

# Australian Pork Limited 3-year Performance Review

prepared for



by



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# Australian Pork Limited 3-year Company Review

Prepared October 2007

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## Abbreviations used in this Report

APL	Australian Pork Limited
ASIC	Australian Securities Investments Commission
CEO	Chief Executive Officer
DAFF	Commonwealth Department of Agriculture, Fisheries and Forestry
KPI	Key Performance Indicator
NVD	National Vendor Declaration
RDC	Research and Development Corporation
R&D	Research and development
R&I	Research and Innovation
SFO	State Farmer Organisations
NRS	National Residue Survey
IP	Intellectual Property

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## Executive summary

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### 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.

# 1 Introduction

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## 1.1 Overview

Australian Pork Limited (APL) is the national representative body for Australian pig producers. APL was established to undertake marketing, research and development, and industry strategic policy activities for the benefit of pork producers and the Australian pig industry as a whole.

APL was established in 2001 following the abolition of two statutory authorities, the Australian Pork Corporation and the Pig Research & Development Corporation.

The *Pig Industry Act, 2001* was enacted by the Commonwealth Parliament to enable the Government to enter into an agreement with APL to match payments for qualifying research and development expenditure. This agreement specifies that APL must spend funds only on approved activities that are consistent with the Company's strategic and operating plans, and the Commonwealth Government's guidelines including its R&D priorities.

## 1.2 Purpose of this review

APL's agreement with the Commonwealth Government (Section 11.4) states that the company must engage an independent organisation to review its performance every 3 years. This is the second such review. The first covered the period 2001/02 to 2003/04, while this review assessed APL's performance against its strategic and annual operating plans, and the value for money it provides levy payers for the period 2004/5 to 2006/7.

## 1.3 The Australian pork industry

Pig production in Australia occurs nation-wide, with the exception of the Australian Capital Territory. The more focused regions of production include: south east Queensland; the mid-Murray region in Victoria and New South Wales; and areas surrounding Perth and Adelaide.

The industry is becoming increasingly dominated by a large number of specialist producers with significant herd sizes. Since the establishment of APL in 2001, the number of producers has continued to decline from 2,831 in 2001 to 1,999 in 2004, while the average herd size has increased from 117 to 159 in the same period<sup>1</sup>.

Less than 1 percent of producers account for 34 percent of production. However, the majority (80 percent) of producers are still small to medium sized family owned businesses, accounting for approximately 25 percent of the national herd.

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<sup>1</sup> Australian Pig Annual, 2005

Domestic consumption of pork has increased over the review period. This increase has largely been driven by increase demand for fresh pork (Table 2).

**Table 2: Change in domestic pork consumption trends**

<i>Year</i>	<i>Total pork consumption (kg/person)</i>	<i>% Fresh</i>	<i>% Processed</i>
<b>2002/03</b>	21.29	38%	62%
<b>2003/04</b>	22.19	42%	58%
<b>2004/05</b>	23.34	42%	58%
<b>2005/06</b>	22.17	47%	53%

Source: APL Pork Trade Summary.

Over the same period, the proportion of imported pork to domestic production (by volume) has increased, from 20 percent (2002/03) to 33 percent (2005/06), with a high of 37 percent (2004/05). Imported products are all processed.

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).

#### **1.4 Review methodology**

The evaluation criteria for the review are set against the background of the Act. 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 the 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. A detailed methodology, outlining the consultation process and documents reviewed is provided in Appendix 1.

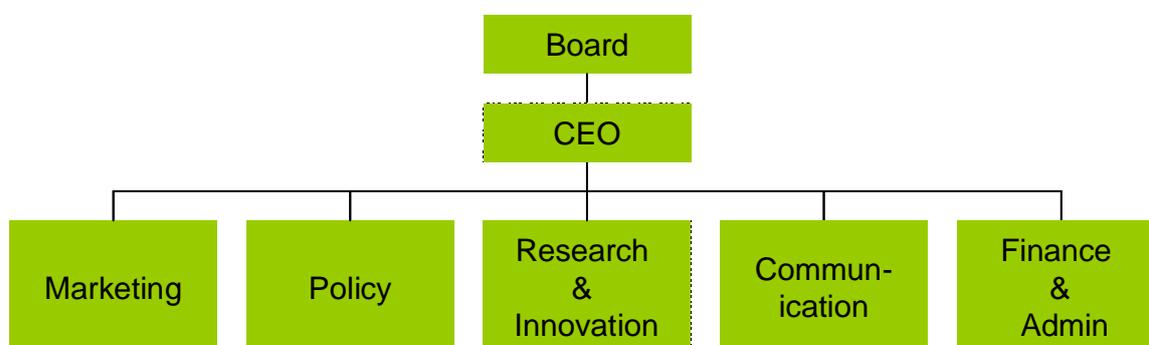
## 2 APL structure

### 2.1 Overview of APL's 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 with marketing and R&D services within APL differs from many other levy-based agriculture industry organisations, where policy efforts are the responsibility of a separate organisation.

APL's corporate structure reflects these responsibilities. The company comprises of five divisions, each headed by a General Manager reporting to the CEO. The CEO reports to the Board (Figure 1). 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 provides services to the other Divisions, the CEO and the Board.

**Figure 1: APL Corporate Structure**



### 2.2 Management structure

The General Managers of each Division and the CEO comprise a management team, which meets weekly. Managers indicated that a small office environment and good working relationships facilitate informal interactions between business divisions and assist integration and awareness of the wider direction of the organisation. The review team cited examples of collaboration between teams in areas such as product development (informal collaboration between Marketing and R&I staff) and between R&I and Policy staff. Wider discussions with staff revealed that APL could benefit from a more structured approach to these interactions to ensure that all staff in each business division are aware of APL strategy and directions.

### 2.3 Review findings and recommendations on structure

The current structure of APL satisfies stakeholders. Industry representatives are supportive of the company's current structure and activities, and they value the integration of policy, marketing and R&D efforts.

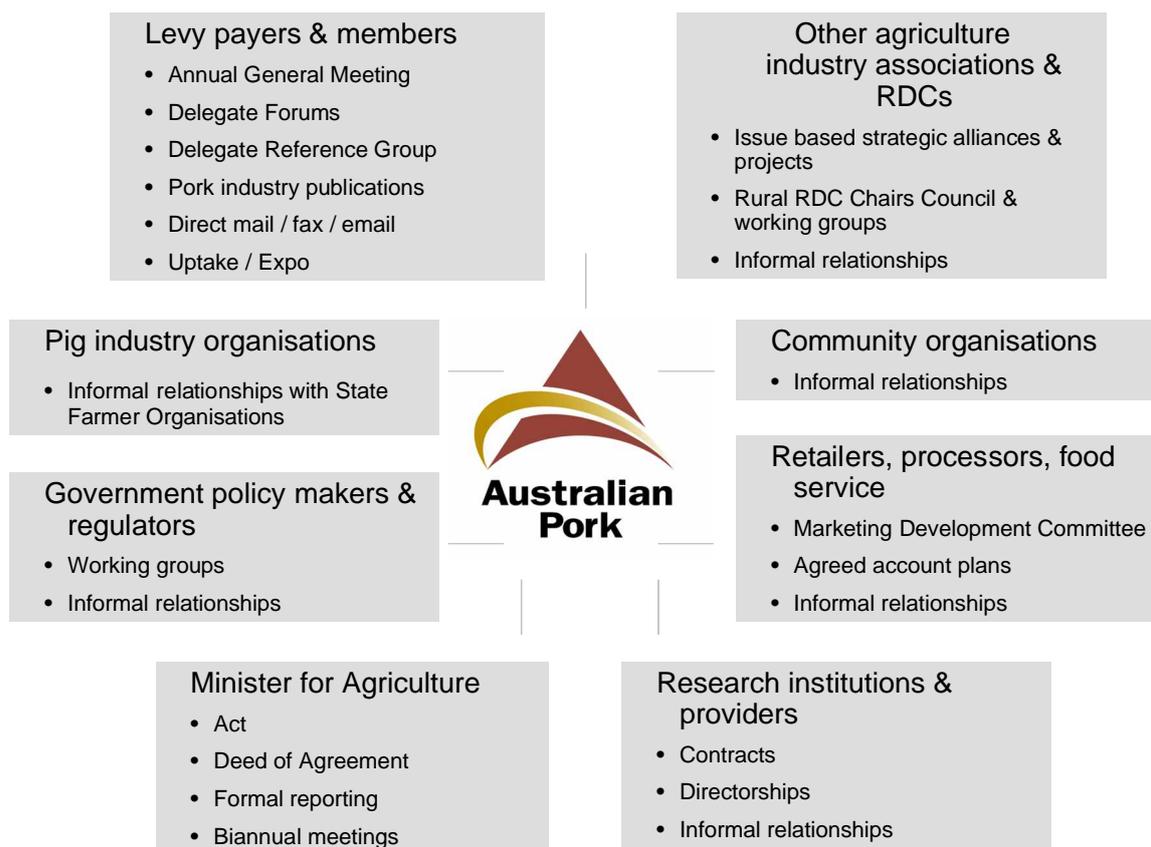
Internally, the General Managers of each Division and the CEO comprise a management team. Managers indicated that the small office and good working relationships facilitate integration and awareness of the wider direction of the organisation. However, integration at the General Manager level does not ensure a common understanding and shared directions among all staff. APL could make additional effort to clearly articulate to external stakeholders its role in delivering policy services for the industry.

## 3 Liaison

### 3.1 Introduction

APL has established both formal and informal relationships with a range of stakeholders including: industry; government; research institutions and other service providers; community groups; and other agriculture industry organisations and RDCs. A schematic of these relationships is provided in Figure 2.

**Figure 2: Schematic of APL's relationships**



### 3.2 Liaison with levy payers and members

APL interacts with its members in a number of ways, including:

- § Annual General Meeting;
- § Delegate Forums;
- § Delegate Reference Groups;
- § Pork industry publications;
- § Direct mail / fax / email; and
- § Uptake / Expo

APL has improved working relationships with its delegates. This relationship has become a two way exchange and changes in approach to the forums and the creation of the Delegates Reference Group are viewed positively. This improvement is commendable; however, there could be more structured input into the strategy.

APL's priority setting process was seen as achieving a satisfactory outcome by industry stakeholders. There is significant trust in the Board. Much of the goodwill from industry is based on outcomes under marketing areas, that is, the increasing consumption of fresh pork.

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

### **3.3 Liaison with government**

APL has worked proactively with the Commonwealth Government over the review period, and Government representatives are satisfied that APL has met the requirements of the Agreement.

APL has taken steps a number of steps to improve its formal relationship with Government over the review period. These included;

- § adopting a more formal approach to six monthly meetings with the Minister;
- § refining financial reporting processes to clearly identify expenditure on research and development activities; and
- § inviting the Parliamentary Secretary to formally interact with the APL board.

APL has also invested in improving informal relationship with the Parliamentary Secretary, and Government members and officials. These steps are viewed favourably by Government stakeholders.

APL is considered professional and an active participant by key government stakeholders.

### **3.4 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.

### **3.5 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.

### **3.6 Review findings and recommendations on liaison**

APL is perceived by industry stakeholders and members as having made significant improvements in communications and interactions with delegates and members. The company has improved its formal and informal relationships with government in the review period and APL has strong relationship with service providers.

To improve performance on liaison APL should:

- § Develop and implement a strategy to communicate and interact with smaller and niche producers;
- § Develop formal processes for interaction between senior management at APL and the Pork CRC; and
- § Develop and adopt formal principles and protocols for engaging the services of specialist advisers.

## 4 Industry strategy and priority setting

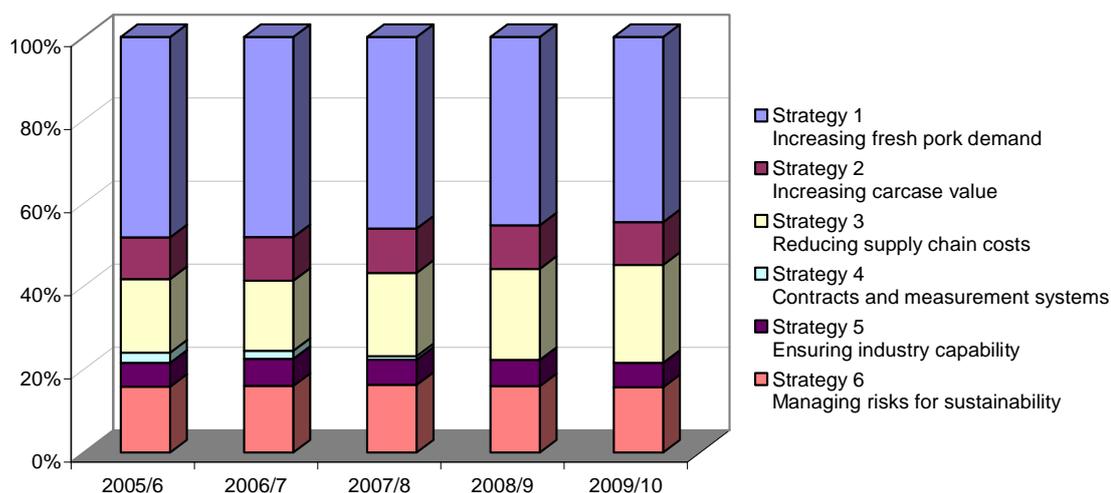
### 4.1 Industry strategy

APL's strategic plan (2005-10) identifies six headline strategies on which the company focuses its efforts. These strategies are:

- § Strategy 1 – Increasing fresh pork demand;
- § Strategy 2 – Increasing carcass 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.

Figure 3 shows APL's projected expenditure across each of these six strategic priorities from 2005/6-2009/10.

**Figure 3: Projected expenditure across strategy areas 05/6 to 09/10**



During the period of this review, APL has refined its strategic direction and priorities. These changes are outlined in Figure 4.

Figure 4: Change in APL Strategy

Strategies 2005-10	1. Increase fresh pork demand	2. Increase carcase value	3. Reducing supply chain costs	4. Contracts & measurement systems	5. Managing risks for sustainability	6. Ensuring industry capability
Strategies 2003-06	1. Expand & retain sustainable domestic & export markets	2. Promote product innovation with commercial partners to meet changing consumer needs	3. Identify & promote technical innovations & services that enhance pork industry competitiveness & increase financial returns to producers	4. Secure access to feed ingredients at world competitive prices	5. Identify & promote sustainable environmental & welfare practices to secure access to markets	6. Support & secure the industry's high quarantine & product integrity status.

## 4.2 Priority setting process

APL's process for priority setting involves a high degree of consultation with producers and other stakeholders. Delegates in particular were satisfied with APL's current approach for reviewing the strategic plan annually.

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.

Table 3 summarises APL's performance against four stages of a typical strategy development process.

**Table 3: Summary of APL's performance in strategy development**

Stage of a strategy process		Comment
1	Industry consultation Strategic purpose and objectives Guiding principles	APL has consultation processes in place to establish industry priorities and these have improved over the review period
2	Description of benefits Value definition & assessment	APL could improve the definition and measurement of benefit flows and returns to levy payers.
3	Resource allocation Determining Division activities Consultation	The process of resource allocation and integration is not clearly articulated and communicated.
4	Performance management (measurement, KPIs & targets)	Strategic KPIs are not fully established and measured. They are not directly linked to the staff KPIs and individual and team performance management.

### **4.3 Review finding and recommendations on strategy and priority setting**

APL has consultation processes in place to establish industry priorities, and these have improved over the review period.

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.

## 5 Governance

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### 5.1 Governance framework

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.

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. The purpose of that review was to establish what legislation was applicable to APL's activities and to identify APL's processes and procedures (including financial and governance arrangements) to ensure compliance with legislation.

The legislative compliance 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.

This 3-year review does not re-visit those areas of governance that have recently been independently assessed, but draws on the findings of the earlier review.

### 5.2 Results of previous 3 year reviews

The first 3 Year Review covering the period 2001/02 to 2003/04 was completed in February 2005. This review recommended APL address a number of areas related to corporate governance. These were:

- i. APL work with DAFF to establish a more structured approach to scheduling and agendas for the standard six monthly meetings with the Minister, to be co-ordinated with six monthly and annual APL reporting;
- ii. Consider implementation of a document retrieval system; and
- iii. Update and strengthen APL governance documentation including:
  - Board Charter;
  - Risk and Fraud Management Plan;
  - IT and Information Management Strategic Plan; and
  - Disaster Recovery and Business Continuity Plan.

APL has addressed recommendation (i) and taken steps towards (ii) as part of the development of an IT and Information Management Strategic Plan. This plan has not yet been fully implemented.

APL has developed a Board Charter and Risk and Fraud Management Plan. This documentation is discussed in further detail below. APL has not yet developed a Disaster Recovery and Business Continuity Plan.

### **5.3 Risk management, fraud control and intellectual property management plans**

APL is required, as part of its agreement with the Commonwealth, to develop and implement:

- § a Risk Management Plan;
- § a Fraud Control Plan; and
- § an Intellectual Property Management Plan.

The first two of these requirements are addressed by APL's Risk Management and Fraud Control Plan. This plan was first developed in 2001, and has been regularly updated since. APL conducted a detailed review of this plan with assistance of an external adviser in 2006/07.

The Risk Management and Fraud Control Plan is based on an assessment of risks under each of APL's six strategic objectives, and an assessment of risks to operational effectiveness (such as finance and governance). The plan identifies 95 risk scenarios. Each risk has a rating (based on likelihood and consequence), a person responsible indicated and planned actions.

Of the 95 risk scenarios identified, four were assessed as being a high risk, and 18 a major risk to APL. For each of these high and major risks, individual action plans have been developed.

The 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.

APL's management of Intellectual Property (IP) is guided by the company's IP Register and IP Status. The General Manager, R&I 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 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.

## 5.4 Board policies and procedures

The APL Board has adopted specific written policies and procedures, the most recent update in a document entitled "Board Manual - May 2007". The Board Manual is backed up by a number of other relevant documents, namely:

- § Terms of Reference for each of the Board Committees;
- § Schedule of Approved Authority;
- § Risk Management Profile and Policy; and
- § Policies and Procedure Manual.

The Board has established its seven specialist Committees to help it delve into the detail of its responsibilities. These specialist committees are the:

- § Audit, Risk & Corporate Governance Committee;
- § Human Resources & Remuneration Committee;
- § Board Selection Committee;
- § Research & Innovation Board Committee;
- § Market Development Committee;
- § Animal Welfare Committee; and
- § Pan Pacific Pork Expo Committee

The membership of each of these committees includes directors and management representatives. The exception of this is the Board Selection Committee, which does not involve management. The membership of the latter four committees listed above also comprise of industry representatives who have recognised expertise in the field of investigation.

The Terms of Reference of these committees vary in their degree of detail and length. Three of the Terms of Reference sighted are specific and detailed; two are short and very general; and only one includes reference to an annual review of the Terms of Reference.

## 5.5 Staff policies and procedures manual

APL's 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 APL's business operations. The manual, the latest version of which was issued in May 2007, includes:

- § board policy statements;
- § compliance requirements;
- § behavioural expectation;
- § step-by-step guidelines;
- § standard letters;
- § relevant forms; and
- § check lists.

The manual is comprehensive and clearly articulates APL's values, ethics, expectations and procedures. The Manual could be a valuable tool for managers and supervisors as it sets out specific guidelines on difficult interpretive issues such as conflicts of interest, harassment and sexual harassment. It sets out a clear code of conduct for employees and actions to be taken in the event of a breach of that code.

## 5.6 Schedule of approved authority

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 Board Manual indicates that this schedule be reviewed and amended as necessary, but at least annually.

The review team has sighted a Schedule of Approved Authority dated June 2007. It contains expenditure limits within and outside agreed plans and budgets for Managers, General Managers, the CEO, Chairman and Directors.

The review team assessed that the limits provided in the authority are appropriate for an organisation with the revenue and expenditure of APL.

## 5.7 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.

To improve performance in governance, APL could:

- § refine governance processes to ensure greater consistency in the principles, approach and the working of the Board Committees; and
- § improve its management of Intellectual Property by developing a strategic IP Plan and Manual to complement the IP register.

## 6 Processes & operations

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### 6.1 Management and planning

APL's strategic plan identifies six headline strategies on which the company will focus its effort. These strategic areas are broad and the level of detail available for members and other stakeholders below the headline strategies varies between strategies.

APL's annual business planning process for each of these strategies involves a high degree of consultation with producers and other stakeholders, and these processes have improved over the review period. Delegates in particular were satisfied with APL's current approach of reviewing the strategic plan annually.

The process for establishing annual expenditure between strategies, and the split in investment within each strategic area, is the key determining factor for focussing APL's effort. This process involves each division developing their own annual plans, which are then combined with other divisions across the strategy areas to generate the company's Annual Operating Plan (AOP).

The robustness of each of the planning 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's annual business planning cycle is currently not documented. A timetable is generally understood by General Managers however there is no documented guidance given to General Managers as to the company's expectations for divisional planning processes or explicit instruction to the review outlined. This results in inconsistency in the standard of contributions to the AOP.

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.

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.

## 6.2 Human resources

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.

## 6.3 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.

## 6.4 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). The division also provides services to other APL divisions. This means the division has a tendency to focus on issues management, rather than the development of a strategic communications strategy for the organisation. The annual APL Communications Plan, which guides the work of the Division, reflects this focus.

Delegates noted that APL had made improvements to communicating with delegates, members and levy payers over the review period.

## 6.5 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 this division. There was generally recognition that the IT update is underway, but progress has been slow, which has affected operations of the company.

APL has made changes to its format of financial reporting to the Commonwealth Government to further clarify expenditure on research and development activities. This has been addressed to the satisfaction of DAFF.

## 6.6 Review findings and recommendations

APL has taken steps to improve the delivery of finance and administrative services to the company divisions. APL satisfies the reporting requirements of the Australian Government. The review found a weakness in the links between the strategic objectives of APL and the individual objectives of each employee.

To improve performance business processes and operations; APL should:

- § Develop a more focussed, consistent and inclusive process for corporate planning across each of the divisions;
- § Further refine the company's strategic key performance indicators, to ensure that they can accurately measure the impact of APL's efforts and guide future strategic directions; and
- § Strengthen its commitment to the performance management process to encourage responsibility and innovation in employees.

## 7 Delivering APL strategy

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### 7.1 Delivering APL strategy

APL's strategic plan identifies the following six strategies:

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

#### ***Policy Division***

APL's Policy Division is responsible for strategic policy development across a wide variety of policy issues that affect industry and producer viability. As a key point of contact with the industry's various stakeholders, including governments at both the federal and state levels, the division develops specific strategic responses on policy matters such as: food safety and quality; competitiveness; trade; labour; environment; quarantine; biosecurity; animal health; and animal welfare.

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 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, it is generally well regarded by stakeholders.

#### ***Research and Innovation Division***

The Research and Innovation (R&I) Division is responsible for promoting and facilitating the adoption of research information or products by the industry. The Division works with industry to define its research priorities and commissions projects to meet these needs. R&I also provide technical support to the Policy and Marketing divisions.

The Division has faced a number of challenges, including staff changes. 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 (Dr Rob van Barneveld).

The APL investment principles are a mix of principle, process and strategy. As recommended by the R&I review, the investment principles should be re-examined as part of a wider review of priority setting and evaluation processes.

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. 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.

### **Marketing Division**

The Marketing Division has responsibility for all export and domestic marketing initiatives including the ongoing development and implementation of marketing strategies for APL. The division provides the strategic interface with supply chain partners for the effective implementation of the marketing strategy on domestic and export markets.

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.

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 efforts during the review period.

## **7.2 APL strategy expenditure**

Table 4 shows APL project expenditure against each of the company's strategies. The review team notes that APL does not publicly report this information in its Annual Report.

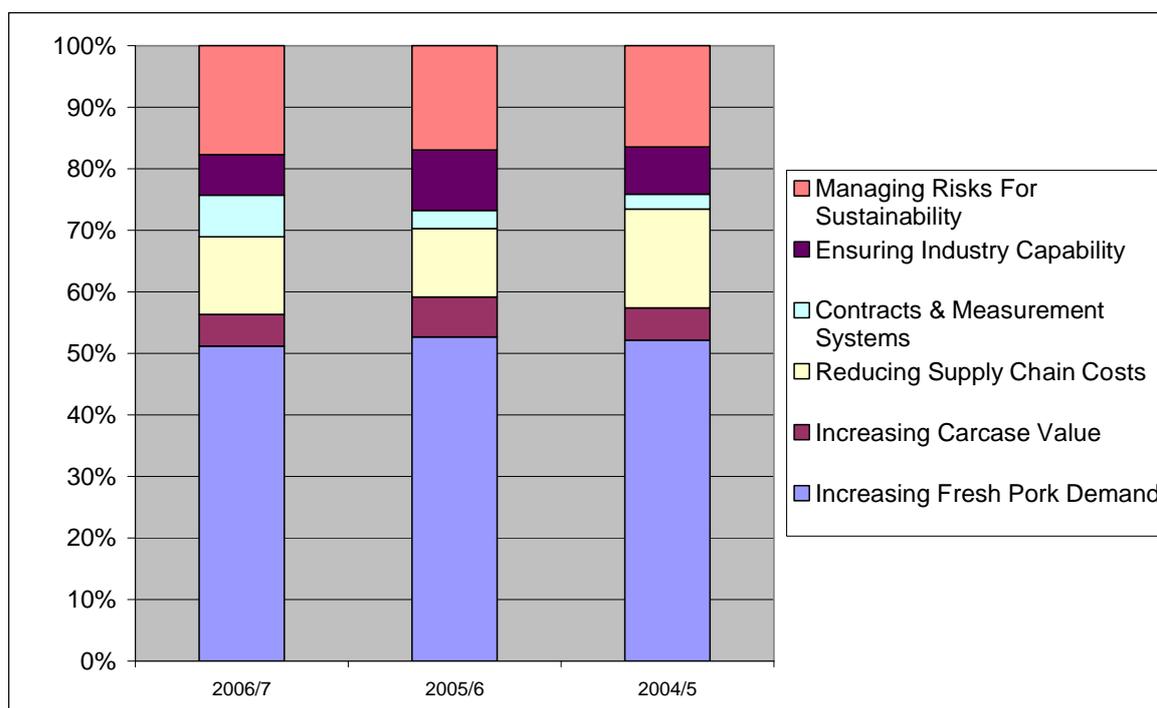
**Table 4: Summary of APL project expenditure by strategic area (nearest \$'000)**

<b>Strategy</b>	<b>2006/7</b>	<b>2005/6</b>	<b>2004/5</b>
<b>Increasing Fresh Pork Demand</b>	\$6,279	\$5,189	\$6,413
<b>Increasing Carcase Value</b>	\$633	\$641	\$648
<b>Reducing Supply Chain Costs</b>	\$1,549	\$1,096	\$1,973
<b>Contracts &amp; Measurement Systems</b>	\$829	\$290	\$299
<b>Ensuring Industry Capability</b>	\$809	\$966	\$945
<b>Managing Risks For Sustainability</b>	\$2,171	\$1,670	\$2,023
<b>Total</b>	<b>\$12,270</b>	<b>\$9,852</b>	<b>\$12,301</b>

Note – total may not add due to rounding.

Figure 5 shows the proportional spending of APL across each of these six strategies.

**Figure 5: APL project expenditure across strategies in the review period.**



Note: Expenditure for communications activities is included in Corporate Services.

APL's audited financial reports include expenditure on both projects and overheads. These are broken down by business division in the company's Annual report, and shown in Table 5.

**Table 5: Summary of APL expenditure by business area (nearest \$'000)**

Strategy	2006/7	2005/6	2004/5
Corporate services (including Communications)	\$1,262	\$1,266	\$1,992
Domestic marketing	\$7,671	\$6,532	\$6,631
Executive & Corporate	\$1,011	\$1,630	\$1,101
Policy	\$1,177	\$1,452	\$1,948
R&I	\$6,517	\$4,856	\$6,456
Export marketing	\$1,028	\$1,217	\$1,434
<b>Total</b>	<b>\$18,666</b>	<b>\$16,953</b>	<b>\$19,562</b>

Note – total may not add due to rounding.

### 7.3 Reporting performance

The review team conducted an analysis of APL's performance reporting through the establishment of KPIs, targets and the documentation against each of these in the Annual Report. This analysis is presented in Table 6.

Table 6: Analysis of reported performance, APL Annual Report 2005/06

Strategy 1 - Increasing fresh pork demand		
Strategy / Program	Key Performance Indicators /Targets	Reported Result 2005/06 Annual Report
1.1 Increasing consumer attitudes and perceptions towards pork	Increase fresh pork sales to 10.35kg/hd  Improved consumer perceptions. Great taste: 40% Easy to cook: 29% Healthy: 30%	10.29kg/hd  Great taste 35% Easy to cook 28% Healthy 35%
1.2 Increased consumer awareness and trial of new pork meal ideas and products	Advertising awareness (aided): 45%	Advertising awareness (aided): 45%
1.3 Increased pork volume and menu placement in food service	Fresh pork menu penetration: 65%	Fresh pork menu penetration: 55%
1.4 Build a commercially sustainable integrated supply chain to service key export customers (commercialisation of export programs)	Singapore Export Volume (KT): 25 Sales volumes through supermarkets (KT): 11	Singapore = 23 KT Supermarket sales = 12KT
Strategy 2 - Increasing carcass value		
Strategy / Program	Key Performance Indicators/Targets	Reported Result 2005/06 Annual Report
2.1 Working with major supply chains to create and deliver pork products that match modern consumer needs through product innovation	Sales volumes of new products (tonnes CWE) by the major retailers and food service: 12 100	<b>Not reported</b>
2.2 Reviewing the genetic merit of the Australian herd versus the global pig herd and assessing the biosecurity of improved methods of genetic improvement	<b>None identified</b>	<b>Not reported</b>

<b>Strategy 2 - Increasing carcass value</b>		
<b>Strategy / Program</b>	<b>Key Performance Indicators/Targets</b>	<b>Reported Result 2005/06 Annual Report</b>
2.3 Contributing to genetic improvements meeting consumer requirements for new pork products and increased carcass weights	None identified	Not reported
4) Implementing improved eating quality innovations	None identified	Not reported

<b>Strategy 3 - Reducing supply chain costs</b>		
<b>Strategy / Program</b>	<b>Key Performance Indicators/Targets</b>	<b>Reported Result 2005/06 Annual Report</b>
3.1 Reducing feed costs and improving conversion efficiency	Prices of Australian wheat (as indicator) relative to overseas prices for USA maize - past and future. Target to establish an appropriate indicator Herd feed conversion ratio (kg feed/kg LW). Target HFCR: 3.3	<b>No indicator established</b>  HFCR: 3.34
3.2 Improving feed security	Government and industry measures to address the impact of public policies and regulations on feed competitiveness and feed security by: <ul style="list-style-type: none"> <li>§ establishing feed partnership initiative</li> <li>§ no change in biofuel policy to extend subsidies</li> <li>§ secure membership of tax office primary production industry partnership</li> <li>§ small scale grain fumigation trial</li> </ul>	<ul style="list-style-type: none"> <li>§ partnership developed</li> <li>§ lobbied government</li> <li>§ Achieved membership</li> <li>§ Small scale trial completed</li> </ul>

### Strategy 4 - Contracts and measurement systems

Strategy / Program	Key Performance Indicators/Targets	Reported Result 2005/06 Annual Report
4.1 Facilitation of long term pricing contracts	Percent production sold under long term contracts (12 months or longer). Target 25%	40% already using contracts
4.2 Lean meat yield-based carcass measurement and valuation system	Percent of production measured and paid for using new carcass measurement systems. Target 70%	Target was not met

### Strategy 5 - Ensuring industry capability

Strategy / Program	Key Performance Indicators/Targets	Reported Result 2005/06 Annual Report
5.1 Curriculum based, formal and informal training opportunities for current and future piggery managers and their staff and for professionals in the service sector, particularly the research sector.	Retention of scholarship holders in industry jobs. Target: establish a baseline	Baseline established
5.2 Increasing awareness of new technology for all parts of the supply chain	Economic benefits of technology commercialisation program. Target: Benefit cost analysis > 4:1	External benefit/cost analysis not yet completed
5.3 Facilitation of the trialling and adoption of new technology	Economic benefit training manuals. Benefit/cost analysis > 4:1	External benefit/cost analysis not yet completed

### Strategy 6 - Managing risks for sustainability

Strategy / Program	Key Performance Indicators/Targets	Reported Result 2005/06 Annual Report
6.1 Improving animal welfare practices and community relations	Improve animal welfare practices and community relations by: <ul style="list-style-type: none"> <li>§ Establishing audit requirements for model code</li> <li>§ MCOP finalised</li> <li>§ Finalise animal welfare strategy</li> <li>§ Develop communication and advocacy strategy</li> <li>§ Producer communication, advocacy and training programs</li> <li>§ Community survey on animal care</li> </ul>	<ul style="list-style-type: none"> <li>§ Animal Care Strategy agreed</li> <li>§ Animal welfare communication and advocacy strategy approved</li> </ul>

## Strategy 6 - Managing risks for sustainability

Strategy / Program	Key Performance Indicators/Targets	Reported Result 2005/06 Annual Report
<b>6.2 Improving environment sustainability</b>	Improve environment sustainability. Target: assess 25 piggeries per annum against National Environmental Guidelines for Piggeries.	26 piggeries were assessed. None failed.
<b>6.3 Improving trade and maintaining market access</b>	<p>Maintain food safety and product integrity by:</p> <ul style="list-style-type: none"> <li>§ Securing ongoing use of meat and bone meal for producer</li> <li>§ increasing National Residue Survey levy, as supported by producers</li> <li>§ Country of origin labelling for pork</li> <li>§ APIQ certification covers at least 40% of production Industry Liaison Officer training undertaken across the industry: 45 trained producers Australia wide</li> </ul> <p>Safeguard animal health through exotic disease prevention and preparedness by:</p> <ul style="list-style-type: none"> <li>§ PMWS categorised as an exotic disease</li> <li>§ IRA for pig semen concluded and import protocols established</li> <li>§ Import protocols for pig meat strengthened for PMWS following legal challenge to IRA for pig meat</li> </ul> <p>Reducing trade and non-tariff barriers by:</p> <ul style="list-style-type: none"> <li>§ review and update Australian pork industry trade policy and market access plan</li> <li>§ review APL import data requirements and import price monitoring contracts.</li> </ul>	<ul style="list-style-type: none"> <li>§ NRS levy increase accepted by producers.</li> <li>§ Standard for Country of Origin labelling agreed with Government</li> <li>§ APIQ target achieved</li> <li>§ PMWS application made to Animal Health Australia. Waiting for outcome.</li> <li>§ IRA pig semen protocols established.</li> <li>§ Delayed</li> <li>§ Data requirements reviewed</li> </ul>
<b>6.4 Improving communication, education and advocacy</b>	<p>Communication, education and advocacy by: Targets:</p> <ul style="list-style-type: none"> <li>§ Industry familiarisation/education programs for government and key stakeholders</li> <li>§ Develop stakeholder survey and establish baseline results.</li> </ul>	<ul style="list-style-type: none"> <li>§ Put on hold.</li> </ul>

Table 7 provides an assessment of APL's performance reporting, based on the analysis presented in Table 6 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 7: Assessment of APL's 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 carcase 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.

#### **7.4 Delivering value to levy payers**

APL has commissioned cost benefit studies of some of its activities. These assessments were not part of a wider strategic review of returns to levy payers. Benefit is also measured through measurement against KPIs in the marketing section. 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.

## 8 Results of producer survey

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APL members and other pork producers were invited to make written submissions to inform the review. APL advertised the survey in pork industry publications and directly to members.

The survey included questions relating to:

- § communications;
- § the effectiveness of APL in addressing producer issues and concerns
- § the efficiency of APL
- § the value APL provides its members
- § areas where APL could improve.

A copy of the survey questionnaire is provided in Appendix 2.

A total of 68 responses to the survey were received from producers from each of the major pork producing states.

In summary, the producer survey showed that:

- § respondents receive information from APL through a number of channels;
- § 40% all respondents felt that APL did a good job at addressing their issues and concerns, 31% were neutral and 21% were negative. 9% of respondents did not answer the question;
- § nearly one third (32%) of respondents felt APL was efficient, one third (34%) inefficient, and one third (34%) were neutral or offered no response;
- § more than half the respondents (54%) felt that APL did not offer them value for money
- § 21% respondents felt that APL could improve its business processes, 38% felt that APL could improve the outcomes of particular issues and 41% of respondents did not offer comment.

Appendix 3 contains a more detailed analysis of the results of the producer survey that uses sow numbers to compare respondents by size.

## 9 Review conclusions and recommendations

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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 assessed 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.

## Appendix 1 - Methodology

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### Overview of methodology

The evaluation criteria for the review are set against the background of the Act, the Agreement and the Constitution. The objectives, set out in APL's constitution, that are considered most relevant for our 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;
- § to manage funds the Company receives and risks related to the Company's ongoing expenditure and funding;
- § to investigate and evaluate (and fund) the requirements for Strategic Policy Development, Marketing, R&D and innovation in relation to the Australian Pig Industry; and
- § to 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 the 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; interviews with APL directors, staff, service providers, industry stakeholders and government; and a survey of producers.

Hassall & Associates attempted to conduct a comparison of APL's stated intentions (as documented in the company's Annual Operating Plan) and reported outcomes (as documented in the Annual Report). Changes to APL's strategic priorities and key performance indicators during the reporting period meant that this comparison was not useful to determine the effectiveness or efficiency of the company.

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**Documents reviewed****Foundation documents**

- § Agreement between the Commonwealth of Australia and Australian Pork Limited
- § The Constitution of Australian Pork Limited

**Corporate plans & reports**

- § APL's Strategic Plans – 2002-05, 2003-06, and 2005-10
- § APL's Annual Reports – 2004-05, 2005-06, 2006-07 (draft)
- § APL's Annual Operating Plans 2004-05, 2005-06, 2006-07

**Governance documents**

- § APL Intellectual Property Register
- § APL Intellectual Property Status
- § APL Fraud and Risk Register
- § Schedule of Approved Authority
- § Australian Pork Limited Code of Conduct for Directors
- § APL Board Manual
- § APL Board Review, conducted by Sue Carter, April 2007
- § Directors consent and disclosure forms
- § Terms of Reference of Board Committees
  - Research and Innovation
  - Market Development
  - Human Resources & Remuneration
  - Audit, Risk & Corporate Governance Committee
  - Animal Welfare Committee

**Operations documents**

- § APL Policies and Procedures Manual
- § APL Standard Contract
- § APL Delegate Pack 2006 – 2007
- § Van Barneveld, R (2007) Development and Implementation of Research & Development Processes and R&I Divisional Support.
- § APL Communication Plan 2006-07

**Previous reviews**

- § First 3 year review, conducted by Walter Turnbull in 2004
- § APL Legislative Compliance Review, conducted by Ernst & Young, February 2007
- § APL Audit Close Report, 2005 & 2006, conducted by Ernst & Young

## Consultation schedule

<b>Group</b>	<b>Consultations</b>
APL	Chair Selected Directors Senior Managers Selected Staff Contractors
Government	Office of the Parliamentary Secretary Department of Agriculture, Fisheries & Forestry Department of Foreign Affairs and Trade Animal Health Australia
Industry	Producers Delegate Reference Group Free Range Pork Farmers' Association
External stakeholders	Pork CRC South Australian Farmers' Federation RSPCA Marketing stakeholders

A total of 41 individuals were consulted at least once during the review. A total of 68 producers responded to the survey.

## Appendix 2 – Producer survey questionnaire

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### 3 Year Review of Australian Pork Limited Producer Survey

#### INTRODUCTION:

Australian Pork Limited (APL) is required to undertake a 3 year performance review of the company in accordance with its Agreement with the Commonwealth of Australia.

A key objective of the project is to review the Company's performance against its strategic and annual operating plans.

The review will also identify Australian Pork Limited's effectiveness and efficiency in meeting the priorities set out in the company's strategic and annual operating plans including the benefits to industry and government.

If you have any questions about this survey, please contact John Madden at Hassall & Associates on 02 9241 5655.

<b>Name (optional)</b>	
<b>Location</b>	
<b>Size of pig herd</b>	
<b>Brief description of your pork producing business (e.g. mixed farm; corporate company) and the relative contribution of pork production to this business</b>	

1) How do you currently receive information about APL?

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2) How do you think APL could improve its communication with producers?

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**3) How well do you feel APL addresses the issues and concerns of producers?**

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**4) Do you think APL is an efficient organisation?**

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**5) Do you think that APL provides you value for the levies that you pay?**

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**6) What are the main areas in which you think APL needs to improve?**

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**If you have any additional comments that you would like to make, please attach an additional sheet.**

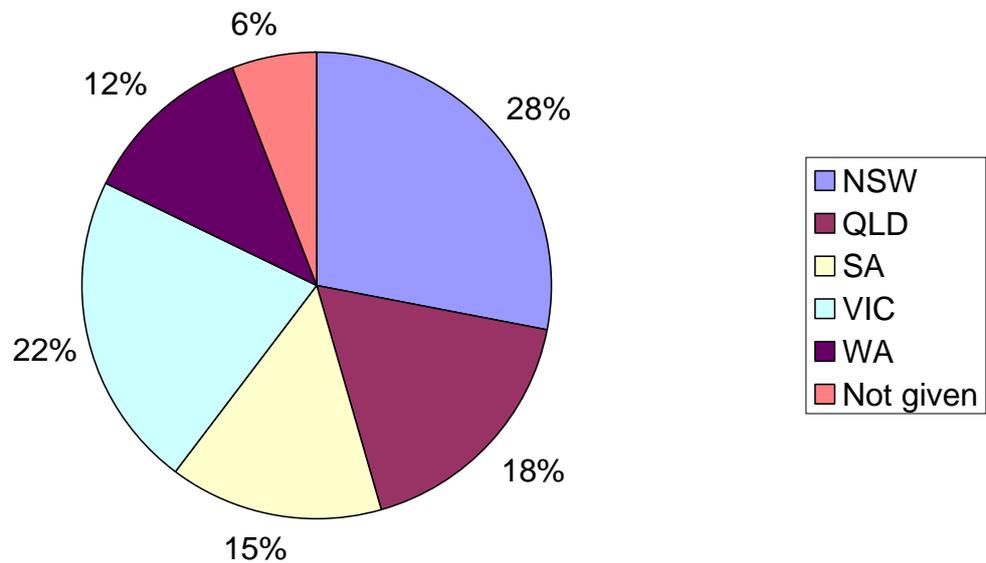
All surveys will be treated as confidential.

Please return via fax or e-mail by 27 July to the following address:

Hassall & Associates  
Fax: 02 92415684  
Email: [jmadden@hassall.com.au](mailto:jmadden@hassall.com.au)

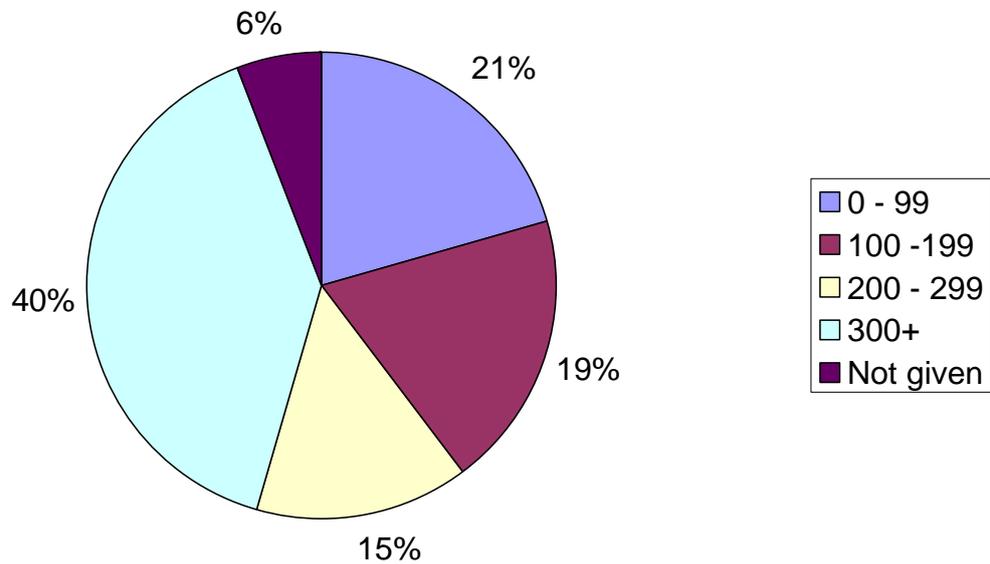
## Appendix 3 – Producer survey results

Figure 6: Location of survey respondents (n=68)

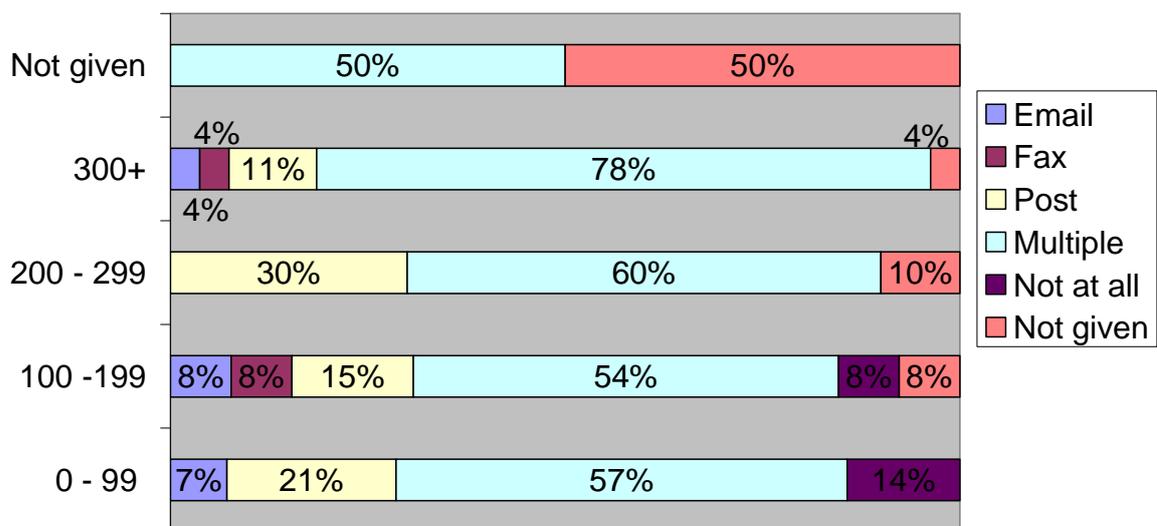


The review team conducted an analysis of the survey responses, using the sow numbers as the basis for comparison. The results of this analysis are presented in the following figures. Figure 7 shows the breakdown of respondents by size.

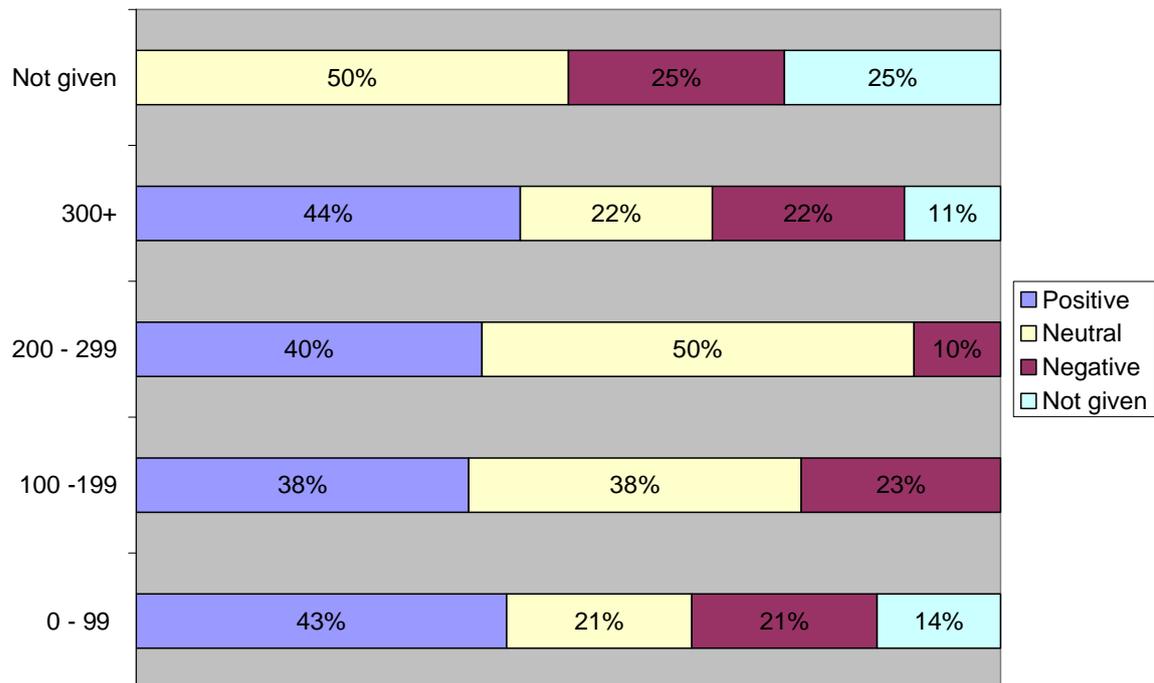
**Figure 7: Analysis of the size of survey respondents (using sow numbers) (n=68)**



**Figure 8: Methods of communication between respondents and APL, by sow numbers (n=68)**

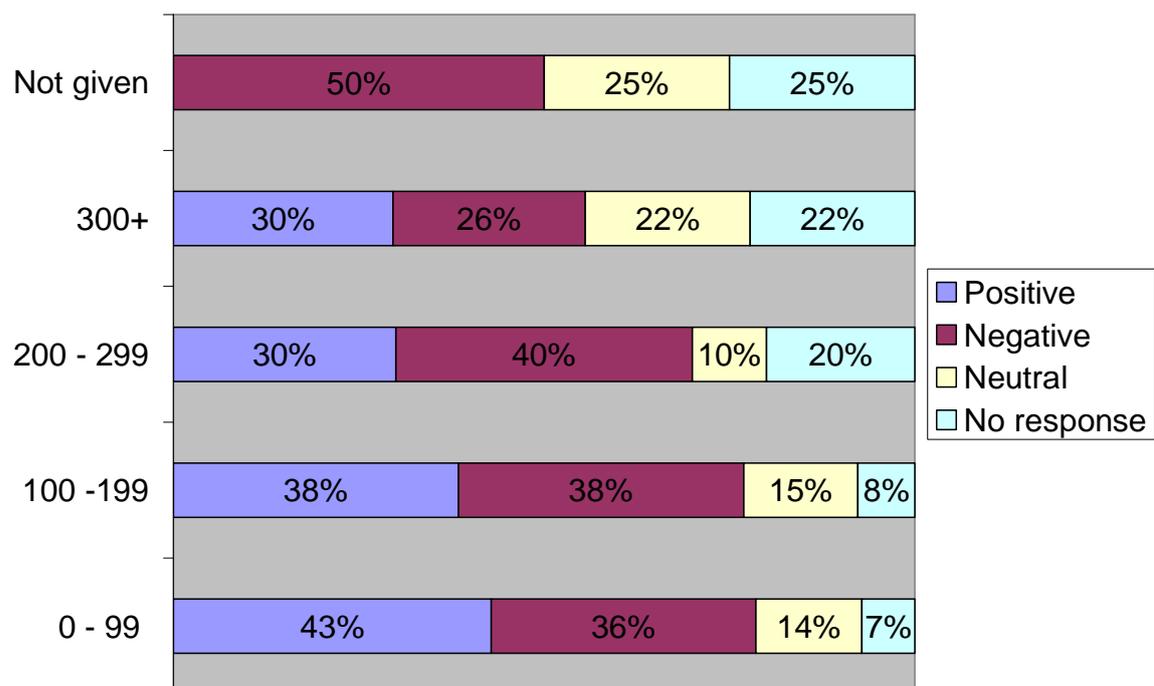


**Figure 9: How well do you feel APL addresses the issues and concerns of producers? Nature of respondents by sow number (n=68)**



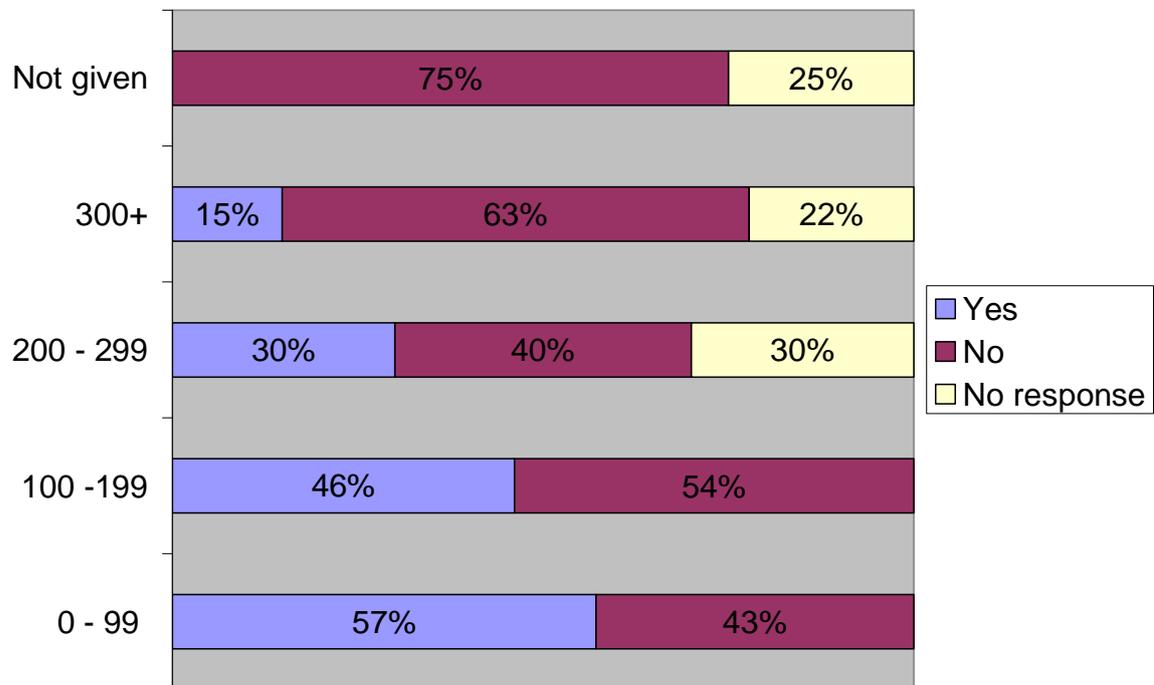
Producers were asked how well they thought APL addressed their issues and concerns. Responses were assessed as being positive (i.e. APL does a good job at addressing issues and concerns), neutral or negative. Of all respondents, 40% were positive, 31% neutral, 21% negative, and 9% did not answer the question. A breakdown of these responses, by sow number, is provided in Figure 9.

**Figure 10: Do you think APL is an efficient organisation? General tone of responses by sow number (n=68).**



Producers were asked whether they thought APL was an efficient organisation. Responses were assessed as being generally positive (i.e. APL is efficient), generally negative, or neutral (Figure 10). When analysed as a whole, 32% of respondents were positive, 34% negative, 18% neutral and 16% offered no response.

**Figure 11: Do you think that APL offers you value for the levies you pay?  
Responses by sow number (n=68)**



More than half (54%) of survey respondents felt that APL did not offer value for the levies they paid. As shown in Figure 11, producers with a larger number of sows generally perceived that APL did not deliver value for money.

Respondents were asked to identify the main areas for improvement for APL. Responses were categorised as being either issues related (e.g. seeking a better outcome on a particular issue) or improvement in the processes of APL (e.g. in the processes it uses to interact with levy payers or set priorities). Overall 21% of all respondents felt that APL could improve the outcomes of issues, 38% felt that APL could improve its processes and 41% had no comment. A breakdown of responses by sow numbers is provided Figure 12.

**Figure 12: Areas for APL improvement, by sow number (n=68)**

