
Executive summary

Introduction

This independent review is undertaken in accordance with the Statutory Funding Agreement between Australian Pork Limited (APL) and the Commonwealth Government (the Agreement). The review evaluates APL's performance against its strategic and annual operating plans, and the value for money it provides levy payers over the period 2004/05 to 2006/07.

APL differs to other Rural Research and Development Corporations (RDCs) in a number of ways. First, it is relatively small. Secondly, unlike most other RDCs, APL also has responsibility for the development of policy and representation of the industry on policy matters, and thirdly, APL's pig slaughter levy structure is fixed. Of the \$2.525 per carcass levy, APL is required to spend:

- § \$0.70 on research and development;
- § \$1.65 on marketing activities; and
- § \$0.175 National Residue Survey (NRS).

Pig production in Australia occurs nation-wide, and is becoming increasingly dominated by a large number of specialist producers with significant herd sizes. Domestic consumption of pork has increased over the review period. This increase in demand has been largely driven by demand for fresh pork.

Review methodology

The evaluation criteria for the review are set against the background of the Pig Industry Act, the Agreement and APL's Constitution. The objectives, set out in APL's Constitution, considered most relevant for the evaluation framework are to:

- § provide leadership on the provision of strategic policy development, marketing and R&D services that advance the interests of the Australian pig industry;
- § manage funds the company receives and risks related to the company's ongoing expenditure and funding;
- § investigate and evaluate (and fund) the requirements for strategic policy development, marketing, R&D and innovation in relation to the Australian pig industry; and
- § facilitate the dissemination, adoption and commercialisation of the results of marketing, R&D and innovation in relation to the Australian pig industry.

Based on these objectives and an examination of the activities undertaken by APL, the broad areas of this review are:

- § APL structure and processes;
- § liaison with stakeholders;
- § corporate governance;
- § industry strategy and delivery; and
- § corporate operations.

The evaluation criteria for each of these areas were:

- § alignment with the key objectives;
- § processes for decision making established and implemented;
- § progress towards or support for the achievement of objectives; and
- § efficiency of this progress and any improvements made.

The review has been informed by extensive review of documentation and interviews with APL directors, staff, service providers, industry stakeholders and government.

Major changes since the previous 3 year review

During the current reporting period (2004/05 – 2006/07), the following major changes or events have taken place that may have affected APL's performance in this time.

- § appointment of a new chair (with a background independent of the pig industry);
- § appointment of a new CEO;
- § appointment of new General Managers in the Marketing, Research & Innovation, Finance & Administration and Communication Divisions;
- § commencement and conclusion of litigation in respect to Import Risk Analysis;
- § review and adoption of the Model Code of Practice for Pigs;
- § the implementation of "PigPass", the National Vendor Declaration (NVD) scheme for the pig industry; and
- § adoption of a new Strategic Plan (2005-10) and introduction of a process of annual refinement of industry strategic plans and key performance indicators.

Summary of review findings

APL structure

APL is responsible for the delivery of marketing, research and development (R&D) and policy services to the Australian pig industry. The integration of policy services with marketing and R&D services within APL differs from many other levy-based agriculture industry organisations, where policy services are the responsibility of a separate organisation. APL's corporate structure reflects these responsibilities. Three divisions: Marketing; Policy; and Research and Innovation (R&I) are responsible for the delivery of APL strategy. The Communication Division provides the link between APL, its members and levy payers and other stakeholders. The Finance and Administration Division provide services to the other Divisions, the CEO and the Board.

Consultations during the review revealed that the industry is supportive of the current structure of APL and its responsibilities.

Internally, the General Managers of each Division and the CEO comprise a management team. Managers indicated that the small office and good working relationships facilitate integration and awareness of the wider direction of the company. However, integration at the General Manager level does not ensure a common understanding and shared directions among all staff.

Liaison

Liaison with industry

APL interacts with its members in a number of ways, including: delegate forums; a dedicated Delegate Reference Group; industry meetings; pork industry publications; direct mail / fax / email; and the biannual Uptake / Expo events.

APL has improved working relationships with its delegates over the review period. This relationship has become a two way exchange and changes in approach to the forum and the creation of the Delegates Reference Group are viewed positively.

The producer survey and consultation revealed some discontent with APL amongst smaller levy payers and niche sectors of the industry. The company should develop a considered and consistent strategy to improve interactions with these sectors of the industry.

APL interacts with other pig industry organisations, such as the State Farmer Organisations on policy issues. APL could benefit from a more structured approach to interacting with such stakeholders in the development and implementation of policy.

Liaison with government

APL has worked proactively to deliver against Commonwealth Government requirements, and has met the obligations of the Agreement. APL is considered professional by key government stakeholders, and they recognise that APL has taken steps to improve its formal and informal relationships over the review period.

Liaison with partners and service providers

APL generally has good formal and informal relationships with service providers. APL has contractual arrangements and a history of working collaboratively with providers. APL should work towards formalising approaches to interactions with key stakeholders to ensure that interactions have a strategic purpose, and do not become solely issues management.

APL's marketing collaborators view the company favourably. APL has worked hard over the three year period to develop strong relationships and progress joint marketing initiatives with retailers, independent butchers and the food service sector.

Liaison with external parties and collaboration

External parties have noted that APL has a proactive and consultative approach to interaction. APL has significantly improved its relationships with external parties over the review period.

APL participates actively in a number of initiatives involving other national level agriculture industry and R&D organisations such as the: Livestock Feed Grain Users Group; Feed Grain Partnership Forum; and Australian Animal Welfare Strategy Livestock Working Group.

Industry strategy and priority setting

APL's strategic plan identifies six headline strategies on which the company focuses its efforts. These strategies are:

- Strategy 1 – Increasing fresh pork demand;
- Strategy 2 – Increasing carcase value;
- Strategy 3 – Reducing supply chain costs;
- Strategy 4 – Contracts and measurement systems;
- Strategy 5 – Ensuring industry capability; and
- Strategy 6 – Managing risks for sustainability.

APL's process for priority setting involves a high degree of consultation with producers and other stakeholders, which has improved over the review period. Delegates in particular were satisfied with APL's current approach to the annual review of the strategic plan.

APL's six strategic areas are very broad and potentially encompass any activity that may benefit pig producers. Thus, the process for establishing expenditure between strategies, and the split in investment within each strategic area, is the key determining factor for focussing APL's effort.

APL could improve its strategy and priority setting processes by:

1. Ensuring that there is guidance established for joint planning processes that specifies a structured review of past efforts.
2. Increasing the effort placed on describing and specifying the link between APL efforts, benefit flows and returns to levy payers; and
3. Increasing the current level of participation of all staff in planning processes.

Governance

APL operates under corporate governance standards set out in the:

- § *Pig Industry Act* 2001;
- § APL Constitution;
- § Agreement between the Commonwealth of Australia and the company dated 4th June 2001 (the Agreement);
- § *Corporations Act* 2001 and specific requirements as set under that Act by the Australian Securities Investments Commission (ASIC).

APL is required to meet a range of obligations under each of these instruments. An external review of the company's compliance with these obligations was finalised in early 2007. This review found that APL had a framework in place to manage its operations in accordance with legislative requirements and governance principles; and were actively seeking ways to improve operations and align processes with relevant best practice. The review identified a number of areas where APL could improve its practice and processes. APL has assigned responsibility for each of these recommendations to either the CEO or a General Manager, and some steps have been taken to implement these actions.

The company's Risk Management and Fraud Control Plan:

- § clearly indicates responsibility for the management of the risks;
- § covers a comprehensive (and perhaps excessive) range of risks;
- § links risks to individual strategies – with many of the actions planned and controls resembling the strategic plan, rather than indicating reactions to unforeseen events; and
- § includes a number of risks to the pig industry, governments and customers. These risks are not all directly related to APL and the operation of its business.

Future revisions of APL's Risk Management and Fraud Control Plan should distinguish between APL and pig industry risks. The plan should anticipate responses to unforeseen events and not simply those related to the strategic plan.

APL's management of Intellectual Property (IP) is guided by the company's IP Register and IP Status. The General Manager, Research & Innovation is responsible for IP management within the company.

APL's IP Register includes patents, patents pending, licence agreements, trademarks and other agreements. APL's standard contract contains appropriate provisions to manage IP.

APL does not have a comprehensive IP Management Plan that articulates the goals and principles for the company's management of IP, nor does it regularly report on IP issues to the Board.

Board policies and procedures

The APL Board has adopted specific written policies and procedures, most recently updated in a document entitled "Board Manual - May 2007".

The Board has established seven specialist Committees to help it delve into the detail of its responsibilities. The membership of each of these committees includes directors and management representatives, and in some cases, industry experts. The Terms of Reference of these committees vary in their degree of detail and length.

Staff policies

APL Policies and Procedures Manual is designed as a resource and practical reference for APL staff regarding how to deal with the full range of issues applicable to the company's business operations. The manual is comprehensive and clearly articulates APL's values, ethics and expectations.

The APL Board, as stipulated in the Board Manual, has approved a Schedule of Approved Authority that sets out delegated authority and limits for the exercise of financial management by directors and officers of the company. The review team assessed that the limits provided in the authority are appropriate for an organisation with the revenue and expenditure of APL.

Review findings and recommendations on governance

APL's governance structures and processes are satisfactorily formalised and transparent. APL has taken steps to implement recommendations of previous reviews of governance.

APL's governance processes could benefit from greater consistency in the approach to and working of the Committees through their Terms of Reference. APL could improve its management of Intellectual Property by developing a strategic IP Plan and Manual to complement the IP register.

Operations

Management and planning

Each division develops their own annual plans, which contribute upwards to the company's annual operating plan. There is no documented guidance given to General Managers as to the company's expectations for divisional planning processes. This results in inconsistency in the standard of contributions to the Annual Operating Plan. This has flow on effects to the establishment and documentation of divisional KPIs.

The robustness of each of the processes implemented by each of the divisions varies. Some are clearly focused on the strategic priorities of the company; involve extensive review of previous efforts; analyse the measured results of the effectiveness of the previous year's activities; and involve inclusive discussion and deliberation of the views and expertise of all staff.

APL should establish a clearer and consistent planning approach across all division and improve the timeliness of plan and budget approval.

APL management should establish a communication process with staff that enables discussion and interaction of strategic decisions and principles.

Human resources (HR)

APL has the HR policies, systems, culture and technology in place that are appropriate to support a professional services firm of its size.

The review found three areas of concern or risk for APL. First, the work of APL and its ability to achieve its objectives is currently at risk if highly capable people cannot be attracted to roles within the organisation. Ultimately, the ability to resource talented staff may be the limiting factor in achieving any of the strategic outcomes.

Secondly, an accurate, comprehensive and consistent approach to ensuring the market comparability of salary levels is crucial during periods of rapid change and a tightening employment market. Finally, the company's remuneration policy should also be used to reward talented employees who are crucial to the success of the organisation.

Performance management

APL introduced a new performance assessment system in July 2006. The first cycle of the implementation of this system is currently being completed, and there is evidence that the system has not been consistently embraced.

The links between the strategic objectives of APL and the individual objectives of each employee are not as clear as those that can be found in other like organisations. Task based performance objectives may lead to a reduction of innovative and creative behaviours in employees. A focus on projects or tasks may result in some blurring of roles and demotivational communication about how the work should be completed instead of what needs to be achieved.

APL management should consider an increased focus on refining the quality of individual performance objectives, and work towards the consistent implementation of the performance management system. These steps will be particularly important for new management staff. Further refinement of the performance management system may improve staff motivation.

Communication

The purpose of the Communication Division is to provide a strong link between APL, its members, the pig industry and other stakeholders. The Division provides services including public affairs, publication, website management, membership and events (including the Delegates' Forum). Delegates noted that APL had made improvements to communicating with delegates, members and levy payers.

The current focus of the Communication Division is the provision of services to members and other APL divisions. This means the division has a tendency to focus on issues management, rather than the development and implementation of a strategic communications strategy for the organisation.

Corporate functions

The Finance and Administration Division provides finance, administration and information technology management services to other divisions; and company secretariat and governance services to the Board of Directors.

The consultation indicated that, with the exception of IT, there were no issues of serious concern arising from the activities of the Finance and Administration Division.

Delivering APL strategy

APL strategy is primarily delivered through the Policy, Research and Innovation and Marketing Divisions.

Policy

The activities of the Policy Division play a critical role in meeting APL objectives. The division is considered to provide significant value for levy payers. The division plays a key role in coordinating industry responses to issues and has taken the initiative on a number of critical regulatory issues. The balance between proactive activities and straying into political activity has been well managed. The distinction is understood by the General Manager and across the company.

While there was some comment that the Division could continue to improve its communication with industry, the Division is generally well regarded by stakeholders.

Research and Innovation (R&I)

The R&I Division has faced a number of challenges, including staff changes, during the review period. A lack of transparency in decision making was identified by a number of people as a failing of the processes in place. A review of the R&D processes and R&I Divisional Support was finalised in March 2007.

APL's R&D investment principles are a mix of principle, process and strategy. As a first step, consideration should be given to the current investment principles so there is common understanding of these processes by committee members, staff and the Board.

The proposed restructure of the R&D processes is a positive initiative. However, it is recommended that the new R&I General Manager be involved in the refinement and implementation of the R&D structure and its workings. It is crucial that the new structure be supported by a robust decision making process.

Marketing

APL's domestic account planning process is conducted in close cooperation with supermarkets, independent retailers, and the food service industry. Stakeholders view this process positively.

The process for developing account plans within the Marketing Division is comprehensive, involving input from all staff. This planning process is focused on the strategic priorities and KPIs relating to increasing fresh pork sales outlined in the strategic plan.

The company's international marketing activities are conducted primarily through an external consultant. APL's planning and execution of international marketing activities is not as acutely focused on the priorities and KPIs identified in the strategic plan, when compared to domestic marketing efforts.

Stakeholders with close relationships with the Marketing Division provided strong positive feedback on APL's effort during the review period.

Delivering value to levy payers

Levy payers generally considered APL to be delivering value for money. Much of this assessment was based on a positive assessment of current APL priorities and activities.

The strategic planning process used by APL does not explicitly estimate the value of APL activities to levy payers. A key issue for APL will be to build on the information currently used in the planning process to better evaluate, and then describe, the benefits and value to levy payers.

Reporting performance

APL's annual reporting against KPIs indicates that success in implementing strategies is measured through the following mechanisms:

- § the meeting of project milestones;
- § results of statistical surveys of members, industry and stakeholders
- § cost benefit analyses; and
- § publicly and privately generated consumer and industry information.

Table E1 provides an assessment of APL's performance reporting through the establishment of KPIs, targets and the documentation against each of these in the Annual Report. The review team noted that, in some instances, additional information such as benchmarks is provided in APL's Annual Operating Plan, but this document is not available to members.

Table E1: Summary of APL strategic key performance reporting (2005/06)

Strategy	Assessment of KPIs, targets and reported achievement
Strategy 1 Increasing fresh pork demand	KPIs are measurable and achievement is reported. KPIs could be improved by including temporal data.
Strategy 2 Increasing carcass value	KPIs for 3 of 4 programs in this strategy are not documented.
Strategy 3 Reducing supply chain costs	KPIs have not been fully established for this strategy and reporting is incomplete.
Strategy 4 Contracts and measurement systems	KPIs are measurable and achievement is reported. KPIs could be improved by including temporal data.
Strategy 5 Ensuring industry capability	KPIs are established though not reported.
Strategy 6 Managing risks for sustainability.	KPIs are documented, however many are activities based. Not all are reported.

The Reporting of Performance section of the Annual Report provides a summary of the activities under each of the strategies. This section could be initially improved by outlining how APL's activities have contributed to achievement of the nominated targets. This step will allow improved specification of KPIs over time.

Conclusions and recommendations

On the basis of comprehensive consultation with stakeholders and review of documents, APL has:

- i. a corporate structure that satisfies industry stakeholders;
- ii. governance structures and processes that are satisfactorily formalised and transparent;
- iii. taken steps to implement recommendations of previous reviews of governance;
- iv. improved its relationships with key industry stakeholders and government and is also considered relevant and responsive;
- v. improved its process for including industry stakeholders in its priority setting;
- vi. constructed appropriate arrangements (internal and external) for consultation;
- vii. levy payers generally consider APL to be delivering them value for money; and
- viii. performed well with respect to addressing key policy challenges facing the industry and has received positive feedback on its marketing initiatives.

APL is perceived by industry and other stakeholders as having made progress over the review period. Based on the above conclusions, APL has been judged as effective.

To improve the company's efficiency and effectiveness and to demonstrate value for money, the following are areas where improved performance is desirable.

- § Refine governance processes to ensure greater consistency in the principles, approach and the working of the Board Committees.
- § Outline an explicit process to improve the level of involvement and motivation of staff.
- § Increase the current level of participation of all staff in planning processes.
- § Ensure guidance is established for joint planning processes that specifies a structured review of past efforts.
- § Increase the effort placed on describing and specifying the link between APL efforts, benefit flows and returns to levy payers.
- § Improve the specification of strategic and individual KPIs and ensure that these are integrated with a process to enable APL to clearly demonstrate benefits to levy payers.