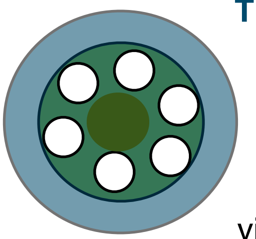
AMQ INTERNATIONAL
STRATEGIC ASSET MANAGEMENT

In the beginning is the Vision

Asset Management Strategy
Part Two: The Outer Circle



The outer Circle. You don't have to be the CEO or the Chairman of the Board to influence decision making in the outer circle, where the vision and the direction setting goals of the organisation lie.

To illustrate this consider one of the most compelling visions in recent times: President Kennedy's decision to put a man on the moon.

It was a great Vision, it had everything:

- it was concrete, everyone could picture it.
- it was compelling, everyone could understand the reasons for it
- the costs were recognised upfront and committed
- and the stakes were high, it was a race that would be played out in the full glare of public knowledge, and it would require the commitment of every individual if the USA were to win . It involved everyone.

Not only is it a great Vision, it is a great model. The ideas and information that fuelled this Vision came from the troops - the many scientists and managers in NASA and related authorities.

You, too, can influence your organisation if you want to. It's just a matter of understanding what the issues are and seeing the possibilities. See over!

Consider and enjoy!
Penny

Editor: Dr Penny Burns, ***AMQ International***
PO Box 75 Salisbury South Australia 5108
Telephone 61 (0) 8 8359 0559
Email: amqi@amqi.com Website www.amqi.com

I asked myself: who put the idea for the moonflight into Kennedy's head? This led me to William Duggan and his book *"Strategic Intuition"* which is very relevant to decisions made in the outer circle. In this book Duggan argues that **nurturing the instinct to see and seize opportunity** will always trump conventional notions of strategic planning for business and personal success.

This is pragmatism and he argues that Kennedy was a pragmatist. To illustrate, he takes the question posed by economist Richard Nelson "If you can put a man on the moon why can't you solve the social needs of the ghetto?" and says, that, in order to answer this question, we really need to ask another question, which is "Did the idea for landing a man on the moon arise from an ambitious dream, or was it yet another case of strategic intuition" (ie pragmatism) And this brings us back to my question of the antecedents of Kennedy's Vision. According to Duggan:

"Before Kennedy became president, NASA already had a plan to land on the moon, and the Saturn rocket was the means to get there. The German rocket scientist Werner von Braun developed the Saturn, starting in 1957. The plan to reach the moon advanced in the Eisenhower years. In January 1961, two weeks before Kennedy's inauguration, George Low led a NASA team to lay out the steps in detail: one astronaut for a short earth orbit in 1961, three astronauts for longer orbits in 1965, three astronauts for a moon orbit in 1967 and a moon landing in 1968 - 1971. ... A few days after the hearings, Kennedy wrote a memo to his vice president, Lyndon Johnnson, asking this:

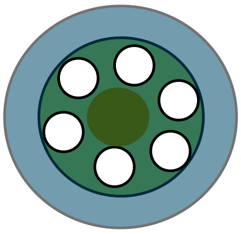
1. Do we have a chance to beat the Soviets by putting a laboratory in space, or by a trip around the moon, or by a rocket to land on the moon, or by a rocket to go to the moon and back with a man? Is there any other space program which promises dramatic results in which we could win?
2. How much additional would it cost?
3. Are we working 24 hours a day on existing programs? If not, why not? If not, will you make recommendations to me as to how work can be speeded up?

In the end, Kennedy decided to go for the moon landing. *He was clearly on a pragmatic search for the best combination of existing elements, especially the Saturn rocket."*

"Strategic Intuition" by William Duggan was published by Columbia University Press, Columbia Business School, 2007. This excerpt is from the Business School's publication Hermes, Winter 2008

The point is: We all have the ability to provide the ideas and information on which great Visions are built.

In other words, decisions in the Outer Circle - whatever your role - can be influenced by your ideas and your knowledge.



So: Are you nurturing the ability to see and seize opportunity? This puts you in a position to exert positive influence in the outer circle of strategic decision making.

At this level there are two critical elements: VISION and VALUES

VISION

What is happening in the outside world that will impact your organisation in the future? What does it want to achieve (and what benefits will there be for all stakeholders if it succeeds?) How far forward is it looking? What constraints must it overcome or live with in achieving this vision? What strategies will it employ?

These are the 'vision' decisions that need to be made here in the 'outer circle', made - *and clearly communicated throughout your organisation.*

VALUES

What will you *not* do, no matter what? These are your organisational values. Values always have a cost. Everybody needs to know what they are and your organisation has to be prepared to pay them.

A successful Vision Statement will capture the imagination both through the audacity of its vision and for the quality of its values.

Back to Kennedy:

In May 1961, just four months after his inauguration, President Kennedy asked Congress to 'commit itself to achieving the goal, before this decade is out, of landing a man on the moon and returning him safely to the earth' This is often considered the boldest of visions. And it is. But it was more than that - it was a complete vision.

- Kennedy **motivated the vision** - the wonder of conquering space; competition in the cold war (remember Sputnik had been launched in 1957); future benefits for mankind.
- He put **a time limit** on it. (Unusual for being both long run yet urgent)
- He faced up to the **major constraint** - the massive funding that would be required, and he committed the funds.
- He recognised that a manned mission would require many unmanned missions to precede it - and he funded those as well. **These were the goals that supported the vision.**
- He set a challenge. There was no guarantee they would be first. He recognised that. It was a race. But there were things they would not do - the survival of the astronaut was paramount. And things they would do - all the flights were to be made in public! **These were his VALUES** - the importance of human life and the democratic believe in everybody's right to know.

And he demonstrated his commitment.

"let it be clear that I am asking the Congress and the country to accept a firm commitment to a new course of action - a course that will last for many years and carry very heavy costs: 531 million dollars in fiscal '62 -- an estimated seven to nine billion dollars additional over the next five years. *If we are to go only half way, or reduce our sights in the face of difficulty, in my judgement it would be better not to go at all."*

Kennedy's vision had it all - it was concrete, compelling, committed and challenging

A model for any organisation's vision! Nor was he blind to the innovativeness of the approach; *"We have never specified long-range goals on an urgent time schedule, or managed our resources and our time so as to insure their fulfilment."*

OK, you won't want to plant a man on the moon. BUT, you will have competition, you will have challenges and you will have a need to see what the future **might** hold (what things are happening out there that are not under your control), and what the future **could** hold (those things you can do something about). Let's examine these.

What the Future *might* hold

Whilst the future is unknown, it is never a complete surprise. When we look back, we realise that the indicators were there - if only we had “nurtured the ability to see”.

The most common reason for ‘not seeing’ is that the organisational structure and organisational culture does not reward an inquiring attitude. In fact the opposite is often the case.

Consider the following illustration.

For many years the state power company had operated on the basis of building a new power station every two years. So predictable was this that the company’s organisational structure was based on it. The design team spent two years designing the new station and when that was handed over to the construction team, it started on a new one. Two factors contributed to the success of this approach - rapid population growth and rapid technological change. The first generated the demand; the second resulted in each new generation of power stations being larger, more fuel efficient, and particularly, more labour efficient, than the one before so that only a new design and a new plant was a viable option.

Inevitably the time came when both population and technology growth slowed. The slowdown in population growth meant that the cycle of expansion needed to be extended beyond the customary two years. And the slowdown in technology meant that rehabilitation, previously not an efficient option, became by far the cheapest means of meeting demand.

Asset growth in this organisation was driven by a computer model that the CEO ruefully admitted no-one in the organisation except the modeller understood. Actually the model had grown so complex over the years that it transpired even the modeller was no longer able to explain what input factors were really driving the model’s outputs and he did not question the model’s logic

What can be learnt from this illustration?

- The organisational structure meant that individuals gained benefit from a continuance of the status quo. It was a comfortable, well-worn path and required little thinking. *There was no customer focus*.

- When the predictive model required the next plant to be decommissioned as a base load station in half the normal time, alarm bells should have gone off. They should have asked what was in the model that caused this output. But they didn't. *The organisational structure - reliance on a computer model that no-one understood - conditioned them not to look, and therefore not 'to see'.* Yet the signs were there! The state of technological development and growth was no secret.
- This company had a very narrow 'outer circle' - its field of vision was a mere two years at the most with the assumption that the next two years would be the same as the past. It took outside intervention, a parliamentary inquiry and change of Minister to force broader consideration.
- Shortly after the event described, the electricity industry was commercialised and regulated. The company did not see this coming. Yet commercialisation was happening in other industries and it was well discussed. *It would have featured in even an elementary approach to* ***scenario planning****. This is a strategic planning tool that all asset managers should master - if only at the level of understanding and appreciation. (We will look more closely at strategic decision making tools in a future issue.)*

We must make sure that we understand as much as possible about the issues that face our organisation.

When we understand, we are in a position to 'see' and to 'seize' the opportunities that present themselves.

What should we be looking at now?

Graham Holland recently pointed out (SAM 264 and 265) that asset management has been developed over the past 20 years, which has mostly been a time of stability and growth, when the answer to a problem was to devote more of our increasing wealth to it. We are now facing a period of instability and low, even negative, growth. If asset management was important in a time of stability, it is absolutely critical now we are facing instability. However, the techniques, approaches, and attitudes we adopted in a time of growth have now to be rethought. Many asset management units have seen their task largely, if not purely, in terms of securing more funds for maintenance and renewal. Because organisational incomes have been growing, it has not been immediately obvious that what they gain is at the expense of others. And mostly, this has not been uppermost in the minds of asset management petitioners. Now, however, with negative growth, or at the best, stability, any extra resources for asset management will clearly be at the expense of others - other sections in the organisation, other expenditures by customers, other grant recipients.

Refer back to SAM 264 and 265 for a description of the key understandings of 'things out there" that asset managers must get their heads around today.

The future need is to be smarter - more strategic! This means adopting techniques that help us to explore the consequences and the possibilities of an uncertain future. But it also means having consistent values throughout the organisation so that decisions made in one section do not run counter to those made in another. The necessity for organisational values to be compelling and well communicated, has never been greater.

Values

Many organisations claim that they have values, but their actions belie their words. Values have a cost: if you are not prepared to pay a price for your values, then you do not have them. You may think this a moral question rather than a strategic one, but values matter. And in unstable times, they matter even more. They are needed to ensure consistent decision making throughout the organisation, no matter who is making the decision. They are needed to manage company morale in times of difficulty. They are needed to clarify the direction the organisation wants to adopt. And they are needed to manage the organisation's reputation.

When times are tough, organisations and individuals are tempted to cut corners. It is important that everybody in your organisation knows what is acceptable and what is not.

Reputation Capital

When things go wrong in a capital-intensive industry, nine times out of ten, it is because of something that has happened to, with, or by the assets. But it is ten times out of ten that you will need the support of others to repair the damage. And by this I mean not only the physical damage, but the social and environmental damage and the damage to your reputation. When things go wrong, there is a drain on your "Reputation Capital" – unless its starting balance is high, even minor problems can create a situation from which you may not be able to recover. Major corporations know this and they have entire departments devoted to protecting their brand or image.

When you have a good reputation, people will trust that you are doing the right thing even if they don't understand it; you will be given the benefit of any doubt. With a good reputation you can ask people for advice, help, or input and they will gladly give it; money, too, is not only easier to obtain, but cheaper since you are not seen as much of a risk. Others will gladly work with you. Your achievements are applauded.

With a poor reputation, however, you find that you need to justify your actions continually, people 'take you the wrong way' and suspect that you are doing something underhanded even if you are not. It is difficult to get anyone to put the time in to assisting you or to give you advice; mostly they just don't want to be associated with you. Funds are difficult to come by, and expensive because you pay a hefty risk premium. People are not lining up to work with you. Your achievements are viewed with suspicion.

And what is true of individuals is true of organisations.

You benefit from a good organisation reputation. This is very important for asset management because the ‘right thing’ is often not the most popular thing; the timing of key works has to take place before it is obvious to everyone that they are really needed; the support of your customers and other stake-holders is critical to what you can do and what co-operation you get; and when costs need to be incurred long before benefits are realised, funding relies very much on trust. Your organisation’s reputation is thus critical to what you can do. **And what you do is critical to your organisations reputation.**

Checklist for Vision and Values:

Leaders in reputation risk management have put the following components at the heart of their approach:

- a clear vision: 'what we stand for and are prepared to be held responsible for';
- clear values, supported by a code of conduct, setting out expected standards of behaviour;
- policies clearly stating performance expectations and 'risk tolerance' in key areas;
- understanding of stake-holders' expectations, information requirements and perceptions of the organisation;
- an open, trusting, supportive culture;
- a robust and dynamic risk management system which provides early warning of developing issues;
- organisational learning leading to corrective action where necessary;
- reward and recognition systems which support organisational goals and values;
- extension of vision and values to major partners and suppliers;
- open and honest communications tailored to meet the needs of specific stake-holders.

Conspicuous by its Absence in this issue - DATA

We will deal with data requirements more fully in a later issue. But it is important to notice that the detail of the asset information system is **not** what is needed for decisions in the outer circle. Kennedy needed to know the broad scale of the costs of sending a man to the moon - but he did not need to know what was in the asset register! (And the issue of life cycle costing never arose!) There is a place for everything. And we will deal with this later.