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Outsource or in-house facilities management: The pros and cons

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Abstract

The question of the merits of outsourcing facilities management remains relevant. This paper attempts to determine a clear distinction between out tasking and outsourcing, and then to provide a model to explain the advantages (pros) and disadvantages (cons) of this strategy by analysing the wants of both the client and supplier. Finally, it offers some guidance to assist with remedying the divergence identified.

Keywords:

outsourcing, contracting, procurement

INTRODUCTION

Outsourcing has existed within the facilities management (FM) industry longer than the entire concept of FM, albeit in its earlier incarnations in a very different form from the relatively sophisticated delivery in the early 21st century. Given its rich history, to a degree it is to be wondered why the merits or disadvantages of the approach within FM are still being debated at all.

The high degree of contract turnover within the total facilities management (TFM) sector, however, together with both recent large-scale regional and global outsourcing tenders and the rise of the private finance initiative (PFI), have all served to perpetuate the debate. Indeed, despite the varied and well-documented body of test case evidence, many FMs are still facing anew the strategic dilemma of whether to engage the services of a partner able to deliver the full range and depth of services required.

This paper attempts to create an alternative perspective on the debate and to generate new thinking on the part of both supplier and client in order to encourage the development of a deeper

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understanding of the motives and drivers of each. In this manner, it is hoped it may contribute to the proliferation of better contracts, improved relationships and genuinely shared objectives from outsourcing.

CONTEXT: VALIDATING THE DEBATE

The continuing validity of the question deserves close consideration. Without this, no two professionals would be arguing within the same arena, and conclusions would be misplaced. Outsourcing as a term and concept has been significantly over-utilised as a catch-all for tasks simply not performed by the host.

Is the outsourcing debate still valid?

The key consideration at this stage is to establish firmly whether the debate itself is still valid. Several factors must be considered in determining this question:

- The collected FM service industries have become so well established and commonplace in the developed world that to question their contribution or validity against the provision of services in-house appears at the outset irrelevant. For example, to emphasise the scale of activity, the total value of the FM market in 2002 in the UK was understood to be £117m, for all services, single or packaged.
- Business, industry and public sector institutions generally have increasingly become organic institutions comprised of complex supply and product relationships. The purity of production or delivery has been replaced by the generation of a uniqueness of end product, produced using a mix of resources both internal and external to the organisation. Core to one organisation is context to another and often vice versa. Separating such relationships conceptually and practically has become steadily more difficult. FM as a discipline, practised either in-house or through a service provider, has become subject to the development of the same complexities.
- Following from the issues above, the most common problem relates to whether referral within the debate is to ‘outsourcing’ or the more altogether practised, established and limited scope — yet less utilised term — ‘outtasking’. Few would question the general trend towards using specialist service providers to deliver limited task-level non-strategic context functions such as cleaning, security and catering, even under the procurement and tactical control of a relatively junior level in-house FM team. Such services are now delivered by in-house personnel, where their role is either core rather than context, or governed by strict parameters related to matters such as internal security or physical location.

Outsourcing or outtasking?

For the central question to be evaluated fruitfully therefore, further distillation of the concept of outsourcing is necessary.

THE CONTEXT: TASK OR SOURCE?

It is highly significant that in 2002 approximately 41 per cent of all contracts awarded in the FM sector were for the delivery of single tasks. This suggests that the FM industry is highly oriented towards low-margin, low-specification operational task level delivery.

The outsourcing market, however, remains alive and productive in two contexts: organisations that self-perform a package of services and seek to provide an overall management solution; and those that offer the 'management model', delivering solutions and processes yet in turn subcontracting task delivery to specialist providers and thereby 'managing the industry'. Predictions of the decline of the latter have been misplaced with contract awards by Deutsche Bank and Proctor & Gamble among the larger of the European packaged outsource initiatives of the last two years.

In order to proceed to the principle debate, Table 1 attempts to model the key distinctions between *outtasking* and *outsourcing*.

EVALUATION: DIVERGENT PERSPECTIVES

It is argued that the traditional method of evaluating the advantages and disadvantages of outsourcing can be replaced through a detailed consideration of the requirements from such a relationship of both the purchasing and delivery perspectives. This is able to provide a greater depth of understanding of the relevant issues, and to establish the key challenges and success factors in determining whether outsourcing is the preferred or correct course of action in any given situation.

The themes upon which the evaluation can be made are given below:

1. *Cost*: the total cost of the contract including all self-performed and subcontracted specialist services.
2. *Quality*: the service levels as defined in Service Level Agreements or other contractual or specified input or output structures.
3. *Risk and liabilities*: the degree to which the effective cost of the

Table 1: Outtasking and outsourcing comparison

Factor	Task	Source
Procurement	By FM team and/or procurement team, with senior management approval	By senior management
FM strategic management	By senior management, with degree of delegation to FM	By FM service partner with senior management direction
FM function management	By FM team	By FM service partner, deploying a management team
Delivery	By service partner	Either self-performed, or provided by subcontracted to specialists
Method selection	By FM team, on the basis of limited FM experience, yet with wide client knowledge	By FM service provider, on the basis of wide experience, yet with narrow client knowledge
Process and practice development	Usually restricted to single or limited range service portfolio	Usually covering a multiservice portfolio

Building the evaluation matrix

Comprehensive evaluation criteria

- contract may vary to either party — either through unforeseen price rises to the client, or base cost increases to the supplier against fixed contractual income levels. To all risk there is a cost, and the key consideration is the degree to which the risk is defined, understood and accounted for. Contingent liabilities of long-serving staff, or persons employed in countries with restrictive or penalising legislation where redundancy ensues, are particular risk areas at all stages of an outsourcing arrangement which require definition and understanding.
4. *Specialisation and diversity*: many functions within an outsourcing contract are occasional rather than full-time equivalent (FTE) roles of a specialised and marginal — yet essential — nature. This requires the retention of, or access to, a number of sources of such expertise.
 5. *Responsibilities and accountabilities*: the complexity and clarity of specific and general roles and assigned duties within and for the contract.
 6. *Flexibility*: the potential and ability to action changes in the nature, magnitude, resource, location and focus of the service delivery when required.
 7. *Innovation*: the degree to which newly designed or conceived processes, methods, solutions or products are brought to bear within the outsourcing contract.
 8. *Investment*: in respect of the agreed length and determined stability of the contractual relationship, the degree to which time and money are dedicated to improvements in, and development of, the scope and facets of the service delivery.
 9. *Information*: the nature, format and validity of data, qualitative and quantitative, determining performance and metrics in relation to the provision of the services, and the regularity and manner of presentation of this information for the benefit of both client and supplier.
 10. *Customer orientation*: the degree to which the provision of the services understands and responds to the specific needs of the customer at all levels: in support of its business in relation to its own customers and shareholders, its management and staff, and those persons interacting with the business on a regular basis.

Each one of the above could be the subject of directed corporate Board-determined drivers to outsourcing — reduce cost, improve quality, remove staff from the payroll, prepare for period of change (mergers and acquisitions, M&A), improve response to internal customers to safeguard staff retention — are all commonly cited principle reasons for an organisation wishing to consider such a strategy.

It must be noted that certain often-quoted yet meaningless sales-oriented factors have been discarded within this analysis. In particular, the claim that outsourcing ‘allows the organisation to focus on its core business’: this is irrelevant when evaluating the FM

position, as those parts of the organisation devoted to FM in all but the smallest of premises (and therefore not those to which outsourcing would apply) are thereby not part of the core business.

EVALUATION: PROS AND CONS

Tables 2 and 3 seek to understand the fundamental positions of both the client and supplier against each of the above. In effect, they deliver two explanations: against each of the evaluation factors, they provide a description of the specific objective of the client/supplier; they then link this to how the factor may be a pro/con.

When evaluating the client wishes (pros), these positions effectively determine the perceived advantages of outsourcing FM services. The desired goals are the position that the client would

Setting ‘pros’ against client wants

Table 2: Client perspectives of outsourcing: Pros

Factor	Pros: What the client wants	Interpretation: Client wants as pros
Cost	Lowest possible cost	Lower cost through economies of scale and market experience than either in-house service or best-in-class outtasking to several suppliers
Quality	Highest possible quality, with systems	Improved quality owing to focus upon delivery as core business, and implementation of tried and tested models and methods
Risk and liabilities	Transfer risk, retain contract flexibility	Transfer all contingent liabilities to the service partner, while maintaining the right to modify the scope and scale
Specialisation and diversity	Call upon significant resource base	Ability to leverage supplier specialisms that would either be unavailable or too costly to procure for the limited time required
Responsibilities and accountabilities	Single point of responsibility/accountability	One single contract and nominated point to cover a complex and diverse range of task, service and management delivery
Flexibility	Immediate reaction to changing needs	Wide potential to instruct changes in scope, scale, location and quality to account for changing needs or demands of the business
Innovation	Consistent and effective new approaches	Draw upon the significant FM core business knowledge and experience of the service partner, together with input from a host of other client accounts, to deliver new or improved delivery models or methods
Investment	Resources and extra-curricular input for free in exchange for long-term contract	Service partner generates significant profit and retains incentivised earnings potential – therefore in acknowledgment and in order to retain the contract will deliver ideas, evaluation, consultancy, hardware, software, IT development etc without charge in order to facilitate improved service delivery and in turn greater client satisfaction
Information	Data analysis, bespoke reporting	Ability to obtain, process, evaluate/interpret and utilise data for the benefit of the service delivery in respect of understanding metrics, identifying need and monitoring performance
Customer orientation	Systems, processes and training	Delivery of an ethos and conceptual basis for understanding and responding to the customer, and the training, management and resources to support and reinforce the value set consistently across all service lines

Setting ‘cons’ against supplier wants

Table 3: Supplier perspectives of outsourcing: Cons

Factor	Cons: What the supplier wants	Interpretation: Supplier wants as cons
Cost	Highest possible margins	Potentially higher cost than the sum of all of the parts, through the introduction of a management fee and at least 10 per cent overhead profit (OHP) margin
Quality	Best possible affordable/sustainable levels	Lower quality owing to working to the standards set by others not subject to the degree of ownership and loyalty of employees
Risk and liabilities	Accept as little risk, security of contract	Supplier unprepared to accept liabilities unless exactly the full amount to cover the risk, therefore creating no risk transfer
Specialisation and diversity	Maintain minimal non-fee earning overhead	All additional services and resources charged at extra cost, or non-existence of the assured expertise
Responsibilities and accountabilities	Shared accountability with client and/or subcontractors	Dissipation of responsibility through complex web of subcontracting and back-to-back contractual liabilities, thereby removing the supplier from direct accountability – net effect is more difficult establishment of ownership of issues – in effect for the client, loss of control
Flexibility	Meet changes with existing resource base	Ability to be flexible limited to the client account, and all changes subject to cost
Innovation	Initial innovation, protect intellectual capital	Innovation delivered at outset of contract only, not sustained, and based upon only direct proven processes rather than solutions to client problems
Investment	Fund central resource, use on all accounts	Investment does not transpire, supplier only performs to the extent that contract can be maintained and service levels met
Information	Existing data system, standard reporting	Data systems proving difficult and costly to implement against returns – all bespoke data reporting at extra cost to the standard suite, with data gathered then having little relevance to forward planning Manipulation of data to support contract objectives and performance targets
Customer orientation	On the job training, existing processes	Staff are trained at their posts, with access to all other potential training limited Customer orientation poorer than in-house regime owing to degree of removal from – and responsibility to – host organisation

expect to deliver from entering such an arrangement. Similarly, the supplier’s wishes (cons) represent the perceived disadvantages of outsourcing, and the reasons why a client may consider that an in-house or outtasked route might be preferable.

Client wants: Pros of outsourcing

In effect, in baseline terms as shown in Table 2, the client is demanding *more for less with the removal of risk*. The interpreted advantages of the outsourcing strategy identify that this is entirely feasible, with a host of other added benefits.

Supplier wants: Cons of outsourcing

Similar to the above, in baseline terms as shown in Table 3, the supplier is demanding *to deliver the minimum required to generate the maximum profit and safeguard the retention of the contract*,

Divergent model emerges

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inheriting the minimum risk. In other words, to *obtain* more for *delivering* less. This is of course a direct response to the need to generate profit for business survival and growth. The effects of the outsourcing strategy for the client can therefore potentially have the reverse effect from those desired if the supplier wants are or become dominant.

So does this divergence of objective produce a dichotomy which can be overcome?

EVALUATION: RESOLVING THE DIVERGENCE

It is considered that the analysis above is essential to understanding the outsourcing decision framework. It is not, however, intended as a pessimistic prediction of difficulty and failure or a foretelling of stasis within the TFM market. On the contrary, it identifies where work and development are required, it generates the potential for a more optimistic and productive business environment.

It would be expected from the analysis that supplier organisations would counter their intent and position in relation to many of the evaluation factors depicted in the tables, but this simply reflects the awareness of the position and positive attempts to overcome them. The basis on which so many organisations have built their sales strategy, however real or illusory — that of *partnering* — is a direct challenge to the divergence inherent in the market.

Similarly, many client organisations either through FM or procurement are beginning to understand further the equal and opposite need to reconsider their position to contracted outsourcing, and are remodelling their procurement approach. It can also be argued, however, that the rise of the metric and quantitatively driven procurement department within many organisations has actually stifled this understanding on the client part, and perpetuated the divergence. It is not proposed to pursue this argument within the confines of this paper, but is worthy of further detailed consideration.

The awareness of a divide clearly exists, therefore, if not in terms of the analysis presented.

The model of the interaction and forces described above is depicted in Figure 1. In the centre of the diagram lie two critical success factors held in tandem to be the key to reconciling the pros and cons of outsourcing, and therefore resolving the divergence between client and supplier and the potential anathema depicted.

Relationship

The relationship is the qualitative aspect of the solution, not determined or driven by the procurement method (indeed sometimes in opposition to or conflict with it) and not always something that can be created and maintained. This is because it inherently relies on the single most unpredictable variable — people. It requires investment and time for success. It embodies key

**Resolution begins
with awareness**

**Qualitative and
quantitative response**

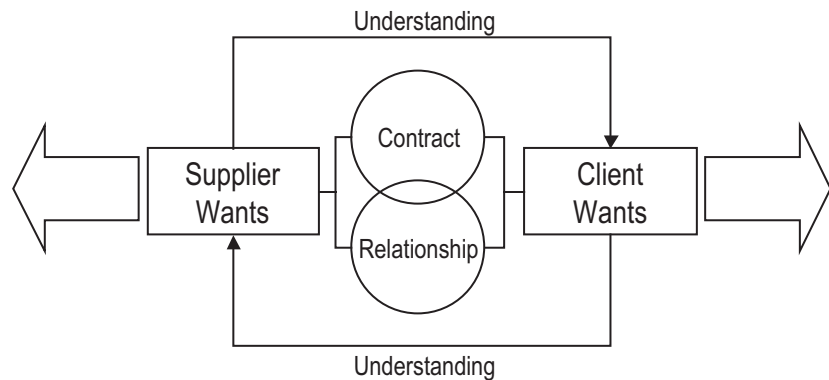


Figure 1: Resolving divergent supplier and client wants

concepts, including openness, commitment, communication and access, all of which combined both form the basis of the relationship and enable it to prosper.

Contract

The relationship is the quantitative aspect of the solution, assisted in its development by the trust generated in the growing relationship yet, in effect, a mechanistic creation that underpins all activity. It must embody flexibility, commitment and clearly defined terms yet, most critically, must be a genuine living working framework for service delivery. The notion that, once signed, a contract is placed in the bottom drawer, and the relationship thereafter governs proceedings is a myth — in effect the contract should embody the service levels expected, and provide for the means to incentivise all parties to achieve. It should not be a creation of the lawyers, but of FM professionals. There is no standard FM contract or model that can be offered — all contracts are bespoke according to the demands of the client organisation and the drivers to outsourcing.

It should also be noted that all semblance of *partnering* within a five-year contract, and the apparent commitment to togetherness, can be undone by the 90-day 'termination at will' clause. If parties wish to work together, the contract should reflect this and allow for development, innovation and investment.

The success factors are worthy of further detailed consideration outside the context of this discussion.

CONCLUSIONS

Outsourcing remains a powerful and important strategic solution to the provision of a range of FM services. It is not to be confused with outtasking, and bears a number of defined differences to aid this understanding.

An evaluation of the advantages and disadvantages of the strategy can be undertaken by analysing the inherent wants of both the client and the supplier against ten key evaluation factors which

Elements of a successful contract

Recognising and resolving divergence

comprise an outsourcing arrangement. This depicts the divergent positions of both client and supplier which potentially appear to be difficult to resolve.

The picture is not as negative as it first appears, however, as many successful outsourcing agreements prove. Two critical and complementary success factors exist that are able to counter the divergence: the development of the relationship and the formulation of the contract. It is only on reading the preceding analysis that their importance becomes clear. Neither factor alone can solve the apparent paradox yet, understood and utilised effectively together, they are able to create the potential for optimism and success.

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