

Reducing the cost of operations through effective performance management

David Druett | 24th June 2009

Executive Summary

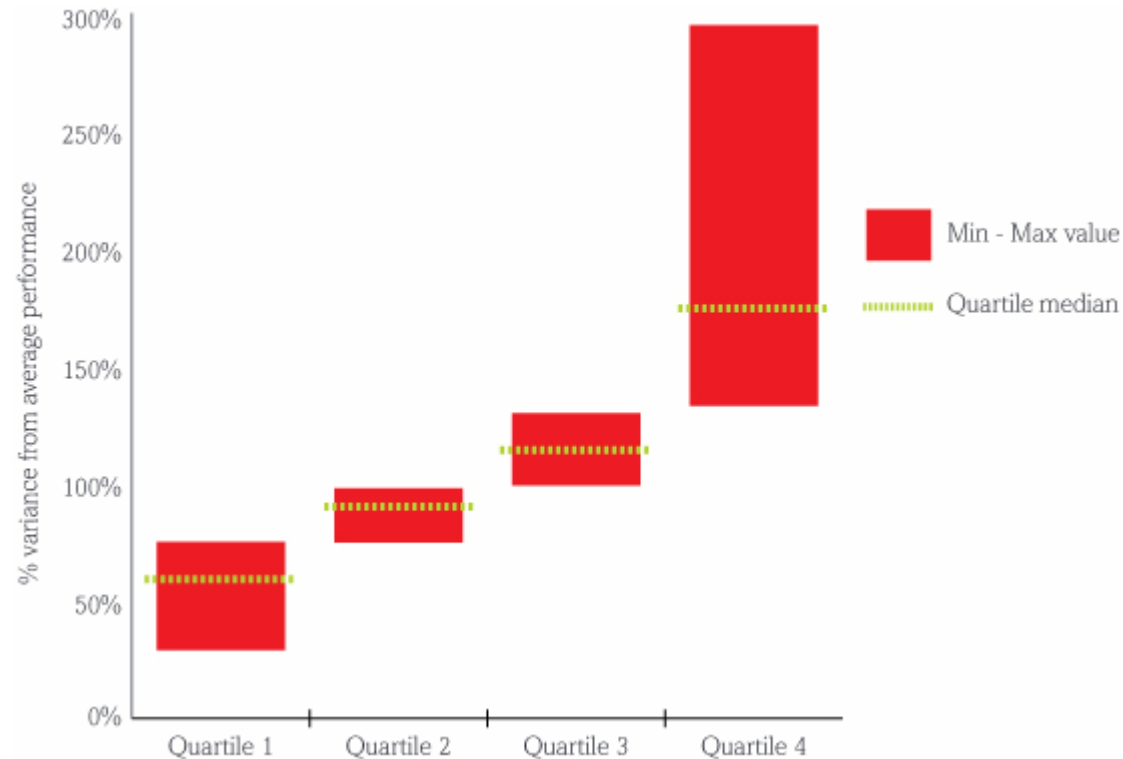
- EC Harris is working with clients across Europe to generate efficiency from their capital and operational programs
- We have conducted research to understand the differentiators between good and poor performing treatment works
- There is a correlation between the least efficient treatment works and poor performance management
- Using performance management to underpin efficiency drives, supports cost reduction and sustainability

EC Harris study of Operational Practices at WWTW's within Europe

- Our Study finds that top performing works are more than twice as efficient as their average counterparts
- There are common failings evident within the operational management of poor performing treatment works
- We find that operational inefficiencies frequently remained unchallenged due to a lack of MI
- Treatment companies can learn lessons from top performing works to improve performance and improve efficiency
- There is a strong relationship between robust, reliable management information and class leading asset management

Analysing the cost of treatment in the Water industry

- Within our study the difference between top quartile and bottom quartile performance is 78%
- We can use this tool to model average costs of operation
- Placing a spotlight on areas of poor performance highlights issues



Companies Performing in the top quartile

- Have robust performance management systems in place
- Consistently use performance management to drive a culture of continuous improvement across their business
- Are more proactive in their operational response to performance issues
- Enabled to make effective decisions around management information
- Understand and use effective problems solving tools
- Are up to 3 times faster at responding to performance issues than poor performing companies
- There is a strong relationship between robust, reliable management information and class leading asset management

Top performing companies pay attention to performance management and use it to draw insight from MI allowing them to solve operational issues quickly

Typically lower quartile performers lack effective performance management

Common failings within Performance Management systems

- Performance measures focused on irrelevant performance areas
- Performance measures not aligned to organisational strategy
- Lack of clarity around change behaviours required
- General failure to set realistic targets to drive performance improvement
- Failure to align whole organisation around PM strategies resulting in duplicated effort and misaligned objectives

Performance management processes in operational activities are either lacking or are not being used effectively to generate bottom line performance.

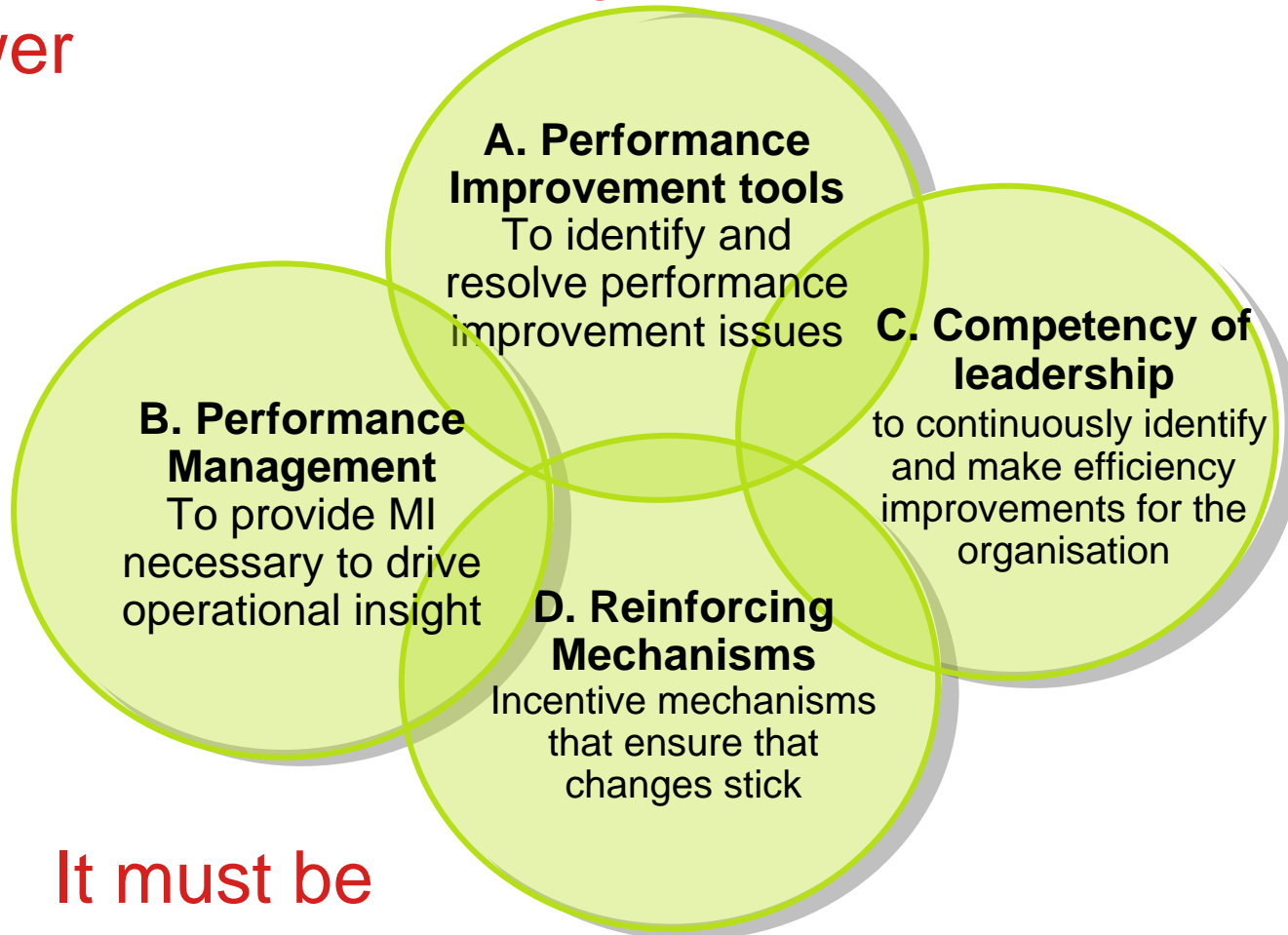
What does good look like?

- Top performing treatment companies pay considerable attention to PM
- They draw on insights from their management information allowing for proactive performance improvement
- Typically they are able to identify and resolve operational problems up to 3 times faster than their counterparts



The differentiator between poor performing and leading edge water treatment works rests with their ability to maximise the efficiency of operational inputs whilst optimising their outputs

But performance management alone is not the answer

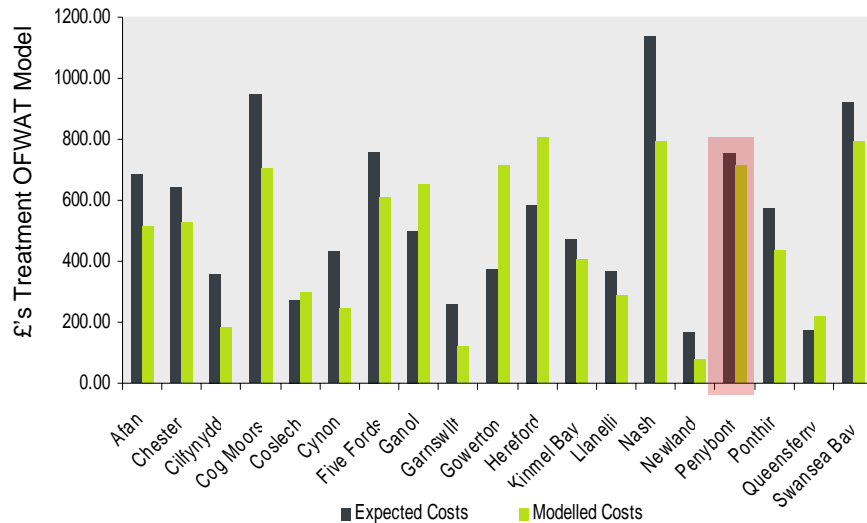


It must be

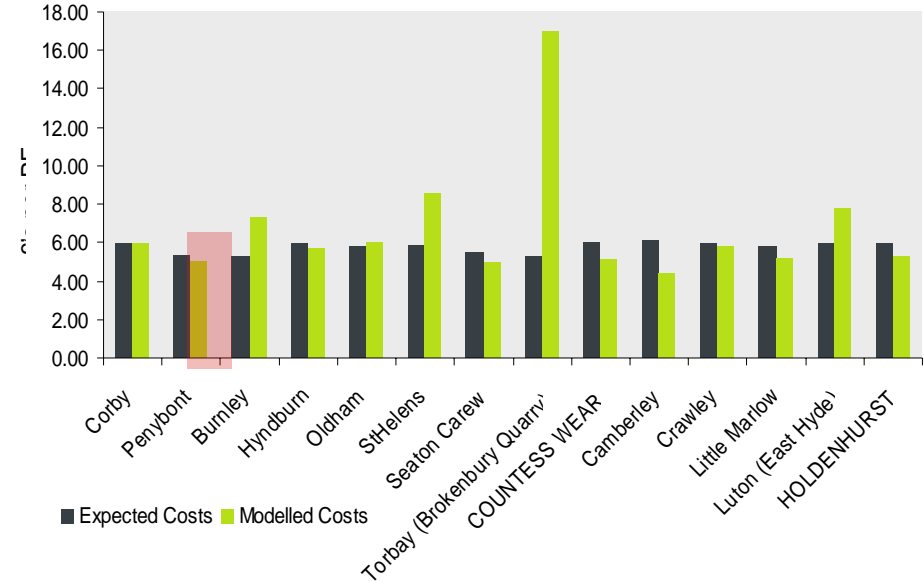
supported by a structured improvement program

Using Financial Measures to Benchmark Performance

Site A Intercompany Comparison



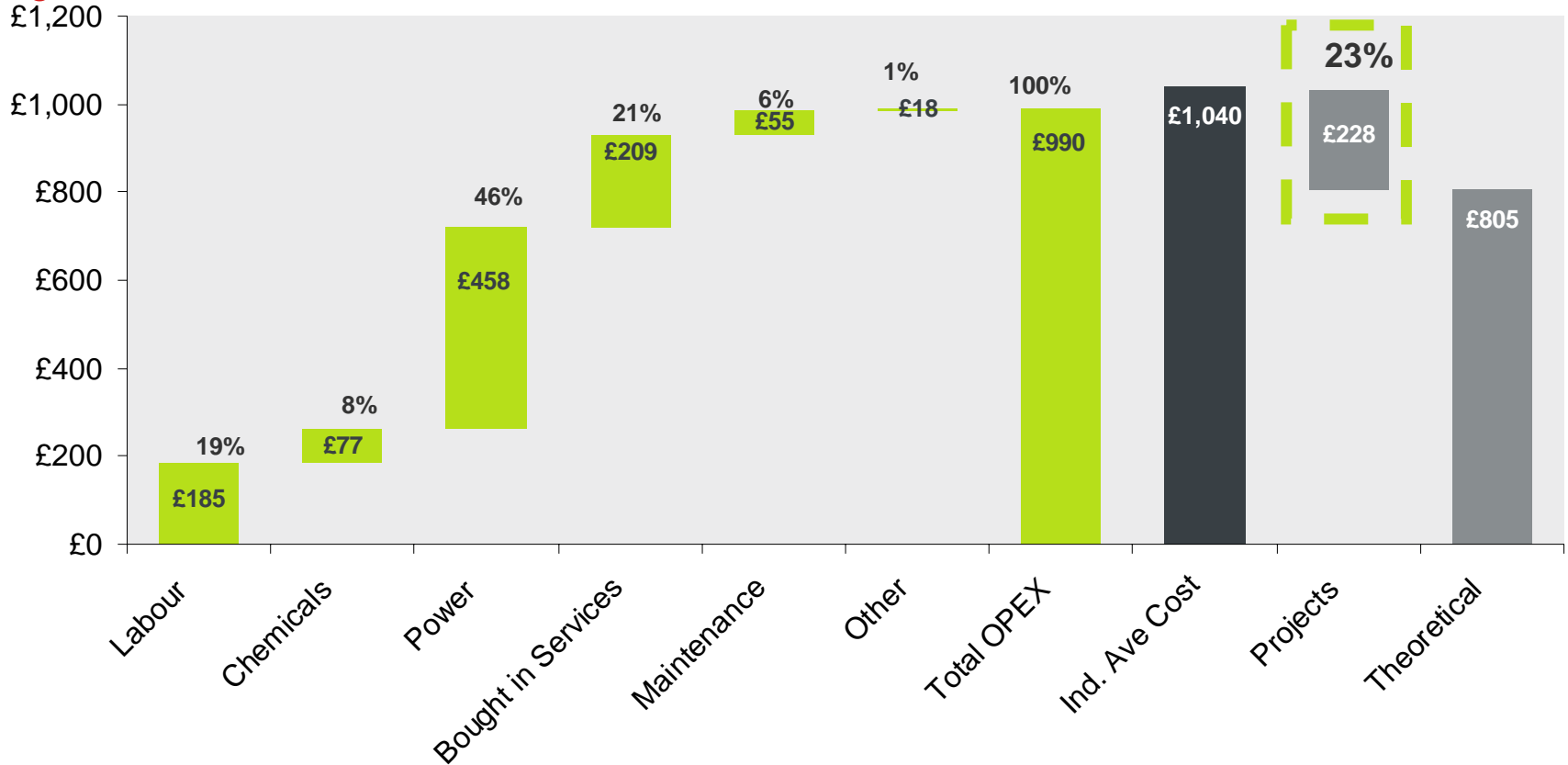
Site A Benchmarked across Dataset



Analysis shows Site A to be 5% below average costs

Financial clarity of MI targeted our efficiency effort

Figures based on 2007/8 actuals £'000s



Using these principals we have been able to make real efficiency improvements

Why is this relevant to Romania

- Limited long term operational strategy
- BRD showing frustration over quality of business plan submissions and quality of financial data
- There is a view that benchmarking is required to generate improved transparency and clarity over future operational strategy
- General acceptance of the need for a more proactive approach to efficiency improvement
- Projects are being rejected through small shortfalls in cash that could be recovered through efficiency exercises
- The banks have a requirement for operators to provide a more solid profit platform

There are effective tools available that can resolve all of these problems if you want to take advantage of them

Summary

- Robust performance management allows you to understand your position against targets and benchmarks
- Placing a spotlight on areas of poor performance provides the clues to inefficiency
- This allows you to make effective decision making around the key issues (such as mobile workforce schedules and selecting the right failure mode maintenance strategy)
- It creates a compelling reason for change and is an effective foundation to efficiency programs
- Fundamentally it supports the drive to continuous improvement and the generation of bottom line performance