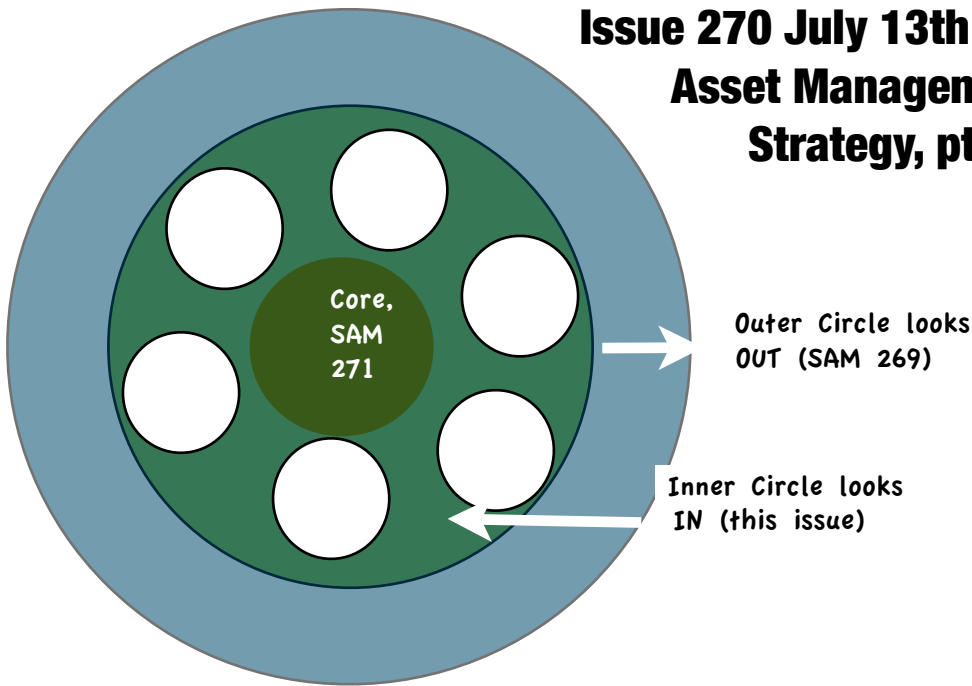


Issue 270 July 13th 2009 Asset Management Strategy, pt 3



This is part 3 of our 4 part series on Asset Management Strategy. So - time for a recap:

Asset Management Strategy is concerned with decision making; *corporate level* decision making. (Overview in SAM 268) Conceptually this can be thought of as three concentric circles.

The **Outer Circle**, where the organisation connects with the world around it, decisions focus OUTWARDS - to customers' needs, regulators' requirements, and the impact of the future. (SAM 269) The critical dimension of the outer circle is its *breadth* - how far we look to the future, how much of our stakeholders' needs do we capture?

In this issue we consider the **Inner Circle**, where decisions focus INWARDS. It deals with such questions as "What is the appropriate organisational structure for us, given our goals and objectives and the environment we are in?" "How do we ensure each section communicates and co-operates with the others?" "How do we encourage our key players to look beyond their own immediate needs to the future and to the corporate good?" The critical dimension here is *balance*. Each part of the organisation is necessary to the whole. It is damaging to the organisation if one section gets 'too big for its boots' and acts as if it is the 'main player' to the disregard of others.

Finally, at the centre is the **Core** which we consider in the next issue.

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Editorial: What Organisational Structure is Appropriate for you?

In this issue we look at a range of organisational structures, recognising that different structures may be appropriate at different times.

The critical dimension of *balance* is, however, appropriate to all structures.

This comes out very clearly in Clive Deadman's contribution on pp 6-8. Clive has been researching the organisational structures adopted by Utilities and his comments relate specifically to Utilities. His book is to be published in a few month's time. We will let you know when and how you can get it.

Local Government asset managers will notice that demands on utilities are rather different in terms of strategic asset management requirements. For one thing, the Outer Circle of Utilities is largely determined by regulators who, in effect, set their goals and objectives for them. Utilities are required to meet the demands of pricing regulators, O&HS regulators, and environmental regulators. This means that the strategic decisions that need to be made at the outer circle level by Corporate Executive are somewhat less.

Conversely, the pressure on Utilities at the Inner Circle level is much higher. Utility assets are large, very complex, and 'failure is not an option'! Service reliability is paramount for electricity, gas, water, wastewater, transport and telecommunications,

This makes Clive's contribution to our discussion on organisational structure so very valuable. Of particular value will be his reminder of the RACI approach to role clarification. I know that many of you are struggling with clarity in role definitions and the identification of who is Accountable, who Responsible, who must be Consulted and who must be Informed will help avoid the confusion and conflict so often present.

But choosing an organisational structure is only the beginning, not the end of the game. Now you have to make it work. And that means creating an effective AM culture. Committing to a series of statements such as those provided on page 5 by Ken Harlow of Brown and Caldwell, would be a great start - but in your own words, please!

And as always,
Do consider and enjoy!
And comments always welcome.

Penny

What is the right structure for asset management?

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

A rail 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.

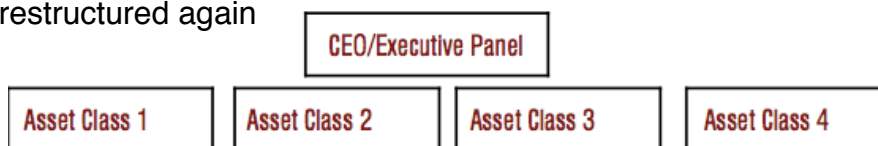


But the company believed that it had become large and unwieldy and its organisational structure did not allow it to respond rapidly to the changing nature of its market. So it restructured, this time based on service-focused divisions.



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 standardisation in certain asset classes which caused inefficiencies in procurement, inventory and life-cycle maintenance.

So it restructured again



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!

After enthusiasm for change management and re-engineering in which organisations were restructured every few years, we are now starting to question the damage this has done and to query whether it was ever necessary, mindless change being no better than mindless stability.

Many structures have worked for some organisations some of the time but no one structure is right for all and for all time. See “*What organisation best suits Asset Management*”, SAM 110; “*The Challenges of a Risk Based Asset Management Organisation*” SAM 155.

What are the characteristics of a Good Asset Management Organisation?

A more interesting question is “What are the characteristics of a good Asset Management Organisation”. This was a subject hotly debated by leading asset managers some years ago, see “*Are you a Good Asset Management Organisation? How do you know?*” (SAM 145 from which the abbreviated checklist by Ken Harlow is excerpted on the next page.

A good asset management organisation integrates both effective decision making and efficient actions. Efficiency reduces costs, effectiveness increases value. Most of the effort, and most of the asset management tools and techniques have been directed at efficiency gains. However, there is a limit to the extent that costs can be reduced, shown by the boundaries around the white trapezoids in fig. 4 reflecting efficiency gains between and within divisions (be they asset, service or functional divisions). At a maximum, and then only at the expense of ceasing to exist, costs can be reduced by no more than 100%. The value gains from increased effectiveness, however, are conceptually boundless - there is NO limit to the gains that can be made from more effective asset management strategy. There is thus potentially great future gains to be made from developing tools and techniques for asset management strategy. This is illustrated in the figure here.

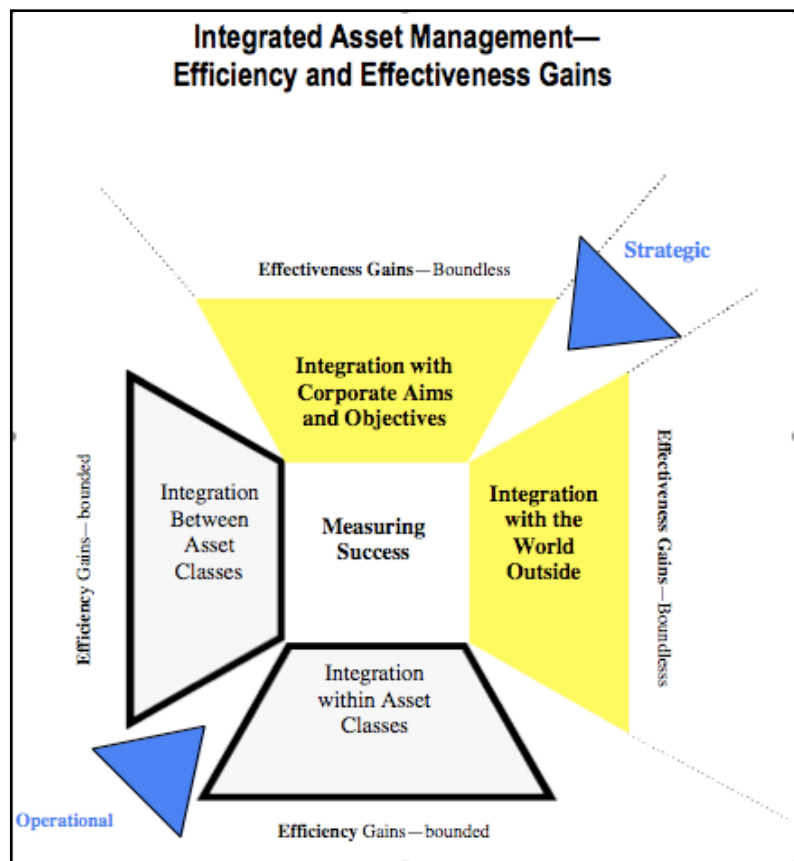


Fig. Integrated Asset Management - Efficiency and Effectiveness Gains

Characteristics of a Good AM Organisation - Ken Harlow, Brown & Caldwell

Attitude: We are dedicated to understanding our customers' expectations and providing levels of service that they find of value.

Policy: Our Board provides leadership by setting clear service level policies and by funding our operations to meet these service levels while assuring the long-term sustainability of our infrastructure. Our Board requires full life cycle analysis to support major asset expenditures and zero-based budgeting for normal operations. We support our Board through superior knowledge of the costs and associated risks of all asset decisions required to achieve mandated service levels.

Asset Management Program: Our management shares a common vision of asset management and communicates it clearly with staff. Management strives to understand our customers' perception of our services on a value basis and communicates its understanding with the Board so that it can formulate sound service level policies.

By sharing whole of life asset management across our organization, we have broken down the barriers among functional units. Asset management is reflected in our organization by defined roles and responsibilities. Quality is ensured because all of our key business processes arise from planning, and our performance against plans is measured and the plans constantly improved. Our Strategic Asset Management Plan, governing business process planning, is integrated into our corporate business planning and is subject to the same improvement cycle.

We know the benefits we expect from AM and we measure the benefits achieved along with their costs. We measure our performance against planned service levels and costs at high levels (visible to customers and regulators) and at lower levels (supporting performance indicators).

Asset Management Support: We know our assets. More importantly, we know what it is we need to know, and we strive for better asset knowledge in all areas where it makes business sense. We know our risk exposure and our costs of ownership now and into the future.

Asset Development: We are extremely cautious in capital spending because we know that new facilities impact our capital and O&M budgets on a continuing basis. Decisions to move ahead, modify, defer, or cancel projects are based primarily on economics including risk costs. When we do move ahead with a project, we consider all legal means of procurement. We involve O&M personnel early on in design to assure a maintainable and operable facility.

Asset Operations and Maintenance:

We maintain our assets for appropriate reliability. We know which assets must not be allowed to fail as well as the reliability requirements for all other assets. We monitor asset condition or use predictive maintenance wherever it makes economic sense. We record all O&M activities in a carefully structured way along with the costs of those activities.

We provide service as if we were the customer. We spend our customers' money as if it were our own.

Clive Deadman:

The Role of Organisational Structure in Modern Asset Management

Thirty years ago most utilities and infrastructure assets were successfully managed by controlling their inputs, through measures such as annual budget and investment target setting and head count control. Indeed at the time when the environment in which utilities operated was stable and resources were plentiful these approaches were practical. Public ownership, which was the norm at the time, ensured strong public ownership over strategy and values.

However as regulatory and customer aspirations have grown, and access to capital has become more limited and higher efficiency and effectiveness demands are placed on modern utilities new organisational designs for our larger utilities are becoming increasingly important. Organisational design is only one of a series of factors utilities need to consider when designing and implementing a high performance utility. However it is a very visible, tangible and emotive subject. It affects individual's role and authority

There are a number of different and valid organisational choices which Utilities may make, with the type of utility, the size of the capital enhancement programme, the maturity of the asset base, and the stage of the regulatory cycle all being factors for consideration. All these factors determine the relative size and influence of different teams from time to time in the corporate utility. However the art of Utility leaders is to broker an understanding over accountability and co-operation with other key departments, such as Finance, Operations, Regulation and Construction. This is more easily done if certain organisational principles are considered from the outset. In this article I should like to discuss the following four issues:

1. Clarity
2. Scale
3. Hierarchies
4. Team working

Each of these four subjects is briefly discussed below.

1 Clarity

In larger utility and infrastructure organisations there are often a number of work teams. Common groupings of tasks are:

Finance:	Financial compliance for the whole corporation
Regulation:	Defining the regulatory contract
Asset Management:	Translating the regulatory contract into high level programmes of work
Construction:	Building and Maintaining Assets
Operations:	Operating the assets

Defining the scope of each or these roles and ensuring organisational clarity is critical. In doing so the use of principles and tools is helpful. For example for strategic matters deciding Regulation can take a lead as an outwork looking function, and Asset Management as an inward focused department can be very helpful. Work can then progress on tools and processes to manage work, and **RACI** (see below) workshops are helpful for teasing out interfaces:

A: Accountable:	This role cannot be delegated, the buck stops here
R: Responsible:	Responsibility can be delegated by the Accountable person to the responsible person.
C: Consult:	This person should be consulted when decisions are made
I: Informed:	This person should be informed.

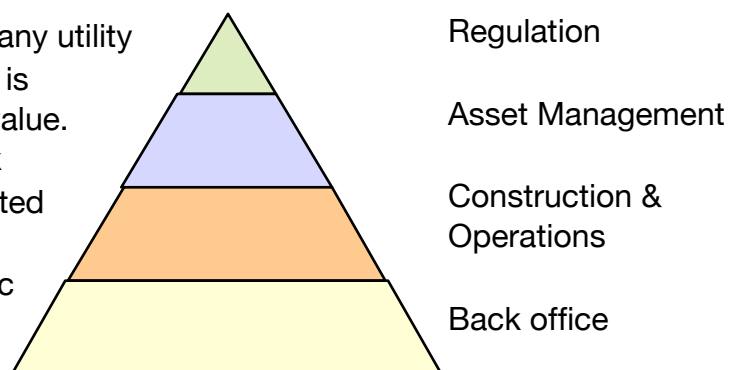
By pinning down accountabilities and responsibilities to work group leaders high level clarity can be generated, and more detailed clarity can then be sought.

2 Scale

Scale and size of departments and work groups is highly emotive. In addition sizes of groups flexes with time, and maturity of regulatory contracts and sophistication of tools used. In the absence of organisational clarity and good Team working growth of department size can be a precursor to growth of departmental responsibility. This can be highly destructive.

3 Hierarchies

Hierarchies are important as any utility or infrastructure organisation is managing a chain of added value. For example the teams, work groups of department illustrated below are undertaking work which has a different strategic content.



Defending the principles of hierarchy is important to ensure organisational effectiveness and efficiency. For example if a construction team can dilute asset standards it may focus attention on de-scoping work rather than driving incremental levels of efficiency (which is tough and demanding task to achieve).

However hierarchies must never imply 'Operations work for Asset Management'. Avoidance of the 'Master' and 'Slave' ethos is critical.

4 Team Working

Team working is the most important organisational enabler and is almost always a stated leadership objective of organisations however in reality it is always only achieved with varying success. It requires a great deal of work and tools and systems must also be in place to ensure difficult issues can be discussed using facts and information. An over reliance on opinion and feelings increases the risk of 'bush fire' disputes.

Conclusions

There are many organisational structures which can be made to work and indeed with perseverance almost any structure can be made to fail. However the principles of Clarity, Scale, Hierarchy and Team working are critical. However the is a conundrum, Few companies have an asset management system which is 'too good'. On the other hand the boards of most utilities need more visibility of risk and value. In between these two extremes of capability and ambition many asset management initiatives fail due to lack if stamina, leadership and support. How can we need so much, want so much and struggle to deliver so little? The truth is delivery of new ways of working is difficult.

Extract from the book 'Strategic Asset Management', by Clive Deadman which is due to be published in September 2009.

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You can also find out more about Clive and his work at his book's website: <http://www.1905investments.co.uk/>