Kinds of asset management: the differences

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Ype Wijnia and John de Croon *20 July 2012*

Since the holidays are approaching, we decided to bring out a series of columns in which we have some reflections on our profession deliberation. You can of course also read that we make it easy for ourselves, since we do not have to publish a weekly column. And this is the underlying consideration. However, we found it a great opportunity to come back again on a question which has long been a struggle for us[1]. This question is what asset management exactly is.
Now there is probably somewhere a smart person immediately referring to a definition in a beautiful sentence which precisely explains what asset management is. A familiar example is the definition of the PAS55, soon promoted to the ISO55000 series:

“Systematic and coordinated activities and practices through which an organization optimally manages its physical assets, and their associated performances, risks and expenditures over their lifecycle for the purpose of achieving its organizational strategic plan.”

In the standard something is mentioned on a systematic and coordinated approach, optimal management, performance, risks, costs, life cycle and the strategic plan. Of course these are all elements of which we recognize the importance for asset management. In other words, everything is in it. But the disadvantage of definitions which include everything that they are often meaningless. Try to explain the definition above to a mechanic. After 3 words the mechanic is probably ´lost´ and goes back to work….. And rightly so: the core of asset management is reflected in what you do with the assets, and not how you talk about what you do with the assets. So what asset management exactly is may actually be reduced to that what the asset manager does with the assets. But since you can not always instantly perceive this, you often have to rely on how the asset manager talks about asset management. But that is a derivative.

However, the attentive listener can already observe a lot by listen to the language of asset management. Tune for example through the week in on a business radio station and the chances are that at some point someone comes along from XYZ Asset Management (XYZ in this case states banks such as HSBC, ING, Santander and so on) to explain the stock market developments this week. In the heyday of the credit crunch that was about toxic assets but also terms like shoulders, head, the neck line, perfect storm, cup and handle and resistance line could be heard frequently. A search on wikipedia does give some explanation of the concepts (it all has to do with the shape of the line that shows the price development[2]) but it does make it difficult to follow. But where does the whole explanation boil down to? An advice to buy or sell certain shares. Financial asset management thus about buying and selling assets.

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[1] Last year we wrote to papers with J.P Liyanage for the World Conference of Engineering Asset Management in Cincinnati

[2] Although we have always thought that developments in the past mean nothing about the price development in the future, but we might have misunderstood it

That is something quite different from what the average asset manager in a factory is worried about. Formerly this was called, Maintenance Manager or Head Technical Department which are two descriptions that are still reasonably close to the heart of the matter. To very briefly describe the developments in this field[3]: In the beginning the duty of the responsible manager was to get rid of failures. The smart ones among them thought that it could be more convenient to prevent failures by performing timely maintenance tasks and the maintenance manager was born. Continuous improvement of maintenance through measurements, condition monitoring and so ensured a higher availability at lower cost than was possible with corrective maintenance. Unfortunately for the maintenance manager, the hero stories are still told about those who solved major faults and not of those who kept the factory competitive. In fact the asset manager is a further development of the maintenance manager, where the maintenance is integrated with production and process optimisation. In such a company the asset manager has done well if the takt time was slightly increased, since fewer assets fail and eventually more can be produced per year. Is this future? Certainly not, just look (a little of topic) to a Formula 1 team: if they drive a little slower, the team does more with a fuel tank and the tires and the team is probably faster in the overall race. If one keeps pushing until the car breaks, the team win no races anyway, though the challenge for the team is to increase speed without excessive wear. In summary, what does a factory asset manager? That manager optimizes (actually a continuous improves) current assets.

But now look at an asset manager in a network company such as a utility or a transmission system operator. This asset manager is hardly concerned with the operation of their assets, since the customers directly determine what flows through the pipes and cables. And maintenance? That has very little attention. A major part of the assets is in the ground, and thus inaccessible for maintenance. Of course corrective maintenance is applied (and even then often because someone else has damaged a cable in for example digging work), but if such an asset fails (cable or pipe) due to a bad condition, then the solution is to replace the asset not to execute preventive maintenance. Only a part of the asset base is maintained, at an interval where a factory asset manager spontaneously gets itch: ten years. All in all, less than 10% of the assets is touched per year. In that respect, we could therefore better speak about non-asset managers. This obviously is a joke, but there is (as in all hoaxes) a grain of truth in it. An infrastructure asset manager in fact is primarily engaged in delaying investments. Where in the past pipes were replaced as they were depreciated (regardless of the technical condition) and cables got an increased capacity as they possibly could be overloaded, an attempt is now to seek the borders more and more. But it almost always leads to investment programs, either for replacement or for new constructions.

We here have found three forms of asset management. All of a very different language and with different instruments. And yet it all is asset management. In the remainder of this series, we will successively give an explanation of the differences, the connecting link between these kinds of asset management and finally we conclude with our integral vision of the profession. An observant reader has of course noted that the series contains of four parts, and that is quite true. But are we on vacation so long? That of course depends entirely on how you define holidays.

John de Croon and Ype Wijnia are partner at AssetResolutions BV, a company they co-founded. In turn, they give their vision on an aspect of asset management in a weekly column. The columns are published on the website of AssetResolutions, www.assetresolutions.nl/en/column

[3] See also our column 'A bridge too far' of 2 March 2012