Asset Management – making the “Unreasonable” Reasonable?

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Abstract

Asset management (AM) discussions frequently come around to how to prepare compelling investment cases to Top Management in a language that they understand. The objective of this paper is to propose a way in which the AM concept itself may be made more compelling to Top Management and Leadership. The paper argues that a macro representation of asset management in a general organizational context may be beneficial approach. The paper refers to high-profile historic examples to illustrate how an AM approach might have influenced outcomes.

The paper is the author’s personal view and is intended as a discussion of the potential power of asset management.

One way to look at AM and ISO55000 is that it describes what we should do in today’s constrained and crowded world in order to make progress in a ‘reasonable’ way. The ‘commissioning organization’ may need to achieve revolutionary outcomes, but, through AM, we can take the holistic view of the situation and identify, then treat, the full range of related issues.

Informed leadership is critical in this regard. Whilst asset managers can individually and collectively strive to develop the multi-skilled, multi-agency, multi-layered networking culture and approaches that will enable us to prepare compelling investment cases to Top Management (and that will also enable Top Management to respond to them), we must continue to lobby for representation at the most senior levels of organizations. This is because one of the hardest skills is Influencing - there is only so much ‘pushing’ that can be done from below. Asset managers, just like anyone else in business, commerce, government or NGOs, need ‘pull’ from above.

A useful way to ‘sell’ the concept and value of asset management to the Leaders of Today (and, perhaps more importantly, the Leaders of Tomorrow) could be to create compelling stories that interpret iconic achievements and events in AM terms. Several examples will illustrate the key learning points, that the ‘commissioning organization’ was strongly motivated and very powerful, and that progress was made but important areas of ‘reasonableness’ appear to have been overlooked. These are areas that an AM Framework could have picked up.

In summary, there is huge potential to further develop a series of illustrative studies to highlight the power of the AM approach in a way which should appeal to a general business readership and thus engage existing and developing Leaders across a wide range of enterprises.

1 Introduction

There is growing evidence that those who ‘get’ asset management can demonstrate how it meets their own particular business needs. As the asset management community grows in size and maturity, part of the development is that it continues to challenge itself about how to articulate the concept of asset management and its potential benefits to a wider audience.

In my own work, I have frequently encountered the observation “but that’s not asset management, that’s just good practice financial control / demand forecasting / project handover / risk management / investment appraisal / contingency planning” (the reader may add more techniques as required – and/or delete as appropriate). Of course, the observation is correct; but the discussion that follows then shows that the Unique Selling Point of asset management is that it provides a framework in which all of the necessary tools and techniques can interact.

We are all working hard to find new and different ways to articulate the concept and the benefits. There are good examples of clearly-won savings expressed in ‘hard numbers’ including lower costs, more efficient inventories and increased production, as well as the ‘soft’ benefits. The message and the application are spreading.

An interesting feature of this growing maturity is that people are now starting to look for parallels with familiar or cultural references. Ian Miller wrote a piece in the May 2014 issue of ‘Assets’ magazine, invoking the memory of Isambard Kingdom Brunel and reminding us all that we should never forget on whose shoulders we aspire to stand. This was followed by a poll in ‘The Engineer’ magazine, asking if the great Victorian engineers should be regarded as role models for today’s infrastructure builders.

I had already been thinking about Brunel in this light, having recently read LTC Rol’s excellent biography [1]. I have also found examples of asset management in other areas, which led me to think that there is another dimension that we need to develop.

I believe that the genre of business management literature provides us with a way forward. It is amply served by...
popular general works; I propose that asset management would be well served by publishing similar material that provides the ‘hooks’ to amplify basic truths – that asset management is everybody’s business and it’s about how you put it all together. Now that the IAM is coming of age, we need to explore the human dimension through real stories which relate to well-known people and well-known endeavours, things that people will know something about through general, rather than specialised, knowledge. In this way, we can create some of our own role models, heroes and case studies and provide something to which Top Managers and Leaders can relate.

2 Heroes, Role Models and Case Studies

It would be futile to speculate on how Brunel and others might have made their mark today. They were creatures of the Victorian era, when rampant entrepreneurs coupled radical technological innovations with seemingly limitless opportunities in a high risk, high reward environment.

George Bernard Shaw said, “The reasonable man adapts himself to the world: the unreasonable one persists in trying to adapt the world to himself. Therefore all progress depends on the unreasonable man.” I came across this quote many years ago, and it rings true for me in many walks of life. If we apply this to the Victorians, we can see that they certainly made a lot of progress. While we stand on their shoulders, we hopefully continue to learn hard-won lessons from their successes and failures.

Which brings me to my title – one way to look at asset management is that it describes a way in which we can make progress (i.e. be ‘unreasonable’) in a ‘reasonable’ way. We may be required to be revolutionary, but by taking the holistic view of the situation we can consider the full range of issues which must be dealt with in order to achieve an acceptable (or even ‘least worst’) outcome.

3 Aspects of asset management

I have selected several examples that I believe can illustrate asset management in a more general and high-level context which may in turn help to spread the message.

These examples are past, present and future, featuring high technology, a tunnel and an art gallery.

3.1 Stakeholder needs and expectations – big programmes

There seems to be a tendency to reach for ever-larger numbers to create attention-seeking headlines. This year, for instance, we have been told that London will require an estimated £1.324bn capital investment on infrastructure up to 2050 [2]. News of other big infrastructure projects, like the proposed Atlantic-Pacific canal link through Nicaragua (estimated cost £23bn) might seem minor in comparison.

Faced with these headlines, it is important to keep a sense of perspective, to identify important messages and engage in sensible dialogue. For instance, in UK Government, the House of Commons Committee of Public Accounts recently published a report which observes that around £250billion of planned investment in economic infrastructure in the UK is expected to be financed and delivered by private companies, but paid for by consumers (through bills and fares). This includes the regulator-approved programmes for energy networks, water and wastewater and rail infrastructure, each of which have been separately developed and scrutinised in great detail. In each case, the regulator for the industry in question has announced that it has acted on behalf of the customer to challenge efficient spending plans and it has taken firm measures to limit the impact on the customers’ wallets and purses.

The significant contribution of the report is to observe that, while each specific strand of infrastructure investment is ‘market tested’, there is no overall assessment of whether consumers will be able to afford to pay.

This reveals an important point which touches on the requirements and expectations of stakeholders and risk assessment, among other things, at a national or macro level. It goes straight to the heart of what society wants and what society can afford. Such issues are more usually the preserve of politicians and economists. Whether the asset management approach is ever intended to reach this far (and I would argue that it is reasonable to consider such an approach), the mission of the organization (government) could be compromised if customers cannot bear the overall cost of the overall objectives. This is a large and complex subject, and one which the asset management community should acknowledge in appropriate terms.

3.2 Asset creation - the Channel Tunnel

The IAM was not the only significant 20th anniversary this year; the Channel Tunnel also celebrated the 20th year of operation since the first commercial service opened in 1994.

In 1996, The American Society of Civil Engineers honoured the Channel Tunnel as ‘one of the Seven Wonders of the Modern World’. In 2013, FIDIC awarded it a Trophy of Excellence, one of a select group of projects judged to have made a significant contribution over the last 100 years. It is unquestionably a great engineering achievement. These days, it’s perhaps not surprising that we almost take the Tunnel for granted; after all, over 300 million people have now used it.

The 20th anniversary was marked by one or two articles reminding us that the creation of this asset was beset by financial problems. It is difficult to claim that it met the needs and expectations of its stakeholders; in fact, there is a publicly-available document, written some 10 years after the tunnel opened, that states “the cost benefit appraisal of the Channel Tunnel reveals that overall the economy has lost, with the total resource cost being greater that the benefits generated.”[3]

To recap, as traffic between the UK and continental Europe increased in the postwar years, the need for a fixed transport link became more pressing. Eventually, the British and
French governments agreed that a tunnel should be built and this was ratified by The Treaty of Canterbury in 1987. Crucially, the tunnel was to be privately financed, constructed and operated at the owner’s risk – there were to be no public funds or financial guarantees.

For a variety of reasons, the construction cost reached £9.5bn when it was completed in 1994, nearly double the original estimate. This created profound problems for the financing of the venture, which ultimately led to investors losing their money on the project. At one stage, the organization was unable to meet interest payments on its debt of £2M every day.

In 2006, the organization completed a debt restructure which has put the business on a more sustainable footing and in 2009 it paid its first dividend. Other significant changes to the business included the extension of the operating concession from 2052 to 2086, meaning that, a century after the Concession Agreement was presented to Parliament, Eurotunnel is scheduled to hand the fixed link back to the British and French governments in full working order.

I lived close to the project during the early stages of my career, when it seemed that the daily business news was a continuous barrage of the arguments that raged between the banking consortium, the owner (Eurotunnel) and the contractor consortium (TML) over delays, cost overruns, claims and counter claims. At one stage, the business relationship reached a point where Eurotunnel sought an injunction to stop TML from continuing to work.

So why should the Channel Tunnel feature in this paper? The project was, and is, an engineering triumph – but study the detailed narrative of how it was conceived, structured and financed and one finds profound learning points on issues including scope definition, demand forecasting, stakeholder management, project management, brand and reputation and period of responsibility.

3.3 Risk management - Raphael’s ‘Deposition’

A couple of years ago, I proposed developing an asset management example based on art collections, where the asset types could include paintings, sculptures and ceramics. However, this was considered to be a bit too abstract at the time; then I read a news item that suggested that I may have stumbled upon a good example after all.

In September 2014, under the headline ‘Raphael masterpiece warped by museum’s faulty air conditioning’, the feature described how a ‘priceless’ Renaissance masterpiece suffered the consequences of the failure of the air conditioning system in Rome’s Galleria Borghese. It went on to report that the museum’s Director had warned in May that the 17 year-old air conditioning system had not worked for two months because it was ‘completely worn out’, adding that ‘lack of maintenance over a period of years’ had been a factor.

In the heat and humidity of August in Rome, visitors to the museum complained of stifling conditions. They did not suffer alone – Raphael’s Deposition, painted in 1507 on a wooden panel, deformed. The museum reported that emergency measures had been taken and that placing a dehumidifier next to the artwork had reduced the deformation.

Viewed from the outside, this appears to be a potentially good case study for the asset management approach. For example, what is the context of the organization and how does it define its objectives? For reference, the National Gallery in the UK states its objectives on its website [4], including these which relate to care for the collection:

- Keep the pictures in the nation’s collection safe for future generations by maintaining a safe and appropriate environment for them, monitoring their condition regularly, and undertaking suitable restoration or conservation
- Do everything possible to secure the pictures from fire, theft and other hazards

The painting is an irreplaceable asset; its value could be argued to have an international dimension as well as value to the owning organization. However, asset management usually focuses on the building and building services, in this case the air conditioning system.

The wider concept of asset life is perhaps a subject for another paper, but it would be interesting to know how the general concept of ‘end of life’ of 500 year-old artworks is dealt with. In comparison, determining the end of life of an air conditioning system is a simple matter.

Risk assessment and risk mitigation are obvious areas for study, as well as contingency planning.

Again, this demonstrates the potential to apply an asset management approach on more than one level. An audience may well ask ‘so what has a 500 year old artwork in Rome got to do with asset management in my organization?’ More than anything, this case vividly illustrates the potential damage to the organization’s brand or reputation that can flow from a seemingly minor asset management issue.

We don’t always pay enough attention to consequences. When a single event such as this hits the news, the audience is usually reminded of other related issues. In this case, the consequences of the event are far broader than uncomfortable visitors and a damaged artwork. The international media has taken the opportunity to remind us of widespread concerns about deteriorating monuments elsewhere and calls into question a nation’s ability or willingness to look after its cultural heritage.

3.4 Decommissioning and disposal - the Space Industry

People are very fond of paraphrasing President Kennedy, he was even invoked at this year’s IAM Conference (“ask not what the IAM can do for you …”). I want to go back to another statement, “I believe that this nation should commit itself to achieving the goal, before this decade is out, of landing a man on the moon and returning him safely to the
earth.” I have used this excellent SMART objective in training sessions, comparing it to the Mars One mission, which is to send people to Mars and not bring them back!

President Kennedy’s objective was achieved, and the space industry continues to develop. A growing concern, however, and possibly something which was not foreseen in the early days, is the accumulation of debris in earth orbit. 45 years after the first man set foot on the moon, it is reported that there are now more than 17,000 trackable objects larger than a coffee cup in orbit. It is claimed that this is becoming a serious problem and the industry is proposing a variety of novel ways to clean it up. Even Hollywood has noticed this; the potential hazards arising from this orbiting scrapyard and the potential consequences contributed to the drama in the film ‘Gravity’.

As organizations routinely deal with decommissioning and disposal of everything from a sheet of paper to an oil rig, they can perhaps be quietly satisfied that they are ahead of the space industry! The asset management message from space is highly pertinent and transferable to many other enterprises. The asset life cycle includes decommissioning and disposal; failure to acknowledge this and deal with it will have consequences ultimately. These consequences may include increased probability of harm to people or the environment, unforeseen costs, restricted operations and damage to reputation or brand value.

3.5 Asset and life cycle - ss ‘Great Britain’

Since I started with Brunel, I offer one example from his magnificent works, the ss Great Britain. This requires a brief history, which I shall try to relate in asset management terms.

How was the need for this asset identified and how was it created? The business context at the time was high risk, high reward. In the background, the economic regeneration of Bristol was at stake and competition with other ports was becoming fierce. The Great Western Steamship Company (GWSSC) stated that its objective was “to establish regular lines of steamships between Bristol and those Western ports to which her geographical positions renders her most eligible, the first to be directed towards the United States”.

The GWSSC already owned the ‘Great Western’. She was a Brunel-designed wooden paddle steamer, the largest ship of her type in Europe at the time. On the basis of her first successful voyage to New York in 1838, the company decided to commission another ship – thus the ss Great Britain was born.

The guiding minds on this project were all innovators. Possibly what the organization needed was an evolution of the Great Western – what it got was ss Great Britain, a leap in scale and technology - built of iron, adopting, combining, enlarging current techniques, twice the tonnage of anything that had gone before, and with screw propulsion.

The GWSSC decided to build the ship at Bristol and it also set up works there to build her engines, despite Brunel’s warnings about the financial risk of doing this in-house.

In addition, even the rigging was non-conventional for the time, designed for economy of labour, although it seems that it was not well-received by the operators (ie the seamen). It was revised after only two voyages.

While the asset creators were literally making history, the company shareholders were getting concerned about the risks being taken with their money, causing a revolt in 1841 (halfway through construction).

She made her maiden voyage, from Liverpool to New York, in July 1845, two years after being ‘floated out’ at Bristol. In September 1846, en route to New York, she ran aground at Dundrum Bay in Northern Ireland (with no loss of life) and it took nearly a year to refloat her. She survived a year aground only because Brunel himself took charge of the operations to protect the ship while she lay aground throughout the winter season (it seems that no one else had the vision or application required to prevent a total loss). The cost of the salvage and the loss of business brought about the collapse of the GWSSC, and the ships were sold.

The Great Britain was then extensively redesigned and refitted for the Australia route, which she served for over 20 years, carrying some 12,000 passengers. However, by the 1870s, the ground-breaking design and build did not conform to the standards which had since been agreed for iron ships. While she was considered to be in excellent condition and thoroughly seaworthy, Lloyds did not recommend Class A classification, which affected insurability and use as a passenger ship, so she changed hands once more.

Her new owners converted her at considerable cost into a sailing ship for carrying cargo. In this new business purpose, she made two complete voyages from Liverpool to San Francisco. Then, in 1886, she was damaged in a storm and forced into Port Stanley in The Falkland Islands. The cost of repairs was considered to be too high, so she was sold to the Corporation of The Falklands Company for use as a storage hulk. Her Registration was closed in 1887.

So, after 40 years of intermittent use and much expensive repurposing, Brunel’s great ship then served as a storage unit for 50 more years, until she was judged to be in such poor condition that there was a risk to the access to the harbour at Port Stanley. She was towed to Sparrow Cove and beached in 1937, where she spent a further 33 years before being rescued and returned to Bristol in a remarkable salvage operation.

She is now the focal point of an award-winning museum, centre of research and visitor attraction, attracting over 175,000 visitors annually. One of the primary Charitable Objects of the asset owner, the ss Great Britain Trust, is “to conserve and preserve the ss Great Britain in the Great Western Dockyard for all time for the benefit of the public as a ship of historic and scientific interest and to place the same upon public display as a museum accessible for all.”

So why is this story relevant to discussing asset management in today’s context? I believe that we should celebrate brilliant engineering and ‘stand on the shoulders of giants’, but we must be clear that there are important discussion points for the
present day. While some of these may be outside the influence of asset managers, they will certainly be within the grasp of more senior levels. These include:

- Alignment – at the outset, the organization’s objective was to establish regular services from Bristol, but their ship sailed from Liverpool. As such, it did not add value to the local economy.
- Risk assessment and business continuity – a single high impact event (running aground) effectively destroyed the organization.
- Contingency planning – it might be argued that the Supply Chain at the time was not matched to the asset, since there was no salvage capability in place until Brunel himself got involved.
- Life cycle – AM requires us to consider the period of responsibility of the organization when using or managing an asset. While ss Great Britain functioned as a ship for 30 years in total, she fulfilled her original purpose, that of fast luxury transatlantic liner, for only 2 years.
- Decommissioning and disposal – the great ship experienced several variations of this important life cycle phase. In the 1930s, there was an option to tow her out to sea and sink her, but there was an understanding of her historic significance and some attempts were made to preserve her at the time. While these were unsuccessful, at least the result was that she was beached rather than sunk, thus keeping options open for the later retrieval and restoration.

4 Conclusions

I set out to show that there are asset management stories to be derived from general or popular knowledge. To illustrate the point, I have referenced a diverse range of examples from the Space Race to a 500 year-old painting and Brunel to the Channel Tunnel.

In each case, I have tried to draw indicative learning points about the application of an asset management approach. These are not detailed points – the intent is not to provide conclusive evidence, but to stimulate discussion and thinking about how the asset management approach, properly applied, should bring seemingly disparate specialisms together to form a cohesive picture.

Three of my chosen examples – space, the Channel Tunnel and ss Great Britain – are iconic engineering achievements. The surface impression is of great and heroic engineering triumphs. There may be some passing reference to turbulence or difficulty, but it generally does not serve the public image to dwell on negatives. However, I believe that this is where we need to pay attention, so that the ‘language of business’ becomes as familiar to engineers and asset managers as their more technical specialisms. The strong emphasis on alignment, reinforced in ISO 55000, requires that asset managers should know that they are contributing directly to managing the business risks arising from the assets employed in their organizations.

There was a brief discussion in the IAM media[5] about whether asset management can ever help to justify politically-driven investment decisions such as major sporting events and large-scale building projects – and if so, how? It was proposed that AM isn’t ever likely to influence or justify the decision itself, but it can certainly provide support for the justification, by showing that risk and uncertainty are managed and that cost control, effective planning and a sustainable solution can be achieved. The Space and Channel Tunnel examples fit this model quite well – one could add many others.

To just repeat what is said above - this is not to say that asset managers should expect to change every asset-related aspect of the business they work in, but they should be able to apply the asset management approach to develop holistic views with the help of their network of colleagues, and thus become a respected source of compelling expert advice.

Looking ahead, the AM community should be thinking about the headline strategic projects as well as applying itself to the main business of improving business-scale enterprises. Why not have a view on HS2, the proposed new Nicaragua canal, commercialised space flight and all of the other big ideas which fill our media?

I think asset management will prove to be the philosophy and practice that puts the ‘reasonable’ into ‘unreasonable’, that shows how progress can be made in our constrained and crowded world in the ‘least worst’ manner.

As psychologist Barry Schwartz said, “The good news is you don’t need to be brilliant to be wise. The bad news is that without wisdom, brilliance isn’t enough.” [6]

References


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