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RETHINKING BENCHMARKING

Myths we live by - “If you can’t measure it, you can’t manage it!”

Do you know what makes you happy? Watching your team win? A cold beer on a hot day? Most of us know what we can do to improve our general happiness quotient – *yet how many of us can measure it?*

Customer satisfaction is a bit like that. We can get indications of whether the situation is better or worse but precise measurement is not possible.

By forcing ourselves into the ‘measure and manage’ framework of thinking, is there a tendency to leave out all the very relevant indications that are difficult to quantify? And a tendency, conversely to make decisions only on things that can be measured, even if they are not the most important?.

See “Liars figure and Figures Lie” Page 1019

The Business Case Process

Being no longer functional is not necessarily a case for renewal just as increasing demand is not necessarily a case for increased supply.

See “The Business Case Process” on page 1017

“What’s the Big Idea?” - This week, we look at “The Tipping Point” by Malcolm Gladwell and ask its relevance to AM. See page 1021

Analysing the Future. This week we look at how we analyze the Future: a continuation of the consideration of Assumptions in the last issue. Page 1022

As always—Enjoy! (A happy Asset Manager is a productive Asset Manager?)

Penny

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1. Writing, Designing, Managing the Consultancy Project

Guidance for the 'first-up' client consultancy manager

Knowledge Needed—

If you have had experience in managing consultancies from the client side and would be prepared to contribute your knowledge to review one or more of these Briefing Notes, please write to me at nut@acorninc.org listing the topics that you can cover.

We would also welcome Consultants' Input.

All Contributors Will Be Acknowledged.

Whereas Consultancy Firms usually have an induction process to introduce their new recruits to the company's procedures on the consulting side, there is often not much to guide the Asset Manager who is conducting his or her first project. Moreover, anecdotal evidence suggests that those 'who have gone before' often do not pass on what they have learnt. Hence the need for some industry guidance.

"The Business Case: The Process" opposite is the outline for a short "Briefing Note"; one of seven planned for the ACORN Inc Website, to help client project officers through their first consultancy project.

Yet to be considered is what the final business case might look like and when a business case is needed.

The Seven Briefing Notes in this Series are:

1. Preparing The Business Case
2. Writing The Brief
3. The Brief is Written, the Ad Placed, Now what?
4. Choosing Your Consultant
5. Organising Your Consultant's First Day on the Job
6. Managing Your Consultancy Contract

2. Ashley-Perry Statistical Axioms

Drawn from Colonel G. O. Ashley's "A Declaration of Independence from the Statistical Method," *Air University Review*, March/April 1964, and interpreted by R. L. Perry of the RAND Corp. *RS*.)

Very much worth noting!

These were contributed by Leo Gohier, whose article "Liars Figure and Figures Lie" can be found on pp 1019-20

- ® Numbers are tools, not rules.
- ® Numbers are symbols for things; the number and the thing are not the same.
- ® Skill in manipulating numbers is a talent, not evidence of divine guidance.
- ® Like other occult techniques of divination, the statistical method has a private jargon deliberately contrived to obscure its methods from non-practitioners.
- ® The product of an arithmetical computation is the answer to an equation; it is not the solution to a problem.
- ® Arithmetical proofs of theorems that do not have arithmetical bases prove nothing.

BRIEFING NOTE: DEVELOPING THE BUSINESS CASE.

ACORN INC.

*This is a 'work in progress' - what's missing? What could be better expressed?
Feel free to copy this page, add your comments and fax to 08 8281 5795*

1. Define the project:
 - a. Provide an overview of the problem/issue that we are trying to solve;
 - i. What is the impact or scope of the problem?
 - ii. Who does it affect?

2. What are we trying to achieve? (Outcomes)
 - a. What do we HAVE to do (are there any statutory requirements that we must meet? Eg Health and Safety, Regulatory compliance, etc)
 - b. Who are the key stakeholders and what do they WANT us to achieve:
 - i. Are there customer or client specified service standards:
 - ii. Are there other drivers (eg system security)
 - c. What WILL we do (What do we have the CAPACITY to achieve?)

3. What is the Approval Process:
 - a. Who are the key decision makers?
 - b. Does this have an impact on how we 'frame' the Business Case? (eg highly technical or non-technical; do we highlight political outcomes? Etc)
 - c. Decide what to include in the analysis and agree on an assessment framework (eg How relevant/important is the financial assessment relative to environmental, social, political or other risk considerations?)

4. What options have been considered
 - a. What may happen if we "Do Nothing"?
 - b. Options Analysis:
 - i. Clearly Scope the project (and alternatives)
 - ii. Are there any "Non-asset" solutions? (Different Operational strategies, Consultation, Demand Management etc)
 - iii. Which options appear to deliver the nominated outcomes?
 - c. Provide a description of the Proposed Solution(s)

5. Identify any constraints
 - i. Physical limitations (eg if we upgraded this asset, would the rest of the network be able to cope?)
 - ii. Policy constraints (is this a project that we should be undertaking? Is it consistent with the Business or Corporate Plan?)
 - iii. Human Resources (What do we have the skills to deliver?)
 - iv. IT and Systems (can our systems assist in delivery of this project?)
 - v. Financial resources (have we the financial capability to deliver the Outcomes? If not, maybe our service standards need review)
 - vi. Corporate consistency (how does this relate to our Vision, Mission, Management Initiatives, current strategies etc)

6. Overview of the Assessment:

- a. Is this a COMMERCIAL or NON- COMMERCIAL proposal?
 - i. Non Commercial projects may be assessed using a more qualitative assessment of benefit (eg Risk, Community Benefit, etc)
- b. Assess the Financial Impact:
 - i. What are the Capital Costs of the referred option(s)(i.e. quantify the initial and periodic capital investments required)
 - ii. What are the likely Ongoing Costs (Operations, Maintenance, materials etc)
 - iii. Nominate an appropriate Discount Rate
 - iv. Undertake a NPV Analysis
 - v. Briefly summarise the key assumptions and possible variance in NPV outcomes from changes in the inputs
- c. Environmental Impact:
 - i. Outline (both qualitatively and quantitatively) the environmental impact of the main options
- d. Social Impact:
 - i. Outline the Impact (both qualitatively and quantitatively) on the community (eg service standards, complaints, etc)
- e. Assessment of other Risks:
 - i. What could be the potential impact from a legal, political perspective or in terms of organisation reputation
 - f. How do the options(s) stack up against the nominated assessment framework?

7. Project Prioritisation:

- a. How does this project "stack up" against:
 - i. Other similar initiatives within the group; and/or
 - ii. Other initiatives of the business as a whole (i.e. is this the most important project for the unit or for the whole business?)

8. Overview of Project Delivery:

- a. What are we going to do and when;
- b. What is the cash flow like?
- c. What are the alternatives (eg different Modes of Delivery eg In house vs. contracted delivery; Different options for fully contracted delivery such as BOOT, DBO etc; lease vs buy etc)

9. Summary and recommendations:

10. List of References:

- a. Where did we get the information that we used to make the decision (really important when it comes to undertaking project reviews)

Liars Figure and Figures Lie

Leo Gohier

Formerly Head, Water & Wastewater Division, Hamilton, Ontario, Canada

Can you really Compare?

- number of accounts
- population served
- total length of watermain
- number of water sources
- type and quality of sources
- treatment processes
- average per capita consumption
- who operates facilities
- average age of distribution system
- storage facilities
- debt levels
- level of strategic planning
- distribution of clients/ consumption
- one-tier or two-tier system
- service provided (retail/ wholesale)
- percent of accounts that are metered
- peak/average water demand
- who maintains hydrants
- topography
- percent of revenue from other sources
- how are capital costs funded
- how are growth-related capital costs funded
- cost of source water quality protection programs included in operation and maintenance costs
- climate
- soil conditions
- corporate overhead costs
- level of maintenance
- level of capital works
- operating policies

What is Benchmarking?

There are many definitions of benchmarking. A more common one would be:

The systematic process of comparing, measuring, and analyzing the products, services, or processes of an organization against current best practices of other (preferably world-class) organizations in order to attain superior performance. It is undertaken in cooperation with others, in support of implementing change. It is multi-dimensional in nature: internal, external, and functional.

In plain English, benchmarking is a structured approach to creating and driving change into an organization. This is a particularly difficult challenge for government for the following reasons:

- No Single Focus: A municipal corporation must deal with everything from soft to hard services.
- The organizational structure is generally not set up in accountable and independent business units.
- Support departments generally focus on corporate policies and consistency rather than delivery of a specific service.
- Accounting practices are not standardized which makes comparisons difficult.
- Intermingling of tax and rate-supported programs.
- Frequent changes (every three years) to the political structure.
- Benchmarking, when properly planned and implemented, can clearly be a significant step towards addressing these problems

It is debatable whether you can really compare the public sector to the private sector, but even comparing the public sector to the public sector is a challenge. Some of the variables in delivering drinking water that have been identified to date in a benchmarking exercise in Ontario, as well as additional variables, are listed in the sidebar.

Liars Figure and Figures Lie

Leo Gohier

Formerly Head, Water & Wastewater Division, Hamilton, Ontario, Canada

How to Successfully Benchmark:

At the outset, you must determine what you expect from benchmarking and why. To be successful, the following five questions must be answered at the end of a benchmarking exercise:

- ® Where are we?
- ® Where are the others?
- ® Where do we want to go/where do we not want to go?
- ® Why would we want to go there/why don't we want to go there?
- ® How do we get there?

In other words, you must consider *your community's* wants, needs, and differences.

"A good benchmarking exercise should be 90 percent procedural and 10 percent metrics. Unfortunately, it's usually the other way around."

As you can see, you must be very careful to document and validate your facts first, as well as those statistics from others, before embarking on the number-crunching game, if you are really going to compare "apples-to-apples". A good benchmarking exercise should be 90 percent procedural and 10 percent metrics. Unfortunately, it's usually the other way around.

Conclusions:

You are probably convinced at this time that I am generally against benchmarking or any other type of comparative exercise. Nothing could be further from the truth. I am a strong supporter of public-private partnerships, and have managed municipal water and wastewater facilities for over 15 years with a blend of municipal staff and private contractors. There is no question that we must be committed to delivering municipal services to our community in the most cost-effective manner. However, a water utility is not a shoe factory, and there is no "simple" approach to measuring productivity.

Another point is that cost is only one factor in establishing a sustainable community, the others being social/health issues, and the protection of the environment. I believe any community has the fundamental right, and even the duty, to decide what services it wants and who it wants to deliver those services. After that, Best Management Practices should be adopted. We must, however, remain cognizant of the fact that "Liars figure and figures lie".

I also believe that any benchmarking process must keep the community as a whole in mind, and must not jeopardize the overall sustainability of delivering high quality drinking water in perpetuity.

What's the Big Idea?

General Ideas— with application to Asset Management

"The Tipping Point"
Malcolm Gladwell
Abacus, 2002

Successful ideas and products and messages and behaviours spread just like viruses do, says Malcolm Gladwell. How can you use his ideas to promote your asset management messages?

It is all a matter of having the right messengers, making the message 'stick' and then spread.

The Law of the Few (The Messengers)

The Stickiness Factor (How to make your message stick)

The Power of Context (What does it relate to?)

(1) The Law of the Few (The Messengers).

Gladwell argues that it takes only a few people—with certain characteristics—to 'sell' a message. Here is what you should be looking for in your AM team .

Connectors: people who *know people*. - well enough to know their skills, abilities and passions! Mavens – people who are obsessed with 'knowing things' - and sharing their knowledge with others, not to persuade, rather to educate. Salesmen – these people have boundless energy, enthusiasm, charm, likeability.

(2) The Stickiness Factor - What makes a message 'stick'?

Repetition - Yes, apparently it is true - say it often enough and people will believe it!
Involvement - Try to avoid your listeners being merely passive recipients of information, the more involved they are, the more the message will stick. (Workshops better than 'Presentations')
Messages lose impact if they are surrounded by lots of other messages. This is important.

Don't expect your message to stick if all you do is put it in the staff newsletter. It also suggests that you plan carefully what goes up to the Board along with your AM proposal!

(3) The Power of Context

Where you tell them may be as important as what you tell them! (This may account for why the messages of Strategic Asset Management are well received by attendees at a two-day workshop (where the context is so positive and there are few negative distractors) but effectively discarded when they return to the work environment. *How can we get these messages to stick when they are back on the job?* Does your message conflict with other contextual messages?

The Power of Groups If the rest of the group is positive, any individual is also likely to be. But it was found that about 150 was the maximum effective size for ongoing interaction.

If you have applied these ideas, or have ideas on how they may be applied —please share them with us.

ANALYZING THE FUTURE

How do you deal with the future?

This is an area that, as asset managers, we have not much explored, but as we become responsible for advising management on the future shape of infrastructure—what to acquire, what to keep, what to get rid of; and how to manage what we keep—perhaps this is where our efforts should be going?

In many ways I would suggest that our thinking is back in the dark ages - in the time before the enlightenment; a time when we believed that our future was a matter of fate which had already been determined and would be revealed to us in due course.

Look at the ways in which we try to deal with the future. Last week I considered some of the methods we use. I looked at some of the tools we used, for example,

High Forecast/Low Forecast Planning

Trend Impact Analysis

Cross Impact Analysis

Delphi Method for bringing different opinions into alignment.

The significant characteristic of all of these tools is that they aim at removing uncertainty. It is as if there were but one possible future and our task is to discover it.

Living with Uncertainty

I would suggest that a more productive approach could be to learn to live with uncertainty – it is going to be around for a long time and the pace of change, as we all know, is hotting up.

How can we do this? The Shell Company is famous for its very detailed and wide ranging future scenarios. Few can afford to emulate Shell. But everyone can take on board the key to what makes scenario analysis so successful for Shell. Which is simply “Being there” Shell’s scenario planning works because decision makers think their way through possible future scenarios and how they would react to them – before they have to do it for real. In other words they get involved!

Compare what most of us do. – Risk Management.

- Risk Management attempts to put measures of cost and probability on a wide variety of risks; risks are ranked and procedures put in place to deal with them; the final matrix is presented to decision makers for approval
- This is very mechanistic. It does not have major impact on senior decision makers because it, does not engage their imagination.

What could we do instead? - Future Proofing our Strategies

We could submit our strategies to the test of how they would stand up under a wide variety of possible future scenarios – and choose the strategy that fared the best. The more different functions and skill levels involved in this analysis the better - from the factory floor to the General Manager.

Local and State Planning

In Shell, this line of thinking has now led to consideration of shaping their own desired futures—Could our Local and State Development Planning which is designed at shaping our futures, benefit from a more explicit and comprehensive testing of assumptions