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AMQ  
International's

# STRATEGIC ASSET MANAGEMENT



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## Where are the next good AM ideas to come from?

There is no doubt we can improve the general level of AM manyfold simply by bringing lower performing organisations up closer the level of our best performing organisations - without any further innovation or good ideas.

This is the argument behind the standardisation of asset management and the creation of asset management standards such as PAS 55 and the soon to be released ISO 55000.

I guess few would argue that we have now reached the pinnacle of Asset Management and there is nothing new to be learnt. How boring life would be then!

However, if we are to continue the progress made over the last 30 years, where are the new asset management ideas to come from? From academia? From asset owner's and asset manager's explorations on site? From consultants? From where?

This is what I look at in

**Where the next good AM idea are going to come from, pages 2-4.**

What is 'a good idea'? It can be, and in a practical discipline like asset management, it often is, simply a slightly different way of looking at old problems, that generates greater clarity, understanding and acceptance. As examples, I have drawn on the work of Jan Schippa and his colleagues at UMS.

**A Benefit:Cost Assessment of Asset Management (what are the benefits, what effort is required to get them - and, an important question not often enough examined - where in the organisation will they be experienced. pages 5-6**

**Integrating Life Cycle Analysis into the AM Strategy (with examples) pages 7-8**

**Practical Ways to link AM to the Business Objectives, pages 9-10**

As always, please enjoy!

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## Where are new ideas to come from?

### The role of Academia

I read many papers on asset management and I find it disappointing to get to the end of a promising piece of research only to find that there is no conclusion, just an indication of potential and a recommendation for further research, nothing that I can pick up and recommend as worthy of practical adoption. Why is this so? To be considered for promotion it is necessary not only to publish, but to have your papers cited in the papers of others. Producing a solution that can be adopted by practitioners is an academic 'dead end', and nowhere as useful as papers that are more open ended, with problems still to be discussed and resolved. A secondary, but important, role for these papers is to establish the grounds for future research grants. Thus academic papers rarely produce a finished workable idea, but are rather a series of 'works in progress'. This may account for the difficulty I have had in finding any one who can cite an academic research paper that has made a significant difference to their work as an asset manager.

Academic rigour is much needed in asset management, but is probably best applied to the testing of ideas than to generating them.

### Think Tanks

If we cannot look to academia for useable research - that is research ideas that can be applied in practice - where else can we look? There are, of course, think tanks. These are usually very well funded and employ some of the brightest individuals. However, membership of a think tank comes with strings attached. Moreover the issues dealt with are usually designed for government policy, rather than organisational, use.

### Asset Owners and Asset Managers themselves

What about in-house research by asset owners? This can often produce some very well researched and written case studies. The difficulty with using the ideas produced, however, is that they are heavily dependent on the organisation itself - for example, on the state of development it was in before the study started, how much support was given, and, of course, the general culture, leadership and knowledge in the organisation. In other words, such case studies are 'one-offs'. They are good as examples, but do not necessarily lend themselves to duplication in other places.

## Public Service and Public Policy White Papers

Once, some excellent research papers were produced by the Public Service. In the 1970s and 1980s, the ability to produce well written and researched 'white papers' was a highly prized skill. However the combined effects of downsizing and politicisation of the Service and the unfortunate elevation of the craft of 'spin', have all taken their toll. There are still pockets of excellence in the Service, but few instances of good research written to a rigorous standard and submitted to the test of knowledgeable peers.

OK, if academic research, think tanks and in-house research by asset owners and the public service are limited in their ability to provide workable solutions for those looking to apply asset management, where else can we look?

## Consulting Companies

Curiously enough, it is the often much maligned consulting industry that is today producing some of the more interesting research outputs.

There is a growing number of consulting companies that use their in-depth access to many organisations to test and develop ideas in their search for practical applications. They have the incentives: increased reputation and customer satisfaction lead to sustained and increased profit. They have access to some of the brightest of today's asset managers, many of whom have, or are in the process, of developing post graduate research theses. They have detailed access to information from a large variety of organisational clients. These are the elite consulting companies. They don't have to be large, although access to a large client base helps. Small or medium sized consulting companies can achieve the same level of innovation by developing a sharper focus.

Of course, not all consultants necessarily act in this fashion. There will always be those who choose a 'cookie cutter' approach and try to fit your problem into an already conceived solution.

What you will see in the better, more innovative, firms are that they apply themselves to thoroughly developing an idea; they stick with it over the time it takes to bring it to fruition (often years); and they expose their ideas to others (in conference presentations and in papers on their websites). Nearly always the effort will revolve around one or a few talented and motivated individuals.

For this reason, it pays to follow the activities of such individuals in consulting organisations that you are thinking to use. LinkedIn is a good source for this.



**How can we, as an asset management industry, increase the quantity and quality of our research?**

**Here are some ideas.**

### **Encourage exchange between milieus**

When I was with the Treasury in Canberra, it was common practice for senior directors to alternate between time in the University and time in the public service. When employing your next asset manager, why not give consideration to someone who has a different background from those of your general workforce (i.e. if in a council, consider someone from a manufacturing or military background; if in a water industry, consider someone from an energy background. The time it takes to bring the newcomer up to scratch with your organisation will be more than repaid in the new ideas that come forth.

### **Encourage post graduate research**

Make resources available for some of your promising employees to develop the rigorous approach needed to examine ideas that they have generated 'on the job'. As an individual - consider taking on academic research work. (Increasingly I am discovering that senior asset managers, with a wealth of practical experience, are seeking to extract sense out of that experience through the rigour of a post graduate research project.)

### **Collaborate**

When employing consultants, consider working with them to write up the results - and pay attention to the reasons for actions rather than the actions themselves, and devote some time to examining the options you could have adopted, but chose not to.

### **Others?**



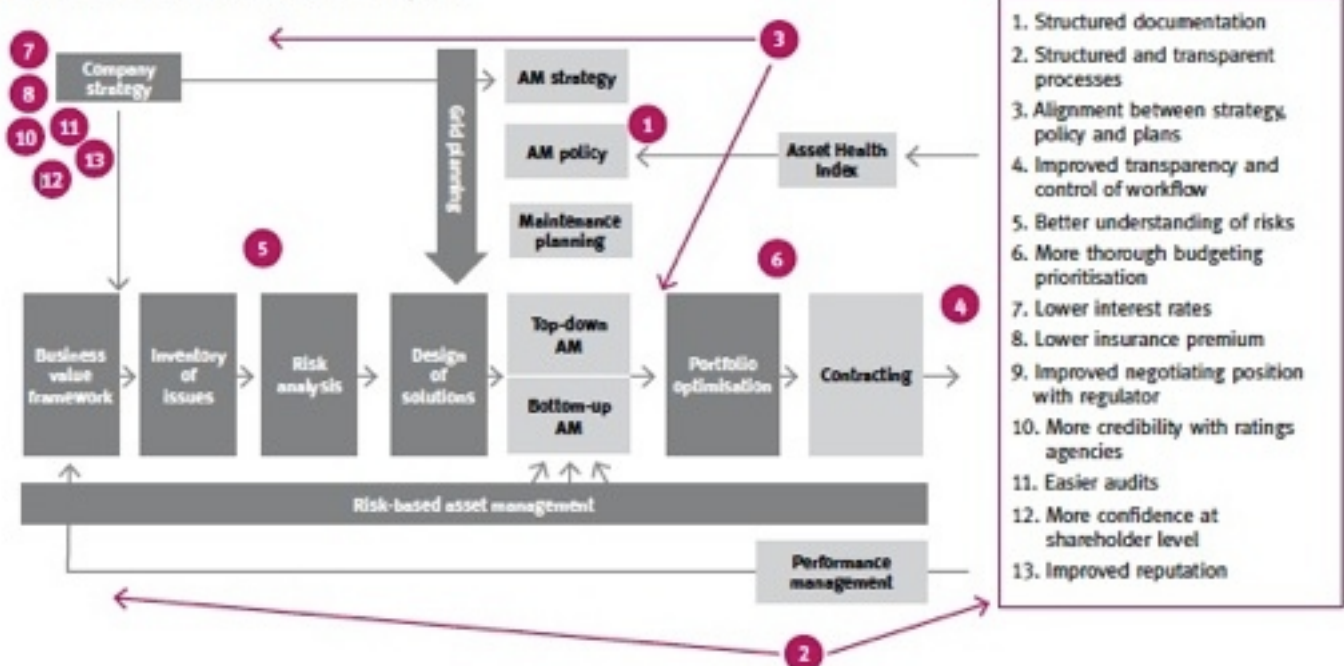
## 1. The Business Case for Asset Management

About a year ago, Jan Schippa sent me a copy of his latest research paper in asset management, a study developing templates for establishing the business case for adopting PAS 55, the British Standard in Asset Management. He and Liesbeth Dik of UMS identified 13 benefits. Their focus was asset intensive industries, and especially those subject to regulators. Asset managers in local government may wish to consider how many of the benefits also apply, which need to be modified, and where additional benefits may be located.

We have all asked - and generally found no really good solution to - the question “How can we justify expenditure on asset management?” so Jan and Liesbeth’s paper, ‘The Business Case for PAS 55’, which you can access in its entirety from the UMS website <http://umsgroupeurope.com/NL/NEWS/Publications> should be particularly useful.

Why have we not had really good answers till now? I suggest that there are two reasons - both of which are addressed in the UMS paper - that have caused us trouble. The first is that we have tended to assume that all AM activities are intrinsically worthwhile, and the second is that we have also tended to assume that AM benefits mostly occur in the operations and maintenance space.

Figure 1: The benefits of PAS55 and where they arise



## In their paper, the authors state in the section “Realising the benefits”

“As you can see in Figure 2, most of the benefits of PAS55 are due to improved effectiveness. These accrue mainly in the risk and project portfolio area, where success is reliant upon making the right decisions about what to do with the assets. The overall financial impact of PAS55 implementation could add up to about 20 percent of the total spending portfolio. Of this amount, 15 percent comes from making better decisions and five percent from improving efficiency within both the asset management and service provider functions.

Benefits 1, 6, 7, 8 and 11 are relatively easy to implement and the benefits, which could total five percent, could be captured in the first year after implementation (Figure 3). However, the remaining benefits, which provide the other 15 percent of the financial impact, are more difficult to implement, as they require major changes in core processes. Based on our experience, we estimate that it takes three to five years to capture all the potential benefits of adopting PAS55.

Any company planning to adopt PAS55 as a management system should first focus on implementing the changes required to capture the low-hanging fruit. This approach will build support for the project and provide justification for the more difficult efforts to come. These can then be encompassed in a phased program, implementing functions step by step and capturing benefits all along the way.”

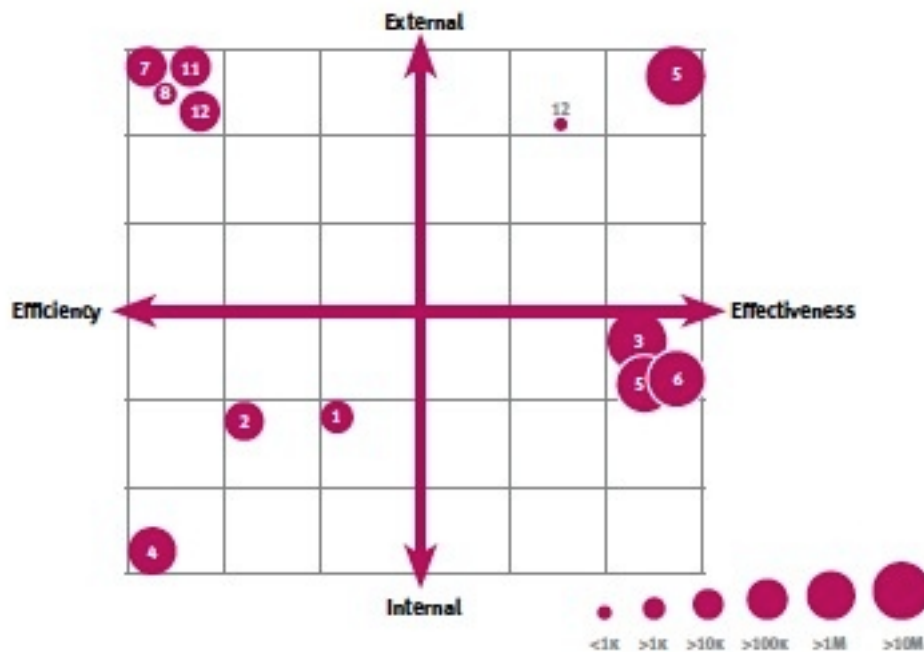


Figure 2: Aggregated view of the benefits of PAS55

## However benefits do not come without effort.

The figures above relate to gross benefits, not benefits net of costs. Clearly, the situation with respect to costs (and also benefits) will depend on where the organisation currently is in terms of AM development.

## How can you adopt this work for your own organisation?

1. Identify the benefits
2. Estimate size of benefits relative to each other
3. Determine the location of the benefits (Who is it precisely that will benefit and how will they see these benefits in practice)
4. Given the current situation in your organisation, what needs to be done to secure the benefits. What are 'quick wins' for you, what will require longer development.
5. 'Quick wins' sell themselves, for the benefits that will take more time to develop, you will need to create compelling images in the minds of decision makers of the future situation when the benefits have been achieved. Put these compelling pictures in mind *before* discussing the difficulties!
6. Decide which benefits (given the returns and the costs involved) are worth the effort.

### FOOTNOTE:

Jan Schippa tells me that since this paper was published in the Institute of Asset Management's "Assets" magazine in February 2013, that they have had a number of inquiries and the opportunity to build the complete business case for a major airport. I had suggested that the method was at a high level and he agreed but said that nevertheless it provided a structure for companies when setting up their business case. "We have seen that companies already perform improvement projects of which some are the same as the items addressed in the business case framework. This means that building the business case PAS55 has led to some refocussing of already existing improvement programs."

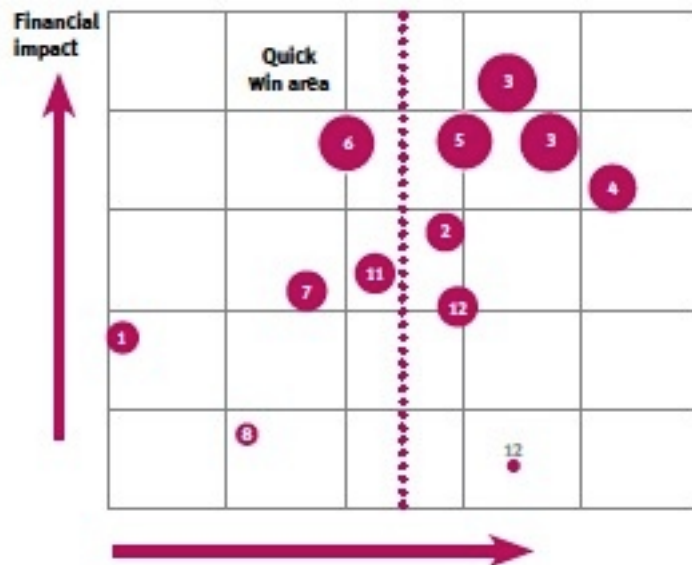


Figure 3: Effort needed to realise the benefits of PAS55

“Other customers we have seen that they do some cherry picking. Mostly they focus on the relative easy to implement benefits. Several utilities have used the PAS55 certificate to negotiate with rating offices and after that with the financial institutes to get improved interest rates for the cash needs. Others have focussed on renegotiating the fee for the insurances. Of interest is that the business case PAS55 framework initiated some of these initiatives. The companies did not come up with these ideas themselves. My hypotheses is that some of these improvement initiatives can be captured in corporate functions. However these corporate functions are not very well connected to the asset management function and so they don't see these benefits.

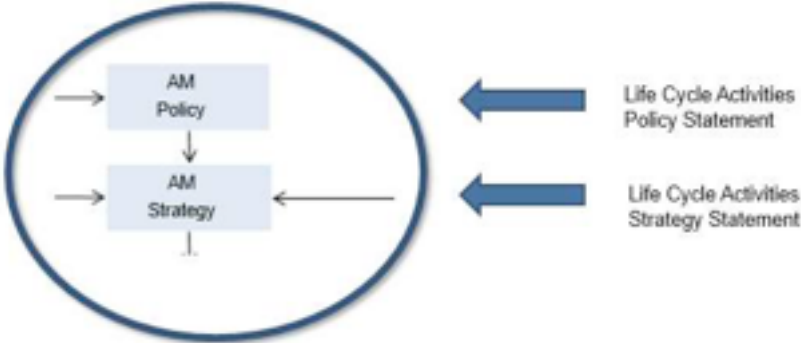


## 2. INTEGRATING LIFE CYCLE ANALYSIS INTO THE AM STRATEGY

If how to justify AM is the first most asked question among asset managers, the number one gripe would be that we don't use life cycle analysis anywhere near enough. Jan has some suggestions for this problem, too.

In the paper 'PAS55; An example of how "life cycle management" can be incorporated into the "line of sight" of the asset management system' which you will find on the UMS website at <http://umsgroupeurope.com/NL/NEWS/Publications> Jan Schippa and Johan Huisma give an examples of integrating life cycle thinking in the AM Strategy. Their paper was written for those familiar with PAS 55 and the 'line of sight' (i.e. matching asset activities to the goals of the business)

Both authors are auditors for the PAS 55 standard and they note that it requires 'that the life cycle activities should be described in processes and procedures and that these should be implemented and maintained like all other



processes of the asset management system. It is also required that that the documentation to control the life cycle activities are in line with all the other documentation. This description of the requirements in PAS 55 leaves a lot of room for interpretation, which makes it very difficult for an auditor to determine whether the assessed company is compliant with the PAS55 specification.' They give some examples of statements that can be included in your documentation to fully integrate life cycles into your policy and strategy.

The asset life cycle policy statement in this “Acquiring stage” could be as follows:

During the acquiring of new assets we will always apply an evaluation method of the price which is based on Total Cost of Ownership evaluation. Meaning that not only the price for acquiring the asset will be taken into consideration, but also the expected utilization and maintenance cost over the life time of the asset and the cost for disposal. The total cost of ownership criteria will be applied in our purchasing policy and strategy.

Another example of a policy statement relates to the third life cycle stage “Maintain”. The asset life cycle policy statement in this stage could be as follows:

In our life cycle stage Maintain, we recognize four different maintenance stages; childhood, early use, mid use and end stage. For each of these stages the maintenance strategy will be defined:

**Childhood stage;** During this stage the asset is brand new. It still falls under the guarantee of the vendor. Childhood issues can be expected. The maintenance strategy we follow will be fix when fail. All unexpected expenses will be claimed under guarantee to our vendor.

**Early use:** In this stage the asset type will be still in good condition. No traces of deterioration are expected in this stage of use. Our maintenance strategy will be preventive maintenance and will follow the recommendation of the vendor however we will build further information to analyse and reconsider preventive maintenance intervals.

**Mid use:** In this stage of the life cycle the asset will be starting to deteriorate due to use over many years. More failures can be expected. We will change in this period from preventive maintenance to more closely monitoring condition and taking immediate action when needed.

**End stage:** The asset is close to end of life. Our strategy will be run to failure. At any moment of failure

we will evaluate for each specific situation whether repair or replace is the best option

The above example relates, of course, to plant and machinery, but equivalent statements could be devised for infrastructure.

The authors explain that “When a company has formulated specific asset life cycle policy statements and linked these to the Asset Management Policy, it becomes easier for an auditor to interpret the links, whilst also helping the management of the company in providing the “line of sight” through the processes and documents.” but such a procedure is also valuable if you are not following a PAS 55 regime.

It would be particularly valuable for this information to be included in local government AM policy and strategy documentation - and included in briefings to new councillors.



### 3. Practical Ways to link AM to the Business Objectives,

The third paper of UMS that I would like to refer to in this collection is 'Linking Investment Decisions to Business Performance - a New Approach'. I found this useful because it illustrates a tool that can be used to optimise asset decisions from a portfolio perspective. Called the 'Portfolio Optimiser' it is an excel based tool that manages a portfolio project list and incorporates a dynamic optimisation algorithm with user defined scoring criteria. There are also useful hints for getting the criteria to the stage where every decision maker would score projects in the same way. You will find the paper on the UMS website, <http://umsgroupeurope.com/NL/NEWS/Publications>



### Awareness

#### Where did your last new idea come from?

'New' is really 'new to you' - a relative concept.

What was the idea, and who, where, or under what circumstances, did it come from?

How many ideas - new to you - can you recall in the last week, month or year?

How many ideas have occurred to you that you have failed to act upon, and why?  
Do ideas get 'crowded out'?

How successful have you been in encouraging others to take up the new ideas that you have come up with?

If you would like to share these thoughts with me, I would be delighted to receive them. [penny@amqi.com](mailto:penny@amqi.com)

PS What on earth did we use to symbolise ideas before the invention of the light bulb?