Product Innovation Fashion Apparel (Knitwear & Wovens) • Product Innovation Workwear (Corporate/Uniforms) • Product Innovation Product Technology

Source: Derived from 2008/09 2010/10 Strategic Plan.

AWI has had a consistent effort in this area over the review period. Further information is required to assess the success of these efforts.

4.5 ALIGNMENT WITH COMMONWEALTH PRIORITIES

The Statutory Funding Agreement (SFA) requires that AWI take into account the Commonwealth Government's research and development priorities and guidelines when developing the company's strategic and annual operating plans. The Commonwealth's Rural R&D Priorities were reviewed in 2007 to increase emphasis on the supply chain and climate change.

Table 7 presents a summary analysis of the alignment of AWI's activities over the 3 years review period with the Commonwealth's R&D priorities.

Table 7 Alignment of AWI's activities with Commonwealth Rural R&D Priorities

Rural R&D Priorities	Product development	Product Marketing	Wool Production	Industry Communications
Improving competitiveness through whole of industry approach	✓	✓	✓	✓
Maintaining & improving confidence & integrity			✓	
Improve trade and market access / Supply Chain and Markets	✓	✓		
Productivity and Adding Value	✓	✓	✓	✓
Natural Resource Management			✓	
Climate Variability and Climate Change			✓	
Protecting Australia for invasive diseases and pests / biosecurity			✓	
Creating an Innovative Culture / Innovation skills	✓	✓	✓	✓
Use of frontier technologies / Technology	✓	✓	✓	✓

Detailed analysis of budgeted versus actual project expenditure against each of these priorities is provided in Appendix 4.

4.6 RESOURCE ALLOCATION

RESOURCE ALLOCATION OF ALL FUNDS

Table 8 and Table 9 show the breakdown of AWI's budgeted and actual expenditure for on-farm (wool production), off-farm (product development and marketing), communications, corporate services and other over the three year period. Budgeted expenditure is sourced from the final budgets approved by AWI, and as such these vary from figures presented to stakeholders in the annual operating plans.

Table 8 AWI budgeted expenditure 2006/07 - 2008/09 (\$ million).

Category	2006/07	2007/08	2008/09 ¹
Off-farm (product development & marketing)	35.32	38.10	47.02
On-farm (production)	28.74	18.66	20.09
Communications	7.68	3.622	6.75
Corporate Services / Operating expenses	9.46	9.96	10.22
Other		2 ²	0.46 ³
Total	81.20	72.34	84.54

Source: AWI financial system - final budgets.

Notes:

¹ 2008-09 is projected expenditure.

² AWS integration.

³ Tax and other.

Table 9 AWI actual expenditure 2006/07 - 2008/09 (\$ million).

Category	2006/07	2007/08	2008/09 ¹
Off-farm (product development & marketing)	32.20	38.43	37.00
On-farm (production)	24.64	20.31	17.57
Communications	7.02	5.69	5.44
Corporate Services / Operating expenses	11.60	10.30	11.38
Other		8.12 ²	0.52 ³
Total	75.45	82.85	71.90

Source: AWI financial system, totals may not add due to rounding.

Notes:

¹ 2008-09 is projected expenditure.

² AWS integration.

³ Tax and other.

COMPARISON WITH WOOLPOLL 2006 PROJECTIONS

In recommending a 2% amount to levy payers, AWI provided projected investment allocations against each of AWI's proposed activities, including for the first time itemised expenditure for marketing activities.

Table 10 shows AWI's expenditure of levy funds against each of the activities proposed to WoolPoll 2006, excluding costs associated with corporate services expenditure. These figures are after the revenue from the Woolmark Company activities (e.g. license fees, sales of tickets and labels, royalties) has offset costs associated with product marketing and product development. Therefore the net expenditure of levy funds for these two activities is less than the total expenditure presented in Table 9.

Table 10 Net expenditure of levy funds against investment activities 2006/07- 2008/09

Activity	2006/07		2007/08		2008/09	
	\$ mill	%	\$ mill	%	\$ mill	%
Product development	13.34	20.9	5.79	11.9	5.10	10.5
Product marketing	18.85	29.5	16.72	34.5	20.67	42.4
Wool production	24.64	38.6	20.31	41.9	17.57	36.0
Industry communications	7.02	11.0	5.69	11.7	5.44	11.2
Net levy funds	63.85		48.51		48.78	
Corporate Services	11.60		10.30		11.38	
Other			8.12 ¹		0.52 ²	
Woolmark revenue	0		15.92		11.23	
Total expenditure	75.45		82.85		71.91	

Source: AWI financial system.

Notes: Figures may not add due to rounding.

¹ AWS integration.

² Tax and other.

The investment allocations proposed at WoolPoll were averaged over the three year period. A summary of these projections, based on the 2% levy recommended, compared to AWI's actual expenditure of levy funds is provided in Table 11.

Table 11 Investment allocation of Levy Funds WoolPoll 2006 compared to actual average 2006/07-2008/09.

Activity	WoolPoll projected expenditure (\$ mill)	WoolPoll % total expenditure	Average annual expenditure (\$ mill)	Average % total expenditure
Product development	19.0	32%	8.1	15%
Product marketing	16.0	27%	18.8	35%
Wool production	21.0	34%	20.8	39%
Industry communications	4.0	7%	6.1	11%
Total	60.0		53.7	

Source: WoolPoll 2006 Voter Information and AWI financial system

4.7 FINDINGS & RECOMMENDATIONS ON STRATEGY AND RESOURCE ALLOCATION

The strategic plans developed during the three year period, while supported by significant commissioned research, have not been based on structured and transparent processes that involved stakeholders and allowed robust cross business comparison.

Over the 3 year period, the management culture of the organisation was not based on consistent documentation of plans and performance, and there has not been a coordinated focus on high level strategy setting. The Review Team has not seen evidence of consistent, systematic and detailed approaches to assess the performance of previous plans to inform the development of new plans.

AWI planning processes have been focused at a department or portfolio level over the 3 years of the review. This focus has hindered across company comparison and discussion, and strategic resource allocation.

Over the 3 year period, the processes used to develop the company's operational and departmental plans fall short of what the Review Team would expect to find in a company of this nature. The level of planning lacked the documented depth of analysis, detailed discussion with stakeholders, and thorough consideration of options and implications that occur in other like organisations.

Despite the lack of robustness in its planning process, AWI has had some successes over the 3 year period. Stakeholders cite programs such as sheep genetics, shearer training, product innovations such as the shower suit, and the Japan Test Marketing project as examples.

The Review Team recognises that the current operational plan 2009/10 has been developed in a short time during a period of significant upheaval within the company. It is noted that the current combination of strategy realignment and operational specification in one new operational plan document is an issue for transparency and clarity for stakeholders.

It is recommended that, following WoolPoll 2009, AWI embark on an appropriately designed strategy setting process to provide a clear and detailed plan for the company.

To support this process, it is recommended that AWI consider establishing internal structures to support the development and consistent implementation of a planning process that allows rigorous exploration and assessment of the value to levy payers.

5 STRUCTURE

5.1 GROUP STRUCTURE

The AWI group of companies comprises of Australian Wool Innovation Limited (the parent company) and 16 Australian and international subsidiary companies and registered offices that support the group's activities globally.

The majority of these subsidiaries are those of the Woolmark Company, which AWI Limited formally acquired in October 2007. The directors and office bearers of the subsidiary companies are both current and former AWI and The Woolmark Company staff. AWI is in the process of folding two subsidiary companies.

5.2 ORGANISATION STRUCTURE

AWI's organisation structure has changed over the three year period. At the start of the review period, changes in the structure were made to introduce marketing and regional account management departments to the organisation. Off-farm innovation and marketing activities have been aggregated and disaggregated over the period. Similarly the corporate service functions of human resources, finance and legal have been aggregated and disaggregated. The Communications function of the company has also undergone periods of change.

As of April, 2009 the business comprised of 10 departments: Wool production, Finance and IT, Corporate Communications, Legal and Company Secretary, Human Resources, Product Development and Commercialisation, Global Marketing and 3 regional divisions one each in the Americas, Asia and Europe. Though a change in structure is flagged for July 2009, the 2009/10 operational plan does not present the proposed arrangements.

AWI has not provided the Review Team with the specific rationale for each change in structure. In the absence of any rationale and associated reporting of outcomes the Review Team was unable to assess the effectiveness of changes to structure, or quantify any efficiencies that may have resulted.

5.3 FINDINGS & RECOMMENDATIONS ON STRUCTURE

AWI's large subsidiary structure is historical and largely inherited from the Woolmark Company. AWI has not taken steps to ensure that the governance arrangements for these companies is up to date, and that sufficient information is provided to the Board to ensure adequate oversight of the Group of companies.

It is recommended that 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.

AWI's organisation structure is expansive, and the departments of the company are a mix of specialised units and geographical locations. The Review Team has seen evidence of close cooperation and good working relationships between the departments, particularly in areas of cross over such as product innovation and marketing. AWI has undergone a period of significant change and rationalisation in the past 12 months.

It is recommended that AWI consider its internal structure to ensure that arrangements are focused on the effective and efficient delivery of the company's strategy.

6 CONSULTATION, LIAISON AND COLLABORATION

6.1 INDUSTRY AND LEVY PAYERS

AWI interacts with industry stakeholders utilising a range of methods. AWI has held an annual industry consultation meeting and the AWI Chairman and CEO have either together or individually attended a range of industry meetings for discussions on AWI's activities. In addition, directors and the CEO have attended state based, national and international wool industry organisation conferences and meetings.

AWI does not have a structured and transparent process for involving industry stakeholders in its strategy setting process. Industry stakeholders report that the consultation process over the 3 years of the review has been ad hoc, and focused on informing stakeholders of directions AWI is taking rather than engaging stakeholders and including them in the development of strategy and directions.

Industry stakeholders reported that the most recent industry consultation day held on 20 May 2009 was an improvement on previous consultation sessions. However, there was concern expressed by post-farm stakeholders that they were not invited to participate in this session.

AWI generally does not provide industry stakeholders with timely information to enable informed discussion, and the company has not used consistent criteria for selecting participants for industry consultation activities. Stakeholders perceive that a "seat at the table" in discussions with AWI has been guided by personal relationships.

Over the three year period, AWI has established a number of ad hoc structures such as working groups and producer advisory groups to facilitate industry interaction on both strategic and operational issues. The Review Team has not been provided with evidence of AWI's consistent commitment to such activities, and stakeholders are dissatisfied with this approach.

6.2 GOVERNMENT

AWI's interactions are predominantly with the Minister for Agriculture, Fisheries and Forestry and his Department. The company interactions with the Commonwealth Government over the three year period have focused on:

- meeting the reporting obligations of the SFA;
- the payment of levy and matching R&D funding; and
- providing input into policy issues including animal welfare, trade and rural research and development.

AWI has met the formal obligations of the SFA required by Government. This includes the development and provision of required plans and reports and the convening of biannual meetings between the Chair and Minister and quarterly meetings between the CEO and the Department. The Department informed the Review Team that its Levy Revenue Service reported no areas of concern in their interactions with AWI.

AWI's relationship with the Commonwealth Government on policy issues has drifted over the 3 year period. AWI has not always been willing to engage the Department consistently and openly on both strategic and operational issues. The quality of interactions on issues has been subject to the quality of individual relationships between Department representatives and AWI staff and Chairmen.

Government expressed some concern about the inconsistency of messages they receive from AWI, and those from embassy contacts, about animal welfare and trade impacts. There is also concern that the level of engagement on these important trade issues has waned in the last year as staff turnover at AWI means a loss of direct contact with Government agencies at the operational level.

6.3 PARTNERS, COLLABORATORS AND SERVICE PROVIDERS

AWI has a number of research partners including Meat and Livestock Australia and the Sheep Cooperative Research Centre (the CRC). AWI also has a range of research providers including the CSIRO and various universities both in Australia and internationally.

SHEEP CRC

AWI is one of 18 industry members of the Cooperative Research Centre for Sheep Industry Innovation (the CRC) and has agreed to contribute \$7.9 million until 2015 for research into the Next Generation Wool Quality program, the Information Nucleus and postgraduate training.

Two formal mechanisms for liaising between AWI and the CRC have been established. First, an AWI Executive team member has a role on the CRC Executive. Second, as AWI funding contribution to the CRC is provided under the Standard Contract for Research Providers, the CRC is required to provide milestone reports to AWI. In addition, for a period, AWI and the CRC had two common directors.

SERVICE PROVIDERS

AWI generally has good informal relationships with service providers. AWI has developed comprehensive contractual arrangements. Many of the service providers were aware that other organisations have a more structured approach to commissioning projects and were more proactive. Many service providers were unsure of the delegation that was provided to their contacts within AWI.

INTERNATIONAL MARKETING PARTNERS

Interviews by the Review Team with businesses that are substantial processors of wool and manufacturers/retailers of woollen garments suggest that collaboration with AWI has been generally favourably regarded. All have had contact with AWI and its antecedents over many years. Most considered the relationship to be consultative, with businesses having good access to AWI regional managers. Opportunities for collaboration have been identified and proposals initiated by both parties.

Some business partners comment that the relationship has improved markedly in recent months with a more pragmatic and simpler approach being taken by AWI to expanding the sale of wool products. Comments that a clearer view with a longer period of commitment has emerged from the new management at AWI appear to have given new confidence to the businesses interviewed.

6.4 FINDINGS & RECOMMENDATIONS ON CONSULTATION

Over the 3 year period of the review, AWI has not had a consistent and transparent process for involving stakeholders in its strategy setting process. Industry stakeholders commented that consultation processes had been ad hoc, and focused on informing stakeholders of directions AWI is taking rather than involving them in the development of strategy and directions. Research partners and providers, while often having good informal relationships with AWI; cite a lack of formalised consultative mechanisms to enable joint consideration of future directions.

Over the review period, AWI has met the obligations of the SFA as required by Government. This includes providing plans and reports and the convening of regular meetings with the Minister and the Department. AWI's relationship with the Commonwealth Government on policy issues has drifted over the 3 year period, with the quality of interactions subject to the quality of individual relationships between Department and AWI representatives.

AWI's capacity and commitment to deliver stable, long term marketing strategies is concerning to supply chain stakeholders. Recent efforts to engage with these stakeholders has provided some reassurance and boosted confidence. Selected stakeholders spoken to by the Review Team included spinners, weavers, manufacturers and retailers in Europe, Japan, China and North America. These discussions revealed a reserve of favourable regard for Australian wool, AWI and its predecessors built up over a long period. The commercial viability of such businesses relies on the demand for woollen garments remaining buoyant and they look for opportunities to collaborate with AWI in marketing activities that will grow demand for their products.

These stakeholders are looking for more continuity in AWI programs and staffing; comment on the performance of (relatively) recently appointed regional managers was very favourable. Awareness of declining wool production and levy funds was high and this appeared to underscore the urgency of the stakeholders' needs for effective, responsive, commercially pragmatic joint marketing activities with AWI.

It is recommended that 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.

7.1 POLICIES AND PROCEDURES

The AWI Board has established a Board Charter, Code of Conduct, and Charter of the Committees of the Board. These policies have been revised over the 3 year period of this review. Over the period of the review, there have been several breaches of Board confidentiality reported in the media and in Senate hearings. This includes breaches of the Board's Code of Conduct and the leaking of confidential information to stakeholders.

Directors maintain a register of their interests, which is refreshed at the commencement of each Board meeting. AWI informed the Review Team that directors leave Board meetings when matters of conflict arise, and that these directors receive blacked out minutes. The Review Team sighted Board minutes that included occasions of directors absenting themselves from discussions on the basis of conflict. Directors are divided as to how well conflict of interest is managed at the Board, in sub-committees and in director involvement in company operations. A number of stakeholders perceive that AWI does not appropriately manage conflict of interest.

A review of Board papers indicates that their quality and consistency in the past has been poor, and the focus has been on providing information, and not data and analysis. There is evidence of reliance on anecdotal reports from management, including verbal reports for major initiatives such as the Woolmark Company Integration. The reporting of regional activities and AWI subsidiary companies is not regularly accounted for in the Board papers. Some improvements have been made, such as the quality and presentation of financial information and the minutes. There are mixed views as to whether there was sufficient transparency for directors to be aware of issues with cash flow and the running down of reserves.

7.2 GOVERNANCE OBLIGATIONS

In addition to its obligations under the Corporations Act 2001, AWI has governance obligations that are established by the company's constitution, statutory funding agreement with the Commonwealth and the Wool Services Privatisation (Wool Levy Poll) Regulations 2003.

The Review Team sought evidence from AWI to enable the assessment of performance against each of these obligations. Detailed analysis of AWI's compliance with these obligations is provided in Appendix 5.

AWI has provided the Review Team with evidence to demonstrate their compliance with the obligations required of the company by its Constitution, statutory funding agreement and the Wool Levy Poll Regulations.

AWI has not fully complied with the obligation relating to the review of its fraud control plan. AWI has notified the Commonwealth Government of its intention to rectify this shortcoming by the end of October 2009.

7.3 STRATEGY AND PERFORMANCE

The Review Team has not seen evidence of a shared understanding of structured process for developing the company's strategy. As such, the Board's role in developing strategy throughout the review period has not been clearly articulated to the Review Team.

Through consultation with directors, the Review Team is unclear as to the strategic framework the AWI Board is currently using for decision making. Both the "Boundy Report" and subsequent 2009/10 Operating Plan budgets have been recently approved by the Board, but these are in conflict with targets articulated in the company's existing Strategic Plan.

The Board has not used a consistent approach to monitor progress against the implementation of annual operating plans. During the review period, a system of "traffic lights" was introduced to track progress of projects and activities, but this system has lapsed, following the departure of its management champion. Review of select Board papers over the review period indicates that reporting of progress from management has primarily taken the form of anecdotal updates of activity and occasional presentations.

Over the period of the review, the Board has not measured its performance. The Board has not set KPIs for itself and reported against these to stakeholders and shareholders. Furthermore, it has not conducted any formal or informal reviews of the Board or directors. AWI informed the Review Team in July 2009 that the Board had commissioned external expertise to assist them to improve Board performance.

The Review Team has not been provided with evidence to determine the robustness of the management of the performance of the company's CEOs. The Review Team has received differing views from directors as to how performance was monitored, and how poor performance was managed.

The Review Team has received consistent feedback that AWI directors have a strong operational focus, and are involved in operational activities. This view is supported by the findings of the Boundy Report.

7.4 COMPANY RESERVES

The Board has actively run down company reserves during the 3 year period, but directors interviewed did not have a shared understanding of the formal reserves policy over the review period. The Board's position to run down reserves has been stated over the 3 year period in the company's strategic plans and key communications with levy payers including:

- The 2005 Update of the 2004-09 Strategic Plan indicated an intention to decrease reserves from \$101.4 million in 2004/05 to \$26.6 million in 2008/09;
- The Voter Information Pack provided to wool growers for WoolPoll 2006 indicated that, with a 2% levy, the company's intended reserves by July 2010 was \$35 million; and
- The 2008/09-2010/11 Strategic Plan, released in October 2008 indicated intended reserves in the order of \$50 million.

The Board reviewed the reserves policy in June 2007, and amended the method of calculating the required operating reserves from 15% of annual budgeted revenue to “9 months of operating costs” in September 2007. The policy has remained unchanged since this time.

The current (June 2009) reserve level is \$43.6 million comprising of:

- \$22.2m Forward Contracts Reserve to cover contracted forward commitments at year end;
- \$16.4m Operating Reserve to cover 9 months of AWI operating costs; and
- \$5.0m Emergency Reserve to cover any contingent expenditure arising from the Emergency Animal Disease Response Agreement.

7.5 BUSINESS RISK ASSESSMENT

AWI's General Manager Finance is responsible for the development, implementation and review of AWI's Business Risk Assessment. This activity is overseen by the Finance and Audit Committee who receive a report on at least an annual basis on risk management activities. Furthermore, the Finance and Audit Committee has, within its charter the ability to commission external ad hoc reviews as required.

During the period of this review the Business Risk Assessment was updated and approved by the Board in March 2007. A comprehensive Business Risk Assessment on the Woolmark Company was prepared in February 2008. These two documents are the current risk plans for the company.

The current plans: describe each risk, identify principal risk management activities, assign responsibility for controlling the risk and assigns a residual risk rating. The risk management plan informs the development of the company's internal audit process. Audit and compliance have meet standards with internal audits conducted on a rolling schedule.

The Review Team has not seen evidence that AWI has undertaken a comprehensive review of compliance with legislation in the relevant jurisdictions in which it operates.

The Review Team has not seen evidence of a shared understanding within the company (directors, management and staff) of major risks to the company and any strategies that are in place to manage key risks.

AWI informed the Review Team that in August 2009, it notified the Commonwealth Government of the company's intention to revise the Risk Management Plan by the end of October 2009.

7.6 FRAUD CONTROL

The current Fraud Control Plan (2005-2007) was developed in 2005. This plan was developed by Deloitte, following a fraud risk assessment. Key fraud risks identified in this plan were conducting tenders and engagement of contractors and consultants. The plan also indicated that identifying and managing conflict of interest issues required management attention. Key

actions included: implementing a purchasing policy; developing a panel of pre-qualified consultants; and implementing conflict of interest declarations.

The Fraud Control Plan recommended that AWI regularly review fraud control arrangements, at a minimum of every two years, and following any changes to company structures or strategy. AWI informed the Review Team that the Fraud Control Plan is reviewed annually and that a fraud questionnaire is completed annually for the company's external auditor. AWI has not updated the Fraud Control Plan since 2005. In the 2008 questionnaire submitted to the auditor, AWI stated that it had no knowledge of any fraud, regardless of materiality perpetrated or any alleged or suspected fraud. AWI informed the Review Team that the questionnaire is prepared in consultation with the senior executives of the company and the Finance and Audit committee. AWI did not provide the review team with evidence of the oversight of such a process by the Finance and Audit Committee.

AWI informed the Review Team that in August 2009, it notified the Commonwealth Government of the company's intention to revise the Fraud Control Plan by the end of October 2009.

The Board has implemented a policy of financial authorities which stipulates the level of staff authorisation to act for the company on a range of matters. This policy was formally approved by the Board in September 2007, updated in November 2008 and revised again in March 2009.

7.7 INTELLECTUAL PROPERTY MANAGEMENT

The Intellectual Property and Commercialisation Committee (IPCC) of the Board has an oversight role, providing policy direction for the management of the company's intellectual property (IP). The management and administration of IP for all AWI group companies is centralised within the AWI Contracts and IP Management Team. Management reporting to the Board through the IPCC is by exception.

The company has an IP Management Plan, which establishes the framework for the management of AWI's IP assets, including those of The Woolmark Company. This plan was most recently updated in June 2008.

AWI's stated objective is to control and manage IP to the maximum benefit of Australian wool growers. To achieve this objective, AWI stated aim is to deliver the maximum benefit by ensuring rapid, widespread adoption or commercialisation of its IP along the wool supply chain.

AWI has a number of resources that assist staff implement the IP Management Plan, including an IP Manual, guides, tools and standard contracts. In addition, the Contracts and IP Management Team provide support to project staff including training activities and participation in meetings.

In the early stages of the 3 year review period, AWI took number of steps to consolidate the management of IP, including centralisation of external service provision for the register of 100% AWI owned IP.

7.8 FINDINGS & RECOMMENDATIONS ON GOVERNANCE

AWI has met all but one of the governance obligations set down in the company's constitution and those of the Commonwealth Government with respect to governance aspects of the Statutory Funding Agreement and the Wool Services Privatisation (Wool Levy Poll) Regulations 2003.

Over the 3 year review period there have been significant changes in the Board composition, leadership and structure. The Board has been factionalised, and this has led to a Board culture and dynamic that is lacking in transparency and openness. These issues have affected the stability of the company and its focus on delivering value to levy payers.

AWI has adopted procedures to manage conflict of interests including conflict declarations, directors absencing themselves from discussions and directors receiving blacked out minutes. Directors are divided as to how well conflict of interest is managed, and the Board is not perceived by stakeholders as effectively managing Board conflict of interest issues. AWI's policy and procedures for managing conflicts of interest inside and outside the Board room are not sufficiently robust and transparent.

Over the period of the review, the Board has not measured its performance. The Board has not set KPIs for itself and reported against these to stakeholders and shareholders. Furthermore, it has not conducted any formal or informal reviews of the Board or directors.

It is recommended that the AWI Board comprehensively review its corporate governance practice and take steps to ensure that it meets modern expectations of good practice.

The architecture of the constitution for the appointment of directors does not ensure that the AWI Board is skills based. These structural issues are of concern to many of AWI's stakeholders.

It is recommended that 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.

AWI has developed risk management, fraud control and intellectual property plans for the company's operations. AWI directors, management and staff do not have a shared understanding of key risks to the company, and the strategies and processes in place to manage risks. Application of the company's IP policy and contracting procedures is not consistent across the organisation.

It is recommended that 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.

8 COMPANY SYSTEMS AND SUPPORT

8.1 HUMAN RESOURCES

The Remuneration and Appointments Committee of the Board has an oversight role in the establishment of policies and procedures associated with the attraction, recruitment, remuneration and performance management of senior managers and directors.

AWI has a suite of human resources (HR) policies and procedures that were developed by the organisation in 2008, to update and formalise the company's HR infrastructure. These cover a range of matters, that span the employment lifecycle including: equal employment opportunity, anti discrimination and harassment; recruitment; induction; probationary periods of employment; leave (annual, personal, parental, compassionate, jury service); travel; salary packaging; and exit interviews.

HR developed a core competency framework for the company in 2008. This should be reviewed in light of the new strategy. HR has recently embarked on a process to map the skills base of the company's marketing staff.

8.2 COMMUNICATIONS

AWI's corporate communications functions over the 3 year period have included both internal and external communications. The group is responsible for: shaping the company's key messages; providing communication and issues management support across the company's operations; overseeing AWI's meeting of requirements under the SFA; supporting the Australian Free Trade Wool Committee; and managing the company's reputation.

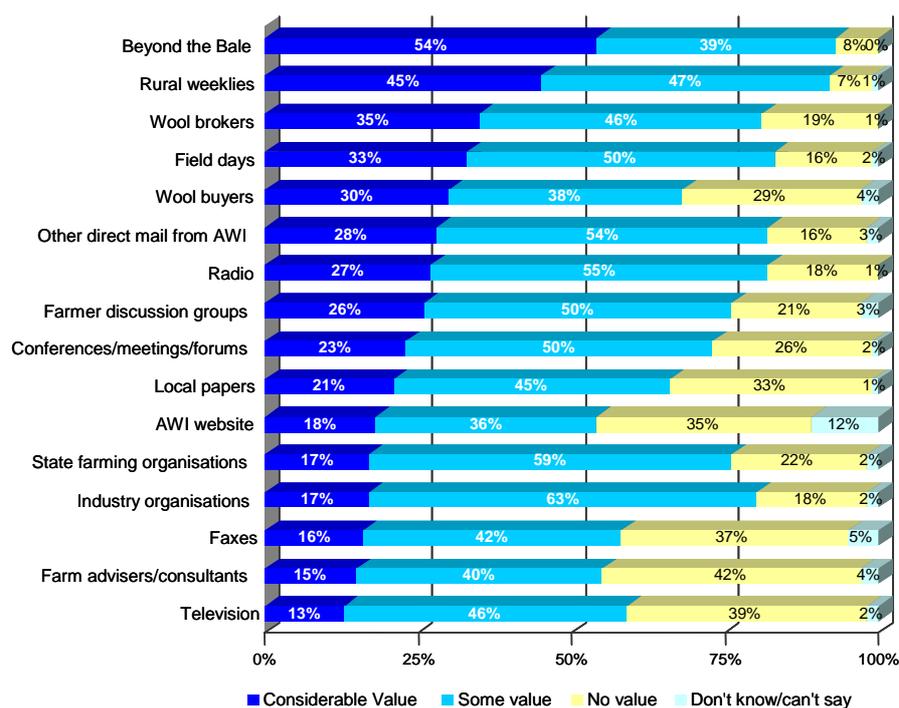
To deliver against these responsibilities, key activities of the group include:

- preparation of company publications, including the Annual Report and Beyond the Bale;
- management of websites;
- media management;
- events management; and
- government relations including policy, joint rural research and development corporation activities and support for the Wool Industry Free Trade Committee.

Planning within the communications group is focused on the preparation of the communications section of the annual operating plans, and action planning for individual activities or events. The AOP articulates the group's key areas of responsibility and proposed activities for the coming year.

GA Research was commissioned in 2008 to conduct market research on wool growers with flocks larger than 2000 sheep, through a survey of 600 levy payers. The survey included questions about the value the respondent placed on different information sources for finding out about AWI and its activities - including key efforts of AWI such as the company's publications, website, and direct mail. The results of this research (Figure 5) indicate that 93% of surveyed levy payers see value in AWI's Beyond the Bale publication, 54% the website and 82% direct mail received from AWI.

Figure 5 Value of information sources - levy payer market research results



Source: GA Research (2008) Wool grower Research Report.

8.3 CONTRACTS & PROJECT MANAGEMENT

AWI has a comprehensive framework for managing contracts. This includes documented policies and procedures, standard templates, a contract user guide, checklists and standard email working. Standard contract templates have been developed and the company also has standard templates for contract correspondence including letters of agreement, variation, completion and termination and emails relating to contracts. AWI has negotiated specific contracting arrangements with some R&D partners.

The company's Standard Contracts User Guide was updated in January 2009. This provides staff with comprehensive information about: contracting policies; which contract template to use; contracting procedures. The user guide has specific information to assist staff consider IP in the contracting process.

AWI has draft project management procedures, established in June 2007 that are available to staff on the company's intranet. These draft procedures outline the principles of good project management throughout the project lifecycle from project selection, contracting, management and closure. The procedures document relevant approval processes that reflect the financial delegations in place at the time of writing. These have not been updated to reflect current delegations policy.

The draft project management procedures refer generally to methods for assessing value for money including obtaining quotes, using open tenders / expressions of interest and using rates on the contractor register. AWI management informed the Review Team that AWI does not have a clear tendering policy for outsourcing projects. The Review Team sighted evidence that there has not been consistent application of contracting and draft project management procedures.

8.4 PROJECT, FINANCIAL AND DOCUMENT MANAGEMENT SYSTEMS

AWI uses parallel financial management systems to support its operations. "SAP" is used internationally and Great Plains in Australia. TRIM is used for document management and "Matilda" is the project management system. Matilda does not directly link to financial systems.

The Boundy Report identified that an upgrade and consolidation of systems and processes is critical to ensure that additional burdens are not placed on staff and to reduce the risks of resource misallocation.

In 2008, the Board agreed that moving to a single platform globally was desirable. Due to significant resource constraints however, the 2009/10 Operating Plan indicates that this decision will not progress, but that smaller projects would be conducted to upgrade Asia, finance, HR, and to introduce a purchase order process for marketing projects.

8.5 FINDINGS & RECOMMENDATIONS ON COMPANY SYSTEMS AND SUPPORT

AWI has recently taken constructive steps to modernise and formalise its human resources infrastructure. The HR team has identified areas of ongoing improvement including staff satisfaction surveys, the alignment of the integrated companies in terms of culture, values and reward/remuneration, and performance management.

It is recommended that the Human Resources team be appropriately resourced to support the change management required to implement the company's new strategy.

AWI does not have a strategic approach to communication planning, and the focus is activity-based action planning. The company does not have a clear issues or crisis management plan and associated procedures in place to manage reputation risks to the company or industry.

It is recommended that 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.

AWI has established administrative and financial processes and systems to support the operation of the company. These are not consistently applied and used by staff and management. The Review Team has not seen evidence of a consistent understanding of (or clear expectation to use) established systems.

It is recommended that 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.

9.1 PERFORMANCE FRAMEWORK

A comprehensive performance framework should:

- establish KPIs that are quantified and measure outcomes (not outputs or activities);
- describe how KPIs will be measured and reported against; and
- comprise KPIs that consistently cascade from the company’s Strategic Plan, annual operating plans to the performance agreements of individual staff members.

AWI has not had a consistent framework for managing performance over the 3 year period.

The 2005 Update Strategic Plan articulated predominantly qualitative goals for each of the company’s portfolios. The 2007-12 Strategic Plan articulated “portfolio goals”. These goals were a mix of quantified and measurable targets and statements of roles and activities.

For the first time, the 2008/09 -2010/11 Strategic Plan and 2008/09 Annual Operating Plan included quantified targets against which the company intended to measure its overall performance (Table 12). These overarching targets were supported by “key targets” for most strategic initiatives. These targets were a mix of quantified and measurable indicators, key dates for delivery of activities, or desired outcomes.

Table 12 Summary of targets 2008/09 -2010/11 Strategic Plan and 2008/09 AOP

Target 08/09 - 10/11 Strategic Plan	Target 2008/9 Annual Operating Plan
Create an additional 20 million kilograms per annum (clean) demand of Australian Merino wool primarily by working with the top 200 international retail and brand partners to lead the market	Create an additional 20 million kilograms (clean) demand of Australian Merino wool by 30 June 2009
Reduce wool’s Cost of Production by \$0.40 c/kg/clean over three years through increased productivity and lower costs	Reduce wool’s Cost of Production by \$0.10 c/kg/clean by 30 June 2009
To provide wool growers with alternatives to mulesing in support of the industry’s commitment to phase the practice out by the end of 2010	To commercialise at least one alternative technology (clips) by 30 June 2009

At the time of publication (August 2009) AWI had not finalised its reporting against the 2008/09 Annual Operating Plan. Therefore, the Review Team was unable to make an assessment of the company's progress towards achieving the targets established in the 2008/09-2010/11 Strategic Plan and the 2008/09 Annual Operating Plan.

AWI's has inconsistent approaches to managing the performance of individual staff members. Human Resources developed an interim performance management system, based on objective setting and this was introduced for the 2008/9 financial year. This process was not comprehensively and clearly linked to the outcomes or the objectives articulated in the annual operating plan, and it was implemented with varying degrees of success across the organisation.

9.2 MEASURING & REPORTING PERFORMANCE

AWI has commissioned cost benefit studies of discrete projects. AWI has not stipulated a consistent methodology (such as timeframes and discount rates) in conducting these studies. Moreover, the studies seemed to be commissioned by program leaders and they are particularly focussed on AWI's on-farm activities.

There is no evidence of a strategic approach to assessing program and/or project performance. There is no articulated role of cost benefit analysis in the allocation of resources over time. There is no link between the performance measures in the annual operating plan and the cost benefit analyses. The Review Team has not received evidence of cost benefit analysis at the pre-project commissioning stage.

AWI's Annual Report is the company's key document for reporting performance to government, levy payers and stakeholders. Stakeholders point to the annual report as a source of information about progress toward implementing its annual operating plans (AOP). The AOPs contain a detailed listing of AWI's projects and each Annual Report contains an appendix tracking each project. The AOPs also contain stated program and sub-program goals, although this is not consistent across all areas of AWI's activity. Furthermore, some programs and sub-programs have quantified targets.

Table 13 and Table 14 are assessments of the performance of AWI in reporting against the program and sub-program goals and quantified targets stated in the AOPs for 2006/07 and 2007/08. This assessment is based on a desktop review of each of the stated program and sub-program goals as presented in each AOP and the outcomes reported in the corresponding Annual Report. AWI did not provide information to the Review Team to enable the assessment of progress against the 2008/09 AOP.

Table 13 Assessment of reported performance, implementation of 2006/07 AOP

	Did the program have a stated goal?	Did the sub-program have a stated goal?	Did AWI reported against stated goals?	Did AWI report activity or reason for no activity?	Did AWI report against stated program targets?	Did AWI report against stated sub-program targets?
Yes	13 (72%)	34 (55%)	28 (43%)	48 (74%)	0 (0%)	0
No	5 (28%)	28 (45%)	37 (57%)	17 (26%)	1 (100%)	0

Table 14 Assessment of reported performance, implementation of 2007/08 AOP

	Did the program have a stated goal?	Did the sub-program have a stated goal?	Did AWI reported against stated goals?	Did AWI report activity or reason for no activity?	Did AWI report against stated program targets?	Did AWI report against stated sub-program targets?
Yes	7 (70%)	15 (45%)	11 (33%)	23 (70%)	0	1 (17%)
No	3 (30%)	18 (55%)	22 (67%)	10 (30%)	0	5 (83%)

The Annual Reports assessed provide stakeholders with general descriptions of activity and information to enable the tracking of the implementation of individual projects. They do not clearly or comprehensively document AWI's progress to achieving the stated goals of programs and sub programs. Progress towards the achievement of quantified targets is rarely reported. Neither the 2006/07 nor 2007/08 Annual Reports documented AWI's progress against the higher level goals and targets outlined in the corresponding Strategic Plans.

Industry stakeholders report that in most cases there are no measures in place to assess the performance against the strategies and plans. Several stakeholders believe the only measure available is each of the 3 year performance reviews conducted prior to levy polls.

9.3 LEVY PAYERS PERCEPTION OF PERFORMANCE

GA Research was commissioned in 2008 to conduct market research on AWI levy payers with flocks larger than 2000 sheep. Of the 600 respondents to the survey - approximately 72% said they know a little about AWI, 24% knew a lot and 4% knew nothing at all.

Survey respondents were asked to rate (on a scale of 1 to 10) the importance of different AWI priorities and to judge the current performance of AWI (Figure 6). Responses ranged from 3.8-5.8 out of 10 for how good a job AWI was doing. GA Research concluded that in the context of other similar studies undertaken, the rating of AWI's performance on these measures was generally low.

Figure 6 Summary of wool growers' perceptions of AWI's performance



Blue bars = priority. Yellow Bars = performance.
 Source: GA Research (2008) Wool grower Research Report.

9.4 ASSESSMENT OF RETURNS TO LEVY PAYERS DURING THE REVIEW PERIOD

As part of the 3 Year Review, AWI requested an assessment of 9 major AWI research, development and marketing projects. The projects selected are outlined in Table 15. The criteria for the selection were broadly: representation of effort; a mix across the range of activities undertaken by AWI; and presence of existing studies.

Table 15 List of AWI projects for review

Marketing	Product Development	Wool Production & Mulesing Alternatives	Corporate
Japan/China/Korea Marketing Program	Merino Fresh	Merino Select	Integration
	Mercerised Wool	Making more from Sheep	Publications
		Lifetimewool	
		Mulesing Alternatives	

Table 16 outlines the costs associated with each project during the 3 year period. These costs are sourced from the benefit cost assessments provided by AWI.

Table 16 Total costs of projects over 3 year period

Project	AWI Expenditure	Percentage of Total Project Spend that occurred in Review Period	Percentage of AWI's total RD&M expenditure over Review Period
Japan/China/Korea Marketing Program	\$2,000,000	100%	1.4%
Merino Fresh	\$84,000	100%	0.1%
Mercerised Wool	\$52,000	100%	0.04%
Merino Select	\$1,247,100	54%	0.9%
Making more from Sheep	\$1,147,500	77%	0.8%
Lifetimewool	\$1,056,500	16%	0.7%
Mulesing alternatives	\$9,000,000	60%	6.3%
Integration	\$8,925,000	100%	-*
Publications	\$1,936,977	100%	10.7%**
Total	\$25,449,100		

*Note: *Integration is a one-off cost accounted separately in AWI accounts.*

***A percentage of corporate costs over the review period.*

The information was provided from external assessment by economics consultants for projects and corporate information provided by the AWI Communications Group and Finance Department for the Integration and Publications projects.

It should be noted that the level of AWI expenditure on the projects that are subject to this benefit cost review are low when compared to the company's overall spend of approximately \$143 million on research, development and marketing projects and activities during the review period. Table 17 summarises the information available to enable an assessment of the return on investment undertaken by AWI over the review period.

Table 17 Returns to project expenditure over review period

Project	Benefit Cost (NPV)	Comments
Japan/China/Korea Marketing Program	\$2,200,000	One year
Merino Fresh	\$380,000	Based on demand increase across clip
Mercerised Wool	\$9,828,000	Based on demand increase across clip
Merino Select	\$5,125,543	Extends beyond review period
Making More from Sheep	\$7,440,000	Based on existing education modules
Lifetime Wool	\$19,741,000	Pro rata benefit based on \$3.84 per ewe and 30% adoption.
Mulesing Alternatives	\$0	No outcome identified as most likely
Integration	\$12,113,849	Assume savings for 10 years
Publications	\$20,000*	Annual savings estimate
Total	\$56,935,000	

The review of various costs and benefits of selected projects illustrates that:

- there are projects undertaken by AWI which have a positive return on investment (for this selected group of projects the benefit cost ratio is estimated to be approximately 2.4);
- the return on investment of several projects reviewed depend on outcomes that are currently uncertain;
- marketing projects do not have systematic benefit cost assessments which quantify the potential return to the levy payer;
- there is a lack of consistency in AWI's approach to conducting benefit analysis, which makes the assessment of returns challenging; and
- assessment of cost savings within the company do not consider potential risk or reduction in service which would enable an assessment of their benefits into the future.

AWI's analysis examining returns to levy payers is not comprehensive. It does not allow a robust assessment of whether R&D and Marketing activities conducted during the review period will generate net benefits.

9.5 FINDINGS & RECOMMENDATIONS ON PERFORMANCE

Over the three years of the Review, AWI has not had a consistent framework to measure and report performance to levy payers and stakeholders. AWI's does not have performance assessment processes that clearly cascade from strategy to implementation and to performance measures of individual staff members.

During the consultation phase of this review, AWI's stakeholders had difficulty in making an assessment of AWI's value to levy payers, and levy payers surveyed by AWI in 2008 perceived that AWI did not perform well.

Furthermore, AWI has not established processes and a culture of explicitly and systematically assessing value to levy payers in planning stages. Many activities are assumed to add value to levy payers without question. AWI's practice falls short of processes used in other like organisations that have substantial off-farm and international marketing efforts.

The Review Team is unable to draw specific conclusions on the long term value AWI delivers to levy payers across the company. Cost benefit assessments have been carried out at a Department level, but these are not consistent or coordinated. This is consistent with the concern identified by the last 3 year review, which concluded that the way projects were monitored and measured did not allow for the reporting of overall net benefits to growers and government.

It is difficult to assess whether the changes in operations and processes of the company over the review period have increased the likelihood of returns to levy payers in the future.

It is recommended 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.

It is recommended that 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.

Over the three year period 2006/07 - 2008/09 AWI has:

- Responded to levy payer requests to conduct marketing activities. AWI acquired the Woolmark Company to enable the integration of research, development, innovation and marketing activities of the Australian wool industry.
- Had some successful programs, with stakeholders citing examples from on-farm research, product innovation, marketing and communications.
- Adopted processes for the development of the company's operational and departmental plans that fall short of what the Review Team would expect to find in a company of this nature.
- Not had a consistent and transparent process for consulting with stakeholders and involving them in its strategy setting.
- Met all but one of the formal obligations set down in the company's constitution and those of the Commonwealth Government with respect to governance aspects of the Statutory Funding Agreement and the Wool Services Privatisation (Wool Levy Poll) Regulations 2003.
- Had a factionalised Board with a culture and dynamic that lacks transparency and openness.
- Developed risk, fraud and intellectual property plans, but not taken sufficient steps to ensure there is a shared understanding and consistent implementation of these plans.
- Not had a consistent framework for measuring and reporting performance to levy payers and stakeholders.

The Review Team has been unable to draw specific conclusions on the long term value AWI delivers to levy payers across the company. Furthermore, it is not possible for the Review Team to comprehensively assess whether changes in the operations and processes of the company over the review period have increased the likelihood of returns to levy payers in the future.

In its most recent operating plan (2009/10) AWI has signalled a shift to improve its business processes. This shift includes:

- a more structured approach to reporting to stakeholders;
- improved approaches to assessing research programs and projects including project evaluation tools, project and program reviews and the use of expert panels; and
- investigations to improve corporate governance practice.

The Review Team has not sighted clear documentation of the specific actions the company is taking to improve business processes in each of these areas.

The Review Team views the following recommendations as the priority issues on which AWI should focus its efforts to improve the strategic operation of the company.

This review recommends that:

1. AWI work with its industry stakeholders to clearly define the company's position and role in the industry. These should then be clearly communicated to AWI's stakeholders. The recommendations of this 3 year performance review should then be considered in light of this defined role.
2. Following WoolPoll 2009, AWI embark on an appropriately designed strategy setting process to provide a clear and detailed plan for the company.
3. AWI consider establishing internal structures to support the development and consistent implementation of a planning and evaluation process that allows rigorous exploration and assessment of value to levy payers.
4. 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.
5. 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.
6. 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.
7. The AWI Board comprehensively review its corporate governance practice and take steps to ensure that it meets modern expectations of good practice.
8. 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.
9. 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.
10. AWI comprehensively document and communicate the actions the company is currently taking to improve business processes.
11. 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.

APPENDIX 1 – REVIEW METHODOLOGY

The terms of reference for the review require an assessment of AWI's effectiveness in the delivery of:

- the objectives and priorities of the strategic plan, against its operating environment and mission statement;
- research and development outcomes aligned with its strategic goals and objectives;
- the provision of industry services not otherwise widely commercially available to wool growers;
- collaboration by AWI with government and industry;
- AWI's performance and management indicators;
- AWI's accountability with stakeholders;
- AWI's contribution towards Government's research policy, priorities and the delivery of public benefits; and
- the application of wool levy funds against the Statutory Funding Agreement.

The evaluation criteria were established against the background of the Wool Services Privatisation Act, the Statutory Funding Agreement with the Commonwealth, and AWI's Constitution. The results of the most recent poll of Australian Wool growers (WoolPoll 2006) have also included, as at this poll, wool growers agreed to extend the scope of the company's operation to include product marketing.

On the basis of these requirements, the structure for the review was based on the following areas of investigation:

- strategy development and implementation;
- structure;
- consultation, liaison and collaboration;
- corporate governance; and
- company operations.

The evaluation criteria for each of these elements were:

- alignment with the key objectives;
- progress towards or support for the achievement of objectives; and
- efficiency of this progress and any improvements made.

The review has been informed by extensive review of AWI documentation.

Assessment has relied heavily on systematic examination by the Review Team of each stated target and objective in personal interviews with AWI Board members, staff and stakeholders, and the evidence presented of compliance and performance in AWI publications and internal documentation.

APPENDIX 2 - CONSULTATION

A total of fifty five people have been interviewed to inform the review. Interviews have been a mix of face to face and telephone discussions, with one marketing stakeholder providing a written response to the Review Team. Four consultations are still to be completed.

Group	Number of people consulted
Staff	19
Directors	4
Government	8
Industry*	11
RDI Collaborators	6
Marketing Partners	7
TOTAL	55

* industry organisations consulted were: Australian Association of Stud Merino Breeders, Australian Superfine Wool Growers Association, Australian Wool Exchange, Australian Wool Growers Association, Australian Wool Industries Secretariat, Australian Wool Testing Authority, Tasmanian Farmers & Graziers Wool Council, West Australian Farmers Federation, WoolProducers Australia.

The external consultation interviews were semi-structured. The following tables outline the key areas discussed with each stakeholder group.

Government stakeholders

Area of review	Key areas of discussion
Consultation, liaison and collaboration	<ul style="list-style-type: none"> Your views on AWI's approaches to consulting and collaborating with your organisation on key issues including trade and animal welfare
AWI's strategy development and implementation	<ul style="list-style-type: none"> Your interactions with AWI in developing the company's plans Your views on AWI's approach to measuring and reporting value to levy payers Areas where you think AWI has done well over the 3 years, and areas where you think improvement is desirable
Structure	<ul style="list-style-type: none"> Your views on AWI's performance in integrating the Woolmark business

Area of review	Key areas of discussion
Corporate governance	<ul style="list-style-type: none"> • AWI's performance in complying with requirements stipulated in the statutory funding agreement

Industry stakeholders

Area of review	Key areas of discussion
AWI's strategy development and implementation	<ul style="list-style-type: none"> • Your interactions with AWI in developing the company's strategic and operating plans • Your views on AWI's approach to measuring and reporting value to levy payers • Areas where you think AWI has done well over the 3 years, and areas where you think improvement is desirable
Structure	<ul style="list-style-type: none"> • Your views on the steps taken to position AWI as a research, development and marketing service organisation for the industry
Consultation, liaison and collaboration	<ul style="list-style-type: none"> • Your views on AWI's approaches to consulting and collaborating with your organisation
Corporate governance	<ul style="list-style-type: none"> • Your views on AWI's transparency and methods of accountability with stakeholders

Research, development and innovation stakeholders

Area of review	Key areas of discussion
AWI's strategy development and implementation	<ul style="list-style-type: none"> Your interactions with AWI in developing the company's strategic and operating plans Areas where you think AWI has done well over the 3 years, and areas where you think improvement is desirable
Consultation, liaison and collaboration	<ul style="list-style-type: none"> Your views on AWI's approaches to consulting and collaborating with your organisation
Company operations	<ul style="list-style-type: none"> Your views on AWI's approach to commercial negotiations and agreements

Marketing stakeholders

Area of review	Key areas of discussion
AWI's strategy development and implementation	<ul style="list-style-type: none"> Your interactions with AWI in developing the company's marketing plans Areas where you think AWI has done well over the 3 years, and areas where you think improvement is desirable
Consultation, liaison and collaboration	<ul style="list-style-type: none"> Your views on AWI's approaches to consulting and collaborating with your organisation
Company operations	<ul style="list-style-type: none"> Your views on AWI's approach to commercial negotiations and agreements

APPENDIX 3 – DOCUMENTS REVIEWED

- AWI's Constitution and Statutory Funding Agreement
- The Wool Services Privatisation Act 2000 and Wool Levy Poll Regulations 2003
- AWI's Annual Reports 2006/07 and 2007/08
- Strategic and annual operating plans for the 3 year period
- WoolPoll 2006 Voter Information
- The final report of the WoolPoll 2006 Panel
- 2009/10 Operating Plan
- May 2009 Industry day summary
- Select marketing reports to the Board
- McKinsey & Co Report - Building the Future for Australian Wool
- AWI Corporate Structure post integration, as at 11 May 2009
- Company organisation charts, April 2009, August 2008, July 2007, July 2006
- Board charter
- Charter of the Committees of the Board
- Board code of conduct - obligations to stakeholders
- Select Board papers and minutes over the 3 year period
- Risk and fraud plans
- IP policy, IP manual and Standard Contracts User Guide
- Overviews of AWI's contract management processes
- Financial authorities
- The Boundy report
- Internal audit plan and selected audit reports
- Various human resources (HR) policies
- Draft Project Management Procedures June 2007 Version 2

- Board brief on core functions of Corporate Affairs
- GA Research Wool grower Research Report (October 2008)
- Internal AWI department plans and select presentations to the Board

APPENDIX 4 - RESOURCE ALLOCATION AGAINST COMMONWEALTH PRIORITIES

AWI's budgeted versus actual project expenditure against the Commonwealth Rural Research and Development priorities for each of the three years of the review is provided in Table 18, Table 19 and Table 20. This analysis includes external project costs. It does not include internal support costs such as those for corporate services expenditure, or the costs associated with the international network that supports AWI's marketing function.

Table 18 Budget v Actual Expenditure against Commonwealth priorities 2006/07

Priority	Budget	Actual
Improving competitiveness through whole of industry approach	13.83	14.26
Maintaining & improving confidence & integrity	7.76	6.72
Improve trade and market access	12.22	10.01
Natural resource management	1.78	1.67
Protecting Australia for invasive diseases and pests	4.39	3.45
Creating an innovative culture	10.33	9.64
Use of frontier technologies	21.42	18.1
TOTAL	71.73	63.85

Source: AWI financial system - final budgets

Table 19 Budget v Actual Expenditure against Commonwealth priorities 2007/08

Priority	Budget	Actual
Productivity and Adding Value	11.21	11.42
Supply Chain and Markets	14.53	12.49
Natural Resource Management	0.84	1.04
Climate Variability and Climate Change	0.15	0.21
Biosecurity	0.69	0.98
Innovation Skills	8.74	4.91
Technology	8.76	6.16
TOTAL	44.92	37.21

Source: AWI financial system - final budgets

Table 20 Budget v Actual Expenditure against Commonwealth priorities 2008/09

Priority	Budget	Actual
Productivity and Adding Value	12.16	8.77
Supply Chain and Markets	19.12	10.43
Natural Resource Management	1.30	1.22
Climate Variability and Climate Change	0.28	0.24
Biosecurity	0.85	0.75
Innovation Skills	5.41	3.87
Technology	5.66	4.43
TOTAL	44.78	29.71

Source: AWI financial system - final budgets

APPENDIX 5 - COMPLIANCE WITH GOVERNANCE OBLIGATIONS

CONSTITUTION

Section reference	Matter	Review team observations & supporting evidence
2(c)	The company must not make grants, or otherwise provide financial assistance, to a body that represents wool growers. Nothing in this paragraph will prevent the company from acquiring property, goods or services on arm's length, transparent and competitive terms from a body that represents wool growers.	AWI confirmed to the Review Team that no grants or financial assistance has been provided to any body that represents Wool growers over the period July 2006 to June 2009.
4.1(b)	Issues of Shares Prescribed a form for an application for shares	Such a form is prescribed, and was sighted by the review team.
4.2(a)	Loss of shares If at any time the Board determines that a shareholder has a Rolling Wool Levy Amount of less than \$100, the Board must use reasonable endeavours to notify the shareholder in writing sent by pre-paid post of the determination and invite the shareholder, if the shareholder believes that their Rolling Wool Levy Amount is \$100 or more, to provide such supporting evidence as the Board may prescribe from time to time for this purpose within 28 days after the date of the posting of the notice of determination.	AWI informed the review team that each September the company sends a letter to those shareholders who have paid less than \$100 in levies over the past 3 years. This letter advises that their share will be cancelled unless they can provide evidence of levies of \$100 or more. A sample letter sent to levy payers was sighted by the review team.

Section reference	Matter	Review team observations & supporting evidence
4.2(d)	<p>If at any time the Board determines that a shareholder has ceased to be engaged in a Wool Producing Business, the Board must use reasonable endeavours to notify the shareholder in writing sent by pre-paid post of the determination and invite the shareholder, if the shareholder believes that the shareholder is engaged in a Wool Producing Business, to provide such supporting evidence as the Board may prescribe from time to time for this purpose within twenty-eight (28) days after the date of the posting of the notice of determination.</p>	<p>AWI informed the review team that each September the company has sent a letter to those shareholders who have paid less than \$100 in levies over the past 3 years. This letter advises that their share will be cancelled unless they can provide evidence of levies of \$100 or more.</p> <p>A sample letter sent to levy payers was sighted by the review team.</p>
5.2(a)	<p>Information about Wool Tax and Wool Levy paid</p> <p>For the purposes of determining shareholders' (other than Nominee Company's) voting rights:</p> <ul style="list-style-type: none"> (i) the Board must determine a Return Date for each Financial Year and notify each shareholder, of that Return Date as soon as reasonably possible after the date of the Board's determination, in such manner as the Board determines is reasonable and appropriate; (ii) the Board must make its determination before the end of each relevant Financial Year; (iii) the Return Date must not be earlier than the next 31 August after the end of the Financial Year; 	<p>AWI informed the review team that it advises shareholders of the return date and their voting entitlement in a letter that is sent each September. A sample letter sent to levy payers was sighted by the review team.</p> <p>The return date is after 31 August, after the letter referred to above is sent to shareholders, and the register is closed for the period.</p> <p>Note that a wool tax is no longer levied, only wool levy is paid.</p>

Section reference	Matter	Review team observations & supporting evidence
	(iv) each shareholder may, not later than the Return Date for each Financial Year, notify the company of (or cause the company to be notified of) the amount of Wool Tax and Wool Levy paid by the shareholder on Taxable Wool Transactions that occurred in the Financial Year concerned and provide such evidence as the Board may prescribe from time to time for this purpose;	
5.3(a)	As soon as practicable after the Return Date for each Financial Year, the Board must determine the Rolling Wool Levy Amount for each shareholder	Link Market Services provides share registry services to AWI. AWI indicated that each September, the share registry determines the rolling wool levy amount for each shareholder.
5.3(b)	The Board must keep a register of each shareholder's Rolling Wool Levy Amount.	A register is maintained by Link Market Services.
5.3(d)	The Board must make its determinations under this Rule 5.3 not later than thirty five (35) days before the Annual General Meeting of the company which first occurs after the relevant Return Date and must notify each Shareholder of the shareholder's voting entitlements as soon as reasonably possible after the date of the Board's determination, in such manner as the Board determines is reasonable and appropriate.	AWI informed the review team that notice was provided to shareholders in September each year. Annual General Meetings were held in November.

Section reference	Matter	Review team observations & supporting evidence
10.1	<p>General Meetings</p> <p>The company must convene and conduct each annual general meeting in accordance with the Law. The Board must fix and publish the date for each annual general meeting by no later than 90 days preceding the date for which it is fixed.</p>	<p>During the 3 year review, Annual General Meetings have been convened on:</p> <p>14 November 2006 14 November 2007; and 19 November 2008.</p> <p>AWI informed the review team that notice of AGMs were published in rural print media nationwide as follows:</p> <p>Week commencing 7th Aug 2006 Week commencing 6th Aug 2007 Week commencing 18th Aug 2008</p>
13.3	<p>Retirement and election of directors</p> <p>Subject to the Law, the Board shall determine, from time to time, and shall publish the rules and procedures governing the election of directors.</p> <p>The rules and procedures may be changed by resolution of directors, from time to time, providing not less than 75% of the directors at the time of the passing of the resolution, vote in favour of the resolution.</p> <p>(h) No resolution to alter the rules and procedures may be passed less than 75 days prior to any annual general meeting.</p>	<p>Such Rules and Procedures were adopted by a resolution of the Board of Directors at a meeting held on 17 February 2005. These were amended on the 24 May 2006 and again on the 14 August 2008. These amended procedures were sighted by the Review Team.</p>

Section reference	Matter	Review team observations & supporting evidence
15.9	The Board must determine and publish a corporate governance policy on or before 30 June 2004.	For the duration of the review the Board has in place a Board Charter, Code of Conduct, and Charter of the Committees of the Board. These were sighted by the review team.
19.1	The company is to indemnify each officer of the company out of the assets of the company to the relevant extent against any liability incurred by the officer in or arising out of the conduct of the business of the company or in or arising out of the discharge of the duties of the officer.	AWI informed the review team that it indemnifies officers, and holds insurances for the directors and officers of the company and all subsidiaries.

STATUTORY FUNDING AGREEMENT REQUIREMENTS

Section reference	Matter	Review team observations and supporting evidence
4.1	<p>The company must establish such accounting systems, procedures and controls as are necessary to ensure:</p> <p>(a) the Funds are used only in accordance with this Agreement;</p> <p>(b) all dealings with the Funds are properly authorised, conducted and accounted for; and</p> <p>(c) an auditor is able to readily verify that the Funds have been used only in accordance with this Agreement.</p>	<p>The company has established systems and procedures to control and record the use of funds. Accounting systems Great Plains (AWI) and SAP (TWC) are the primary accounting systems, with Matilda used to support the management of projects. The company's financial delegations clearly identify the authorisations applicable for the employees and these are supported by internal controls on all contracts, invoice approvals and payments. The financial statements have been audited by PricewaterhouseCoopers and internal audits have been carried out by Deloitte on key processes. The financial audits were unqualified and the internal audits of processes by Deloitte identified a small number of minor control weaknesses / opportunities for improvement identified.</p>

Section reference	Matter	Review team observations and supporting evidence
4.2	The company must notify the Commonwealth, on request, of the details of the systems, procedures and controls established in accordance with paragraph 4.1.	<p>AWI informed the review team that no requests have been received from DAFF for details of systems, procedures or controls in this period.</p> <p>DAFF reported that AWI had met the requirements of the SFA.</p>
4.3	<p>The company must:</p> <p>(a) keep complete and detailed accounts and records of receipt, use and expenditure of the Funds in accordance with good accounting practice including all applicable Australian accounting standards;</p> <p>(b) keep the accounts and records referred to in paragraph (a) separately in relation to Research and Development Payments and Commonwealth Matching Payments; and</p> <p>(c) keep accounts and records in relation to the Funds identifiably separate from other accounts and records of the company.</p>	AWI informed the review team that it maintains detailed records of all transaction relating to the R&D payment and the Commonwealth Matching payments. PwC audit these records on an annual basis and have given written confirmation of compliance.
5.1	<p>5.1 The company may spend or otherwise apply the Wool Levy Funds, for the benefit of Australian wool growers, only for or in relation to:</p> <p>5.1.1 Research and Development Activities;</p> <p>5.1.2 Costs associated with consulting with Industry and the international wool industry;</p> <p>5.1.3 managing the Funds and risks related to the company's expenditure and ongoing funding;</p> <p>5.1.4 providing Industry services not otherwise widely commercially available to wool growers</p>	AWI provided the review team with analysis actual expenditure, including expenditure for research, development, marketing, innovation and communications including the costs associated with consulting with industry. This analysis is provided in Section 1.1 and Appendix 4.

Section reference	Matter	Review team observations and supporting evidence
5.3	<p>The company must spend the Funds in a manner that is consistent with the:</p> <p>(a) Outcomes of the most recent Poll of Australian wool growers (Schedule 3). This does not preclude the company from spending funds to address issues which may emerge between Polls. Any significant changes to company activities should be dealt with in consultation with the Minister;</p> <p>(b) Company's strategic plan;</p> <p>(c) Company's operational plan;</p> <p>(d) Guidelines (to the extent applicable to the type of expenditure concerned);</p>	<p>AWI provided the review team with analysis of planned and actual expenditure against WoolPoll 2006 outcomes and the company's annual operating plans. This analysis is provided in Section 1.1 and Appendix 4.</p>
5.4	<p>The company must not engage in Agri-Political Activity.</p>	<p>AWI provided the Review Team with the following written statement.</p> <p>"To the best of our collective knowledge (as at the 10th Aug 2009) the company has not engaged in Agri-political activity during the review period"</p>
5.5	<p>The company shall not spend the Funds on making payments to Industry representative bodies which are established for the purpose of, or are substantially engaged in, Agri-Political Activity.</p>	<p>AWI confirmed to the Review Team that no grants or financial assistance has been provided to any body that represents Wool growers over the period July 2006 to June 2009.</p>

Section reference	Matter	Review team observations and supporting evidence
8.2	<p>The company must maintain and update a record of:</p> <p>(a) the name (which may be a business name) and address of each person who would be eligible to vote at that time on a Poll pursuant to the Poll Regulations; and</p> <p>(b) the voting entitlements of each such person on a Poll pursuant to the Poll Regulations;</p> <p>to the extent such voting entitlements arise from the payment of Levy on or after the Conversion Time.</p>	<p>Such a register is kept. See response to Section 4.2 of the Constitution.</p>
8.3	<p>If the company conducts a Poll it must do so in accordance with the Poll Regulations.</p>	<p>For detailed response <i>See specific Wool Poll Regulation requirements below.</i></p>
10.1	<p>The company must use its reasonable endeavours to ensure:</p> <p>(a) Levy Payers who are not shareholders of the company are advised annually of their entitlement to become, and how they may become, shareholders of the company; and</p> <p>(b) the shareholders of the company comprise a substantial proportion of all Levy Payers.</p>	<p>AWI advises the review team that each September letters are sent to non-shareholder levy payers, encouraging them to become shareholders. The review team sighted an example of such a letter.</p> <p>As at June 2009 there are 69,205 levy payers recorded in the register. Of these 29,760 are shareholders and 16,692 are eligible to become shareholders. Current shareholders represent 64% of those eligible.</p>

Section reference	Matter	Review team observations and supporting evidence
11.1	<p>The company shall:</p> <p>(a) give the Commonwealth a copy of each notice of a motion to modify the company's constitution, at the same time as it gives notice of the motion to its members; and</p> <p>(b) as soon as practicable after any modification of the company's constitution is made, give the Commonwealth notice setting out the modification and explaining its effect.</p>	<p>DAFF verified that AWI met the obligations expected under the Statutory Funding Agreement.</p>
12.1	<p>The company must:</p> <p>(a) develop a written three to five year strategic plan by 1 July 2007;</p> <p>(b) review the strategic plan and update the plan as necessary at least once every year;</p> <p>(c) make the strategic plan generally available to Levy Payers; and</p> <p>(d) within 28 days from the date the company passes a resolution to accept the strategic plan, provide the Minister with a copy of any strategic plan or updated strategic plan.</p>	<p>AWI has had 3 strategic plans in place over the review period. These plans are:</p> <ul style="list-style-type: none"> • 2004-2009 (2005 Update), adopted 16 June 2005 • 2007-2012, adopted 24 May 2007 • 2008/9-10/11, adopted 14 August 2008 <p>These plans have been made available to levy payers via AWI's website.</p> <p>DAFF verifies that updated strategic plans have been provided to the Minister.</p>

Section reference	Matter	Review team observations and supporting evidence
12.3	<p>In developing and updating the strategic plan the company must:</p> <p>(a) consult the Minister, or his or her representative;</p> <p>(b) use reasonable endeavours to consult with Levy Payers and representatives of Industry; and</p> <p>(c) take into account the Research and Development Priorities and Guidelines.</p>	<p>DAFF verified that the Minister (or representative) was consulted in developing and updating strategic plans.</p> <p>For each plan AWI has conducted a one-day industry briefing / consultation.</p> <p>Strategic plans display evidence of some consideration of the Research and Development Priorities and Guidelines.</p>
13.1	<p>The company must prior to 1 July each year, commencing 2008, provide to the Minister a copy of the operational plan.</p>	<p>Operational plans for each year have been developed.</p> <p>DAFF verifies that plans have been provided to the Minister.</p>
14.1	<p>The company must implement the following plans:</p> <p>(a) a Risk Management Plan;</p> <p>(b) a Fraud Control Plan; and</p> <p>(c) an Intellectual Property Management Plan.</p> <p>The company must review each plan at intervals of no more than three years and must, within 28 days after the date its directors pass a resolution to accept a plan or an amendment to a plan, provide the Minister with a copy of the plan or amended plan.</p>	<p>The company has developed and implemented a risk management, fraud control and Intellectual Property Management Plan.</p> <p>The current Risk Management Plan is dated January 2007. A risk plan was developed for the Woolmark Company in February 2008.</p>

Section reference	Matter	Review team observations and supporting evidence
		<p>AWI developed a Fraud Control Plan in February 2005. AWI asserts that the plan is reviewed annually. The Review Team has not been provided with an updated plan.</p> <p>AWI provided the Review Team with the following written statement:</p> <p>“To the best of our collective knowledge (as at the 10th Aug 2009) there has been no incidents of fraud during the review period”</p> <p>The current IP Management Plan was developed in June 2008. The previous version of AWI’s IP Management Plan was dated June 2005.</p>
15.1	The company must provide the Minister with four copies of an Annual Report prepared in accordance with Schedule 2 at the same time as the Corporations Act 2001 (Cth) requires it to be given to members	DAFF verifies that AWI has met its obligations under the SFA.
15.2	The chairperson of the company, or in his or her absence, his or her company Board nominee must meet with the Minister or, in his or her absence, his or her nominee at not less than six-monthly intervals	DAFF verified that such meetings had taken place.

Section reference	Matter	Review team observations and supporting evidence
15.3	The company Chief Executive Officer or Managing Director, or his or her nominated representative, must meet with officers from the Department at least once each quarter to discuss matters relating to this Agreement	DAFF verified that such meetings had taken place.
17.1	Prior to any Poll the company must: (a) engage an independent organisation to undertake a Performance Review in accordance with the requirements of this Agreement and, prepare a report on all matters of the Performance Review (Performance Review Report); (b) forward the Performance Review Report to the Minister prior to the Poll (who may provide a copy of the Performance Review Report to members of the Commonwealth Parliament); (c) publish the Performance Review Report on the company's website at least 28 days prior to sending out	Such a review was published in August 2006, prior to WoolPoll 2006. This review has been commissioned prior to WoolPoll 2009.
18.1	The company must give the Minister a copy of its audited financial report for the financial year at the same time as the Corporations Act 2001 (Cth) requires the company Annual Report to be given to members.	AWI informed the review team that audited financial reports were submitted to DAFF within the prescribed timed limits. DAFF verified that reports had been provided to the Minister.

Section reference	Matter	Review team observations and supporting evidence
18.6	The company must, within 5 months after the end of its financial year, give the Minister a report signed by the chairperson of the directors and the Chief Executive Officer or Managing Director of the company: (a) certifying whether the company has complied with its obligations under the Act and this Agreement during the financial year; (b) stating whether, in their opinion, any non-compliances are material; and (c) if any non-compliances are, in their opinion, material, giving an explanation of the non-compliance.	DAFF verified that reports had been provided to the Minister.
19.2	If a conflict of interest or risk of a conflict of interest arises in the performance of the company's obligations under this Agreement, the company must notify the Minister or his or her authorised representative of that conflict or risk and take steps acceptable to the Minister or authorised representative to resolve or avoid the conflict.	DAFF verified that no reports had been provided to the Minister.

WOOL SERVICES PRIVATISATION (WOOL LEVY POLL) REGULATIONS 2003

Note: this assessment relates to the conduct of the 2006 WoolPoll, which occurred during the review period. Assessment is based on review of The Final Report of the WoolPoll 2006 Panel and the Voter Information Pack.

Section reference	Matter	Review team observations and supporting evidence
7(1) and (2)	Before conducting a poll, the research body must determine a cut-off date, and a return date, for the poll. The cut-off date must be at least 8 weeks before the return date.	Voting entitlement cut-off August 28, Return date November 3.
7(3)	The research body may vary the return date to allow a reasonable amount of time for all eligible entities to return their ballot-papers to the research body before the return date.	The return date was not varied in 2006.

Section reference	Matter	Review team observations and supporting evidence
7(4)	<p>If the research body varies the return date for a poll under subregulation (3), the research body must:</p> <p>(a) tell every eligible entity who has not already returned its ballot-paper, in writing, the new return date for the poll; or</p> <p>(b) publish a notice, stating the new return date for the poll, in 1 or more newspapers that have circulation generally in areas where there are eligible entities.</p>	The return date was not varied in 2006.
8(1)	The research body must determine, as at the cut-off date, the eligibility to vote, and voting entitlement, of each entity who is to participate in the poll.	The voting entitlement was determined by Link Market Services.
9(1)	The research body must propose 3 to 5 different rates of wool levy at the poll, including a zero rate.	At the 2006 WoolPoll, AWI proposed 5 different rates, including a zero rate.
10	<p>Not later than 6 weeks before the return date, but after the cut-off date, for a poll, the research body must send to each eligible entity:</p> <p>(a) a ballot-paper; and</p> <p>(b) copy of the voting instructions; and</p> <p>(c) a copy of the information memorandum; and</p> <p>(d) a reply-paid envelope, addressed to the research body, for the return of the ballot-paper.</p>	The Voter Information Pack was mailed on September 14. It included each of these requirements. This is more than 6 weeks before the return date.

Section reference	Matter	Review team observations and supporting evidence
11	<p>(1) The ballot-paper sent to each entity must set out:</p> <ul style="list-style-type: none"> (a) the name of the entity; and (b) the entity's voting entitlement; and (c) the rates proposed by the research body. <p>(2) The ballot-paper approved under regulation 14 may be made available for voting in electronic form using the Internet, at an address stated in the voting instructions.</p>	<p>The Voter Information Pack included a ballot paper.</p> <p>The Review Team sighted a copy of the 2006 ballot paper. It contained the required elements.</p>
13	<p>The information memorandum must set out:</p> <ul style="list-style-type: none"> (a) for each of the rates listed on the ballot-paper: <ul style="list-style-type: none"> (i) the amount of funds the research body estimates it will receive under the funding contract if that rate is adopted; and (ii) how the research body proposes to expend those funds; and (b) the research body's recommended rate from among the rates listed on the ballot-paper; and (c) the reasons for the research body's recommendation; and (d) any other information the research body considers appropriate. 	<p>The 2006 WoolPoll Voter Information Pack sighted by the review team included each of these requirements.</p>

Section reference	Matter	Review team observations and supporting evidence
14(1)	The ballot-paper, voting instructions and information memorandum must be in a form approved by the Minister.	<p>DAFF verified that AWI met its reporting obligations for WoolPoll 2006.</p> <p>The Review Team sighted correspondence from the Minister approving the documents.</p>
14(2)	The research body must submit a draft of the ballot-paper, voting instructions and information memorandum that are to be used at a poll to the Minister for approval.	DAFF verified that AWI met its reporting obligations for WoolPoll 2006.
17	<p>(1) The research body must appoint an individual with relevant expertise to be the returning officer.</p> <p>(2) The returning officer must not be:</p> <p>(a) an employee of the research body; or</p> <p>(b) an entity, or an associate of an entity, who is entitled to vote in the poll.</p>	Link Market Services was appointed the returning officer for the poll.