IS CO-OPERATION THE MISSING LINK IN THE SUCCESS OF ASSET MANAGEMENT PROGRAMS?

A rebalancing of buying power between developed and non-developed nations is leading to major changes within the industrial sector. A more flexible, agile and sustainable balance in the way assets are managed is crucial going forward. So how can key stakeholders within a company work together more efficiently to ensure a company’s assets enjoy a longer, more economical and more profitable Lifecycle?

Most capital-intensive companies have well structured project management processes but often they are not used properly.

Successful asset management programme is more important than ever for the industrial sector. Competitive forces and challenging economic conditions underpin the need for companies to manage their assets in a way that not only gets the best value out of them, but does so in the most productive and reliable way. Balancing human assets, financial assets and information within a company is key to the optimal management of physical assets. If these ‘Three Pillars’ are not correctly balanced, the physical asset can suffer from a shorter life cycle and become less efficient in the short to medium term, which ultimately has a negative impact on long term profitability.

A look at the effect the current market gives us some clues to how easily this balance can be upset. The recent financial and economic crisis has seen new key performance indicators (KPIs) such as gearing become a more important factor for strategic steering committees. As a result, financial roles within a company have a more powerful impact on the decision making process. This goes some way to explaining why industrial executives sometimes struggle to convince strategic steering committees to invest in capital expenditure (capex) on a long term basis, which is also partly behind lower profitability expectations for capital-intensive companies.

Achieving Co-operation: A Win/Win Situation?

The current economic and financial world is searching for a better way of doing business. We are not there yet. New aspects of the industrial world still need to be digested and acted upon by key stakeholders.

What is clear is that there needs to be better co-operation and understanding between stakeholders in order to arrive at this goal. Instead of industrial and financial management opposing short term and long term objectives, they need to gain a better understanding of each other’s constraints. This will improve the working relationship and achieve much stronger and sustainable results.

The motivation to encourage decision makers to ‘think long term, act short term’ has to be driven by the Chief Executive Officer (CEO). In order for shared objectives and targets at top management level to succeed, the CEO has to ensure that the mechanisms for reconciliation of short term financial considerations and long term industrial aims are put in place.

A good example of this in action is a change introduced by global supplier of cement and aggregates company, Holcim. The company reviewed capex steering groups, engaged new and more diverse members on committees and increased the number of meetings. The result was an improvement in interaction between financial and industrial management. This helped boost expansion and ensured cement factories were in good shape globally.
TIME TO RESTRUCTURE THE CAPEX PROCESS?

Industrial management has traditionally been focused on the operational and technical aspects of the business. But understanding how different functions can add value is equally important. Maintenance, for example, has always been seen as a cost driver. Yet when you dig deeper, it’s evident that maintenance is a very strong added value for a company. It ensures the reliability of the equipment, it can be flexible to economic cycles and actions taken to improve maintenance quality brings in much more cash than it generally costs. But few companies possess the expertise to market such added value.

How well industrial management deals with the capex process is another area than can be improved. Most capital-intensive companies have well-structured project management processes to prepare, validate and run capex or lump sum projects. But often they are not used properly. Common mistakes include insufficient or out of date information on return on investment (ROI), maintenance costs, and total cost of ownership (TCO) are received by the Board. Once a project has been given the go ahead, the Board subsequently find that costs have been under-estimated and KPIs such as time, quality and risks are inaccurate. As a result, CFOs lose confidence and finance teams increasingly challenge projects.

So when a cement factory starts a new quarry it anticipates cost provisions to ensure the return to green field. When a nuclear plant is built, the dismantling cost is calculated at the outset. Certainly some fine tuning, particularly in the nuclear industry is needed, but the development of such realistic TCO calculations gives the market and financial stakeholders much needed confidence.

WE’RE ALL IN THIS TOGETHER....

It’s clear that to maximise long term asset management and profitiability of companies in the industrial sector will require everybody’s effort. CFOs will have to mix long term industrial vision with short term financial priorities. Industrial management will have to be more transparent regarding their processes, market their processes better and take into account short term constraints. And the CEO will have a crucial role to play as referee and ensure the right balance between stakeholders is achieved.

To think long term and act short term has never been more important.

DEVELOPING NEW SUSTAINABLE LEVERS

Sustainability and the environment are new, but increasingly important levers in any business model. In terms of inclusion in the capex process, some industrial sectors are more advanced than others in mapping out sustainability and environmental issues. The energy, particularly water treatment, nuclear and mining sectors are quite developed in that they can be benchmarked. So dismantling costs back to green field and other environmental issues affecting assets, whether it’s equipment, site or building, can be included at the beginning of the capex project.

If the CFO is in possession of more reliable information he or she will have the confidence to accept projects more readily giving industrial teams more flexibility. It is therefore crucial to restructure the capex process to reflect this.

UNDERSTANDING THE CHANGING ROLE OF INDUSTRIAL AND FINANCIAL EXECUTIVES AND THE PART THEY PLAY IN THE DECISION MAKING PROCESS IS KEY.

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CONTACT

Mazars

Author: Laurent Tetard,
Senior Manager
E-mail: laurent.tetard@mazars.fr

61 rue Henri Regnault
92075 Paris-La defense France
Tel. +00 (0)1 49 97 60 00

Detailed information available on www.mazars.com