

# STRATEGIC # 317 ASSET MANAGEMENT

May 30 2011

Greetings! Our issue this week has a strong 'improvement' focus. Here is what we are looking at:

**2-3. From the Coffee Shop:** On being an "Expert": Penny wins the MESA Medal. (And do you know when the life cycle starts and finishes - watch this video)

*Keywords: Asset Management Council, ICOMS, life cycle*

**4-6. Effective KPIs:** Three simple things you can do - select your focus, make it graphic, keep it visible. *Keywords: Performance indicators, BP, Energy Australia, waste management, maintenance*

**7-8 Effective Communication - KISS:** are we falling victim to 'the workshop' effect? by **Marcus Lee**. *Keywords: weasel words, Don Watson*

**9-10 The 'Volcano Method' of Asset Management** - is it a viable anti-dote to the over-building, under-maintaining syndrome in infrastructure management? by **Dean Taylor** *Keywords: maintenance, renewal, politics*

**11 Over to YOU:** what are your reactions, thoughts, concerns, brilliant ideas?

Do consider and enjoy!  
Penny

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**From the Coffee Shop**

## **On Being an “Expert”**

It always comes as a bit of a shock to an Australian to hear an American describe himself confidently, yet modestly, as an ‘expert’. In Australia, we are generally loathe to make such claims about ourselves. It is alright if someone else makes this claim on our behalf, we just hesitate to do it for ourselves.

So it is with a mixture of embarrassment and pride that I acknowledge the honour bestowed on me last week by the Asset Management Council when I became the 8th winner of the MESA medal for excellence in asset management.

In announcing the award at the 2011 ICOMS dinner, Jim Kennedy, a past MESA medal winner himself and a major force in the establishment of the Asset Management Council, said

The prestigious MESA medal is bestowed in recognition of long and meaningful support for the discipline and practice of Asset Management.

The medal has been received by seven people since its inception in 1996. While many are no longer with us the medal represents the ongoing recognition of their significant contribution.

Our medal recipient this evening has spent almost 30 years in innovating, researching and writing in the field of Strategic Asset Management. They are widely known for their support of an evolving Asset Management discipline and their spreading the “gospel” for almost two decades both in published bulletins and a dedicated website.

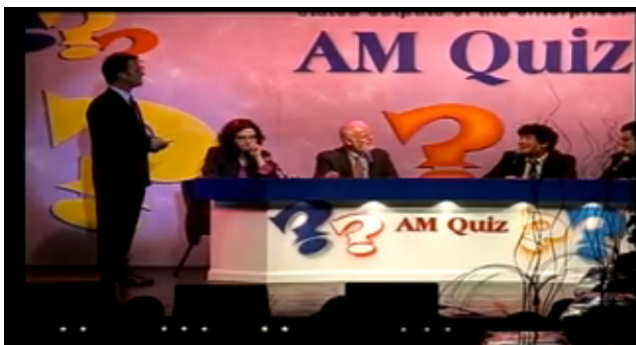
In support of a vision of a better world benefitting from good asset management, the recipient has participated as a keynote speaker in numerous conferences and representative bodies devoted to improving how we define the need for and achieve, built systems that provide all humanity with a civilized and sustainable existence. To this end the recipient has been a long time friend of the Maintenance Engineering Society of Australia and its successor the Asset Management Council.

In particular, the recipient has been particularly influential in the development of the Asset Management Council's ethos and purpose. Her paper at ICOMS 96 in Melbourne introduced the maintenance community to a need for improved conversations between accountants and engineers. This paper has been followed by many more which have influenced how we think about whole of life management and in particular how we make decisions on what built systems we should embark on.

The Asset Management Council is proud to present the MESA medal to Dr Penny Burns.

**The Asset Management Council** continues to move from strength to strength. To find out more about what it does - and what you can do with it - <http://www.amcouncil.com.au/>

Do you know the answers to the following questions? **When does the life cycle begin and when does it end? What is an Asset? and What is Management?** Experience some of the fun of an ICOMS dinner in this short video. Invest a few minutes in laughter!



<http://www.youtube.com/watch?v=TF-oXCmqJ4M&feature=related>

## THREE SIMPLE THINGS YOU CAN DO TO ACHIEVE

### EFFECTIVE KPIs:

1. **Select your focus;**
2. **Make it graphic,**
3. **Keep it visible.**



### More is not necessarily better

It is very easy to get caught up in the 'measure to manage' culture and assume that the more KPIs you have the better. But this is not so. When you have - as many do - about a dozen or more KPIs, the focus becomes one of ensuring that the KPI measures look good - rather than that the performance is good. In other words you end up managing the KPIs, rather than managing your performance. (A good example of this is the case of the white goods manufacturer who refused to implement a simple measure that would have reduced overall cost, improved reliability, and increased staff health and amenity - because it would have adversely affected individual sections' KPIs. See Issue 39 in the Archives)

### You can only answer to one master

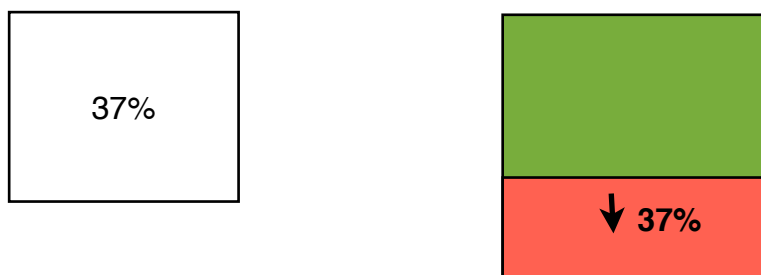
The problem of having many KPIs is that the more you have, the more potential conflicts you set up. In a recent exercise for a waste management company, I noted that the company had set up KPIs for waste converted to energy as well as for waste recycled. They also had KPIs for waste sent to landfill, with and without biogas treatment. All of these potentially conflicted. A KPI of 'maximising value from waste' would have recognised that recycling was better than energy conversion and that energy conversion was better than landfill, etc. And that simple priority ranking would have led to a clearer focus.

### **The first principle of Effective KPIs is FOCUS**

Years ago I was doing some AM work for BP Australia. BP had a very clear understanding of its KPI. It had one - the BP share price. This was kept in the forefront of everyone's mind since it ran as a ticker tape in real time in the lifts, across the top of the doors into the lunch room and in the board room. It was simple, graphic, always visible.

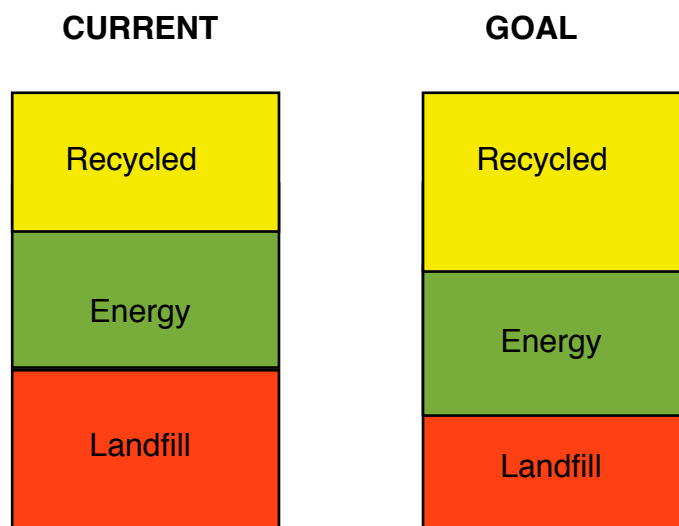
## The second principal of Effective KPIs is 'Make it Graphic'

The BP share price was an easy concept to grasp and make graphic (especially as just about everybody in the company had shares in the company). The waste company could have adopted a simple focus of reducing the amount of waste going to landfill (this was in fact one of its goals). This could be expressed simply as a percentage figure. But which of the following presentations is more effective?



The Graphic shows (a) what has already been achieved, (b) what has yet to be achieved and (c) the aspiration (i.e. to reduce the 37%).

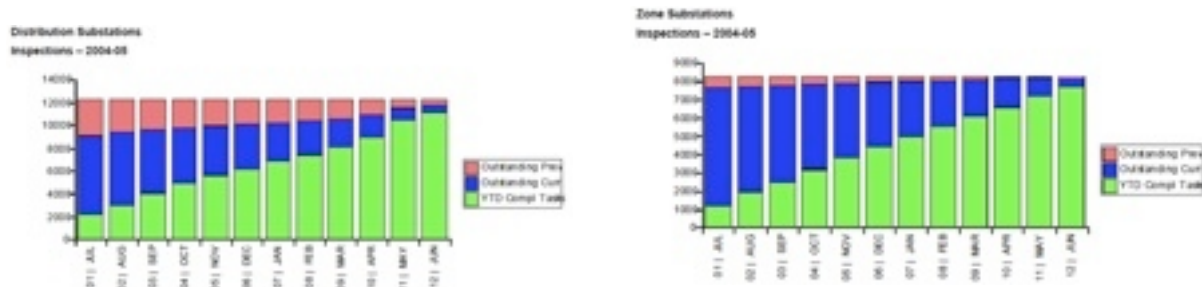
Adopting the more complex goal of 'maximising value from waste' in which priorities are recognised can also lend itself to a graphic, perhaps something along the lines of.....



In the last issue of SAM we looked at how an unthinking application of the 80:20 rule to maintenance in Energy Australia had left the company vulnerable, as the 20% undone tended to be the same ‘hard to get at’ items each year. They could see that they needed to change the culture.

Key to that change was a simple graphic showing the number of maintenance items outstanding from the previous year that had still not been attended to this year. Even reduced to thumbnails as I have done here, the story is still crystal clear. There is no difficulty in telling which chart tells a better story about maintenance improvement and achievement. You don’t have to be able to read the legend even, the colours tell the story.

**Instantly understandable.** That is the benefit of simple graphics, they are instantly understandable. (I stress here ‘simple’ graphics)



**The third principal of Effective KPIs is to ‘Keep it visible’.**

**BP** did that excellently well. As I travelled in the lifts and ate in the lunchroom, I noticed that everyone, on entering, would first look at the latest figures shown in the tickertape.

**Energy Australia** created a dashboard version of their graphic that applied to each individual work group .

How might the Waste Management Company keep their KPIs visible?

**Are you aware of the current status of every KPI that refers to you?**

Probably not. If all that happens for your KPIs is that they get reported once a year to the Board there is little motivational force. So here are the 3 Key Questions for KPIs:

1. What is your key objective = focus = KPI?
2. How can you create a simple and powerful graphic to convey present performance to all those who need to make it happen?
3. How can you keep it visible for this group?

## Effective Communication

### - KISS:

Are we falling victim to 'the workshop' effect?

Is your core message getting lost?

In the days in which I was an associate editor for the Journal of Economic Behaviour and Organisation, it was easy to recognise a paper that had been 'workshopped' - these papers would have lengthy descriptions, asides, or footnotes that discussed every possible objection, alternative or variation. It then became part of the editor's job to cull the extraneous material so that the core message of the paper was not lost.



**Today, when much of what we do is done in teams, there is a tendency to want to appease all points of view and include all suggestions. This results in work that is difficult to read, difficult to understand and impossible to remember.**

I thought about this when I was re-reading a short passage I received from my guitar playing friend, Marcus Lee, Devonport City Council, a few years ago. It is worth thinking about.

**From Marcus Lee**

"According to the Sydney Morning Herald (October 9, 2009) "the world is full of people only too delighted to call a spade a laterally-constructed earth-reassignment implement that delivers key diggable strategies across all domestical gardening operations and excavational green-field sites in important industry streamings to ensure proper holing, careful foilaging induction and subsequent replacementing of surplus dirtings to enable customers and stakeholders in growing the horticulture on a seasonal-focused basis during the current trimester."

You can find out more about Don Watson's passion to get us back on track using plain English on <http://www.weaselwords.com.au/>.

After I heard Watson's interview I began to wonder whether some people in the field of Asset Management are making the discipline more complicated than it should be.

Here's an example from the *Australian Infrastructure Financial Management Guidelines* (IPWEA 2009, page xi):

### **Net Present Value (NPV)**

The value to the organisation of the cash flows associated with an asset, liability, activity or event calculated using a discount rate to reflect the time value of money. It is the net amount of discounted total cash inflows after deducting the value of the discounted total cash outflows arising from eg the continued use and subsequent disposal of the asset after deducting the value of the discounted total cash outflows.

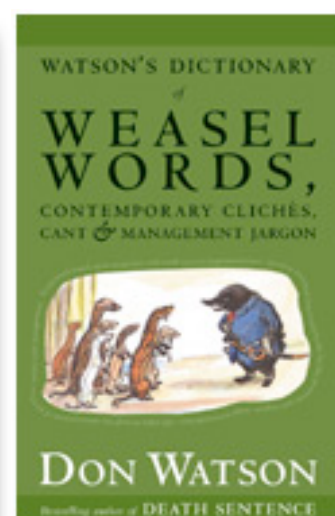
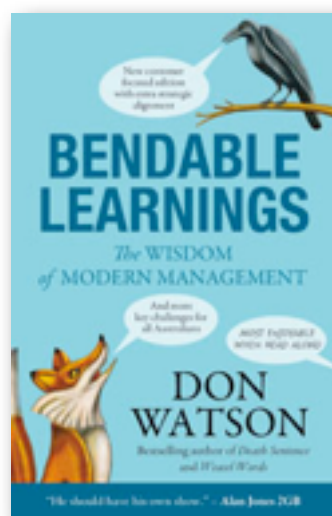
The definition for the term "Net Financial Liabilities" on the same page is similarly perplexing. I won't quote it here as it will make this email too wordy.

**Complicated definitions and overly technical reports tend to make the lay person put Asset Management in the "too hard" basket.**

Why is it so hard to find simple, easy to understand information on Asset Management?"

Asset Management has come a long way but moving forward perhaps we need to refocus on our target audience to ensure that it lives a healthy, sustainable life."

Ed: Perhaps a well-thumbed copy of Don Watson's work on "Weasel Words" and "Bendable Learnings" should be on every Asset Manager's bookshelf?





## **Dean Taylor's "Volcano Method" of Asset Management**

Last week the Grimsvötn Volcano erupted over Iceland, causing asset management hazards for aircraft flying into the dust clouds, so this may be an opportune time to introduce Dean Taylor's suggestion - the 'Volcano Method' of asset management which he supplied in response to Issue 315, "A Devil of a Problem" where I argued that we were over-building and under- maintaining.

### **Dean Taylor, Opus International (In response to "A Devil of a problem" SAM Issue 315)**

Not enough maintenance/renewal funding to sustain previous capex expenditures!

A problem that could be solved by not capexing ourselves to death in the first place. rather than trying extract ever increasing amount of money from reluctant taxpayers. A good idea! But is it real? Can we, or should we, try to suppress the natural urge to create as opposed to maintain. How about a different way of looking at 'the problem'.

My desk is usually messy. So it was a great comfort to read, some years ago, of the 'Volcano method' of desk management, which promotes the idea that the important pieces of paper are piled high near the middle. The lesser value pieces slope away to the edge where the zero value ones fall off and are removed by the cleaner. Low cost, efficient, effective.

Maybe the somewhat random way that asset renewal is underfunded in favour of new capital projects is, in fact, an effective method of looking forward to what current and future customers of the asset-based service are looking for. Maintenance, on the other hand, is merely looking backwards, blindly spending today's money on yesterday's aspiration. Maybe tipping the balance of expenditure in favour of capital keeps the

service on the front foot, looking to the future, progressively shifting it away from the past. Maybe we (almost subconsciously) under- fund what is less important to us, and what's wrong with that?

I wonder whether the asset managers' push for more maintenance and renewal funding is motivated by a bureaucratic desire to systemise the AM cycle rather than sustain it. We equate maintenance of our assets with sustainability, but underfunding them to an early grave may actually be a better plan. We struggle because we can't close the financial loop of initial investment, maintenance regimes and eventual replacement at the end of a predicted life. We assume the problem is the decisions made by those above us. But there are a number of assumptions in this which need challenging.

Maybe our political leaders are more in tune with optimising assets and services than we realise. If a goal is to approximate the market where customers choose to buy services from efficient providers, then our plan to control expenditures are somewhat misplaced. In the free world people can choose to buy computers and not books anytime they like. The industry responds and adapts – quickly, if it wants to survive. It looks forward, it has to. It is wary of continuing to reinvest in old thinking, systems, and assets. Its return comes only from future revenues, and that only comes from future services that customers want. Who is to say in the public sector that, on balance, the decision makers have got it wrong? They will likely tell us that they are responding to their constituency who, apparently, value new stuff more than old stuff. Is it that we can't convince them otherwise because their case is not actually strong enough?

Possibly the 'risk' of asset failure is not as big as we have argued. Are the high profile disasters representative of the full picture? I doubt it. My observation is that there are probably as many cases of over maintenance as the reverse. They don't get the same publicity, but asset managers should know of them and be doing something about encouraging the redirection of scarce funds to more deserving activity. Any why doesn't that happen? Could it have more to do with self-interest and not much to do with sound AM?

Possibly in our fervour to improve the policy and practice of AM we have discarded some valuable elements of the 'pre AM' era that operated more randomly but more intuitively, more responsively to the stakeholder environment. There has always been a healthy dose of 'we know best' in the AM community. Maybe we should temper our cynicism of those that govern, and make investment decisions, and put a little more focus on understanding the reasons why good infrastructure decisions in the past have, in fact, resulted in the development of many successful, functioning communities. We might find some gems, and some of them might have been, well, just capital!

## **OVER TO YOU!**



**Is there something in this issue that stirs a response in you? I hope so! And if so, why not join Marcus Lee, Dean Taylor and other creative, passionate asset managers who share their ideas in SAM.**

**Does the 'Volcano Method' seem like a good idea to you? Then say so. Wouldn't / Doesn't work? Then say so.**

**Do you have effective KPIs? effective Graphics? Why not share them?**

**Something that you have done recently that you reckon is worth sharing? Do it! Don't wait until you meet me at a conference to tell me, tell me now.**

And my thanks to all of you who send me interesting articles, excerpts from the paper, etc. I really appreciate it. But please tell me what **YOU** think is so interesting/ annoying/ right or wrong about what you are sending me.