An alternate view on lifecycles and portfolios

Asset managers typically think of lifecycles and portfolios as linked to assets. But these concepts can equally be applied to projects, argues **Boudewijn Neijens**.

Much of an asset manager's time is devoted to ensuring proper plans are in place to manage all stages of an asset's lifecycle. Such a lifecycle will typically include many decision points: moments when funds will need to be spent on the asset, which might therefore need some level of scrutiny or approval.

Routine interventions are often part of a pre-approved budget or plan, but larger and more complex decisions (typically those associated with capital investment) might require multiple consultation phases with a wide spectrum of stakeholders. Such projects are often subject to a more formal system of governance and might need to clear multiple internal and external approval stages before getting the final go-ahead.

Project lifecycles

This leads to the concept of investment lifecycle management: each candidate project or programme has a lifecycle much like an asset's. The information needs, stakeholder involvement and formal approval requirements will evolve as a candidate project progresses through the stages.

For example, at an early stage a candidate project might be visible only to its creator and contain only rough estimates of costs, benefits and timelines. This might be enough to obtain approval for a formal feasibility study, with the expectation that more detailed information will then be presented to a wider group of stakeholders – and so on.

This project lifecycle needs management and standardisation to ensure decision-making is consistent and auditable, and that candidate projects can't fly under the radar and get approved by default. Most organisations have predefined workflows establishing what stakeholder involvement and approvals are necessary based on specific criteria: for instance, capital projects over a specific spend amount might require approval by general management, whereas smaller projects can be approved at a local level. Such processes should be documented and enforced to ensure all candidate projects are submitted to the right levels of scrutiny and approval at the right moments in their lifecycles.

Since most organisations operate under yearly budget cycles, a candidate project will at some point become part of a budgetary exercise where the organisation must decide which projects to resource and which to defer or reject. This leads to the concept of investment portfolios, where all candidate projects compete for funds and resources for a specific budgetary cycle. The organisation will need a method to first compare and then select the most valuable projects. This could be a simple ranking exercise for small portfolios, or may require more advanced techniques such as optioneering or multi-criteria decision analysis for larger, high value and high cost portfolios.

Decision making

Many organisations have matured to the point where they expect project sponsors to submit multiple options for a large investment, to allow decision-makers to select the optimal alternative. The same logic can be applied to entire portfolios of competing projects, often with surprising results: the option identified as optimal for a project considered in isolation might not be optimal when considered alongside other projects within a portfolio.

This mathematical reality highlights the conflict that can take place between the priorities of the individual asset manager (maximising the whole-lifecycle value contribution of the assets under her or his supervision) and the organisation as a whole (maximising the value delivered by the entire asset portfolio on a continuous basis).

Reconciling these potentially conflicting priorities underlines the importance of a rigorous, systematic, transparent and defensible investment decision-making framework.

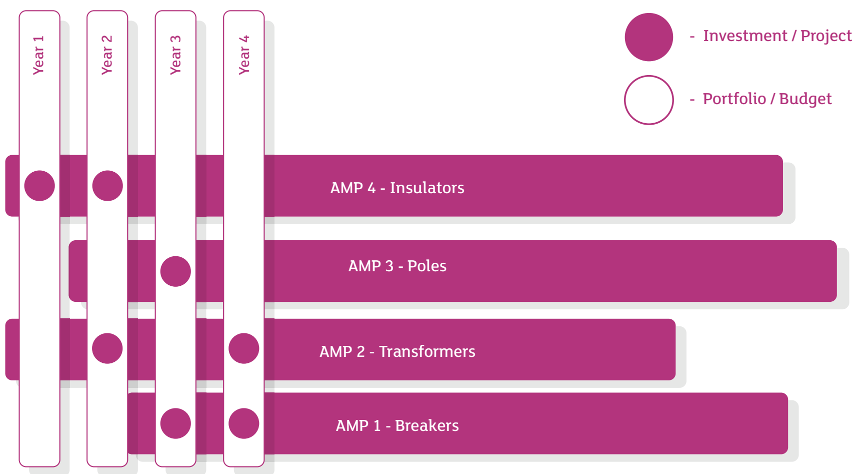

Figure 1: Asset Management Plans (AMPs) span the whole lifecycle of an asset, whereas investments have shorter lifecycles and are often grouped in portfolios in the context of an annual budgeting process

Author's biography

Boudewijn Neijens holds a Master's Degree in Mechanical Engineering from the University of Brussels and an MBA from INSEAD. He is CMO at Copperleaf in Vancouver, Canada, Chair of the Canadian chapter of the IAM, and Convenor of ISO's workgroup for communications around ISO55001.