

**Susan Finnigan**

## **AWI Performance Review**

Comments

### **1. AWIs Obligations under the Statutory Funding Arrangements**

***Do you have concerns that Australian Wool Innovation is not meeting its obligations under the Statutory Funding Agreement 2016-2020 with the Commonwealth and the Wool Services Privatisation Act 2000?***

The statutory funding agreement (SFA) is broad in scope and thus, AWIs obligations under this agreement are difficult to determine. One can easily suggest that these have been met. However, some areas could be strengthened, including the requirement for AWI to have a “commercial board with skills relevant to objects, to undertake research, development and innovation and other activities for the benefit of woolgrowers”.

The AWI Board (based on the [www.wool.com](http://www.wool.com) website) includes people who have an overwhelming breadth of experience in managing wool production and brokering enterprises. Only one Board member has completed a tertiary education course. There are no (obvious) formal business, legal and/or financial qualifications. For a research and development organisation, one would imagine that these skills would be a fundamental requirement.

Commonwealth matching payments must be used for Research and Development Activities related to the industry for the benefit of shareholders and levy payers and the Australian community generally (clause 26.2(b)(i)).

### **2. Governance arrangements**

***Do you think the current governance arrangements are effective in running Australian Wool Innovation and delivering benefits?***

How is AWI progressing towards a “skills-based” board, with limited qualifications in business/economics/law to ensure they are managing the company appropriately? While an understanding of the wool industry is important, commercial business experience, strategic planning and legal qualifications are key to ensuring that the company meets their statutory requirements, has the ability to “think outside the square” and can manage the fraught relationships which exist in the Australian wool industry.

As an experienced industry participant, one must question the role that Mr Merriman played during the focus group where he observed participants. Despite the apology and explanation, it begs the question about his professionalism, integrity and existing conflicts. With tertiary qualifications and/or commercial business experience, one would understand the importance of ethics, conflict of interest, etc. If his disclosed attendance at the meeting was decided by the market research company, then I question their integrity and ethics, given the controversial nature of the discussion. This then leads to questions regarding the skills of AWI to engage appropriate consultants to undertake relevant activities.

Have the roles of Board Chair/CEO and staff been communicated and articulated? It seems bizarre that the Board Chair would even attend a focus group, presumably managed by a staff member at a lower level within the organisation. "A board is responsible for the overall governance, management and strategic direction of the organisation and for delivering accountable corporate performance in accordance with the organisation's constitution or in the enabling legislation under which the organisation is registered or incorporated". It is and should not be about operational management unless and until major breaches of company values, direction, etc are infringed.

The board appears to have a "hands on role" in making organisational decisions regarding research and development funding. In fact, one board member, who has a pecuniary interest in pain relief for sheep sits on the science and welfare committee. At least this board member is scientifically trained, presumably understands scientific process, etc. No other Committee members have understanding of scientific process, etc.

### **3. Planned outcomes**

***To what degree do you consider Australian Wool Innovation is meeting industry expectations? Would you consider Australian Wool Innovation to be on track to meet its planned outcomes and targets outlined in their strategic plan 2016/19.***

There has been a significant decline in the wool flock over the last fifteen years. While the millennial drought can take some responsibility, it is likely that low profitability in the wool industry has had some contribution. Clearly, this has led to a reduction in wool supply. Occasional references by AWI Board members to 'managing wool supply' to increase wool prices is almost a retrograde step to achieving long-term profitability and sustainability in wool production systems.

The recent increases in wool prices will keep many wool producers happy. It is likely that these wool price increases will be directly attributable to AWI's marketing strategies. I believe that this marketing strategy which precludes significant research into innovative practices and production systems and is antagonistic towards productivity increases has directly contributed to price increases. Lower supply generally equates to higher prices.

### **4. Benefits**

***What benefits does Australian Wool Innovation deliver to you? Are there any specific barriers to you receiving those benefits?***

Research and development to assist in improving our productivity and ability to run more sheep with less labour inputs and more efficiently is critical to the long-term survival of our business.

Our key challenges are focussed around alternatives to manage breech strike without mulesing. We requested a copy of the latest guide to a non-mulesing future and to our horror, discovered that it is a lovely 'coffee table' book, with unreferenced anecdotes from unnamed people. As an organisation with a mandate for research and development, we expect that the information provided to wool growers be subject to scientific rigour, which

ensures that its implementation in our business will lead to success. Unreferenced, anecdotal evidence, does not provide the rigour for us to consider its implementation in our business. We want to see viable alternatives to mulesing to manage breech strike in our sheep, which will satisfy consumers of our product, as they are requesting.

We are actively trying to gain sustainable certification and at this stage, have been accredited through one scheme. We are aware of other schemes, all which have different criteria for accreditation. We question why AWI is not providing leadership in this area to ensure a common approach and ease of certification without us having to go through numerous certification schemes.

## **5. Engagement approach**

***Does Australian Wool Innovation engage, consult and communicate effectively? Have your views been heard by Australian Wool Innovation?***

On the surface, it does appear that AWI engages and consults widely. It is acknowledged that their forum, the Industry Consultative Committee exists and acts as a conduit to be the representative forum for industry engagement.

The membership of this Committee appears to be at odds with the wider stakeholder group which exists in the wool industry. The Stud Merino Breeders Association are not representative of a wide sector within the industry. They are an anachronistic group of people who are fixated on traditional activities associated with non-scientific, non-repeatable methods of sheep selection. This is seemingly at odds with Australian Wool Innovation's name (innovation), mandate (research and development), etc. The use of measurements, genomic tools are not part of AWIs mandate and presumably are not supported by traditional, conservative breeders. We want to see the wool industry adopt methods of sheep selection which are scientific and repeatable.

This committee appears to be the voice of the "squeaky wheel". That membership includes the Western Australian Pastoral and Graziers Association and no other State Farming Organisations is at odds with the composition of the wool industry. A sceptic would suggest that their seat at the table is due to poor wool poll results from Western Australia. Why is it that Wool Producers Australia is not the representative body for the wool industry?

The minutes of two meetings were available on the AWI website. These are from Oct 2017 and Feb 2018. Of note, while membership is described on the AWI website, representatives from other groups seem to be invited. There is no specific description of how these groups become members of this committee. What processes are in place to ensure that attendees as representatives of their organisations are disseminating the information gleaned from these meetings and/or are reflecting perspectives from their membership base?

The two meeting notes, we observed referred to "meeting packs". However, these were not available to the wider community. It is noted that at each meeting, the same priorities remain priorities – what are these? We suggest that AWI place all meeting notes on the website, in an easily accessible location along with information distributed to attendees, in

order to interpret the results of each meeting. How can I as an individual feed information into this process?

Of note, it was recognised that Wool Producers Australia proposed an alternative to the ICC. However, this was rejected by the Board. Without knowing the full details of that proposal, it is difficult to determine its validity. That it was uniformly rejected by the Board doesn't mean much. Why? There is too much cronyism which exists within the Board structure.

How do I know that my views have been heard by AWI? They answer the telephone when I call. Sometimes I receive emailed responses to requests (although this may take some time). I acknowledge that I am 'heard' by AWI, however, their actions suggest that they do not listen. Their focus continues without change.

## **6. Implementing recommendations**

***How effectively has Australian Wool Innovation addressed and implemented the recommendations of the 2012-2015 performance review?***

Key Governance issues identified by the 2012-2015 performance review suggest that the Board develops a skills matrix, which is to be included in the Board charter. The Board Charter available on their website is dated November 2011 and does not appear to have included this recommendation. A later document, "Corporate Governance Policy", appears to have been updated in June 2017. At that time, it was stated that the board had the appropriate composition.

The Board skills matrix is not clear and does not seem to be adhered to. Of grave concern is the number of directors who are 'traditional' producers, rather than those who wish to increase productivity, etc.

There are many vested interests on this board. It is recognised that in board membership, that having a vested interest has the capacity to impair a Director's judgement. Of question, is the ability of people with these vested interests to ensure that they are looking after the best interests of the company and its stakeholders. There is limited diversity within this Board which can lead to "group think" and situations where board members are more concerned with popularity compared with overall industry performance. The system of direct election of Board Members contributes to a populist mentality within the board system.

## **7. Collaboration with Research Development Corporations**

***Does Australian Wool Innovation collaborate well with other relevant Research and Development organisations? Are you aware of joint activities between Research Development Corporations?***

Unsure, no

## **8. Corporations Act 2001**

***Should the replaceable rules in the Corporation Act 2001 apply under AWI Constitution?***

Unable to comment

**9. Australia Wool Innovation employment practices**

***Are Australian Wool Innovation's employment practices appropriate, including whether the engagement of former staff as contractors is undertaken appropriately?***

Unable to comment about their employment practices. Regarding the engagement of former staff as contractors – what policies are in place to engage former staff and on what basis are they engaged? What is the total cost to the company of engaging former staff as contractors compared with their direct employment costs?