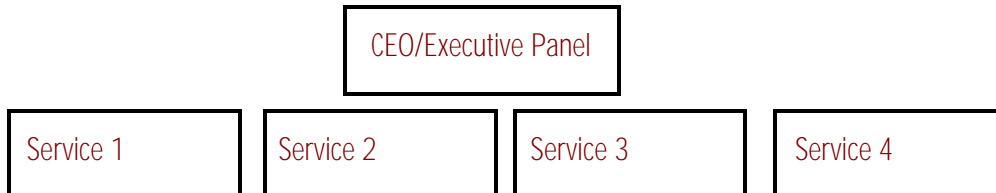


## What Organisational Structure Best Suits Asset Management?

The following is a true story; it might be yours.

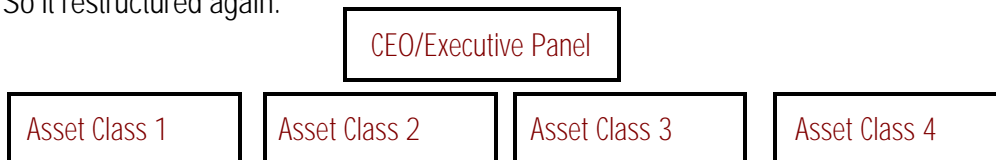


A company had for many years been organized according to traditional functional divisions – finance, operations, IT, planning, etc. Each division was run as a separate fiefdom and the emphasis was on inputs and process. Gradually the company recognised that it had become large and unwieldy and its organisational structure did not allow it to respond rapidly to the changing nature of its market.



The new company structure was based on service-focused divisions. After a number of years of operation, the service heads became strong, and the service divisions themselves became fiefdoms. Because of the divisional focus, asset management took place with limited consideration of how to best manage assets from a corporate perspective. In addition, it was noted that there was a lack of standardization in certain asset classes which caused inefficiencies in procurement, inventory and life-cycle maintenance.

So it restructured again.



*Researched and written by Dr Penny Burns, AMQ International.  
Published fortnightly. Subscription, Comment, or Inquiries to*

AMQ Intenational  
PO Box 75 Salisbury South Australia  
Tel 618 8258 4342 Fax 618 8281 5795  
Email: sam@amqi.com Website: www.amqi.com

## Divisions with an Asset Class Focus

This time, the company decided to base its structure around not functions, not services, but assets. Thus it created one division to manage its buildings, one to manage its plant and equipment, another to manage its fleet and yet another to manage its infrastructure. Since all services used each of the asset groups, the company considered that this would enable it to impose some greater consistency over service delivery.

## Is this the final answer?

You know it isn't. The new structure will permit integration within asset classes and a number of efficiency gains will flow from this action. If the company applies a consistent approach to the development of its new asset classes then it may also achieve integration between asset classes and make more efficiency gains. But the problem with efficiency gains is that they are bounded – there is only so far you can go with any cost reduction strategy.

## Where to next?

After these gains have been won, where does the company go next? In all likelihood, it will start again and recycle through functional divisions, then service divisions, and back to assets again. Each time it will remove inefficiencies – but the effectiveness of the organisation, its ability to flourish in a changing world may be left un-addressed.

## This leaves TWO questions

- Which form of operational structure is the best?
- What else needs to be done?

## So, which form of operational structure is best?

Each has advantages. Choice should be driven by the organisation's objectives and its situation.

### Choose a functional division if

Services are not predominantly determined by competitive market conditions AND there is strong direction at the corporate level. Local government services may fit in here.

### Choose a service division if

The service markets are distinctly different and competitive demand drives production, particularly where demand is subject to great variability because of client attitudes or fashion, or because of strong competition. Rail freight and passenger rail services might be an example where this applies. On the other hand, water and sewer services probably would not be.

### Choose an asset division if

The services are reasonably stable, there is little marketing to be done, and the essential gains to be made are from efficient management of the supply (ie the assets). Water and sewer services would probably fit in here.

**Silos are endemic**

Whichever way you structure operations, the problems of silos will always remain. They need to be dealt with by supplementary structural arrangements. The most effective organisations are the ones who come up with the most suitable arrangements for dealing with the corporate decisions at a corporate level. This requires restructuring not at the operational level but at the decision making level, it requires Restructuring UP.

## Restructuring UP

**Normally we restructure down**

The temptation is always to make those in the chain below more efficient, but never yourself. Thus top management restructures operations and the federal government imposes 'efficiency' restructures on the states, who impose them on local government. But who tackles the top?

**For Effectiveness**

The key actions need to be taken here →



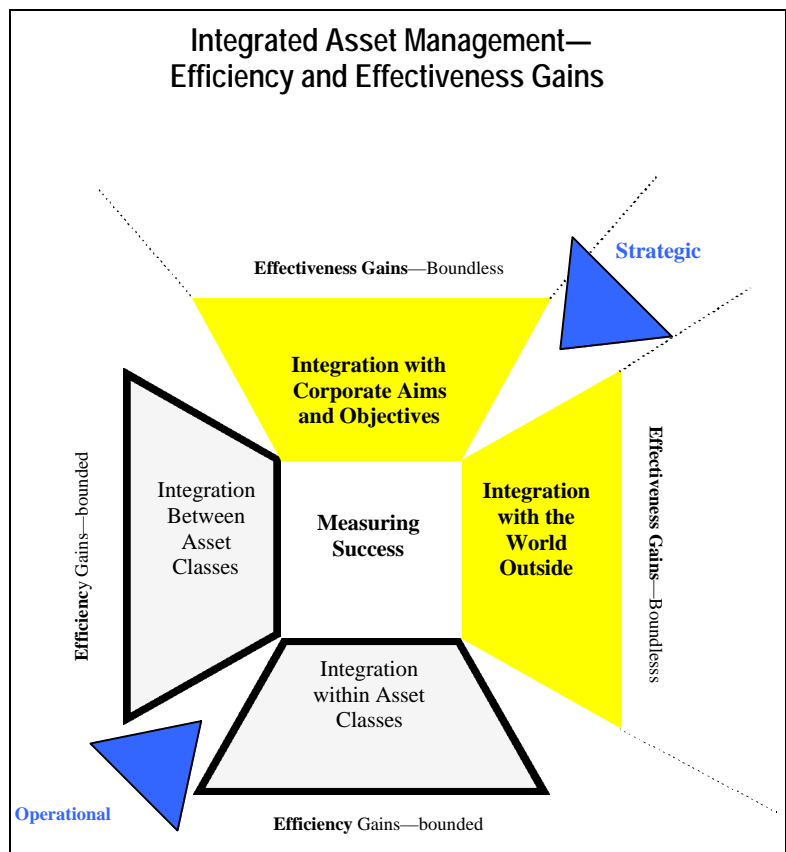
Efficiency gains are made at the operational level, but there is a limit to the gains that can be made (at the extreme, costs can only be reduced by 100%!)

Effectiveness gains are limitless.

Effectiveness gains are achieved through

- Integrating the asset management decisions with corporate aims and objectives
- Integrating the organisation's asset decisions with the needs and the opportunities of the world outside (see diagram — efficiency gains are operational, effectiveness gains take place at the strategic level)

In later issues we will be looking at the ways some of the more effective organisations have structured their asset management decision making at the top.



## Should Organisations be Structured for Asset Management?

### The Purpose of Asset Management

We would not think of structuring the organisation to suit the finance department or the personnel department—although it was not too long ago that both of these things were being advocated.

Today 's outcome focus would not support an organisational structure designed for inputs such as finance and personnel—but asset management is an input, too, and we would be wise not to forget it.

The purpose of asset management is to deliver the desired outputs of the organisation effectively, reliably and efficiently. So in the determination of structures for asset management, the question is really "What structures best allow asset management to serve the organisation?"

Your ideas and suggestions are welcome. Please write [editor@amqi.com](mailto:editor@amqi.com)

Many a true word is said in jest—or in debate!

## The Capital Funding Debate:

Alasdair McClintock, is Director, Property and Facilities Division, University of Queensland. He commenced his professional life as an Architect, he ran his own practice in Ireland and was director of a multidisciplinary practice in Saudi Arabia. He was appointed Director of Property and Facilities at the University of Queensland in 1995.

*In the next issue:* Alan Tracey, Facilities, Sydney University, who took the PRO side in the debate, will write for *SAM* about the positive results that have been achieved in student housing on campus—looking at what makes for a successful engagement with the private sector

### **"The house moves Private Public Partnerships/ Private Finance Initiatives are the way to go"**

*In the 2002 ATEM-AAPPA Conference held in Queensland, Alasdair McClintock, Director Property and Facilities Division, University of Queensland, took the CON side of this debate and his paper is presented here, with his permission. Alasdair has had experience with many procurement methods for capital projects including turnkey, design and construct, and novated contracts. However he remains a cynic and mounts a strong argument against the motion*

#### **PUBLIC PRIVATE PARTNERSHIPS**

##### **What is a PPP?**

I'll start by admitting I am finding it hard to find out quite what is meant by Public Private Partnerships/Private Financing Initiatives. They are being put forward as models where the private sector may provide the dollars, undertake the construction, provide ongoing maintenance and

managerial services, while the public sector sticks to core business. Presumably in our case teaching, learning, research.

### Risk Sharing

'Isn't that what BOO and BOOT contracts are all about?' I ask. 'Not really' is the reply. 'Anyhow that is a term from the bad old days'. 'Could we call it a Joint Venture?' 'That's putting it very simply. PPP's and PFI's value add" they reply. And then they come out with the classic oxymoron: " It's about risk sharing and minimising costs."

We have just discovered a classic on our campus. The chiller drain on one of our new buildings was connected to the stormwater. Consequently we have been putting some choice little chemicals into the river. Yes I suppose the builder was sharing the risk. That it would ever be discovered. Well it has. And it sure minimised the cost but maybe not the price

It seems with PPP's and PFI's the core in core Core Business can become as thin as the stork. I understand in England, the Bobby is back on the beat and Bob the builder is behind the police desk doing the paperwork like processing traffic fines. Quite clearly, it's not about sticking to the knitting. I hear some builders are lending their hand to a spot of nursing. Then I'm told that with a dose of PFI's and PPP's schools, hospitals can all be built with no major upfront capital commitment.

### Finance

Bob the Builder or banks, superannuation funds or insurance companies finance the work. There's no holding back waiting for funds. Everybody's employed and society gets immediate benefits from these new facilities. No wonder the pollies like it. It's a sure winner for catching votes. No wonder Bob the Builder likes it. Long term maintenance contracts give a more stable cash flow Everybody's a winner and everybody gets their mark up!

So should we encourage our VC's to wallow in the waters of PPP and PFI? No! Because it's a falsehood that's why. It's just a devious way for borrowing money. Whatever way you look at it, it's mortgaging the future! If you want to do that to future generations just go out and borrow the money. Be straight about it: *'I'm going to leave behind me a great big sodding debt!'* And keep it clean. Don't snare them into bodgy deals with Bob the Builder and Freda the Financier.

### In the longer term they are all dead

How many of the high profile builders are still around that were here say 20 years ago? Where's Cintra, Kratzman, Graham Hall, Kern, KD Morris? The lawyers say don't worry. You can cover for builders ceasing business by clauses in your contract.

How many of those builders of twenty years ago have the same corporate structure? Hollands, Walters, Boulderstones, Barclays. The lawyers say don't worry. You can cover for mergers, take overs, foreign ownership by clauses in the contract. I want operational control not contractual clauses!

We can ask the same questions about the stability of possible financial partners: Remember HIH? I'm sure AMP and SunCorp are rock solid albeit Paul Batchelor and Steve Jones's personal gains might have funded a general purpose building or two.

## A solution to your personnel problems?

Look, I can see if a VC chancellor has a hopeless facilities section that is stagnated and moribund she or he might be tempted into the waters of PPP and PFI. It's another form of outsourcing. Bob the Builder and Freda the Financier will take care of all the capital works and facilities management while the VC gets on with core business and these days maybe a bit of spin doctoring.

I know I'm a cynic but I have yet to be convinced by those companies knocking on my door and telling me about the amazing successes in England. What do I care? This is Australia. It may well work in England. The population of Greater London is equivalent to that of Australia. Therefore they have a critical mass to support a market. They can afford to employ people working full time in maintenance. I can't even get a subbie back during the defects liability period. What chance have I with the maintenance under a PPP contract?

## Whose in control?

I can just hear the conversation: *'Reg, can you get over to the Uni a light has failed.'* *'I'm in Toowomba mate'* Will he jump into his ute with his robbie in the back and wing his way to the Uni? No! He'll wait until a dozen bulbs have blown. Of course, the experts will tell you this will all be covered with your KPI's. If they don't provide the service, you don't pay. That's not the point! I want a service. Withholding payment doesn't resolve the problem.

I want control over that service and I don't want to be dependent on the performance of independent builders, financiers, lawyers and a plethora of contracts and terms of agreement. So what if my cynicism is unfounded? The PPP all goes swimmingly but I want to make changes to the building and services provided?

## In Conclusion

Oh that can be covered in the contract and terms of agreement, the experts cry. Colleagues I put it to you for PFI and PPP read AA and LFL. They are complicating the process of borrowing, building and maintenance and putting it beyond your control.

How can costs be minimised when there will be so many middlemen in your own state, interstate and possibly overseas, all looking for a mark up? Cost can only be minimised at the expense of quality of product and service. They say don't consider PPP's or PFI's unless the capital budget is in excess of \$50 million because legal fees are so great. Doesn't that tell you something?

Colleagues I put it to you that if you wallow in the waters of PPP's and PFI's they are murky, with rip tides and full of sharks and loan sharks. Colleagues for PFI read AA. That is accounting alchemy for PPP read LFL: Lollies for lawyers.

**And remember KPI can also stand for - Can't Possibly Implement.**

Ed: If you enjoyed this, you may enjoy the other papers from the AAPP  
conferences – access them easily from "Great Links" at the Virtual Community Site,  
[www.amqi.com](http://www.amqi.com)

## Tracking Early Renewal

### David Grugeon

One of the things we need is to have an infrastructure depreciation system with FEEDBACK. When we find that we are replacing assets earlier than anticipated we need to feed this information into our calculation of useful life of all assets. The decision to make early replacement will then be multiplied by the number of assets and show how, by replacing assets before their scheduled date, the asset base and the wealth of the entity is being run down.

The purpose of financial statements is to provide useful information and this information is not only useful, it is vital to councillors and electors for making decisions.

### Editor

Your comment raises a number of interesting issues:

- (1) The first is the need to record the fact that assets ARE being replaced sooner than anticipated.
- (2) The next is to find out why. Is it a change of function? An increase in standard? Lack of Maintenance? Or perhaps a wrong decision on life at the outset? Or maybe none of the above (or all?)
- (3) Then, if there is justification for changing the life assumption, it should be applied to all assets that meet the justification (which may be the whole asset category, or may be a subset - eg it may be all roads in the council area, or it may be heavily trafficked roads, or roads that were designed for low loads but are now crumbling with a change of usage (eg heavy waste management vehicles).

This is more than a depreciation recording issue - it is a management issue.

**Does anyone have any suggestions as to how the necessary recording, analysis and feedback into decision systems could be implemented?** (Please add your comments to the **Discussions Forum** at [www.amqi.com](http://www.amqi.com) or write directly to me at [editor@amqi.com](mailto:editor@amqi.com))

## AIS—Time for a Sanity Check?

Is your AIS providing you the service you desire, the service you NEED? Can you say, without a doubt, YES! If not, then perhaps it is time for an objective assessment. This is very difficult to do from within an agency. It is better handled by an external, unbiased, expert. This is what you get with Norm Eason's chapter 15 in the Virtual Asset Management Community web serialisation. In his conversational, mentor, style, Norm, with his 30 years of experience, walks you through all of the issues you need to consider.

### And all Good Things Must Come to an End!

The last chapters of Norm's serialisation were loaded this week. So now you can read the entire book. Downloadable from your **Members Profile** page—(If you are not a member of the Virtual Asset Management Community, join now at [www.amqi.com](http://www.amqi.com), it's free – and, as well as Norm's complete manuscript, you also have access to the rapidly growing asset management networking database.)

## What's new on the VAMC?

*"Take a break from Cyber Space,  
Meet other Members Face-to-Face"*

### Introducing "City Chapters"

**City Chapters** provide an opportunity for Virtual Community members in the same city - or for those visiting a city - to meet and exchange ideas in asset management with other members on a face-to-face basis.

If you are organising a special event in asset management, maybe a get-together for a special visitor, or a discussion around a special topic and would welcome other members, notify your City Chapter Co-Ordinator and it will be listed for the City Chapter, (or email [amqi@amqi.com](mailto:amqi@amqi.com))

Or, If you organise a regular series of meetings related to asset management and would welcome other members you may care to become a City Chapter Co-Ordinator. It's good fun, takes up very little time, and puts you in contact with a wide range of potentially interesting colleagues and contacts. (Again, email [amqi@amqi.com](mailto:amqi@amqi.com))

City Chapters are a way to make your meetings in asset management known to a greater number. Any number of existing, or new, groups can be part of a City Chapter.

Our first City Chapter is **BRISBANE**

And our City Chapter Co-Ordinator is  
**Chris Adam, Cardno MBK, [email:cadam@cardno.com.au](mailto:cadam@cardno.com.au)**

If you live in the Brisbane area or will be visiting on **April 3rd, Do Join Chris Adam and Dr Penny Burns** as we discuss, in workshop fashion

### "The Challenges for Asset Management"

*(About 30-40 people regularly come to these sessions so you will be in good company)*

All meetings will be held at **The Greek Club**, Edmonstone Street, South Brisbane (off-street parking - Besant and Edmonstone Streets)

**Cost:** Presentation only (AWA Members & students free; Non-Members \$10) Presentation and Meal: Members \$26 Non-Members \$36

**Time:** 5:45pm Drinks in the bar 6:15pm Presentation 7:30pm Dinner

**To register:** Kathy Bourbon, Office Manager, AWA (Qld); Ph: (07) 3397 5644 Fax: (07) 3397 5283;  
Email: [awaq@powerup.com.au](mailto:awaq@powerup.com.au)