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New Book on Asset Management

“Asset Management: Whole-life management of physical assets” is edited by Chris Lloyd, and published by Thomas Telford Ltd, London, 2010. (full details on last page) This is the first book to deal with asset management with the emphasis firmly on

the role of asset management in supporting the business and the first to take a genuine multi-disciplinary approach.

I do not make this claim lightly. If you wish to do as I did and spend 3-4 hours on Amazon.com and Google.books.com, you will find that all asset management books to date have been either technical maintenance works, works on facilities management or IT, or books devoted to a single asset class such as highways or water. This book is much to be welcomed for it recognises that asset management, as a management discipline, has now arrived.

In this issue, Chris Lloyd gives you a flavour of the variety to be found here. There is also a short excerpt from Chris Lloyd’s own chapter on ‘Assuring the competence of asset management staff’, a subject of increasing interest to all of us, since, as Chris points out, we are all ‘accidental asset managers’. Few of us have probably chosen our present calling. It is much more likely that asset management has chosen us. Developing as fast as it has, how could it have been otherwise? But it does mean that to a very large extent we may be unprepared for the important responsibilities we must now assume.

I am pleased to be associated with this book and hope that you will buy it, read it, and learn from it.

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Whole life management of physical assets

Until recently, the term *asset management* was most commonly associated with financial asset management. Financial asset management is concerned with managing and guiding investments for increased returns that are conceived of purely in financial terms. Physical asset management is similarly concerned with returns on investment but it focuses on the whole life of capital assets and calculates value in terms of the optimum trade off that can be achieved between social, environmental and economic objectives.

Asset management is a strategic discipline which gives rigour and accountability to the way organisations decide:

- How, where and in what to invest.
- What assets are most critical.
- What risks need to be managed.
- What demands must be served.
- What needs to be known.
- How this knowledge should be captured and disseminated.
- How organisations should be structured and led.
- What types and teams of people they need.
- How activities should be carried out.
- How actual performance should be measured.
- What improvements are needed.

Asset management involves bringing these and many other decisions into a coherent framework to ensure their outputs serve organisational goals.

A new way of thinking

Imagine

you are the MD of a business that spends ninety per cent of everything it spends on creating, maintaining, renewing and disposing of its assets and makes profits only when those assets are in service. Regulators are holding your prices down, energy costs are fluctuating wildly and politicians are pressuring you to reduce your carbon footprint. Shareholders don't like your investment strategy but regulators and customers are demanding it.

Judging

by the way your organisation is structured and the day-to-day pre-occupations of your managers, you wouldn't think any of this was happening. Departments are working in silos and conniving against each other, annual planning cycles dominate the internal fight for funds and performance targets are pegged to short term targets. Not surprisingly, it's getting harder and harder to explain the thinking behind the decisions you and your fellow Directors are making. Your managers know this, they understand why, but the credibility gap between what the company says it stands for and how they have to behave is wearing them down. Key people are leaving and new ones are hard to bring on line.

Why not reorganise?

Your organisation has been doing that for years. How about refocusing the strategy? The long term Corporate Vision and Strategy has been under development for years. What about some fresh blood? The last lot didn't stay fresh for long. You could create an internal communications team but you know that's only a temporary dressing.

There is some good news

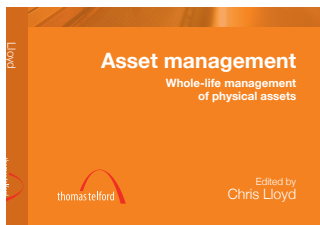
Most of the elements needed for a successful turn-around are already in place. You have good people, most of the processes and procedures that would be expected of an organisation working to good standards are in place, customers are sticking around and your research team is saying you are in the upper quartile for economic and effective service. **The bad news** is that processes might look good on paper but they don't join up, more is spent on compliance than improvement, you don't know what condition most of your assets are in and your people don't believe you when you say things can change. It's a vicious circle. Events are running the business. There is a lack of confidence in people's planning abilities. The organisation is becoming increasingly reactive. Some of your directors are wearing rose-coloured spectacles – they don't know the asset portfolio and they don't know the asset policies. The quality of upward reporting is poor. This is creating lots of spaces that some of your managers are hiding in.

Does this sound familiar?

Asset management offers a way out of these problems but it is not an instant solution.

It gives you a way of achieving your business goals but only if you define them first - no business is in business just to become good at asset management. It can help you integrate your management and information systems, technical resources and human capabilities in focused, long term pursuit of your objectives but only if you are clear what these objectives are and understand their implications. In this respect, asset management is not a new discipline so much as a new amalgamation of old disciplines galvanised around whole life principles of cost, risk and sustainable performance.

The purpose of this book



This book is for people new to the subject of asset management who want to get to grips with its principles, characteristics and benefits. It contains a compendium of short, thought-provoking pieces contributed by leading practitioners and thinkers in the field.

The chapters of this book deal in different ways with the practicalities of asset management such as investment decisions, whole life costing, demand forecasting, strategy and planning, risk based maintenance and the management of change. The authors bring their different perspectives to bear on the application of a common conception of asset management as a strategic, whole-life, risk-based, enterprise-wide, multi-disciplinary, game-raising endeavour. They trace its evolution, take stock of current best practices, review the benefits and consider future directions. They have written research and practice based articles covering all the key dimensions of asset management. The book is, therefore, a unique starting point for readers new to asset management or with new asset management responsibilities, for students of asset management and their teachers. The multidisciplinary character of the book also gives managers and executives a coherent introduction to how asset management principles can provide an organising approach for their businesses.

Four themes recur throughout this book:

Sustainability

Organisation

Measurement

Change Management

Sustainability

This means different things to different stakeholders, so how do businesses, government, regulators and the general public ensure that assets are fit for the next generation? How can resources be allocated efficiently and fairly between competing short and long term commercial, and social and environmental interests? How do you get key players in the boardroom or in government to think beyond their own tenure? How do you make sure knowledge and understanding aren't lost when functions or activities are outsourced or people leave?

The rationale for the widespread adoption of asset management is based on the related factors of reduced operational and capital expenditures and the standardisation of processes and competences. The arguments for this rationale are made from financial, social and environmental standpoints throughout this book.

Driving the demand for asset management are the forces of competition – between individual organisations and whole industries, between today's consumers and tomorrow's, between short term and long term priorities, between output and sustainability, between shareholder and wider stake-holder expectations.

Finding a response to global warming is another major imperative on organisations to get their asset management strategies right.

Organisation

For most organisations, the adoption of asset management will mean developing mechanisms to enhance, encourage and facilitate co-ordination between previously distinct functions. For example, the relationships between the information an organisation needs for whole life costing purposes, the knowledge standards it sets and the data it collects need to be seamless. Fragmentation of roles and responsibilities and rival subcultures are known to be significant barriers to the successful practice of asset management. In particular, they can affect the efficiency with which the individual components of an asset management system interact.

So, what does a good asset management organisation look like? Where do you start? How do you incentivise and control change? How do you balance innovation and risk and who decides this? How do you get line-of-sight between the asset management policy and strategy and the functions and activities their success depends upon?

Measurement

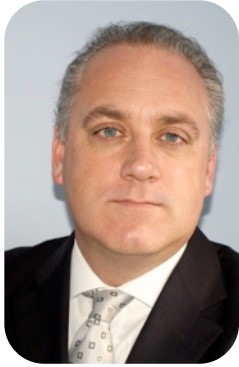
Best practices emerge from a few organisations and are standardised for adoption by the many. Over time they become custom and practice in whole sectors and this enables less advanced organisations to compare themselves with their peers and use the results to plan the next stage of their development. So, how do we measure good asset management? How can businesses be challenged to move beyond compliance? How do you define the level of process maturity your organisation requires?

Standards may be set in a number of ways – by an unchallenged innovator, through contestation, by industry consensus or by state imposition. They are validated in the marketplace by the demand for the products and services that embody them. PAS 55 is the specification for the optimised management of physical assets that was developed by the Institute of Asset Management on behalf of the British Standards Institution. Work is now underway to turn PAS 55 into a full-blown ISO standard. But this book recognises the need to look beyond PAS 55 Compliance.

“We need to look beyond compliance”

Change management

Successful organisations get the relationships right between opportunity, strategy and structure and they manage to keep these relationships strong in the face of external changes and uncertainties. This is especially difficult when an organisation faces sudden shocks to its system after a lengthy period of stability. Is asset management evolutionary or revolutionary? How widespread are its implications? Can it help organisations deal with uncertainty and future changes better? We identify the major activities that need to be aligned and integrated in an asset management system. Few organisations will come to asset management without a history so change management has a big part to play in how successfully they will be able to adopt and apply its principles.



Assuring Asset Management Competency in Your Organisation

by Chris Lloyd

“People with all sorts of backgrounds find themselves working in asset management. Some of them because other people, usually more senior than them, have decided they should be, others because they want to and a good few because their job titles or reporting lines have been changed.”

What makes a good asset manager?

During a workshop at the 2009 Institute of Asset Management Annual Members’ Conference, delegates were discussing career paths and priorities for qualifications. **Some felt that the focus should be on developing engineers because they believe technical knowledge is essential to effective asset management.** In response, a senior manager from Tube Lines, which is responsible for maintaining and upgrading parts of the London Underground, said that his best Asset Planner had a music degree and that what was needed was not detailed technical or engineering knowledge of specific asset types so much as the ability to assimilate it well enough to make or facilitate good, risk based business decisions.

More often than not, differences of opinion like these arise when the people involved use the term asset management but mean different things. In particular, there are disagreements over where asset management starts and ends. Some organisations think it ends with the calculation of work volumes and design of work programmes, others think it includes front line maintenance and operations.

These tensions are symptomatic of the position most asset management organisations find themselves in, staffed with accidental asset managers and faced with the task of turning them into a coherent workforce and establishing asset management as a positive career choice.

Competence

Here, competence is defined as the ability to perform tasks consistently to the expected standard. There is an important distinction to be made between have the *potential* to perform and *the ability to perform to the expected standard consistently*. Individuals, teams or organisations can be described as competent when they can work *consistently* to the expected levels of performance, however these are defined. Expectations change over time, sometimes radically. This means that competence deteriorates over time if it is not actively maintained.

Performing competently

There are a number of reasons why people, teams and/or organisations who should perform competently, do not. Their commitment and the conditions they are working under are just as influential. There are lots of reasons why people regarded as competent in certain aspects of asset management might not perform well, for example:

- People and teams which ought to have complementary capabilities may clash because they belong to different subcultures or take different positions on priorities. Charles Johnson discusses the reasons for this in his chapter, Asset Management Culture.
- Asset information and data may not be good enough to support asset management planning or whole life cost justifications. Or it may be good enough but the people charged with collecting it and making it available might have other priorities. Or the people charged with providing it may not trust other colleagues to use it properly.
- An organisation launches an asset management strategy, adjusts its balanced scorecard measures to fit this but does not think to bring its performance review process in line. Or it may end up adding more performance objectives to an already lengthy list which makes it difficult to evidence or resource actions.
- An Executive team places too much faith in the management cascade to carry its asset management vision through the organisation. The goals they have set will be compromised until roles and responsibilities are clarified and competence requirements and individual objectives are aligned.

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