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# **Australian Wool Innovation**

Report for One Year On Review  
of Performance

Final Report

November 2010



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## Executive Summary

### **Purpose and Approach**

This report is a One Year On Review of Performance of Australian Wool Innovation (AWI) completed by GHD. This review is in response to a recommendation of the Three Year Review of Performance of AWI conducted in 2009 and is a requirement of the Statutory Funding Agreement (SFA) between AWI and the Commonwealth. The Terms of Reference for this Review were to:

- ▶ Assess AWI's progress in implementing the recommendations of the Three Year Performance Review; and
- ▶ Assess the improvement in AWI's operations from 1 July 2009 to 30 June 2010, i.e. the period since the Three Year Performance Review was conducted.

GHD constructed an analytical framework to guide the Review. The framework listed each of the ten recommendations of the Three Year Review and adopted detailed evaluation criteria against which progress was measured. Progress was measured as: actions completed; actions in progress; and the likelihood of actions being achieved to inform the next levy poll in 2012. The assessment was completed via a desktop analysis of relevant AWI documents and consultation with AWI Board members and senior staff; staff of the Department of Agriculture, Fisheries and Forestry; and representatives of the Wool Industry Consultative Committee and Animal Welfare Forum. Consultation was completed during October 2010.

### **Summary and Recommendations**

AWI has made a number of significant changes to its processes and operations based on the recommendations of the three year performance review. Additionally, positive changes have also been made by the Board and Management in response to opportunities identified during the most recent strategic planning cycle.

While a number of the changes have been completed, there are several areas in which change is in progress and a few where change has not yet commenced (although plans are in place to make change).

The consultant considers that implementation of the recommendations has resulted in improved company processes that will ultimately lead to demonstrable outcomes for levy payers and other stakeholders (R&D, marketing, retailing). Our consultation found that stakeholders have acknowledged the genuine efforts of AWI to adopt the review recommendations and have generally been pleased with the direction of change.

For those areas where change has not been completed, it would be detrimental to levy payers and other stakeholders if efforts were not continued to ensure the complete adoption of all recommendations prior to Wool Poll 2012.

GHD supports AWI's intention to conduct a further formal review to be completed in December 2011.

The review should consider progress towards original review recommendations and the following critical issues identified through this review:



#### Stakeholder engagement

- ▶ Evidence that stakeholders are appropriately engaged in strategy and that relationships are effective.

#### Strategy process

- ▶ Strategy process is documented, followed and stakeholders effectively engaged.

#### Evaluation framework

- ▶ The framework is fully implemented to provide the foundation for monitoring, evaluating and reporting performance at program and company scales.

#### Skills Based Board

- ▶ The procedures for electing a skills based board are ready to be implemented and understood by shareholders and stakeholders.

### **Results Against Three Performance Review Recommendations**

AWI's progress towards implementing the recommendations are summarised below and rated as follows:

- ▶ **Completed** – work to address recommendation completed and no further action required
- ▶ **In Progress** – work in progress will address the recommendation before 2012, and
- ▶ **Partial** – work in progress and improvement identified to address the recommendation.

***Recommendation 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.***

AWI released both its *Strategic Plan 2010-2013* and *Operating Plan 2010-2011* in July 2010. The Strategic Plan includes a business model that reflects its mission statement.

*AWI's mission is to invest in research, development, marketing and promotion in order to:*

- 1. Enhance the profitability, international competitiveness and sustainability of the Australian Wool Industry; and*
- 2. Increase demand and market access for Australian Wool*

The strategic and operating plans are consistent with the outcome of WoolPoll 2009 where levy payers indicated AWI should balance its investment as 50% Research & Development (on-farm and off-farm) and 50% marketing.

AWI has also updated its *Communications Strategy* to ensure that its stakeholders (levy payers, government and post-farm industry participants) are involved in planning and receive frequent updates of activities. The September 2010 issue of *Beyond the Bale* includes a prominent article on the Strategic Plan and highlights AWI's vision, goal, mission, business objectives and business model (including funding split).



**Review Outcome – Completed:** Recommendation mostly completed with feedback from stakeholders in the future required to confirm success.

***Recommendation 2: AWI should embark on an appropriately designed strategy setting process to provide a clear and detailed plan for the company.***

The process for strategy setting is outlined in the SFA which requires that AWI consult with government, levy payers and other industry representatives and the process is well documented in the strategic plan. Stakeholder engagement to develop the plans commenced in December 2009 with a Woolgrower Forum held in Sydney. From then until May 2010, AWI consulted widely with woolgrowers as well as trade and retail partners to determine priorities.

The process has been assisted by a project evaluation framework developed by PriceWaterhouseCoopers that AWI has used since May 2010. The framework allows measurement of environmental, economic and social aspects of projects for assessing returns on investment.

Guidelines for staff for future strategy setting processes are being prepared and should ensure improved efficiency and outcomes for future plans.

**Review Outcome: - Partial:** Recommendation mostly completed with Guidelines for staff involvement in strategy setting to be completed.

***Recommendation 3: To support this, AWI should 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.***

The PriceWaterhouseCoopers project evaluation framework described above has been introduced and will be used in the future to ensure returns on investment and value to levy payers.

In addition, staff job descriptions are being updated to reflect their roles and responsibilities in planning and evaluation. This will ensure a more formal approach to assessment is in place which should result in more consistent implementation outcomes.

An internal monitoring and evaluation process has been established to measure the results of the above and improve where necessary.

**Review Outcome - Partial:** Processes in place to achieve recommendation with reporting of outcomes to levy payers to be completed in the future.

***Recommendation 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.***

The strategic plan includes an *Annual Consultation Cycle* with shareholders and stakeholders. AWI provided evidence of meetings with stakeholders in excess of those planned. Two key consultative groups have been established: the Woolgrower Industry Consultative Committee (ICC) and the Animal Welfare Forum. The ICC has met on two occasions in 2010 with a further meeting scheduled for November.



An Expert Marketing Panel and the Italian Industry Leaders Group were established in March 2010, with plans for the Leaders Group to be expanded in 2011 with representatives from the UK, USA, China and Japan. AWI has also had meetings with the National Retail Federation (US) and British Retail Consortium in relation to mulesing issues.

Combined with its statutory requirements to hold regular meetings with DAFF, AWI has engaged constructively with stakeholders.

**Review outcome - Partial:** Sufficient stakeholder groups established with feedback from those groups now required to measure effectiveness.

**Recommendation 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.*

This was partly discussed in Recommendation 3 above. In addition to the project evaluation framework, AWI has also introduced a comprehensive MERI (monitoring, evaluation, reporting, improve) program so that lessons learnt from past activities can be included in the future.

**Review outcome - Partial:** Recommendation completed with processes in place with responsibility now to report outcomes to levy payers and implement the Monitoring Evaluation Reporting and Improvement (MERI) program.

**Recommendation 6:** *AWI should review its structures and processes that operate in similar industry-owned companies as a means of considering improvements in its value creation to levy payers.*

AWI has reviewed both its structure and processes internally to ensure alignment with the strategic plan and to deliver cost savings. The *Strategic Plan 2010-2013* states that its focus will be on managing the transition to a leaner, more agile company with a new organisational structure and clear job descriptions.

Major changes have been made to the three regions (Asia, Europe and Americas). These roles have now been combined into a newly titled Global Business Development department in which previous roles of Country Manager and Key Account Management (KAM) have been reformulated and now have a business development focus. It is considered that such streamlining will improve the efficiency of reporting and result in a more cohesive approach to marketing.

New organisational structures have also been developed for the Product Development and Marketing & Communications departments. Other departments appear to have similar structures to previous years.

The AWI group of companies is comprised of 16 subsidiary companies with most of these being subsidiaries of The Woolmark Company (11 subsidiaries). A review of the corporate requirements has been undertaken and resulted in the closure of two subsidiary companies domiciled in Mexico and the combination of offices in Italy and India where both AWI and Woolmark had a presence. A further two companies in Austria and Switzerland have also been domiciled and will be closed. AWI will continue to investigate the merging of offices in other countries once all local laws and ownership of intellectual property have been satisfied.

AWI participates in the Council of Rural Research and Development Corporations, which includes operations harmonisation opportunities to improve efficiency.



The structural changes have assisted in achieving reductions to consolidated internal expenses (including employee and travel expenses) from \$48.8 million in 2008/09 to \$27.6 million in 2009/10.

**Review Outcome - Complete:** Recommendation mostly completed with continuing rationalisation of subsidiary companies into the future.

***Recommendation 7: The AWI Board comprehensively review its corporate governance practice and take steps to ensure that it meets modern expectations of good practice.***

AWI aligns its corporate governance practices with the ASX Corporate Governance Guidelines and Recommendations. The division of function between the board and management has been established, and, guidelines on all board and company procedures have been provided to the directors and a schedule of on-going review agreed to. The board is working with an external consultant to improve performance, including, developing a set of key performance indicators to measure and manage performance.

**Review Outcome – In Progress:** Recommendation mostly completed with continuing input by external consultant to achieve further improvements

***Recommendation 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.***

AWI will demonstrate a skills based Board by establishing a nominations committee rather than a change to the Constitution. Establishing a nominations committee is consistent with the *ASX Corporate Governance Council's Corporate Governance Principles and Recommendations* and, this approach was endorsed by the Government through the SFA.

The nominations committee will be comprised of two AWI Board members and three people who are not AWI Board members (thereby fulfilling the SFA requirement that the majority of the nominations committee are not directors of the company). The company has also stated:

- ▶ Each director will be expected to be multi-skilled and flexible;
- ▶ The optimal skill sets for new directors will be determined by the Board and published when applications for directorship are sought; and
- ▶ The Board nomination committee recommendations are anticipated to assist voting shareholders make decisions regarding election candidates.

AWI has also exchanged written correspondence with the NSW Farmers Association and Western Australian Farmers Federation regarding the company's board election process. These exchanges confirmed that contested elections will be encouraged and that there will be no changes to the company's Constitution.

**Review Outcome – In Progress:** Recommendation in progress with agreement to establish a nominations committee designed to ensure a skills based board.



***Recommendation 9: AWI comprehensively review its risk, fraud and intellectual property 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.***

Risk and Fraud plans have been updated following workshops with AWI staff. These updated plans were presented to the Board in February 2010 and sent to the Minister the following month. The new plans are subject to six monthly reviews by a board Committee, the first of which took place in April 2010. The Fraud Plan was clarified after review by DAFF to state that it applies to directors, employees, agents and contractors.

The IP plan is current and scheduled to be updated in line with the timeframe in the SFA. Risk is formally considered in the proposal and planning phases of projects.

Contracting and IP training is part of the staff induction process with user guides on the intranet. Internal staff training sessions are conducted annually (the last one occurring in October 2009). The Contracts Manager conducts regular contract audits with findings reported to the CEO.

All contracts must be reviewed by the Global Contracts Manager prior to execution, while from September 2010 all project proposals must be reviewed by the Global Brand and Licensing Manager for IP management.

**Review Outcome – In Progress:** Recommendation completed.

***Recommendation 10: AWI comprehensively document and communicate the actions the company is currently taking to improve business processes***

AWI has included business improvement objectives and actions in the current strategic plan with associated KPIs. The company intends to document progress against business improvements and the strategic plan KPIs once the evaluation framework is implemented.

Staff performance is currently monitored but a review of staff performance agreements has commenced and revisions in 2011 will include performance measures specifically aligned to the strategic plan.

**Review outcome – In progress:** Recommendation mostly completed with staff performance agreements to be updated in 2011.



# 1. Introduction

## 1.1 Background

Australian Wool Innovation (AWI) contracted GHD to undertake a One Year On Review of Performance of the company. This was in response to a recommendation of the Three Year Review of Performance of AWI, conducted by Arche Consulting (Arche) in 2009, which stated 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.'*

Under the Statutory Funding Agreement (SFA) between AWI and the Commonwealth, AWI is required to forward the One Year On Review of Performance to the Minister for Agriculture, Fisheries and Forestry by December 2010.

## 1.2 Recommendations of the Three Year Review

The recommendations of the 2006-2009 review of performance include:

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.
2. AWI should embark on an appropriately designed strategy setting process to provide a clear and detailed plan for the company.
3. To support this, AWI should 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 should review its structures and processes that operate in similar industry-owned companies as a 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 intellectual property 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.

### **1.3 Terms of Reference**

The Terms of Reference for this project are to:

- ▶ Assess AWI's progress in implementing the recommendations of the Three Year Performance Review; and
- ▶ Assess the improvement in AWI's operations from 1 July 2009 to 30 June 2010, i.e. the period since the Three Year Performance Review was conducted.

### **1.4 Structure of this Report**

The methodology used to undertake the project is described in Chapter 2. The framework developed to guide the analysis is also presented. The review findings, against each of the 2006 – 2009 Review of Performance recommendations, are detailed in Chapters 3 to 12. The conclusions of the review are summarised in Chapter 13. The recommendations arising from the review are also provided. Appendix A outlines a summary of stakeholder consultations for the period 1 July 2009 – 30 June 2010. Appendix B provides a list of the materials reviewed during the project. Appendix D documents the stakeholders consulted as part of the review process.



## 2. Review Methodology

### 2.1 Introduction

This chapter outlines the approach used to undertake the One Year On Review of Performance. It also presents the analytical framework used to guide the analysis.

### 2.2 Methodology

A 5-step methodology was used to complete the project:

- ▶ Inception;
- ▶ Desktop review of documents;
- ▶ Consultation with staff and stakeholders;
- ▶ Analysis; and
- ▶ Reporting and presentation.

The inception meeting provided an opportunity for the project team to meet with relevant AWI staff and discuss the project requirements in detail. Key materials were provided to the project team, to help inform the progress review. The potential AWI staff and stakeholders for consultation were also discussed.

Following the inception meeting, the draft analytical framework (presented in GHD's proposal) was modified to include evaluation criteria against each of the Three Year Review recommendations. The finalised evaluation framework is presented in Section 2.3 below.

A desktop review was undertaken to populate the analytical framework and identify any information gaps. The findings of the desktop review were presented to AWI. This enabled the company to provide the project team with additional relevant materials to help address identified gaps. It also allowed AWI to 'flag' how these information gaps could be addressed during the consultation phase. A list of the documents reviewed by the project team is provided at Appendix B.

Targeted consultation was undertaken with relevant AWI staff and external stakeholders to confirm information collected during the desktop review and to address gaps. The people who were consulted during the project are listed at Appendix D.



## 2.3 Analytical Framework

The framework used to guide the review is shown in Table 1.

**Table 1 Review framework**

Area	Summary of recommendations in 2006-2009 Review of Performance	Evaluation criteria
<b>Strategic direction</b>	Position and role in the industry	<ul style="list-style-type: none"> <li>▶ Vision and Mission statements that acknowledge increased focus on research, development and marketing activities.</li> <li>▶ Organisation chart defining role in industry and relationship with other industry participants</li> <li>▶ Communication via website, publications, meetings etc</li> <li>▶ Feedback confirming position/role understood</li> </ul>
	Strategy	<ul style="list-style-type: none"> <li>▶ Guidelines for staff when developing current strategic plan to ensure a systematic, consistent approach supported by analysis and consideration of options and effective engagement</li> <li>▶ Guidelines include a whole of company approach – not restricted to department or portfolio</li> <li>▶ Consistent and comparable benefit: cost analyses to guide strategy</li> </ul>
	Internal structures for planning and evaluation	<ul style="list-style-type: none"> <li>▶ List with titles of personnel involved in strategy setting</li> <li>▶ Staff job descriptions with strategy setting as a requirement</li> <li>▶ Guidelines established to ensure consistent approach across departments</li> <li>▶ Evidence that options developed for inclusion in the strategy with final selection based on analyses (e.g. benefit:cost) showing returns to levy payers</li> </ul>
<b>Operations</b>	Company structure and processes	<ul style="list-style-type: none"> <li>▶ Formal review of structures and processes – consultancy or internal</li> <li>▶ Reviews of subsidiary companies</li> <li>▶ Recognition in the Operational Plan of functions/changes of the 10 departments</li> <li>▶ Benchmarking with other RDCs for levy payers' return on investment</li> </ul>
	Engagement	<ul style="list-style-type: none"> <li>▶ Establishment of Woolgrower Industry Consultative Committee (ICC), Animal Welfare Forum (AWF) and other stakeholder groups where appropriate.</li> <li>▶ Sufficient scope and number of stakeholder</li> </ul>



Area	Summary of recommendations in 2006-2009 Review of Performance	Evaluation criteria
		<p>groups for core activities – on-farm and off-farm RD, and marketing</p> <ul style="list-style-type: none"> <li>▶ Formalised use of stakeholder engagement for strategy setting as opposed to ad hoc.</li> <li>▶ Evidence of stakeholder engagement in strategy setting – not just use of industry forums to inform direction.</li> <li>▶ Continuity of stakeholder engagement in strategy setting.</li> <li>▶ Regular communication with Government as outlined in the Statutory Funding Agreement (SFA).</li> <li>▶ Engagement with retailers.</li> </ul>
	Documentation and communication	<ul style="list-style-type: none"> <li>▶ Establishment of a performance framework</li> <li>▶ KPIs to measure outcomes</li> <li>▶ Evidence of linkage of KPIs from strategic plan to operating plan to staff performance agreements.</li> </ul>
<b>Governance</b>	Corporate governance	<ul style="list-style-type: none"> <li>▶ KPIs set for Board performance</li> <li>▶ Formal or informal reviews of the Board</li> <li>▶ Policy and procedures for corporate governance</li> </ul>
	Appointment of directors	<ul style="list-style-type: none"> <li>▶ Review process for appointment of directors completed to ensure a skills based Board</li> <li>▶ Shareholders/Stakeholders involved in the review</li> </ul>
	Risk, fraud and intellectual property	<ul style="list-style-type: none"> <li>▶ Review of plans completed</li> <li>▶ Education/communication of staff to ensure understanding of plans</li> <li>▶ Staff feedback on plans to identify consistent application</li> <li>▶ Company's IP and contracting procedures are consistent</li> </ul>
<b>Monitoring &amp; Evaluation</b>	Measurement and reporting	<ul style="list-style-type: none"> <li>▶ Monitoring, Evaluation, Reporting and Improvement framework developed</li> <li>▶ Reporting of performance to levy payers</li> <li>▶ Improvement in performance – learning from past results</li> </ul>



## 3. Position and Role in the Industry

### 3.1 Three Year Review Recommendation

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

### 3.2 Evaluation Criteria

The evaluation criteria for this recommendation are:

- ▶ Vision and Mission statements that acknowledge increased focus on research, development and marketing activities.
- ▶ Organisation chart defining role in industry and relationship with other industry participants.
- ▶ Communication via website, publications, meetings etc.
- ▶ Feedback confirming position/role understood.

### 3.3 Findings

#### 3.3.1 Vision and mission statements

AWI's *Strategic Plan 2010-2013*, *Operating Plan 2010-2011* (both released in July 2010) and *Annual Report 2009/10* (released in October 2010) articulate the company's vision and mission.

**Vision:**

*AWI will be a significant contributor to a vibrant, stable and profitable wool industry providing the world with the best natural fibre.*

**Mission:**

*AWI's mission is to invest in research, development, marketing and promotion in order to:*

3. *Enhance the profitability, international competitiveness and sustainability of the Australian Wool Industry; and*
4. *Increase demand and market access for Australian Wool.*

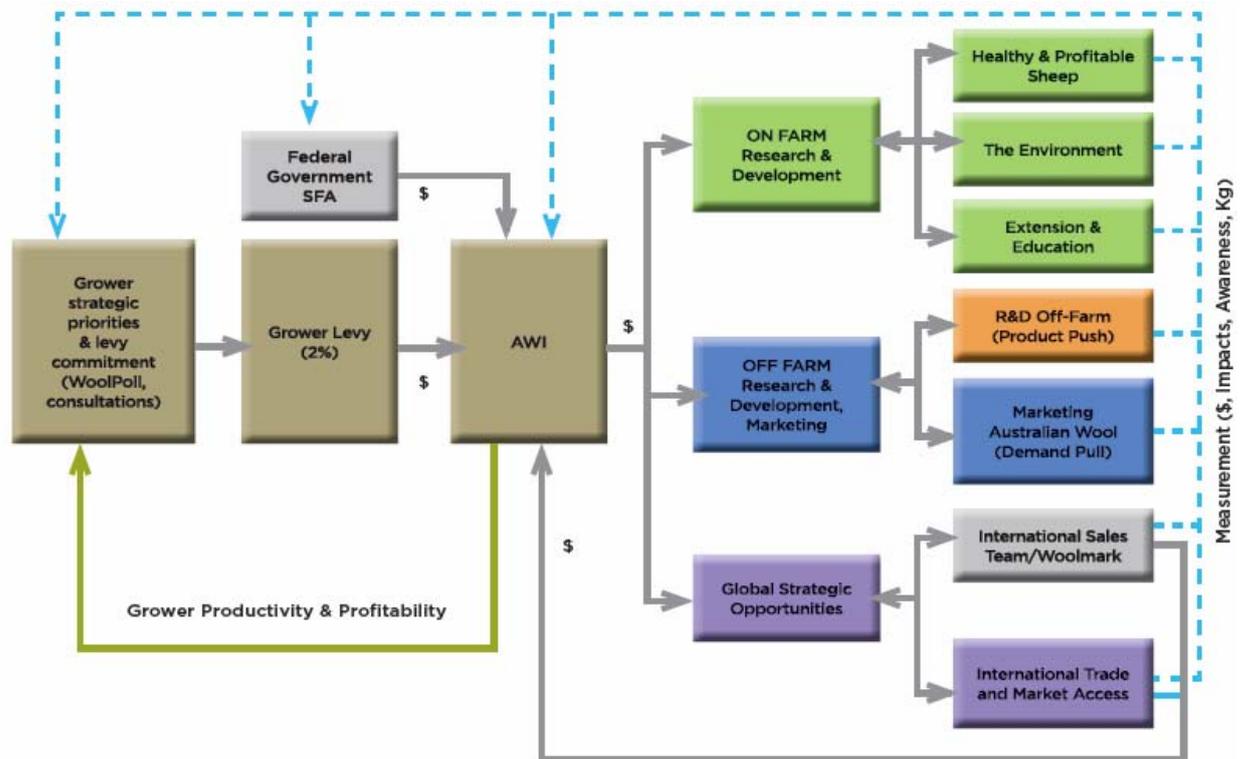
The company's focus on research, development and marketing is reinforced by its articulated goal, business model (Figure 1) and funding split (Figure 2).

**Goal:**

*To help increase the demand for wool through investments in marketing, innovations and R&D – from farm to fashion.*



**Figure 1 Business model**



Source: Australian Wool Innovation Strategic Plan 2010-2013

**Figure 2 Funding split**

Research and Development 50%		Marketing 50%	
On Farm R&D 30%	Off Farm R&D 20%	Off Farm Marketing 50%	
On Farm Activities 30%	Off Farm Activities 70%		

Source: Australian Wool Innovation Strategic Plan 2010-2013

According to the strategic and operating plans, the strategic priorities of the company reflect the outcome of WoolPoll 2009, whereby woolgrowers indicated that AWI should “focus on demand creation / marketing and on-farm improvements to profitability and management of wool growing enterprises.” The 50/50 funding split between RD&M was also endorsed by WoolPoll 2009.

AWI has five key strategic objectives:

1. Help build a sustainable Australian wool industry through improvements in productivity and profitability on farm.
2. Help increase demand for Australian Merino wool by recognising and addressing through off-farm R&D the product and process barriers to consumption at trade level through consumer-driven, targeted research, development and innovation programs (PUSH Strategies).



3. Help increase demand for Australian Merino wool by recognising and addressing the information barriers to consumption at consumer and trade level, and informing people the Merino wool fibre story. In short – implement PULL strategies.
4. Review the role and value of the Woolmark brand, revitalise it and, where markets and partners permit, maximise the presence and income streams of the brand.
5. Define threats and opportunities facing the Wool industry, and build strategies and programs to ensure market access, sustainable production and improved trading environment across the supply chain.

These are complemented by AWI's four key business objectives:

1. AWI will be a leaner, commercially oriented company with a sales and customer focused culture where every member of the team is either marketing wool and its attributes, or serving someone who is selling wool in its various forms as it moves through the supply chain.
2. In line with the reduced size of the industry, AWI will continue to actively review its size and resource base and reduce it wherever possible without compromising our ability to achieve our Vision and Goal.
3. Review the role of AWI brands (e.g. the Woolmark) and define a long term strategy to rebuild the brand and its value to consumers and trade.
4. Proactively review and manage current and potential issues impacting trade development, regulatory controls and in the period of this Strategic Plan, AWI will continue its efforts to identify and capture new revenue streams. We recognise that in the short term this is difficult, due to the diverse nature of the supply chain we must service, and the size of the challenges that confront us. We will however make every effort to enhance current revenue streams, and define new revenue streams.

It is noted that the mission statement included on AWI's website (*The mission of Australian Wool Innovation is to increase the demand for wool by actively selling Merino wool and its attributes through investments in marketing and R&D – from farm to fashion*) differs in wording from that used in the Strategic Plan, however there appears to be no real contradiction in the outcomes sought. Updating the website to reflect the information contained in the strategic and operating plans will improve the consistency of information provided to stakeholders. It is understood that the website is updated on an annual basis, after the release of the company's annual report (October 2010).

### **3.3.2 Organisation chart**

The strategic and annual operating plans define AWI's role as the industry's Research & Development and Marketing (RD&M) organisation. Updated internal organisation charts demonstrate how the company is structured to deliver this role and a corporate governance chart defines the functions of the board and management.

However there is no organisation chart which defines the role of the company with other industry participants. The inclusion of this in future plans would assist in highlighting AWI's role in the industry and its relationship with other industry participants.



### 3.3.3 Communication of the company's role

AWI updated its *Communications Strategy* in July 2010 following the development of the company's strategic and operating plans, and it states that the foundation of the strategy is AWI's role within the industry as a research, development and marketing organisation. The strategy also recognises that in order to be successfully implemented, AWI must "remain operating and speaking within the parameters of its role, therefore only engaging and commenting on issues relevant to AWI's RD&M role".

The five objectives of the strategy reinforce the company's focus on RD&M:

1. To clearly communicate AWI's role as the RD&M organisation for the Australian wool industry
  - Ensuring clear understanding of what AWI is responsible for and can influence
2. Building on AWI's Roadmap released in 2009, to develop and communicate AWI's R&D strategy for flystrike prevention to the Australian industry, government, retailers, brands and processors
  - Incorporate the R&D Roadmap with the industry's collective strategy to improve adoption
3. To provide woolgrowers and the domestic industry with information on supply chain (retailers, brands and processors) requirements
4. To communicate to retailers and stakeholders the industry's commitment to animal welfare and developing new flystrike management alternatives
5. To support retailers and brands with information and strategies that encourages their continued use of Australian Merino wool

The Communications Strategy documents AWI's implementation objectives for each quarter, identifies (and prioritises) the company's key influencers and stakeholders, and presents a SWOT analysis, an implementation plan and a stakeholder management plan.

The delivery of the Communications Strategy is via a range of periodic publications including *Beyond the Bale*; the *2009/10 Annual Report* (and four-page synopsis); quarterly updates to retailers, government and industry; and media releases.

The September 2010 issue of *Beyond the Bale* includes a prominent article on AWI's 2010-2013 Strategic Plan and highlights AWI's vision, goal, mission, business objectives and business model (including funding split). The five key strategic areas of the plan are also presented (i.e. Wool Industry R&D On-farm, Wool Industry R&D Off-farm, Marketing Australian Wool, International Sales Network / Woolmark, and International Trade and Market Access), along with their associated strategies.

AWI's *2009/10 Annual Report* clearly articulates the company's five strategic areas for the period 2010/11 – 2012/13 which focus on research, development and marketing. In the areas of 'Marketing and off-farm R&D' and 'On-farm R&D' the annual report also presents:

- ▶ Highlights for the year; and
- ▶ A detailed operational report, including agreed actions and the company's progress towards these.

AWI sends quarterly updates to retailers, government and industry through AWI's Industry Woolgrower Consultative Committee (ICC). These updates provide an opportunity for the company to reinforce its focus on research, development and marketing.

Media releases, which are released frequently and posted on AWI's website, have been used to communicate important company developments; workshops with wool growers to inform the company's



strategic planning process; and to report on the company's research, development and marketing activities.

#### **3.3.4 Feedback to confirm AWI's role**

Since the 2009 Wool Poll AWI has consistently communicated its role as the industry's RD&M organisation. Management report that this role is generally accepted and understood by all stakeholders and that overall the tighter focus is welcomed.

This was confirmed during the targeted consultation undertaken during this review, with the qualification that the challenge for the company is to maintain this focus into the future. There are reservations by some stakeholders that the board may become agri-political in the future.

### **3.4 Summary**

A summary of AWI's progress towards defining and communicating its position and role in the industry is presented in Table 2.

Overall AWI has defined its role as the industry's RD&M organisation and communicated this to stakeholders. The role is generally accepted, although stakeholders are reserving judgement on the effectiveness of this role until:

- ▶ The company maintains its tighter focus for a sustained period of time; and
- ▶ The benefits of the revised strategy are starting to be actually realised.



**Table 2 Position and role in the industry – Summary of performance**

Area	Summary of recommendations in 2006-2009 Review of Performance	Evaluation criteria	Actions completed	In progress	Likelihood of being achieved to inform Levy Poll 2012
<b>Strategic direction</b>	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.	<ul style="list-style-type: none"> <li>▶ Vision and Mission statements that acknowledge increased focus on research, development and marketing activities.</li> </ul>	Strategic Plan 2010-2013, Operating Plan 2010-2011 (both released in July 2010)	Continuing	High – strategic plan and operational plan developed. Intention is to continue with high level strategy and refine tactics over time
		<ul style="list-style-type: none"> <li>▶ Organisation chart defining role in industry and relationship with other industry participants</li> </ul>	Business Model included in Strategic Plan	Organisation chart to be updated	High – role defined
		<ul style="list-style-type: none"> <li>▶ Communication via website, publications, meetings etc</li> </ul>	Communications Strategy  Annual Report 2009/10  Beyond the Bale Updates  Media releases	Continuing	High – structure and process in place
		<ul style="list-style-type: none"> <li>▶ Feedback confirming position/role understood</li> </ul>	Communication with stakeholders	Continuing	Medium – maintaining stakeholder support critical



## 4. Strategy

### 4.1 Three Year Review Recommendation

**AWI should embark on an appropriately designed strategy setting process to provide a clear and detailed plan for the company**

### 4.2 Evaluation Criteria

The evaluation criteria for this recommendation are:

- ▶ Guidelines for staff when developing current strategic plan to ensure a systematic, consistent approach supported by analysis and consideration of options and effective engagement.
- ▶ Guidelines include a whole of company approach – not restricted to department or portfolio.
- ▶ Consistent and comparable benefit: cost analyses to guide strategy.

### 4.3 Findings

#### 4.3.1 Guidelines for developing the strategic plan

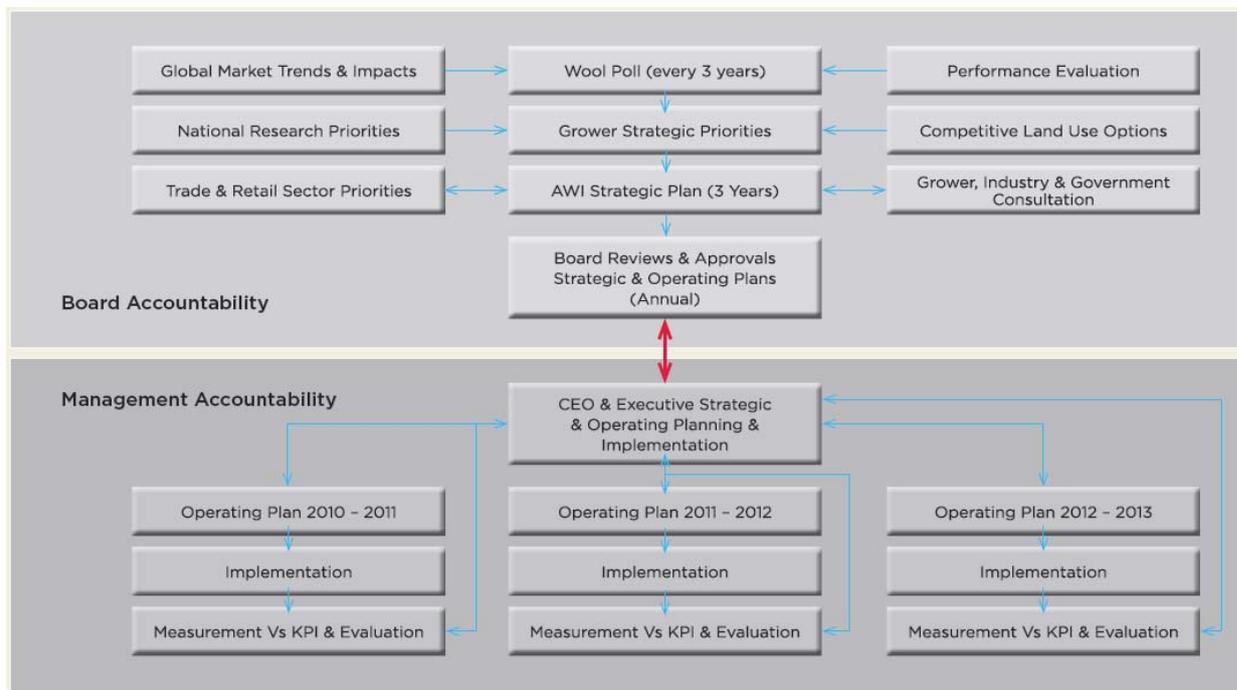
Under AWI's *Statutory Funding Agreement 2010 to 2013*, the process used to develop and update the Strategic Plan must include:

- ▶ Consultation with the Minister for Agriculture, Fisheries and Forestry;
- ▶ Consultation with levy payers (and levy payer priorities must be reflected in the strategic plan);
- ▶ Consultation with key industry representative bodies; and
- ▶ Compliance with the guidelines (i.e. the National and Rural Research and Development Priorities, other priorities or directions communicated to the company from time to time by the Minister in writing, the levy principles and guidelines, and any other guidelines relating to the funds agreed between the parties including the Program Framework Guidelines of the SFA).

In addition, the SFA specifies that when preparing its annual operating plans, AWI must ensure that 'systems, processes and controls are put in place to enable it to deliver the planned outcomes and to meet its reporting obligations'.

AWI describes the process for developing the *Strategic Plan 2010-2013* and subsequent operating plans in Figure 3 below. The process involved the marketing, on and off farm R&D functions developing strategy for their respective areas which was then integrated through by senior management and board deliberations to ensure a consistent, overarching strategic framework for the whole company.

**Figure 3 Strategic and annual planning process**



Source: Australian Wool Innovation Strategic Plan 2010-2013

The framework documents the strategies, programs, key performance indicators and intended outcomes of each of the following strategic objectives:

1. Help build a sustainable Australian wool industry through improvements in productivity and profitability on-farm.
2. Help increase demand for Australian Merino wool by recognising and addressing through off-farm R&D the product and process barriers to consumption at trade level through consumer-driven, targeted research, development and innovation programs (PUSH strategies).
3. Help increase demand for Australian Merino wool by recognising and addressing the information barriers to consumption at consumer and trade level, and informing people the Merino wool fibre story. In short, implement PULL strategies.
4. Review the role and value of the Woolmark brand, revitalise it and, where markets and partners permit, maximise the presence and income streams of the brand.
5. Define threats and opportunities facing the Wool industry, and build strategies and programs to ensure market access, sustainable production and improved trading environment across the supply chain.

The following series of business objectives focused around the on-going re-design of the company in line with its tighter focus were also developed:

1. AWI will be leaner, commercially oriented company with a sales and customer focused culture where every member of the team is either marketing wool and its attributes, or serving someone who is selling its various forms as it moves through the supply chain.



2. In line with the reduced industry size, AWI will continue to actively review its size and resource base and reduce it wherever possible without compromising our ability to achieve our vision and goal.
3. Review the role of AWI brands (e.g. the Woolmark) and define a long term strategy to rebuild the brand and its value to consumers and trade.
4. Proactively review and manage current and potential issues impacting trade development, regulatory controls in the period of this Strategic Plan. AWI will continue to identify and capture new revenue streams. We recognise that in the short term this is difficult, due to the diverse nature of the supply chain we must service, and the size of the challenges that confront us. We will however make every effort to enhance current revenue streams, and define new revenue streams.

Following Wool Poll, AWI engaged with its stakeholders to inform the development of the strategic and operating plans. This engagement is summarised in Table 3 below. The Woolgrower Forum held in Sydney in December 2009 was used to identify priority R&D areas. At this forum, participants ranked their top five R&D priority areas and this was used as an input to guide the development of the strategic and operating plans.

**Table 3 Stakeholder engagement during development of strategic and operating plans**

Timing	Consultation target / activity
December 2009	Woolgrower Forum (Sydney)
	Department of Agriculture, Fisheries and Forestry Six Monthly Meeting
January 2010	Woolgrower meetings and forums (various rural locations)
February 2010	Trade and Retail Partner Forums (Italy, France, Hong Kong, China)
	Department of Agriculture, Fisheries and Forestry
	Executive Staff Workshop (Sydney)
April 2010	Industry Consultative Committee (Sydney)
	Italian Industry Leadership Group (Italy)
May 2010	Woolgrower Forums (Sydney, Dubbo)

In developing the marketing strategy for the Strategic Plan and Annual Operating Plan, extensive consultation was undertaken with AWI's partners both within Australia and abroad. The first draft of both of these documents was reviewed internally by the Country Managers and the key Account Managers in China, Italy, USA, France and UK.

Meetings were held between AWI Regional and Country Managers and their key account contacts. Regional Managers presented the summary and recommendations of these meetings to the AWI Board and those involved in preparing the marketing plans.

On approval of the marketing plan by the Board, they were incorporated into the Strategic Plan and Annual Operating Plan and once again circulated to the Regional and Country Managers who consulted with local industry leaders in order to finalise the marketing elements of the plan.

There were no specific guidelines on how each of the above consultations was included in the Strategy and operating plan, or how the results from stakeholder engagement were considered. AWI indicates



that such guidelines are being prepared to guide future planning, which will increase transparency and rigour.

#### **4.3.2 Guidelines for a whole of company approach**

A successful strategy needs to select a balance across the full range of operations to ensure synergy between departments and portfolios. The funding split of company operations (Figure 2) was determined at WoolPoll. The AWI Board and Management considered the funding split and the linkages between them to develop a balanced investment portfolio between on-farm and off-farm RD&M in the Strategic Plan. The transparency and rigour of future strategies will be improved through more detailed guidance on how a whole of company approach will be determined in the guidelines that are being developed. This should also include tighter integration of stakeholder engagement, the project evaluation framework and documented links to key decisions and supporting analysis.

#### **4.3.3 Use of benefit cost analysis to guide strategy**

PricewaterhouseCoopers developed a project evaluation framework for AWI in May 2010 which provides 'a standardised model to evaluate, score and compare projects and provides guidance on specific approaches and tools to facilitate this process' (PricewaterhouseCoopers, 2010). The framework allows the environmental, economic and social impacts of projects to be assessed, both qualitatively and quantitatively, via measures such as:

- ▶ Net Present Value;
- ▶ Internal Rate of Return;
- ▶ Benefit Cost Ratio; and
- ▶ Qualitative Scorecard.

The evaluation framework can be used either before a project is undertaken (ex ante), mid project or upon project completion (ex post). This means that the outcome of a project evaluation can directly inform the strategic planning process, and that future evaluations will be conducted in a consistent and robust manner.

The evaluation framework is currently being calibrated and supporting guidelines developed prior to implementation.

### **4.4 Summary**

The company's progress regarding strategic planning is summarised in Table 4. Overall the company undertook a structured approach to developing its strategy. This involved each functional area developing strategies for their respective areas which were integrated by board and management to develop a whole of company strategic plan. The plan includes a strategic framework which includes strategic and business objectives outlining what the company is seeking to achieve for levy payers and its own operations respectively. The strategic plan provides high level rationale and supporting performance measures and key activities. Stakeholders were consulted during the strategic planning process, although how the results were used is less clear. An evaluation framework will provide supporting analysis once implemented.



Overall the strategic planning process has delivered a justified and transparent strategy. The development of strategy guidelines will improve the rigour and transparency of future strategy processes. This should include tighter integration of the evaluation framework, stakeholder engagement and links to key decisions and supporting analysis.



**Table 4 Strategy – Summary of performance**

Area	Summary of recommendations in 2006-2009 Review of Performance	Evaluation criteria	Actions completed	In progress	Likelihood of being achieved to inform Levy Poll 2012
<b>Strategic direction</b>	AWI should embark on an appropriately designed strategy setting process to provide a clear and detailed plan for the company.	<ul style="list-style-type: none"> <li>Guidelines for staff when developing current strategic plan to ensure a systematic, consistent approach supported by analysis and consideration of options and effective engagement</li> </ul>	Structured approach to strategy development  Industry consultation	Guidelines in preparation	High
		<ul style="list-style-type: none"> <li>Guidelines include a whole of company approach – not restricted to department or portfolio</li> </ul>	Whole of company strategy development by board and management	Guidelines in preparation	Guidance by external, independent advisers likely to be sufficient to ensure whole of company approach
		<ul style="list-style-type: none"> <li>Consistent and comparable benefit: cost analyses to guide strategy</li> </ul>	PWC framework developed	Implementation of PWC framework	High



## 5. Internal Structures for Planning and Evaluation

### 5.1 Three Year Review Recommendation

To support this, AWI should 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

### 5.2 Evaluation Criteria

The evaluation criteria for this recommendation are:

- ▶ List with titles of personnel involved in strategy setting.
- ▶ Staff job descriptions with planning and evaluation setting as a requirement.
- ▶ Guidelines established to ensure consistent approach across departments.
- ▶ Evidence that options developed for inclusion in the strategy with final selection based on analyses (e.g. benefit:cost) showing returns to levy payers.

### 5.3 Findings

#### 5.3.1 Key staff with strategy setting responsibilities

The key personnel involved in developing the current strategy are the board and senior management. The list was determined by the CEO and is not based on any formal job description associated with a particular job. The following key staff were involved in developing the current strategy:

- ▶ Rob Langtry, Global Manager Strategy and Marketing – led strategy process
- ▶ Tracy Marshall, GM Finance
- ▶ Stuart McCullough, CEO

In developing the strategic plan Regional Managers and Departmental Managers were involved in the development of the first draft. In addition each of the managers engaged their staff in developing the strategy. The degree and manner in which staff was engaged was at the discretion of the manager. The whole board was involved in developing the strategy.

AWI indicates that this approach will be used for developing future strategies.

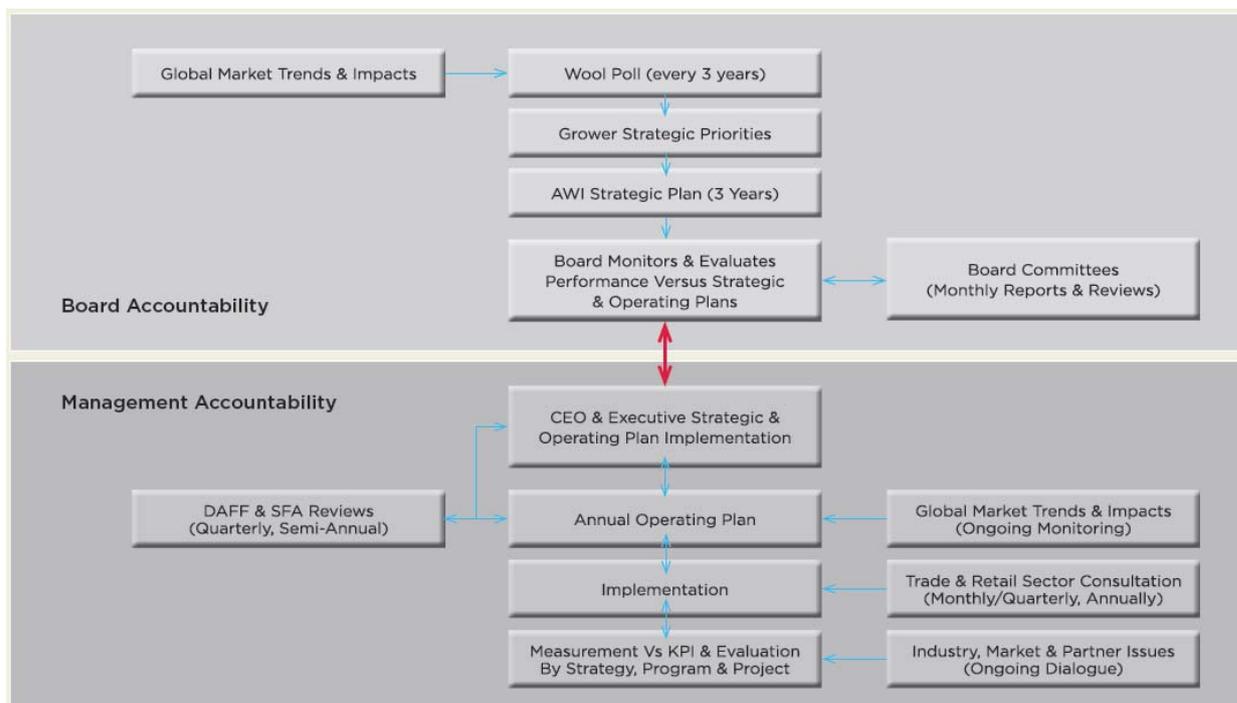
#### 5.3.2 Staff job descriptions

AWI is upgrading job descriptions this financial year. These will include responsibilities for key personnel in planning and evaluation of performance. Performance indicators in line with the company KPIs will be updated at that time.

### 5.3.3 Consistent approach to planning and evaluation

AWI has established an evaluation framework for monitoring and evaluating the strategic and operating plans' performance, with associated board and management accountabilities (Figure 4).

**Figure 4 Performance monitoring and evaluation process**



Source: Australian Wool Innovation Strategic Plan 2010-2013

The project evaluation framework was developed by PriceWaterhouseCoopers in May 2010 to allow the economic benefits and costs of projects to be assessed. The framework allows the benefits and costs of projects to be consistently compared across programs and the company. The framework also enables AWI to qualitatively report on the economic value of projects at the beginning, middle and end of projects. The project evaluation framework was not finalised in time for inclusion in the most recent operating and strategic plans.

The project evaluation framework recognises the diversity of AWI investments through providing different evaluation methods according to the category of project (marketing, financial and economic) to provide a mixture of quantitative and qualitative measures, including NPV, IRR, BCA and qualitative scorecards. The project evaluation framework can be used to evaluate projects at the proposal, in progress and completion stages. The evaluation results will provide the evidence for reporting against the strategic and operational plan's key performance indicators.

AWI is integrating the project evaluation framework into the project submission, assessment, management and reporting process.

Organisations or individuals seeking to submit project funding applications must complete a detailed project proposal form. This form requires, among other things, the provision of statistical data to inform AWI's economic assessment of each proposal. For example, data requirements for on-farm project applications include impacts on production, stocking rate, genetics, costs and adoption. The project



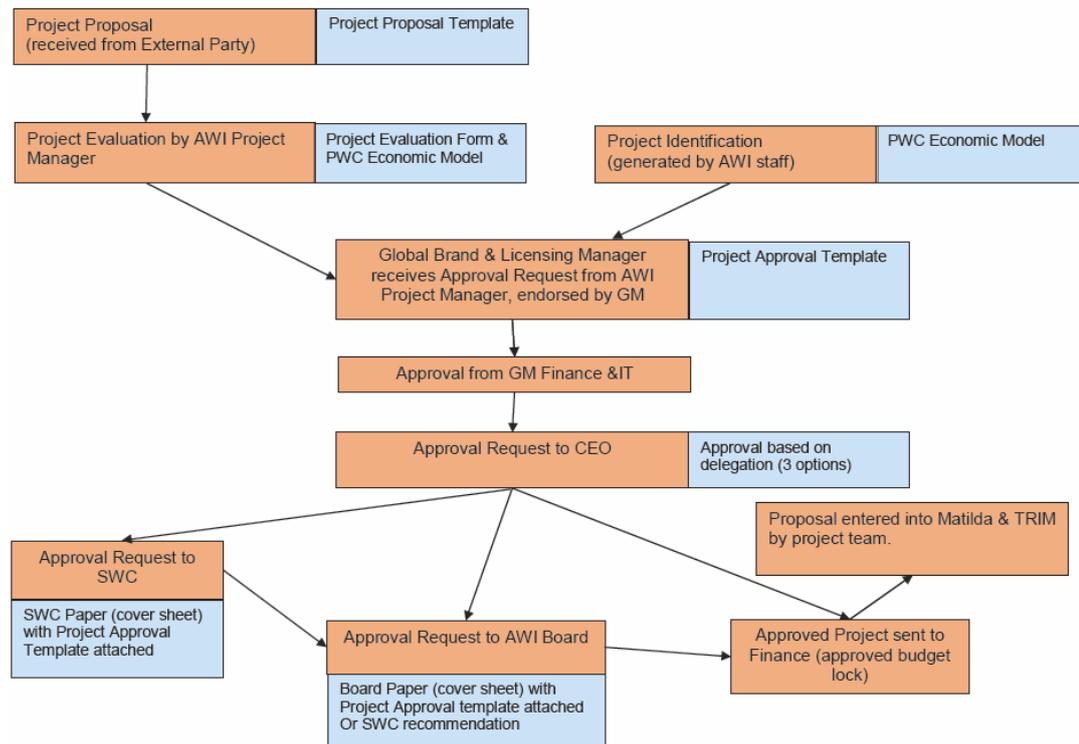
proposal form also refers to 'strategic fit', where the project's relevance to the strategic and operating plans must be demonstrated.

AWI has developed an evaluation form to assess project applications. The evaluation criteria consider projects' alignment with AWI priorities; the capacity of the researcher / organisation; the objectives and expected outputs / outcomes of the project; the extent of innovation and relevance to the industry; management of intellectual property; project planning and milestones; commercialisation of technology; extension of research results; potential risks; costing; and conflict of interest. The criteria are weighted to provide a total weighted score for each project.

The Project Proposal Form (internal) has been updated with a view that this will be the core part of the form used by external organisations. The Economic Evaluation is a component of this form.

AWI project managers are required to complete an Approval Request for projects that are deemed suitable for funding. The request template includes a specific schedule that aligns with the project evaluation framework developed by PricewaterhouseCoopers. An overview of the project approval process is shown in Figure 5.

**Figure 5 Project approval process**



Source: AWI

Each department within AWI is currently calibrating the project evaluation framework to ensure that it will be consistently applied and be able to report achievements in a comparable manner across the whole company. Once this is completed, guidelines will be finalised, staff trained and then applied across AWI.

In terms of existing projects, the intention is to apply the framework to evaluate performance during the completion phase, to progressively build the body of evidence of what has been achieved.



#### **5.3.4 Evidence that options developed for inclusion in the strategy with final selection based on analyses (e.g. benefit:cost) showing returns to levy payers.**

The project evaluation framework was only completed in May 2010 and consequently not used for selecting options in the current strategy. AWI intends to use the project evaluation framework in developing future strategies.

### **5.4 Summary**

AWI's progress in terms of developing internal structures for planning and evaluation is summarised in Table 5.

AWI have established structures for actively engaging the management and board in planning and evaluation. The Global Manager for Strategy and Marketing leads the planning process in which senior managers and the board are engaged. Value to levy payers was the key criteria used in developing the strategy.

An evaluation framework has been developed to provide qualitative and quantitative on the value created from existing and proposed projects at the project, program and company levels. Guidelines for the framework are being finalised, after which staff will be trained and the framework implemented across the company in time for the next planning and investment cycle.



**Table 5 Planning and evaluation – Summary of performance**

Area	Summary of recommendations in 2006-2009 Review of Performance	Evaluation criteria	Actions completed	In progress	Likelihood of being achieved to inform Levy Poll 2012
<b>Strategic direction</b>	To support this, AWI should 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.	<ul style="list-style-type: none"> <li>List with titles of personnel involved in strategy setting</li> </ul>	Informal selection by CEO	Formal list being considered	High – structure established and will be revised and formalised during subsequent planning cycles
		<ul style="list-style-type: none"> <li>Staff job descriptions with planning and evaluation as a requirement</li> </ul>	Updated job descriptions being prepared	Updated job descriptions being prepared	High – job descriptions will be revised during 2010-2011
		<ul style="list-style-type: none"> <li>Guidelines established to ensure consistent approach across departments</li> </ul>	Project Evaluation Framework developed	Implementation design	High – evaluation framework to be implemented in 2011
		<ul style="list-style-type: none"> <li>Evidence that options developed for inclusion in the strategy with final selection based on analyses (e.g. benefit:cost) showing returns to levy payers</li> </ul>	M&E process established Project approval process revised	Will implement in line with future planning processes	High – revised project approval process in place and evidence will become available once evaluation framework fully implemented.



## 6. Engagement

### 6.1 Three Year Review Recommendation

**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**

### 6.2 Evaluation Criteria

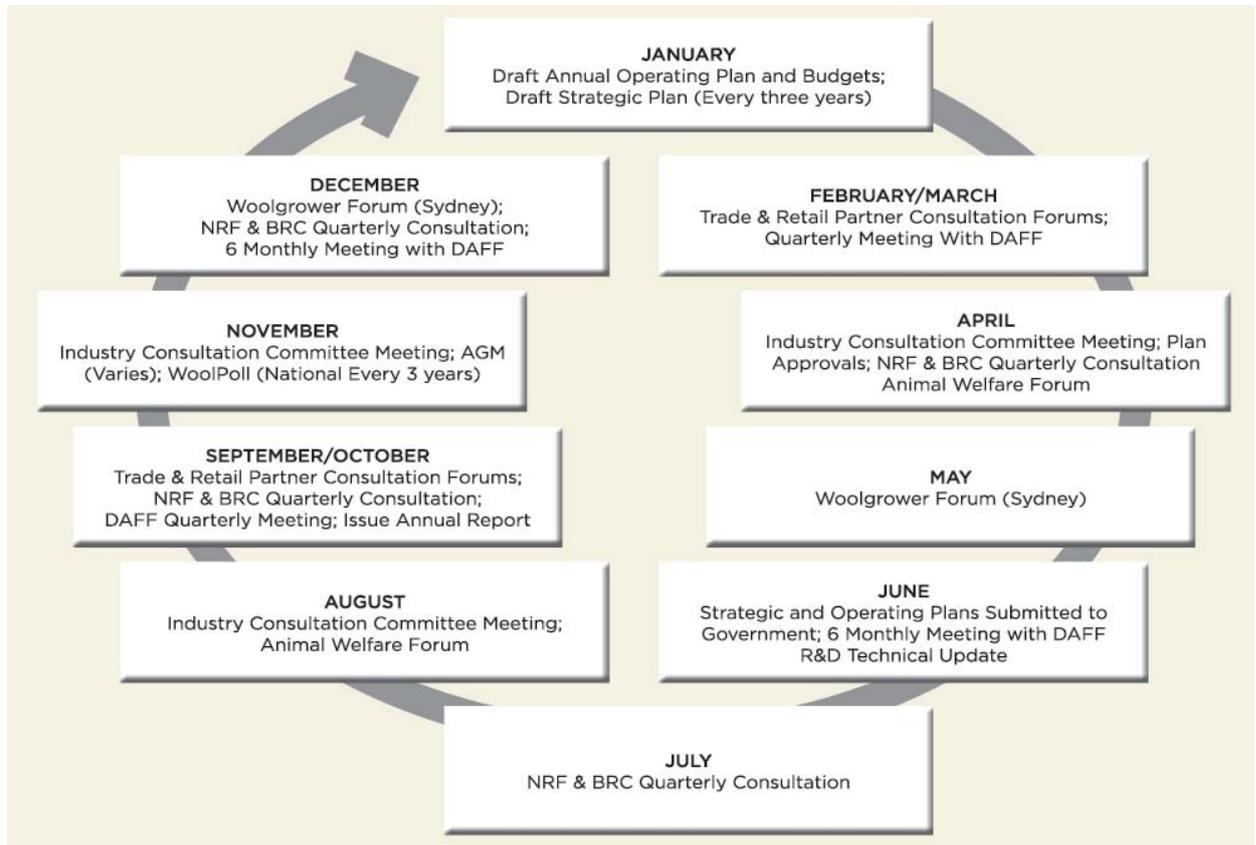
The evaluation criteria for this recommendation are:

- ▶ Establishment of Woolgrower Industry Consultative Committee (ICC), Animal Welfare Forum (AWF) and other stakeholder groups where appropriate.
- ▶ Sufficient scope and number of stakeholder groups for core activities – on-farm and off-farm RD, and marketing.
- ▶ Formalised use of stakeholder engagement for strategy setting as opposed to ad hoc.
- ▶ Evidence of stakeholder engagement in strategy setting – not just use of industry forums to inform direction.
- ▶ Continuity of stakeholder engagement in strategy setting.
- ▶ Regular communication with Government as outlined in the Statutory Funding Agreement (SFA).
- ▶ Engagement with retailers.

### 6.3 Findings

The *Strategic Plan 2010-2013* includes an *Annual Consultation Cycle* (Figure 6) with a schedule of meetings and forums with key stakeholders. The planned implementation of this Cycle was provided by AWI in its submission to the Productivity Commission and Table 6 contains both the planned and actual consultation.

**Figure 6 Annual consultation cycle**



Source: Australian Wool Innovation Strategic Plan 2010-2013

**Table 6 AWI stakeholder consultation 1 July 2009 – 30 June 2010**

Engagement	Planned consultation	Actual consultation
Woolgrowers	<ul style="list-style-type: none"> <li>National Wool RD&amp;E Strategy grower workshops in all wool growing areas</li> <li>Woolgrower Forum</li> <li>Key regional events including shows, field days and forums.</li> <li>Wild Dog Advisory Committee</li> <li>Wool Carbon Alliance</li> </ul>	<ul style="list-style-type: none"> <li>2 pilot 3 hour workshops run at Wagin March 2010 (27 growers). Remaining forums scheduled for 2010/2011.</li> <li>Participation at 85 various regional and industry events</li> <li>Industry Woolgrower Consultative Committee meetings held in April &amp; June 2010. A further meeting is scheduled for November 2010.</li> <li>Ad hoc phone and email discussion on project proposals</li> <li>Consultation at two meetings on the AWI Climate change and variability Strategy</li> </ul>
Retailers and Brands	<ul style="list-style-type: none"> <li>Annual delegation to meet with British Retail Consortium (BRF) and National Retail Federation (NRF).</li> <li>Quarterly reports to British Retail Consortium (BRF) and National Retail</li> </ul>	<ul style="list-style-type: none"> <li>Delegation in December 2009 &amp; September 2010 to provide an update on progress of flystrike R&amp;D to BRF and NRF.</li> <li>Quarterly briefings of NRF &amp; BRC conducted in June/ July, Sept &amp; Dec 2009, March/ April,</li> </ul>



Engagement	Planned consultation	Actual consultation
	Federation (NRF). <ul style="list-style-type: none"> <li>▶ Formal consultations and informal discussions on issues as they arise.</li> <li>▶ Retailer &amp; Brand consultation on product and innovation development Spinexpo New York &amp; Shanghai; Milano Unica, Italy; Premiere Vision, Paris</li> </ul>	June and Sept 2010, <ul style="list-style-type: none"> <li>▶ AWI hosted Eric Autor (NRF) to Australia in April 2010 to meet with industry organisations, R&amp;D scientists and welfare groups and government officials in order to gain an understanding of the industry and efforts to find alternatives to mulesing.</li> <li>▶ Product development &amp; Innovation workshops at all key trade shows as planned.</li> <li>▶ Expert marketing panel established to provide independent expert advice on the global marketing campaign</li> </ul>
Manufacturers	<ul style="list-style-type: none"> <li>▶ Annual product development and innovation workshops with key and influential manufacturing partners</li> <li>▶ Regular informal discussions and workshops on technical issues as required</li> <li>▶ Exploit IWTO forum to meet with early stag processors and manufacturers</li> <li>▶ Contribute to the International Standards Organisation (ISO) industry committees to ensure the standards are not biased against</li> </ul>	<ul style="list-style-type: none"> <li>▶ Product development &amp; Innovation workshops with key and influential manufacturing partners</li> <li>▶ Workshops and discussions during July 2009 and February 2010</li> <li>▶ Participated in IWTO Conferences at India 2009 and Paris 2010 to discuss technical developments and innovations</li> <li>▶ Participated in ISO industry committees</li> </ul>
Fashion designers	<ul style="list-style-type: none"> <li>▶ Informal panel assembled by AWI, comprising designers who influence both the form and content of fashion apparel.</li> </ul>	<ul style="list-style-type: none"> <li>▶ Fashion and design consultation forum planned for March 2011. (BTB Sept 2010)</li> </ul>
Government	<ul style="list-style-type: none"> <li>▶ Six monthly Ministerial meetings and Quarterly meetings with Department of Agriculture, Forestry and Fisheries (DAFF)</li> </ul>	<ul style="list-style-type: none"> <li>▶ Six monthly SFA meeting with DAFF on 22 December 2009 and 17 June 2010.</li> <li>▶ Quarterly SFA meetings with DAFF on 27 July 2009; 1 April, 2 July &amp; 29 September 2010. Further meetings planned for December 2010.</li> </ul>
R&D Vendors	<ul style="list-style-type: none"> <li>▶ Conference (Flystrike R&amp;D technical update)</li> <li>▶ Informal consultations on issues as they arise.</li> <li>▶ Planning for Ag Insights biennial Forum (AWI &amp; MLA) to be held in 2011</li> <li>▶ National Wool RD&amp;E Strategy Working Group</li> <li>▶ National Wild Dog Management Advisory Group</li> <li>▶ National Animal Welfare RD&amp;E Strategy Steering Committee</li> </ul>	<ul style="list-style-type: none"> <li>▶ Bi-annual Flystrike R&amp;D Update held in June 2010</li> <li>▶ Animal Welfare Forum held in August 2009, April 2010. A further meeting is planned for November 2010.</li> <li>▶ Ag Insights held in March 2009 and next scheduled for March 2011</li> <li>▶ Participation in two teleconferences (Oct and May) - sharing of objectives and priorities</li> <li>▶ Participation in the two meetings - sharing of objectives and priorities</li> <li>▶ Participation in 4 face to face meetings (Oct, Feb, May, June) - sharing of objectives and priorities</li> </ul>



### 6.3.1 Establishment of Stakeholder Groups

AWI has established two key consultative groups - the Industry Woolgrower Consultative Committee (ICC) and the Animal Welfare Forum.

The ICC was formed as a means of formally consulting with woolgrower representative organisations at least twice annually. The Australian Government through the Department of Agriculture, Fisheries and Forestry (DAFF), the Australian Wool Exchange (AWEX) and Foundation of Wool Organisations (FAWO) are observers of this committee along with:

- ▶ Australian Woolgrowers Association;
- ▶ Australian Stud Merino Breeders Association;
- ▶ Australian Superfine Woolgrowers Association;
- ▶ WoolProducers Australia.

The ICC has met on three occasions in 2010 (April, June and November). Its *Terms of Engagement* are documented and its purpose is 'to provide a mechanism for Australian Wool Innovation to systematically engage with key industry partners and establish common understanding and shared expectations in areas of AWI activity'.

AWI has used the ICC as a means of engaging with key industry partners to discuss key marketing and R&D priorities in developing the Annual Operating Plan by incorporating outcomes of WoolPoll 2009 and implementing recommendations from the Three Year Review. The ICC also provided input to AWI's submission to the Productivity Commission Review and with the continuing developments on mulesing.

The Animal Welfare Forum was established in 2009 to ensure that key animal welfare organisations and researchers are consulted on key issues. This forum is comprised of the following organisations:

- ▶ Australian Veterinary Association;
- ▶ Compassion in World Farming;
- ▶ Animals Australia;
- ▶ Animal Liberation; and
- ▶ RSPCA Australia.

This forum meets twice a year and is also represented by researchers from CSIRO, the universities of Sydney and Melbourne. The main focus of these forums is on breech flystrike prevention and the aims are to:

- ▶ Share information about the current status of research and industry practices;
- ▶ Identify key issues not addressed by the current R&D and communication activities; and
- ▶ Encourage effective communication between all stakeholders, and advocacy in the interests of Australian wool growers and the welfare of Australian sheep. (AWI Animal Welfare Forum Meeting Agenda, August 2009 and April 2010).



### 6.3.2 Sufficient number or scope of Stakeholder Groups

Two formal stakeholder groups have been established as described in section 6.3.1. A further two stakeholder groups have been established with the main focus on marketing. An expert marketing panel was established in February/March 2010 in order to appoint a global marketing agency. The second group established was the Italian Industry Leaders Group who was consulted on the draft and final Strategic Plan and Annual Operating Plan. The Italian Industry Leaders Group will be expanded to include key representatives from the UK, USA, China and Japan in 2011.

Informal groups are also part of AWI's stakeholder engagement (see Figure 6), including:

- ▶ Trade and Retail Partner Consultation Forums;
- ▶ National Retail Federation (NRF) in the United States;
- ▶ British Retail Consortium (BRC) in the United Kingdom; and
- ▶ Flystrike R&D Technical Update.
- ▶ Woolgrower Forums
- ▶ Regular briefings and communications with state farm organizations and industry representative bodies

AWI has also established a Trade and Retail Forum and intend to establish a Designer Forum in 2011 and plans to expand their consultation with the NRF and BRC members in order to get them involved in other initiatives while continuing to provide updates on flystrike R&D.

The scope of the stakeholder groups will continue to develop as they evolve. Key considerations include their role in strategy development and the potential to provide a broader industry forum. AWI has indicated that it will issue a communiqué after each committee meeting to inform all stakeholders.

### 6.3.3 Formalised use of stakeholder groups for strategy setting

AWI's *Strategic Plan 2010 to 2013* outlines its Stakeholder Management – stakeholder strategy. This section refers to the approach adopted by AWI in 'establishing and nurturing an extensive network of government, industry and commercial partners' (Strategic Plan p.24). In this plan, AWI outlines three steps in its planning process. In summary these are:

1. Identify and prioritise key stakeholders;
2. Assess and develop key areas to build relationships; and
3. Create and nurture partnering outcomes.

AWI consulted key stakeholders through existing consultation forums, including individual members of the ICC on strategy in the later half of 2009 and presented the strategy prior to its release to the ICC in June 2010. This limited the ICC's role to initial scoping of the strategy, rather than consideration of options. Given the importance of stakeholder support, the role of the ICC in strategy setting can be strengthened through consideration of options. AWI has indicated this will occur at the scheduled November meetings or at an additional meeting early in the calendar year when the detailed strategy is being drafted. Feedback will be given to the committees on how their deliberations are addressed in the strategy.



#### **6.3.4 Communication with government**

The *Statutory Funding Agreement 2010 to 2013* requires the Chairperson of AWI or their nominee 'must meet with the Minister at not less than six-monthly intervals from 1 July 2010...' The previous Minister (The Hon. Tony Burke) delegated this responsibility to DAFF. Consequently, AWI met with the Department (DAFF) in December 2009 and June 2010 with the next meeting planned for December 2010.

Under the SFA, the CEO or nominated representative is also required to meet with representatives from the Department on a quarterly basis. DAFF and AWI met in July 2009, April, July and September 2010, with further a meeting scheduled for December. These meetings are a chance to discuss issues relating to the SFA including developments with the company business, AWI's performance against company plans and the impact of the Government's R&D policies on the company. In addition AWI has used these meetings with the Department to update them on the status of mulesing activities, communication with the industry and the situation and outlook for Australian wool.

#### **6.3.5 Engagement with retailers**

Retailers are engaged as part of AWI's annual planning and consultation. AWI has taken steps to ensure that trade and retail partners are actively consulted on the performance of the company and specifically on progress relating to animal welfare issues. AWI and WoolProducers Australia are co-signatories on behalf of the industry to the National Retail Federation (NRF) in the United States and the British Retail Consortium (BRC) in the United Kingdom. AWI has provided updates to the NRF and BRC in; June/ July, September and December 2009; and March/April, June and September 2010. The AWI also hosted the NRF on a 10 day trip to visit production areas across Australia in April 2010 and has offered to host the BRC on a similar visit in 2010/11.

AWI consults formally with the retailers and brands every quarter and provides them with an update of the flystrike prevention R&D program, conducted independently by the Australian Veterinary Association (AVA). AWI has also encouraged other industry organisations to contribute to this quarterly report in order for the retailers and brands to receive the most up to date information on the Australian wool industry. AWEX and RSPCA Australia have already contributed updates and other organisations will also be approached to contribute in order to complement the package of information presented by AWI.

### **6.4 Summary**

A summary of AWI's progress in engaging stakeholders and shareholders is provided in Table 7.

AWI have established an annual cycle of consultation with its stakeholders including two stakeholder committees, the Industry Consultative Committee and Animal Welfare Forum. This approach clearly signals and provides stakeholders opportunities to engage with AWI.

AWI intends to continue improving stakeholder engagement through:

- ▶ Formalising when and how AWI engages stakeholders to develop strategy;
- ▶ Providing communiqués on the outcomes of stakeholder committees' meetings to all stakeholders; and
- ▶ Assessing the quality and frequency of engagement with key stakeholders and adapting their Community Strategy as required.



AWI may benefit from using a more detailed partnership assessment technique, such as the Nuffield partnership technique, to provide a deeper and transparent approach to key stakeholder engagement.

A final consideration is the potential of the stakeholder groups created by AWI to evolve into broader industry fora where industry bodies meet to exchange information and solve common problems. This would be a positive development which AWI should support, but not lead, in line with its role as the industry's RD&M organisation.



**Table 7 Engagement – Summary of performance**

Area	Summary of recommendations in 2006-2009 Review of Performance	Evaluation criteria	Actions completed	In progress	Likelihood of being achieved to inform Levy Poll 2012
<b>Operations</b>	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.	<ul style="list-style-type: none"> <li>Establishment of Industry Woolgrower Consultative Committee (ICC), Animal Welfare Forum (AWF) and other appropriate stakeholder groups where appropriate.</li> </ul>	ICC and Animal Welfare Forum	On-going	High – committee established
		<ul style="list-style-type: none"> <li>Sufficient number or scope of stakeholder groups for core activities – on-farm, off-farm RD, and marketing</li> </ul>	Informal groups involved in consultation forums, updates	On-going	High – mixture of formal and informal groups cover AWI stakeholders
		<ul style="list-style-type: none"> <li>Formalised use of stakeholder engagement for strategy setting as opposed to ad hoc</li> </ul>	Annual consultation cycle established in Strategic Plan	To be implemented	High – process and commitment established
		<ul style="list-style-type: none"> <li>Evidence of stakeholder engagement in strategy setting – not just use of industry forums to inform direction</li> </ul>	Stakeholders consulted as part of annual cycle	Clarifying role in strategy setting	Medium – role needs to be established and agreed to with stakeholders
		<ul style="list-style-type: none"> <li>Continuity of stakeholder engagement in strategy setting</li> </ul>	Annual consultation cycle established in Strategic Plan	On-going	High – consultation cycle established into operations of AWI
		<ul style="list-style-type: none"> <li>Regular communication with Government as outlined in the Statutory Funding Agreement (SFA)</li> </ul>	Annual consultation cycle established in Strategic Plan	On-going	High – on-going commitment
		<ul style="list-style-type: none"> <li>Engagement with retailers</li> </ul>	NRF and BRF Quarterly Consultation  Trade and Retail Partner Consultation Forums	On-going	High – on-going commitment



## 7. Measurement and Reporting

### 7.1 Three Year Review Recommendation

**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**

### 7.2 Evaluation Criteria

The evaluation criteria for this recommendation are:

- ▶ Monitoring, Evaluation, Reporting and Improvement framework developed.
- ▶ Reporting of performance to levy payers.
- ▶ Improvement in performance – learning from past results.

### 7.3 Findings

#### 7.3.1 Monitoring, evaluation, reporting and improvement

As outlined in Section 4.3, AWI commissioned PricewaterhouseCoopers to develop a comprehensive project evaluation framework. The project evaluation framework includes a number of criteria (and suggested metrics) to measure and report the economic, environmental and social impacts of projects (Table 8). It is designed to be used in conjunction with the measurement and project evaluation framework in the strategic plan.

**Table 8 Evaluation criteria**

Category	Criteria	Examples and guidance
<b>Economic</b>	Increased sales	This criterion can be measured by increases in the sale of greasy wool and in wool end-products (garments, floor coverings and upholstery). This criterion can be measured in either kilograms of wool sold or number of garments sold. This measure can also be monetised by including into the analysis the prices that the greasy wool or the garments are sold for.
	Cost reductions – on farm	Reduced on farm costs in employment, fencing, feeding, water, planting, disease prevention, monitoring stock, grazing and other direct input costs involved in rearing sheep.
	Cost reductions – off farm	Reduced off farm costs such as transport, packing, processing, spinning and manufacturing.
	Productivity improvements – on farm	This criterion can be measured by increasing yields, managing flock sizes, feed improvements and disease management.
	Productivity improvements – off farm	This criterion can be measured by increases in production runs and processing and machinery technological improvements.



Category	Criteria	Examples and guidance
	Increased quality – on farm	The quality of wool produced on farm can be measured by microns, fibre diameter, crimp, yield and colour.
	Adoption and innovation of new technology – off farm	The adoption rates of new and innovative technologies would be an indicator of the successful integration of new production techniques in the industry.
	Increased brand awareness	This criteria can be measured by media reach (number of publications/readership numbers), frequency and traffic of website hits, consumer focus groups, research and surveys, feedback and audience reach from expo's and trade displays, number of new licensees or renewals of licenses and increases in products displaying the Woolmark logo and associated brands.
<b>Environmental</b>	Improvements in natural resource management	This criterion can be measured by improvements in farming sustainability including improvements in saline land management, improvements in water quality and usage, improvements in land degradation, development application and adoption of new grazing and stocking techniques and carbon emission reductions.
	Reduced impact from chemicals / pesticides	This criterion can be measured by, monitoring of pesticide and chemical use in rearing sheep, development, application and adoption of alternative methods and reductions in run off and improvements in water and pasture quality.
	Improvements in animal welfare	Animal welfare can be measured by adherence to responsibilities and competencies outlined in the Australian Animal Welfare Strategy (AAWS) or other applicable guidelines, feed and water management, risk management of climatic extremes, handling and husbandry, transport, mulesing, disease prevention and management and breeding management.
<b>Social</b>	Rural sustainability and job creation	This criterion can be measured by the number of jobs created in the industry, the number of training positions filled, increased individual capacity to manage land, general improvements to overall sustainable.
	Building innovation and research skills for the industry – on farm	The refinement and adoption of relevant training courses, the sponsorship and output of research grants and scholarships and the number of new technologies and processes patented.
	Improved communication and understanding	Communication and understanding can be measured by the number of publications that AWI produces, the number of new information resources made available by AWI and the readership reached.

Source: PricewaterhouseCoopers, 2010



### **7.3.2 Reporting performance to levy payers**

AWI reports on its performance to levy payers at the Annual General Meeting, individually via direct written materials such as the annual report, *Beyond the Bale*, stakeholder mail outs and emails. Indirectly AWI regularly reports via the rural media, its extension networks and partner organisations such as Sheep CRC, MLA and research providers. AWI also reports at regular events such as industry conferences, research events, field days and events.

*Beyond the Bale* is typically produced every three to four months. Recent editions have been used to communicate the company's strategic priorities, reinforce its focus on wool research, development and marketing, and highlight achievements.

As noted in Section 3, AWI's annual report presents the company's highlights for the year and a detailed operational report, including the company's progress towards agreed actions in the areas of on-farm R&D, off-farm RD&M. In addition to the financial performance of the company, the report also identifies how AWI's programs align with the government's National Research Priorities and Rural Research and Development Priorities.

As noted in Section 3, AWI provides quarterly updates to industry stakeholders. The updates typically include:

- ▶ Progress or achievements relating to flystrike prevention activities;
- ▶ Grower issues and position update;
- ▶ Supply chain developments;
- ▶ R&D / animal welfare update; and
- ▶ Marketing activities

### **7.3.3 Learning from the past**

During the consultation, the current board and management indicated a commitment to improving and reporting performance of AWI. AWI has clarified the role of the board and management in the company and re-structured in line with the strategic plan (see Appendix). Importantly AWI has placed considerable effort in improving staff and stakeholder engagement. This has improved staff motivation, their focus on creating value for levy payers and built stakeholder support for the company's role and strategic direction.

## **7.4 Summary**

AWI's progress towards improved measurement and reporting of performance is summarised in Table 9.

AWI has developed an evaluation framework and a structured approach to consulting with stakeholders. The framework needs to be implemented before the value created for levy payers by AWI can be effectively measured and reported.



**Table 9 Measurement and reporting – Summary of performance**

Area	Summary of recommendations in 2006-2009 Review of Performance	Evaluation criteria	Actions completed	In progress	Likelihood of being achieved to inform Levy Poll 2012
<b>Monitoring &amp; Evaluation</b>	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.	<ul style="list-style-type: none"> <li>Monitoring, Evaluation, Reporting and Improvement framework developed</li> </ul>	PWC project evaluation framework developed	Implementation	High – Project evaluation framework developed
		<ul style="list-style-type: none"> <li>Reporting of performance to levy payers</li> </ul>	Stakeholder consultation cycle  Annual reports and Beyond the Bale	Analyses using PWC Framework to be completed and published  Strategic Plan KPIs	High – reporting to performance to levy payers established as part of communication strategy. Detailed information to be provided through implementation of the project evaluation framework .
		<ul style="list-style-type: none"> <li>Improvement in performance – learning from past results</li> </ul>	Company structure and staff aligned with strategy	On-going	High – company structures reorganised based on learning and stakeholder engagement



## 8. Company Structure and Processes

### 8.1 Three Year Review Recommendation

**AWI should review its structures and processes that operate in similar industry-owned companies as a means of considering improvements in its value creation to levy payers**

### 8.2 Evaluation Criteria

The evaluation criteria for this recommendation are:

- ▶ Formal review of structures and processes – internal review or external.
- ▶ Reviews of subsidiary companies.
- ▶ Recognition in the Operational Plan of functions/changes of the departments.
- ▶ Benchmarking with other RDCs for levy payers' return on investment.

### 8.3 Findings

#### 8.3.1 Review of structures and processes

AWI has reviewed both its structure and processes internally to ensure alignment with the strategic plan and deliver cost savings. *The Strategic Plan 2010-2013* states that its focus will be on managing the transition to a leaner, more agile company with a new organisational structure and clear job descriptions.

Major changes have been made to the three regional manager roles (Asia, Europe and Americas). These have now been combined into a newly titled Global Business Development department in which previous roles of Country Manager and Key Account Management (KAM) now have a business development focus. It is considered that such streamlining will improve the efficiency of reporting and result in a more cohesive approach to marketing.

New organisational structures have also been developed for the Product Development and Marketing & Communications departments. Other departments appear to have similar structures to previous years.

The changes have resulted in reductions to consolidated internal expenses (including employee and travel expenses) from \$48.8 million in 2008/09 to \$27.6 million in 2009/10.

#### 8.3.2 Review of subsidiary companies

The notes to the financial statements for 2009/10 show that the AWI group of companies is comprised of 16 subsidiary companies with most of these being subsidiaries of The Woolmark Company (11 subsidiaries). The subsidiaries of The Woolmark Company have reduced from 13 in 2008/09. As a result of AWI acquiring The Woolmark Company in October 2007, a review of the corporate requirements was undertaken and resulted in the closure of two companies domiciled in Mexico and the combination of offices in Italy and India where both AWI and Woolmark had a presence. IWS Marke AG in Switzerland has also been domiciled and is in the process of closure, while in Austria Osterreichischer Wollsiegel-Verband des Internationalen Vollsekretariates has been domiciled and will be closed in 2011. AWI will



continue to investigate the merging of offices in other countries once all local laws and ownership of intellectual property have been satisfied.

### 8.3.3 Structural changes of the departments

Structural change has reduced the number of departments from 10 to seven as a result of the creation of the Global Business Development Unit in place of the Global Marketing division and three regional divisions. This and other changes have reduced the internal expenses of the company as discussed in 8.3.1.

### 8.3.4 Benchmarking with other RDCs

Direct comparison with performance from other RDCs is difficult as explained in the *AWI Strategic Plan 2010-2013*. Despite this, AWI has ensured that its activities are undertaken with other RDCs and Industry partners to ensure that AWI's R&D priorities align with national Rural RDC Priorities (Table 10).

**Table 10 Government policy synergy – strategic priority framework**

National Research Priorities	Rural RDC Priorities	AWI R&D Priorities
<b>Promoting and maintaining good health</b>	Productivity and adding value – improve the productivity and profitability of existing industries and support the development of viable new industries.	On-Farm R&D Strategy 1: The Merino Fibre – Healthy and Profitable Sheep
	Supply chain and markets – better understand and respond to domestic and international market and consumer requirements and improve the flow of such information through the whole supply chain including to customers.	Marketing (DEMAND PULL) Strategy 1: Fibre Promotion Partnerships Strategy 2: Product Promotion Partnerships
<b>An environmentally sustainable Australia</b>	Natural Resource Management	On-Farm R&D Strategy 2: The Environment
	Climate variability and climate change	Product Innovation (PRODUCT PUSH) Strategy 3: Environmental Benefits
<b>Frontier technologies for building and transforming Australian Industries</b>	Supporting the rural R&D priorities through innovation skills and technology	On-Farm R&D Strategy 3: Education and Extension
<b>Safeguarding Australia</b>	Biosecurity	On-Farm R&D Strategy 1: The Merino Fibre – Healthy & Profitable Sheep Strategy 2: The Environment

Source: Strategic Plan 2010-2013



AWI participates in the Council of Rural Research and Development Corporations, which includes operations harmonisation opportunities to improve efficiency. This includes the development of a single Research and Development Contract, and harmonisation and sharing of Intellectual Property. AWI is currently involved in the RDC benchmarking process and will continue to participate into the future.

#### **8.4 Summary**

A summary of AWI's progress in terms of its structures and processes is provided in Table 11.

AWI has restructured based on formal review of structures, processes and subsidiary companies to align with the strategic plan and deliver cost savings. Changes are reflected in the operating plan and changes after July 2010 will be represented in the 2011-2012 operating plan. AWI liaises with other RDCs to identify business improvement, although formal benchmarking was not undertaken in 2009/10.



**Table 11 Structures and processes – Summary of performance**

Area	Summary of recommendations in 2006-2009 Review of Performance	Evaluation criteria	Actions completed	In progress	Likelihood of being achieved to inform Levy Poll 2012
<b>Operations</b>	AWI should review its structures and processes that operate in similar industry-owned companies as a means of considering improvements in its value creation to levy payers.	<ul style="list-style-type: none"> <li>Formal review of structures and processes – consultancy or internal</li> </ul>	Internal review completed	N/A	High – reviews completed
		<ul style="list-style-type: none"> <li>Reviews of subsidiary companies</li> </ul>	Completed	Structure changes being implemented	High – reviews completed
		<ul style="list-style-type: none"> <li>Recognition in the Operational Plan of functions/changes of the departments</li> </ul>	Structures reviewed in developing the strategic and operational plans	Restructure of regions and marketing functions	High – previous restructures reflected in operational plan. Post July 2011 changes will be reflected in 2011-2012 operating plan
		<ul style="list-style-type: none"> <li>Benchmarking with other RDCs for levy payers’ return on investment</li> </ul>	Participation in CRRDC and on-going liaison	On-going	Medium – liaised with other RDCs to identify improvements.



## 9. Corporate Governance

### 9.1 Three Year Review Recommendation

The AWI Board comprehensively review its corporate governance practice and take steps to ensure that it meets modern expectations of good practice

### 9.2 Evaluation Criteria

The evaluation criteria for this recommendation are:

- ▶ KPIs set for Board performance.
- ▶ Formal or informal reviews of the Board.
- ▶ Policy and procedures for corporate governance

### 9.3 Findings

#### 9.3.1 KPIs of Board performance

Section 4.1 of the *Statutory Funding Agreement 2010 to 2013*, outlines the *Board Corporate Governance* in which it should implement good corporate governance practices drawing on the *ASX Corporate Governance Council's Corporate Governance Principles and Recommendations, Second Edition, August 2007*. In particular the three main aims of this charter are to:

- ▶ Structure its board to add value as outlined in Principle 2 of the above plan
- ▶ Establishment of a Skills Based Board recommended by a Nominations Committee (subject to retirement and election requirements under the company's Constitution); and
- ▶ Process for evaluating the performance of the board and its committees.

The *Statutory Funding Agreement 2010 to 2013* was approved by the Board at its May 2010 meeting. Further, at its July meeting the AWI Board agreed to put in place a Nominations Committee, and at its October 2010 meeting agreed to demonstrate the skills of the Board through preparation of skills matrix to be provided to the Minister in December 2010. The Board is working with a consultant, John Harrison, on board performance. This has included establishing KPIs and coaching of the board collectively and individually.

#### 9.3.2 Formal or informal reviews of Board

During 2010 the board has worked on clarifying its role and the division of function with management. A corporate governance structure was provided to the Board at the October 2010 meeting. Further, the board has developed an action plan to ensure it schedules and deliberates on its functions during the year. This includes strategic planning, investment decisions, performance reporting and reviews of policies and procedures. The board is also, with the assistance of John Harrison, finalising a set of key performance indicators to measure and manage its own performance.



### 9.3.3 Managing Corporate Governance

The AWI Board approved on 24 September 2009 *Conflicts of Interest – Directors and Officers* to ‘assist it to undertake decisions in an ethical and responsible way without being influenced by improper considerations’ in order to ensure contracts are of a commercial nature and consistent with AWI’s legal obligations.

In order to assist the Board in undertaking decisions in an ethical way, the Board refer to its *Charter of the Committees of the Board* and its *Code of Conduct – Directors and Officers*.

Table 12 outlines the policies that form part of AWI’s corporate governance procedures and the dates they were last approved or amended, whichever was later. AWI continues to implement a schedule of regular governance policies review.

**Table 12 Corporate governance policies**

Document	Date approved / amended
▶ Board Charter	24 April 2008
▶ Charter of the Committees of the Board	8 October 2010
▶ Code of Conduct – Directors and Officers	17 March 2005
▶ Code of Conduct – Obligations to Stakeholders	24 May 2006
▶ Corporate Governance – Communications Strategy	16 February 2006
▶ Directors Expenses Policy/Travel Policy	1 November 2008
▶ Conflicts of Interest Directors and Officers	24 September 2009
▶ AICD Code of Conduct	N/A – prescribed by the AICD for its members

In setting the Company’s strategic direction, the AWI Board delegated the day to day management of the company to the CEO and also established a number of committees in order to ensure AWI operates to good governance standards and accountability provisions. The following committees and advisory groups have been established:

- ▶ Finance and Audit Committee;
- ▶ Remuneration and Appointment Committee; and
- ▶ Science and Welfare Committee;
- ▶ Wool Carbon Alliance; and
- ▶ Wild Dog Advisory Group.

Each of the Wool Carbon Alliance Advisory Group and the Wild Dog Advisory Group report to the Science and Welfare Committee.

A comprehensive set of board and company guidelines have been provided to all board members and an on-going schedule of reviews established. Furthermore, each board member is either a current member or in the process of becoming a member of the Australian Institute of Company Directors (AICD).



## **9.4 Summary**

A summary of the company's progress in the area of corporate governance is shown in Table 13.

AWI aligns its corporate governance practices with the ASX Corporate Governance Guidelines and Recommendations. The division of function between the board and management has been established, guidelines on all board and company procedures have been provided to the directors and a schedule of on-going review agreed to. The board is working with an external consultant to improve performance, including, developing a set of key performance indicators to measure and manage performance.



**Table 13 Corporate governance – Summary of performance**

Area	Summary of recommendations in 2006-2009 Review of Performance	Evaluation criteria	Actions completed	In progress	Likelihood of being achieved to inform Levy Poll 2012
<b>Governance</b>	The AWI Board comprehensively review its corporate governance practice and take steps to ensure that it meets modern expectations of good practice.	<ul style="list-style-type: none"> <li>▶ KPIs set for Board performance</li> </ul>	Initial development	KPIs being finalised	High – board developing KPIs for its performance
		<ul style="list-style-type: none"> <li>▶ Formal or informal reviews of the Board</li> </ul>	External consultant working with board	On-going	High – board working with external consultant to review and improve performance
		<ul style="list-style-type: none"> <li>▶ Policy and procedures for corporate governance</li> </ul>	Reviewed September 2009	On-going	High – policy and procedures reviewed



## 10. Appointment of Directors

### 10.1 Three Year Review Recommendation

**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**

### 10.2 Evaluation Criteria

The evaluation criteria for this recommendation are:

- ▶ Review the process for appointment of directors completed to ensure a skills based Board.
- ▶ Shareholders/Stakeholders involved in the review.

### 10.3 Findings

#### 10.3.1 Skills based Board

AWI aims to demonstrate a skills based Board by establishing a nominations committee rather than a change to the Constitution. Establishing a nominations committee is consistent with the *ASX Corporate Governance Council's Corporate Governance Principles and Recommendations*. There was also a perceived risk that a change to the Constitution would not be passed by levy payers.

The nominations committee approach was endorsed by the Government through inclusion in AWI's *Statutory Funding Agreement 2010 to 2013* which states that the company should aim to establish a skills based board recommended by a nomination committee, subject to retirement and election requirements under the company's Constitution.

The SFA also specifies that the company should use the *ASX Corporate Governance Council's Corporate Governance Principles and Recommendations* to structure, and monitor the performance of, its board. In particular, the SFA refers to Principle 2 of the ASX Principles and Recommendations: Structure the board to add value. This principle states that "Companies should have a board of an effective composition, size and commitment to adequately discharge its responsibilities and duties". Recommendation 2.4, under this principle, is that "the board should establish a nomination committee".

The responsibilities of a nomination committee, as per the ASX Principles and Recommendations, should include making recommendations to the board about:

- ▶ The necessary and desirable competencies of directors;
- ▶ Review of board succession plans;
- ▶ The development of a process for evaluation of the performance of the board, its committees and directors; and
- ▶ The appointment and re-election of directors.

The ASX states that the selection, appointment and re-election of directors should be formal and transparent and consider:



- ▶ Director competencies;
- ▶ Board renewal;
- ▶ Composition and commitment of the Board; and
- ▶ Election of directors.

Neither the SFA nor the ASX Principles and Recommendations require that AWI's Constitution be reviewed in order to elect a skills based board; that is, a skills based board can be elected without such a review occurring. Under the SFA, a skills based board is defined as a board which can demonstrate collective expertise against each of the following:

- ▶ Corporate governance;
- ▶ Wool growing;
- ▶ Wool processing;
- ▶ Product promotion and retail marketing;
- ▶ Domestic and international market development and international trade;
- ▶ R&D, technology, technology transfer, commercialisation and adoption of R&D and innovation;
- ▶ Conservation and management of natural resources;
- ▶ Administration of research and development; and
- ▶ Finance and business management.

AWI's *Board Charter*, which was amended in 2008, states "the Board shall ensure that, collectively, it has the appropriate range of expertise or has access to the appropriate range of expertise to properly fulfil its responsibilities, including in relation to:

- ▶ The Australian wool growing industry;
- ▶ The wool processing industry in Australia and overseas;
- ▶ Accounting and/or finance;
- ▶ Legal skills;
- ▶ Business; and
- ▶ CEO-level experience."

The board is currently revising the Board Charter to ensure alignment with the SFA, which was approved by the Board in its May 2010 meeting. In July 2010 the board agreed to establish a nominations committee, to be operational by the 2011 board elections. The nominations committee will consist of a five person nomination committee consisting of three external and two board members. The committee will report to shareholders (through the Board) on how the candidates for election to the Board, nominated by shareholders under the terms of the Constitution, align with the required skills. This information will be communicated to levy payers prior to the election.

The procedure will be designed so that all nominations are received and assessed prior to the AGM. Further detail regarding the progress toward a Nominations Committee is to be presented to the Minister in December 2010.



### **10.3.2 Involvement of shareholders / stakeholders**

AWI has liaised with a variety of stakeholders regarding the company's director nomination process. In July 2010 the company wrote to the then Federal Agriculture Minister, Tony Burke, (in response to his request that AWI provide further details regarding the independent nomination of a skills based board) stating that the Board had decided that its nomination committee will comprise of two AWI Board members and three people who are not AWI Board members (thereby fulfilling the SFA requirement that the majority of the nominations committee are not directors of the company). The company also stated:

- ▶ Each director will be expected to be multi-skilled and flexible;
- ▶ The optimal skill sets for new directors will be determined by the Board and published when applications for directorship are sought; and
- ▶ The Board nomination committee recommendations are anticipated to assist voting shareholders make decisions regarding election candidates.

AWI has also exchanged written correspondence with the NSW Farmers Association and Western Australian Farmers Federation regarding the company's board election process. These exchanges confirmed that contested elections will be encouraged and that there will be no changes to the company's Constitution.

### **10.4 Summary**

Table 14 summarises AWI's performance regarding the appointment of directors.

AWI has revised the architecture for electing directors to ensure a skills based board. This will involve a nominations committee procedure rather than a constitutional change and is in line with the ASX Corporate Governance Principles and Recommendations. The revised procedure will be operational in time for the 2011 board elections.



**Table 14 Appointment of directors – Summary of performance**

Area	Summary of recommendations in 2006-2009 Review of Performance	Evaluation criteria	Actions completed	In progress	Likelihood of being achieved to inform Levy Poll 2012
<b>Governance</b>	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.	<ul style="list-style-type: none"> <li>Review of the Constitution for appointment of directors completed to ensure a skills based Board</li> </ul>	Agreed to establish Nominations Committee to administer appointment of skills based board	Policy and procedures to be finalised and implemented	High
		<ul style="list-style-type: none"> <li>Shareholders/Stakeholders involved in the review</li> </ul>	Consulted with Federal Minister, NSWF and WAFF	Communication of proposed process to stakeholders	High



## 11. Risk, Fraud and Intellectual Property

### 11.1 Three Year Review Recommendation

**AWI comprehensively review its risk, fraud and intellectual property 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**

### 11.2 Evaluation Criteria

The evaluation criteria for this recommendation are:

- ▶ Review of plans completed.
- ▶ Education/communication of staff to ensure understanding of plans.
- ▶ Staff feedback on plans to identify consistent application.
- ▶ Company's IP and contracting procedures are consistent.

### 11.3 Findings

#### 11.3.1 Review of plans

Risk and Fraud plans have been updated since the 2006 – 2009 Review of Performance, following workshops with AWI Staff. These updated reports were presented to the Board in February 2010 and sent to the Minister the following month. The new fraud and risk plans are subject to six monthly reviews submitted to the FAC Board Committee the first of which took place in April 2010. The Board requested that the Fraud Plan be clarified to 'state that the policy applies to Directors, employees, agents and contractors.' The IP plan has not been updated but is current and will be revised in 2011. Risk is formally considered in the proposal and planning phases of projects.

#### 11.3.2 Staff understanding and feedback of plans

Contracting and IP training is part of the staff induction process. User guides have been available on the staff intranet since 2007 and are updated as required. . The Contracts Manager and the Global Brand and Licensing Manager also run annual internal training sessions (the last one occurring in October 2009). In addition, the Contracts Manager conducts regular contract audits – the last was completed at the end of March 2010, with findings reported to the then Company Secretary who subsequently reported this to the CEO. Following this the CEO issued an email on 10 May 2010 to all General Managers advising them of the audit's key findings. The Contracts Manager also sent an email to all staff on 18 May 2010 reminding them of specific aspects of AWI's contracting policy and procedures. It is AWI policy that all contracts must be reviewed by the Global Contracts Manager prior to execution, while from September all project proposals for IP management must be reviewed by the Global Brand and Licensing Manager.

All company policies and procedures were circulated to staff in August 2010 and are available on the AWI intranet.



**Table 15 Contract and IP workshop with AWI staff**

Region	Number of staff attending	Position	Date & Time
Korea	1	Country Manager	6 October, 11:30am – 12:30pm
Japan	1	Country Manager	13 October, 11:30am – 12:30pm
USA	3	Country Manager, Key Account Manager, Marketing Officer	7 October, 8am – 9am
Hong Kong	2	Country Manager, Senior Manager – Training & Education	8 October, 1:30pm – 2:30pm
Shanghai	2	Account Manager Menswear, Asst Product Marketing Manager and others	13 October, 1:30pm – 2:30pm
India	4	Country Manager, Manager Finance, Product Marketing Manager and the then Director India/South East Asia	8 October, 3pm – 4pm
Sydney	19	Senior Project Officer, Global Product Co-ordinator, Global Product Development Manager – Sports/Outdoor, Global Product Development Manager – Knitwear & Wovens, then Legal Counsel, Administrator – on-farm (x3), then Manager of Office of the CEO, IT Manager, Financial Accounting Manager, GM – Finance & IT, then Administrator – Legal, Fashion Co-ordinator, IP & Contracts Co-ordinator, Project Manager – on-farm, Marketing Co-ordinator, Web Co-ordinator, Project Accountant	7 October, 10am – 11am
Europe (Italy, Germany, Spain, UK, France)	11	Regional General Manager, Country Manager – Germany, Austria, Switzerland plus Sports Europe, Key Account Manager – Spain, Key Account Manager – France, Key Account Manager – Turkey, Country Manager – Italy, Key Account Manager – UK, Woolmark Technical Services Manager.	8 October, 5pm – 6pm
<b>TOTAL</b>	<b>43</b>		



### **11.3.3 IP and contracting**

Both the Contracts and IP Policy and procedures are on the company's intranet and in the staff folders issued to Sydney office staff. The Global Brand and Licensing Manager is responsible for both these documents and therefore ensures they are consistent.

## **11.4 Summary**

Table 16 summarises the company's performance with respect to the management of risk, fraud and intellectual property.

The company will provide all policies and procedures, including risk, fraud and IP, to staff as a hard copy manual and on the AWI intranet by December 2010. Staff have been involved in reviewing the policies and procedures to ensure they are rigorous and realistic. Training on policies and procedures is being progressively implemented to ensure staff are aware of the policies and procedures and associated obligations. The company has established a schedule to ensure the policies and procedures are regularly reviewed.



**Table 16 Risk, fraud and intellectual property – Summary of performance**

Area	Summary of recommendations in 2006-2009 Review of Performance	Evaluation criteria	Actions completed	In progress	Likelihood of being achieved to inform Levy Poll 2012
<b>Governance</b>	AWI comprehensively review its risk, fraud and intellectual property 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.	Review of plans completed	Risk and Fraud plans updated	IP plan to be reviewed in 2011 in line with SFA requirements	High – plans either updated or scheduled. On-going review process established
		Education/communication of staff to ensure understanding of plans	Contract and IP staff training Guidelines provided to staff	Training will be scheduled to ensure all staff are aware	High – all guidelines available and regular training schedule established
		Staff feedback on plans to identify consistent application	Staff engaged in reviews	Staff will be engaged in future reviews	High – staff engagement embedded in business process
		Company's IP and contracting procedures are consistent	Procedures consistent	On-going revision	High – IP and contracting revised in parallel to ensure consistency



## 12. Documentation and Communication

### 12.1 Three Year Review Recommendation

**AWI comprehensively document and communicate the actions the company is currently taking to improve business processes**

### 12.2 Evaluation Criteria

The evaluation criteria for this recommendation are:

- ▶ Establishment of a performance framework.
- ▶ KPIs to measure outcomes.
- ▶ Evidence of linkage of KPIs from strategic plan to operating plan to staff performance agreements.

### 12.3 Findings

#### 12.3.1 Establishment of a performance framework

AWI's strategic and operational plans include strategic objectives, KPIs as well as business objectives and actions. The latter document the actions AWI is undertaking to improve business performance. In addition the board is establishing KPIs to measure and manage improved performance.

#### 12.3.2 Performance framework and KPIs

AWI's *Strategic Plan 2010-2013* provides a detailed framework for its five key strategic objectives (outlined in Section 4.3). The framework includes a series of KPIs to measure outcomes. The framework and associated KPIs are reproduced in the *Operating Plan 2010-2011*. When the evaluation framework is implemented the company will be able to report performance.

#### 12.3.3 Linkage to staff performance agreements

AWI has developed a *CEO Evaluation* document which articulates the CEO's performance measures against a range of financial, operational and leadership objectives. AWI is starting to review staff performance agreements following the October restructuring of the overseas marketing functions, to ensure they are consistent and aligned with the strategic plan.

### 12.4 Summary

A summary of AWI's performance in the area of documentation and communication is provided in Table 17.

AWI has included business improvement objectives and actions in the current strategic plan. The company intends to document progress against business improvements and the strategic plan KPIs once the evaluation framework is implemented. Staff job descriptions will be revised in 2011 to ensure performance measures are aligned.



**Table 17 Documentation and communication – Summary of performance**

Area	Summary of recommendations in 2006-2009 Review of Performance	Evaluation criteria	Actions completed	In progress	Likelihood of being achieved to inform Levy Poll 2012
<b>Operations</b>	AWI comprehensively document and communicate the actions the company is currently taking to improve business processes.	<ul style="list-style-type: none"> <li>Establishment of a performance framework</li> </ul>	Framework developed	Full implementation	High – performance framework established. Will be implemented in 2011
		<ul style="list-style-type: none"> <li>KPIs to measure outcomes</li> </ul>	Framework developed	Implementation	High – company KPIs established to measure outcomes. Will be able to report against KPIs when evaluation framework implemented. Board developing KPIs for own performance
		<ul style="list-style-type: none"> <li>Evidence of linkage of KPIs from strategic plan to operating plan to staff performance agreements</li> </ul>	N/A	Review job descriptions and performance measures	High – scheduled for 2011



## 13. Conclusions and Recommendations

### 13.1 Progress towards Implementing the Three Year Performance Review Recommendations

AWI has acted on all the recommendations of the three year performance review to the degree where they are all either completed or work is underway to achieve the recommendations before the 2012 Wool Poll. The findings for each recommendation are summarised below and rated as follows:

- ▶ **Completed** – work to address recommendation completed and no further action required,
- ▶ **In progress** – work in progress will address the recommendation before the 2012 , and
- ▶ **Partial** – work is in progress and improvement identified to address the recommendation.

#### 13.1.1 Defining and Communicating AWIs Position and Role in the Industry (Completed)

Overall AWI has defined its' role as the industry's R&D and marketing organisation and communicated this to stakeholders. The role is generally accepted, although stakeholders are reserving judgement on the effectiveness of this role until:

- ▶ The company maintains its tighter focus for a sustained period of time; and
- ▶ The benefits of the revised strategy are starting to be actually realised.

#### 13.1.2 Appropriate Strategy Setting Process to Provide a Clear and Detailed Plan (Partial)

The company undertook a structured approach to developing its strategy. This involved each functional area developing strategies for their respective areas which were integrated by board and management to develop a whole of company strategic plan. The plan includes a strategic framework which includes strategic and business objectives outlining what the company is seeking to achieve for levy payers and its own operations respectively. The strategic plan provides high level rationale and supporting performance measures and key activities. Stakeholders were consulted during the strategic planning process, and identified their top five R&D priority areas which was used to guide the Strategic Plan and Annual Operating Plan. A project evaluation framework will provide supporting analysis once implemented.

Overall the process has delivered a comprehensive, justified and transparent strategy. The development of strategy guidelines will improve the appropriateness (rigour and transparency) of future strategy process. This should include tighter integration of the evaluation framework, stakeholder engagement and links to key decisions and supporting analysis.

#### 13.1.3 Establishment of Planning and Evaluation Structures to Support Levy Payer Value Creation in the Strategy Process (Partial)

AWI have established structures for actively engaging the management and board in planning and evaluation. The Global Manager for Strategy and Marketing leads the planning process in which senior managers and the board are engaged. Value to levy payers was the key criteria used in developing the strategy.



An evaluation framework has been developed to provide qualitative and quantitative on the value created from existing and proposed projects at the project, program and company levels. Guidelines for the framework are being finalised, after which staff will be trained and the framework implemented across the company in time for the next planning and investment cycle.

#### **13.1.4 Constructively Engage Shareholders and Stakeholders (Partial)**

AWI have established an annual cycle of consultation with its stakeholders including two consultative committees, the Industry Consultative Committee and Animal Welfare Forum. An Expert Marketing Panel and the Italian Leadership Group were established in March 2010, with plans for the Leaders Group to be expanded in 2010 with representatives from the UK, USA, China and Japan, This approach clearly signals and provides stakeholders opportunities to engage with AWI.

AWI intends to continue improving stakeholder engagement through:

- ▶ Formalising when and how AWI engages stakeholders to develop strategy;
- ▶ Providing communiqués on the outcomes of stakeholder committees' meetings to all stakeholders; and
- ▶ Assessing the quality and frequency of engagement with key stakeholders and adapting their Community Strategy as required.

AWI may benefit from using a more detailed partnership assessment technique, such as the Nuffield partnership technique, to provide a deeper and transparent approach to key stakeholder engagement.

A final consideration is the potential of the stakeholder groups created by AWI to evolve into broader industry fora where industry bodies meet to exchange information and solve common problems. This would be a positive development which AWI should support, but not lead, in line with its role as the industry's RD&M organisation.

#### **13.1.5 Establish a Performance Measurement and Reporting Framework (Partial)**

AWI has developed KPIs, an evaluation framework and a structured approach to consulting with stakeholders. The framework needs to be implemented before the value created for levy payers by AWI can be effectively measured and reported.

#### **13.1.6 Review Company Structure of Processes Against Other Industry Owned Companies to Consider Improvements (Complete)**

AWI has restructured based on formal review of structures, processes and subsidiary companies to align with the strategic plan and deliver cost savings. Changes are reflected in the operating plan and changes after July 2010 will be represented in the 2011-2012 operating plan. AWI liaises with other RDCs to identify business improvement, although formal benchmarking was not undertaken.

#### **13.1.7 Review Corporate Governance Practices (In Progress)**

AWI has revised its corporate governance practices to align with the ASX Corporate Governance Guidelines and Recommendations. The division of function between the board and management has been established and guidelines on all board and company procedures have been provided to the directors and a schedule of on-going review agreed to. The board is working with an external consultant



to improve performance, including, developing a set of key performance indicators to measure and manage performance.

#### **13.1.8 Appointment of Directors (In Progress)**

AWI has revised the architecture for electing directors to ensure a skills based board. This will involve a nominations committee procedure rather than a constitutional change and is in line with the ASX Corporate Governance Principles and Recommendations. The revised procedure will be operational in time for the 2011 board elections.

#### ***Risk, Fraud and Intellectual Property Review (In Progress)***

The company will provide all policies and procedures, including risk, fraud and IP, to staff as a hard copy manual and on the AWI intranet by December 2010. Staff have been involved in reviewing the policies and procedures to ensure they are rigorous and realistic. Training on policies and procedures is being progressively implemented to ensure staff are aware of the policies and procedures and associated obligations. The company has established a schedule to ensure the policies and procedures are regularly reviewed.

#### ***Documentation and Communication of Business Improvements (In Progress)***

AWI has included business improvement objectives and actions in the current strategic plan. The company intends to document progress against business improvements and the strategic plan KPIs once the evaluation framework is implemented. Staff job descriptions will be revised in 2011 to ensure performance measures are aligned.

### **13.2 Improvements in Operations during 2009-2010**

During 2009-2010 AWI continued or commenced actions to set the strategic direction of the company, effectively engage stakeholders, improve business processes and secure the financial foundations of the company.

The strategic and annual operating plans were developed, focused on the company's role as the R&D and marketing organisation for the wool industry. The plans also included business objectives aimed at improving the performance of the company. The plans are comprehensive, justified and aligned with the role and investment allocations determined through Wool Poll.

A communication strategy involving a structured, annual consultation cycle was developed and implemented. This provided stakeholders with a clear signal and the opportunity to engage with the company. An active listening approach was adopted throughout the consultation. Stakeholders are reserving judgement on the on-going effectiveness of the consultation and the performance of the company. They appreciate the efforts made and believe stakeholder engagement is improving.

Key business improvements include restructuring to align with the strategy, the move to reviewing all policies and procedures, development of an evaluation framework, and revision of the project management process. Structural changes include integrating the on and off farm R&D functions and streamlining the overseas marketing functions. The evaluation framework and revised project management process created the foundations for line of sight through the company to inform investment decisions, monitor progress and report value created to levy payers and stakeholders. The associated benefits will be realised once they are fully implemented. Since 2007, contracting and IP manuals have



been on the AWI intranet and regular staff training has been occurring since this time to ensure AWI staff understand these manuals.

Cost savings have been realised largely through reduction in staff numbers associated with the restructure. AWI has also committed to investing in line with the allocations defined at Wool Poll and achieving balanced budgets.

### **13.3 Recommendations**

AWI has made a number of significant changes to its processes and operations based on the recommendations of the three year performance review. Additionally, positive changes have also been made by the Board and Management in response to opportunities identified during the most recent strategic planning cycle.

While a number of the changes have been completed, there are several areas in which change is in progress and a few where change has not yet commenced (although plans are in place to make change).

The consultant considers that implementation of the recommendations has resulted in improved company processes that will ultimately lead to demonstrable outcomes for levy payers and other stakeholders (R&D, marketing, retailing). Our consultation found that stakeholders have acknowledged the genuine efforts of AWI to adopt the review recommendations and have generally been pleased with the direction of change.

For those areas where change has not been completed, it would be detrimental to levy payers and other stakeholders if efforts were not continued to ensure the complete adoption of all recommendations prior to Wool Poll 2012.

GHD supports AWI's intention to conduct a further formal review to be completed in September 2011. The review should consider progress towards **original review recommendations** and the following **critical issues** identified through this review:

#### ***Stakeholder engagement***

- ▶ Evidence that stakeholders are appropriately engaged in strategy and that relationships are effective.

#### ***Strategy process***

- ▶ Strategy process is documented, followed and stakeholders effectively engaged.

#### ***Evaluation framework***

- ▶ The framework is fully implemented to provide the foundation for monitoring, evaluating and reporting performance at program and company scales.

#### ***Skills Based Board***

- ▶ The procedures for electing a skills based board are ready to be implemented and understood by shareholders and stakeholders.



Appendix A  
**Summary of Stakeholder Consultations**

1 July 2009 – 30 June 2010



Date	Event	Location
03-Jul-09	WA Farmers Narrambeen	Narrambeen
06-Jul-09	WA Farmers Cool Council Meeting	Western Australia
10-Jul-09	Guest speaker at Ovens Valley Wether Trial	Everton
17-Jul-09	Bendigo Sheep & Wool Show	Bendigo
22-Jul-09	Australian Superfine Woolgrowers Assoc meeting	Laverton
27-Jul-09	Goulburn Growers Forum	Goulburn
27-Jul-09	Cooma Grower Forum	Cooma
28-Jul-09	Temora Grower Forum	Temora
28-Jul-09	Wagga Grower Forum	Wagga
28-Jul-09	SE Merino Field Days	Keith
2-4/8/09	Sheepvention	Hamilton
08-Aug-09	Meet with Agforce	Brisbane
13-Aug-09	Marks & Spencer and Industry Meeting	Canberra
14-Aug-09	DAFF meeting	Canberra
17/18-Aug-09	Animal Welfare & Dog information days	Sydney
26-Aug-09	Dubbo Ram Sale - Lunch & Dinner	Dubbo
26-27/8/09	Dowerin Field Days	
28-Aug-09	Esperance Field Day	
03-Sep-09	Guest speaker at South West Slopes Merino Field Day	Young
06-Sep-09	Esperance Field Day	
09-Sep-09	Adelaide Show	South Australia
13-14-Sep-09	NSW Farmers Association - Wool Committee Meeting	Sydney
18-19/9/09	Moora Show	Western Australia
7/9-Oct-09	Woolgrower Forums Mudgee, Armidale & Warialda	Various
08-Oct-09	Armidale Grower Forum	Armidale
08-Oct-09	Warialda Shearing Competition Official Dinner	Armidale
09-Oct-09	National Shearing Championships	Warialda



Date	Event	Location
21-Oct-09	QLD Governor's Breakfast -	Brisbane
22-Oct-09	Meet with Ministers Crean & Burke	Canberra
25-Oct-09	YASS ASWGA	YASS
26-Oct-09	Dubbo Growers Forum	Dubbo
27-Nov-09	AWI AGM	Sydney
9 - 13/ Nov-09	NRF and BRC meetings	USA & UK
16 – 20 Nov-09	IWTO conference	India
18-Dec-09	Woolgrower Forum/Strategic Planning Day	Sydney
22-Dec-09	DAFF meeting	Canberra
09-Jan-10	NE Merino Field Day & Dinner	Walcha
19-Feb-10	Animal Welfare Strategy Meeting	Canberra
19-Feb-10	SMBA WA AGM	Perth
22-Feb-10	Don Brown Memorial Merino Ewe Competition and Field Days	Condoblin
05-Mar-10	Wagin Woolorama	WA
06-Mar-10	Mudgee Show	Mudgee
14-Mar-10	L'Oreal Melbourne Fashion Festival	Melbourne
15-Mar-10	SA Stud Merino Breeders Field Days	Adelaide
17-Mar-10	Meet with Minister Burke	Canberra
17-Mar-10	Sheep Connect Launch	Conargo
23-Mar-10	Meet with WoolProducers	Canberra
25-Mar-10	WA Farmers Wool Conference	Perth
16-Apr-10	ICC	Sydney
27-Apr-10	Yeoval Show (NSW)	
28-Apr-10	Animal Welfare Day	Sydney
29-Apr-10	NRF Visit - Erik Autor	
30 Apr -5 May 10	IWTO	France
01-May-10	Wellington Show	New Zealand



Date	Event	Location
03-May-10	Rosemount Australian Fashion Week	Sydney
06-May-10	Ag Fair TFGA	Tasmania
07-May-10	Wool Expo	Armidale
07-May-10	Broken Hill Field Days	
19-May-10	AWI Grower Forum	Sydney
28-May-10	TGFA Presentation	Tasmania
28-May-10	Campbelltown Show	
04-Jun-10	North Tuppal Shearing Re-enactment	Albury
09-Jun-10	NSW Farmers Association Annual Wool Forum	Dubbo
22-Jun-10	BestWool/BestLamb Conference	Bendigo
9/10 Jul 10	Ultimate Clip Award Ceremony	Newcastle
24-Jun-10	Victorian Farmers Federation Conference	Bendigo
29-Jun-10	Ovens Valley Wether Trial	Everton
16-Jul-10	Stud Merino Breeders Meeting	Bendigo
21-Jul-10	NSW Farmers Association Conference	Sydney
23-Jul-10	Superfine Woolgrowers AGM	Kensington
06-Aug-10	Meet with Agforce	Brisbane



Appendix B  
Materials Reviewed



## Materials reviewed

- ▶ Arche Consulting (2009) *Australian Wool Innovation; 3 Year Review of Performance – Final Report*, August
- ▶ Arche Consulting (2009) *Australian Wool Innovation; 3 Year Review of Performance – Summary Report*, August
- ▶ Australian Government Productivity Commission (2010) *Rural Research and Development Corporations – Productivity Commission Issues Paper*, March
- ▶ Australian Veterinary Association Limited (2010) *AVA report on progress of AWI R&D on mulesing alternatives against wool industry commitments to international retailers*
- ▶ Australian Wool Innovation Limited *Risk Management Policy and Framework*
- ▶ Australian Wool Innovation Limited *Fraud Control Plan*
- ▶ Australian Wool Innovation Limited *Intellectual Property Management Plan*
- ▶ Australian Wool Innovation Limited *Contract and IP Training*
- ▶ Australian Wool Innovation (Unknown) *Australian Wool Innovation’s Flystrike Prevention Road Map*
- ▶ Australian Wool Innovation (Unknown), *Wool Growing Industry Consultation Committee – Terms of Engagement*
- ▶ Australian Wool Innovation (2006) *Corporate Governance Communications Strategy*
- ▶ Australian Wool Innovation (2006) *Code of Conduct Obligations to Stakeholders*
- ▶ Australian Wool Innovation (2008) *Board Charter*
- ▶ Australian Wool Innovation Limited (2008) *Intellectual Property Management Plan*
- ▶ Australian Wool Innovation Limited (2008) *AWI Strategic Plan: 2008/09 – 2010/11*
- ▶ Australian Wool Innovation Limited (2008) *AWI Operating Plan 2008/09*
- ▶ Australian Wool Innovation (2009) *Grievance Policy*
- ▶ Australian Wool Innovation (2009) *Conflicts of Interest – Directors and Officers*
- ▶ Australian Wool Innovation Limited (2009) *Annual Report 2008/09*
- ▶ Australian Wool Innovation Limited (2009) *Constitution – Effective as from 27 November 2009*
- ▶ Australian Wool Innovation Limited (2009) *Briefing Note – AWI & BRC Meeting 16 September*
- ▶ Australian Wool Innovation Limited (2009) *Briefing Note – AWI & NRF Meetings 7 October*
- ▶ Australian Wool Innovation Limited (2009) *Briefing Note – Background briefing for NRF phone hookup on 16/07/09*
- ▶ Australian Wool Innovation (2009) *Animal Welfare Forum Meeting Agenda – 17 August*
- ▶ Australian Wool Innovation (2010) *Communications Strategy – Update, 5 July*
- ▶ Australian Wool Innovation (2010) *Risk and Fraud Prevention Plans*, Finance and Audit Committee



- ▶ Australian Wool Innovation (2010) *Charter of the Committees of the Board*, October
- ▶ Australian Wool Innovation (2010) *Chairman's Report*, July
- ▶ Australian Wool Innovation (2010) *CEO Evaluation Criteria*
- ▶ Australian Wool Innovation (2010) *Meeting Agenda; AWI Wool Growing Industry Consultative Committee*
- ▶ Australian Wool Innovation Limited (2010) *Operating Plan 2010-2011*
- ▶ Australian Wool Innovation Limited (2010) *Strategic Plan 2010 to 2013, Full Version*
- ▶ Australian Wool Innovation Limited (2010) *Submission to the Productivity Commission's Review of Rural Research and Development Corporations*, June
- ▶ Australian Wool Innovation Limited (2010) *Briefing Note CRRDC Meeting 11 May*
- ▶ Australian Wool Innovation Limited (2010) *Briefing Note CRRDC Meeting 1 March*
- ▶ Australian Wool Innovation Limited (2010) *AWI Research, Development & Communications Strategy: Breech Flystrike Prevention*
- ▶ Australian Wool Innovation (2010) *AWI Research, Development & Communications Plan: Breech Flystrike Prevention, updated September*
- ▶ Australian Wool Innovation Limited (2010) *Quarterly Update – Retailers*, June
- ▶ Australian Wool Innovation Limited (2010) *Quarterly Update – 'Whats New at AWI'*, September
- ▶ Australian Wool Innovation Limited (2010) *Brief – Quarterly Meeting with DAFF – 2 July*
- ▶ Australian Wool Innovation Limited (2010) *Agenda – DAFF & AWI Quarterly SFA Meeting Agenda, 1 April*
- ▶ Australian Wool Innovation Limited (2010) *Agenda – 6 Monthly Meeting with DAFF – 17 June*
- ▶ Australian Wool Innovation Limited (2010) *Brief – Six Monthly Meeting with DAFF – 17 June*
- ▶ Australian Wool Innovation Limited (2010) *Agenda – DAFF & AWI Quarterly SFA Meeting Agenda, 2 July*
- ▶ Australian Wool Innovation Limited (2010) *AWI Response to National Review of Rural R&D Investment*, Letter to Dr Kate Grenot, Chair Rural R&D Council.
- ▶ Australian Wool Innovation (2010) *Animal Welfare Forum Meeting Agenda – 28 April*
- ▶ Australian Wool Innovation Limited (2010) *Memo – Re: Briefing for Quarterly Meeting with DAFF on 1 April*
- ▶ Australian Wool Innovation (2010) *Confidential extract from Board minutes, meeting held 9 July*
- ▶ Australian Wool Innovation (2010) *Confidential – Appointing a Board Nomination Committee*
- ▶ Australian Wool Innovation. (2010) *Flystrike Communications Strategy*  
Attachment A; AWI's Overview of Priorities and Programs 2010-11



Attachment B; AWI's SFA Requirements

Attachment C; AWI's Response to 2006 – 2009 Review of Performance Recommendations

Attachment D; Australian Veterinary Association; Re: AVA Report on Progress of AWI R&D on Mulesing Alternatives Against Wool Industry Commitments to International Retailers

Attachment E: Australian Wool Production Forecast Report, December 2009

- ▶ Council of Rural Research and Development Corporations Chairs *Strategic Plan 2010-11*
- ▶ Office of Legislative Drafting and Publishing, Attorney General's Department, *Wool Services Privatisation Act 2000, Act No. 145 of 2000 as amended* (Canberra)
- ▶ Office of Legislative Drafting and Publishing, Attorney General's Department, *Wool Services Privatisation (Wool Levy Poll) Regulations 2003 Statutory Rules 2003 No. 50 as amended* (Canberra)
- ▶ PricewaterhouseCoopers (2010) *Australian Wool Innovation, Project Evaluation Framework*
- ▶ RSPCA Australia Inc (2009) *Prevention and Control of Blowfly Strike in Sheep*
- ▶ RSPCA Australia Inc (2010) *Letter Re: RSPCA Australia Position on Mulesing and the Development of Alternatives*, 24 August
- ▶ The Commonwealth of Australia and Australian Wool Innovation Limited, *Statutory Funding Agreement 2007 to 2010 for the Purposes of the Wool Services Privatisation Act 2000*
- ▶ The Commonwealth of Australia and Australian Wool Innovation Limited, *Statutory Funding Agreement 2010 to 2013 for the Purposes of the Wool Services Privatisation Act 2000*

**Other materials:**

Summary of AWI's Priorities 2010-11, Agenda Item 5-7

Quarterly Meeting with Australian Wool Innovation, 2 July 2010

Letter from The Hon. Tony Burke to Wal Merriman regarding nominations process for a skills based board, 1 July 2010

Letter from NSW Farmers Association to Wal Merriman regarding nominations process for a skills based board, 7 July 2010

Letter from AWI Chair to NSW Farmers Association regarding nominations process for a skills based board, 13 July 2010

Letter from AWI Chair to Tony Burke regarding nominations process for a skills based board, 14 July 2010

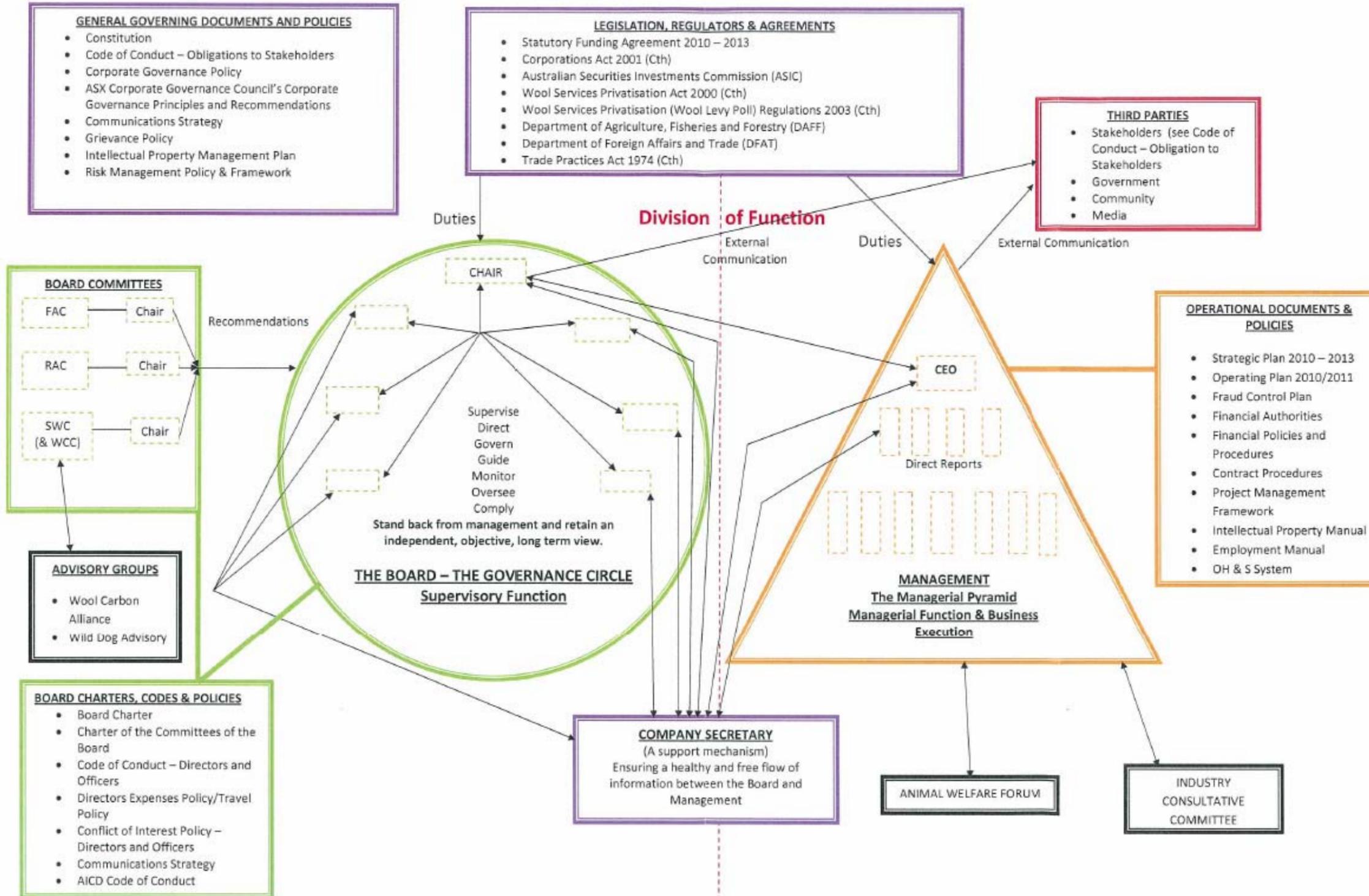
Letter from AWI Chair to WAFF regarding nominations process for a skills based board, 6 August 2010

Letter from WoolProducers Australia to AWI regarding consultation with growers, 22 September



Appendix C

# AWI – Board, Management and Corporate Governance Structure



**AWI – BOARD, MANAGEMENT & CORPORATE GOVERNANCE STRUCTURE**



Appendix D  
**Stakeholders Consulted**



**Table B1 Stakeholders consulted during the project**

Name	Role	Organisation / Group
Stuart McCullough	Chief Executive Officer	Australian Wool Innovation
Tracy Marshall	General Manager Finance	Australian Wool Innovation
Peta Slack-Smith	Corporate Affairs Manager	Australian Wool Innovation
Jane Littlejohn	Research & Development Manager	Australian Wool Innovation
Walter Merriman	Chairman	Australian Wool Innovation
Roger Fletcher	Deputy Chairman	Australian Wool Innovation
Rob Langtry	Marketing Manager	Australian Wool Innovation
Kirsten Berg	Global Brand Integrity & Licensing Manager	Australian Wool Innovation
Sally Holmes	Company Secretary	Australian Wool Innovation
Simon Murnane, Susan Wishart		Department of Agriculture, Fisheries & Forestry
Dr David Hucker, Melina Tensen		Animal Welfare Forum
Jock McRae, Don Hamblin		Industry Consultative Committee



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Rev No.	Author	Reviewer		Approved for Issue		
		Name	Signature	Name	Signature	Date
1	E Ray & P Dellow	JP van Moort		JP van Moort		23.09.10
2	JP van Moort	J Lane		JP van Moort		05.11.10
3	JP van Moort	P Dellow		JP van Moort		09.11.10
4	JP van Moort	P Dellow		JP van Moort		18.11.10