

Strategic Advantages – Responsible Outsourcing in the New Asset Management Environment by Daryl Mather

This column is based on the upcoming book from Daryl Mather titled “The Maintenance Scorecard: Creating Strategic Advantages”. This book is due to be published September of 2004.

Outsourcing as a Source of Competitive Advantage

Outsourcing is usually one of the more predictable suggestions of managerial consultants throughout the world. Generally these suggestions are made with either the intention of reducing direct costs, incorporating specialist knowledge, or avoiding the problems associated with hiring and keeping employees.

This trend has been behind the massive swings of technical and administrative functions from economies such as the UK, Canada and the USA to countries where lower wages are paid to people with equivalent levels of competency.

In asset management it has meant that large swathes of the workforces of maintenance intensive industries to be replaced by service providers of some form or other. This is particularly the case in areas such as specialized services (predictive or other technical analytical service) as well as short term / high volume work such as outage management.

In general this has allowed corporations to become more competitive through reducing direct costs and allowing the organization the ability to tap into the industry knowledge of best practises that are often found in the providers of specialist services.

Changes in the Asset Management Environment

However over the past five years, and more importantly during 2003, there have been some dramatic changes within the legislative environment that call into question the justification for outsourcing in this area. These have been part of a wider global trend focusing on the inherent dangers associated with asset management and the growing level of intolerance in society with regard to preventable disasters in this area.

These changes include such items as:

- The legislative reaction to the Longford disaster in Australia where two people were killed and an entire state cut off from its gas supply for two weeks. Following an explosion at a Gas Plant in the state of Victoria.
- Introduction of the ESQC 2002 regulations in Great Britain to force higher levels of risk management in electrical power transmission.
- 6 people charged with manslaughter in relation to the Hatfield train disaster in the UK. These people included management of the asset owner company as well as those from the service provider company. This included the ex-CEO of the asset owner company. The action is currently in progress and is being defended by those involved.
- The enactment of legislation in Canada, due to take effect as of the 1st of January 2004, providing harsh penalties for negligent or deliberate actions leading to injury or death. These include up to 25 years imprisonment for individuals and fines of up to \$100,000 CND for corporations.

The primary effect of this trend is a growing realization that in the future all decisions regarding asset management could be called into question at some stage. And it is increasingly individuals rather than corporations that are being asked to provide the answers.

Responsible Outsourcing

While the responsibility for maintaining and operating assets is able to be delegated, there is no current way of adequately transferring the accountability for safe asset performance.

Regardless of contractual arrangements the asset owners remain those with primary responsibility for managing and mitigating the risks associated with their physical asset base..

As such there is a driving need for asset owners not only to make the correct decisions in this area, but also to be able to defend them. In particular by being able to prove that all reasonable efforts that could have been taken had been taken to reduce or mitigate risk levels.

To ensure defensible decisions in an outsourced asset management service, then there is a need to change the way that these forms of contracts are traditionally managed. Can the mere delegation of responsibilities continue to be seen as the responsible way of managing assets?

Asset owners must have involvement in decisions concerning what is to be done and how it is to be done. The combination of doing the right job and doing the job right that are the underlying concepts of responsible asset management.

This requires the asset owners to retain control over the management function in this area. In particular over the specific functions detailed below:

- Determining what the asset management strategies are, or clearly defining how they are to be determined.
- Defining exactly when these tasks will be executed, in accordance with the frequencies determined under the strategy formulation step.
- Defining how these will be executed ensuring adherence to all reasonable safety measures, procedures and regulations where relevant.

Outsourcing remains a viable business solution in many area of corporate activity,. However within asset management it is imperative that it is done so under the control, guidance and auditing of the asset owners.

This change in focus is a part of a much wider change in the area of asset management. A change that will impact on every area of this managerial discipline requiring that decisions are taken:

- By the right people
- With the right knowledge
- In the right way

Daryl Mather is an author, speaker and management consultant from Australia currently working in the United Kingdom. darylm@klaron.net