Value – the Apex of Asset Management
Introduction

Value realization is central to asset management, yet it is easy for value to be overlooked as operational decisions and financial drivers take center stage in day-to-day and annual decision-making. This paper discusses value and how value differs from organization to organization and from stakeholder to stakeholder, thus complicating how value is realized. A value pyramid is proposed to support asset managers in delivering multiple value-based outcomes.

This paper has been produced as a white paper. Readers are invited to provide comments with a view to enhancing the available resources associated with this important asset management topic.

Other Institute of Asset Management (IAM) resources associated with value include:

- The IAM partnered ITN Business digital news-style program, 'Why Outcomes Matter', highlighting the importance of starting with the end in mind when it comes to building infrastructure.
- The IAM Discussion Forum includes several topics associated with value.
A Pyramid Approach to Aid in Clarifying Value

Value is a central concept in asset management, yet also a nebulous one often expressed fiscally. One of the fundamental tenets of Asset Management – An Anatomy by the Institute of Asset Management is the definition of value.

ISO55000: Asset Management states value as one of four fundamental principles within the context of the organization and its stakeholders.

In either document, value is not defined, and realistically, defining value is difficult since it can be described in ten different ways by ten different people. Yet, an approach to define, build, and deliver value is essential for organizations.

Multiple considerations exist in defining and delivering value for the end customer or customers. This paper presents a visual pyramid framework (Figure 1) to help define what value means for your application.

Opinions of value will vary across organizations and their stakeholders. These can be physical or non-physical, financial or non-financial, and subjective or objective. Additionally, financial markets tend to value immediate performance outcomes in lieu of long-term strategic objectives. Over time, the definition of value can be skewed by the impacts of pre-existing organizations, technologies, and underappreciated assets, along with outdated thinking about economies of scale and breakdowns in line-of-sight from front-line forces to the boardroom.

Value perspectives are complex, often with competing interests between internal and external stakeholders.

Let’s take, for example, traveling with the airline industry. The airline industry has considerable pressure to constantly define and deliver value through more efficient operations so that you may arrive at your destination in the shortest flight duration for the lowest possible airfare. From a business perspective, remaining competitive and profitable to shareholders is critical. However, the customers’ viewpoint may differ as their value lens may include the time to board an airplane, lack of legroom in seating arrangements, the time it takes from boarding at the gate to actual liftoff, and delays with their luggage. These are often heard as common complaints from airline customers. Yet, the airline may claim they are providing high value based on their organizational beliefs and value framework associated with flight duration and cost of the flight. So, what is the actual definition of value, and by whom?

This represents a classic case of the ambiguity surrounding the organization’s definition of value versus the value being delivered as experienced and perceived by customers. The organization’s measure of value should be consistent with the value expectations of its customers and other stakeholders. However, this will require compromises and optimization in balancing the interests of all stakeholders. Although not everyone may benefit, the organization needs to maximize the collective value.
An Upward Approach to Building Value

The value pyramid (Figure 1) illustrates the upward progression of value creation. Organizations will often use corporate policies, vision, and mission statements as a starting point to build and transform value into reality through their processes of planning, design, manufacturing, life cycle servicing, delivering, or using infrastructure and other asset means.

Value builds in a crescendo manner shaped by quality control, regulatory compliance, and stakeholder engagement. The objective is to have the customer's experience at the apex validate the value statement derived from the engagement of the collective stakeholders.

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So, what does value ‘look’ like? The asset user can ‘experience’ value at various process gates before receiving the final output or outcome. For example, manufacturing and infrastructure are vehicles comprising many value-creating steps; however, the value from either of these remains undecided until realized by the end customer.

Beyond organizational value, the customer may experience value to their satisfaction or dissatisfaction. A consumer of goods and services can rate the value received merely on the presentation of a product on display or for consumption. A product’s ‘shine’ may catch the eye of some customers versus those that relish value through creativity in solutions or quality. In addition, resilient assets can provide broad community value when employing the principles and framework of asset management. The point is that value is perceived differently, and an inclusive representation of diverse stakeholders must be engaged with the end customer as the focal point in the value pyramid.
Value Statement

A value statement lists the core principles that guide and direct an organization and its culture. Value statements create a moral compass for the organization and its employees. It guides decision-making and establishes a standard against which actions can be measured. Organizations can enable or drive value using corporate vision, mission and belief statements, and an asset management policy. A corporate culture that prioritizes and clearly states its commitment to organizational and customer value originates from these beliefs.

Corporate shared vision documents can formalize an organization’s pledge regarding its commitment to asset investment in capital, resource, and human infrastructure, thus aligning with its commitment to society, the environment, and the economy. They can also include a commitment to creating, delivering, and serving assets through their life cycle to maximize the value experienced by the end customer.

The value statement must connect an organization’s commitment to value delivered from front-line activity through a clear vertical ‘line of sight’. Top management is responsible for articulating the value statement message and the coordinated activity to deliver value for the organization and its stakeholders. Their role is to maintain a focus on the organizational context of purpose, long-term strategic objectives, and value in the face of adversity.

A key priority of value statements is to maintain focus on the true meaning of value. Value statements can be too broad and unfocused, rendering them meaningless to the organization and its stakeholders. Therefore, a careful balance must exist in crafting a concrete definition of value but avoiding rigidly structured value propositions that divert from the actual experience of value experienced by stakeholders and end customers.

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Value Framework

Value frameworks capture broad and global context to interpreting and demonstrating an organization’s performance, positive or negative, on profit, people, and the planet. Value Frameworks should not be too unrealistic or unachievable. They can be used to establish an organization’s commitment to capital investment, decision-making, and performance against a larger context of social, economic & environmental (ESG) themes or like the six capitals of an organization’s integrated performance reporting shown in Figure 2. Consideration should be carefully given to multiple value facets satisfying the needs, wants, and expectations of broad, diverse stakeholder groups. Ultimately, the value framework should avoid diverging from the value defined by stakeholder engagement.

With wide-ranging portfolios of infrastructure, infrastructure sizes, or customer bases, large private or public corporations can considerably influence social, economic, and environmental outcomes on a broader geographical basis resulting from their performance. Both types of entities need to incorporate a multi-dimensional focus regarding value - inwardly facing the business and outwardly facing to the public. Hence, a value framework can help guide organizational performance and outcomes in relation to the ethical responsibilities of social, good governance, and environmental justice.

Figure 2: Six Capitals for Integrated Reporting
Organizational Value

Organizations have a string of essential core functions linked together in a value chain which represents a mechanism for utilizing assets in delivering value from its products or services experienced by their consumers. Value chains (Figure 3) are supported by internal services and processes called value streams. Optimally, these internal processes play an important role in creating value from the organization’s assets. Hence, the value chain and value stream interdependency enable the realization of asset value within various functional groups and management layers delivering to the end customer.

In the 1980s, Michael Porter developed an illustrative business model centered on a corporate value chain. A value chain is defined as the core functions by which a company adds value in its creation of an item, as in the major activities within planning, manufacturing, distribution, marketing, and the provision of after-sales service. A value chain enables organizations to evaluate value-creating steps in the production or servicing of assets, the cost of which must be less than what the market will bear or the full-service recovery value when sold to the end user. Either scenario may yield a profit or build organizational resiliency within its financial balance sheet.
Value chains are applicable to both manufacturing and infrastructure service providers. Manufacturing produces a product for consumption by the end customer. In contrast, infrastructure delivers a product created by an organization for use by the end customer while providing life cycle operations and maintenance to assure ongoing safety, reliability, and regulatory compliance.

A company’s value chain that is competitive, has a strong profit margin, or is financially resilient. It is operationally sustainable and reflects an organization’s coordinated activity realizing value from its assets. An organization’s ‘coordinated activity’ will have the characteristics of strong internal linkages between activities, optimized activities demonstrating efficiency, and well-coordinated activities and systems.

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Value chains are underpinned by value streams that are representative of support activities and processes that are common in organizations. Every phase of an asset's life cycle involves many activities and processes that contain value-creating opportunities. Often, value stream activities and processes that are inefficient and ineffective from years of corporate disinvestment and outdated policies require efforts to remove waste and practice continuous improvement to reset a focus on value.

Above the organizational activities are management layers whose roles are to cement an effective value chain and value stream interdependency. It has the collective ability to advocate for resources and coach front-line forces to empower them to deliver assets to a desired level of service, efficiently and effectively in the activities they execute. Effective management in an organization clearly understands, learns, and appropriately executes the skills, time application, and values associated with each managerial layer that enables this relationship to occur. Collectively, its effect allows organizations to fulfill their policies and strategic objectives that focus on delivering value to the organization and stakeholders.
Stakeholder Value

Assets are ubiquitous as they are any tangible items that deliver value to stakeholders. Stakeholders can be internal or external to an organization. Stakeholders are a critical component of value definition in the entire life cycle of assets. Internal stakeholders may be any individuals who participate in, lead or advocate for the acquisition, production, delivery, or servicing of assets. They are most associated with the value chain, and value streams internal to the organization.

External stakeholders may be any person or organization beyond the asset owner/operator, including regulatory agencies in the form of rules and compliance requirements, and international partnerships through instruments like treaties and agreements. These types of stakeholders are typically cognizant of safety, environmental, social, economic, and governance impacts that may have long-lasting value related to the public or natural surroundings. They tend to provide an objective viewpoint of the overall value of an asset.

External stakeholders may also be advisory, participatory, or provide general oversight of a greater representation. These groups can include members of the public or consumer groups, philanthropic organizations, public foundations, public-private partnerships, and private donors whose participation can assist in polishing and enhancing asset value.

Both entities collectively help create value for the end customer based on their organizational objectives and the stakeholders they serve. Therefore, it is important to have a robust engagement process that identifies internal and external stakeholders, inclusive of the end customer.

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End Customer

The end customer is the apex of the value pyramid. Value creation grows within every level of the pyramid culminating with the end customer. The user may be singular or plural, and in the latter case, there is societal value representing the larger population or community that may be expressed in terms of improvements to their quality of life.

The end customer often will experience the value of the item produced when used or consumed, thus, subjectively experiencing an asset or asset system. Human physiological and mental capacity allows for a broad definition of value across many social fabrics; and, therefore, greatly influences the feedback loop of what value means to the end customer that ultimately experiences the asset.

As nebulous as value can be, organizations can easily lose sight of the end customer whose subjective experience can be loudly expressed in their dissatisfaction. Each project or product development culminates in an asset with one or multiple asset users with various opinions of value. For users that directly interface with the asset, it will be what they say about their experience, which are often measures of the affordability and accessibility to assets they rely on for personal use. The value pyramid can assist in defining value within a pyramid structure as it transitions from words to usability.
Summary

Asset management provides a solid means for realizing value from assets. Best practice shows that engaging stakeholders facilitates healthy dialogue to understand where both consensus and anomalies may exist to gain alignment for achieving strategic objectives. The value pyramid enables the asset manager to collect, recognize, and align potentially multiple value-based outcomes for the organization to utilize as a focal point when manufacturing, delivering, or servicing assets to the end customer.

Thoughts and comments are invited on this paper with the view to enhancing the available resources associated with this important asset management topic. The IAM Discussion Forum will be utilized to capture feedback.
References and Additional Sources of Information

Asset Management – An Anatomy Version 3
December 2015
The Institute of Asset Management
www.theiam.org/knowledge-library/asset-management-an-anatomy

IAM Discussion Forum
The Institute of Asset Management
www.forum.theiamdiscussion.org

ISO 55000:2014, Asset management – overview, principles and terminology,
International Organization for Standardization


Six Capitals
www.integratedreporting.org/what-the-tool-for-better-reporting/get-to-grips-with-the-six-capitals/

Why Outcomes Matter
The Institute of Asset Management
www.theiam.org/knowledge/why-outcomes-matter/
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