Strategic Asset Management

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Why does Asset Management sometimes appear irrelevant? And what can you do about it?

The Core and the Circumference.

The great bulk of the services any agency delivers, and the assets it uses to do so, remain pretty much the same from year to year. They are the 'core'. Around this core, the 'circumference', is where change takes place. Business Plans focus on the circumference – the things that are changing. They contain information on what is to be added, what is to be taken away, what is to be modified – sometimes in great detail. Similar detail for the core is usually not presented. If the core is dealt with at all, it is often in the form of some vague and general statement, such as "to provide excellence in basic education" or "to serve the community". It is easy for readers of the Business Plan (and especially those who prepare it) to come to believe that the circumference is not the edge, but indeed the 'main game'.

The Core – (The 3 R's)

For Education, basic services in the core are the 3 R's – reading, 'riting, and 'rithmatic. For councils, it is roads, rates, and rubbish! The core is *essential* but it is not sexy - it is not where the interest is. The interest is in the circumference. So top management focuses on the circumference and leaves the core to be managed from below.

Today's circumference is tomorrow's core

Changes invoked today become 'the standard'. For a few years, a plan to equip all schools with computers, for example, is a key issue for those watching the circumference. When it is done, the challenge of maintaining, replacing, servicing, providing logistical support, content and ongoing training, pass through to the core. And the circumference moves out further.

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From time to time a basic core service, such as council rubbish collection, may become a policy issue for the circumference if there is a major change in the way it is handled, for example to shift from in-house collection to contracting out, a move that was made some years ago for most councils. Now it has been done, the challenges of contract management, performance assessment, reletting of contracts, maintaining a usable data-base, etc, move to the core.

The Business Plan

The Business Plan, and the interests of top management; are focussed on change, the 'circumference'. This is where the action is.

The Asset Management Plan

The Asset Manager has to deal with this change at the circumference. The AM has a key role in ensuring that the change takes place efficiently and effectively

BUT – and here's the rub! – the AM also has to manage the core, that invisible 9/10 of the iceberg.

Inevitably, if the core services are to be maintained, as they must (because that is what it means to be 'core') they will draw down on the time and resources of the AM. However, if the AM job is done well, all of this time and resources will result in the maintenance of the status quo in terms of core service delivery. That is, the core will stay the same, as it should. But staying the same is to be invisible.

This means that a large amount of the work of the AM and the deployment of a large proportion of total resources is effectively invisible to top management for two reasons:

(1) Top Management is focussing elsewhere
(2) Done well, maintenance of the core shows no signs of having been done.

Only when the AM fails to achieve maintenance of the core, does the work (or rather absence of it) impinge on the collective consciousness of top management. But it does so in a negative fashion. A resort to documentation of unfunded 'backlog' maintenance to make the invisible 'visible' generally acts as an irritant to top management, it is something that 'gets in the way of' them achieving what they are truly interested in, namely changes at the circumference.

So what is to be done?

We need another paradigm: a way of seeing services, and the asset management that supports them, as an integrated whole, rather than separating them, artificially, into a (largely constant) core and a (largely separate and changing) circumference. We need to think in terms of a 'changing state' paradigm, much as a child changes to an adult. We are constantly in transition from one state to another. The process of transition includes both managing the core and the circumference. In fact, it requires seeing that there is no core, and no circumference, but that the boundaries between the two are inextricably blurred.

This requires management being able to clearly see where we are now - and where we want to get to, *not in terms of the change elements alone, but as a whole.* This is a more complex picture. Complexity requires a great deal of support. This support is the role of the **Asset Management Strategy**, the *link* between the Business Objectives and Goals and the Asset Management Plan with its recommended lists of works and services.

Preparing a good AMS is the key to communication and to the recognition of asset management at the top level. Increasingly, CEO's are taking a more active interest in the strategic aspects of asset management, and the AMS is the way to enable this to happen.

Next Issue: **"The Missing Link – The Asset Management Strategy"** will show how the AMS can be developed and used as the key tool of communication for management.

Survival Techniques 1: How to ask a Question

Never ask a question if you don't already know the answer!
Sir Humphrey

Never ask a question if you don't already know what you are going to do with the answer!
Good Asset Manager.

A lot of the data we collect in AIS, a lot of the information we collect from in-house and consultancy studies - we never use! **And the prime reason we never use it is that we did not take the trouble to figure out how we were going to use it in the first place!**

What you want to *use* information for will determine: (1) how you need to frame the question and (2) the type of information you need. Take the following question as an example:

"What is the trend of maintenance expenditure on South Australian roads?"

Why do you want to know?

1. Answer: We want to compare SA with other States.

In this case, you don't have the freedom to choose how you will measure. For consistency you must measure the way your reference States measure. Failure to do so results in unusable data, not information.
So—
(1) What units are they measuring in—kilometre or lane kilometre?
(2) What is the starting and end points of the trend period?
(3) What road types are being measured? Country, urban or metro?
(4) What are the special features that will affect the comparisons? For example, what is the proportion of logging or dairy traffic?

You must frame the question in context to get usable answers.
(*p.s. if there is no consistency in your reference States on these matters, rethink the question!)*

2. Answer: We want to argue it is not enough, to get a bigger budget

In this case, the trend data is not enough. You need a credible reference benchmark of 'sufficiency' against which the allocation can be measured. Either that or you need to be able to measure the condition of the road and relate trends in condition to trends in maintenance expenditure. Moreover since maintenance expenditure is related to the amount of rehabiliation, renewal and new capital expenditure being undertaken, these need to be measured in a way in which the underlying trend in maintenance expenditure can be deduced from the raw figures of maintenance expenditures. **Collect only part of the data needed to answer the question and again you have unusable data.**
(ps. If the condition trend data or 'sufficiency' benchmarks are unobtainable, rethink the question!)

3. We want to show that outsourcing maintenance is better than in-house (or vice versa).

If this is what you want to do—you are asking the wrong question!

Looking at the *trend* in maintenance expenditure will not solve this question, you need to be looking at the *level* of maintenance expenditure. And you need other data to use with it

When you ask a question there are only a few possible answers.

Take the question on trend of maintenance expenditure. The possible answers are: It is going up! It is going down! It is stable! *(the actual expenditure figures may vary a lot or a little around the trend line, but the trend itself is really doing only one of these three. If the variance is of importance to you, you need to ask for this information).* Or we may say there seems to be no trend at all. OK, so 4 possible answers.

The way to know whether you are asking the right question, whether you have framed it in the right way, and whether you have sufficient collaborative data to use the answers to the questions you have asked is to know what you are going to do if the answer is 1,2,3 or 4 above.

If you don't know what you would do with the answers when you get them -why ask them?

Some people imagine that when the answers come, the logical next step will 'jump out at them' – it won't! Asset managers are derelict if they expect they will. The worst offenders in this "eyeball the data and all will become clear" approach are central agencies or head offices, i.e. areas where one body (eg head office) asks the questions and another group (eg field staff) have to provide the answers.

Academics can also fall into this trap.

When I was a PhD student studying experimental methods in economics, I was approached by a Professor of Psychology who had been doing experiments with rats. He had a large laboratory with many rats and he had conducted many experiments over a period of several years. He showed me all the data he had collected – and then wanted me to tell him what questions he should ask so that his data would make sense! He should have asked that question before he started. We all should. But we often don't.

The only way to avoid this time wasting, very expensive, game is to be able to write down precisely how the information you are seeking is going to be used to provide an answer to a real need.

Related question-asking issues:

Monitoring: If you are monitoring information you need to know what is 'business as usual' and you have to know the bounds within which variation can occur and not require action to be taken. You also have to know when action does need to be taken and what action, when. (How many 'monitoring' activities or 'watching briefs' have you been involved in, which had no guidance as to action?)

Benchmarking: Know whether you are seeking a reference point (or target), or seeking to measure yourself against a known target. The questions and the way you go about answering them are different..

Next Issue: Survival Skills # 2: How to Answer a Question

Service Level Agreements
Q&A

Sara Cullen, Deloitte Consulting, has been writing a series of articles on Service Level Agreements over the past few issues. Now Sara answers your questions. If you have questions for Sara, send them to info@amqi.com

In this issue, Grant Feitelberg asks:

"In the event of a major dispute with a Service Provider over, say, the interpretation of service performance standards, and the Client withholds payment to the SP until the conflict is resolved, could this later be held against the Client in court if the SP has suffered damages to his/her business as a result? How should the Client handle such a situation? Is this a matter for the Client's lawyer to answer depending on the facts?"

Sara's response:

I hope you are not at this stage yet. This is definitely one for the lawyers, although I can say that the SP will generally need to prove the damages to be awarded them.

This situation is common when the lowest price bid has been accepted without the Client verifying the viability of the SP's approach/resource plan to meet the performance standards.

The Client tends to be over optimistic in their expectations (or even has full knowledge the SP's bid is not viable and intends to play hard ball) and the SP is narrow in interpretation or did not understand the seriousness of the standards (many SPs believe standards are goals, not minimums). Low price bids tend to equate over time to quite expensive service as the SP tries to recover margin.

My advice is to resolve this before trying the dispute clauses of the contract.

Assuming the Client was too optimistic and the SP misunderstood key information rather than both, or either, were deliberately being "unfair", there is a fair ground where the Client can get the reasonable service at market prices and the SP get a reasonable margin.

I assume at the end of the day, the Client would prefer to get the service and the SP would prefer to have a happy client.

This does mean going back to the drawing board and redefining the performance standards.

The first step is determining what standards can be done for the price quoted and the second is determining what would be the price for the original standards. You will need to confirm that these prices are reasonable with an independent expert in the industry.

You may even want to consider implementing an incentive system where the SP starts out at a lower price than the original base (but still enough to cover cost and a little profit) and gets paid more (with more profit) as the current performance standards improve.

Then hit the negotiation table with the fundamental premise that you are seeking what is fair, not necessarily what was the original setup.

More Q&A coming later!

Work-In-Progress

New technology on the way: **LODGEMENT AND INFORMATION TRANSFER FOR DEVELOPMENT APPLICATIONS**

10 September 1999: The South Australian Department of Transport and Urban Planning and the Arts (Planning SA) and the Local Government Association (LGA) has commissioned systems integration firm MITS (a unit of Utility Services Corporation) to undertake a feasibility study into the benefits of electronic lodgement and tracking of planning development applications.

The Department processes over 50,000 planning applications each year, many of which require referral between Local Councils and State Agencies for specialist opinions on issues such as access to main roads, environmental issues, or coastal impact.

President of the Local Government Association, Rosemary Craddock, explained that in order to streamline the flow of information, better management of applications through improved recording, reporting, transfer, tracking and filing systems is required. Electronic information transfer is believed to be the most efficient way of improving the current manual process.

"While most Councils and State Agencies use information technology systems within the organisation, the lack of standard protocols and common systems mean inter-agency processes rely on paper and post," said LGA President Rosemary Craddock.

In addition to the challenge of differing systems within Councils and Agencies, the feasibility study will consider security, confidentiality, how to deal with large plans and drawings and payment issues.

Garry Mathieson, Manager Utilities, MITS, said that the Internet and electronic commerce provide a range of opportunities for improving the way in which applications are accepted, transferred and tracked, assessed and processed.

"Electronic lodgement tools are expected to deliver more efficient application processing as information requirements for the approval process are apparent from day one" commented Mr Mathieson.

"Recording of location and status of a development application is expected to facilitate better tracking of applications through the approval process. This will lead to fewer interruptions within the government agencies while also providing private industry precise information on the progress of applications," he said.

Congratulations!

Brisbane City Council's Electronic Total Asset Management Framework has won the Local Government Association of Queensland's "Management Excellence" Award as well as the overall "Best Practice in Local Government" Award.

Frank Riley, Manager, City Assets Brisbane City Council, advises that the Council has also submitted its TAM Framework for consideration in the national Australian Local Government Association's Excellence Awards to be announced next month.

The TAM framework is also an entrant in this year's International Asset Management Competitions. Frank is looking for a swag of awards for Brisbane City Council's most innovative approach, designed with the help of Innovative Strategic Management.

Getting the Message Across

Phil Clarke
Director, The Asset Partnership

Gas Explosion at Longford! Electricity Blackouts in the CBD in Auckland! Tap Water undrinkable in Sydney!

Whose Next?

The Longford Royal Commission

The findings of inquiries into recent high profile catastrophic physical asset failures such as the Longford Royal Commission have highlighted the dangers inherent in seemingly indiscriminate short term cost cutting measures in the management of physical assets. In Longford's case, short term cost savings of $500,000 per annum have exposed the company to liabilities measured in billions of dollars.

So why has this situation come about? Perhaps one reason is a modern "economic rationalist" management ideology that dictates that cost rationalisation (reduction) is the key to improved profitability and enhanced "share holder value". As responsible asset managers, what can we do to change this thinking? The "education" of our senior executives, shareholders and other key stakeholders is the key.

So how can we "rattle the cage" to get the message across? Perhaps we need to take a "carrot and stick" approach to this education process.

Lower Maintenance Costs , *Lower* Profits?

The very first area we can attack is the very paradigm that their thinking is based on: that "reduced costs mean increased profits". Is it true?

Several years ago, a study of Australian maintenance practices in underground coal mining was undertaken to benchmark it against international standards. One of the findings was that Australian coalmines spent about half the amount on maintenance for a particular major equipment item compared with their American counterparts.

> ***But further investigation revealed that while Australian mines struggled to achieve better than 35% availability, the Americans were routinely achieving 90%.***

The net result was that maintenance cost *per ton of production* in America was about *half* of that in Australia! That meant greater profit and competitiveness. In this case, reduced costs equated to reduced asset performance, which led to *reduced* profits!

So the first thing we can do is shatter the economic rationalist paradigm: Without proper analysis, reduced asset management costs are just as likely to lead to *reduced* profit as they are to *increased* profit.

> **Our message?** ***Good Asset Management is value and profit adding.***

While improved asset performance is the "carrot", what is the "stick"?

In the late 1980s, a light bulb in a control panel warning light in the Perrier plant failed and went undetected for over six months. The result was that operators were unaware that the filters that removed impurities (including benzene) from the gas used to put the "fizz" into

the mineral water had become clogged and were no longer functioning. World wide, Perrier was forced to literally pour $200 million of contaminated products down the drain. The erosion of consumer confidence saw their market share fall from over 55% to less than 25%. For Perrier, the end cost of the failure of that single light bulb is incalculable.

Closer to home, the Longford gas plant explosion, Auckland power cable failures, Sydney water contamination, and Sydney Harbour oil spill illustrate only too graphically the potential loss of life and huge costs that can be associated with just a single asset failure.

Our message? ***Good Asset Management is good risk management. In our modern and increasing litigious society, it is a wanton lack of duty of care not to practice good asset management. The legal profession is rapidly catching on.***

So how do we get the message across?

By any means possible is the answer! Let's not be shy about it.

- Measure and publish internally and externally our successes.
- Put together and present at every opportunity short sharp presentations for our senior managers and boards of directors. (Remember their attention spans are notoriously short, so the messages must be stark!)
- Publish internal newsletters.
- Speak at conferences.
- Publish articles in the journals and newspapers.

[Ed: And put your value-adding examples in the International Asset Management Competitions 2000]

So let's get the message out to senior management:

Good Asset Management is good business and good risk management. ■

Phil Clarke, Director, The Asset Partnership, is one of Australia's leading experts in the application of Reliability-centred Maintenance in the Petrochemical and Utility Industries. He is conducting a half day post conference workshop at Le Meridien, Melbourne, 24 November 1999. See below

Strategic Asset Management in Utilities & Petrochemicals.

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