

Findings and Issues Mongolian Coal Agency Organisation

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Organisational Principles

- Separate out official from business functions
- Professional services company objective
 - well managed, profitable, engineering services enterprise
- Good management: one person one objective, measure performance
- Clear lines of authority
- Contract out, support functions

Finding 1: Current Staffing

Department	Professional	Support	Total
Human Res	0	8	8
Production	2 trades	25	27
Technical	4	0	4
Trading	8	3	11
Total	14	36	50

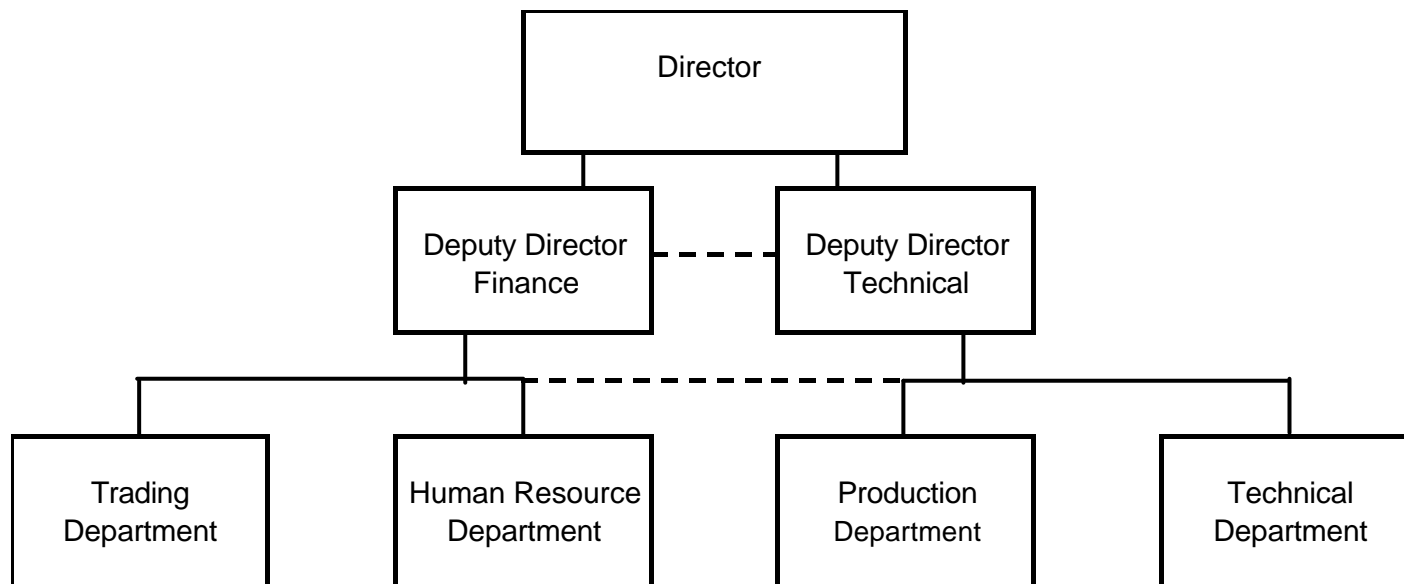
Finding 2: Current Organisation

- Department are organised around skill of staff, not around their customers's needs
- High proportion of staff do not earn external income for agency
- Only Trading covers its costs, and makes a profit
- Potential exists to charge for other services

Issues

- How to organise activities around customers?
- How to reduce the proportion of staff not earning external income?
- How to ensure trading activities make a profit, or be quitted?
- What charges for other services could be introduced?

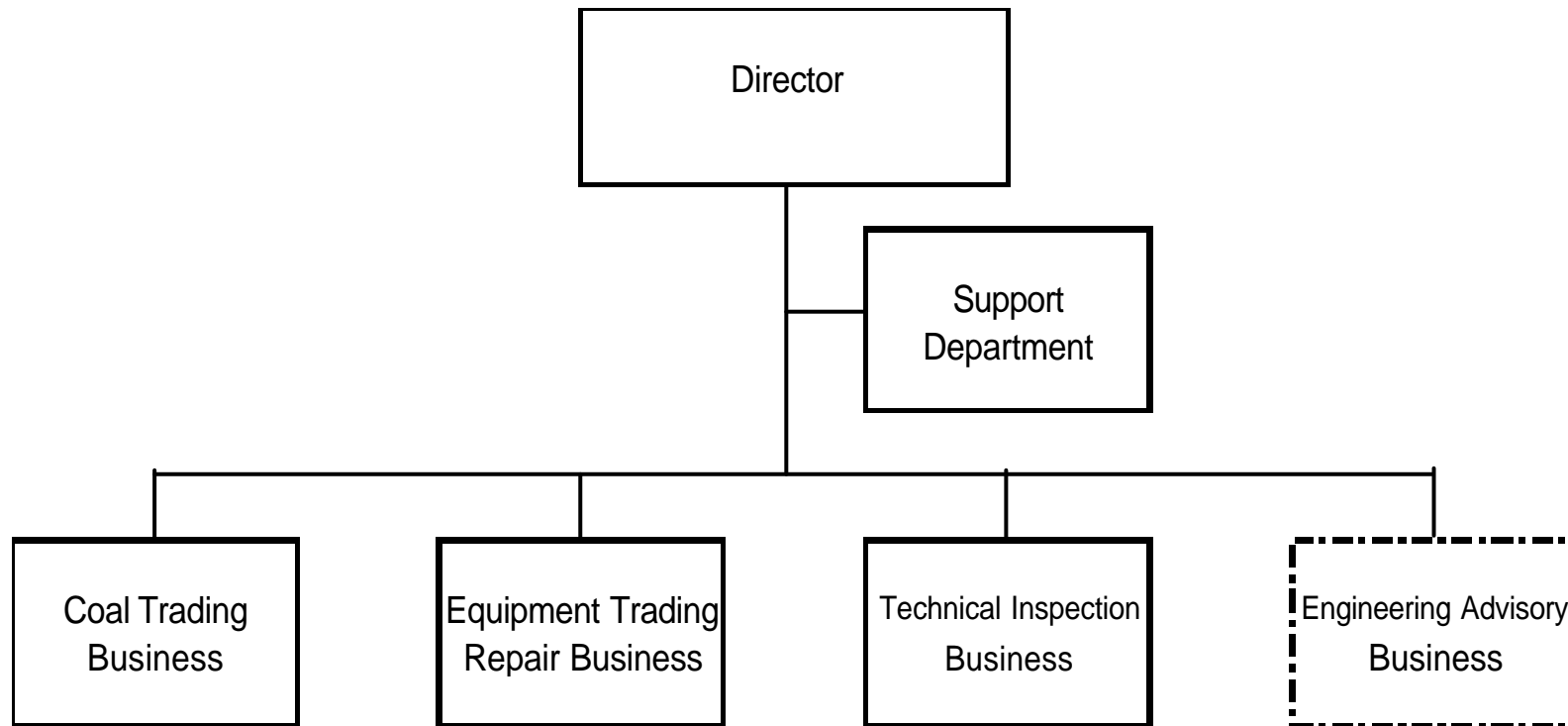
Organising Activity by Skills



Problems with Functional Organisation

- Hierachy, too many layers between the Director and the customer
- Overlapping jobs, not clear which person a potential client should contact
- Service functions are subsidiary to the important job of earning money, but this is not reflected in the organisation chart

Organising Activities Around Customers



Benefits of Change

- Possible to hold each Business Group manager responsible for meeting financial targets
- No doubt as to who is in charge of a customer's problem
- Subsidiary functions can be charged to the business groups in relation to their use
- Each manager has full authority to manage

Reducing the proportion of support staff

- Key support staff time can be grouped with the respective business groups, forming part of the costs of that business
- Contract out, or “job and finish” support functions: cleaning, security, computer (lease?), tradesmen, telephones etc.
- Mechanise support functions, e.g. telephones, security,

Profitable Trading Activities

- One manager accountable for the performance of the business,
- Manager's salary linked to profit of his business group, (reasonable target),
- If the manager can reduce the cost of doing the business, will increase profit and bonus,
- Increase revenues, increase bonus,
- Look for new ways to augment income,

Charges for Other Services

- An appropriate charge for technical compliance services, Tg per hour,
- Introduce fees for information and advisory services,
- Seek alliances with international mining engineering firms, and
- Introduce fees for services to foreign and Mongolian mining projects

Key Features of Proposed Organisation

- Three earning activities isolated as business groups
- Key support staff form part of groups
- Support Functions Grouped together and Manager tasked to contract out functions
- Mining Design and Advisory Business should form part of Technical Business, as at present, but has growth potential

Finding 3: Key factors in Successful Privatisation

- Business should be valued on the basis of “Discounted Cash Flow,”
- Past costs, e.g. construction costs, replacement values, are **IRRELEVANT**,
- Assurance, access to overseas suppliers, (for trading income) and existing compliance requirements, (technical), will remain
- Cannot expect protection from competition

Discounted Cash Flow

- The current value of a stream of business income, or earnings from property.
- The further out the income, the lower its present value.
- Formula: P=Princpal, Future Sum=Sn, i=rate of interest, $P = Sn / (1+i)^n$
- “P” is called “Net Present Value”
- Can use formula in “Excel”

Sell or Retain?

- GOM privatise when NPV to the State of selling, greater than the NPV of retaining,
- NPVs differ if the buyer and seller have different view of potential to increase sales,
- NPV will change with cost changes, interest rate changes and changes income expected,
- Construction costs, replacement costs and purchase prices is IRRELEVANT,

When to Close Business?

- Business Should be Closed when it has a negative NPV:
 - Assets of business sold, proceeds put in bank, NPV of interest on deposit, say Tg 200,000,
 - NPV of trading losses may be Tg -500,000,
 - CLOSE business, NPVchange = Tg 300,000
- Business should be sold and assets returned to shareholders before $NPV(A) < NPV(B)$

Different Approach

- Private ownership / competitive market mean “Good engineering services that work well” are the key to the future
- Must not to pay too much for the business
- Must ensure key success factors remain in place, (Access to supplies, certification, good people),
- If the government want too much it is possible, “privatise the people”