7 MANAGEMENT

7.1 An Organization in Transition

The Review period witnessed significant change initiatives: relocation of the Center Head Quarters to Penang, its Brand makeover as World Fish Center reflecting its growing role in fisheries research, and structural reconfiguration of management to optimize use of its research resources. The period saw changes at the Board Chair and Director General levels, besides the scheduled turnover of about a third of its executive management team. That the Center, in the event, adequately coped with such a daunting clutch of changes in a relatively short period (1999-2005), albeit with some slowing down of research output during this phase, is a tribute to the change management planning and execution capabilities displayed by its Board and the top management team led by the Director General.

7.1.1 Relocation of Headquarters

Recommendation 5 of the 2nd EPMR Report delivered in February 1999, exhorted the Center's Board and Management to "place the highest priority to locating and transitioning to a permanent site that meets ICLARM's (as the Center was then called) criteria." This was also in line with the Center's own efforts since the early 1990's to find an acceptable and affordable home-base for its headquarters, In February 1999, the Board decided to pursue the Malaysian Government's offer to locate its global headquarters in Penang. The Center moved to its temporary offices in the Equatorial Hotel Complex in Penang, with some 30 internationally and regionally recruited staff from Makati in the Philippines relocating, supplemented by a further 20 locally recruited staff. The rebuilding and refurbishing activities at the new 5.5 hectares site in Batu Maung on the south-east coast of Penang, commenced in early 2001 and the facilities were inaugurated on 17 August 2001 by the Deputy Prime Minister of Malaysia. Of particular importance and professional satisfaction was the harmonious exit from the Philippines, with both the government and remaining-staff relations being handled with great finesse and equity, involving meticulous and detailed planning and execution of by the Board and the Management. The Center has a country-specific program for the Philippines, which is also the seat of the FishBase Consortium.

As an inevitable fallout of such major relocations, there has been a slowdown in the Center's research program development: senior management time was tied up with the transition process, deadlines were missed, reporting to donors was delayed, under-spending was high, refereed publications dropped, funding pipelines suffered, and so on. On the positive side, *post*-relocation, the Center was strongly placed for future growth: its potential to attract talent increased, its suitability for partnership with other research institutions improved, and its credentials as an international research Center with world class facilities were established. Relationships with the Malaysian Fisheries Department at Jitra, 140 kilometres from Penang, were initiated, access to a large and high-quality work force was possible. Overall, despite the unavoidable pains of relocation, the move seems to have opened up major strategic locational advantages to the Center.

7.1.2 Brand Makeover

Another major transition during the Review period was the change in the name of the Center and the choice of a new logo. The Center's earlier name, International Center for

Living Aquatic Resources Management, while most adequately reflecting the vision and mission of the Center, was in practice too long and was inevitably shortened to ICLARM. The relocation to Penang offered an opportunity to initiate a name-change exercise that was aimed at aligning the Center's name with its growing profile as a leading international center for fisheries research. The change was carried out in two stages: first, in 2000, to "ICLARM – The World Fish Center" to provide some continuity and connectivity to the earlier name, and then in 2002 to "WorldFish Center" that reflected the Center's global aspirations.

The new name communicated strong positioning with the Logo supporting the message using the same elements, i.e. people, fish, and the global shape. This change however, did not affect the legal name of the Center, which remained the same as earlier; the new name was only to be the Brand by which the Center was identified for academic, research, and day to day communication purposes.

This name change, though, had implications for governance, management and science at the Center, leading to a series of strategic transformations at the Center that are detailed in this Review. As part of its efforts to crystallize and firmly establish fish-related matters on world economic and environmental agendas, the Center launched the "Fish for All" initiative as a credible, global, science and policy dialogue to introduce some urgency through participation of policy-makers, opinion leaders and researchers at various community levels. WorldFish campaigns are now increasingly internalized to reside beneath the "Fish for All" banner in its Strategic Plan initiatives. Overall, the Brand changeover appears to have been managed well, the Center receiving the CGIAR Science Award for Outstanding Communication in 2003 for the "Fish for All" initiative.

7.2 Panel Staff Survey-2006

The success of a largely knowledge-worker-centric organization such as WorldFish, depends upon what its most valuable asset, the human resources pool, thinks of the Center as a place of work and social interaction. The Panel conducted an electronic survey of employee opinions on some key issues. Even though more complex questionnaire structures would have provided finer nuances of employee perceptions, the Panel chose simplicity as its driver, and is satisfied that the responses provide an acceptable basis for its purposes.

In all, 118 employees (out of the total 307, or 38%) responded to the survey, the somewhat low response rate was possibly due to lack of computer literacy and access in case of a large part of the workforce especially in outreach locations. Key participant demographics are provided in Appendix 7-1-A: of particular interest is the fact that 47% (38%) were women, 65% (86%) were Nationally Recruited Staff, 23% (10%) were Internationally Recruited Staff, 59% (29%) were from Head Quarters, and 26% (14%) were PhDs. Percentages in parentheses represent the respective proportion of the categories in the total staff strength of the Center.

Following are some of the key response insights:

A significant majority of respondents agree or strongly agree that they understand how the goals of their program, function or unit fit into the long term plans of the Center, (89%), feel decision-making is open and interactive and that they can freely express their opinion on work-related issues (78%), the work environment is warm, friendly and collaborative (81%), with the physical environment being excellent (79%), they have enough time, opportunity and encouragement to pursue their research and professional interests (59%), and that they are satisfied with the balance between their private life and professional work (71%).

On the other hand, some of the perceptions with regard to personnel administration may be a cause for concern. For example, 28% of the respondents disagree that superior performance is generally recognized or rewarded, some 19% disagree there is no workplace discrimination or harassment, sexual or otherwise, 22% disagree that the performance evaluation system is transparent and fair, 28% disagree that personnel policies are clear, unambiguous and equitable, and 32% disagree that personnel policies are fairly and equitably administered.

While overall 80% of the respondents agree or strongly agree that they would continue working for the Center, given reasonable opportunities for personal growth, advancement and job satisfaction, it is disturbing that some 35% (36% NRS, 15% IRS) believe they should be looking for a change because growth prospects are perceived to be poor; 22% overall (15% each of IRS and NRS, 38% of RRS) believe better opportunities are available elsewhere Some of the other indicators also allude to a measure of restlessness within the Center, with 36% (48% of IRS, 51% of NRS) of the respondents preferring a change in location or function, 25% (24% of IRS,16% of NRS) preferring a different superior, and a substantial 45% (33% of NRS, 28% of IRS and RRS) preferring another program or project, all subject to suitable opportunities arising. The Center may wish to identify potential causes and to institute appropriate correctives.

Equally important are some of the indicators thrown up by research-related staff. While 71% (64% IRS, 75% NRS, 62% RRS) of the respondents agree or strongly agree that the research activities at the Center are of a very high quality, 78% (78% IRS, 74% NRS, 92% RRS) believe research quality leaves scope for considerable improvement. One possible interpretation is that while the fields of research activity engaged in by the Center are of a high quality, the research output quality leaves much to be desired (as concluded by the Panel also in Chapter 4).

Responses indicate that work-related tensions exist between the science staff and the staff functions like human resources, finance, and the IT. Similar tensions had also been highlighted at the time of change-over of Directors General in 2004. A certain level of healthy tension between the regulators and the regulated may not be altogether avoided and may even be welcome under certain circumstances, if only in the interests of ensuring appropriate internal controls and procedural discipline, but it does appear from the Panel survey that current tension levels may be due to the staff functions not reaching out to, or effectively communicating with, the program staff and others entrusted with the care and disposition of the Center's financial and other resources. There appears to be a strong case for reiteration and appreciation of respective roles and responsibilities.

It is useful for staff in functions such as finance and human resources to travel to outreach locations at reasonable intervals, as they have been doing, to establish personal rapport and to understand each others' problems as much as a measure of management control through visibility in the field. Such visits also provide an invaluable opportunity to the concerned managers to get a first hand appreciation of the dynamics of field operations away from the center, and offer multiple advantages of not only understanding the ground level realities but also ensuring appropriate measures that, while facilitating operations, also protect the assets and interests of the Center. The Panel suggests that the Center continue the current practice of such staff traveling to outreach locations at appropriate frequencies.

The latest Staff Opinion Survey conducted by the Center in 2003 listed nine least favorable items emerging from those survey responses. The Panel reviewed these items in the light of responses to its survey in 2006, and observed that some of them, listed below, continue to be perceived as areas of concern:

Employee compensation and benefits: Nationally recruited staff pay is seen as significantly and unreasonably disadvantageous compared to internationally recruited staff compensation; in certain functions, benchmarking Center pay with comparable government jobs has been faulted for not reckoning other benefits available to latter.

Overall, 50% (22% of IRS, 44% of NRS, and 50% RRS) of the current respondents were satisfied with their remuneration (2003:21%).

In respect of job-benefits, 60% overall current respondents were satisfied (2003: 27%).18% of IRS, 39% of NRS, and 23% of RRS).

<u>Transparency and equity is recognizing and rewarding superior performance</u>: Overall, 51% of the respondents agreed that superior performance was recognized in the Center (2003: 35%). 30% each of IRS and NRS, however, disagreed.

However, several respondents expressed a view that the recognition and rewarding processes left scope for improvement in terms of perceived transparency and equity. The Center may wish to further explore these concerns and institute appropriate corrective measures that would restore employee confidence in the fairness of these processes.

On the positive side, with regard to Outreach Locations – Head Quarters Interface: Overall, 64% (2003: 25%) of the respondents expressing a view from outreach locations agreed that people at head quarters took into account their locational issues and requirements when decisions were made; this matches well with the 62% of the respondents from head quarters agreeing that people at outreach locations appreciated the overall context in which decisions were made at head quarters.

7.3 Stakeholders Survey –2005-06

As part of the Review Process, the Panel had the benefit of interaction with several stakeholders of WorldFish comprising donors, partners, and other CGIAR Centers collaborating with WorldFish. Key points and issues that emerged from these discussions have already been dealt with in Chapter 5.

7.4 Human Resources

7.4.1 The Most Valuable Assets

Without a doubt, human resources are the most precious assets of any knowledge-worker-centric research organization such as WorldFish. How well the Center's personnel policies and programs are devised and administered, and how well the organizational culture is developed to be conducive to alignment of employees' interests and aspirations with the Center's goals and mission, will be key to its timely and successful achievement of its objectives.

And yet, this has been an area of concern to the Center. The 1999 EPMR referred to a transformation process in progress (not considered achieved) that was addressing, among other issues, the problems of *a fragmented senior management and uneven performance and contribution of both national and international staff*. Several initiatives were launched, especially after the relocation to Penang, in updating certain policies and procedures (Appendix 7.1).

By 2000, salary structures for most of the regional offices were in place, as were the first set of policies and procedures for the new Head Quarters. A Center-wide Staff Attitude Survey was commissioned in 2001 (with 157 or 92% of the relevant population participating), the findings of which were not entirely flattering to the Center: Communications processes were a source of moderate to serious dissatisfaction with some 45% of the respondents, 70% felt management effectiveness was moderately to significantly poor, 70% dissatisfied with career development practices, and 56% of the staff were neutral in their response to their working relationships with their supervisors. Somewhat incongruently, 58% were satisfied with the Leadership, and 70% were satisfied with Teamwork at the Center.

Another Staff Opinion Survey in 2003 (with 182 or roughly 60% of the employee population) brought out the following least favorable responses, figures in parentheses reflect % of favorable responses): sufficient staff strength (36%), rewarding superior performance (35%), satisfactory communication of procedures and policies (34%), authority to fix work related problems without supervisory approval (33%), happiness with steps to improve communications since previous survey (31%), satisfactory input support from other units/divisions (30%), and good staff benefits (27%). 25% of the respondents said Head Quarters staff did not take their location into account when decisions were made, and 79% said, they were, overall, dissatisfied with their pay The last finding needs to be seen in the context of the composition of the respondents, some 84% of whom were nationally recruited staff, with a vast majority from Malaysia, Philippines and Bangladesh.

The results of the Panel Staff Survey in 2005-06 have been commented upon earlier in Section 2 of this Chapter. A key message emerging from the comments of respondents is that the HR function needs to be seen more widely by employees as a facilitating and equitable function professionally developing their capabilities and careers, and by management as strategically building internal capacity and enabling effective marshalling the Center's human resources,. The function should establish relationships at the grass root operations levels by continuous interactions and field visits, and earn the confidence of people that in HR they have an empathizing associate.

Major steps for improving people management are reported to be in hand; some of these have also been initiated (Appendix 7.1). Job evaluations are fully implemented across the Center, with the help of external consultants, salary structures have been reviewed and updated, Center-wide training needs are being consolidated and appropriate budgetary allocations obtained, a OneStaff concept is being adopted minimizing category-based distinctions among employees, which has emerged as a major irritant in the Center's human resources administration. The Panel appreciates the recognition of these imperatives and suggests that the Center pursue implementation of these initiatives on a priority basis, and ensure clear communications and administration of such policies with equity and transparency.

7.4.2 Staff Development

It is important that leadership skills are developed at various levels in the organization. Appropriate training programs need to be designed and delivered on a continuing basis, to enhance leadership qualities in the organization as a whole.

From 1999 to 2004 staff development appears to have been on an *ad hoc* train-as-you-go basis. There is little evidence of any systematic assessment of training needs based on job requirements and employee performance feedback. In 2005, an explicit budget was set up for training and development of staff members. Training needs analysis were conducted based on the performance appraisal feedback and training plans were developed. Human Resources function coordinated center-wide training programs during 2005, listed in Appendix 7.2.

Impressive as this training performance is (some 212 staff, some 69% of the total, were covered), leadership development courses covered only 16 employees. Excellent technologists, scientists, and other technocrats at operating levels could often find their supervisory, communications, and inter-personal relationship management skills, need strengthening so as to enable them to lead their teams successfully. The Panel suggests that the Center ascertain such leadership skill requirements and arrange for appropriate leadership training initiatives.

Based on our Staff Survey responses, there may be a case for articulating the processes involved in identifying employee training needs, selection of training programs, and nomination of staff to such programs. Such training and development inputs may be necessary not only for research personnel but also those in staff functions, as a measure of updating and upgrading their professional skills, to better serve the interests of the Center.

7.4.3 Enlarging the Scientists Pool

The Center has an uphill task in terms of recruiting, replenishing and strengthening its science pool (Chapter 4, for related discussion). While there have been some heartening instances recently of acceptances, the general trend still appears challenging. The situation seems to be further exacerbated by the dearth of appropriate talent in the required disciplines internationally. Some initiatives to attract such talent have been initiated by the Center, with the terms and conditions having been posted on the FishNet in 2003-04.

Another possible option to meet this situation could be to tie up with renowned educational and research universities and institutions, in doctoral and post-doctoral programs in aquatic resources and their management, such that scholars are able to contribute to the Center's work while at the same time pursuing their research degrees and distinctions. This may supplement current efforts to get visiting scholars and scientists to work at the Center concurrently with their ongoing affiliations. The Panel suggests that Center consider developing such schemes as a measure of not only encouraging quality research in fields of its interest but also, in the process, mitigating its own problems of finding appropriate scientific resources for its work.

7.4.4 Performance & Potential Appraisals

WorldFish has had a reasonably satisfactory process of Performance appraisal management. This is now being strengthened, to take into account the requirements of the matrix management structure currently in place. Finalization of the design elements will be undertaken, with the help of an on-line survey of staff members, discussions with a special task force and extensive debate among senior leaders. It is expected to be rolled out in 2006.

The objectives of the Performance Management System (PMS) at WorldFish are to:

- Assess past performance
- Assess competencies
- Link rewards to performance
- Assist in annual Planning of objectives/targets
- Identify training needs, and,
- Facilitate continuous performance improvement

While the importance of potential assessment is recognized, it will not, quite correctly, be part of the Performance Management System. It will be a separate, stand alone system for consistent high performers and a part of a separate Succession Planning System. Potential ratings would be confidential and would be used in considering employees for higher responsibilities.

Considering its importance in the staff planning, retention, rewarding and replacement cycle, the Panel suggests that high priority be given to the finalization, implementation, and clear employee communication, of the revised performance management system and the potential appraisal initiative.

7.4.5 Succession Planning and Management

Senior Management Turnover

The Review period also saw several departures from executive management at the levels of Director General, Associate Directors General and Directors. Succession to the position of Director General was managed by the Board and it is creditworthy that the incoming DG was in place even while the outgoing DG was preparing for her departure. Finding suitable successors especially at senior levels, such as for example, the Director of Corporate Services, that took close to ten months, or the Chief Financial Officer which position was vacant for some 8 months, both in 2005, has not been easy. While during the interregnum, next-line staff appear to have responsibly coped with the situation, there is little doubt that strategic counsel and contribution expected from senior functionaries was unavailable to Center management during such periods.

Succession planning and smooth transition at senior levels are key to the stability and ongoing success of an organization. Unscheduled separations are indeed a problem, but will have to be addressed, partly by in-house development of appropriate second line of officers and perhaps, where possible and appropriate, by outsourcing the roles to external consultants until suitable successors are in place.

7.4.6 Staff Demographics & Gender Diversity

As of January 31, 2006, there were 307 employees on the rolls with WorldFish (Appendix 7.3), of which female staff accounted for 109 or some 36%. This compares quite favorably with the CGIAR average of only 27% women as of April 2003. Among the 42 PhDs, women accounted for just 5 or 12% of the total; this is significantly lower women representation when compared to the CGIAR average of 20% women in the category of Scientist Staff. Internationally Recruited female PhDs at the Center account for 14 % of the total numbers in the category (29). Regionally Recruited female Staff (RRS) account for 58% (CGIAR average 32%) of the total RRS (12 staff members) and Nationally Recruited female Staff (NRS) account for39% (CGIAR average 28%) of the total NRS (253 staff members). In either case the WorldFish gender balance is superior.

Employee Attrition

Staff Turnover at WorldFish (Appendix 7.4) over the Review period (19.7%) was found to be high; though this seemed to have improved in 2002 (9.7%), an upward movement since then (2005: 19.7%) is a cause for concern (Appendix 7-6). Some functions appeared vulnerable to very high turnover rates: Information Technology (31%), Finance (32%), and Human Resources (20%) saw significant turnover rates on average over the Review period. It should be remembered, though, that the Review period witnessed a relocation of Headquarters, that led to separation of 67 NRS out of a total of 107 in that category, adversely impacting averages. On a relatively more stable-state basis, from 2001 to 2005 (October), the overall average is still 17%, and some functions like IT (27%), Finance (30%) and Information, Communication and Publications (22%) continue to be sources of concern. These attrition rates overall seem to be excessive in a CGIAR context, where overall departures during a study period of 20 months to April 2003 was reported at 10%, being considered an *acceptable* rate. The Panel was informed that containment and management of attrition levels in the Center would be a key HR priority in 2006. While appreciating the unique employment situation in Malaysia (where close to 30% of WorldFish employees are located) with its low unemployment levels and consequent higher mobility of employees, the Panel suggests that this issue is addressed on a priority basis and appropriate remedial measures introduced to contain staff attrition.

It is essential for an organization to know the profile of the people who depart, why they leave, and where they go; without such information, no worthwhile human resource strategies could ever be successful. While the cost of staff turnover may not be entirely eliminated, and perhaps it may even be desirable that a small percentage of employees do leave for mutual benefit, lack of information analysis on departures is a data gap that needs to be plugged immediately. It is understood that exit questionnaires are collected and in some cases interviews are also held, but this is limited to Headquarters only. The Panel suggests that the Center immediately strengthen the information system to collect reliable and validated data on all departures through an exit interview mechanism with senior line and human resources managers being present at the time, preferably without the immediate supervisor in attendance.

Staffing Plan and Recruitment

With the development of the 2006 budget, Discipline Directors and Division Heads have been requested to identify the existing skills set of staff and also the planned skills set required for the next 2-3 years. The surplus or shortage of skills derived through this analysis, together with estimated attrition could then be used to develop a staffing plan and recruitment strategy. The plan is expected to be developed by early 2006.

Two of the metrics the Center gauges its recruiting-effectiveness are "time to fill" and "cost per hire". The Center's experience in terms of recruitment-to-reporting time is said to be some 10 to 12 weeks (four for advertisement and response, two for candidate short-listing, one or two for phone interviews and two to four for personal interviews) for filling international positions (There have been significant deviations from this average time frame. See concluding paragraph in this section below). A further two to three months may be required before the selected candidate joins in. The cycle time is shorter, about four weeks, plus joining time for local recruitments.

Time and cost per hire metrics currently used by the Center do not, however, measure effectiveness in terms of effectiveness of hires. The Center plans to design effective metrics for this purpose by mid 2006. The Panel suggests that such quality measures also incorporate retention inputs that would indicate the effectiveness of the hiring program, as indicated by the time duration each recruit stays with the Center before any separation. Shorter timeframes between recruitment and separation may indicate any scope for improving recruiting practices, and more importantly, for reviewing candidate specifications for jobs. For example, in the Panel Staff Survey, overall 17% (11% IRS, 22% NRS) of respondents felt their work profile was not in line with what they were told at the time of recruitment or promotion. Even though the numbers may not be large, such perceptions may create unnecessary discontent, and in some cases may also lead to separation. Considering the future work plans of the Center and the need to be fully staffed in terms of skill requirements at all times, the Panel suggests that the staffing plan for 2006 be implemented on a priority basis through the appropriate skill-set inventorying and gap analysis, and building in estimated attritions and hiring effectiveness criteria.

There were 11 vacancies (Appendix 7.5) remaining to be filled as of January 31, 2006. Of these, six were PhD positions, including the Discipline Director for PESS and a Scientist for Fisheries Resources Management, both of which are pending from Mid-2005. The Panel was informed that the position of PESS Discipline Director was being re-advertised. The Panel suggests that the Center explore some innovative measures such as for example, head hunting by professional placement firms, or focused announcements in appropriate universities, and so on, would help in quicker recruitments.

Employee Engagement

The Center had set up a Staff Advisory Committee, especially after the feedback from the Staff Survey conducted in 2001, as a forum to interact with employees periodically; this has been inactive since 2004. In part, the communications need is met by the regular weekly/ monthly newsletters and updates the Director General addresses to all staff, but this does not permit two-way communications between employees and the center management. The Panel is informed that the Staff Advisory Committee is due to be reactivated soon, and suggests that this be done as soon as possible.

7.5 Finance, Accounts, & Audit

7.5.1 HQ and Regional Offices Accounting System

Headquarters accounts were maintained using Platinum software, a package with limited capabilities, until August 2005 when the systems migrated to SAP. All regional accounts have been maintained using MS Excel or equivalents, except for Egypt which migrated to SAP in October 2005. The function has been reporting to a senior executive at the level of Associate Director General; in October 2005, a Chief Financial Officer has joined as head of the function.

Financial Operations

Appendix 7.6 sets out a Statement of Activities from 1999 to 2005; Appendix 7.7 presents a Statement of Financial Position from December 1999 to December 2005; Appendix 7.8 sets out financial indicators; and Appendix 7.9 sets out the position of cash and cash equivalents from December 2000 to December 2005, held Headquarters and other locations.

Reserves: A Problem of Plenty

The Center reported operating deficits in 1999 and 2001. Since then it steadily built up its reserves to US$ 10.6M as of, 2004; this trend has since been reversed, leaving the Center with reserves of US$ 8.7M at 31 December, 2005. Working Capital Indicator (a measure of number of days cover for cash expenses) which was 72 days in 1999 steeply increased to a high of 272 days as of December 2004, but came down to 200 days as of December 2005. Although the buildup of reserves, especially through operating and cost efficiencies, may be suggestive of good financial stability, such accretions as a result of under-spending on research or allied activities, as has generally been the case here, would not be appropriate.

This level of reserves also compares unfavorably with the CG norms that suggest a range of 75 to 90 days of working capital cover. The Center Board is alive to this situation, and is actively looking at appropriate investment proposals that would bring down the excess reserves to a more acceptable 100 days range, while meaningfully achieving the Center's approved goals. The Center has already moved in this direction: besides the drawing down of US$ 1.9 M in 2005, its 2006 Budget, approved by its Executive Committee on December 7, 2005 in a tele-conferenced meeting, approved by the board out of session (by email) and, and awaiting Board ratification in March 2006, visualizes a further drawing down US$ 1.2M from reserves to meet projected expenditure, with a 2006 year-end projection of US$ 7.6M, equivalent to 143 days of working capital cover. If achieved, this would be a commendable effort.

Given the importance of maintaining reserves at prudent and yet not unduly excessive levels, ***the Panel recommends that the Center continue to accord this matter very high priority and importance so that necessary and appropriate allocations are expeditiously approved and utilized.***

Imputed Rental Charge to Projects

The CGIAR System encourages its Centers to recover their indirect costs fully by charge to the projects wherever identifiable. The Center's Board at its meeting on 4th March 2002, approved (Agenda Item 37.3) a management proposal "to develop a full costs recovery system and implement the strategic steps for recovering indirect costs," as detailed in the proposal, which *inter alia* also included an assertion that such practices should comply with Generally Accepted Accounting Principles and International Accounting Standards.

Following this approval, the Center adopted full cost recovery method for recovering costs from donors, from 2002 onwards. In computing such indirect "costs", the Center included imputed (notional) rentals for Headquarters facilities at Penang market rates, even though the land which on which the facilities stand were leased to the Center by the Malaysian Government at a nominal annual rental of RM 1000, and the buildings and facilities were put up using grant funds in the unrestricted core funding category. During the years 2002, 2003 and 2004 a total of US$ 1,426,591.73 has been charged as imputed rent to various projects under this full cost recovery system. Out of this US$ 57,754.38 has been charged to projects in the restricted category which led to increase in profits of US$ 42,281 in 2003 and US$ 15,473 in 2004. Similarly US$ 945,282 was charged in 2003 to Core unrestricted projects and US$ 423,555 in 2004. These did not impact profits but led to increases on both the income side and expenditure side by US$ 1,368,837 (reflected higher utilization of donor receipts and higher expenditure on projects by the Center).

In following this practice, which, the Panel is informed, was at all times in complete good faith and believing it to be appropriate and legitimate, the Center appears to have been guided by a desire to "provide for substantial regular maintenance investments," to keep the infrastructure at international standards; this was sought to be done by, charging rental to all programs and units based on their space utilization. The Board was indeed briefed on the implications of the full cost recovery scheme, but whether it was informed of management's proposal to compute notional rents for this purpose at market rates in unclear, since the agenda notes do not make any specific reference to such intent, nor did the Panel's telephone discussions in February 2006, with the then Board Chair clarify the position. The following comment in the proposal placed for Board consideration however is worthy of note: "This [the full cost recovery system] is a departure from present CGIAR practices and should be similar to practices used in the for-profit sector but without the mark up for profit." How such a notional rental charge at market rates would be consistent with no mark up for profits is a question that does not seem to have been raised or addressed!

Independent auditors have also drawn attention in their Management Letters to these recoveries; minutes of the Audit Committee and Board meetings, where these letters had been tabled for consideration along with the financials, do not record any detailed discussion on the subject.

The Panel has been informed that "the intention of this procedure was to use rental as a general charge to defray a variety of indirect costs. The rental charge did indeed exceed the costs of the (nominal) rent charged by the Malaysian Government and the basic (pro-rated) facility maintenance costs, but even with this additional income the full costs of the project were never met." The Panel is further informed that the charge has been made only where the donors have consented to such a charge.

The Panel finds no justification for a charge which admittedly was in excess of actual rental and maintenance costs, pro-rated. If other overheads remained unrecovered, it would be logical for the Center to have identified them and charge the projects specifically, rather than bundling them with a rental recovery. It is not also clear if the donors had been informed of this bundling of other indirect costs in the rental charge, when obtaining their consent.

The Panel is informed that this practice of recovering imputed rents has been discontinued from 2005, in respect of core fund projects but continues in case of grant projects; the fact of such discontinuance in case of core fund projects, though, does not appear to have been reported to, or approved by the Audit Committee or the Board.

Given the status of WorldFish as an international not-for-profit organization, having regard to the letter and spirit of the agreements with the Malaysian Government in respect of the leased land, and to ensure that as a CGIAR affiliate, the Center follows the best practices in accounting and reporting, ***the Panel recommends that the Center should revisit and comprehensively review this recovery methodology in all its aspects, seek directions from the Audit Committee and Board urgently, and adopt an appropriate policy that would be consistent with the its Constitution mandating it as not-for-profit organization, and in full compliance with the Host Country and Land Lease Agreements with the Malaysian Government, and transparent disclosure to, and concurrence of, the donors, if any such recoveries are to be continued or commenced afresh.***

Purchase Order Accruals

The Center has been accruing costs at year-ends in respect of services not yet received, in line with general guidelines relating to recognition of These are against restricted funds where the expenses would not be recovered from the projects if not spent or provided for in the same year. Accruals of this nature were US$ 62,471 in 2001, 44,567 in 2002, 205,413 in 2003, 135,133 in 2004, and 679,022 in 2005. No specific concurrence from the respective donors appear to have been received for such accruals..

According to CGIAR guidance on accounting policies, expenses are to be recognized when a decrease in future economic benefit related to a decrease in an asset or an increase in liability has arisen that can be measured reliably. Under International Accounting Standard 37, accrual represents liability to pay for goods or services that have been received or supplied but have not been paid, invoiced or formally agreed with the supplier. Independent Auditors have highlighted these departures from sound accounting and reporting requirements in their Management Letters, with neither the Management nor the Audit Committee / Board acting upon such comments.

The Panel understands that this practice of accruals has been discontinued effective 2005, and any amounts remaining to be spent as of December 2005 are planned to be reversed. There also appears to be a view that project expiry dates do not cover any *post* project publishing or other similar consequential expenditure, and as such it may not be incorrect to make such provisions for a limited period after project closures. Without the concurrence of donors, such a view taken unilaterally would be unjustified, since in principle, it would be violative of accepted accounting practice. The independent auditors may take an appropriate view at the time of certifying the 2005 financials later in February, 2006.

Investment Policies and Cash Management
The current investment policy approved by the Board in September, 2004, allows the Center to invest funds in different risk-averse, interest-bearing financial instruments such as Fixed Deposits, Bonds, Warrants, and so on. Investments may also be made in the currencies of receipt and expenditure, to minimize transaction losses. The Center is to be complimented for instituting robust investment currency management policies since 2004.

Surplus cash management initiatives at the Center, however, require strengthening. Substantial cash balances are retained in non-or-low-interest-bearing bank accounts, instead of being swept into term deposit accounts earning reasonable interest. For example, as of 31 December 2005, cash and equivalents held at Head Quarters and other locations amounted to US$ 12.5M, of which US$ 4.0 M was held as cash in bank accounts.

The Center needs to further refine its system of cash forecasting which is an essential part of a good treasury management regime. Rolling short-term forecasts would help the CFO to ascertain the immediate cash needs of the Center and place surpluses in interest-bearing term deposits with varying maturities. The Panel suggests that the Center introduce such a cash forecasting and management mechanisms to better utilize surplus funds.

Fixed Assets Management
No evidence was available to suggest any physical verification of assets at different locations; lack of such a basic control mechanism may lead to leakages and potential loss of property.

The Panel suggests that the Center institute a program of physical verification by the Center officials, at least once a year, and certified by the Officer-in-charge of each location. The Audit Committee may seek from the management a confirmation of such a Program being implemented and periodically note the results of such verification and any consequential write-off actions.

7.5.2 Budgeting & Management Information Reporting

The Annual Budgeting Process
Currently, the Center's budgeting process begins sometime in September, with budget owners being asked to submit budget requests in a prescribed format; the aggregated responses are analyzed by discipline, activity type and so on, all of which help to match projected activity levels and expenditure with expected core funding, as well as to assess the budgeted fit with the Center's strategic objectives. A key element of the process is the allocation of all staff time (measured as Full Time Equivalents) to one or more projects. An important feature of this time allocation process is that scientific paper writing is also specifically assigned to a Paper Writing Project for each discipline which would help in tracking optimal utilization of available time and following up on publications.

To a large extent, the Center appears to follow the principle of "planner being the doer" so that there is budget ownership established on the part of executing science personnel. The process usually culminates in a draft budget which is then ready for Board consideration and approval.

Ideally, the budget should be ready and approved before the beginning of the budget year. Meeting schedules as at present do not admit of this discipline. For example, the 2006 budget will be tabled for Board consideration only in March 2006, nearly a quarter into the budget year. The Executive Committee, through a tele-conference in December 2005, discussed and approved the draft 2006 budget for Board approval in March following. The Panel is informed that the Trustees (meeting out of session) approved the budget by email communications, and this approval will come up for Board ratification in March 2006. The Panel suggests that the Center give consideration to advancing the budgeting time schedule on the one hand, and deferring the Board meeting on the other such that the full Board could have an opportunity to interactively discuss and approve the Budget at a meeting before commencement of the budget year. This suggestion may be easier to implement if the Board meets more often as suggested by the Panel.

Management Information

Information and communication have been identified as one of the five essential components of the COSO Internal Control Framework, which is widely recognized as an essential management tool. Management information, to be of practical value, should be timely and relevant; voluminous collection and presentation of data is no substitute for duly processed information tailor-made to suit the need so of the managers.

The Panel was informed that a comprehensive financial information reporting regime has now been finalized and will be in place effective 2006. Apart from monthly and quarterly updates on the financial position, this package is also intended to provide management accounting information to project managers and other activity heads; with the introduction of SAP, it is planned to provide on-line reporting on a continuous basis, and will become comprehensive when all outreach locations also begin keying in their transaction data on a continuous basis. These are significant improvements which should help better control over operational management at the Center.

While undoubtedly a wide variety of data and information are available at the Center, the Panel's observation during this review was that the storage was generally dispersed making access and retrieval difficult and time consuming; there are of course important exceptions, but in most cases, managers were hard put to provide information, and often depended upon their own personal knowledge and record keeping. As the Center grows in size and complexity, this backup mechanism is unlikely to withstand future demands. The Panel recognizes that changes in personnel and organizational structures can exacerbate these issues, as seems to be the case following the relocation from the Philippines, in several instances.

Introduction of SAP provides a valuable opportunity to streamline the information collection, processing, and delivery mechanisms; the Panel notes that this task is already in hand, The Panel suggests that the Center gives due consideration in this process of gearing up management information systems, not only to converting existing processing routines as they are but also to reassessing and integrating data capture and information access in a cost-and-effort efficient manner.

7.5.3 *Internal Control & Risk Management*

Internal Control

No formal internal control reviews appear to have been carried out at the Center during the Review period, except perhaps to the extent the Center's independent external and internal auditors may have attempted for their purposes. It is important that executive management assures itself through an internal self assessment that adequate control mechanisms are in place, and are being complied with. Given the nature of accounting processes and reporting practices at the Center, both to the Board and to executive management for operational purposes, the Panel considered it necessary to attempt a limited assessment of the adequacy of the Center's internal control systems consistent with its size and operations; this was done by a Control Self Assessment exercise carried out by the Heads of the Finance and Human Resources functions at Head Quarters. The Self Assessment Questionnaires were derived from the COSO Internal Control Framework, and were simplified to meet our limited needs. As a test exercise, such assessment questionnaires were administered in respect of randomly selected processes relating to accounts payable, managing human resources programs, planning and acquiring personnel, payroll, and employee training and development. The Panel would like to record its appreciation of the support provided by these two functions in carrying out this exercise.

On a preliminary scrutiny of these responses, control initiatives in the selected processes seemed to be adequate. Assessments, though, have been made only in respect of processes at the Head Quarters, even though they were intended to cover the Center as a whole, including outreach locations. It should also be mentioned, that in some cases, on further inquiry, assessment responses were modified by the assessors; the robustness of the responses therefore needs to be revalidated by the respondents themselves and preferably by an independent agency such as the internal audit function to ensure that the responses were indeed appropriate.

All this, of course, does not imply that there have been no improvements at all in this area. On the contrary, many of the initiatives put in place (or planned) in recent months and years would in fact help to correct control deficiencies in the organization. Control assessment exercises such as these, are intended to help management and the Board to identify high-risk control weakness potential and institute remedial initiatives in time, and to that extent should be viewed as an aid to management.

The Panel suggests that formal internal control assessments be undertaken by management, covering all aspects of the Center's activities, and validated by the Internal Audit function; that the exercise be updated every second year, or more frequently if felt necessary; and, the Audit Committee and the Board keep this as a routine agenda item for consideration and necessary direction, at their meetings.

Risk Management

No systematic demonstrable risk management mechanism seems to have been in place until in March 2005, at the initiative of internal audit, the Board approved a Risk Management Framework for WorldFish. An update of the summary of Center-wide High Level Analysis, first completed using this Framework was presented to the Board in September 2005, focusing on trends in the risk likelihood ratings which reflect developments since February 2005. The update is based on discussions of the Director of Internal Audit with WorldFish managers, and has been reviewed by the management team. WorldFish Risk Management and Internal Control Policy clearly lays down that a risk coordinator selected from within the Center's staff (or a Risk Management Coordination Committee) provide a focal point for integrating the results of risk management activities throughout the Center and supports management and the board in the preparation of Center-wide assessments and reporting. The Panel supports this suggestion.

The Panel suggests that in line with policy approved by Board in 2005, the Center designate a senior staff member for integrating the results of risk management activities throughout the Center and to support Management and the Board in the preparation of Center-wide assessments and reporting. Risk management is clearly a management responsibility with Board oversight; Internal Audit should only be required to periodically evaluate the effectiveness of the risk system and report to the Audit Committee and the Board.

The Panel further suggests that this work be continued further in initiating a risk management approach enterprise wide including various outreach locations prioritizing perceived high- risk geographies.

7.5.4 Independent External & Internal Audits

Center operations are subjected to external and internal audits mainly at the Head Quarters. A few audits have also been carried out at regional sites in other countries.

External Audit

Independent Auditors' Management letters were made available to the Panel only in respect of 2002 to 2004. 2005 audit was being completed at the time of our review and hence no such management letters were issued, but during a telephone discussion in February 2006, the auditors did not highlight any major areas of concern, especially since the practice of imputed rental recoveries and purchase order accruals (referred to earlier) had been discontinued.

At the Panel's request, the Center arranged for the Panel an executive session with Ernst & Young, with a Partner and Senior Manager participating. The Panel was informed that KPMG in Penang, the auditors in 2001, did not respond to a request for a similar executive session with the Panel.

At the executive session, the Independent Auditors highlighted the fact that their observations in Management letters had not been duly heeded, they had little or no access to the Center's internal audit reports before finalizing their financial audit and certification; they were generally concerned at the turnover of staff in the finance and accounting function as well as the lack of coordination between them and the internal audit function.

These and other related issues have been dealt with, and suggestions for improvement made, in Chapter 6 on Governance.

Internal Audit
The Center's internal audit requirements are met by the CG Internal Audit Unit of which the Center is a founding member.

Internal Auditors completed 28 audits at HQ and at the regional and outreach sites from 2000 to mid 2005. (There was no internal audit carried out in 1999). In August 2005, Internal Audit conducted a review of the implementation status of recommendations from 2000 to mid-2005; details are provided in Appendix 7.10.

In all, 354 audit recommendations had been made in the internal audit reports during this period, of which 94, or some 25% were either not implemented or implementation was under way. Of these, 85 recommendations related to reports in the years up to December 2004; this is a significant number and the Panel suggests that the Center review these recommendations and report to the Audit Committee on their implementation.

While overall the quality of internal auditing was good, the five-year coverage frequency of major areas may be too long. The Panel suggests that a risk-based internal audit plan be drawn up for approval of the Audit Committee, with all major locations and processes being covered at least once in two to three years based on their risk ranking.

Implementing accepted audit recommendations is a management responsibility. While the internal auditors themselves may review implementation of recommendations during subsequent audit assignments, it is for the Center management to follow up on accepted recommendations and ensure their implementation. The Panel suggests that the Center nominate a senior executive, for example the CFO, as the focal point for tracking implementation of internal audit recommendations and reporting to the Audit Committee.

7.5.5 Compliance, IP and IT

Legal Status & Local Compliance, Intellectual Property

a) Legal Status & Local Compliance

WorldFish as an international organization, has its own Constitution (amended as of 1999) and functions on the basis of host country agreements with the governments of the countries it operates in. Currently, it has such agreements in Malaysia, the Philippines, and Egypt; documentation in respect of other countries and projects are reported to be in various stages of negotiation and execution.

Even though WorldFish is an international organization and has a measure of immunity in its host countries for its staff and its operations, there would still be certain laws and regulations (such as those relating to staff employment, contract services, employee taxation, employee retrial benefits, and so on) that apply to the Center, non-compliance with them leading to penal consequences. At present, the Center does not have a regular compliance certification process in place The Panel suggests that the Center develop reliable checklists of compliance requirements, in consultation with local legal counsel in each country and ask its Officers in Charge at each location to certify periodically appropriate compliance, for regular tabling at Board meetings.

Apart from one litigation in the Philippines concerning the rented premises of the Center prior to relocation (value at risk = Php 400,000), the Panel is informed there were no other litigations pending against the Center in any of its outreach locations or at Head Quarters in Malaysia.

b) Intellectual Property

As a research organization, the Center is constantly adding to its store of intellectual property. As an international organization affiliated to the CGIAR System, virtually all its intellectual property is for public good, and in this background, it is possible that management of intellectual property is not assigned the same importance in such Institutions as would be the case elsewhere. It is important that the Center's intellectual property is well secured and protected, if not for commercial exploitation, then at least for ensuring that its application is under its control and discretionary jurisdiction. Such an approach would help the Center to channel exploitation of its intellectual property to the public causes that it is obligated to serve.

There is some evidence to indicate that IP matters may not have been handled with the diligence that is required, and as a consequence, the Center's rights may have been eroded to the detriment of its capability to serve the public causes it is obligated to. The Center has always had an IP Policy governing its rights and their application, but it is doubtful if while negotiating donor or partnership agreements, these aspects receive the kind of legal scrutiny that they deserve.

In one instance, concerning Center's membership of the GIFT Foundation, issues of IPR have surfaced, a reference to which was made in Chapter 5. Briefly, an agreement entered into between GIFT Foundation International and a private Norwegian commercial firm, "ushered in the involvement of a foreign private firm for tilapia genetic improvement and dissemination in the Philippines," conferred "exclusive rights to the products emanating from the contract, with GFI being responsible for carrying out research for GenoMar, thereby denying GFI any commercial rights to disseminate the GIFT strain." The Panel is informed that this arrangement did not impinge on WorldFish's rights to continue selective breeding with its own set of generation 9 progeny that were its share of the final product of the GIFT project. The Panel is further informed that this position is supported by opinions of independent lawyers and the CG Head of CAS-IP. The Center is now in the process of ceasing membership of the GFI, and assessing and settling any obligations it may have to discharge.

The Panel understands that the Center is now updating its IPR policies and guidelines with the assistance of legal counsel from the CGIAR System. The Panel suggests that this exercise be pursued with utmost urgency and processes put in place to ensure the Center's intellectual property rights are fully protected in its arrangements with donors and partners.

Information Technology & SAP

There is a strong case to integrate IT resources of the Center in a manner that it serves not just as a processing support but also more as a strategic distinguisher in promoting and enhancing the Center's Science and business agenda.

IT services and development are distributed across WorldFish HQ and Regional Offices. There is no single cohesive direction or planning. Projects hire and manage their own programs. The regional offices IT strategies has not been tightly integrated and communicated to Head Quarters. Regional Offices, reportedly, lack standardization of IT infrastructure, direction and connectivity.

On Information Management, the Center can do with more standardization of storing, cataloging and protecting science and corporate information. Electronic information is stored in a distributed manner across many repositories.

An internal papers (2005) that the Panel was provided with, observed that IT was not very pervasive in the science areas of WorldFish and so far, there has been lack of efforts to explore the possibilities of using IT for advancement and improvement of science and research. The Panel is informed that this subject is now being addressed by a special team constituted for the purpose, and hopes this would help to bring about access and efficiency improvements in this important field.

a) SAP ERP Project

A major decision to go in for ERP was taken in September 2004. Following a due tendering/ selection process, SAP was chosen as the preferred ERP. It has been introduced in Head Quarters and Egypt, with other locations to follow. The Center uses the Financial Accounting, Project System, Material Management, SAP Business Workflow, Management Accounting, Travel Management, and the Business Intelligence Tool modules. The Human Resources module is scheduled for implementation later. The Center has acquired 70 licenses with a further ten being planned in 2006.

The total cost of implementation is US$ 672,000. The recurring cost is estimated to be US$ 22,000 per annum plus cost of two personnel who are dedicated to this project. It may be noted that in this selection and acquisition process, the Center did not avail of any advice or assistance from the CGIAR System's Information Technology Coordination Unit, which arguably could have contributed to more optimal choices as well as possibly lower costs.

In the context of WorldFish's present and near-term size, this is clearly an expensive, though useful, acquisition. The Panel suggests that the Center, as a cost-containment exercise, actively pursue and bring to closure ongoing discussions with IWMI for service sharing arrangements, having due regard to the requirements imposed by the Host Country and Land Lease Agreements with the Malaysian Government.

7.5.6 Shared Corporate Services

The Board at its September 2005 meeting, discussed the concept of sharing corporate services IWMI, partly, though not primarily, as a cost containment exercise, and possibly also as a precursor to closer alignment in other science related fields. A Joint Corporate Services Director on the rolls of IWMI is now in place, located in Colombo, who will head this venture with roughly equal time commitment to either Center. As it stands, at least initially the identity of the units in each Center is expected to be maintained, with the focus being on enhancing service delivery quality and coverage to various locations and activities.

There does seem to be a distinct possibility of potential escalation of such sharing of common services to other Centers in the CGIAR System. There were references to likely merger of shared services functions of participating entities, thereby making this joint service center a consortium of multiple centers, or just outsourcing some of their service needs.

While welcoming such innovative service-enhancement and cost-containment initiatives, the Panel is conscious of management time and attention such ventures involve and hope that this could be accommodated without any adverse impact on its main focus on research. There may also be host-country-prescribed conditions that may militate against facilities being used for purposes other than those for which concessions have been granted by them. The Panel suggests that the Center pursue these initiatives with due attention to these concerns.

7.6 Business Development

7.6.1 Business Development & Resource Mobilization

The Business Development Office supports the growth of the Center and was created in November 2003, in line with a suggestion by the 2nd EPMR, to strengthen this function and help improve focus on identifying and obtaining resources for the Center's work. The move has been worthwhile, with significant improvements in the number and value of proposals, and even more importantly, in the conversion or success rates that have gone up from about 30% in 2003 to over 50% in 2004 and 65% in 2005. The budgeted core and grant revenues in 2006, at US$ 18.1M are significantly higher, and would call for strong and sustained effort. The processes in place and the track record on scaling up in the last two years or so, augur well for achieving increasingly higher targets in the years ahead.

The BDO also played an influential and leadership role in enhancing relationships with some other centers in the CGIAR System and the CGIAR Secretariat in terms of collaboration in marketing and communications; this augurs well for collaborative program funding possibilities. The Panel suggests that these efforts be continued and strengthened to optimize funding potential.

7.6.2 Information & Communications

The focus of this function, which has experienced considerable staff attrition throughout the Review period, is to maximize the Center's impact in developing countries and stimulating demand for its research products through effective communication and dissemination to stakeholders.

The function has also played an important role in the Center's brand makeover during this period; in addition, it has played a key promotional role in the Fish for All initiative in Penang in 2002.

There may be cost and other synergistic benefits in centralizing all publications within a single function, and the Communications Unit may be ideally suited because of its linkages and competencies, rather than spreading the resources too thin around in various departments. The Panel suggests that the Center explore possibilities of centralizing its publications effort to achieve better operational and cost efficiencies.