Asset Management

Why “Alignment” in Asset Management?

Achieve better value for your organization by aligning financial and non-financial functions

Part 1
About ISO/TC 251

We are the ISO Technical Committee for Asset Management Systems responsible for the development of the ISO 55000 family of standards. These standards define good practices in Asset Management and requirements for a management system.

Find out more at committee.iso.org/tc251

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**Introduction**

Have you ever felt like your engineering teams, financial teams and operational teams are speaking a different language? You know they all have a role to play in the decision-making process but aligning their viewpoints, terminology and objectives seems difficult. How many of you are challenged by fragmented systems and processes that don’t talk to each other, hamper the decision-making process and make it difficult to see if objectives have been met?

Organisations have lots of processes and sophisticated systems in place and great skilled people to manage the different functions and organisational requirements, but there are challenges in bringing these together to work as an integrated whole.

**Challenge of Aligning the Functions**

Many organizations have financial and non-financial asset management functions in different departments which results in:

- Poor communication channels between these functional areas;
- Lack of transparency;
- Misalignment between the financial accounts and the technical inventories;
- Lack of internal coherence; or
- Missing information in reporting on assets to stakeholders.

Senior executives in organizations often struggle with many asset-related questions and problems related to finance and accounting. Some typical issues are:

- What level of expenditures or funding do I need to make in assets over both short and longer term (both CAPEX and OPEX) to deliver my organizational objectives; and how do I prioritize this expenditure?
- What is the cost of delivering products or services to my customers; and how can I use this to inform my pricing?
- How can I know the total cost of ownership of each major asset or group and how near term decisions impact longer term TCO?
- How can I give assurance that the activities in the field are registered accurately, completely and timely in my financial accounts?
- I don’t obtain enough information on the asset base for reporting purposes or to enable correct and timely decisions.
- I get conflicting information from different sources.

So, given these challenges, how can we better manage these important relationships across the various functions to support and provide for better asset management decision making? This is where “Alignment” comes in.

**EXAMPLE**

The engineering and operations team in a fast-moving logistics organization are convinced that a production asset needs replacing.

Engineering want it replaced because its poor condition results in excessive corrective and breakdown effort to keep it available for production use. This distracts from planned maintenance on other assets starting a wider spiral of decline.

Production want it replaced because it frequently breaks down and they can’t rely on it. So they use other assets more heavily contributing further to the spiral of decline across the asset base.

Finance have declined the CAPEX required to replace the asset as it still has several years left to fully depreciate it off the balance sheet.

This is a typical example of silo thinking that drives the need for financial and non-financial alignment.
Alignment of processes and functions in asset management in an organisation is a way forward to help overcome this problem. More than just managing the assets, this concept of alignment, helps you to achieve your organisation’s objectives and goals and deliver better performance in a more holistic way.

To help achieve this, the ISO standards on Asset Management focus on alignment as a critical/key part of creating value through assets. ISO 55001 includes explicit requirements to encourage organisations to align these functions better.

Alignment of asset management functions helps with more accurate costing across the lifecycle of assets, knowing whether you are meeting service performance requirements and gives you a more accurate view/picture of your finances. Additionally, it will help organizations to understand better the impact of today’s decisions on the total cost over the lifecycle and how they will impact organisational risk to achieving objectives through the life cycle.

ISO is not alone in this thinking, the Australian Infrastructure Financial Management Manual acknowledges the importance of alignment through joint action across your organisation:

It is essential that asset management practitioners (both financial and non-financial) work closely together with the joint objective of delivering the agreed level of service at the appropriate life-cycle cost and reporting accurately on the achievement of those outcomes in service performance and financial terms. (Adapted from Australian Infrastructure Financial Management Manual, 2015 Edition, www.ipwea.org/aifmm)

Accounting in Asset Management

Organizations must comply with their local Accounting Standards perhaps based on IFRS or their Generally Accepted Accounting Practices (GAAP). However, good asset management goes beyond mere compliance with accounting standards. Instead we need the financial and non-financial functions aligned and working together to advise top management on best practice through optimal expenditures (OPEX and CAPEX) in assets.

This approach requires that the assets be appropriately maintained, renewed, replaced, enhanced or disposed of, to provide the required product or levels of service now and into the future at the lowest possible lifecycle cost in order to achieve organizational objectives.

Competency in asset management relies on the alignment and coordinated teamwork of all functions that contribute or utilize asset data and information to make AM related decisions.
Alignment enables an organization’s various functions to share and utilize information, and improve achievement of the organizational objectives.

Effective and efficient interactions between financial and non-financial asset management functions result in:

- More efficient measurement of both asset and organizational performance better demonstrating achievement of organizational objectives
- Enhanced availability of information supporting more effective and more efficient decision-making
- Commonly agreed terminology relating to assets creating information efficiencies and helping to break down internal silos
- Improved internal controls
- More transparent and complete reporting
- Improved teamwork and inter-departmental buy-in and pursuit of corporate, rather than departmental, objectives.

From an accounting perspective, integrated, consistent, and trustworthy data and knowledge management provides assurance that the financial and non-financial asset registers and their values on the balance sheet are accurate and complete.

A further article that provides advice on "How to achieve Alignment" is also available on the TC 251 website committee.iso.org/tc251.

For more comprehensive treatment of this topic, a new Technical Specification – ISO 55010 “Asset management – Guidance on the alignment of financial and non-financial functions in asset management” is also under development by TC 251. It is expected to be available in the second half of 2019.