

Strategic planning for water utilities in developing countries

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Abstract

A common feature of public water utilities in developing countries is their lack of a commercial orientation. As a result, many utilities find themselves locked in a cycle of poor corporate performance—with low coverage of services, huge amounts of non-revenue water and insufficient funding for maintenance and expansion. Strategic planning in such turbulent times should be relevant, cost-effective and transforming. This paper discusses a strategic planning framework to assist utilities in developing meaningful and useful performance improvement plans. Recent application of this framework in Africa has demonstrated its relevancy, cost-effectiveness and potential to transform poorly performing water utilities. © 2006 Published by Elsevier Ltd.

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1. Introduction

Public water utilities in developing countries face enormous challenges in meeting the water needs of their growing urban populations. Many of these challenges are as a result of inappropriate utility management practices, including the lack of a commercial-oriented culture. A number of options have been tried in an attempt to address this problem. The most notable one is private sector participation—which has included contracting multinational water companies to run water utilities (World Bank, 2003). Although some developed countries may consider privatisation as the most viable option (Lam and Chan, 1998), private sector participation in developing countries has had only limited success, and there is growing pessimism about the scale of performance improvements to be expected from private sector involvement (Budds and McGranahan, 2003).

On the other hand, there is growing optimism that public water utilities in developing countries can improve their own performance by applying commercial management principles

(Zuleta et al., 2005). One such principle that utilities can adapt is strategic planning—which is traditionally viewed as setting a long-term direction based on sound predictions, analysis of options, and key decisions about the future of an organisation. Regrettably, water utilities, traditionally dominated by the engineering profession, often lack the necessary tools and capabilities to carry out strategic planning. The training of most water utility managers, although thorough in the functional areas of engineering, accounting or human resources, is often insufficient in strategic concepts, frameworks and tools. In addition, most utilities, while embracing strategic planning concepts, have attempted to embark on strategies without sufficient institutional analysis, internal participation, and adequate commitment of resources.

With the growing urban populations, water utilities in developing countries must adapt quickly to reduce the growing service gap, by reducing unaccounted for water, increasing revenues to cover operation costs, and expanding services to the urban poor. In addition, utilities must also adapt to the changing institutional and policy environment in which they operate. Given these uncertainties, this paper offers a strategic planning methodology to assist utilities in developing plans and articulating strategic actions to improve their performance and survival in an ever-changing environment. The framework for the methodology is explained and case studies are

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presented to illustrate how it can be applied to develop utility performance improvement plans. The research that led to the framework arose from a capacity building partnership project between the Water Utility Partnership of Africa (WUP), Severn Trent water (a UK water utility), Loughborough University (UK) and six African water utilities in Kenya, Uganda, Tanzania, Congo, Benin, and Lesotho. The methodology represents a new way for public water utilities to transform themselves and improve performance by addressing the internal and external problems they face.

2. Management challenges facing water utilities

Water utilities in developing countries differ greatly in terms of size, organisational culture and operating environments. However, a number of shared problems can be identified. First, the inefficiencies of water utilities are a major cause of poor access to water services in developing countries. In many systems, as much as a third of production is lost (through physical and commercial losses), and revenues are insufficient to cover operating costs let alone expand service coverage (World Bank, 2004). Indeed, for African utilities, reduction of unaccounted for water remains one of the major challenges. These problems are compounded by the general lack of a commercial orientation in utility management, and inappropriate tariffs regimes. With the growing urban population reported in many developing countries, water utilities need to quickly adopt robust plans and strategic actions to improve operational efficiency and reduce the service gap. Second, many utilities in developing countries lack effective management information systems to allow adequate monitoring and evaluation. Many of them rarely collect data systematically to assess their own performance in order to design operational improvements (Water Utility Partnership, 2000). As a result, both those responsible for service delivery, and those willing to support them lack the necessary information to design measures and investments to improve service delivery.

A third challenge facing water utilities in developing countries relates to generic utility management issues. Most utilities, despite having the legal mandate to supply water to all urban inhabitants, lack clearly articulated vision or mission statements, sound management structures, and human resource capacity to enable them fulfil their mandate. Given these challenges, governments supported by their development partners have sought to implement policy, regulatory and institutional reforms to create incentives for utilities to be more efficient, accountable, commercially oriented, and customer-focused. Such reforms would undoubtedly require utilities to change both their structures and strategy. Utility managers can draw on strategic management concepts to ensure that such changes are relevant, cost effective and transforming.

3. Strategic management concepts

Strategic management is 'concerned with determining the future direction of an organisation and implementing decisions

aimed at achieving the organisation's long and short-term objectives' (Boseman and Phatak, 1989, p. 4). Hence, the entire strategic management process can be said to comprise two major dimensions that are interlinked: strategic planning and strategy implementation and control. In strategic planning, strategic decisions are made concerning the organisation's mission and vision, its objectives and targets, as well as methods for achieving the objectives and targets. Strategic planning and corporate planning are sometimes used interchangeably in the literature to refer to an extensive organisation-wide resource allocation process (Jennings, 1999). On the other hand, strategy implementation and control is about translating strategic decisions into concrete actions necessary to achieve desired levels of performance.

Fig. 1 shows a basic strategy model illustrating the context and consequence of strategic decisions. It shows that in making these decisions, managers attempt to find an optimal match between the internal resources and capabilities available within the utility and the external environmental threats and opportunities, in order to come up with a strategic plan, whose efficacy translates into some level of performance.

Successful implementation of the strategic plan requires effective tactical or operational or planning, i.e. making a variety of managerial and operational decisions (such as the type of organisation structure, leadership styles, management information systems, monitoring and evaluation systems) used to ensure that the utility's objectives are achieved efficiently.

Fig. 1 also shows the importance of distinguishing strategic from tactical considerations in planning. Whereas a strategic plan maps out the future direction of the water utility, covering a period beyond the next fiscal year (usually 3–5 years), the tactical plan (usually covering a period of 1 year or less) ensures that the utility operates in the most efficient way, maximising its chances of success in delivering the strategic plan.

Although water utilities in developing countries have a legal mandate to supply water to all people living in their cities, they have not performed to the required standards, largely because their strategic plans are not complemented by effective tactical plans. Even with a clear corporate strategy, a utility without an effective tactical plan would only survive—serving only a small percentage of people, marginally breaking even, and not being able to invest in expanding service coverage or improving service quality. Managers need to develop a longer-term view of the organisation, while at the same time attending to the day-to-day management aspects. A utility with a clear corporate strategy and an effective tactical plan

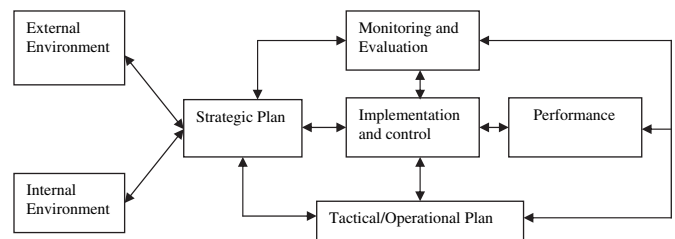


Fig. 1. The basic strategy model (adapted from Bourgeois, 1996).

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