



Australian Wool Innovation

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

Summary of findings

June 2012



Background

This report presents the findings of a three-year performance review of Australian Wool Innovation (AWI). Performance reviews of this type are required to be carried out by each of the industry-owned R&D corporations such as AWI under the respective Statutory Funding Agreements between the corporation and the Commonwealth Government. The review must be undertaken by an independent consultant.

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

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

Overview of findings

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

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

Approach to the Review

The approach to the Review comprised a study of over 70 documents relating to AWI's processes, plans and performance; interviews with AWI senior management, directors, a consultant working closely with the company on corporate governance, officers of the Department of Agriculture, Fisheries and Forestry (DAFF), senior personnel of wool industry representative bodies and other industry personnel; and analysis.

Interim and Draft Reports were presented to AWI for comment. These reports provided AWI the opportunity to identify any errors of fact or cases where the consultants may have been unaware of evidence that may have modified a conclusion that had been reached. Following several amendments, the Final Report was submitted.

Final decisions on the content of the Final Report remained with the consultants throughout the review process.

External and internal operating environment

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

The CEO in place at the start of the review period resigned in March 2010 and one of the directors resigned in June 2010. Since then, the governance structure of AWI has been considerably more stable. During the first few months of the tenure of the current CEO, AWI performed creditably to develop a new three-year strategic plan and annual operating plan, renegotiate the Statutory Funding Agreement (SFA) and prepare a submission to the Productivity Commission's (PC's) Review of Rural Research and Development Corporations. A significant process of additional consultation with industry was also undertaken.

Corporate governance

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

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

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

One of the Board committees, the Science and Welfare Committee (SWC), has the role of advising the Board on its investments in R&D. The SWC is a virtual duplicate of the Board, comprising five of the directors and no external personnel. This Review has concluded that the SWC does not have the appropriate skill mix for its role. Although the establishment of Expert Panels in some R&D areas is commended, the existence and structure of the Science and Welfare Committee needs to be reviewed.

As part of this Review, a detailed study was undertaken of the decision-making processes associated with an application for the continuation of AWI support for the Information

Nucleus Flock (INF), a genetic research resource managed by the Cooperative Research Centre for Sheep Industry Innovation. The 'INF2' project was selected because it was particularly topical at the time of undertaking this Review and had received considerable negative coverage, particularly in one rural media publication.

The analysis is described more fully in the Final Report. The Review has concluded that AWI followed its internal processes in assessing the application. The Board appropriately reserves the right to approve or reject a funding application of the size of INF2 and there are several possible sound reasons why the Board rejected the INF2 funding. On the other hand, AWI appears not to have communicated the reason(s) for non-approval clearly to stakeholders. The onus on the Board to justify decisions apparently at odds with the Strategic and Operating Plans is greater than it is for decisions where the fit is less clear.

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

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

Planning and reporting

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

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

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

The Annual Report 2010/11 provides reasonable coverage of AWI's activities but provides few indicators of actual outputs or outcomes delivered. The Annual Report 2011/12 is also likely to be deficient in this respect because the current Operating Plan 2011/12 does not have clear KPIs.

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

Liaison with stakeholders

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

AWI has met its obligations for meeting with DAFF and its reporting to DAFF is very thorough, having improved progressively over the review period. DAFF reports a strong and cordial relationship with AWI.

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

Delivery of benefits to industry

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

There is evidence from a number of independent reviews of AWI projects delivering positive benefit/cost outcomes. Generally, though, and despite the publication of a commendable 'Performance report 2011', AWI could improve its reporting of the benefits of its investments as distinct from input and process measures. Notwithstanding the above comments, AWI has met the obligations of the SFA in respect to the delivery of benefits to stakeholders.

Changes since the previous performance review

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

Conclusions and recommendations

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

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

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

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