

## The Asset Manager –

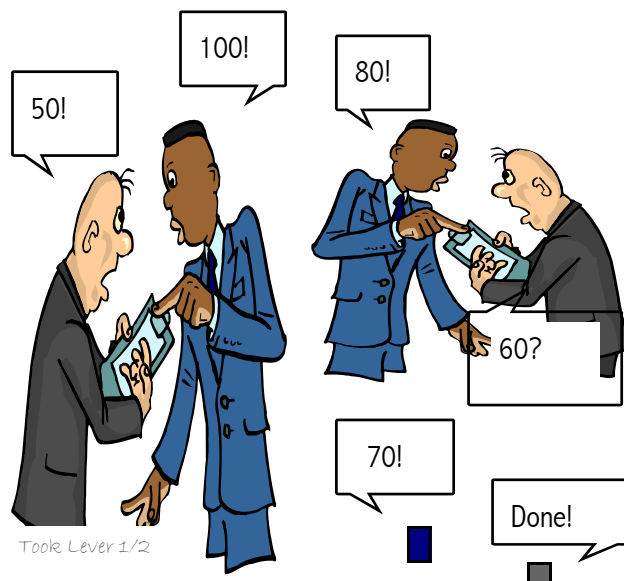
**Strategic Resource?**

**Or Expendable** ( as a Manager of a non-core function)?

Read Rob Kooyman on “Do Asset Managers Trust Outsource Service Providers?” pp 494-496

### Also in this issue:

**CASE STUDY**— in the application of **Activity Based Costing** in the City of Devonport in 1995—and it is still working well! Read Bob Boscoe on how it was done on pp 497– 498



And  
**WHAT DO YOU MEAN** - by “**Facilities Management**”?

Contributors: Glen Syred, GHD, NZ; Mike Graver, GHD, Aust, Antonio Lucindo, GHD Aust. And all of the contributions of 'Benchmark and colleagues to the new Facilities Management Discussion Forum

### **Activity Based Costing?**

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

AMQ International  
PO Box 75 Salisbury South Australia  
Tel 618 8281 5795  
Email: [sam@amqi.com](mailto:sam@amqi.com) Website: [www.amqi.com](http://www.amqi.com)

# Do Asset Managers Trust Outsource Service Providers?

By Rob Kooymans

## Outsourcing

One of the responses to the search for asset management competence by organisations under pressure to perform, has been to outsource many or all of the services that asset managers provide to the organisation. In many cases, the outsourcing has been driven by the political need to get assets and bodies off the balance sheet, rather than by a measured determination to manage the assets to achieve the best strategic results for the organisation. Of course, asset managers are hardly alone in this - just ask the IT and HRM people!

## The Asset Manager

**“asset managers have tended to adopt a variety of attitudes to outsourcing, ranging from being the chief instigators to being leaders of staunch guerilla resistance”**

In the middle of this activity is the asset manager, who is at one extreme looked upon as a resource who can help overhaul the asset management operations in line with corporate objectives, and at the other, is seen as running an expendable, non-core function. Not surprisingly, asset managers have tended to adopt a variety of attitudes to outsourcing, ranging from being the chief instigators to being leaders of staunch guerilla resistance. The asset managers' attitudes to outsourcing have subsequently been formed by their experiences in dealing with service providers, who are themselves a very mixed bag of attitude and competence.

## The Views

My own interest in this phenomenon was sparked by a few months spent working in the U.S. in 1996 - travel is one of the privileges of academic life, although you do have to sing for your supper in front of your peers and put up with the boos, cat-calls and overripe fruit! In interviews and casual conversations with asset managers, senior executives of organisations and service providers on the topic of outsourcing, I started to get the impression that they all came from different planets, rather than working in the same field and frequently in the same organisations, so different were their passionately-held views.

**Corporate real estate managers** viewed their senior managements as unappreciative of their technical expertise and knowledge of corporate assets, and accused them of making political, ill-informed, short-term outsourcing decisions. They saw service providers as going over their heads, blinding senior management with their marketing spiel, then proceeding to rip the organisation off when they had won the job.

**Service providers** accused corporate real estate people of not giving them enough information and access to do their jobs properly and senior managements of expecting far more service than they were prepared to pay for.

**Senior managers** saw their corporate real estate people and outsource service providers as too immersed in their own technical asset management to see the big organisational picture and the favourable reaction of the share price to shedding non-core functions like asset management.

## So what do asset managers think?

Hearing these views left a lasting impression, so when I was looking for a topic for my doctoral thesis (Doctor of Business Administration at Southern Cross University, Lismore), it looked ideal. But the point of a doctoral thesis is to study one aspect of something in depth, so I decided to concentrate on the attitudes of asset managers to outsourcing and outsource service providers. Finding out what the other participants think is on the agenda for later research.

**“the discipline of the market is increasingly replaced  
by a reliance on trust and cooperation -  
or so the theory goes.”**

Of course, "outsourcing" is rather a vague term. My contention is that the problem is really about organising asset management in the most effective and efficient manner, on a continuum ranging from the pure market transaction of the spot purchase, through traditional contracting, preferred provider arrangements, exclusive provider arrangements and strategic alliances, to the non-market arrangements of the firm. As we progress along that continuum, so the theory goes, the discipline of the market is increasingly replaced by a reliance on trust and cooperation.

But does the attitude of the asset manager to service providers and outsourcing generally, militate against the organisation's adoption of the optimum method of obtaining asset management services?

**Take Part in this Valuable Research Project**

**This is where your opinion, as an Asset Manager, counts**

**see over the page**

## The Research Project

The research is trying to find out, through the asset management, general management and economics literature, interviews with asset managers and a comprehensive survey, the answers to the following questions:

- What are the most common procurement arrangements for asset management services?
- What, if any, is the relationship between the technical complexity of asset management services and the methods by which they are procured?
- What, if any, is the relationship between the strategic importance of asset management services and the methods by which they are procured?
- What, if any, is the relationship between the level of trust by asset managers in service providers and the methods by which asset management services are procured?

Of course, these questions cannot be answered without the help of asset managers, hence my request for your assistance.

**If you would like to participate in completing a confidential survey form**, I would really appreciate it if you would contact me by telephone (0412 164 660) or e-mail (rob.kooymans@unisa.edu.au). I will send you a form with a covering letter explaining the privacy provisions and a reply-paid envelope. Alternatively, I am organising an on-line version of the survey, which I hope to publish soon - the URL link will appear on the amqi.com website. Naturally, if you would like to talk about your outsourcing experiences and the research project, I would be glad to hear from you - confidentiality is assured, because I am not prepared to ruin my academic reputation by breaching anyone's trust.

**What is in it for you?** Well, the preliminary results of the surveys, which I am distributing through various property and asset management professional bodies, will be published on line with a link from amqi.com, as will a summary of the eventual thesis. You will be able to see how other Australian asset managers approach outsourcing and gain an insight into best outsourcing practice from a comprehensive survey of the international literature. And you will have the satisfaction of contributing to a greater understanding of your profession of asset management.

*Rob Kooymans lectures and researches in asset management at the School of International Business of the University of South Australia. Prior to that, he worked for many years in asset management with a large Australian financial institution as well as spending a couple of years with a commercial estate agency. Rob has qualifications in property, valuation, insurance, management and economics.*

## **ABC—a case study**

When John Howard, as the city engineer at Devonport City Council, introduced the first asset management plan for an Australian council, way back around 1990, he would not have been able to do so had it not been for the close collaboration between him and the chief accountant, Bob Boscoe. Here Bob explains how quite early on in focusing on the planning outcomes, they realised that a better form of accounting was necessary to support their objectives—and how they went about doing it, so successfully that it is still part of the council's management accounting.

### **Activity Based Costing in Devonport City Council**

I introduced Activity Based Costing (ABC) - but really Activity Based Planning and Reporting - to Devonport City Council with the preparation of the Operational Plan for the year 1995/96. This was the third year of the application of AAS27. For the first two years we used planning and reporting by operational departments as had been done for many years. Reporting by departments was not able to fully utilise the additional information available following the introduction of Accrual Accounting to Local Government and was the motivation for the introduction of ABC with the objective of allowing the implementation of Activity Based Management. A major change of focus for traditional Local Government managers that took quite some time to be fully understood and used. The practical use is still quite different between the various managers but the information available is well used when specific questions need to be addressed.

Local Government in Tasmania is required to prepare the following General Purpose Reports:

- Operational Plan for five years on a rolling basis. Essentially a Five-Year Strategic Plan.
- Operational Plan and Estimates for one year.
- Annual Report that includes the normal financial reports to comply with Accounting Standards.

Each of these for Devonport City Council has been prepared on the ABC basis from the Operational Plan and Estimates for 1995/96 through to the latest version although the content, the Programmes used and the actual Activities used have varied over the years. As you would expect Devonport City Council has been the only Council in Tasmania to use this format for any of these reports. It has now been decided to produce the next General Purpose Five Year Operational Plan in a different format comparable with those done by others but the ABC version is to be continued as a Special Purpose Report for internal use. The General Purpose version will now be called a Strategic Plan. It is also interesting to note that the Annual Report produced in this format has not been well regarded by those who judge and rate all of the Government produced annual reports each year.

**“Elected Members are aware of the ongoing costs and the Managers need to continue to justify the expenditure.”**

In common with any commercial enterprise a Council has the many of the costs that need to be allocated which are referred to on Page 471 of SAM; such things as provision of IT Services, Payroll Services, Purchasing etc. Local Government has to provide many services to its community that are required by statute but also provides many that are adopted by choice. The real benefit of ABC is in continually reporting the actual costs (the Inputs) of these Activities (Services) so that the Elected Members are aware of the ongoing costs and the Managers need to continue to justify the expenditure. Correctly established ABC allows the reporting of the actual Outcomes achieved by the various Responsible Officers within Activities measured against agreed performance standards.. ABC also provides the mechanism to report the success or otherwise of achieving the Outcome for which the expenditure was originally approved and draws the attention of the Elected Members to the need for them to decide whether or not the originally desired Outcomes were/are being achieved and are still desirable. Examples of Activities required by statute would be Animal Control, Cemetery, Public Toilets whilst those adopted could include Youth Services, Aquatic Centre, Art Gallery etc.

### **A tool for good professional management**

To me ABC is much more a tool for good professional management. Along the way it provides benefits for the allocation of costs as mentioned in SAM Issue 111 and benefits for asset management. To achieve total ABC within an organisation is neither as difficult nor as time consuming in operation as most people think it will be. It simply requires a good understanding of what needs to be achieved and how this can be done and the creation of the necessary processes. I should also point out that there are levels of ABC within any organisation and it is vital for the initial data to be collected in a way that allows its use at all levels. One of the major benefits for Devonport City Council has been the collection of data at the "Job" level for all work done. A Council employing its own outside workforce is really a running a significant jobbing manufacturing business.

I will attach a copy of the file that is the reference instruction for internal use when preparing any of the reports\* I should also mention that the Programs used by Devonport City Council do not follow the Departmental organisation but were rather designed to relate common Activities for external reporting. Examples are Health Program, Leisure Program and Waste Management Program. This means that individual managers are responsible to prepare the detail for Activities that may be reported within any Program.

Bob Boscoe can be reached at  
[RJB@dcc.tas.gov.au](mailto:RJB@dcc.tas.gov.au)

\* **Want to convince your accounting department?** Then show them the “Reference Notes on the Concepts applied to Statutory General Purpose Reports”, that, with the blessing of the current General Manager of the Council, David Sales, have been added to the Virtual Asset Management’s Resource Library at [www.amqi.com](http://www.amqi.com)

# WHAT DO YOU MEAN?

## - 'Facilities Management'

We have all had the experience of finding that words that are perfectly clear to us, mean something entirely different to others. Some address this by setting out 'correct definitions', which you will find in industry standards. The only problem with this approach is that nobody takes any notice of them! This is either because they don't know the standard definitions, or by the time they find them, they have already cemented their use in other ways.

In these circumstances what does the reasonable man (or woman) do? I suggest that they at least be aware of the different interpretations that are in common use.

Thus, asset management can mean— finance and funds management; maintenance management; asset operations; or strategic decision making—depending on your source.

Similarly infrastructure assets can mean—communication networks (pipes and wires); 'buried' i.e. underground assets; or information technology assets—take your pick.

Visitors to our new "Facilities Management Forum" have also thrown up a number of different interpretations of Facilities Management that it is worth while being aware of—and there are also suggestions that a number of definitions of life cycle costing are at the back of some of the comments. So let us have a look at these.

### Four Facilities Management Definitions

**Definition 1** Mike Graver (GHD, Aust) interprets facilities management as the management of the work environment—this includes more than just the buildings and extends to the people within it. This is a popular interpretation of the term in the English literature.

"Facilities Management then becomes all considerations that collectively go towards the efficient, effective and sustainable management and operation of the building set to maximise the quality of the work environment for the people in it, and the ultimate outcome or service they deliver. This perspective means asset management is a subset of facilities management, albeit a very significant subset. Thus the traditional 'core' elements of asset management such as strategic asset planning, life cycle management and decision analysis, maintenance management, operations and operational tactics (outsourcing etc.) are all very relevant. The added dimensions are really a greater understanding of the people issues, operational efficiency, functional suitability. The integration of corporate culture and objectives into space utilisation and fit-out would seem to be one of the most significant issues currently being considered by the industry.

*This definition blends the strategic, tactical and the operational. Although Mike believes that the strategic often seems to be given less than its just consideration.*

**Definition 2.** Antonio Lucindo, GHD Australia, says "I go with the definition of a facility as a physical representation of the mission and/or business objective of an organization. Under this definition an office, industrial plant, road way, buildings, dams, zoo, parks, race tracks, farms, etc., are facilities." In fact it is hard to think of an asset that does not form part of a facility under this definition, since it would logically also extend to pipes and wires., everything except intangibles.

Definitions 1 and 2 are both broad and all encompassing definitions of facility management that lend themselves to consideration of strategic issues. Definitions 3 and 4, however, do not.

**Definition 3** is one that will be seen in many FM conferences and events and is perhaps best described as **“Getting the building operations and maintenance job done”**. This covers running a call centre to respond to tenant/ owner requests and managing maintenance contractors for reactive and planned maintenance, and renewals. It generally refers to buildings (as indicated by the 'tenant/owner' reference). This is usually the interpretation of FM in “FM contracts”, but not always, see below.....

**Definition 4** was brought to my attention by Glen Syred (GHD, NZ) who writes that in New Zealand 'facilities management' sometimes refers to a particular **type of contract** where the contractor takes complete responsibility for a facility (be it a park business unit of a local authority, or even a road network) and manages the operations and maintenance work plus the work of professional service consultants. In this case the consultants do not contract with the client directly but with the contractor. “These are typically long-term contracts 5 to 10 years, I've seen 30 years), where consultants work for the contractor rather than the owner”

## Facilities Management Forum

Led by “Benchmark” and colleagues

The latest in our discussion forums has got away to a flying start, with 20 posts as at last count and over 170 viewings.

Subjects include

- Managing the outsourcing of FM (how far can FM be outsourced, just maintenance or can it extend to management?)
- Life Cycle Costing (when theory extols its benefits, why isn't it being applied more? Should it be compulsory?)
- Since FM is about aligning facilities with business / service delivery needs, how can we define facilities requirements in relation to business requirements?
- **How does a FM gauge what assets in their portfolio are performing well** (supporting business needs), which are performing poorly, and which may require further investigation? What are the performance criteria or measures, such as: are they located in right place, are they big enough, are they fully utilised, are they suitable for their intended purpose, and so on?

**to me this is critical, if we can't do this, can we even speak of an FM discipline?**

And the important question, what are we aiming for?

- **What is excellent FM - measuring progress towards this**  
**So far no-one has risen to the challenge here. Is excellence too tough?**  
**Have your say!**