

Challenges in Asset Management

Making Deliberate and Responsible Sourcing Decisions

Topics such as “sustainability” and “Corporate Social Responsibility” (CSR) are no longer new issues on asset managers’ agendas. But how do you integrate these CSR challenges with necessary sourcing decisions? In this article we describe the environmental challenges that organizations are facing and the model that can be used to incorporate sustainability targets into sourcing alternatives.

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At first sight, it looks like the main drivers for this phenomenon are the different environmental regulations from several national governments. We held an extensive survey among various asset owners and contractors in the Netherlands (April 2011). This survey showed that companies are still primarily looking for opportunities to increase profit by lowering costs and optimizing asset utilization over opportunities in CSR. However, asset managers underline the rising motivation and possibilities for incorporating CSR.

Both asset owners and contractors state that environmental targets can also be aligned with targets of reducing operating costs, for example through energy reduction and recycling. In addition, companies tend to investigate more extensively what their core business is and how to utilise the core competencies of other companies. Therefore, important challenges arise for sourcing decisions in asset management and ways to integrate CSR targets.

Sustainability challenges in assetmanagement

Let’s take a better look at the group asset owners. The assets vary from technical plants (e.g. chemical industry) to property owners (e.g. government), networks (e.g. Telecom) or production sites (e.g. FMCG). Most of the time, these companies are listed on the stock market and have several important stakeholders such as local or national authorities, customers and environmental organizations. The companies are partly dependent and need to maintain a good relation with these organisations if they want to do business successfully, both from a legal and CSR perspective.

The European Union and its members have formulated sustainability targets in the long and short run. The percentages of reduction of energy and CO₂ vary among the countries but are significant and ambitiously

formulated (up to 10–50 %). Without going into detail we can conclude that these objectives turn partly into regulations for companies. Other stakeholders than authorities support this direction and pressure companies as well. This force field started already years ago; it is now also pushing the slow starters to change their business drastically. The low hanging fruits are gone, it is now time to look together with suppliers at the fundamental processes and improve the way of working.

Based on our experience with customers we see two key places where strategic sustainability targets get concrete and involve operational processes. In the first place, organizations are formulating sustainable selection criteria when setting up new supplier relations. In the Netherlands, the government plays a role model in tendering suppliers for work. The better you incorporate sustainable

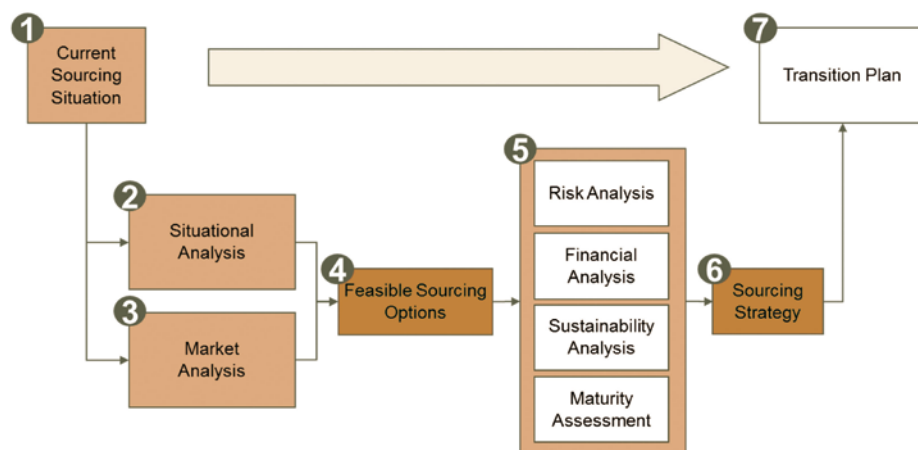


FIGURE 1. Sourcing scan.

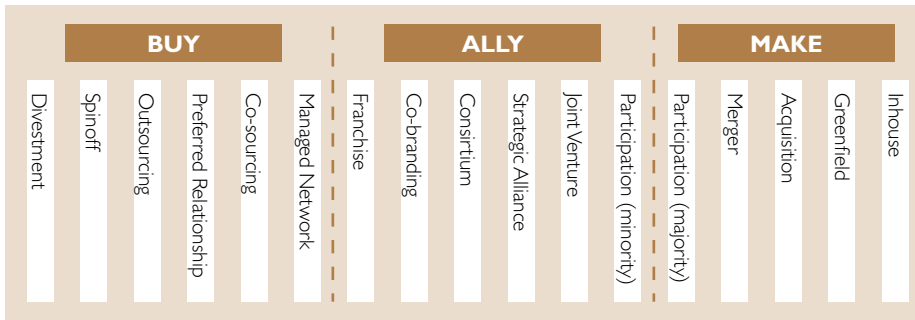


FIGURE 2. Sourcing options.

operations in your company and your businesses, the more points get awarded to your proposal. Having sustainability incorporated in your processes may even compensate a higher price. It is not only about offering the lowest costs anymore; it is about offering the best integral proposition where sustainability offers a significant opportunity.

The second important place where we see sustainability targets touch the operational and tactical level is in the Key Performance Indicators (KPI) dashboard of the asset owners. Let's discuss the owner of a chemical site producing components for paint. We identify strict regulations onsite where contractors work for technical maintenance and construction work. Asset owners tend to close contracts on a higher responsibility level and expect contractors to pro-actively come up with improvements, e.g. in the field of energy reduction of the plant. Asset owners realize great value of contractors in knowing the plant well and have often many thoughts of how to improve processes. These contractual agreements are formulated in KPI's and monitored on a frequent basis. We see here as well that asset owners push contractors in the position where they have to cooperate more closely to achieve these targets. This is a unique situation where competitors need to share knowledge and resources to jointly accomplish targets and gain more successful business. We call this development of contractors working closely together for one (or more) asset owners Co-Sourcing.

Aligning the sourcing strategy

During the last couple of years, we have seen that companies increasingly organize asset management activities in cooperation with partners and suppliers. A growing number of companies are examining the possibility of cooperating on, or handing over, tactical – and in some cases, even core – activities. To be able to define the optimal sourcing strategy for asset management activities, manag-

ers must first ensure that the corporate strategy and sourcing strategy are aligned. Moreover, with an increasing focus on CSR the impact of People, Planet and Profit should be included in the decision-making process concerning the optimal sourcing strategy. The main trend is that companies are making both more conscious and more responsible decisions about what to “Make, Buy or Ally”.

In order to make a conscious and responsible decision we advise asset managers to ask themselves to run through the seven-step approach presented in the sourcing scan (FIGURE 1). In case certain activities are handed over to a partner (or are hosted in some kind of alliance) the people, planet and profit objectives of your company should be translated into the agreements and objectives with your partners. Take the contractors in the example above: set a KPI on reduction of use of chemicals (non-biological) for cleaning purposes. Whereas this triggers contractors to get creative (or more preventive) in cleaning processes, it also stimulates sustainable business. You can integrate these goals into your acquisition criteria. In this way, a wide set of objectives in asset management and maintenance – such as reliability, cost-efficiency, innovation and sustainability – can be attained.

Making a conscious decision

We'd like to make a step towards what we see in the market as a mandatory process for asset managers in organizations these days: implementing a sourcing competence centre to evaluate business processes and align them with organizational and environmental objectives. You can incorporate different criteria in your steps to get – most importantly – optimal processes while taking environmental and social criteria into account.

In determining the optimal sourcing option, we suggest a holistic approach in which we split the asset management organization

into different functions and responsibilities (i.e. domains of distinct activities). Consider, for example, the different utilities of a company, divided by ownership, operations and maintenance of the concerning assets. We now guide you through the decision-making process, using the seven-step sourcing scan, to define the best sourcing option for each activity:

1. The first step is to examine the current sourcing situation. A useful insight into the current sourcing situation includes an assessment of processes, resources, responsibilities, quality indicators, costs, social & environmental impact and overall contribution to company goals.
2. Secondly, we advise you to carry out a situational analysis based on the current sourcing situation. You should take into account the strategic value and complexity of the activity, as well as implications for competitive advantage and relations with (core) processes. While doing this, continuously reflect on strategic objectives – including CSR goals – and the stipulated sourcing strategy.
3. Next, performing a market analysis parallel to the internal analysis gives you the required external insights. Investigate relevant developments outside the organization, as well as innovations, trends and possible threats. Do not focus exclusively on competition; also look at companies operating in other markets that may be successful examples.
4. You use the above results to define the relevant and feasible sourcing options (see FIGURE 2 for a basic set of options). If, for example, the particular domain of activities appears not to be of strategic value, is not that interwoven with other processes and suppliers operate in a competitive market, “buy” options can be further investigated. The figure shows that the “Make, Buy or Ally” question is not the only question that needs to be answered – there are numerous sourcing options to be considered within these three categories.
5. These feasible options are each the basis for a detailed risk, financial and



sustainability analysis, resulting in a both qualitative and quantitative value case, as well as a maturity assessment on the current situation. In some cases, it can be wise to first increase the maturity level of your activities before transition to an external partner. Moreover, it is evident that your own social and environmental guidelines are evaluated on future attainability for each of the feasible sourcing options. The sustainability analysis is therefore an additional analysis next to profit (i.e. financial analysis), and is consequently an important criterion for determining the most optimal sourcing option.

6. The outcome of the analysis in step five provides you with additional understanding into which sourcing options are the most relevant, responsible and feasible. Using this foundation, you can select the most optimal sourcing option, i.e. which maximizes company goals, including contribution to social and environmental issues.
7. Finally, when the selected sourcing option differs from the current way of sourcing, we recommend you to set up a transition plan and to start organizational change.

The approach we describe is the result of best practices and extensive experience. The sourcing scan is a tool to define a thought-

ful sourcing strategy based on conscious decision making with respect to people, planet and not least profit. By making these decisions, asset managers can take advantage of the core competencies of other parties for their operations in order to attain corporate goals most effectively.

The different sourcing options shown in **FIGURE 2** illustrate that sourcing encompasses much more than just looking at outsourcing alternatives. Based on our experience we distinguish many different scenarios for sourcing business processes. Varying from Make scenario's (in case of critical processes) to Buy scenario's (when most efficiently to outsource the activity) to Ally (when able to create additional value in cooperation with other parties).

Conclusion

More and more companies are integrating CSR targets in their corporate strategies and use them as enablers for cost reductions. In addition, managers increasingly focus on core competencies and explore the multiple options in asset management through sourcing. Corporate social responsibility therefore becomes an integral part of a present-day sourcing decision. To succeed in the business environment of today and tomorrow, we advise companies to include CSR in the sourcing decision-making process by adding the impact of people, planet and profit to the value case. Having considered all relevant sourcing options, a conscious and responsible decision thrives your business for the future. ■

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