

# Subjectivity in asset management

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In our approach on decision making in asset management we always end up trying to quantify everything and monetize it, in which the value is expressed in one number. The best choice is simply the solution that delivers the most value. By valuing the zero option (do nothing and leave the situation as it is, so accept the risk) you can even determine whether you need to solve the problem. Simple, clear and always applicable, what more should an asset manager want?

Yet on this approach a lot of noise often arises. We notice it at customers, as well as when we explain our ideas at seminars and discussion meetings. The comments usually unfolds along two main directions. The first is that the approach is not ethical, because we put a price on human's lives. With this comment, we usually are done quickly. In any consideration on safety a price is put on human's lives, though it is usually implicit (and is only determined afterwards), by means of the choice whether to execute certain measures and others not. The only difference is that we do it explicitly in advance. This comment reminds a bit of a philosopher who says that you know nothing certainly. Strictly theoretically quite true, but those people quietly enter a plane. Apparently, the practical certainty that the aircraft does not fall from the sky is high enough.

The second line of comment is that it all is very subjective. As well as the probability of the risks as the weight factors between the business values are estimates and no objective facts. A change in these estimates may result in different outcomes. How seriously can a decision then be taken when it is delivered with this method? This is a difficult point of criticism, because it is not only true but also relevant. In decision making a lot of subjectivity is involved and thus affects the choices you make as an asset manager. How should you as an asset manager now deal with that subjectivity? Broadly speaking there are three ways to do that.

The first is to deny the subjectivity by only talking about objective technology and not about the valuation of it. This is reflected in standards with technical specifications, technical criteria and technical justifications. The (sometimes not so) hidden message is that it is all very complicated and that one has to trust the engineers. However, not all stakeholders agree to this. It may even be that the stakeholders initiate their nuisance power measures, e.g. by a transverse in a permit application process.

The second way is to motivate the subjectivity theoretically, for example with the welfare theory. By applying concepts such as willingness to pay or willingness to accept, one is looking for a market for the pros and cons of the various options. If the total value the market is willing to pay to obtain the benefits is greater than the total value of the compensation which has to be paid accept the disadvantages, there is a net welfare gain and it is therefore a good option. This is the so called social cost-benefit analysis. However, the models to determine the price are often so abstract and complex that no regular person can calculate this. The message of this approach is that it is calculated that people actually want the solution. In terms of respect for the stakeholders this approach scores even worse than the engineer who just states that he / she knows better. The point is that in practice the compensation does not take place and so just winners and losers remain.

Look in the newspapers when for example increasing capacity of a motorway is a theme. The drivers and business people (and their representatives<sup>1</sup>) support the increase because of a better flow, while nature conservationists often will be against it due to the loss of natural areas. Some residents will support the idea (because they are at work in less time) and some against (because their garden will become smaller). Some political parties will support it, others won't (or within one parties even both

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<sup>1</sup> And some are both entrepreneur and motorist

opinions can occur), depending on their vision. People involved in the decision-making process often come from different disciplines and look from a different perspective to the problem with different values. It is clear that the interests of the various stakeholders are not exactly the same.

The third way to deal with subjectivity is by embracing it and making all decisions political and thus to give the subjectivity a central place. A good decision is the decision for which the decision-makers find it a good decision, there is no objective standard. Unfortunately there are also some disadvantages to the political approach. Just to mention a little one: political decision-making is rarely consistent, in the sense that similar problems do not lead to similar results. Anyway, if one believes it is good, then it is good. The main problem is that it takes a lot of time and it is slowly, the known viscosity. It is necessary to align the interests at stake, but it also means that you cannot process all the thousands of decisions this way, then a part will just be rapidly decided or not even treated.

The beauty of asset management as we face it is that it combines the strengths of the approaches. By taking the interests of stakeholders into account in determining the business value model, the asset manager can still make good decisions with reasonable certainty. For the record, to capture the interests of the stakeholders is the responsibility of the asset owner, not of the asset manager<sup>2</sup>. With that business value model then all issues can be assessed, with which the initial choice is made. That is the choice for which the average stakeholder is best off. But unlike the theory, it is not regarded as truth, but as a starting point for the (political) debate<sup>3</sup>. The result may therefore be less accurate. The discussion will show that the majority (say 80-90%) of the initial choices will be accepted, but for a few considerable discussion will arise. But because this is a limited number, earnest work can be made of the discussion. Moreover, because the accepted list is a ranking of projects, the consequences of the continuation of a specific project or not can also easily be shown, as well as the most efficient ways to compensate it. The denial of subjectivity also has its place. You can remove issues, where again and again the same decision is taken, from the decision making process and deal with them using a standard method. That might be a little too strict in some areas and for some other too mild, but the efficiency gains of the standard usually is large enough to catch the disadvantages.

What does this say about subjectivity within asset management? Should you want it as an asset manager? There is only one answer possible.

***Yes please, but only at the beginning and end of the process***

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<sup>2</sup> See our column on the sense and nonsense of splitting roles

<sup>3</sup> We refer to our column on reversed communication in which is described how this can work