

AWI Independent Review Summary

Purpose of the document

This Independent Review is based on the Terms of Reference (TOR) provided by the Department of Agriculture and Water Resources (DAWR) on 23 March 2018 and is the required three yearly performance review of AWI prior to the WoolPoll. They have provided the framework for EY to report on AWI's performance and governance in delivering research, development, extension and marketing services, and to provide appropriate recommendations.

Approach

This Review was provided with significant stakeholder input and feedback, as well as information from AWI:



415

Surveys

- ▶ An independent woolgrower survey undertaken by EY Sweeney, a fully integrated research business of EY



56

Written Submissions

- ▶ 56 written submissions were received



110

Stakeholders Interviewed

- ▶ Including AWI, Government stakeholders, woolgrowers, industry representative bodies; and major international players in the wool industry



>1300

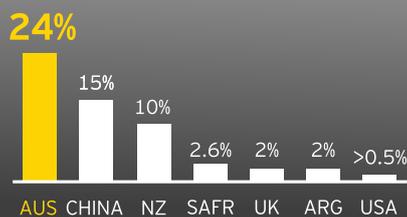
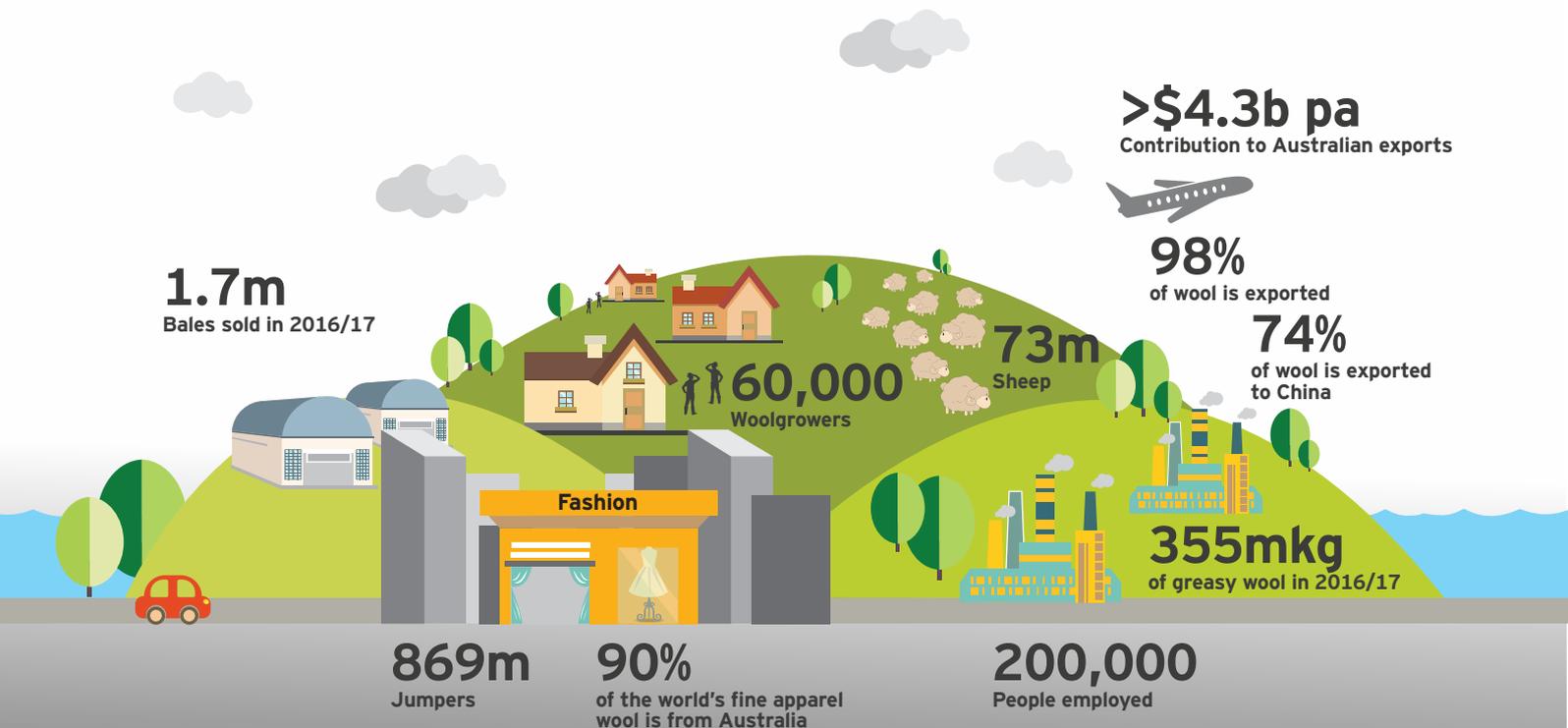
Documents

- ▶ Over 1300 documents were provided by AWI

Table of Contents

01	Wool industry's contribution to the Australian economy	02	Review findings	03	12 Key themes of recommendations
04	Key success enablers	05	Implementation timeline	06	Terms of Reference

01 | Wool industry's contribution to the Australian economy



Australia is the biggest global producer of clean wool, followed by China, New Zealand, South Africa, UK, Argentina and USA

1.2%
of the global apparel market by volume

Wool as a luxury fibre makes up only **1.2% of the global apparel market by volume**, but 8% by value



Australia produces predominately **Merino wool** (for clothing) New Zealand produces predominantly broad wool (for carpets)

▶ Consumers are increasingly preferring sustainable fibres and to have an understanding of provenance

Increasing competition with other fibres that can be used as materials for clothing ◀

▶ Designer brands are increasingly responding to changing consumer preferences, such as consumers' desire for sustainable fibres

Digital disruption is changing the traditional operations and supply chain of the wool industry ◀



Woolgrowers have long recognised the **importance of investing collectively** in their livelihoods, with wool being the first to **introduce a levy** for R&D and promotion back in 1936

02 | Review findings

Achievements

- ▶ The Woolmark logo is the **most recognised** textile logo globally
- ▶ Woolgrowers perceive the key strengths of AWI are the promotion / marketing (37%) of wool products, and representing woolgrowers' best interests (19%). However, only one in seven (14%) woolgrowers nominate research and development as a key strength of AWI



- ▶ AWI has a strong reputation for its marketing activities. AWI is the custodian of the internationally recognised Woolmark brand and its work with international fashion designers, innovations in product development and promotion of the properties of wool have supported the promotion of wool in the apparel industry



- ▶ The Strategic Plan has a well-defined portfolio structure covering five investment areas that align to AWI's focus on marketing and research activities. These investments include many areas of important innovation across the whole wool supply chain
- ▶ AWI's 2015-16 Annual Operating Plan detailed the marketing measurement model. This is a positive step toward delivering effective measurement and evaluation for stakeholders, inclusive of a quantitative benefit metric
- ▶ AWI has increased its number of engagement, consultation and communication initiatives since the last Strategic Planning period via the introduction of the Yarn podcast, WOOL magazine, and industry and student educational events. The addition of these methods has strengthened AWI's ability to connect with wool industry stakeholders
- ▶ AWI's employees are of a high calibre, with a strong commitment in delivering high quality innovations and experience that spans the entirety of the wool industry value chain
- ▶ In 2016-17, AWI collaborated to a certain extent with various RDC's and other research entities, such as industry organisations, CSIRO, universities, commercial partners and the Department of Agriculture and Water Resources



Areas for improvement

AWI has performed well in many regards, but, as with most organisations, many opportunities exist for its improved performance in the future:

- ▶ Stakeholders and independent woolgrower research indicated that Return on Investment transparency is a key area for improvement. Some concerns were expressed relating to lack of alignment regarding the role of AWI within the industry
- ▶ More explicit and transparent communication is required regarding how AWI incorporates levy payer input and how decisions which are made
- ▶ The Monitoring and Evaluation framework has not been updated in over four years and is not being consistently used across AWI
- ▶ Much more needs to be done by AWI to ensure effective consultation with industry representative organisations and other stakeholders. There is a need to improve the quality and trust of AWI's relationships with the industry, including enhanced industry input into AWI's operations to better reflect the needs of the industry, and improved transparency of project delivered and their benefits
- ▶ AWI's Constitution should be updated to remain relevant with the current purpose of the organisation and reflect best practice in corporate governance. The continuing development of a broad skills based AWI Board is critical to the industry's long-term success. The Review also recommends that Directors be limited to 10 year tenure, with a minimum two year "roll off" period if they seek to return to the Board
- ▶ The current process for member selection of the BNC is inappropriate as the Chair of the Board has a substantial influence over the membership of the Committee, which then reviews potential candidates for Director roles
- ▶ The need for more efficient and effective spend through collaboration with other RDCs and research bodies was a strong theme in stakeholder interviews. Particular areas of focus cited by several stakeholders goes to collaboration regarding the genetics of wool traits in sheep, and greater efforts to address areas vulnerable to social licence concerns
- ▶ Grower representation on the AWI Board is required as per the skills outlined in the SFA and will be important to the success of AWI. The Review notes that additional skills are critical, including digital, market access and supply chain innovation
- ▶ There is an opportunity to establish greater transparency of how open proxies are used. The current process of using proxies, particularly for the election of Directors, has led to an amount of stakeholder distrust and is not in line with good governance behaviours

03 | 12 Key themes of recommendations

The Review makes 82 recommendations which broadly fit into the following 12 themes.

AWI's purpose and role in the industry should be better defined

A 'purpose statement' that clearly outlines the role of AWI in the industry will benefit both AWI and their key stakeholders. AWI should ensure that it is making investments in areas where market failure has been demonstrated and will continue to occur in alignment with their role as an RDC.

1.



AWI should prepare a long term Strategic Plan

The world is rapidly changing and successful organisations need to develop a long term strategy to sustain growth. Longer term 10-year Strategic Planning will enable AWI and the industry to co-design the future of the research and marketing needs of the industry. Research and marketing priorities should seek to mitigate risks and optimise opportunities across the entire industry. This plan should be regularly reviewed.

2.



Stakeholder consultation arrangements should be improved

Enhancing the quality of AWI's communication and relationships with key industry representative organisations and other stakeholders should be a priority, as this impacts many other aspects of AWI and its operations. Effective and respectful stakeholder engagement should be a key corporate asset for AWI. The current ICC arrangements should be significantly improved.

3.



Monitoring and evaluation should be improved

There will need to be improved disclosure of the methodology and assumptions made in monitoring and evaluation of projects, and better disclosure and strong links between investment dollars and benefits and outcomes for all groups of levy payers. The M&E framework should be systematically and explicitly used to improve decision making regarding levy payer funds.

4.



There should be more and better collaboration with other RDCs and research bodies for improved efficiency of research spending

Adoption of a "collaboration first" approach should be a strategic pillar of AWI. Enhancing the quality of AWI's relationships with potential research collaborators will enable AWI to collaborate in more ways with other relevant RDCs and research bodies, to better invest woolgrower and taxpayer funds, and see better research outcomes.

5.



Governance arrangements should be updated

A number of significant changes should occur to AWI's governance arrangements in order for woolgrowers to have the best possible RD&M organisation, and in view of continuing developments in expectations of Board performance and corporate governance in Australia. This includes a maximum of 10 year terms for Directors. Specific examples are included in themes 7 and 8.

6.



The Director nomination and election processes should change to enable a broader skills based Board

The implementation of a broader skills based Board should be accelerated through a more independent Board Nomination Committee. Open proxies should be voted in favour of Board candidates recommended by the BNC.

7.



Constitutional changes are required to support good corporate governance

Changes to the Constitution would support high levels of good governance in the organisation. This is a requirement given the clear expectations of regulators and the community of Board performance, especially as AWI is funded by compulsory levies and tax payer funds.

8.



Employment practices should be updated and strengthened

Updated policies are required relating to engagement of former staff as contractors, particularly those staff who have been made redundant. More regular remuneration benchmarking will make sure that executive salaries remain in line with the AWI remuneration policy.

9.



Risk and compliance practices should be strengthened

There is an opportunity to strengthen compliance reporting against the SFA to make sure that reporting is against all obligations, so that it can be appropriately monitored.

10.



Implementation of the recommendations in this Review should be regularly assessed and reported upon

The effective implementation of the recommendations in this Review requires a culture and behaviours that embrace uplift. There should be an implementation progress review commissioned by DAWR and AWI in 12 months' time, with the results published in advance of the 2019 AWI AGM.

11.



AWI funding by levy payers

A shift in the WoolPoll mechanism could be contemplated to reduce the frequency from three years to five years. This would give longer term funding certainty to AWI, encourage long term investments in research, and reduce the costs of the WoolPoll. DAWR should consult with industry representative organisations and directly with woolgrowers about this.

12.



04 | Key success enablers

We have identified several factors that may affect the implementation of the recommendations in a positive manner:

- ▶ A **culture** that encompasses responsiveness in implementing these changes and seeks to change in partnership with key stakeholders in a collaborative way, co-design of solutions, proactive and regular communication with all key stakeholders and always acting with behaviour that exhibits accountability, integrity, stewardship, respect and transparency
- ▶ Effective **leadership** that demonstrates the ability to embrace change, builds trust, strong communication skills, honesty, integrity and delegation and empowerment
- ▶ Clear **ownership and governance** of the implementation of these changes. We recommend allocating this to a committee of the Board that can provide regular reports to the CEO and the Board. Engagement with external stakeholders will be critical and should be fundamental to the governance arrangements. Key roles that should be defined for this transformation could include an executive sponsor, project manager and stakeholder manager
- ▶ Regular and robust **reporting** should be performed so there is regular visibility of progress
- ▶ Maintain **accountability** of the Board to levy payers and the Department throughout the implementation
- ▶ Regular and frequent and effective **stakeholder consultations**

AWI should continue with its existing services and projects whilst addressing these recommendations. Together, the recommendations the Review has made are intended to deliver an organisation that is high performing and delivers benefits to members. Changes should not just be implemented through additional roles and cost. Most of our recommendations relate to the conduct of existing roles, processes and behaviours. It is critical for AWI to transform how these are done as the successful implementation should result in a range of benefits (e.g. efficiency and quality of implementation).

05 | Implementation timeline

The changes recommended in the Review should be implemented with vigour and in a consultative manner, in a way that would be expected of a public organisation of this type.



06 | Terms of Reference

The Review has been undertaken in accordance with the following Terms of Reference:

“The Review will consider the Terms of Reference (TOR) below, which are in accordance with the Statutory Funding Agreement (SFA) and have been agreed in consultation with the Government. These TOR require a review of AWI’s performance and governance in delivering research, development, extension and marketing services, as well as corporate governance, the Constitution, the Replaceable Rules, handling and reporting of proxies, the Board Nomination Committee selection, and employment practices. Appropriate recommendations were provided based on the findings on the Terms of Reference.

Performance Review

1. Consider AWI’s performance in delivering research, development, extension and marketing services. This will include consideration of the performance of AWI in:
 - a. meeting its obligations under its Statutory Funding Agreement 2016-20 with the Commonwealth and the Wool Services Privatisation Act 2000
 - b. Implementing governance arrangements and practices that ensure proper use and management of funds
 - c. Meeting the planned outcomes and targets of its Strategic Plan
 - d. Delivering benefits to woolgrowers and, where appropriate, the community in general (including the achieved value for money and return on investment and the contribution of its investments to increasing farm-gate returns)
 - e. Engaging, consulting, and communicating with stakeholders, including the opportunities for levy payers and industry representative bodies regarding the investment of levies
 - f. Monitoring and evaluation of investments (including whether its current framework is adequate and links to its current Strategic Plan)
 - g. Cross-RDC collaboration.
2. Consider AWI’s effectiveness in addressing and implementing the recommendations from the 2012-2015 performance review.

Additional Matters

3. Consider whether AWI’s corporate governance framework (including the Board Charter and the charters, codes of conduct and policies approved by the Board under its Charter):
 - a. is appropriate for a company of its type
 - b. is effective, transparent and accountable
 - c. has appropriately drawn upon the ASX Corporate Governance Principles (or other relevant better practice guides) when applicable to AWI
 - d. is appropriately documented and provides adequate guidance for company officers to effectively implement governance requirements (such as in avoiding and managing conflicts of interest and addressing potential breaches of the Code of Conduct)
 - e. has been appropriately implemented
 - f. provides for an appropriate definition of Independent Director and has effective procedures for determining the independence of Directors.
4. In considering AWI Corporate Governance Framework, (term of reference 3), specifically consider whether AWI’s Constitution:
 - a. is appropriate for a company of its type
 - b. appropriately covers the company’s current activities
 - c. in conjunction with the SFA - supports the selection of a skills-based Board with skills relevant to undertaking its roles and functions for the benefit of woolgrowers.
5. Consider whether the replaceable rules in the Corporations Act 2001 should apply under the AWI Constitution.
6. Consider whether AWI’s handling of proxies and reporting of proxies, and the manner in which Board Nomination Committee members are selected is appropriate for a company of its type (as outlined above) and sufficiently transparent.
7. Consider whether AWI’s employment practices are appropriate, including whether the:
 - a. engagement of former staff as contractors is undertaken appropriately for a company of its type
 - b. redundancy benefits and policies are appropriate for a company of its type
 - c. executive level remuneration is appropriate for a company of its type.”

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