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AMQ International's STRATEGIC ASSET MANAGEMENT



Ideas worth thinking about

The aim of 'Strategic Asset Management' is to stimulate thought. This week we draw your attention to the following ideas worth thinking about:

2. Are Accounting Skills a Moral Duty? as well as being essential for sound asset management decisions.

3. Do standardisation and templates mean the end of strategic thinking?

4-5. The Secret Society of the Spawning Salmon: or how to fit strategic thinking into your week pp 4-5

6-8. What does "Strategic Asset Management Plan" mean to you? Here are a couple of different interpretations, what's yours? pp 6 - 8

8. Effectiveness and Efficiency. Why talking with economists is fraught with difficulties. p.8

9. If asset management is now about service, rather than assets as such, should we not be developing life cycle 'service' models? How might we go about this? See "Calling all Curious Minds", p.9

10. Some projects are doomed from the start. How can you detect them? p.10

Consider and enjoy!

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ARE ACCOUNTING SKILLS A MORAL DUTY?

A curious proposition by NYTimes Columnist Jacob Soll (NYT 28/04/14) caught my eye this week. He argued that few of us today can do basic accounting and fewer still know what a balance sheet is!

If true, why does this matter?

The German economic thinker, Max Weber, Soll claims, believed that for capitalism to work, average people needed to know how to do double-entry book-keeping and that if we are to have a serious debate about financial accountability we need first to learn some essentials. When we see how easily we have allowed expertise to be confined to the banking system and to specialists, we can perhaps understand how Ponzi schemes and other fraudulent activities can flourish. **So argument no 1 for better knowledge of accounting is financial risk management.**

In Renaissance Italy, merchants and property owners used accounting not only for their businesses but to make a moral reckoning with God, their cities, their countries and their families. They thought in terms of balance. This helped to avoid excess, bubbles, and speculation. It helped to avoid the idea of 'having more now without having to pay for it' which is at the root of the current thrust to governments wishing to involve private sector partners in the provision of public infrastructure. The 'something for nothing' syndrome can be relied on to produce unhealthy results. **So Argument no 2 is for balance.**

Both of these arguments are relevant to us in our role as asset managers but I thought you would find **Argument no 3 - for critical asset management** particularly compelling. Let me quote Jacob Soll in full:

"Every level of Dutch society practiced double-entry accounting — from prostitutes to scholars, merchants and even the Stadholder, Maurice of Nassau, Prince of Orange. Painters regularly depicted merchants keeping their books; Quentin Metsys' "The Money Changers" (circa 1549) showed that even skilled accountants could be fraudulent. In other words, the advantages and pitfalls of accounting were at the fore of public consciousness.

Not only did the Dutch have basic financial management skills, they were also acutely aware of the concept of balanced books, audits and reckonings. They had to be. If local water board administrators kept bad books, the Dutch dyke and canal system would not be well maintained, and the country risked catastrophic flooding."

Do you know enough to know safeguard your community? Can you tell whether your own proposals are financially sound?

STANDARDS, TEMPLATES AND REPORTING FRAMEWORKS

Does standardisation mean the end of strategic thinking?

I recently received an email that went roughly as follows. It is similar to many others that I have received in recent years and to conversations that I have had with asset managers. Read and consider.... then read on.

Ticking the box

"Talking with other asset managers, I have been getting the feeling people now want templates and standards in order to do the job.

I know that this stifles new ideas but with the workload I face and the frustrations in making progress I too have decided to go down this track in order to kick a goal in the corporate sense! You could call it ticking the box on AM because there is a feeling that this is all management want to do.

We joke here that fundamentally nothing has changed and we will still bumble our way through as we have for the past 60 years. I like this job because there is still so much to learn and develop, but it is difficult to temper this with encroaching standard models and templates and fixed reporting requirements especially when you are yourself are at right angles to the common approach!"

I used to be concerned that the use of templates, standardisation, and especially 'mandated' asset management, could lend itself to a community of unthinking 'box tickers'. But - and perhaps because of reactions like that above - I now feel much more positive.

We need to make the most of ALL the tools that are available to us. Templates and standards are tools, and very useful ones. Their main benefit is efficiency. They enable us to do routine tasks more quickly - and thus free up time that we can spend doing what Strategic Asset Managers must, and that is to think.

A positive attitude towards strategic thinking is important

The use of standards thus need not be thought of as a block - *but rather as an aid* - to strategic thinking. 'Ticking the box' may keep your present job (if the job itself continues to exist) but it does nothing to attract a better one. At the end of the year when you look back and account for what you have done, what will you say - "I ticked all the boxes"!

So, OK, templates can provide you the time to do strategic thinking, but where do you go from here? (see next)



The Secret Society of the Spawning Salmon

I would like to suggest that you join the Secret Society of the Spawning Salmon! The spawning salmon swims against the tide. It not only has the courage, it is driven by the absolute necessity to swim upstream in order to provide the next generation of salmon. Thus it is the ideal icon for the thinking asset manager who needs to question the way things are done now in order to make them better in the future - to spawn new ideas.

Why a 'secret society'? Well, unfortunately, a number of managers look at an inactive but thinking employee and feel that it is their task to set him or her to some action. They are mostly not really 'anti-thinking' although it may seem this way. It probably has more to do with them needing to show that they are in control, that they are 'getting runs on the board' and 'managing well'. In other words they are outcome oriented. Not a bad thing in itself. But a short run outcomes focus can easily be to the detriment of slightly longer run gains.

So what I suggest you do is to schedule a 'meeting with yourself'.and take yourself off to a quiet corner to think (my favourite was the local coffee shop - make sure you have papers with you!). Think about the issues in this issue of "Strategic Asset Management" (after all, that is what they are there for!) or think about your own choice of strategic issues. However, don't just think - write it down! Write it down in a cogent enough fashion that someone else can understand it. If you don't record what you have thought, you have really done no more than 'skive off'.

I am suggesting two hours a week. In a 40 hour week, that is just 5% of your time devoted to strategic thinking. But that 5% may be the most beneficial of your week. This is the time that you can devote to examining why you do what you do, the time when you can ensure that you really know what your organisation's service goals are, and how best to meet them. This is also the time that you can, from time to time, check the continued relevance and value of the standards, templates and recording practices that you have inherited.

Not all of us are comfortable to think by staring at a blank wall, so, if it helps, bring one or more others in on your cogitations. This can be another of your asset management team or it could be your accountant, client services manager, lawyer, - whoever you consider could share your interest in the issue you want to think about. But whatever you do - make sure that you write down what you have discussed. Don't leave this till later, and then forget to do it. No one else has to see what you write but if your thoughts lead you to believe that a change is necessary to your current practices and approval is needed for these changes, then keeping good records, reviewing them and checking their validity with others who can lend their support, is very important.

Some will seize on the templates as an easier way of getting the job done, of complying with the regulations and being a 'good corporate employee'. - and then do no more. That is OK, we need a lot of people who just want to 'get the job done'.

But we also need a select few who can make sure that it is the right job being done, and being done the right way. For this, however, you have to swim upstream.

Accountants know this. They have to abide by the 'Generally Accepted Accounting Practices'. (GAAP) Such consistency is very important if accounting records are to give useful information about trends over time. But every now and then the GAAP are themselves changed. This happened, for example, when accountants realised that changes needed to be made to cope with new ways of contracting. But when the GAAP are changed it is to practices that have proved to be more useful - and the only way this proof is possible is by those practitioners who have been prepared to 'swim against the tide' and test practices which were against the current rules.

So, if you want to contribute to positive change - set aside time regularly to think, to swim upstream, to consider new ideas.

What is the best time for strategic thinking?

It depends. 30 minutes of a morning before the day starts is good, and as an extra benefit you will find that your subconscious will continue to think about the problem while you get on with the day's work so that when you come back the following morning, it will be with new ideas to add to the mix.

Personally, I like to deal with difficult questions in the last hour before I sleep. I review everything I know, write down the questions I want solutions to - and leave it to my subconscious. Strangely, it also seems to work best when you tell your subconscious when you need to have the answer. For ten years I was an Associate Editor of the International Journal of Economic Behaviour and Organisation. Five of the ten associate editors were Nobel Prize Winners, so you can imagine the pressure on me to put up a good showing. The usual practice was for nothing to be sent for review for many months, then three would turn up within a few days of each other - and Murphy being Murphy, this always seemed to happen at the busiest of times. I adopted the practice of reading the paper before bed. My first reaction was always 'I do not have a clue what this guy is getting at, nor do I know how to improve this paper'. Yet by the time I returned to the paper the following evening or week, it was as if all the fog had lifted and I not only could see what the author was trying to do but I also knew if it were worth publishing, and if so, what suggestions I could make for improvement. It never failed to amaze me that I went from complete ignorance to assurance by this means.

Try it! And tell me if it works for you.

If you work better by 'thinking aloud', i.e. with others to bounce ideas off, you may want to schedule fewer, but longer sessions. Try a number of different ways and see what works best for you. Also try a number of topics. Trying one that does not seem to have immediate relevance can sometimes free you up to be more creative. On the other hand, one on a topic you can apply immediately might help you focus.

If you don't have anyone to work with but you would like to be part of a 'thinking group' then I invite you to try your hand at the exercise on page 9 and join a small group that I have in solving this puzzle.

What does the term ‘Strategic Asset Management Plan’ mean to you?

It can vary in usage considerably from a procedural form, such as in example one below, to a conceptual form as in example two. What does it mean to you?

In their book “Living Asset Management” JR Lafraia and J Hardwick. say “The strategic asset management plan can enable an organisation to create a link, if needed, between the asset management system (such as described by the ISO 5500X suite of international standards) and a variety of specific, technical asset management requirements.” This is useful for asset management within highly regulated industry, but for local government and state budget dependent agencies, not so much.

Janaka Seneviratne, Bankstown City Council, who likes analogies, presents his thoughts comparing the way he would design a bridge to the way he would build a strategic plan. I enjoyed it, and I hope you will too.

Designing a bridge

As a student I needed to design a bridge, I had to select the best location, consider load combinations and design the major components of the bridge such as foundations, deck members, steel trusses, connections etc. Still I feel the pain I underwent, only armed with a basic scientific calculator, a note pad and a few copies of relevant British Standards. This is my effort to use bridge designing exercise to emulate strategic planning.



Designing a strategic plan

In my view, Strategic planning is a vehicle to connect the not-so-satisfactory **present** to the may-be-satisfactory **future**. It is all about

Bridging a gap

Developing something to hold or lean on and

Enabling and directing us to follow an informed path.

It is a bridge we build *involving all stakeholders* and *looking after their interests and our own interests* as best as we can.

Site Selection

Site selection is paramount for survival of a bridge structure in a hostile environment in which various forces try to uproot the bridge. Designers consider,

- shortest possible span to control cost

- less scouring or erosion of foundations due to water currents

- stable grounds for foundations to prevent settlements

- socio-economic benefits by connecting communities at correct location



How about positioning the strategic bridge?

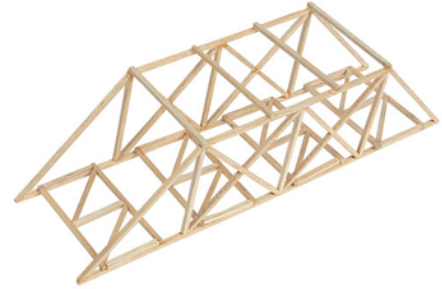
Strategic bridge is built aiming the strategic directions community would believe in, from **where we are now** and **where we want to be**. This “we” includes community.

It may not follow shortest path, but rather the most sustainable and affordable path, and one that best meets the aspirations of the community.

Structural Safety

The structural safety of a bridge depends on

- Considered load combinations (vehicle axle loads + wind + seismic + self load etc.etc.)
- Existing ground load bearing capacity
- Three dimensional structural frame
- Member sizes and Material types
- Type of connections etc.



The structural safety of our Strategic Plan requires:

It should meet the **community expectation load**. It must also withstand for **1 in 4 years political storms**, unpredictable **economic earthquakes**.

It should have **executive and political hierarchy support**.

The strategic bridge members are **non-asset** and **asset solutions**.

Members are connected by **facts**. When facts are not available, we need to make assumptions. The **assumptions** are less quality “glue” which need replacing with “facts” in the long run, so it is essential that they be written down . easily accessible, and reviewed. This is done as early as practicable to ensure structural integrity (**community acceptance**).

Maintenance

Any structure must be maintained during its economic life. We take actions like

- regular painting.
- corrosion check
- replacing failed members and connections
- re-strengthening existing members.



We must do the same for **Strategic Plan**. We

- review** the plan
- validate and update remove/replace/upgrade** assets or programs
- increase resources** for assets and programs.

Aesthetics

A bridge has to be aesthetically pleasing in appearance. Sometimes we add some ornamental members or install lighting for pure aesthetic purposes. Surely we select paint colours to highlight it as a landmark.



Strategic plans must also have an appeal to the community.

Some strategic plan programs and assets must be aimed at **adding value** to communities over and above minimum legislative targets.

Some programs and assets will be chosen to please **targeted community groups**.

These programs are outputs of Council's **risk management** and **community expectation management**. Often these programs can not be justified by an economic analysis.

Strategic Plan serves as an economic plan as well as a political document. It needs endorsement from the elected Council representatives and the Community as future of both parties depends on the quality of the plan.

Any better analogies? Janaka and I look forward to hearing from others. Remember that the an essential task of the Strategic Asset Manager is **communication**.



EFFECTIVENESS AND EFFICIENCY

In the last issue we looked at effectiveness ('doing the right thing') and efficiency ('doing it the right way') and I also drew your attention to the increasing need to work with economists who have a powerful influence in what new assets we will acquire. But now a warning! I need to draw to your attention that when you are dealing with economists not all is what it seems.

Economists speak of

Cost Effectiveness. This means the cheapest way of achieving an objective - in other words when they use this term they are talking about **EFFICIENCY**.

Allocative Efficiency. This means the achieving of maximum good from the way we allocate resources. When they use this term they are talking about **EFFECTIVENESS**.

So

Cost Effectiveness = Efficiency

Allocative Efficiency = Effectiveness.

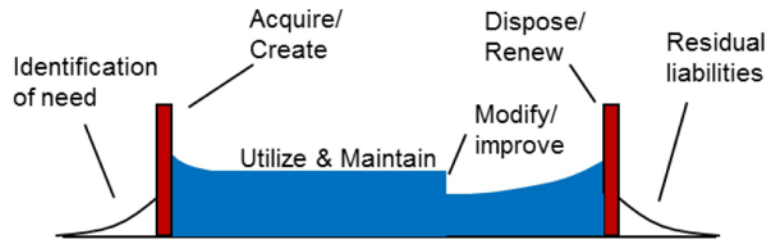
Confusing isn't it?

CALLING ALL CURIOUS MINDS

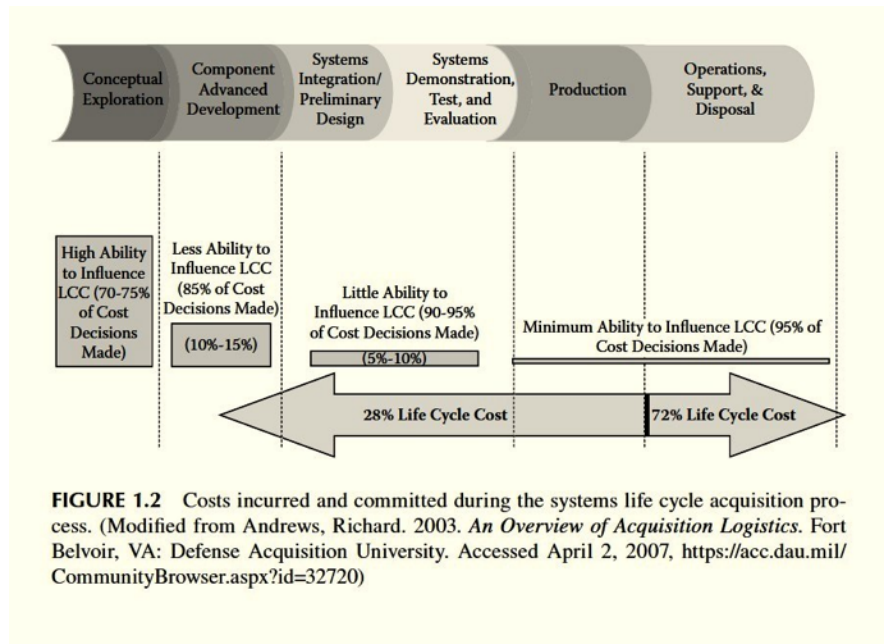
If asset management is now about service, rather than assets as such, should we not be developing life cycle 'service' models?

How might we go about this? Which of the following provides the best initial starting point for developing a 'service' life cycle model - (1) an asset life cycle model (2) a product life cycle model (3) a systems life cycle model?

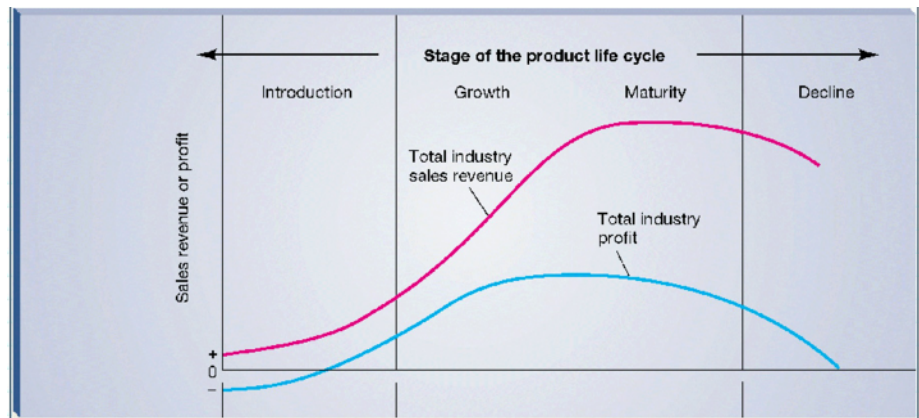
(1) Here is an asset life cycle model (courtesy of John Woodhouse)



(2) Here is a system life cycle model (from "Systems Life Cycle Costing" by John Vail Farr. CRC Press. 2011



(3) Here is a Product life cycle (from the internet)



Do you know of a better starting point than any of these?

Two stories of asset decisions where failure was detectable before any action was taken.

The first is the story of the Latrobe Hospital, a PPP. This featured a very complicated financial vehicle, one that much feted in the financial press, so much so that I decided to visit with the designer and find out more. Over a period of 5 (!) hours, he generously went through the details of the contract design, while the relevant paperwork was stacked in several piles, each almost a metre high, at our feet. At the end, convinced that if it had taken 5 hours to explain it to me, a fellow economist, the chances of non-economists understanding the finer details were pretty slim, I asked him two questions.

The first was: *This is a very complicated contractual arrangement, what is the likelihood that you will have the opportunity to use this tool for another PPP?*

The designer replied that this was unique. I was concerned that so much valuable time had been committed to the design of this contractual vehicle and it would have no further use outside this project. But more so I wondered about the stability of such a contract. However it was the answer to my second question that told me that the project would not succeed.

I asked him *“If you were an investor, would you undertake this project under these contractual conditions”*. He laughed heartily and said a very definite *“No Way!”*

The moral: Unless a contract is a win-win situation - expect failure!

The second story is of a small council that had just re-sealed its airstrip. At the following board meeting the councillors, concerned at the costs incurred, were asking questions. ‘How many planes use this airstrip?’ asked one. ‘Well none’ replied the engineer, ‘They all prefer to use the airfield up the road [and in another council district] because that one is open 24/7 and has many more facilities.’ The councillors were staggered. ‘You mean no-one uses the airstrip?’ ‘No, not no-one, gliders use it’. However, one of the councillors was, himself a glider and promptly said ‘Yes, we use it, but not the hard surface, we want to land on the soft verge’. There was then a silence until eventually, in a tone of great puzzlement, the councillors said: ‘So, if there is no use for the hard surface, why did you re-surface it?’ And the engineer, equally puzzled, replied: ‘To preserve the asset, of course!’

Whenever I tell this story I get one of two reactions. Either the audience laughs at the nonsense of resurfacing an unused airstrip, or they look puzzled to think that the engineer’s response was not immediately obvious to all. The moral of the story is that the airstrip was NO LONGER an asset, it was once, but demand and circumstances had changed. The land under the airstrip was an asset, however, and heavily under-utilised because of the failure to recognise the change.

The moral: Unless the cost of an action can be justified by the benefits to be received by users - expect failure.