

Issue 160 February 18, 2005

ASSET MANAGEMENT AID



In this issue I have spoken to half a dozen colleagues with experience in training in asset management in developing countries about the problems of introducing asset management in those countries. See pages 872 to 874. With this as background, how would you see **AM-Aid** develop? (see back page)

Global disaster

The recent tsunami was unprecedented in its extent and has been matched by unprecedented generosity. Now is a time for rebuilding. This is urban renewal on a grand scale! It is an opportunity for good, thoughtful, re-design. However the needs are so great and so urgent and the pressure from donors to see results from their generosity may be so intense that time for planning will be the first casualty. The second casualty may be the wellbeing of future generations – the ones who have to repay the soft loans and pick up the costs of maintaining and renewing the assets now being constructed. Australia has offered one billion dollars in soft loans to Indonesia for reconstruction work. *Does this mean that Australia has a special responsibility to help Indonesia avoid the future damage that unwise spending of such a large amount might cause? In other words, is it...*

**Time for 'Asset Management Aid'?
And if so, how?**

Localised disaster

While an early warning system would not have prevented the tsunami and the physical damage it caused, it might well have saved lives. Emergency planning within our own organisations is designed to do the same. But beyond that, we aim to *prevent* disasters wherever possible. This is the work of our environmental, health and safety legislation. As the legislation is not written for any industry in particular, the 'wherever possible' and 'to the extent possible' needs to be interpreted for given circumstances. This element of 'Understanding the Business Environment' is the topic that Dave Openshaw addresses in the second part of his world-class asset management series on pages 875 to 876

Also see "Does Organisational structure really matter?" on page 877

Enjoy

Penny Burns

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

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

AM in developing countries – from a trainer’s perspective.

To tease out some of the cultural differences I asked a number of people what they would do if they were training immigrants from a developing country for work in asset management here in Australia – and especially how the training would differ if the work was to be carried out in the developing countries for application there. Here we concentrate mostly on the overseas work.

Ami Sudjiman, Strategic Facility Services, provided the very thoughtful article below with reference to Indonesia (but by extension to any developing country), and the illustrative boxes are from the work of Ashay and Arvind Prabhu, ACEAM; Roger Harrop, Appligeo; David Hope, Skilmar Systems; and Marcus Lee, Devonport City Council.

In Australia

For those learning AM in Australia for Australian application, I think I will be teaching them basic concepts of AM and show them the Australian examples and applications. These concepts include:

- definition of public assets, who pays for them, who owns them, who benefits from them and whose responsibilities to manage, operate and maintain them.
- the asset life cycle - plan, design, construct, operate/ manage/ maintain, dispose
- identifying the government agencies responsible for each phase
- definitions of economic life, useful life etc
- the need to plan and budget for maintenance and operations

These concepts will be fairly easy for them to digest when we show them examples in Australia, because they will absorb all as new information.

Things that we take for granted

e.g. the fact that government budgets are public documents – may be quite different from practice overseas. Life cycle as a concept may be quite new. Awareness of these differences and careful provision of lots of examples can deal with this problem.

AS

In Developing Countries

However, the concepts will be difficult for them to digest if they have to impose the concepts onto the Indonesian government administration systems.

They will need to slowly peel off the issues bit by bit, see how these presently are being done in Indonesia, and understand the reasons for doing it this way (historically and conceptually). They may find that some of the concepts will be difficult to directly apply to Indonesia, mainly because they will have trouble finding the way to apply them.

Limitations to ‘bottom up’ adoption of asset management

Where there has not been a culture of asset management and associated accountability and transparency in public funding and actions, the following reaction to an asset management proposal is likely to be ---

What will the end result of this decision be :

- a) in the eyes of my superiors (whose directions or focus may be very self-serving & often quite autocratic)
- b) in the eyes of the Party
- c) in terms of the extra-salary benefits or prestige I might accrue from it (sometimes by putting my Superiors in a favourable light),
- d) will it make any difference to anything?

RH

Trainers need to be appreciative that it is not easy to separate the concept from the application and that trainees in developing countries will be wrestling with both at the same time.

New ideas can be seen as an attack on one's culture

If you are poor, pride may be all that you have. It may be a form of resistance to a perceived attack on one's own worthiness to treat the foreign trainer not as a trainer but as a contractor providing a service. That may be why trainers who do not adopt intercultural dialogue (see below) find that no true learning takes place. This can also exacerbate the continued dependence on foreign assistance, representing yet another attack on national pride, a vicious downward cycle.

PB

Similarities and Differences

Respectful and interested exchange of views and ideas transforms the recipients in the developing nations from passive consumers of western wisdom to critical mediators who determine the appropriate contributions western theory and practice can make to their own contexts.

This dialogue helps us to see similarities and differences. We need to look to the differences to guide what we have to offer, but then look to the similarities to see what our trainees are in a position to receive. Consider the following comment by a Chinese bureaucrat.

"We have our own ideas, philosophies and characteristics. We need to take our culture and context into consideration. However, if we think there are more similarities than differences between our culture and Western culture, we would adopt a more tolerant and open attitude to Western ideas." Wouldn't we want to do the same?

PB

Need for AM is Great

Yet, there are many reasons for Indonesia to have to learn how to manage their public assets better. One is that they need to make sure that assets built/ created using foreign loans are well utilised and maintained to make sure that they produce the anticipated benefits to the community. Not simply the short term, but the long term benefits. Even if the asset was built as a gift from another country, asset management is necessary to get the most out of the assets.

They need to learn to manage their assets to get the most out of the assets because their resources are limited. Yet, because they often feel that they need to show the world that they are capable, they are more keen on constructing 'mega' assets with latest technology, which give them immediate, but short term, recognition of being 'clever', than they are in demonstrating good planning or strategic thinking.

Understanding Social Benefits

Trainers from developed countries may discount some social benefits. For example, the operation and maintenance of many assets may still rely on manual labour that may be considered old technology. However, such manual tasks translate to high employment, or contribute towards high community participation/ involvement and it may be highly desirable to maintain this kind of manual operation. High technology/low manual involvement may present little efficiency where labour is cheap and imported technology is expensive, but beyond this are social benefits such as a more even distribution of income and creation of social cohesion through joint community efforts.

Public Infrastructure Creation may run counter to Social Mores

Traditionally, many Asian communities make decisions impacting on their communities by conducting meetings where the elders of the community are asked for their opinions and guidance before the young ones execute the decisions made during the meetings.

However, when making decisions about public assets, community consultations are often replaced by 'government requirements/ instructions/ directions/ policies', and the community is forced to accept government decisions and wear the consequences or otherwise considered being 'ungrateful' if not being charged with 'creating obstacles to progress initiated by the government'.

Ami Sudjiman

How Fast Things Change

'The pace of change, especially technological change in Japan is amazing. In Japan if I was dealing with assets dependent on technology I would factor in technological change more so than if I was responsible for similar assets in Australia.

ML

'In India we recognise that there are both dotcoms and potholes – *and that is the way it is supposed to be.*'

AP

Despite the rapid growth of technology in India, and its export to the rest of the world, there is still an element of fatalism - the view that nothing can be changed - about much of the population in India. And this applies in many poor and rural regions

PB

Accountability and Transparency is Not Necessarily Welcomed by All

Asset Management tools provide accountability and transparency and that may be rejected by those in power who find it threatening.

In India this may be the upper or ruling classes, the 'classes that matter'.

Cf. 'Sophisticated tools such as asset management can hurt some of the lobby that matters. Indians propensity and skill to argue any project to its peaceful demise is the prerogative of the class that matters.'

AP

In Australia, it can be exactly the same!

History and Culture are Important In Understanding the Trainees' Position

Much of the development in Mongolia has been the result of support from the Soviet Regime – 1921-1991. The country is cash strapped and relies, to some extent, on grants and aid from the international community, because while tax revenues are increasing, they do not yet cover expenditures. The focus to date has been on asset creation, not asset maintenance or renewal

In Mongolia there is a strong focus on herding and nomadic way of life – particularly for males. Females have strong work ethic and take advantage of opportunities for study both within Mongolia and overseas

DH

Asset Lives

Life cycle modelling started with physical lives but we have gradually come to recognise that end of asset life is often signalled long before physical collapse. We speak of manufacturer's recommended lives, design lives, functional lives and obsolescence lives (determined by the availability of spare parts) – but have you considered 'spiritual lives'?

"New Year's decorations in Japan are put up to bring happiness, health and good luck to the household. Unlike Christmas decorations such as the artificial Christmas tree in our culture these are not kept for future years. They are burnt at a Shinto shrine in a special purification ritual to get rid of any bad luck. The same is true of good luck charms. These must be taken to the shrine to be disposed of (ie burnt) in accordance with the proper tradition. New ones must be purchased each year.

I always have difficulty giving up the good luck charm that I have become attached to throughout the year and is still in good physical condition. Even though these assets have plenty of physical useful life left (ie the amulets are made of quality material so they would probably last for 10 to 20 years depending on usage) their "spiritual" life (ie perceived ability to protect us) is only 1 year. The same goes for New Year's decorations - they are only "spiritually" useful for one New Year's season." -

MI

Understanding the Business Environment

By Dave Openshaw, Head of Strategic Network Development, EDF Energy

Part 2: Environmental Health and Safety

Much of the environmental and safety legislation that impacts infrastructure and utility networks has not been written with those networks (or, indeed, any particular asset portfolio) in mind. An asset manager needs to interpret this data for the true impact to be understood.

Potential for harm to the environment

The widely distributed nature of infrastructure and utility networks is such that they have a potentially significant impact upon the environment. For example, in the case of an electricity network, this impact might arise as a consequence of oil leakage from cables and equipment, harmful contaminants in insulating oils, the 'greenhouse' properties of insulating gases, the aesthetic impact of towers and overhead lines, and the disruption of archaeologically important sites, flora and fauna. This means that the costs of complying with legislation and planning constraints can also be potentially very high.

Potential for harm to public and employees

In terms of safety, the network may have the potential to harm both the public and employees. Whilst no network can be designed to eradicate risk entirely, the potential for harm must be minimised in line with legislation and beyond. Most companies will seek to provide a level of safety in excess of that required by legislation, reducing risk to an acceptable level based on the 'ALARP' principle (i.e. - 'as low as reasonably practicable'). To properly assess the relative risk of this element of the business environment it is necessary to understand both the legal duties and the environmental and safety obligations of the asset owner.

What are your duties?

The costs and practicalities of compliance with environmental and safety legislation are not always clear cut.

Small variations in interpretation can lead to huge differences in the costs of management and of implementing change.

A world class asset manager needs to be able to determine the 'correct' interpretation and ensure that while the overall environmental and safety obligations are met, they are met in a way that does not impose an unnecessary financial burden on the asset owner.

The nature of much environmental and safety legislation is such that provided the distribution assets are performing as intended, it is unlikely that regulations will be breached. Yet should, for example, an oil leak occur, it could result in a breach of the law if this causes pollution (say) to a water course. Similarly, a dangerous occurrence could lead to prosecution unless it can be shown that the ALARP assessment and implementation were correct.

Reputation Risk

The risk of such failures needs to be factored into the overall assessment of risk, and this risk assessment should include the potential impact on public image, as well as the potential financial penalties. Indeed, the reputation damage arising from a major incident involving loss of life, serious injury, or even a major environmental incident, may 'cost' the company far more in the long run than any imposed fine.

“No Risk” is an impossibility

To construct the network in a way that would ensure that no such breach could possibly occur would be impracticable, or at least be seen as inefficient investment. So there is no perfect solution, only one that effectively balances the risks.

Risk Taking inevitable but....

Unfortunately, a consequence of ‘risk-taking’ is that should any incident result in a dangerous or environmental incident, it is likely to be regarded as an asset management failure, even if the risk assessment was quite correct and the failure had been properly assessed as unlikely.

Mitigation Plan

Rare events do occur and should not be viewed as a failure of process, yet they invariably will. It follows that an essential part of the overall risk management strategy is to have a mitigation or recovery plan. So, for example, to mitigate the impact of a serious oil spillage, suitable ‘clean-up’ equipment should be available, and procedures well-rehearsed. Similarly, in the event that a dangerous occurrence does occur, there should be a well-defined process (for example the imposition of operational or access restrictions) that can take immediate effect.

If asset managers can demonstrate the robustness of the risk assessment, and the effectiveness of risk mitigation / recovery measures, they may avoid the policy knee-jerk reaction that can all too often follow a major incident.

Consider Changes in the Environment

Understanding safety and environmental concerns also means understanding how changes in the environment might impact on the operation of network assets. An example is climate change; will storms and/or flooding become more frequent? Meteorologists suggest that this is indeed likely to be the case in some parts of the UK. If so, then our accepted electrical network design principles may

need to be reviewed in order to mitigate the resulting impact on safety and environmental performance. Questions like this become particularly important when assets become due for replacement, because this is a unique, once in an (asset) lifetime, opportunity to do something different.

Current practice

Some effort is put into understanding the implications of safety and environmental legislation, and indeed many organisations are demonstrating a voluntary commitment over and above purely legislative requirements. As asset managers, our influence over legislation is traditionally reactive rather than proactive, and we are not generally regarded as leaders in either our influence over, or management of, safety and environmental legislation.

Learning points

The relative importance of public image is a key factor in this element of the business environment. Whilst most companies will go beyond that required by legislation, the question is how far to go and at what cost? The risks need to be made explicit so that if things go wrong it can be demonstrated that the risks were properly assessed and the proper processes and procedures followed to minimise that risk within reason.

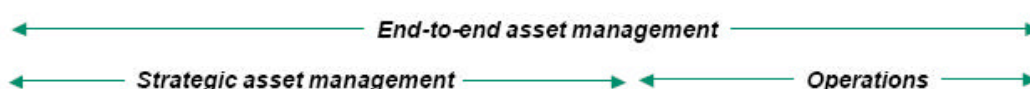
In Part One, Dave looked at the importance of financial factors in understanding the business environment—see “Strategic Asset Management” Issue 150, pp 869-870

In Part Three (in our next issue) Dave will look at the important issue of regulatory and statutory requirements.

Is Organisational Structure Really so Important?

Irrespective of the organisational shape and orientation, the logical sequence that is asset management remains the same

Much time has been wasted in trying to define what was "asset management" and what was not. It is perhaps more helpful to recognise the logical sequence and focus processes and organisations on operational excellence in each of these different areas.



Data, Information & Knowledge Management	
Strategic Risk Management	Operational Risk Management
<ul style="list-style-type: none"> • Long-term asset development • Capture of legislative requirements • Maximise opportunities • Overall asset performance review and investment prioritisation 	<ul style="list-style-type: none"> • Robust implementation of policy • Vigilant safety management • Effective information capture • Highly skilled workforce

Which, if you are searching for best practice asset management, raises the questions

- Are complex planning processes necessary?
- To what extent does organisational structure matter?
- What basic capabilities should we concentrate on developing?
- How can business objectives be linked through asset strategy to delivery in an explicit, meaningful and robust manner?

Adapted from a presentation by Mark Nicholson, CE Electric, UK "Return on Investment: Maximising profitability through best practice asset management" presented at the IQPC Infrastructure Exchange, September 2004.

ASSET MANAGEMENT AID

A Global Strategic Issue

What would be some of the ways that we in the asset management community could propose that would help developing countries climb out of the cycle of dependence on foreign aid and establish confident, sustainable futures for their communities?

Here are two starter suggestions

1. Require, at a minimum, training in maintenance and maintenance management be part of any World Bank, AusAid or similar funding package for new capital assets or infrastructure. (If we were to make the main construction contractor liable for the training and to be required to fix up, at their own cost, any infrastructure fault occurring during the next ten years that could be shown to be the result of insufficient training, that might have a sizeable impact on local abilities.)
2. As part of its aid program, Australia could offer a government to government information exchange program in asset management aimed at Ministers and CEOs – on the understanding that asset management needs to start at the top.

What would you add?
info@amqi.com

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