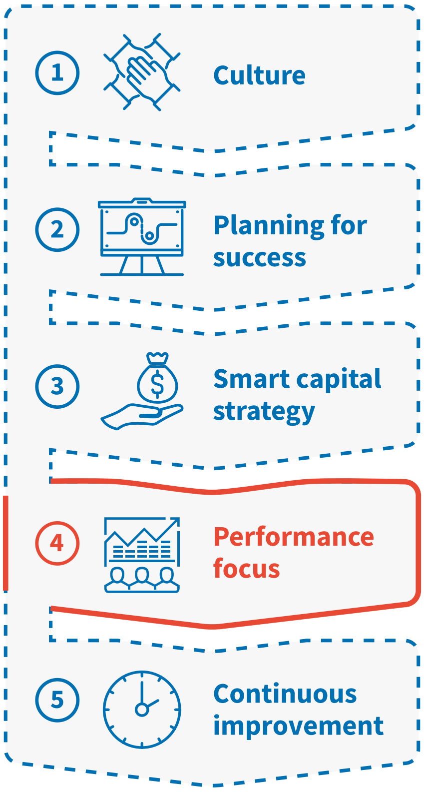
ARTICLE

Precious mettle

The value of high-grade mining CFOs – Part 4: Performance focus

Our five-part blog series, *Precious mettle – The value of high-grade mining CFOs*, looks at the qualities proactive mining CFOs deploy to drive greater business returns. This series shares observations from more than 75 years' combined experience in senior mining finance roles, across multiple commodities, by Andrew Bantock, Steven Michael and Martin Nicholson of FTI Consulting's Australian Mining Advisory Practice.



POOR PERFORMANCE + GOOD EXCUSE = POOR PERFORMANCE!

Mine sites can be unforgiving places. We once observed these words written in large red letters on a whiteboard behind the production meeting room table.

Uncompromising as this statement is, it demonstrates a very healthy management approach, where personally accountable delivery relies on quality planning and performance monitoring. In short, an ingrained performance focus.

PERFORMANCE STARTS WITH A COMMITMENT TO QUALITY PLANNING

The second article in this five-part series, "Planning for success", outlined our observations on how successful mining CFOs drive integrated financial planning in their business.

We highlighted the importance of timely and well-structured life-of-mine (LOM) planning as the backbone of the integrated approach, focused on optimising and delivering the overall corporate goals in the long term. We also outlined how LOM planning influences mid- and shorter-term plans, which are part of the long-term road map but "drill down" into the detail of operational delivery.

In this fourth instalment of our *Precious mettle* series, we look more closely at a critical element of the integrated planning cycle: management's underlying performance focus, including communication, reporting and management routines.

REAL-TIME KPI REPORTING – THE FRONTLINE OF PERFORMANCE TRACKING

With the basics of integrated planning in place, management accountability can be driven by real-time performance measurement and feedback loops, that reference performance forecasts. This is usually facilitated by cascading key performance indicators (KPIs) down through the mine's operational management structure.

Well-run organisations incorporate KPIs for both "hard factors" (such as the amount of ore mined, the grade delivered, process plant throughput and total metal produced) and "soft factors" (such as team development, team management and delivery of corporate values), in management remuneration models.

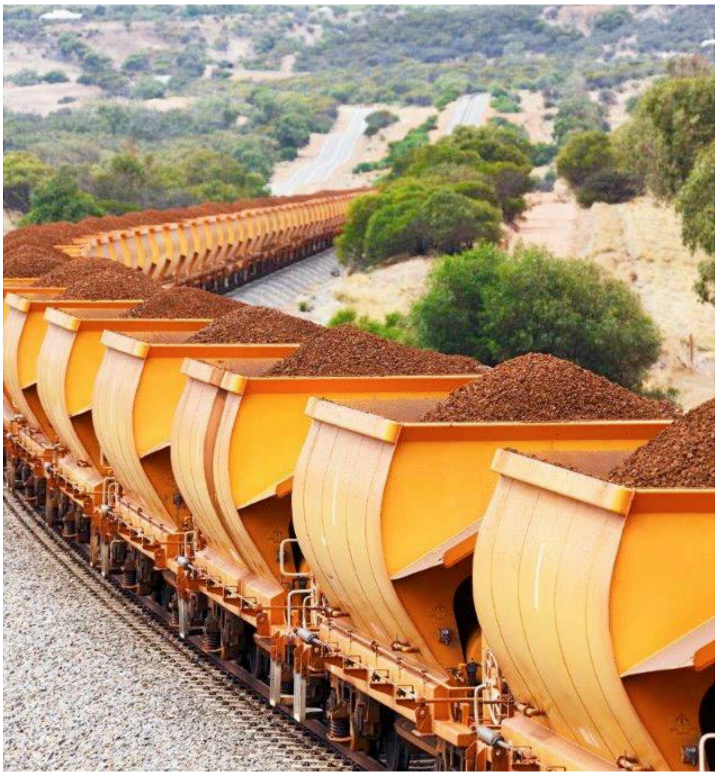
Senior management KPIs should strike a balance in emphasis between short-term performance measures and the maintenance or growth of Life-of-Mine (LOM) value.

Focusing solely on short-term plans and annual budget outcomes is likely to compromise LOM value. For example, quick wins such as the "high grading" of mining operations, slowing underground development or slashing sustaining capital spend can boost short-term cash flow but may have dire consequences for the medium to longer-term future of a mine.

Of course, there may be times when the short-term survival of an operation will rightly become the sole focus of a site manager. To use a first-aid analogy in these situations, managers must "triage" the situation accordingly – attending first to the "breathing" (perhaps recovering ore delivery after a pit-wall failure) and "bleeding" (perhaps developing a work around solution for a catastrophic failure of key processing plant components) to maintain life, and worrying about "broken bones" later.

However, this should be the exception, not the rule. Having survived the emergency, a site managers' day-to-day actions should deliberately contribute to the long-term good health and wellbeing of the operation.

Continual short-term operational problems and constantly operating in crisis mode can cause mine managers to question the efficacy of their planning systems. Even the best-planned mine may face problems from time to time, but it should not continually lurch from crisis to crisis.



THE DISCIPLINE OF REAL-TIME MEASUREMENT AND REPORTING ROUTINES

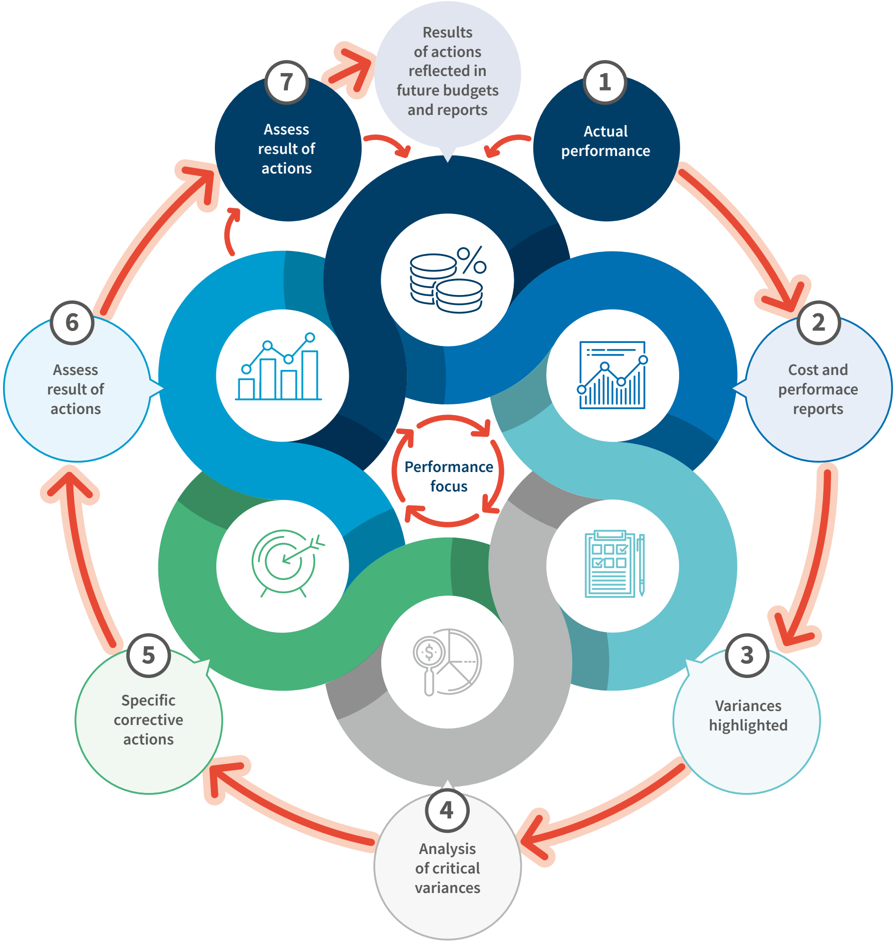
Forward-thinking mining CFOs ensure that management accounting and reporting systems operate on a fully integrated basis, where operating managers can monitor ongoing performance against the budget – in such areas as production, labour, materials and equipment usage. In a well-structured real-time reporting system, daily or weekly performance summaries should marry with the later monthly management accounting reports that follow.

The exception may be where physical processes such as stockpile surveys and ore grade assays take time and necessitate the periodic reconciliation of preliminary estimates. Where such factors are at play, a close working relationship between the Finance team and metallurgical accounting department should help to reduce such discrepancies.

With these routines in place, there should be few surprises in monthly reviews of management accounting reports. If operators are closely monitoring daily and weekly performance, line managers may already be taking action to correct adverse trends before senior management's monthly review of actual results against the mine plan.

Such dynamic integration of performance monitoring and management against the plan can pre-empt

An integrated performance management cycle



frustrations that often occur in more static systems, where financial results differ from the operators' perceptions of performance.

An important aspect of effective reporting is the collection of accurate empirical data for comparison against the plan or budget. Management accounts draw from various inputs, and cost centre managers take responsibility for expenditures. Each mine will have a different chart of accounts depending on the complexity of operations, the organisational structure and the significance of various cost types.

The cost centre structure should represent a logical or natural cost breakdown that can be used unambiguously by operating staff, reducing the likelihood of coding errors and enabling the tracking of resource usage. In underground mines, consumable materials usage (such as rock bolting and meshing) reporting can perhaps be more challenging, given the "close quarters" nature of its dispensation. However, with experienced planning, these reports should not require excessive detail in order to be effectively implemented.

ANALYSING VARIANCES FROM THE PLAN

Ineffective mine performance reporting can read along the lines of *"the reason for the variance is that the numbers are different"*. A true statement, but not that helpful!

Good mining CFOs motivate their teams to deliver insightful analysis to help uncover the root cause of the variance and highlight what's really driving outcomes.

The diagram above illustrates the components of effective performance reporting, management actions and control routines in an integrated management cycle.

The initial output of the management accounting system should be cost and performance reports showing actual and planned results, and the resulting variances. The reports themselves become the first step in an important process, highlighting variances from the plan so that management can concentrate their efforts on the analysis of critical variances.

The criticality of the variances depends on their significance or size relative to the planned costs and total budget, and the frequency with which they occur. Larger variances that occur infrequently are often analysed and corrected easily. However, smaller ongoing variances that continually erode results may require longer-term corrective action and careful monitoring to ensure success.

By analysing reasons behind significant variances, managers are better equipped to determine the specific corrective actions needed to address adverse trends. A review of favourable variances is also necessary to demonstrate how instances of highly efficient performance can lead to consistent improvements, which can be shared with other operational managers. Corrective actions defined in this process must be specific, not vague or immeasurable. Immeasurable action plans are typically ineffective.

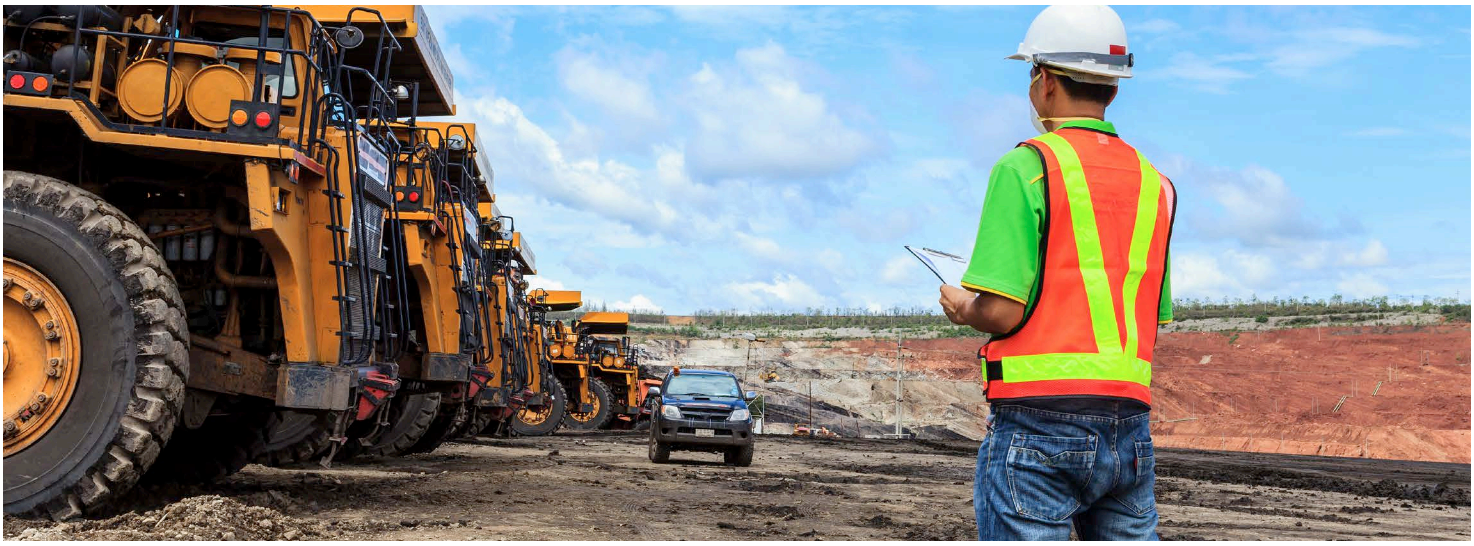
As time progresses and new performance information comes to hand, managers will repeat this process as well as undertaking critical evaluations of the success or failure of corrective actions. The findings of the evaluations are fed back into the active budget-through-to-LOM planning cycles, which we have previously outlined.

HOW FTI CONSULTING CAN HELP

FTI Consulting understands that a well-run mining operation drives corporate value. Our involvement in the structuring and implementation of performance management and reporting systems can make a real difference. With a rare combination of company-side and professional advisory credentials, we “know what good looks like” in mine planning and performance management and have the “bandwidth” to apply our experience and provide surge resources to help management teams achieve their operational improvement goals.

NEXT BLOG ARTICLE

The final article in our five-part series on the key characteristics of effective mining CFOs will look at – ‘Continuous improvement mind-set.’



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