AMQ International's

STRATEGIC # 323 ASSET MANAGEMENT

STUCK IN A TIME WARP!

In issue 320 Joel Leonard argued our entrenched attitudes are wrong. We now live in a knowledge economy. This means that we have built an incredible amount of knowledge into the assets we use every day. This saves a great deal on operations costs but - *and this is the really big but* - **it takes more effort to maintain these more technologically complex assets.**

However, instead of allocating the necessary resources to this task, we are stuck in a time warp. We still think that "operations = productive workforce = good (to be maximised) and maintenance, management and research = overheads = bad (to be minimised)"

Attitudes, unfortunately, change only very slowly. UNLESS, we take steps to change the ACTIONS that can accelerate attitude change. We can see this in the use of plastic bags. If we waited for environmentally friendly attitudes to generally develop, we would still be waiting, but now that plastic bag use is outlawed, we have come to think of it as bad. In other words, changing our actions is changing our attitudes.

In this issue, we see the same thing happening now in Japan in energy use. So I ask, to get better asset management, what attitudes would you like to see changed - and what action changes could do this? **See "Actions Leading Attitudes" pp 3-4**

Also in this issue:

Please enjoy!
Penny

Dr Penny Burns, Editor
AMQ International
08 8359 0559
www.amqi.com

Inspiration from the Coffee Shop!

Why are real Asset Managers so passionate about what they do? Can you convey something that goes to the heart of why Asset Management is IMPORTANT or EXCITING, or BOTH?

And can you do it in 140 characters or less?

This is my 140 character invitation

AM Competition.
Win a year's SAM!
A great AM thought.
140 characters or less.
Funny is good, funny and valuable better
Deadline 30 Sep 2011

What is your 140 character acceptance of this challenge?

Our August- September 'Twitter **AM**' Challenge

remember - brief, but not trivial

Anyone can enter. So encourage your non-subscribing friends and colleagues Existing subscribers will win a $50 voucher on Amazon.

Do it just because you can

The Tōhoku earthquake has dimmed the lights in Tokyo - and, in doing so, has provided some support for my contention in an earlier SAM that, contrary to John Moubray's contention that to change actions we must first change attitudes - we can in fact change attitudes by first changing actions.

Here I look at the evidence - ***and consider why this may be so useful for Asset Management.***

ACTIONS leading ATTITUDES

Marcus Lee, Devonport, returning from a two month stay in Japan, where he speaks the language, has reported the following:

When I was in Tokyo recently many public places like shops and train stations had strategies in place to reduce power consumption to combat the energy shortages that occurred after the Tōhoku earthquake/tsunami and nuclear power plant shut downs.

Actions taken

Many lights were out, a proportion of the elevators and ticket machines were not in use and the air conditioning was turned up or turned off completely.

Attitudes changing

I heard people say that they actually preferred the dimmer environment. They said they realised that in many cases places had previously been too bright and glary.

Through television and media, the government recommended that air conditioners be set at 28 degrees Celsius in Summer. Both my wife and I found it more comfortable with the warmer air conditioning as often on trains and in stores the air conditioning was too cold.

Actions leading Attitudes

The crisis that resulted after the March 2011 Great East Japan Earthquake forced decision makers to make changes that directly affected their communities.There is now more of a focus on renewable energy and products that are energy efficient (e.g. LED lights). Leading to changed actions - One inventor saw on television people in the disaster areas huddled around fires. This led him to develop a pot that would generate electricity while on a hot source (e.g. gas or electric stove, wood fire etc). Using this invention people in the disaster areas can now cook their meals and change their mobile phones at the same time from the one pot. It's great to hear stories of challenges like these that lead to changes that improve people's lives.

The New York Times reports on more ways that the Japanese are changing

> Japanese are bringing to the conservation drive a characteristic combination of national fervor, endurance, sloganeering, technology and social coercion.
>
> A "Super Cool Biz" campaign, which builds on the option of no-tie summer business attire begun in 2005, now encourages salarymen to dress down even further by wearing polo shirts or the traditional aloha-style shirts worn on the Japanese tropical islands of Okinawa.

Using modern technology

> To back up the call to conserve, electricity reports that forecast the day's power supply and track demand in real time have become as much a part of this summer as the scorching sun and humid air. They are delivered along with the weather on the morning news and announced along with the next stop aboard some trains. Government alerts are also sent to subscribers' cellphones if overall demand nears capacity, prodding households to turn down the air-conditioner or, better yet, turn it off altogether.

Not co-operating is frowned on, reports the Times, but it seems to be going further than that,

> Behind the current enthusiasm for conservation, Mr. Taniyama also saw a rethinking of postwar Japan's single-minded focus on economic growth. Many, he believed, were ready to renounce nuclear power even if that meant "time travel to the lifestyle that Japan had when it lost the war to America."
>
> Conservation has made Tokyo, a city famous for its neon lights and giant television screens, a little dimmer this summer. It has caused the Japanese to forgo, for now, the energy-hungry gadgets and appliances that provide life here with particular pleasures.

In times of crisis, of course, many things are possible that would not be otherwise tolerated. Even so, could the impact of actions on attitudes - and the use of the latest technology to get the message across - be employed by us to change damaging attitudes?

What attitudes would you like to change?

e.g. Attitudes towards Assets More Consistent with the Knowledge Economy

For example, in Issue 320, Joel Leonard argued that our entrenched attitudes are wrong. He points out that **the consequence of our shift to a knowledge economy** with vastly more complicated assets we have increased the demand for smart maintenance to keep them operational. And this, he says, is where the entrenched attitude that 'productive workforce (operations) = good (to be maximised) and overheads (maintenance, management, research) = bad (to be minimised) **is now completely wrong and needs to be changed.**

What actions can we encourage/enforce to change this attitude?

Just give me the facts, M'am!

A phrase familiar to all devotees of old style detective series. Yet I cannot help thinking whenever I see it - what exactly is a 'fact'? It certainly isn't just data.

If it were, then not only would Caesar's crossing of the Rubicon in January 49 BC, be a fact, but so, too, would be the crossing of the same stream by millions of people before and after. Yet as the historian EH Carr ("What is History?") observes, the crossing of all these millions interests nobody at all. No, the only reason that Caesar's crossing of the Rubicon is an historical 'fact', is that it is relevant in a context - namely that by so doing he is understood to have started a civil war.

DATA into INFORMATION

And it is the same with Asset Management. Today, collecting data is easy and storing it is cheap - but the only way that data can become information (i.e. usable facts) is to embed and interpret the data within a context. **You have to be actively asking questions of your data** - and most of us are not asking enough, or the right, questions.

The SA Public Accounts Committee's report on Housing Asset Replacement in 1984 was the first to recognise that not only were the expansionist policies of the Housing Trust at that time unsustainable, it had already expanded its housing stock beyond the point where it could be maintained with the funding available to it. The Trust's reaction to the PAC's findings was complete shock, they did not believe and did not want to believe the findings. The Trust had not been devoid of data. In fact, it kept very careful records. It is just that they had not put the data together in a way that gave them this information. They hadn't asked the right questions - namely 'what are the implications of continuing to do what we are currently doing?'

Why aren't we doing a better job?

Many organisations today are heavy on data collection and light on analysis.

1. One reason for this is that *data collection* is easy to contract out, and *analysis* isn't!
2. Another is that *analytical skills have not been well developed - or well rewarded!*
3. A third would be that there is *little ongoing developmental support for in-house analysts* (and, incidentally, without some in-house analytical support, it is exceedingly difficult to formulate good questions for outside contractors.)

This is not a problem that is unique to Australia.

In the UK, the Audit Commission over the past few years has conducted a number of investigations into the quality and the use of data in local government. (*In the Know* (using information to make better decisions) 2008;*Is there something I should know?* (Making the most of your information to improve services) 2009; *Nothing but the truth*.(looking at the quality of data) 2009; *The Truth is Out There* (transparency in an information age) 2010

A recurring theme is **"too much data and too little analysis"**

They consider the reasons for this lie in 'culture, people, standards'. To explain:

CULTURE:

Decision makers need to *demand* relevant, high quality, well presented information and not accept shoddy, incomplete and untimely information. (How many times have you received a 70 page data packed document just 24 hours or less before a meeting in which decisions need to be made? Worse, how many times have you been a party to putting other decision makers in this situation?) High quality information needs to be demanded - and respected *and appreciated.* *(One way to do this is to have the person who prepared the data, present it to the board - and for board members to congratulate the presenter on the quality of his or her work. Most Boards nowadays comprise people skilled in interpreting data and analysis. This is not necessarily the case for councils and consideration should be given - as part of ongoing training - to introducing the council members to the value of good analysis, through examples and benefits.*
*(see case study on page *)*

PEOPLE:

Council members and senior staff struggle to understand the information they receive. Analysts spend more time on routine tasks than on identifying and highlighting the salient facts. Analysts are not expect and receive insufficient training and support.

DATA:

Data are too often inaccurate and not fit for purpose. Whereas 100% accuracy is rarely needed or worth the cost, it is important to establish whether data accuracy is *sufficient* for the task at hand.

Despite the emphasis on AIS and data recording over the past decade and more, it is still true to say that data quality is often not at the heart of day-to-day operations and a common obstacle to achieving consistently high-quality data is the perception that this is not an important part of a person's job.

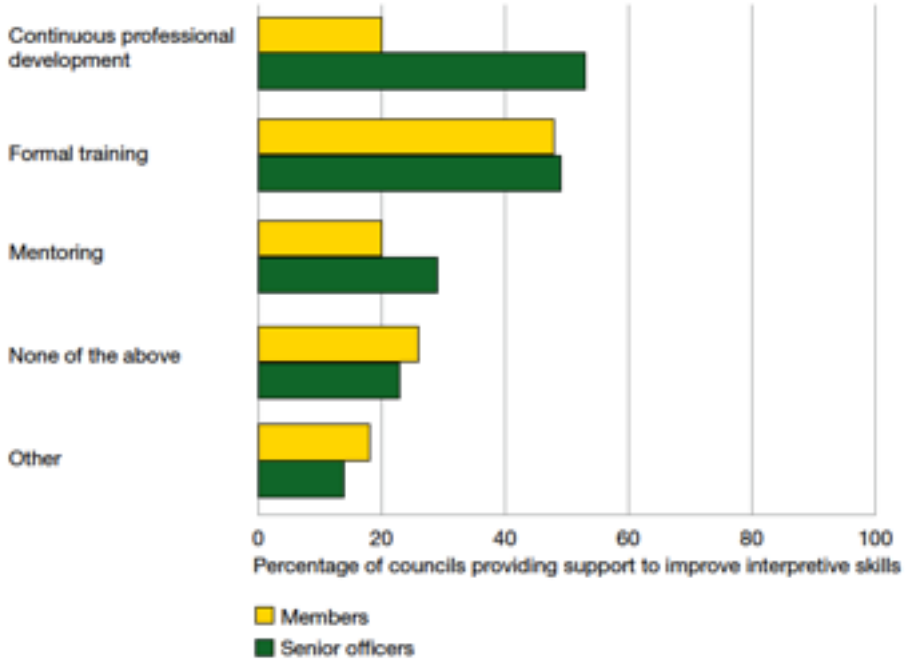
Moreover the one who collects the data is seldom the one who analyses (if anyone does!) Data collection is seen as inessential 'paper work', or someone else's responsibility.

HOW TRUE ARE THE FOLLOWING FOR YOUR ORGANISATION?

Two of the Audit Commission's Observations are really worth noting.

"Despite councils recognising the skills gap in their own organisations, and the impact this has, little training and support is provided. Half of councils provide no formal training in this area and almost a quarter provide no support at all (Figure 5)."

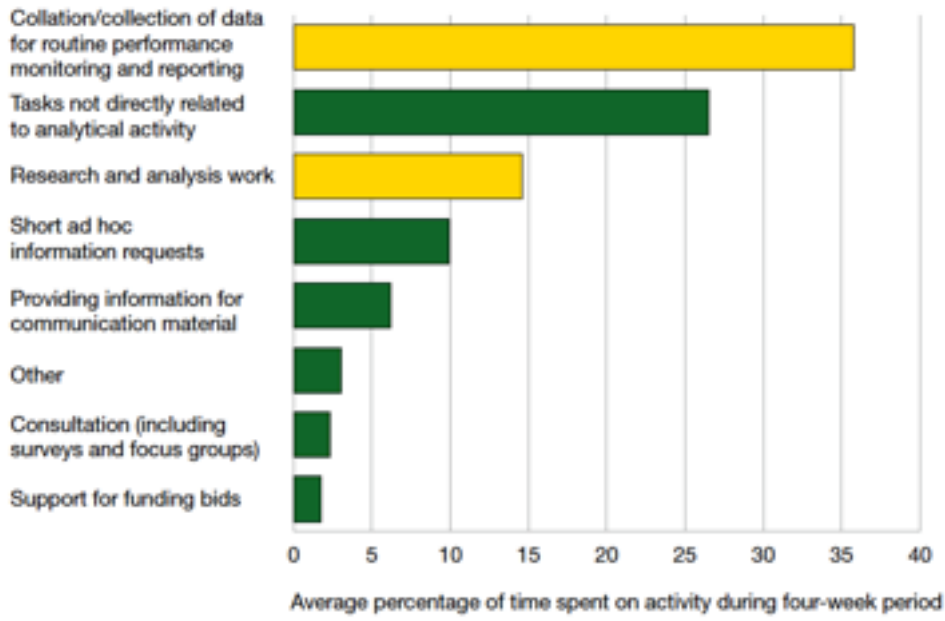
Figure 5: **Limited support is in place for senior decision makers**[i]



Source: Audit Commission survey

Most councils devote relatively little resource to analytical functions (Chapter 3). And those resources are not used wisely (Figure 6). Very little time is spent on analysis in order to create business intelligence. Instead, the greatest proportion of time is focused on collating routine performance data:

Figure 6: **Resources are not used effectively**



Source: Audit Commission analyst diaries, 2009

WHAT TO DO

1. First off, why not run the figures for the two tables above for your own council or organisation?

Then, if the same problems apply to you then

2. Make the CEO aware of the situation

3. If you are the Analyst (if only by default!) speak with your professional associations to find out what support can be provided, or to your local university to see whether a short term course can be provided, perhaps on site.

4. Research the online possibilities for yourself

5. Consider making the position of analyst more rewarding with a better career path (perhaps by providing joint services across a few councils)

WHAT ELSE?

WHO IS DOING WELL IN THIS FIELD WHO COULD SHARE EXPERIENCES WITH OTHERS?

A short case study of the benefits of analysis

Case study 3: Effective use of data and sound analysis in Lewisham

Lewisham Council identified a significant delay in re-letting its housing stock. It took an average of 43 days to turn around a property. This was void time when the property was empty and rent was not collected, which meant significant potential income was being lost. The Council was also missing out on the social benefits of getting people re-housed as quickly as possible.
It analysed the causes of the delay by:

- identifying whether there were a few properties that were hard to let, which were increasing the overall average void time;
- assessing the effectiveness of contractors;
- talking to tenants; and
- holding a workshop with all the officers and contractors involved in the re-letting process to identify the barriers in the systems.

The findings from the analysis enabled the council to remove barriers, and as a result:

- the void time was reduced from 43 days to 24 days;
- £250,000 a year was generated in increased rent; and
- local people were re-housed much more quickly.

'The analysis we did identified some really basic barriers that were wasting a lot of time, but were really simple to solve. For example, we held a workshop with officers and the other agencies involved, where we discovered a lot of delay was caused by the need to go externally to get keys cut. So we invested in a key cutting machine – and this made a big difference.'

Performance and policy lead

This excerpt and the tables are from the UK Audit Commission Report "Is there Something I should know?"

BENCHMARKING FOR BEGINNERS:
A guide for public sector asset managers

Part 5: Tips, Tricks and Cautions

The Benchmarking Story so far....

In Part 1

we looked at the reasons **WHY** you may wish to benchmark (to improve performance, to demonstrate the existing state of affairs, to control). In part 2, we added a further reason (actually a subset of to improve performance) and that is to decide what would be reasonable targets at which to aim.

In Part 2

we looked at **WHAT** you may wish to benchmark, a particular function or process, a range of processes, the current general or specific state of affairs, and showed how both the WHY and the WHAT questions were important in choosing the most appropriate type of benchmarking for your needs.

In Part 3

we looked at **HOW** to benchmark (and WITH WHOM) that is whether to compare processes and outcomes in depth with a partner during site visits, or whether to engage in one of a varied number of metric comparisons. A related, and most important, question was **HOW** are you going to interpret and understand the results you obtain so that you can act upon them?

In Part 4

we presented three case studies in Benchmarking

In Part 5

we will consider some tips, tricks, and cautions to bear in mind when you are thinking about your benchmarking exercise. Many of these ideas have been published in "Strategic Asset Management" since January 1999.

Why Benchmarking in the Public Sector may be more difficult than in the Private Sector

Benchmarking originated in the private sector. Of course, the public sector can also benefit from comparing itself with others but it is wise to recognise some of the inherent problems which Leo Gohier pointed out in an earlier issue.

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In the public sector:

There is No Single Focus: A municipal corporation must deal with everything from soft to hard services.

The organisational 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 standardised which makes comparisons difficult.

There is Intermingling of tax and rate-supported programs.

Frequent changes (every three or four years) to the political structure - and in direction.

HOW TO GET THE BEST OUT OF PROCESS BENCHMARKING

Process benchmarking, you will recall, is the form of benchmarking where you join with one or a few partners and explore the processes and outcomes that each is achieving.

If you are planning to engage in process benchmarking, there are some things that you should consider:

TIPS

1. **If you are just beginning** in asset management and are about to engage in exploratory process benchmarking with just one partner or with a small group, **don't look to the industry leaders** or those who have a long history in asset management. *You need to be able to 'get there from here'.*

2. **If you are just beginning, use another industry beginner.** As crazy as this may seem at first sight, this has definite advantages. What you want of your first benchmarking partner is an opportunity to understand your own processes better. They need to do the same and will be interested to work with you. Another benefit of working with a beginner is that you won't be tempted to put a 'gloss' on what you are doing to impress an industry leader. You can be honest, and you will learn faster. Moreover, process benchmarking with a partner or partners is a 2-way street. You gain from them and they gain from you. If you do not have anything to offer the industry leader, don't waste your time and theirs.

3. **The major part of the benefits of benchmarking come through a better understanding of your own processes.** Those who have undertaken a benchmarking process exercise report that most of the benefits came, not through seeing what others were doing, but by understanding what they themselves were doing!

4. **Don't focus on the *measure*, focus on the *process.*** For example, when governments set headcount targets (an input ratio), budgets blow out because more consultants are used. The way to contain costs is to look at the process and ask (a) whether all the work that is currently done needs to be done and (b) whether it needs to be done the way it is being done. This is a focus on *process*.

5. **Flowchart your processes.** To understand your process, flowchart it!

If you are using a benchmarking exercise to help you set targets for improvement, consider the following:

6. **Use the benchmarking figures to *suggest*, not *direct*.**
From your flowchart you might identify a critical elements in a particular maintenance process, say the ratio of maintenance supervisors to maintenance operators. You take part in a benchmarking exercise that tells you the range in your industry is from 1:3 to 1:20. The median is 1:7. If you are 1: 9, that is you have 9 operators to one supervisor, you may decide to do nothing about this, but if you are 1:16, with sixteen operators to one supervisor, i.e. out on an extreme position, you may decide this is worth *further exploration*. What you don't do, is to simply set your target at 1:7. *You need first to understand why you are where you are.*

7. Be wary of extremes
Extreme positions in any benchmarking metric range are likely to be definitional outliers or 'exceptions'; i.e. companies or agencies that do not quite fit the standard mould. The 1:20 response may be a result of the definition of 'supervisor' as 'head of unit' whereas the 1:3 response may be the result of defining 'supervisor' as anybody who has oversight of another, down to leading hand. Or it may be that the 1:20 response is a company with a mostly routine maintenance requirement that is well known to the men and needs little supervision, whereas the 1:3 response is a new or technically involved agency fighting day to day 'settling in' problems. *For safety: don't use extreme positions to set your performance targets.*

Analysing Benchmark Results

Benchmark results are much like any performance measure or performance indicator in that they cannot be used in isolation. My favourite example of this is the college that reduced their cleaning costs per square metre. Other colleges decided to set these cleaning rates as their target rates. What they didn't either know or observe, however, is that the first college had extremely high rates for repainting, and rather low rates for customer satisfaction (reflected in a reduction in enrolments).

The message is that you have to look at the whole picture.

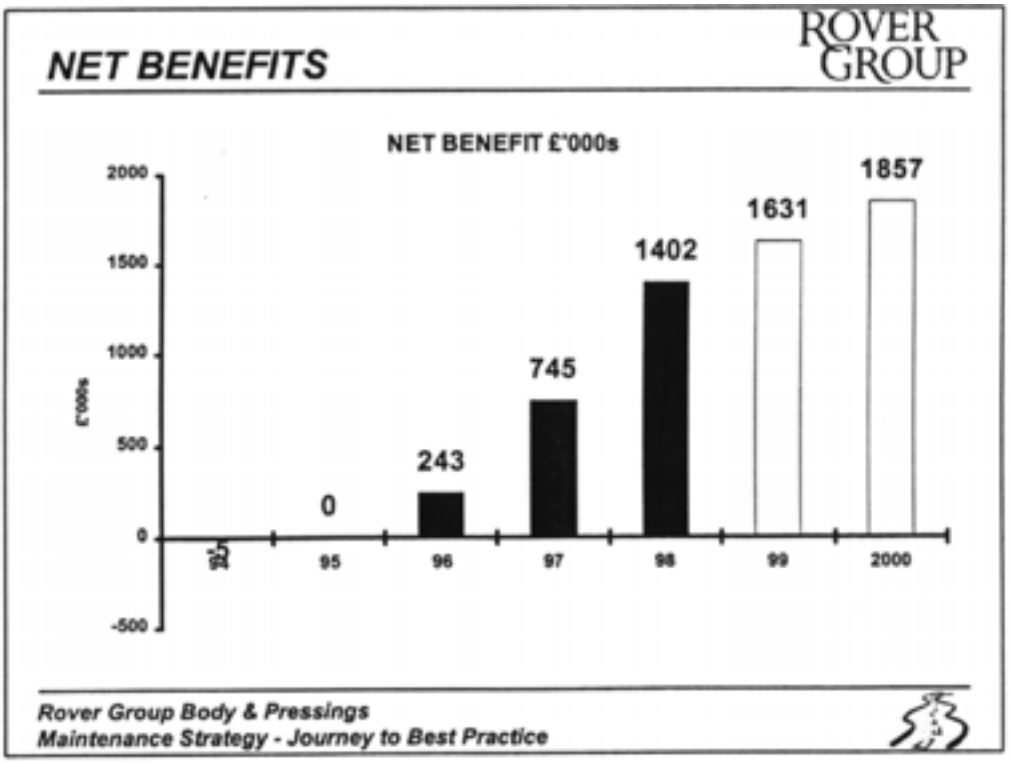
Finally, remember that good results do not happen overnight. If you engage in benchmarking in order to improve performance you have to be prepared to monitor that performance and to keep up the improvements over time.

In the very first issue of Strategic Asset Management, January 15th 1999, I wrote about the Rover Car Company and it is worth looking at this example again.

Real gains from benchmarking take time

Real gains from benchmarking take time: time to identify the change areas, time to target them and then more time see them through. In 1998, the Rover Company (makers of Rover and LandRover cars) won the 'most improved' award (issued each year by the MCP-AMIS Company, a leading world benchmarking organisation) with a massive 39% improvement in audited performance. But it did not happen overnight.

As can be seen from the diagram of net benefits below, no net gains were made in Rover's first year. Indeed there were net losses! This is to be expected because substantial improvements require the investment of front end costs. In the second year, there were still no net gains - but no net losses, either. The profit position did not change. In the third year there were moderate gains. It was in the fourth year that benefits really started to accrue, and the growth of benefits was then steady and expected to continue for another two years.



Organisations fixated on 'quick wins' could have abandoned the improvement program well before the substantial gains in Year 4!

Process Performance Benchmarking

The secret of Rover's success is that they were part of a process performance benchmarking audit. This benchmarking may be distinguished from the mere collection and presentation of comparison statistics (metric) by the fact that

(a) many factors are ranked against high, low and average performance in other firms within the same industry. It is not sufficient to consider inputs only - the essence is what outputs are being achieved for that level of inputs or for that type of process.

(b) It then evaluates the performance against the specific needs and objectives of the firm itself. No two firms, even within the same industry, will have the same overall objectives. It follows that the 'highest' performance in a particular area is not necessarily the goal for the firm being benchmarked.

(c) In addition to scoring individual aspects of performance, the audit provides an overall measure. The measure is calibrated against other firms but then provides the benchmark (or target) against which this agency marks its own improvements.

If you are serious about benchmarking

Compare the passive 'clearinghouse benchmarking metric' approach to the active 'benchmarking audit' approach above, in other words the type of benchmarking where you contribute your data and get back your position in the total but do not know who got the other scores nor how.

With the clearinghouse approach agencies that do not wish their data identified, submit input ratios (cleaning dollars per square metre, staff per customer, etc) to a central clearinghouse which collates and presents a distribution from lowest to highest.

It is possible to compare your position against others, but you have no way of knowing what outcomes are being achieved from the different input ratios and no way of comparing different ratios. (E.g. what is the replacement rate for that agency with low cleaning costs?)

With the clearinghouse benchmarking metric approach, there is

- no framework within which the different aspects can be aggregated to provide an overall result which measures the position of the agency
- no ability to interpret the individual measures against outputs to determine a program
- no ability to tailor the goals to suit the needs and objectives of the agency, and hence
- no ability to determine what would count as improvement and to measure the progress made toward that end

The exception to the comments above is the type of benchmarking, well illustrated in the first case study example in Benchmarking for Beginners, part 4, the benchmarking of asset management in the water industry by the Water Services Association, Australia.

What makes this as valuable as the Rover Example above is:

1. The detail applied in the first instance. Taking part in this benchmarking exercise is not a quick, nor an easy task. Much effort and thinking has to be applied - which, of course, is a large part of the benefit!

2. It is repeated. Periodically, although not necessarily every year, the exercise is repeated. This serves to put back on track those things that have fallen off. It reinforces the good work that is being done. And it measures progress over time.

As with everything in life, the more you put into it, the more you get out!

In the next issue:

Benchmarking for Beginners, Part 6:

A Best Practice Exemplar.