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## *Announcement of Change* The International Asset Management Competitions

### The International Asset Management Competitions will NOT be held in 2000

in the form in which they have been run since 1996 and  
 the **Competition Finals will NOT be held this year.**



### *"Time is the enemy of us all!"*

Time to prepare a quality competition entry is a luxury that few asset managers can afford nowadays. Asset management units are finding that they have fewer and fewer staff resources to spare for any but the most urgent of tasks. This is not a situation in which strategic thinking flourishes! We have to be extremely creative to get around the problem this poses.

If, as asset managers, we are to continue to recognise good work, exchange information, increase expertise and promote the benefits of asset management, which are the aims of the Competitions, we need to find an easier, quicker, more efficient way of doing it. That way seems to be the web!

### *"The New, Easier, Quicker, Way!"*

In July we will be introducing the *new, easier*, way to share your experiences and improve your knowledge in asset management by taking part in information exchange on the website with a chance to benefit the industry and win some interesting prizes.

*Watch for More Information in Issue 39, out in July*

\*And if you have already started working on your Competition Entry, don't give up, you can submit it for our new monthly awards.

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## Who Can Stuff Up Your Project?

### the people side of project management

Ron Riegel-Huth, AMQ International's "Trouble-Shooter", addresses the 'people problems of practical project management'. **You pay lip service to these at your own peril!**

Ron writes: "All the engineering section had been put through Project Management training and the technical side of projects was much improved and yet we still struggled to get new and modified products onto the market on time. Each time we struck trouble in 'the home straight' and someone from outside threw a spanner in the works. Were we jinxed? No, this was no external voodoo, we were doing it to ourselves! When we looked at what we were doing we saw that we had become so engrossed in the technical and design aspects that we had, to some degree (and it turned out, a critical degree) ignored the stakeholders who would be affected by our project. We had already adopted a quality control process, so we added the "Who" page to our ISO 9001 manual." (see below and on the next page)

#### The "Who" Page

**Q1 "Who will, or could, be affected by this project?"** The page contained all the sections of the company – simply as a memory jog. It was important to list actual names of people. Then, at an early stage of the project, the project chief had to call together all those named together to explain what, why and when. This enabled them to see the project through their eyes and then to identify problems and to make suggestions (many of which were really good!)

**Q2. Who could "stuff" my project?** Though projects are designed to give an overall benefit, it's seldom that everyone is a winner. Thus the project chief was prompted to think this through and take whatever steps were necessary. ( E.G. that new mechanical handling system that's a real boon may not be seen that way by the forklift drivers that rely upon an hour's overtime each night to pay the mortgage.)

The Outcome was a dramatic reduction in "11<sup>th</sup> hour" crises.

#### We learnt that:

- By inviting the stakeholders to working lunches we'd reinforced their importance - and they reacted accordingly
- The few that could see the project as a negative could also see the bigger picture and if they weren't silenced they at least knew that they were outnumbered.
- The most important lesson was that **all the problems now identified at the "front end" of the project would have had to have been faced (with greater effort) at the "back end"**. By early identification most problems seem to solve themselves.
- The engineers learnt a valuable lesson in that even the simplest technical change somehow affected most of the company.

**P.S.** I can vouch for the efficacy of this approach, and the perils of ignoring anyone. When I was advisor to the Minister of Construction, I was told that one proposal going before Cabinet was extremely important and the Minister wanted a "positive pink and yellow slip" meaning positive approval by Premiers and Treasury, something that was basically unheard of, the most one normally got was a 'no objection'. I made a list of all those affected and walked the proposal around to all departments and individuals.

I followed Q.1 very well indeed and I got my positive pink and yellow slips. But I missed out badly on Q.2. Just before the proposal went to Cabinet I was told of an officer in Premiers who 'was unhappy' about it. I ignored this, after all, I reasoned, I had the positive endorsement of the fellow's chief, the Secretary of the Department, what could one unsatisfied staff member do? This turned out to be a big mistake. I had not taken seriously the power of someone, who felt strongly enough, to truly 'stuff' the proposal'. He did. The paper was withdrawn from Cabinet discussion because of seeds of doubt sown by this fellow and it took me many weeks of hard work to get it back again and approved..

I learnt the truth of Ron's Q2 the hard way.

Editor

**Question 1—Who will, or could be, affected by this project?**

<u>Who?</u>	
<u>Requirement</u>	<u>List Names</u>
Marketing	_____
National Sales	_____
Scheduling	_____
Production	_____
Mould Shop	_____
Metal Fab	_____
Motors	_____
Assembly	_____
Production Engineering	_____
Tooling	_____
Maintenance	_____
Service	_____
Quality	_____
Logistics	_____
Export	_____
Purchasing	_____
Outside Vendors	_____
Others	_____

The objective here is to think through who may be affected. The task is then to bring these people together so that they can see the Project through your eyes. The whole objective is to avoid, or at least minimise, problems that occur when the Project moves from its technical or design stage to its real world implementation stage.

**Question 2—Who could stuff my Project?**

Think through who might be key players—Team Leaders, Die Setters, anyone at any level might be the key figure. List these people as being those that need to be talked to, who need to know what will happen and roughly when. It may be necessary to tell them why they are important. It may be necessary to quieten any fears that they may have, especially if they hear about your project from other than you.

<u>Who?</u>	<u>Why?</u>
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____

## Feedback: **Overhaul Trucking** (Issue 36)

*Thank you for the number of responses we have had to the "Overhaul Trucking" case study published in our last issue. Here are some of the comments made. I have abbreviated most of them but the essential messages are there.*

*Over the page we also have a thoughtful question on the lane rental issue, following the article published in Issue 34.*

*Please keep your comments coming in. Your name will not be published unless you ask for it to be known.*

- "Overhaul Trucking should have borrowed its capital funds. That way they wouldn't have had the temptation to spend the depreciation, it would have been used to pay off the loan!"
- "We wanted to avoid over-recovering on our depreciation charges and so we have built in interest on our replacement reserves as part of our funding. This makes it important to charge interest to ourselves at market rates on all internal borrowings, but it also makes it important to get the interest rate 'right'. We continually review our rates."

- "We charge interest to ourselves on all internal borrowings to keep ourselves on the straight and narrow and we have strict project evaluation procedures to ensure that all projects meet the value for money test. It is too easy otherwise to allow the availability of funds rather than the desirability of the project to determine the outcome. If Overhaul Trucking had used the value for money test they would have noticed that they had a tendency to overcapitalise."
- "We use our asset management plans to determine our renewal requirements and, provided renewal itself is justified, this takes precedence in our capital expenditure. We will not always renew assets according to their optimum economic life because these lives are determined independently of other factors, such as the availability of skilled resources and trained operators, or the state of our financial situation. "Economic lives" are used to give us our 'first cut' plan and then we take the other factors into account. In Overhaul Trucking's case they should have allowed for some of their trucks needing overhaul before the 10 year mark."

### **And our thought for the week!**

**"Getting rid of people does not cut costs, the same way that cutting budgets does not cut costs. Only cutting costs cuts costs."**

Barry J Gibbons, author of "If you want to make God really laugh, show him your business plan" American Association of Management. New York. 1999. (Barry J. Gibbons was head of Burger King

Cutting costs requires taking a strategic look at what you are doing. While you are 'head down, tail up' attending to the urgent, the important is passing you by! Take a regular "thinking" break with SAM.

## Feedback: Lane Rentals (Issue 34) – A waste of time for councils?

*A thoughtful council reader queried whether lane rentals would really be of any use to councils.*

### Lane rentals would be included in bid costs

He points out that if lane rentals were in common use, contractors would build them into their bid costs. This could be done either explicitly (ie a separate line item) or implicitly (included in general costings.)

This is what is intended. Lane rentals are a proxy for the costs of disruption to the community. At the present moment these costs are not being taken into account when councils choose their preferred contractor. This is a way of making ALL costs transparent.

**No incentive for speedy work?** The argument then goes that since the contractor has bid his lane rental costs into the contract and been awarded the contract (and hence had the lane rentals paid for him by the council client) he now has no incentive now to do a speedy job and avoid disruption.

However, the contractor obviously wins if he can finish the job in less time, since the price has now been struck, so that he really does have a very strong incentive to “get on and out”.

### Increased cost to Council?

The reader also points out that if these incentives hold, Council will be left with extra costs – since it would have paid a contract fee that was inclusive of, say, 7 days lane rental fees, but only received, say, 6 days in charges (assuming that the contractor finishes one day early).

Here two things have to be taken into account :

1. The primary role of council in serving the community,
2. The impact of competition.

### Primary Role in serving the community

If council activities, such as road works, result in disruption costs to the community, these are *real* community costs even though they do not feature in council's books. At an extreme they can represent



loss of earnings to the community and extra cost for business. This is the extreme situation that is now being reached in London, the subject of the article. It is likely that similar situations could occur in any large metropolitan area. The role of council is to serve the community – not simply keep its costs down! However, this does not necessarily mean that the council will have to pay more. Competition will see to that.

### The Impact of Competition will keep Costs Down

In the situations in which lane rentals are likely to be applied – ie city congestion – there will be a number of contractors vying for any construction contract. Building in a large ‘reserve’ of time will be counter-productive since it would make the contractor's bid uncompetitive.

The contractor, who is now being charged for the time he is on the road, will have to manage this aspect of his costs along with others. He will have an incentive to design his work practices efficiently. If he does not he will lose out to others who do. Competition will force contractors to bid only those days that they are on the roads – and to keep those ‘on road’ days as low as possible. Thus Councils will NOT end up paying more – BUT they will get a more efficient service.

Only where there is no competition could net costs increase. But in the cities, where lane rentals make sense, there is usually plenty of competition.

### Revenue Raising—No!

The purpose of lane rentals is *not* to raise money for council – it is to get a more efficient service for the ratepayer.

## What is the relationship between sound asset management and survival in the business cycle?

*Surprisingly, there could be quite a strong relationship, as I have suggested in the following article which was written as the keynote article to a special issue on Asset Management of the EAROPH Bulletin (East Asian Regional Organisation for Planning and Housing).*

*It was when this article was picked up and reprinted by the Housing Development Association of Malaysia that I considered it might also be of interest to a predominantly Western audience. You will notice that, in Asia, asset management takes on a far more holistic approach than we have traditionally accorded it. If you would like to know more about asset management in Asia, please let me know and if the interest is here, we will report more.*

### Strategic Asset Management for Urban Sustainability

#### The time is ripe

Several factors are combining to influence the transition from unthinking asset acquisition, followed by a period of neglect, gross decay and eventual costly renewal, towards a management style that builds the future into present day decision-making – this is asset management. By avoiding waste, countries are able to achieve a higher quality of living for their people both now and in the future.

Where asset management thinking is applied to townships, assets 'mature' rather than age. They get better as people grow into their surroundings. Such developments increase in charm – and value – as they age. Where asset management is applied to industry, its supply capacity and flexibility to deal with unexpected strains and stresses is increased. Such industries are capable of changing with the times. Like the bamboo in the wind, they bend but do not break. Governments that apply asset management retain the support of their ratepayers and voters.

Asset management is a blend of transparency in dealings, accountability, financial responsibility, forward planning and a commitment to the welfare of the people, (both now in a social sense, and in the future, in an environmental sense).

#### Why now?

Countries around the world, after many years of neglect, are now realising that asset management, properly applied, can yield an increased level of benefits even when the economy is stable or growing only slowly. Anyone can prosper in a boom. Only the wise may prosper in decline or stable conditions. In an economic downturn we look for other ways to survive and thrive. Asset management is such a way.

Today, with declining public budgets and tighter industrial conditions, we are seeing the following changes taking place:

- Pressure on agencies and industry to be more accountable
- Pressure to avoid environmental damage
- New technologies extending the capability of existing assets
- Improved information and the means of using it

In the shorter term, asset management will help you to manage the current downturn in the economy. In the longer term, it will help avoid excesses and wastage in the next boom.

#### Asset Management and the Business Cycle

As the name suggests, business cycles 'cycle', that is the economy rises – and falls. If the boom is prolonged, however, as it was in Australia and New Zealand (from the early 1950s to the mid 1970s with just a few, short

## “In Economic Booms, unwise asset decisions are often made”

lived periods of slower growth) and as it was in Asia for the last 30 years, it is natural to think that we have tamed the cycles and that growth will be continuous. Experience shows that even though some booms may be gloriously long-lived, every boom comes to an end sometime. What goes up – eventually comes down.

Many things may trigger the beginning of a boom: for example, the introduction of a new product such as colour television, or a change in government policy or the end of a war or major conflict. Equally, many things may trigger the end of the boom. In the case of the Asian currency crisis, international monetary markets and speculation clearly played a part – but, and this is an important ‘but’ - ultimately the trigger does not matter. If the time is ripe, any event may serve as a trigger. The important thing is to look at the underlying structure of the boom and there is one characteristic common to all: in a boom time, people acquire assets. Whatever the cause of the boom starting, the fuel that drives it along is asset acquisition. And, in the end, it is the nature of that asset acquisition that will determine when the boom is ripe to collapse.

When a boom is triggered, demand increases which leads to an increase in investment in the capacity to meet this demand; investment in its turn creates employment, incomes – and more demand. With sufficient stimulus, this demand – investment – demand cycle can continue for quite some while. If many are trying to invest at the same time, several things can happen: (1) the focus changes from acquiring the right asset to acquiring *any* asset as long as it can be acquired quickly and in this way poor decisions are made; (2) because there is not time for feedback from the market to signal overcapacity, it is very easy to over-invest, producing capacity that is greatly in excess of future demand. When this happens, any trigger event that slows down demand growth can reverse the direction of a boom.

Understanding assets and asset management is, therefore, one of the keys to being able to manage the business cycle, to both survive and thrive despite the natural movement of the economy.

Wise asset acquisition that takes into account the need to maintain and operate into the longer term, will yield assets that do not fall into disrepair when times get tough, making a loss on the initial investment. Wise asset acquisition that meets the needs of the people and is supportive of the environment will still be in demand when supply exceeds total demand. Wise asset acquisition allows managers to survive the trough – and be in a position to benefit from the next boom.

But asset management is more than asset acquisition. In addition to the way in which assets are chosen, designed and constructed, it looks at the way they are used, maintained, rehabilitated, modified and, eventually, safely disposed of.

### Asset Management and a Focus on Service

The essence of asset management is that assets are not seen as ‘wealth’ – that is, something to be acquired to demonstrate richness, but rather as a means to an end, something to provide services that the community needs and wants. The whole focus of asset management is on acquiring the ‘right assets’ and the ‘right level of assets’ to meet future service demand. To do this, managers have to spend far more time thinking about their customers than they have been wont to do in the past.

Asset managers are now thinking in terms of what the asset *does*, rather than what the asset *is*. With that focus, they can then work on how to make it do its job better. No longer are asset managers trying to ‘improve the asset’, today they are ‘improving the service’.

### Asset Management and the Asset Life Cycle

However assets by themselves provide no services! Hospitals need to be staffed and operated, roads need to be maintained, schools need to be equipped with other resources. The schools and hospitals also need to be provided with energy, cleaned and made secure. Roads need to be equipped with signs and signals and traffic police.

**“Providing assets does not provide services. It is a mistake to think that a “one-time” expenditure on a capital asset will result in a lifetime of service delivery”**

One of the greatest mistakes that countries have made in the past is to assume that a ‘one time’ expenditure on a capital asset will result in a lifetime of service delivery – with no other expenses being allowed for. This is particularly true where large international borrowings have been incurred to pay for the assets. In many cases, the assets have stopped working, or stopped working efficiently, for want of quite small repair items – but repair items that were not planned for and hence not available.

Asset management today focuses on the ‘life cycle’ of the asset. It measures not only the up-front capital cost, but also the ongoing maintenance, operations, cleaning, security, and energy costs of using the asset.

***Only when all of the lifetime costs are justified by the benefits to be supplied is the asset worth acquiring.***

New techniques of evaluating projects now take these aspects into account.

### **Asset Management is Multi-Disciplinary**

Another major mistake is for decisions on large scale assets to be made on the assessment of just one profession or discipline. In Australia in the 1950s to the 1970s, engineers made decisions on what was wanted or needed. They made the decisions based on what made life easy for engineers. These assets were often very well constructed – but were very expensive to acquire.

In the late 1970s and 1980s, possibly as a reaction to the excesses of the engineers, the decisions tended to be made by financial experts. This time the decisions were ones that were easy for the financial specialists. They tended to acquire assets where the ‘first up’ cost was very low – and thus required less by way of borrowing. But these assets were often very expensive to maintain and operate.

It was in the mid 1980s that we began to realise that we needed to draw on the talents of many disciplines if we were to make the right decisions on assets. Not just planners. Not just engineers. Not just accountants. But all of these, as well as architects, designers, social specialists, economists, lawyers, environmentalists, and, of course, managers.

More and more professions are becoming ‘asset managers’. The growth of information technology has expanded the scope of what we are able to do. It is now possible to keep track of all the assets that even large organisations own. Many of the winning entries in the International Asset Management Competitions have focussed on obtaining and using information.

Asset Management today is a truly multi-disciplinary field and it is one of the fastest growing of the new management specialities.

### **Asset Management – An Opportunity**

***All asset lessons seem to be learnt in the hard times.***

If the lessons are learnt well, they yield great benefits when the economy recovers. The boom times that Australia and New Zealand experienced in the 1950s through the 1970s are gone, but the benefits of asset management are now being felt by companies and governments that are able to increase profit and provide a higher level of service when the economy is still reasonably flat and growing slowly. When the economies pick up again, as they inevitably will (that is the nature of the business cycle) the companies and governments that have learnt the lessons of asset management will not only thrive in the recovery but they will avoid the mistakes they made last time around.