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Controlling the **Silent Killers** of Strategic Asset Management

by  Grahame Fogel and Johann Stimie

Part 1

This two-part article forms the basis of findings from PhD research conducted by Johann Stimie into the factors that prevent successful execution of asset management strategic initiatives.

Introduction

Organizations the world over are increasingly becoming more and more capital and asset intensive. Various studies show that spending on assets and asset performance has been increasing steadily over the past number of decades.¹ However, within the context of the very uncertain macroeconomic landscape, the largest challenge facing these organizations is the necessity to maintain and increase operational effectiveness, and manage a whole variety of risks while driving revenue and customer satisfaction. Organizations need to achieve these objectives while simultaneously reducing capital, operating and support costs. The contemporary business environment has thus raised the strategic importance of asset management, which is growing in significance as a professional and managerial discipline.

The recognition among organizational stakeholders that the management of assets is important and requires an integrated and strategic focus is indeed a very significant development. However, the mere fact that organizations have a strategic intent does not automatically lead to the achievement of strategic objectives. Asset management practitioners are faced with exactly the same strategy execution challenges as their counterparts in the rest of the business.

The ability of organizations to successfully execute their most important strategic intents is going to become an increasingly more important differentiator. This is Part 1 of a two-part article in which the authors have gathered the knowledge of global experience in strategy execution and focused it specifically around the challenges surrounding strategic asset management in order to provide readers with a framework for **asset management strategic execution success**.

The Increasing Importance of Taking a Broad View of Asset Management

The new ISO55000 standard on asset management states that organizations invest in assets to achieve organizational objectives. Asset management is the management and engineering science of how to align the capital investment associated with assets to a predictable and aligned return on capital. To achieve this, organizations initiate and invest in asset management improvement initiatives, with goals of getting a better risk managed return on assets.

The opportunities for asset management (AM) are substantial. Indications are that industry could recover between a third and a half of annual maintenance expenditure, increase production and free capital by improving AM practices. The size of the asset maintenance industry in the United States in 2005 was already \$1.2 trillion, of which \$750 billion was a direct result of poor AM.²

These realities have forced organizations, professional bodies, academics and practitioners to reevaluate and redefine their views on asset management.

Like CVD, ASEF is also largely preventable if and when the risk factors and causes are detected early and managed

There is agreement that AM requires a far more strategic approach and highlights the importance of a multidisciplinary skill set and cross functionality, and targets organizational synergies. The prevalent threats, from traditional paradigms such as a silo mentality and communication deficiency, shifted toward an integrated view that especially emphasizes the strategic and human dimension.

The collective recognition among AM stakeholders for the need to optimize the mix of cost, risk and performance over the asset's entire lifecycle and to do so in a governable and sustainable manner has been the biggest catalyst for the changes in the landscape. The recognition for the need to change led to a number of attempts in the last decade to standardize the field. These attempts led to the all-important publication of the ISO55000 standard in 2014. ISO55000 is the first set of international standards for asset management. The AM focus, according to The Institute of Asset Management, has shifted from *"doing things to assets"* to *"using assets to deliver value and achieve the organization's explicit purposes."*

The conclusion reached after assessing the literature and global experience is that organizations, in general, and AM organizations, specifically, are faced with numerous strategy execution challenges.

For the purpose of this article, these challenges will be divided into two main categories:

1. Strategy formulation challenges – On the business strategy, action planning and governance level, the contemporary business landscape requires organizations to continuously redefine and adjust their strategies and action plans to maintain and increase operational effectiveness, revenue and customer satisfaction, while simultaneously reducing

capital, operating and support costs. This implies that executives need to regularly rethink and realign their position and plans regarding market segmentation, product development, product mix and market penetration and distribution.

2. Strategy execution challenges – The second category of problems relate to the inability of executives and practitioners to implement and execute strategies and plans effectively. This may lead to a fundamental misunderstanding of the definition of strategy execution and the problematic and often incorrect assumption that there is a direct correlation between organizational performance and strategy execution. For example, organizations often assume they have good strategy execution when markets are buoyant, but when markets change, organizations are left exposed.

The interplay between these two categories is illustrated in Figure 1.

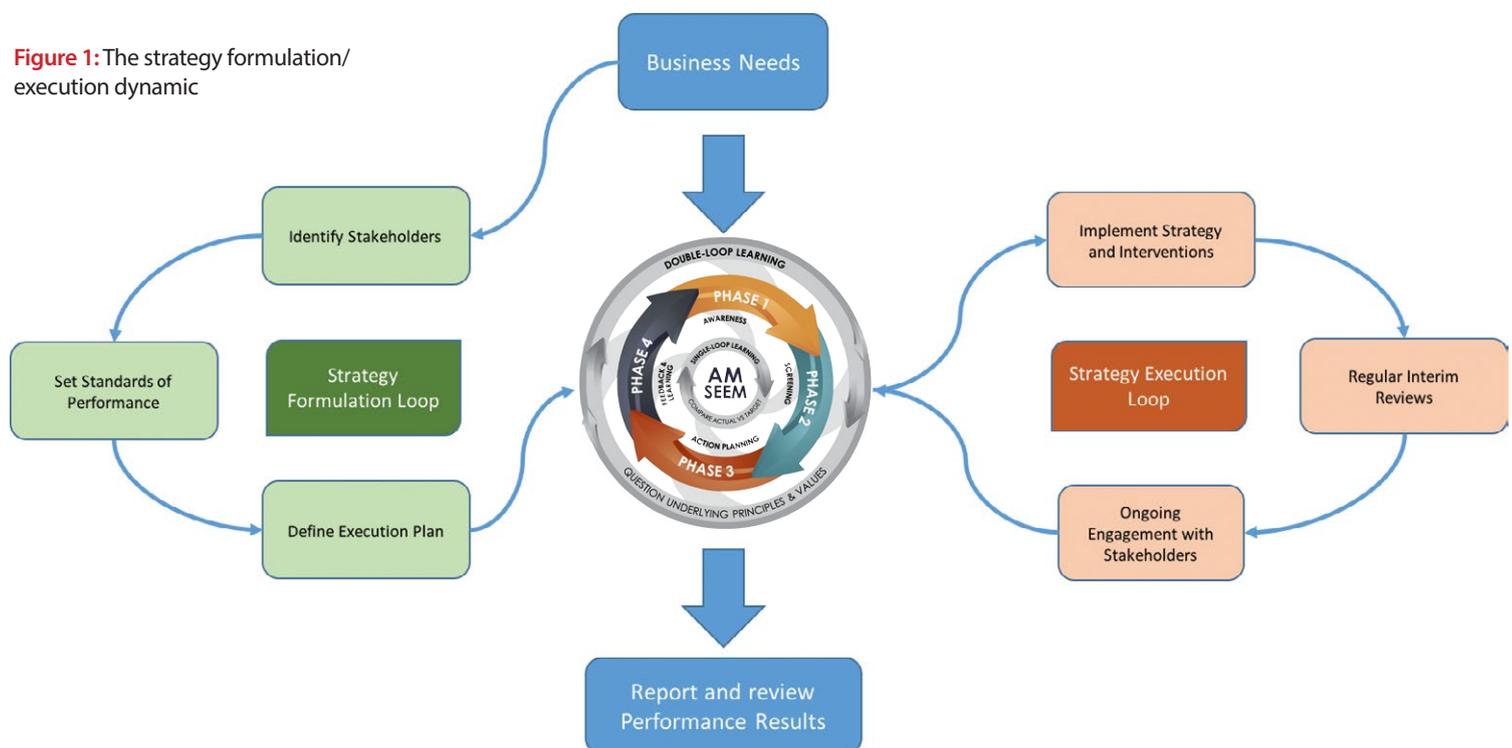
Strategy formulation has been the topic of a great number of research projects and articles. Strategy execution, particularly in the AM environment, demands more cohesive attention. The amount of in-depth analysis and thought on the factors contributing to strategy non-execution is far less understood and thought out than those focusing on strategy formulation.

Asset Management Strategy Execution – A Bleak Picture

For the purpose of this article, asset management strategy execution (AMSE) refers to the continuous process during which an organization critically evaluates and adjusts three key factors to ensure that assets contribute to the creation of a sustainable competitive advantage.

1. The alignment, effect and orientation of its asset management strategy (AMS) relative to the organizational strategy;
2. The applicability of the AM organizational design and management systems, including control mechanisms;

Figure 1: The strategy formulation/execution dynamic



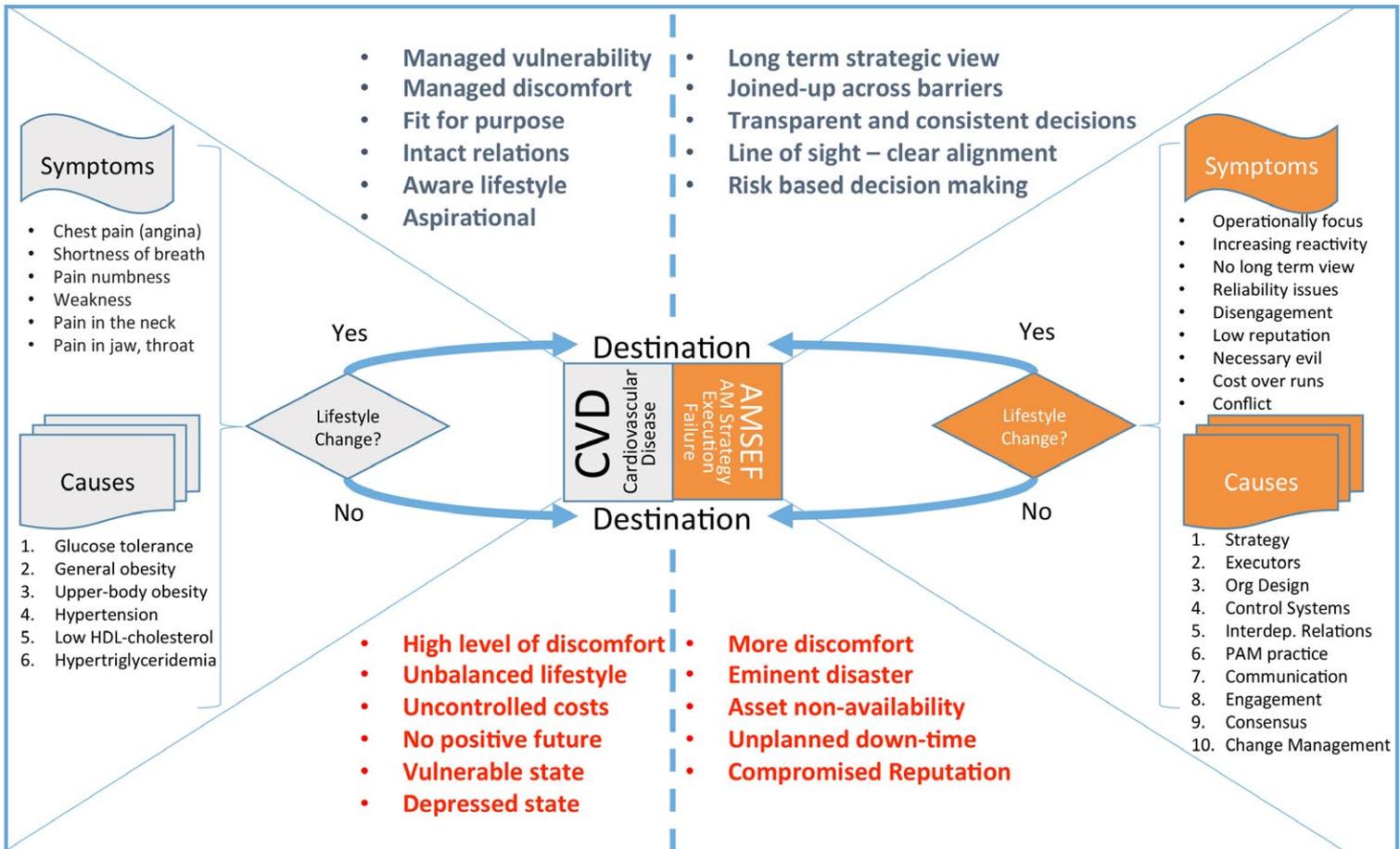


Figure 2: Comparison of cardiovascular disease and asset strategy execution failure (See "A Remarkable Analogy"- page 39)

- The readiness of its interpersonal processes, such as strategic consensus, behaviors, organizational climate, cross-functional coordination and communication activities.

Global experience paints a rather bleak picture on the state of AM strategy execution. It is important to understand the scope of the problem, so here are a number of examples where companies had a fairly dispiriting experience:

- A study of 358 decisions made in medium to large organizations in the U.S. and Canada, found that 50 percent of the strategic decisions failed.³ Another study found that 66 percent of corporate strategy is never implemented.⁴
- A study conducted by *The Economist* over a three-year period found a discouraging 57 percent of firms were unsuccessful at executing strategic initiatives.⁵
- A Mankins and Steele report⁶ finds that companies only realize 63 percent of the financial performance promised by their strategies. In a survey of 156 large organizations, also conducted by Mankins & Steele, it was found that executives often make strategic decisions outside the planning process in an ad hoc fashion and without rigorous analysis or productive debate.
- Results of a study conducted by Kaplan and Norton⁷ found that up to 95 percent of company employees were unaware of the strategy. The results

of far more recent surveys confirm the strategy execution challenges contemporary organizations are facing.

- In its 2014 Global Performance Alignment Survey, PwC found that although 76 percent of global CEOs agree that their leadership team shares a consistent view of the strategic priorities, only 54 percent believe their strategy has been sufficiently translated into clear actions that will achieve their objectives.
- Another study of more than 400 global CEOs⁸ found that the most important challenge facing corporate leaders in Asia, Europe and the United States is the issue of strategy execution.

Failure of strategic initiatives, such as implementing asset management improvement programs, bear not only the input costs and energy from the investment, but inevitably failure alters both the psychology and culture of an organization to huge negative effects.

The impact of asset management strategic execution failure (AMSEF) can vary from a mere "slap on the management team's wrist" to major loss of life, environmental damage, financial loss and reputational damage that might take years to rebuild, if at all possible.

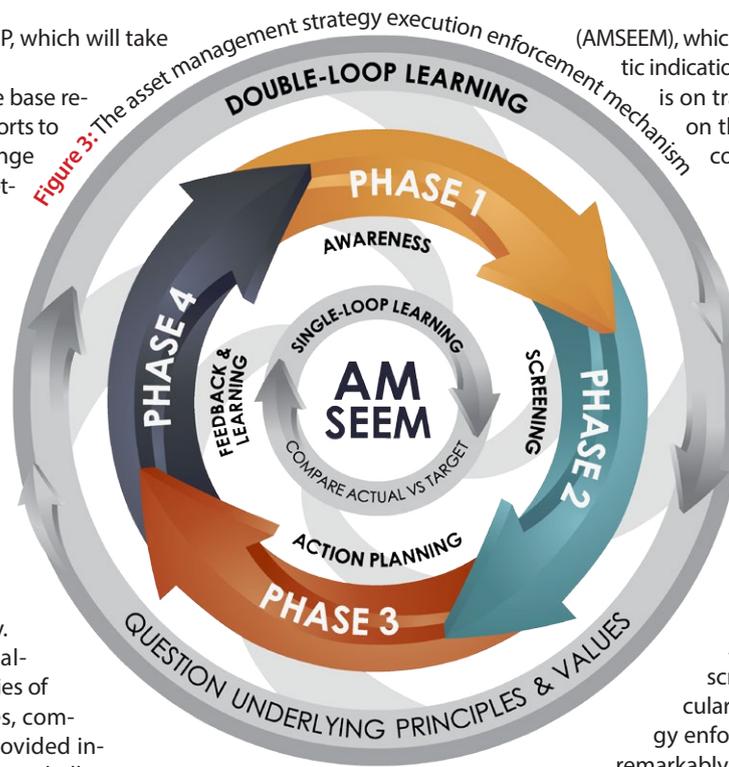
One of the most extreme examples of a failed AM strategy is the Deepwater Horizon explosion and oil spill that resulted in the deaths of 11 people. At its peak in 2010, the response effort involved the mobilization of approximately 48,000 people, the coordination of approximately 6,500 vessels and the deployment of about 1500 kms of boom to contain or absorb the oil.

This also wiped out half the value of BP, which will take decades to recover.

A review of the global knowledge base reveals that the focus of most existing efforts to address the strategy execution challenge seems to be on the development of better management control mechanisms. These mechanisms are essential and provide useful feedback when actual results are compared to strategic objectives. They are, however, reactionary in nature and the feedback is often too little and too late, which, by definition, is a lagging indicator.

Many organizations find themselves in a strategy crisis not because executives and practitioners are unable to develop quality strategies, but because these organizations fail to execute strategies effectively.

With the strategy execution challenge clearly defining objectives, a series of business-oriented discovery exercises, combined with fundamental research, provided insights on how to manage through these challenges. This thinking led to an enforcement mechanism referred to as the asset management strategy execution enforcement mechanism



(AMSEEM), which provides a quick and effective diagnostic indication as to whether your strategy execution is on track. The AMSEEM has been developed on the basis of best published knowledge, combined with practical experience, to align the success factors necessary to manage through to the achievement of the defined goals.

On the basis of extensive research into the factors that will align strategic success, a health checkup is recommended for execution success. This checkup should form part of your key performance indicators (KPIs) and be a key navigational instrument in bringing the initiative home.

A Remarkable Analogy

During the development of the AMSEEM, the characteristics of the screening and management of cardiovascular disease (CVD) and the proposed strategy enforcement mechanism were found to be remarkably similar and the intuitiveness of the former provides a great platform to explain the latter. CVD is the single biggest cause of deaths worldwide. More than 17 million people die every year from cardiovascular disease. CVD undermines

Table 1 – Abridged AMSEEM Introduction

PHASE	MAJOR DECISIONS	PROCESSES
PHASE 1: Awareness	The most important decision during the Awareness Phase is regarding the need to optimize.	<ul style="list-style-type: none"> Step 1 – Constitute steering committee Step 2 – Evaluate PAMs Step 3 – Create Statement of Direction Step 4 – Introduce generic PAMSEEM Step 5 – Develop PAMSE calendar Step 6 – Continuous stakeholder communications
PHASE 2: Screening	The most important decision during the Screening Phase is the acceptance of the results of the screening process.	<ul style="list-style-type: none"> Step 1 – Contextualize the generic screening model Step 2 – Gather data Step 3 – Complete the model and calculate scores Step 4 – Interpret the results Step 5 – Present the results
PHASE 3: Action Planning	The most important decision during the Action Planning Phase relates to the prioritization of action plans. A number of methods to assist decision makers during the prioritization process is introduced.	<ul style="list-style-type: none"> Step 1 – Develop action plans Step 2 – Implement action plans
PHASE 4: Learning and Feedback	The most importance decision the PAM organization can take is to embrace the principles of continuous learning.	<ul style="list-style-type: none"> Step 1 – Data acquisition Step 2 – Data analysis Step 3 – Trade-off recommendations



health, shortens life expectancy and causes enormous suffering, disability and economic cost. The same is true of asset failures. CVD is largely preventable, and early detection and management can result in a major reduction in the burden caused by the disease.

Asset strategy execution failure (ASEF) undermines organizational performance and has major implications for the long-term sustainability of organizations. Like CVD, ASEF is also largely preventable if and when the risk factors and causes are detected early and managed. Addressing the underlying causes of ASEF and improving systems to detect and manage early indications of ASEF when interventions are most effective will ensure the desired outcomes.

The Asset Management Strategy Execution Enforcement Mechanism- AMSEEM

The AMSEEM has been developed to assist asset dependent organizations with early detection and management of factors contributing to strategy execution failure (SEF). The AMSEEM is illustrated in Figure 3.

The AMSEEM is essentially a double-loop feedback system consisting of four iterative phases, four major decisions and a number of implementation processes or steps. The AMSEEM is a practical mechanism that should ultimately become part of the organization's standard operating procedures and DNA. An abridged version of the decisions and processes involved in the AMSEEM is presented in Table 1.

The operationalization of the AMSEEM will be described in Part 2 of this article.

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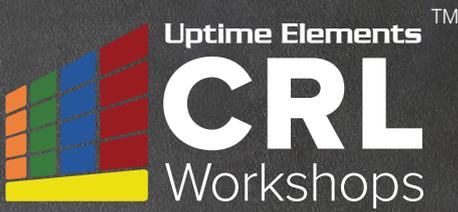


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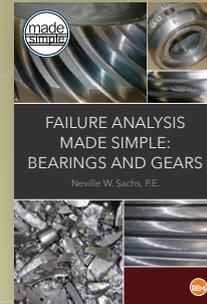
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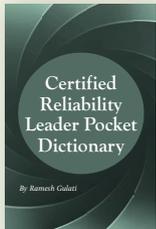
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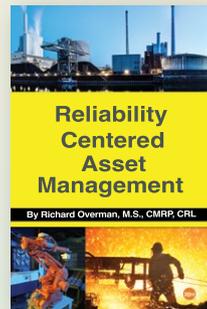
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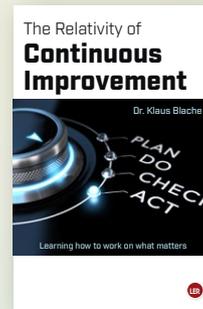
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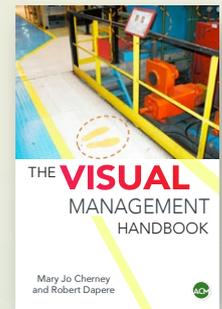
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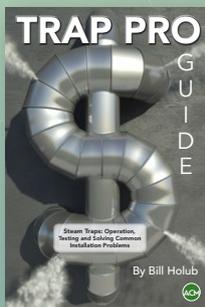


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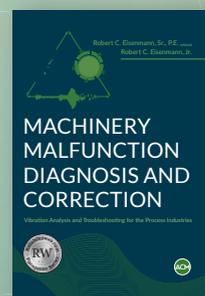


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