



Social Housing: The causes and consequences of short-termism for outsourced maintenance.

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**Social Housing: The causes and consequences of
short-termism for outsourced maintenance.**

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A thesis submitted in partial fulfilment of
Sheffield Hallam University
for the Degree of Doctor of Business Administration

December 2012

Abstract

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Social Housing: The causes and consequences of short-termism in outsourced maintenance.

The study sought to identify the possible impact of short-term duration contracts on stakeholders engaged in a sector of the FM market place. Its focus is on the trading relationships between private sector “Suppliers” and public sector “Buyers” providing Repairs and Maintenance (R&M) services to the Social housing market sector. Outsourcing is a feature of this market, with notices being published on OJEU. In 2010 the value of these contracted services was in excess of £10.0bn.

The context of the study relates to my appointment as an Interim Operations Director for a FM service provider. Analysis of its contracts by duration identified a disparity in performance for all stakeholders. Contracts of less than 48 months were challenging in terms of service capacity, returned poorer gross and net margins, and had lower customer satisfaction and staff satisfaction survey results, particularly when TUPE was involved. The longer term contracts had differing problems but were on target for operational and financial budgets, which was also reflected within higher customer satisfaction scores.




Given this dichotomy why were the R&M contracts for such short durations? Was this a feature of this market or outsourced FM contracts in general? The study focuses on the causes for short duration trading and the consequences for the stakeholders that potentially arise out of short-term contracts.




A pragmatic approach to the research methodology was adopted that used both quantitative and qualitative methods within a triangulated process. Semi-structured interviews, Ethnography and document analysis were utilised to gather data.

The findings from the research demonstrated that EU procurement regulations coupled with traditional working practices within the value network and supported by the standard forms of contract introduced excessive transaction costs, impeded innovation, investment and, inhibited service quality and the creation of value for all stakeholders.

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Candidates Statement

The objectives of my research were to gain an understanding of the causes and consequences of short duration contracts, which are the common position adopted within the relational exchange in the provision of outsourced Repairs and Maintenance services in the UK Social housing sector.

The research used a wide array of published literature. This was predominately from within the FM sector, Service operations management, Transaction costs and Agency and opportunism. A full bibliography is contained within the thesis.

An additional source of material was social network sites, which were used to get a “live” perspective on issues relative to the market place.

I am very grateful for the advice and assistance provided by my Director of Studies Prof. If. Price, and Prof. Bob. Garvey, my Supervisor, whose influence assisted in the development of my thinking and the structure of the project. In addition to my proof readers, Dr. Darryl MacGregor, and my wife Kathryn Hargreaves, whose patience, encouragement and support during the project enabled me to complete the task.

1 Introduction

The study sought to identify the possible impact of short-term duration contracts on stakeholders engaged in a sector of the FM market place. Its focus is on the trading relationships between private sector “Suppliers” and public sector “Buyers” providing Repairs and Maintenance (R&M) services to the Social housing market sector. This channel has specific operational traits and legal obligations that are held in common. The study will therefore focus on R&M service delivery a means to identify issues that potentially arise out of short-term contracts.

Project background

In 2005 built asset maintenance accounted for approximately 45% of total UK construction output, employed 1.17million individuals and represented approximately 6.2 % of the gross added value (Jones & Sharp, 2006). The FM industry is a “*traditional construction / contracting*” industry and by design, structure and operation “mechanistic” and bureaucratic. The links to the concepts of scientific management and “Taylorism” can be clearly observed through the imposed system of operationalisation of work force, goals and measurements and the “language” in day to day use which varies little from the smallest firm to largest PLC involved in the supply services (Price & Aklaghi 1999; Nutt 2000). The majority of services provided, are designed to be high volume low risk activities organised into formal job structures into which operatives can then be deployed. Weber (1947) suggested that bureaucracy was a rational form of organisation that carried mechanistic principles into all areas of work and social life. Morgan with his description of organisations as machines also sees the dichotomy, as “how to kill creativity”, Morgan (1989) quotes, “This is exactly what happens in the course of developing mechanistic approaches to organisations” (Morgan 1997). Consequently, how do the traditional working practices of the sector stifle innovation and creativity? Or is MBO a feature or an unintended consequence of the absence of job discretion?

The Social housing sector of the UK manages in excess of 5.5 million properties, has a rental turnover of £10.bn, and directly employees over 250,000 people. The sector is managed by several thousand organisations, which range from Local Authorities (LA), Registered Social Landlords (RSLs) to Housing Associations (HAs). The sector is

highly regulated and controlled, with considerable polarisation in the market place. Large organisations are emerging through smaller RSL acquisition, mergers and property stock transfer. Some of these organisations are as large as FTSE 250 companies, and are cash magnets for “government” funds and commercial lenders who lend large sums to them relatively risk free. They are feted as high performance organisations within their market place, and “cash cows” for suppliers. Services to this market are provided either by Direct Labour Organisations (DLO) who have previously operated as an internal monopoly with no competitive control on cost or quality, or are outsourced to private contractors, who can vary in size from FTSE 100 companies with “High Street.” brands, to local sole traders and partnerships. Within this context, “Outsourcing represents a results-orientated relationship with an external service provider for activities traditionally performed within the company”. Rebernik & Bradac, (2006, p1005). These outsourced services can be considered from two perspectives, Transformational or strategic outsourcing, focussing on process and service innovation and business improvement; and Traditional outsourcing with the emphasis on business tactics to improve flexibility and efficiency in service execution. The critical objective is to enable the employer to focus on its core competencies with the aim for both parties to engage in a business relationship where both parties facilitate and stimulate continuous and mutual business change and development. Additionally Coase (1937) and Williamson (1975) espouse the view that businesses outsource when the cost of activities being delivered in house are more expensive than buying service and products in the “market”.

The current market potential for suppliers to the Social housing market sector is in excess of £10.0bn per annum.¹ In the construction sector, this market place is highly sought after, with several of the major construction companies seeking to enter the market due to economic down turn or competitor pressure within their core markets either through aggressive pricing or by acquiring niche market Property services/ FM organisations. The supply chain of main contractors and subcontractors is a major employer in UK Plc – in excess of 65000 FTE’s. Many tradesmen joining the private contractors via TUPE arrangements from the HAs as services were “contracted out”

¹ An element of the research project was to gather information on a daily basis from the Official Journal of the European Union - TED website regarding government and NGO tenders, their contract term value and the period and specific contract details. Inside Housing published the value of R&M as £14.0bn for 2010.

from the DLO's. The irony here is that "jobs for life" DLO tradesmen are now employed under service supply contracts that may be as short as a specific task to a Three year contract.

My trading relationships gave me privileged access to EU documentation, internal reports and interviewees at the highest level within organisations and Government departments. In reviewing the 2011 market position there were a number of trends that were identified, that whilst pertinent to the organisation were also a feature of the Industry. These were related to the procurement process, which ultimately impacts on the structure of the businesses operating within the industry; the contract, which defines and shapes the business relationships; the operational processes and engagement of people in the delivery of the services, and additionally, the management of service delivery and the measurement of performance.

Context

In 2006, I started employment with a provider of property and FM services. My role as an interim manager was to review the current performance of the business, to facilitate the development of the organisation's strategic objective, i.e. to become a niche market player within the FM industry, and to develop and implement a rolling three year business plan which would mobilise the changes required and provide milestones against which progress could be measured.

Analysis of the firm's contract performance highlighted a number of issues that were specifically related to the contract term. The organisation had 90 live contracts; 6 of these were related to the delivery of FM services within a PFI framework, 14 were evergreen contracts² relating to Estates management, and the remaining 70 were all relatively short term contracts i.e. between periods of 1-4 years, and which were all designed to be delivered within the framework of a standard form of industry contract³

Analysis of the operational and financial performance was consistent across all the contracts. From an operational context, there was a huge amount of activity in year 1, specifically relating to mobilisation⁴ and a higher than expected number of response calls in relation to the volume of planned works, year 2 identified a consistency of delivery for both planned and responsive works, whilst year 3 showed a consistent level

² Perpetual contracts requiring a specific termination.

³ Standard forms of contract. JCT, TPC NEC, NHF

⁴ And also a higher volume of response calls than were budgeted as part of the bid process.

of planned works but a reduction in the number of responsive works. Financially the contracts made a trading loss in year 1, made the budgeted profit in year 2, and exceeded the budgeted profit in year 3. However, the year 3 profit was generated due to the reduced spend on repairs – specifically labour and materials. This was a conscious act on the part of the contract management “in case we did not win the contract again when it was out for tender”. Internal staff surveys, identified a tension, within the work force, that although covered by TUPE⁵ they had the impression that they were little more than “skilled migrant workers” who were considered disposable by their employers and as a consequence suffered from a lack of investment in their personal career goals or in the development of their trade skills.

Analysis of customer satisfaction reports indicated a correlation to the internal organisational data, with a “short fall” in expected performance being identified in the latter months of the contract⁶. Discussions with the supply chain and with industry organisations confirmed that this was endemic within the industry and was a feature of operational practice.

The longer term contracts had no such issues. Operationally they were mobilised effectively, service activity was as expected. Repairs performance, in terms of volume was always less than the level budgeted, planned maintenance was more effective, first time fix rates were higher and “call backs” to works completed were always less. Overall customer satisfaction with the service being delivered was significantly higher than the standard duration contracts, both in terms of the client who procured the services, and the Resident or property users. Additionally, the financial performance was also improved with the “actual” revenue, costs, and profit streams usually delivering in excess of the budgeted figures.

Given the current economic and political climate and the desire for “war on waste”, is short-termism a feature of FM contracting and outsourced services in general and why are the R&M contracts for public sector housing so short in duration?

⁵ Transfer of Undertakings Protection Employment

⁶ Clearly this would be detrimental to any tender for either a contract extension or new contract submitted by the organisation

As my thesis will suggest, this short-termism in FM contracting does have a potential negative “cost”, for both “Buyer” and “Supplier” in terms of increased *ex ante* and *ex post* transaction costs and the “knock on effect of poor profitability and reputation damage respectively; “Supplier” staff from the perspective of skill development, security of employment and the cultural effects of the TUPE “merry go round” on employees. The “Residents” in terms of poor service quality, the sector supply chain and their return on investment, the local job market as little investment is made in apprentices and skill development and the UK Government, which will miss out on substantial tax revenues.

However is short-termism a desired position for the supply chain due to increased buying opportunities and hence profit potential. Does it allow the “Buyer” to reduce risk due to poor procurement practice and an inability to effectively contract manage their “Suppliers” performance due to asset management not being their core competency ? – are the level of transaction costs and inefficient service a price worth paying?

The Aims & objectives – who will benefit from the study

The aims of the study were threefold:

- To identify if short-termism is prevalent in the “outsourced” supply of FM services, its causes and the consequences for the Social housing sector
- To compile a Meta analysis on the literature applicable to the identified themes and to relate the analytical narrative to the relevant literature and to explore and explain the data obtained from the research.
- To undertake research towards developing FM performance and to contribute to the debate which, challenges the current working practices of the FM sector.

Contribution and Practice

Contribution

- The unintended consequences of G-D logic within R&M service delivery which challenges where and for whom value is created in the relational exchange. Traditional Short-term contracts heavily influenced by construction sector practice and opportunistic behaviour stifles the application and development of S-D logic in the design and implementation of service delivery negatively impacting service quality and diminishing the creation of value in use for the Residents.

- Procurement. Current procurement design and management practice create mal distribution within the sector, which is compounded due to Buyer/ Supplier polarisation. The design of long term outsourced service contracts should be driven by Service-dominant logic. The concept of delivery by a supply chain makes the principle purchase the “relationship”. The evaluation process should support the ability to deliver the works throughout the contract period and the concept that Quality and value in service delivery are co-produced.
- Performance measurement. Current academic measurement theory will fail within the work environment as FM service providers adopt varying performance measurement processes within the hierarchical structure of their organisations i.e. Strategic, functional and the point of delivery. When linked to a supply network with Tier 2 and Tier 3 subcontractors, this has the potential to cause goal displacement and sequential attention to business issues, impeding service delivery, creating an environment for opportunistic behaviour and increasing transaction costs. This challenges the validity design and structure of measurement in the FM sector.
- A critique of Value creation within a supply network for the benefit of a Customer to Customer relationship which challenges the concept of value creation within organisations.

Practice

Stimulate interest for the establishment of a community of practice to challenge traditional sector working practices and to develop R&M service delivery and reduce transaction costs within the Value network.

To include:

- An understanding of the impact of transaction costs of the sector due to traditional working practices and short duration contracts. An objective being, to facilitate a challenge to the goods dominant, construction ethos of trading relationships within the Value network.
- The design and application of the procurement process based on service dominant logic
- The development of forms of contract which reflect the needs of the Social housing R&M industry and which reduce the level of *ex ante* transaction costs

- The design and application of performance metrics which reflect the operational and contractual measurement requirements of the sector

Constraints and limitations

Within the context of this paper it was recognised that there constraints and limitations on what could be achieved, and these specifically related:

- Access to interviewees with the Relational exchange.
- Access to internal organisational documents
- To the volume of research undertaken within the literature, on the topics which were wide ranging, and
- The time frame in which the research and data capture was going to be undertaken. A period of 9 months was planned

A priori knowledge

As a practitioner within the FM industry working at “board level” in operational positions for organisations engaged in the supply of FM services, it is has to be acknowledged that I am to some extent “operationally familiar” with the issues that I am researching. Additionally, I have worked in service operations management for 20 yrs and have an interest in the use of performance measurement to underpin the strategic intent of service organisations.

Contracting, Contract management and the impact of “agency issues” were a central part of the activities within my day to day sphere of control. Additionally a working knowledge of the OJEU based procurement process, the business relationships within the supply network and interaction between “Buyers and Suppliers” in the Social Housing market are an elemental part of my professional life.

To challenge the integrity of the research, it is fundamental to obtain impartial data, and therefore the methodology adopted is inductive, diametrically opposed to the structure of the work submitted previously by me during the DBA programme.

Philosophical Foundations

In Hargreaves (2009), “What is truth in management research” it enabled me to reflect on my own epistemological and ontological positioning. At the start of this DBA journey Two years ago, I identified myself firmly within the functionalist paradigm as espoused by Burrell & Morgan (1979). I started my second assignment introduction by describing how I had recently met Bartemeaus, the blind beggar who upon hearing that

Jesus of Nazareth was passing by him, started to shout aloud “have pity on me”, by continuing to shout louder and louder Jesus eventually calls Bartemeaus to come to him. “What do you want of me?” Jesus asks, “To see again”, responds Bartemeaus and as he was a man of faith, his sight was returned and he followed Jesus along the road. The Gospel writers were excellent at using metaphors to illustrate what was going on, Morgan (1997) quotes, “Metaphors create partial ways of seeing for in encouraging us to see and understand the world from one perspective they discourage us from seeing it from others”, and in this “*biblical*” sense the blindness referred to was not a medical condition, but an inability to see the big picture. Within this context, this is the potential affliction of the management researcher – is the issue identified really what is going on? As a “positivist”, my critical issue has been the management of the dualism between *subject* and *object* and that it is possible to separate the subject, the knower or the researcher, from the object, the known or the observed, through the application of scientific methodology. This can however be limiting and could make me the researcher suffer from the same blindness that affected Bartemeaus.

For me, I assume that I can take a neutral position in which I can stand back and observe the “world” objectively, and within this context thereby deductively test or inductively generate theory in an objective fashion. “Thus truth, as correspondence, is to be found through the observer’s passive registration of the facts that constitute reality”. Gill & Johnson (2010, p195). Consequently, I adopted a pragmatic approach to the research question. See Section 3: Methodology.

Design

Crotty (1998) contends that there are four elements to designing a research study, and at the broadest level are the issues surrounding the philosophical assumptions of the researcher, which in turn inform and guide the use of a theoretical position or “lens”. Building on this stance then informs and develops the methodology which is a strategy or a plan of action, which finally includes the method, i.e. the techniques used to gather analyses and interpret the data.

A potential element of the research project is the world view and stance taken by the senior managers / Directors of the “Buyers” (see Section 1: Project Context); there is a

need to understand their position and rationale regarding the criteria adopted in their approach to “Supplier” procurement. This is certainly subjective due to the individual stances taken, and as such, an approach needs to be adopted that will facilitate the generation of data.

The critical question? Is the methodology and method appropriate for the study? By adopting a pragmatic methodology it is envisaged that I can get the “best” world view. Gill & Johnson (2010, p.206) cite Law & Lodge, and their notion of “workability”, specifically truthfulness in a pragmatic sense. Within this concept they argue “that if a theory/ network allows people to interact satisfactorily with their environment then it reinforces, but if from the stance of theory their environment becomes unpredictable and uncontrollable then the theory is undermined and likely to change”. In summary they suggest therefore that workability of a theory is a function for which it is used.

Tashakkori & Teddlie (2003) argue the position for linking mixed methods research and a Pragmatic methodology, suggesting the following points as:

- The research question is of critical importance
- Quantitative and qualitative methods may be utilised in a single study
- The utilisation of meta physical concepts i.e. reality and truth should be abandoned,
- Should force a choice or dichotomy between neo empiricism and constructivism, and that a “practical and applied research philosophy should guide methodological choice”.


Support for this position is provided by Morgan (1997) “If there are any criteria available for evaluating knowledge, they relate to the way knowledge serves to guide and shape ourselves as human beings - to the consequences of knowledge, in the sense of what knowledge does to and for Humans”. Indeed we cannot have absolute truth as knowledge is informed by humans and the method should get the researcher as close to the “truth” as possible. Therefore within the pragmatist position the “truthfulness” of any methodological corroborated account or explanation would be made available or be testable only through practice, it is paramount that the researcher provides a clear and unambiguous guide to the practical ramifications of the theory and any subsequent practices that would pragmatically test the said theory.

Creswell (2007) suggests “In practice the individual using this world view will use multiple methods of data collection to best answer the research question and will explore both qualitative and quantitative sources of data collection, will focus on the practical implications of the research and will emphasize the importance of conducting research that best addresses the research problem. (p23) Given the diversity of views and the complexity of the value network a pragmatic approach was adopted. See Section 3: Methodology.

Johnston and Clarke (2001) suggest that cause and effect thinking maintains that there are strong and direct relationships between service delivery and the broader aspects of business performance. They argue that an understanding of these variables and how they relate to each other offer the opportunity for gaining an insight into the performance of an organisation. A synthesis of the EFQM ⁷ 1988 model, the Performance network is presented by Johnston and Clark as the combination of two networks, the interrelated set of results and the interrelated set of drivers and the relationships between them. Several organisational variables have the potential to significantly impact on the operational drivers. e.g. management capability

The drivers network is promoted as the “levers” that managers can apply to gain an anticipated result. Johnston and Clark argue that is possible to “capture a thread through an organisation” (p303) to gain an insight into its operational quality. The Performance Network thread that I have adopted has been used to consider the starting point for the framing of my semi structured interviews, and as a means of presenting the findings of the research project. See Section3: Realistic Ethnography, Section 4: Findings and the interpretation of findings and Thesis structure.

Thesis structure

The Thesis is structured within 5 Sections. The findings of the research are presented in Section 4 by both question topic, emergent theme from the data analysis and identified by colour. E.g.  Process: The procurement of outsourced services.

⁷ The European Foundation for Quality Management was founded in 1988 and its awards were presented to organisations that demonstrate excellence in the management of quality as their fundamental process for continuous improvement.

Fig.1.1 Thesis structure

Section 2: Literary Review	
	Measurement : context & practice
	Opportunism and Agency
	Unintended consequences
	Data Triangulation
Section 3: Methodology	
Section 4: Findings and interpretation	
	Structure
	Process :The procurement of outsourced services
	Process: The Contract
	Process: Measurement
	Management : People & Process
	Process: SCM & Relationships
Section 5: Conclusions	
	Transaction costs
	Service Quality & Value
	Innovation & Investment
Section 6: Reflections	

Glossary of terms & Table of Acronyms

AC – Audit Commission
ACA – Association of Chartered Accountants
CAFM – Computer Aided Facilities Management
CiBSE – Chartered Institute of Building Service Engineers
CIMA – Chartered Institute of Management Accountants
CRM – Customer Relationship Management
CSR – Corporate and Social Responsibility
CVR – Cost /Value Reconciles
DLO – Direct Labour Organisation
ECA – Electrical Contractors Association
FM – Facilities Management
GM – Gross margin
HA – Housing Association
HBR – Harvard Business Review
HC – Housing Commission
HRM- Human Resource Management
HVCA- Heating and ventilating Association
ITT – Invitation to Tender
KLoE – Key Lines of Enquiry
M&E – mechanical and electrical services.
MEAT –Most Economic and Advantageous Tender
NM – Net margin
NPM –New Public Management
OJEU – Official Journal of the European Union
PQQ – pre Qualification Questionnaire
R&M – Repairs and Maintenance
RBV – Resourced Based View
ROCE – Return on Capital Employed
SBU – Strategic Business Unit
SERVPERF –Service performance
SERVQUAL – Service Quality
SME – Small Medium Enterprise
SOR –Schedule of Rates
T&C's - Contractual terms and conditions.
TCE –Transaction Cost Economics
TOC –Tragedy of the Commons
TSA – Tenants Services Authority
TUPE – Transfer of Undertakings Protection of Employment

2 Literature Review

From the data collected during the research project, several themes consistently emerged. Exploring the linkages between these themes created a model which could be used to guide the literature search to challenge and/ or support the data obtained and to present the findings within the body of the thesis.

It was identified that there were three areas which could be deemed as “influencers of behaviour” within the relational exchange and which were applicable to all parties within the Value network of the industry. These being:

- Transaction costs created via trading practice and issues relating to agency, opportunism and management practice within relational exchange
- Measurement, context and practice. The measurement of performance is central to the financial and operational performance of the Value network, the contractual performance within the relational exchange, and external audit of both the “Buyers” and “Suppliers”, and
- The Unintended consequences of management actions.

Measurement - context and practice

This review of the literature was to set up the study and to show how current academic research reflects on the real world. Existing practice, presented in Section 4: Findings does not match the theory in literature, and may cast doubt on its validity. The literature was to be complementary in terms of FM “Supplier”, “Supply chain” and “Buyer” i.e. the “FM Value network”, and was to review of operational literature, within the context of the subject matter i.e. targeting, measurement and its impact in supporting short-termism. Whilst not all measures have targets associated to them, targets are required to control performance, judge the scale of operational or fiscal improvement, motivate employees, and communicate the size and speed of change required in the business. (Parker, 2000) Within the context of my study, measurement is relative to the design and content of contracts, the management of organisational performance, the control of process and the assessment of service quality. In short measurement pervades every element of organisational life and the relational exchange.

The Value system – Organisations and the “Value network” – Inter organisational trading

Porter (1985) identifies the activities within an organisation and relates them to an analysis of the competitive strength of the organisation. The key aspect of Value Chain Analysis (VCA) is the recognition that organisations are much more than a random collection of people, tools, money and machines. Organisational resources are of little or no value unless deployed into activities and organised into routines which ensures that the services produced are of value to the final user or customer. Porter argues that it is the “organisational competence” to perform particular activities and the ability to manage the linkages between activities that are the principle source of competitive advantage for organisations. An organisation’s value chain is embedded within a larger stream of activities; a grouping which Porter terms the value system or value network. Product and service suppliers create and deliver the purchased inputs used in a customer’s value chain i.e. upstream value. In this relationship suppliers are not only delivering services but can influence the customer’s performance and impact their business proposition. In this scenario the Supplier’s product becomes part of its Buyer’s value chain. The Value network is relevant to my study due to outsourcing and the subcontracting of services, and its impact for value creation in “customer to customer” relationships.

Porter (1985) implies that organisations, as a prerequisite, have to provide value in the services that they deliver; the scope of an organisations activity has a powerful role in creating competitive advantage through the links within the organisational value chain. Every firm is a collection of activities that are performed to design, produce, market deliver and support its service or product. Differentiation derives fundamentally from creating value for the buyer, through the firm’s impact on the buyer’s value chain. Value is created when a firm creates competitive advantage for its buyer – it lowers its buyer’s costs or raises its operational performance. An organisation must effectively communicate the value or impact made. Performance against a set of “agreed” measures or critical success factors is clearly an effective means. It would therefore follow that metrics applied within SBUs should be congruent.

Jones and Sharp (2007) cite Jones (2002)⁸ who argued that in the context of maintenance services, “Value“ should be linked to the ability of the built asset to support the customers organisational performance, with built asset maintenance critically viewed as a strategic issue with the context of the customer’s strategic planning framework. Within the Social housing sector, “Repairs & Maintenance” was one of the six standards at the heart of the up dated April 2010 regulatory framework.⁹

Porter argues that a market or industry impacts and shapes the structure of the organisations operating within it – both “Buyers” and “Suppliers”. Given that the organisations are similar in structure and constrained by contract obligation, the value chain can identify the source of cost and or value within an organisation but does not identify why activities or competences are more “valuable” or “costly” than others, or why one organisation creates greater value than another. Additionally Bowman and Ambrossini (2000) develop the concept of “value in exchange” and “value in use” which Enquist (2011) considers from the perspective of Goods-dominant logic and Service-dominant logic which is pertinent to this study. See Section 2: Service Quality. Hedberg and Gararski (1995) cultivate the concept of the imaginary organisation as a system where processes, resources and actors are found and which are managed across legal entities, central to which is what Gummesson (1998) describes as an “imaginator” or “leader” who provides a strategic map, through which production, service delivery, market communications and payment systems which contribute resources, shared interests and a mission which keep the network together.

My study considers outsourced relationships in the delivery of FM services, and within this context, because of the extensive use of outsourced resources the imaginary organisation is larger than the sum of its combined organisational charts and more resourceful than indicated within its balance sheet. In order to make such an organisation manageable suitable key indicators of success and failure are needed. See Section 2: Performance Measurement – FM Service provider.

⁸ Building on the concept espoused of sustainable building maintenance and the challenge for construction professionals.

⁹ This replaced the framework published as part of the Housing and Regeneration Act 2008

Measurement - Provenance

Amaratunga & Baldry (2002) outline the traditional perspective of performance measurement and the systems adopted as a means of maintaining and monitoring organisational control; which is the process for ensuring that organisations achieve their aspirational targets or maintain their course on a strategic journey. Parker (2000) cites that traditional business measures have been financial and quantitative, which tend to be insular or inward looking. They are “*lagging indicators*” i.e. considering a “past” perspective or position, and typically fail to include less tangible factors. A business must consider what to measure, as this will force managers to clarify what is important to their organisation. The appropriateness of the adopted measures will be instrumental in communicating progress towards goal or target achievement. Effective measurement provides a path to enable managers to check whether objectives are being achieved and data from the measures adopted can be used to challenge the organisations business and operational strategies. (Hargreaves, 2001).

Section 2: Core business strategy & operations considers the strategic perspective behind competitive activity and performance. Brignall & Ballantine (1994) cite evidence from a number of literature sources, specifically management accounting, operations management and strategy, (Brignall *et al*, 1992; Kaplan & Norton, 1992,) which have highlighted increased forms of dissatisfaction with traditional performance measures, predominately stemming from their failure to monitor and measure multiple dimensions of performance. The measurement of performance has largely failed to adapt to the highly competitive environment in which businesses operate, where the key to sustainable success and continuous improvement in the design, implementation and the marketing of the business proposition is critical to success. Brignall & Ballantine (1994) argue that “Much of the literature surrounding PM has ignored the predominance of services in today’s advanced economies and the distinctive needs of services when measuring, monitoring and evaluating performance”.(p11) The economies may be advanced, but is this reflected within FM working practice?

Measurement must have an effect on performance, and there is a tendency within the service sector to measure things that are easy to measure and to measure too much. Additionally there are problems relating to implementation which in turn creates a negative reaction resulting in sensitivity to the metrics adopted and the results reported. Neely (2004) suggest two critical areas that link directly to the FM service provider, “In

design, the challenge lies in selecting the right measures.....There is a desire to quantify absolutely everything. If the focus is on customers, there will be proposals to measure complaints, satisfaction, loyalty; profitability....the list goes on. The challenge is not necessarily identifying what you could measure; it is in identifying what the business needs to measure so as to concentrate on what is absolutely vital” (p1019). Bititcti *et al*, (2000) identify that performance measurement system design is critical and should include the need to be sensitive to both internal and external environmental change, reviewing and re-prioritising objectives as a response to environmental activity. This will enable successful changes to objectives and priorities and ensure that the gains, progression and learning achieved through operational delivery is successfully engrained into the business.

From the management perspective, Pidd (2005) quotes Goodhart (1975), and builds on the arguments of Smith (1995) in relation to the unintended consequences of misusing targets to manage a business (See Section 2:Unintended Consequences). Typically these are:

- Tunnel vision: where managers select targets that are easy to measure / easy to achieve and therefore ignore the rest,
- Sub – optimisation: managers adopt working methodologies that serve their own sphere of operation but damage the performance of the whole Value network,
- Myopic managers: focussing on short-term targets at the expense of medium and long term objectives ,
- Measure fixation: when the measure becomes the focus rather than the requires outcome,
- Misrepresentation: the fraudulent use of performance data via misreporting or distortion to create a false “good impression” or delivery,
- Gaming: deliberate underachievement to secure lower future targets.

Amaratunga & Baldry (2002) suggests that inappropriate performance measures are a barrier to organisational development, making a link between measurement, action and strategic intent. They argue that the inappropriateness of measures causes managers and organisations to undertake actions that are incongruent with organisational strategy. Organisations that adopt “good measures” ensure prompt “good actions” and achieve their strategic intent. If FM as an industry sets self limiting performance measures does

this impact on the delivery of services and potentially the business proposition of the “Buyers”? Additionally traditional measures ensure traditional outcomes and may have the unintended consequences of achieving the strategic intent of the organisation, which may well be sub optimal i.e. the potential for the organisation is greater than its management perceive – unconscious incompetence? Current literature is scarce in this area.¹⁰

Volumetric & Monetary measures

The prevalent position for contracted out services is the introduction of a “Service Level Agreement” (SLA) is deemed to be central to the Supplier / Buyer interface. Kadfors (2008) Normative measurements for the FM services industry centre around *Volume* – typically the “number of activities” e.g. phone calls – made & received, and *Monetary*, being linked to a typical cost, i.e. pounds sterling per square metre, e.g. cost of painting per M². As part of a procurement process, and linked with a service specification, SLAs are considered an essential element within the contractual governance framework. See Section 4.3: Contract. However, is their design based on a continuum? i.e. the “minimum” level of service required, contrasted with “the best that can be expected”. (Price and Akhlaghi, 1999)

Tranfield & Akhlaghi (1995) argue that such an approach is reactive to the market place as the needs of others or competitive pressures, i.e. external stimuli, such as the use of Schedules of Rates (SOR's), are setting the agenda and the winners are those organisations that are able to have a control on volume / market share and to influence price, - typically downwards, and so encourage a low cost or price-lead approach and increase further the commoditisation of services. Price & Clark (2009) suggest that FM as a business sector is “... overtly focused on indicators, which are enshrined in various guides, codes and benchmarking schemes” (p6). A possible consequence of this process, taken to its conclusion; is low quality, reduced business performance, increased budgetary pressure and a decrease in overall performance. My study will explore the selection and use of measurement at different levels within Value networks.

Benchmarking

The facilities management literature proposes three basis forms of benchmarking, Mc Dougall & Hinks (2000); internal, competitive and generic. From reviewing the

¹⁰ Business source premier, Google Scholar. Emerald. Search criteria: Self limiting performance measures, Outsourced services. Impact on service delivery.

literature available, the practice of benchmarking appears to be limited to internal and competitive within the FM sector. Varcoe (1996) argues for the route of *traditional or conservative* benchmarking against the continuous “*improvement, versus innovative*” benchmarking argument. Hayes & Wheelwright (1994) espouse the concept of “external neutrality”, whereby an organisation compares itself with similar companies and organisations in the wider market and then adopts the best ideas and norms of performance from the rest of its industry competitors.

Massheder & Finch (1998) undertook research with the UK’s top 100 FM service providers. Out of the 25 respondents 14 confirmed that they conducted benchmarking activity as part of their performance measurement programmes. The consensus of the metrics utilised related to traditional quantitative measures that were readily available. The authors concluded that the ease of acquiring and interpreting measured information appeared to be one of the characteristic of FM Benchmarking. Benchmarking can be classified as a means of determining how well an organisation or business unit is performing compared with similar units both within the organisation and externally. Parker (2000) cites that use of benchmarking as a performance measure offers a broader perspective, and provides the notion of “*best practice*”; however it does not as a concept indicate levels of performance at an absolute level. Amaratunga & Baldry (2002) view benchmarking positively stating that “The FM organisation can use PM results to benchmark against other FM providers.....the strength of benchmarking is not in identifying best performance but best practice which will lead to the best performance enabling FM managers to make better informed decisions about their businesses”.(p 219) Tranfield & Akhlaghi (1995) argue that benchmarking is again a lagging indicator, and as such benchmarking competitors performance usually results in “performance gaps”, and therefore creates a “*catch up*” situation for operations to address. It is therefore not a strategic option for creating a competitive advantage. Additionally they cite that organisations often benchmark the wrong or inappropriate features of their business. From a public sector perspective this results in a deterioration of performance, as frequently poor content design provides a limiting “glass ceiling” to performance and benchmarking becomes as “race to the middle” proving that you are OK? This is an area that is limited in academic literature.¹¹

¹¹ Google scholar, Business source premier, Emerald. Search criteria Public sector, benchmarking content, design, diminished performance.

Mc Dougall & Hinks (2000) view benchmarking as essentially a cost reduction method. They argue that benchmarking is limited by the ability to identify the priorities, or performance indicators that can measure contemporary issues such as customer satisfaction, to any benefit. The conclusion drawn within their paper is that there is a tendency towards reliance upon a general set of indicators which then leads to benchmarking issues that are often unhelpful in the pursuit of continuous or sustainable improvements in performance. Relative to my study is the benchmarking dichotomy. Internal organisation versus External market? Or, based on Goods dominant or Service dominant logic? A Contradiction is found within Bon *et al.* (1998) who make a clear link between benchmarking and organisational strategy, arguing that the metrics adopted should be focussed towards the highest level of management and therefore should be presented in financial terms. However they do ignore the concept of materiality which is crucial in making financial comparisons.¹²

Multi dimensional measurement systems

As discussed previously, see Section 2: Performance Measurement – FM services provider. There is evidence of increasing dissatisfaction with traditional forms of performance measurement in FM, due to their almost exclusive concentration on lagging financial measures. The view of Kaplan & Norton (1992/1996) is that wider measurement criteria are now a prerequisite for shareholders, which in turn has consequences for the executive within the day to day management of the business. Neely (1995/ 2001) and Fitzgerald *et al*, 1991.

Kaplan & Norton (1992) quoted in HBR, “The balanced scorecard - a set of measures that give executives a fast and comprehensive view of the business.....it includes financial measures, that tell the truths of measures already taken, these are complemented with operational measures the drivers of future financial performance” (p92). The concept of the “Performance Prism” added to the debate on the benefit to be derived from the use of measurement frameworks by separating stake holder satisfaction from stakeholder contribution. Citing that, “*suppliers and alliance partners*” are increasingly important now that organisations are outsourcing more of their non core activities. Neely (2001). The role of regulators is extremely important in many industries. Within this study the HAs are regulated by the Audit Commission, (AC)

¹² A successful advertisement of the 1980’s by Ford, suggested that all its competitors could make comparisons, but they could not make Cortinas.

Homes & Communities Agency (HCA) and the Tenants Services Authority (TSA) – in their various guises.

Whilst there is agreement on the benefits of multi-dimensional measurement, the critical question needs to be asked. Do we have the desire, capability and capacity within the management cadre of the organisation to design, implement, review and act on the information provided? Furthermore, do the measures adopted drive the Value network as a whole to address the evolution of the asset, productivity and service quality? Ancarani & Capaldo (2001) discussed the new challenges for public sector management, suggesting that managers needed to update their role as it was no longer sufficient to re-engineer established systems. It was necessary to re-design structure and processes and to “... assign a key role to the management of quality” (p333). Reichheld (1996) outlines the requirements for new indicators which anticipate the future requirements of the Value network and which challenge the dogmatic approach of tradition.

Performance Measurement - FM services provider

Core Business strategy & operations

Nutt (2000) stated that the strategic objective of facility management is to provide improved infrastructure and logistic support to businesses across all sectors; objectively the effective management of facility resource and services. To achieve this concept, the “Supplier” has to have clear strategic intent, clarity of operational processes and well designed effective measures to report on and communicate progress. In contrast this may be challenged by the self interest of the supplier, given that they are driven to create shareholder value.

Managers have a multitude of diverse decision variables upon which they focus their organisations actions en route to achieving competitive advantage. They have long realised the importance of congruence between elements of the organisation as they target competitive goals. However is current practice and knowledge constrained or challenged by the concept of outsourcing? The concept of strategic / operational fit within strategy literature has long been established, Chandler ¹³(1962); Prajogo & McDermott (2007). Espoused the notion of “external fit” – how well the organisation and its goals are in congruence with the outside world i.e. its market, and the “internal fit”, the extent to which individual elements and goals within the organisation are itself

¹³ Indicating the long history relating to the issues of internal / external fit in business strategy literature.

coherent and aligned. Structural contingency and Strategic choice theory suggests that a fit between organisations and their operating environment is something that can be, and is, achieved managerially See Section 4.6: Relationships and Section 4.5: Management.

Operations strategy has also to address the issue of fit, again by examining internal and external fit as they relate to operations. External fit explores the relationship between the operations strategy and the overall business strategy. Internal fit can be articulated as the relationship between an organisations stated operations strategies and the level of importance that it places on a comprehensive set of operational activities.

There is general agreement in literature regarding the key competitive priorities making up firms' operational strategies: Cost, quality, flexibility and delivery. Similarly, it could be commonly argued that the effectiveness of organisations' operations strategy can be measured by assessing the degree of linkage or consistency between the competitive priorities that are emphasised within the business and the corresponding decisions made regarding the elements of their operations. (Prajogo & Mc Dermott, 2007; de Silvaeria, 2005; Hill, 2000) Hayes and Wheelwright (1994) suggest this concept as "internally supportive" in so much that an organisation tries to get a clear view of its competitive or strategic goals and then seeks to organise and develop its operational resources to enable it to excel.

There is clear evidence linking the fit between business strategies in terms of differentiation, cost leadership and focus - and operations strategies in terms of quality, delivery flexibility and cost being examined in literature, (Smith and Reece, 1994; Powers and Hahn, 2004) as well as the additional impact of strategy on business performance. (O'Farrell *et al.* 1993; Roth and Jackson, 1995).It is fundamental for a service provider to understand how operations strategy is to be deployed into operations activities, which would include vertical integration, service planning and control, quality, organisation and workforce management. Roth and Van der Velde (1991) indicate that operations strategies need to be deployed into a service delivery system which includes the concept of structural elements (e.g. technology, operating facility and capacity) and infrastructure elements (e.g. people, IT systems and performance measurement) of the day to day business operations.

The extent in which operations strategies reflect competitive priorities - from either end of the value system- are translated into operations activities and is a fundamental issue in explaining competitive priorities and performance. The delivery strategy of the “Supplier” and its link to the procurement strategy of the “Buyer” is a critical element of my study, as without congruence the unintended and undesired outcomes are increased *ex post* transaction costs. Buyers have to buy what their requirements are: not what is available. The consequences of such actions will be explored within my study.

Service people and their management

Price & Akhlaghi (1999) suggest that analysis of the Value Chain of an FM service provider will identify the roles played, specifically in operations and service as those being undertaken by the lowest paid and least skilled staff in an organisation, managed by facilities managers who have typically gained managerial experience in construction, engineering and other “*quantitative*” industries.

There is clear evidence that the scientific management approaches espoused by Taylor nearly 90 years ago are still dominant and the industry remains grounded in this paradigm. “*People are our greatest asset*” is often cited in organisational literature, however many FM service organisations fail to understand the concept. Haynes (2007) cites Oseland (1997)¹⁴ proposing that Taylor was aware of the limitations of the scientific management impact, specifically due to the impact of monotony on intelligent workers. However in this sphere of work (R&M services), a definition of productivity is clearly in the Taylorist tradition i.e. quantity driven, and effectiveness being defined as” “a measure of the level of “*value*” which can be created from a given level of resource”. Johnson & Scholes, (1999. p169).

This position is reinforced with services from a “Buyer” perspective, frequently being seen as commodities, Price (2004). Ironically the “trade associations” aligned to the FM industry who specify contractual obligations, detail pay grades and the rates per hour to be paid to the operative by the service provider, further increase the mechanised bureaucratic approach to operative management.(Morgan, 1997) The contradiction to this process is a form of “*piece work*” or rate per job agreed by the manager / operative prior to the delivery of services commencing - both methodologies clearly bypass service quality or the creation of value in use for the customer.

¹⁴ Within the context of environmental factors and their impact on office worker performance

Braverman (1974) is cited as countering the popular notion in social science and business literature that scientific management has been superseded by human relations approaches, and that it no longer defined “modern” work design or management methods (Grey, 2009) He argued that this was not the case and that Taylorism was institutionalised and engrained in industries forming the basis of production and activity control in organisations. Ritzer (1993) supported this notion writing on what he deemed was “*The McDonaldisation of Society*”, with its routine and standardised products and services, which represented McDonald’s operating processes and the effects that it was having on social and organisational lives. Morgan (1997) suggest that this “*hamburger science*” (p27) can be spectacularly successful if applied to an environment where machines work well, and that workers are happy to fit into the organisation as designed. However as Grey (2009) suggests “the fact that people have some degree of agency means that it is open to them to ignore, resist, circumvent or just plain misunderstand – all of which will make the best – laid management plans go awry”. (p31). Additionally organisations operate in time – there is no equilibrium point. There is no optimum system at an optimum time.

Typically within the “FM Services” arena, skill levels, job variety, task significance and autonomy are low. The extent to which the operative “*sees*” how a job affects the work of other organisations or customers is limited and feedback is generally negative or non-existent. At the delivery level individuals are rarely effectively performance managed by first line managers. At best the operatives – do! (Price & Aklaghi, 1999) But do managers manage?

Cooper and Locke (2000) identify that targets are future orientated, they represent desired outcomes and therefore it is seeking, aspiring and planning that influences current action. In terms of target setting theory, Latham & Locke (1990) espouse two propositions, the first being a relationship between the target difficulty level and job performance –assuming that the targets are accepted by the employees and secondly that target specificity is important, demonstrating that specificity may have an impact on performance through directing effort, clarifying what needs to be done and increasing commitment to the target. In terms of target commitment, how targets are introduced by managers and supervisors and the encouragement and support given to reach the goal

was seen as critical, In practice supervisors usually wield legitimate authority and the power to set targets and trust is crucial within the working relationship, Kadfors (2008) suggests that trade associations and industry networks are considered valuable in improving trust throughout the values system, but does not sufficiently support the argument to make the case. For example - HVCA, NIC-EIC, ECA, and CiBSE. Interestingly these organisations also specify how activities should be undertaken and programmed e.g. SFG20 as provided by the HVCA, which potentially re-enforces the mechanistic approach to delivery - diminishing trust at the same juncture.

In conclusion different types of tasks may require different types of targets; Mathews *et al* (1994) suggested that outcomes and output targets were more successful than process goals when people worked independently. Targets should be set for activities where employees have elements of control. However where delivery methodologies diminish employee discretion, what is the relevance of a target, that may be unattainable especially when linked to remuneration?

The customer relationship

As discussed in Section 2: Performance Measurement – FM service provider, the traditional performance measures adopted by the FM industry per se are predominately financial, and quantitative. It could be argued that FM has a strategic role to play in interpreting and supporting the core needs of the “Buyers” business, therefore aligning the “Suppliers” core competence with the core competence of the “Buyers” thereby creating a competitive advantage for the “Buyer”, a position supported by Alexander, (1994) and Porter (1985). The contribution made by a “Supplier”, should be judged by a “Buyers” stakeholders over a multitude of criteria, ranging from traditional accounting and operational measures, standardised monetary and volumetric FM measures to significantly emerging factors as; service quality, value, risk management and other intangibles. The interlinking of “Supplier” and “Buyer” by intangibles is by observation fundamental to the whole business proposition. However do the contractual performance measures typically adopted achieve this?

May & Pinder (2008) and Price (2004) discuss the requirement of “Suppliers” to produce evidence that demonstrates their contribution to a “Buyer” business. However in the context of outsourced R&M services, where is the contribution to be made? A contribution to the “bottom” line? Or Resident satisfaction? Kadefors (2008) considers

the impact on clients from a contracting perspective; she suggests FM providers have typically evolved from a construction background which is traditionally project based and adversarial in nature. Fundamental to the “Buyer: Supplier” relationship is the procurement process. (Kadefors, 2008) Research into FM procurement identified that selection of partner or FM provider was generally based on price, with little or no sharing of risk or benefit. She cited Salonen (2004) who concluded that the FM supplier relationship was intrinsically seen as operational rather than strategic, her view being that a change of FM partner would not unduly influence the “Buyers” business strategy. However, with the high level of importance of R&M delivery in the Landlord: Resident relationships, their view could be challenged. See Section 4.6: Supply Chain Management and Business Relationships.

The measurement of Quality & Value

By definition *service quality* is held to be the result of a comparison made by “customers” between their expectations about a service and their perception of the way in which the service has been performed (Caruana, 2002; Gronroos, 1984; Parasuraman *et al* 1985, 1988, 1994).¹⁵ Svenson (2006) identifies that there are numerous dimensions of service quality described in literature citing and building on the work of Gronroos (1984), Parasuraman, (1988) Haywood-Farmer (1988), Cronin & Taylor (1992).

Although the actual performance of service quality is delivered at an operational level, the services delivered have become crucial to the wider strategic, operational and tactical management of business operations. There is an interlinked construct between service encounter and service quality. The service encounter is an interactive process between the “Supplier” and the “Buyer”. However the context of outsourcing adds additional complexity which is exacerbated with external audit and the KLoEs. The “Suppliers” perspective appears to be poorly researched as there is little published literature to comment on and the majority of research undertaken tends to ignore the “Suppliers” perspective.¹⁶

Lehtinen & Lehtinen (1982) suggest the construct of service quality is multi dimensional. At a lower level there is a three dimensional perspective of service quality,

¹⁵ Developing the concept of “quality” from sources that he deems to be at the leading edge of the debate on service quality and delivery/ perception.

¹⁶ Searches on Google scholar, Emerald & Business Source Premier. Search criteria: Service suppliers, service encounters, service quality.

consisting of “interaction, physical and corporate quality”, and from a higher level or customer perspective they see it as two dimensional, consisting of output and process quality. This two dimensional approach is espoused by Gronroos (1984), who argues the roles of technical quality i.e. the output and functional quality or process quality as occurring prior to and resulting in outcome quality. Output quality is defined by what is delivered to the customer; process quality refers to how the end result of the process is delivered to the customer. Here the link to Service People is made as these concerns both the behavioural and psychological aspects, which include accessibility, how the service employees perform their task, what they say and what they do.

Service Quality

Service Quality (SQ) is a critical element in business and services in both public and private sectors. By definition it could be considered by a comparison between customer perception (P) and customer expectation (E) therefore... $SQ=P-E$. (Parasuranam *et al*, 1988) SERVQUAL was developed over a number of studies in various contextual situations ranging from banking to repairs and maintenance industries, and with some adaptation it has been used in a wide range of service industries. There is evidence within the literature that high levels of SQ lead to increased customer satisfaction, retention and profitability Blanchard & Galloway (1994). Caruana (2002) suggests that the concepts of service quality service loyalty and customer satisfaction are all inter related elements.

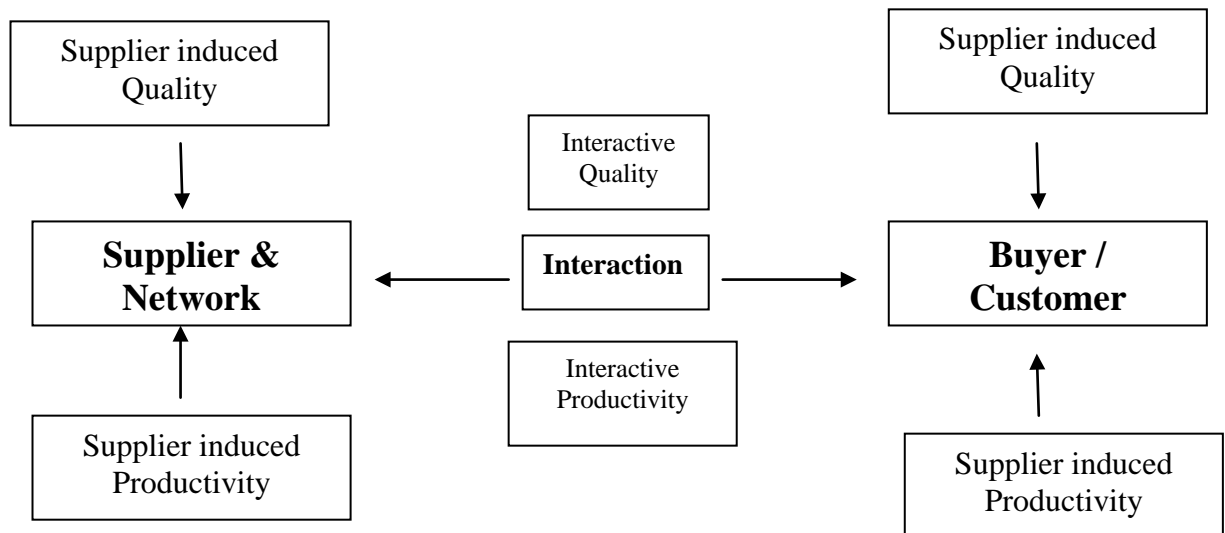
As developments of the multi measurement process were undertaken, various writers added and challenged the debate, Cronin & Taylor (1992/ 1994) challenged the theoretical basis of the concept and created SERVPERF, based on $SQ= P/E$, where the respondents evaluate the level of service using a Likert type technique. Haynes & Price (2004) added to the service quality debate by considering the argument between the *disconfirmationists* who regard importance and satisfaction as independent variables, versus the *perceptionists* who hold that the two items be measured simultaneously by questions of relative performance. Their chosen route being *perceptionist* - to directly maintain links to productivity.

Hoxley (2000) and Yusoff *et al* (2008) are amongst several writers who have developed a multi dimensional measurement concept to suit the service market place / environment context. Yusoff *et al* developed FM – SERVQUAL, which is based on an integrated FM

framework, and includes the management of human capital, premises and process. The consensus being that Service Quality has to be considered from both the “Supplier” and “Buyer” perspectives and a multi dimensional approach. See Fig 2.1. Gummesson (1988) considered quality in a “real world” context, developing the links between service quality, service productivity and profitability and the connection to long –term relationships. Central to his research was the relationship between “Buyers and Suppliers” as he believed that these stand out in the service process and the service encounter suggesting that the “Buyers” role is crucial in creating both productivity and quality.

The concept of relational exchange and the modern corporation turns into a network of relationships in which all members of the network influence quality and productivity. This view is supported by new organisational theory, particularly the notion of virtual organisations. (Enquist *et al*, 2011) “It is further supported by new accounting and measurement practices of the balanced scorecard and the growing interest in intellectual capital”. Creating a link to the value network of Porter (1985) and the multi item measurement movement. However Gummesson's primary challenge is to dogmatic traditional practice.

Fig. 2.1 Quality: Productivity within the Relational Exchange.



Value

Historically “added value” was seen as a correlation between price and quality. (Kok.2011). The current position views value as a multi-faceted concept, which is despite the variation in the definition, scope and analysis of the research, with consensus that “added value” is a relationship between benefits, sacrifices for the customer and

risk. The “Buyers” assessment concerning the fictional or emotional advantage, offered by the service provided in relation to the financial cost and the risks of utilising the service. (Porter, 1985; Kemperman and Van Engele, 1999).

Bowman & Ambrosini, (2000) suggest that there are two forms of value creation. “Use value” based on the specific quality of a service which the “Buyer” experiences in relation to a need and the “Exchange value” defined as the financial element of this value i.e. the “price” which the “Buyer” is willing to exchange and the risk that the “Buyer” is prepared to take. The assessment of value is context dependent based on a “Buyers” perception and is also relational and dynamic. The role of perception in assessing value, its dependency of the situation relating to service use, the use purpose and competitive alternatives has been widely researched. (Christopher *et al*, 1991) Zithaml *et al* (1988) propose that value is subjective and highlight that: costs, benefits and risks are all criteria of “Buyer” expectation of service use. There is a post priori perspective that value is based on experience of the service (Monroe, 1991). A position supported by Gummesson (1998) who suggests that, “...from a customer point of view it could be argued that only when a service has been consumed has it contributed to Value.”(p9) Additionally Dodd (1999) argues that “Buyers” judge value in terms of additional advantage expected or experienced compared to comparative offerings in the case of substitutability.

Value has also been conceptualised as the value of the “Supplier-Relationship” (Lindgreen & Wynstra, 2005) with Rivald & Gronroos (1996) suggesting that it is this relationship and not the service provided that has the major effect on the perception of value, developing trust and making the “Buyer” more tolerant towards occasional inferior performance. See Section 4.4: Measurement. Gummesson (1998) promotes the view that “added value” in the context of accounting is synonymous with “cost added”. Productivity, he suggests is associated with lower cost, with a possible consequence of lower quality. The critical element is the incorporation of productivity and quality into a “production- consumption system, where the “Buyer” or consumer of the service is not an end user ... the customer is an agent in an ongoing added value circle” (p9). Given this position, does the competitive procurement practice in the industry destroy quality and value? Additionally, is that destruction further exacerbated by the length of the trading relationship? There is wide spread postulation of the virtuous nature of profit

chains –customer relationship life cycles – good external service quality – satisfied customers and improved profitability, but there has been little research on the destruction of value and quality through procurement practice.¹⁷

Opportunism & Agency - Outsourcing and its deadly sins

Managing effective outsourcing relationships requires a level of commitment and cooperation from all parties. It differs from the buying of products and services, which is merely a vendor relationship, through its use of information exchange and coordination. Principally this is because the employer transfers to the supplier an element of management control, which ultimately requires trust. Outsourced services differ from traditional sub contract relationships as they are usually provided on an ongoing basis, rather than for a specific project. Understanding outsourcing problems is central to the “Buyer – Supplier” relationship. As Supplier control over channel activities has increased, they have invariably sought mechanisms and controls to organise and manage the supply channel. See Section 4.3: The Contract and 4.4: Measurement.

The “Transaction Cost” perspective as developed by Williamson (1979, 1985) was an expansion of the earlier works of Coase (1937, 1960), and provides a method of analysis of a perspective of the organisation of economic activity. Williamson espoused that there are costs associated with using the market mechanism as a method of coordinating activity and that these costs arise due to certain behavioural and transaction costs. These said “costs” are *ex ante*, i.e. costs relating to search/ selection process when seeking suitable suppliers, and *ex post* transaction cost concerned with monitoring and enforcement of contract costs. The assumptions of behavioural context are bound by opportunism and rationality. The constraint of rationality would not impose transaction costs were it not for the problem of opportunism or an actor’s propensity to pursue self interest through duplicitous behaviour. However the “defence” mechanisms used to identify, sort and protect against opportunistic agents from those who are not, impose such transaction costs

Transaction costs vary on the basis of their transaction characteristics. Specifically: frequency, specific investment and uncertainty. Williamson (1996, p337) defines a specific investment as an “asset that cannot be redeployed to alternative uses by alternative users except as a loss to productive value”. Collins (2003) cites that there are

¹⁷ Google Scholar, Emerald Business Source Premiere. Search criteria: Competitive procurement practice, destruction of buyer value.

six types of asset specificity: name, site, human assets, temporal and dedicated specificity and capital. He espouses “that the chief problem posed by specific investments is that in the first instance, their value is contingent on the identities of the trading partners, and in the second instance they generate quasi rents”. These quasi rents are considered as the earnings generated by an asset over and above the minimum earnings necessary to keep it in its immediate application.

The constraint of rationality would not impose transaction costs were it not for the problem of opportunism or an agent’s propensity to seek self interest through duplicitous behaviour. However the “defence” mechanisms used to identify, sort and protect against opportunistic agents from those who are not, impose such transaction costs. The existence of quasi rents (Coase, 1960) generated by specific investments, when coupled with the potential or opportunity for opportunistic behaviour - in the context of bounded reality, places an agent who has made a specific investment subject to moral hazard, and in this instance, potentially a post contractual form of opportunistic behaviour. Where specific investments have been made, this form of opportunistic behaviour redistributes the quasi rents to the “cheater”.

Quasi rent distribution can be achieved in either an observable or a covert manner. For example, where prices are increased by the “Supplier” above pre agreed levels after the “Buyer” has made a specific investment, in the knowledge that the employer cannot exit the relationship without suffering a considerably greater loss. Hobbs (1996) cites that quasi rents can be distributed more covertly “facilitated by information asymmetry, where actions of one party are not observable by the other - e.g. by employing substandard materials, or failing to employ processes as agreed with the customer”. Usually to address the situation, an agent engages in costly monitoring processes to ensure that the terms of agreement are being adhered to by the other party.

Opportunistic behaviour

Opportunism “.....refers to the incomplete or distorted disclosure of information especially in calculated efforts to mislead, distort, disguise, obfuscate or otherwise confuse”. (Williamson, 1985, p47) Grzeskowiaki *et al* (2009) view “opportunism as a consequence of opportunity”, which underlies the central assumption of the notion that “exchange partners are motivated by self interest”.

Marr (2007) argues that measurement has a central role in our society, ranging from reporting and compliance, strategic and operational decision making, and influencing and controlling individual's behaviour. However there are limits to effectiveness of measurements. Boyle (2001) offers the view that "numbers cannot reveal everything, but we try to force them to.....the central Paradox of the whole problem is that some of the important things are not measurable. The difficulty comes because they can almost be *counted*". Hargreaves (2009) discussed the concept expressed by financial manager that "what you measure is what you get", within the philosophical paper (2009), I considered the notion of truth in management research; "what you measure is what you want", which could be claimed as a new mantra for the opportunist supplier.

Organisations via the use of external auditors provide a supposedly objective verification of the numbers that they put in, thus complying with reporting and compliance requirements. Marr (2007) cites and develops the concept of Porter (1985) and espouses that organisation measurement serves to replace personal trust¹⁸. Influencing behaviours via the use of measurement also requires objectivity; specifically if measures are linked to compensation and reward. However the dysfunctional consequences of diluting or replacing trust with measurement can be seen in a myriad of examples. For example, the concept of the ubiquitous KPI, which in reality is usually anything but key! As Cooper and Kaplan (1988) suggest "Measure the right elements: make the right decisions". Section 4.4: Measurement

Agency theory and the individual

The concept of the Agency theory identifies problems arising from Principal - Agent relationships. The central issue being how to get an agent (subcontractor, employee, manager) to act in the best interest of the principal (owner , employer) when the agent has an advantage over the Principal and has a different agenda and different interests than the Principal. Kirkbride *et al*, (2008)

Marr, (2007) views agency from the concept of measurements as "it goes that employees do not have the same objectives as the employer; hence the employer puts measures in place to guide the behaviour of the agent, and therefore align their objectives". In reality this can only work if the employer can measure all of the critical / contractual measures of performance. If some aspects of performance are missed this creates a gap. Meyer (2002) argues, "People will exploit the gap between what we want

¹⁸ But not economic trust

to measure and what we can measure by delivering exactly what is measured rather than the performance that is sought but cannot be measured”¹⁹. This is the basis of dysfunctional behaviour and sub optimal service delivery. My study will explore the impact of standardised performance metrics and standard forms of contract.

Jensen, (2003) suggests that “the budgeting process and compensation systems adopted by organisations are a fundamental element in the cheating debate”. The reality is that almost every company uses a budgeting or targeting system that rewards people for ignoring or destroying valuable information and also punishes them for taking actions that benefit the organisation; “these budgets based systems, reward people for lying, for lying about their lying and punishes them for telling the truth”. Jensen (2003) the compensation systems reward gaming whilst obfuscating the facts. The basic premise of budget systems is that managers should be rewarded for achieving their targets and punished for missing them.²⁰ The known fact, but ignored by organisations, is the effect that incentives can have of on performance. Primarily managers will attempt to set easily achievable targets, and once set they will endeavour to see that the target is achieved even if it damages the organisation, or the employer within the supply chain relationship.

Schweitzer *et al* (2004) identified that goal setting does have its limitations, specifically where employees or agents failed to adopt the goals set, nor did it influence performance for highly complex tasks. From their research they drew several supported conclusions:

1. individuals make ethical decisions by weighing the perceptual benefits and costs of engaging in unethical behaviour
2. individuals who failed to reach goals by a small amount overstated their performance
3. “*reward goals*” exerted more influence on ethical behaviour than “*mere goals*”.

Support for their position is consistent with the Social Cognitive Theory as espoused by Bandur (1991), succinctly that individuals achieve / derive similar psychological rewards from “claiming” to have achieved a goal, and incur psychological costs from

¹⁹ This was very Rumsfeltian – but true to Donald he believed in the sentiments expressed.

²⁰ There are many papers and article written on, goal setting, motivation ECT. Jensen 2003, claims to have identified in excess of 500, with the seminal work cited by most of the papers reviewed during my research for this paper being Locke & Latham,1990

admitting specific goal failure. They concluded that psychological factors motivate individuals to engage in unethical behaviour when they “fall short” of goal attainment.

Song *et al*,(2008) building on the work of Ehrlich (1973) and Becker (1968) argue that compliance with and enforcement of the law/ statutes relates to economic cost and the potential benefits derived from non compliance²¹. Their work considers enforcement mechanisms, the crime and the risks / benefits of detection. Citing Nagin *et al*, (2004), they develop the “Rational Cheater” model – where the marginal benefit exceeds the marginal cost and compare and contrast this with the “Conscience” model – where staff derive unity and a fulfilment of their self image by following the rules and regulations, and the “Impulse control” model – where reward attractiveness is inversely proportional to the delay in receiving it, here staff will display delinquent behaviour regardless of the cost. They concluded that the “Rational Cheater” model dominates and that the rate of cheating is directly proportional to the rate of systematic monitoring.

Organisations – Principal – Agent theory.

Is organisational cheating “white collar crime”?²² The over emphasis by organisations, which in recent times have been forced to give a focus on maximising share holder value without due regard for the effect of the executive actions on other stakeholders. Tang *et al*, (2007) suggest from their study of high profile corporate failures that empirically, “perverse incentives” (p244) and a classical management training, with a provenance linked to business schools²³, were some of the potential root causes of failure. From their research they argue that there are several sub-constructs for an individual to have a “propensity to engage in unethical behaviour”. Specifically:

- money attitudes
- risk tolerance
- higher education / business school student
- Machiavellianism

Building on the concepts of Prospect theory Schweitzer *et al*, (2004) considered the role of goal setting in motivating unethical decision making. They concluded that:

1. individuals with specific unmet goals/ objectives are more likely to cheat than those without, i.e. “do your best”

²¹ Obedience to the “law” is not taken for granted, and that the likely hood that the offender will be identified caught and punished. The link between opportunity and the consequence is discussed.

²² White collar crime is defined as that committed by an individual of high respectability, and social status achieved through the course of their occupation.

²³ There is no observable link to people studying ethics behaving more ethically

2. they predict that people with specific unmet goals will be more likely to cheat than individuals with specific met goals, and
3. people who are close to but have not achieved their objective are more likely to cheat and lie than people who are distant from the goal or objective i.e. proximity.

They suggest that “their results identify a serious ‘side-effect’ to setting goals....prescriptively, stake holders should be vigilant for unethical behaviour and motivated communication”.

Performance measurement can promote both improved performance and accountability. There are however possible dysfunctions. “Performance measurement is an involving concept because it requires commitment in both meanings of the word: The one concerned with personal convictions and the other concerned with allocation of resources.....a necessary condition for the success of performance management is a demonstrated personal conviction in its importance by the key stakeholders of the organisation” Halachmi (2002). Taylorism in the 1930’s espoused the virtues of recording and collecting data about ongoing activities, and then subjecting the information to detailed analysis to develop the “best way”. However without an element of detachment the concept of performance management becomes at best, irrelevant and at worst complicit.²⁴ For example, performance goal setting, “The incentive and pressure to manipulate the system to attain some stretch goal comes not only from the lower level managers to realise their bonuses but also from top managers collaboration with the gaming” Jensen (2003). Schweitzer *et al* (2004); Jensen (2006), suggesting that reward goals adversely affect corporate culture, contending that cheating to earn bonuses is so endemic that unethical behaviours are often expected. A position supported by Harris & Ogbonna (2002).

Marsh and Spies -Butcher (2009), deem this the Principal – Agent theory; where, “the former are encouraged to take deliberate action to counter asymmetries in knowledge, moral hazard, opportunism and shirking on the part of the agent”, Linking the “Agent – Employer” debate to organisations, is the assumption that improved performance may result from the careful analysis of the data generated, specifically where the agent has interests that are inconsistent with those of the employer and is therefore highly likely

²⁴ Management by objectives and “piece work” are principal method of managing “operational delivery” in 21st century delivery of building and FM services.

to use asymmetry in the availability of relevant information. Within the context of outsourced relationships, where the agent is compensated only when the agreed upon result is accomplished, there could be a possible incongruity between accountability; specifically the generation of information, analysis of data and the keeping of records and the delivery of the improved performance. “Managers that always promise to ‘make the numbers’ will at some point be tempted to make up the numbers!”. Buffett, (2003)

Adverse Selection

Pre-contractual or *ex ante* opportunistic behaviour is also recognised as adverse selection. It is identified when one party in a potential transaction owns or has access to information which can cause damage to the other party in the course of contract implementation. “Adverse selection will develop when the principal cannot observe the characteristics of the agent, and cannot verify his claims. Failure to deal adequately with adverse selection will make it difficult for the employer to choose the right supplier”. Rebernik, (2006)

Moral Hazard

Post contractual or *ex post* opportunistic behaviour is known as the moral hazard; it is identified when one of the contractual parties does not undertake the agreed activities for its own benefit, and the other party in the transaction cannot control contract implementation or delivery in its entirety. In short, “*imperfect commitment*”. Examples of moral hazard are “cheating, shirking, free riding, cost – padding, exploiting and carelessness” Rebernik, (2006). In terms of outsourced services, clearly the most obvious manifestation is a reduction in the level of effort, and delivery of performance by the employee/ supplier resulting in a lower service quality.

Information Asymmetry

Information asymmetry identifies that the parties involved do not have equal information regarding things or elements which matter for the transaction. Between two contracting parties, Information asymmetry means that one party has private information, which provides them with *information rent*, if this information is not disclosed or uncovered in the business being undertaken under such a contract.

Bounded Rationality

Indicates that human mental capabilities are limited, and that humans cannot rationally define and wholly solve complex problems. For this reason we have cooperative strategies because as individuals we are not capable of solving complex problems.

Bergen *et al*, (2007) consider the Principal – Agent theory from the perspective of “information” and “action”. They suggest that the Principal (Buyer) delegates the responsibility for delivery of the product or service to the Agent (Supplier) who typically have more information about performance, practices, products, as a result there is the potential for uncertainty as the buyer cannot fully “see” or monitor the sellers behaviour. The potential for mistrust stems from adverse selection (hidden information) within the procurement process, where there is the opportunity for pre contractual representation of the sellers true products , services and attributes, and moral hazard (hidden action), referring specifically to the agents post contractual delivery, identified by shirking, default, poor or indifferent supply and compromised quality.

Unintended consequences

Within the context of my study the term of “unintended consequences” is used to imply the unforeseen or the unpredicted results of an action (often negative in nature).

Writers from a wide range of academic disciplines have acknowledged the importance of unintended consequences. For example: Philosophy (Popper, 1945); Sociology (Giddens, 1984). From an economic and management perspective the broader interest is matched in areas of HRM (Harris & Ogbanna, 2002) and Economics (Lal, 1998) however the concept of unintended consequences has a long history in organisational theory with Harris and Ogbanna (2002) citing that the probable origin was the Columbia school who popularised the notion of unintended consequences as a means of acknowledging and recognising that organisational structures are not functional in an uncomplicated way.

Support for this position is provided by Tan and Rae (2009) who suggest that an unintended consequence “is an activity that has produced a consequence that was not planned with any intent or purpose... the result is something which could have a positive or negative effect on an organisation or the environment”. (p450).

Grey (2009) suggests that unintended consequences from an organisational perspective are cyclical, with the manager’s capacity to get things done frequently impacted upon or confounded by the unintended consequences of previous actions. Additionally dealing

with this state or situation, will potentially itself create further unintended consequences, “...this means that management and organisations are perennially failing in the sense that its ends are never finally achieved”, (p30).

My study considers unintended consequences from an industry, organisational and individual perspective specifically relating to the industry supply network, the operational process in regular us and the management practices adopted. Contemporary theories (Stakeholder theory, Resource Dependency theory) suggest that unintended consequences are the results of management actions (market regulation, performance management practices, corporate “take-overs” and mergers). It could be argued from a functionalist perspective that there will be both functional and dysfunctional consequences of an action (with the latter being unanticipated). In contrast, there has been a rejection of this simplistic functionality with writers suggesting that there will always be unanticipated as well as anticipated consequences of managerial action to the extent that the notion of “unintended consequences” is central to the conceptual position of many theories, such as the interactionalists (Harvey and Katovich, 1992) and Labour process theorists (Wilmott, 1998). Writers in the field of organisational culture, Legge (1994) and Ackroyd and Crowdy (1990) espouse that attempts to manage organisational culture are frequently characterised by unintended consequences which impede, inhibit or prevent the desired cultural change central to this being power, trust and the post priori position of the organisation.

The Social housing industry operates in a turbulent economic environment, where outsourced services, legal regulation of processes surrounding service delivery and procurement practice create a market with overcapacity of supply and constrained profitability and mal distribution (Dahlsten *et al*, 2005) See Section 4.2: The Procurement of outsourced services.

Additionally polarisation (Tan and Rae, 2009; Williams, 2006) with both the “Buyers” and “Suppliers” of R&M services, driven by an ability to acquire funding and a desire for increased market share has created strains in economic trust (Ricketts, 2001) within the process of relational exchange and also commoditised the product and de skilled employees. This is further exacerbated by short-term fatigue on the part of the supply chain (Dahlsten *et al*, 2005). The unintended consequences of these actions can be observed in the structure and practice of organisations who operate in this market and

take the form of increased *ex ante* and *ex post* transaction costs (Keasey *et al*, 2000; Dahlsten *et al*, 2005) .

Bureaucracy

“Organisations that are designed and operated as if they are machines are now usually called bureaucracies” (Morgan, 1997). Most of the FTSE, SME companies, not for profit, public sector, sole trader and partnerships are all bureaucratized to some degree, for the mechanistic mode of has shaped and developed our most basic conception of what is an “organisation”. Organisations are spoken about as if they were machines, e.g., **“it runs like a Swiss watch”** and consequently we expect them to operate in a predictable, reliable and routinised way. Morgan (1997) suggests that the mechanical mode can provide the basis for the efficient operation of some organisations. “But in others it can have many unfortunate consequences” (p13).

The German sociologist Weber identified that society could be held together by some sense of rational – legal authority where fealty or obedience is obtained via a form of due process i.e. logical, formal and reasoned. Within organisations this is provided via rules, processes and protocols and within a relational exchange by a form of contract. Authorities vested in the structure of the organisation primarily via role or position i.e. some kind of hierarchy. Grey (2009, p23) suggests “that the kind of organisation which emerges from the complete application of the rational- legal principle is one which is entirely defined by rules and a series of hierarchical relationships – a bureaucracy.” Johnson & Scholes (1999) discuss the organisation of people with firms and conclude that how people and their work are structured is crucial to the effectiveness of corporate strategy. They consider the context of scientific management which is commensurate with the notion of strategy making and setting being essentially a “top - down” arrangement, i.e. strategy is formed at the top and the rest of the organisation is seen as a method of strategy implementation, consequently organisational design becomes a means of top-down control. However they do question the ideal of top down strategy formulation? Or the impact of the environment on the organisation?

What is the impact of contingent actions? These have the ability to create unintended circumstances. The answer to these questions will impact organisational effectiveness (and profitability) either negatively or positively. Mintzberg (1999) adds to the debate by indicating that organisational configuration or design is complex, with each

configuration consisting of a “number of building blocks” and “coordinating mechanisms”. He espouses that there are six pure configurations which can be adopted or emerge, to fit the content of contingent factors which different types of organisations face. The relative size and importance of the building blocks must vary with circumstances as should the methods by which they are “coordinated” – typically by mutual adjustment, standardisation of work process, standardisation of outputs, standardisation of norms and skills and direct supervision. (See Section 4.5: Management: People & Process)

Grey (2009) outlines “That there may be a disjuncture between the formal rules of a bureaucracy and what happens in reality”(p28) considering the concept of the “work to rule, “ where employees agree only to follow “to the letter” their contractual obligations and job descriptions as a means of disrupting the efficiency of the organisation indicating that a gap exists between what they actually do to contribute to the efficiency of the organisation and the formal definition of their roles, highlighting that efficiency and formal rules may not be identical. Additionally, Merton (1940) cites goal displacement as an outcome of bureaucratic dysfunctionism, as by their nature bureaucracies focus on the means and not the end and can degenerate into positions where the means becomes the end itself. As Grey (2009) sums up, “Following the rule becomes the point –not the point of the rule” (p29). Additionally where over time goals have lost their purpose and are not reviewed or removed, ossification, or organisational paralysis, can be brought about because excessively rigid performance evaluation has impacted innovation. (Smith, 1995)

Writers have identified additional bureaucratic dysfunctions. For example, the disjuncture between the formal and the informal organisation, specifically the case where formal organisational rules and procedures are perceived to be the firm not the firm itself. This perception of what the firm “*is*”, can make the firm less ethical, (du Gay, 2000) or efficient in the Weberian sense. This dichotomy can lead to organisations running a “shadow organisation” in parallel to the formal one, which has impersonal rules, procedures and personal prejudices, actions and motives. Additionally the concept of goal displacement has implications for standard rules as they will contain the certainty of intended and unintended consequences, i.e. an outcome that was hoped for

and what was unforeseen and possibly undesired. See Section 2: Organisations: Principal & Agent.

Industry/ Market

“To depict the possible configuration of economies, most analysts differentiate three models of producing and delivering goods and services namely “*the Market*”, “*the State*” and the “*Community*”. Williams (2006) continues to espouse that there is a common trajectory of development towards market hegemony and that the industrial western economies are at an advanced stage of “commoditisation” i.e. the process by which goods and services are produced by firms for a profit under conditions of market exchange. Within the sphere of this study the size of the market is consistent and finite in size i.e. 5.5 million public sector housing properties (See Section 1: Introduction). The variables being: the cyclical nature of the contracts, consequently their “availability” in the market and the duration of contracts.

Linking strategy development to strategy delivery, Rumelt (1991) developed a hypothesis. If “industry” is the truly most important aspect of strategy formation, then differences in the performance of business units across industries should far exceed performance differences amongst business units within the same industries. His findings were diametrically opposed by a study (McGhan & Porter, 1997) analysing the performance of manufacturing and service business over a 14 year period. Their conclusion being that an industry contributes substantially to performance, whilst admitting that differences among the organisations within the same industry could still be more important than differences among industries.²⁵

Public sector reform has been a persistent theme of UK Governments for the last 30 years (Pollitt & Bouckaer, 2000; Ghobadian, 2008) and there has been a move to involve, adopt or adapt private sector practice into the public sector. This has taken many forms from privatisation, procurement of services and the private management of publicly provided services to importing private management practice into the public sector.

New public management (Horton, 2003; Pollitt, 2001, 2002) has been described as the metamorphosis of public sector organisations over the last 20 years as it “transformed

²⁵ They did not explain why industries competing in the same industry with similar structures have differing levels of “success” which is a challenge to the value chain theory.

from a traditional bureaucratic system of public administration to a market- orientated results-driven system of public management” Horton (2003, p403). The initial focus for transformation was associated with cost consciousness and a concern for efficiency in public services with the emphasis being finance and system driven. This was followed by structural change to create autonomous agencies responsible for the delivery of services which could operate within clearly defined contractual arrangements and policy frameworks, and adopt aims, objectives, targets and performance objectives for service delivery. This was driven in some instances by the intended or unintended consequences of legislation. i.e. the Housing Act 1980. (See Section 1: Introduction.) The objective was to be more transparent in the delivery of public services. It was argued that “new Public management” practice would enhance the accountability of public services downwards to their users in a way that private companies were accountable to their customers”. Horton, (2003, p404) Christensen and Laegreid (2001) support this view, suggesting that techniques developed in the private sector were introduced with the aim of producing modernised administrations which were explicitly focussed on improvements in efficiency and the effectiveness of service provision. There is of course a major flaw in this argument. If a customer expresses dissatisfaction with the service or the provision of a commercial product they can usually exit, however public service users, particularly those involved with in the renting of social housing have no such choice.²⁶ There are limited numbers of academic studies exploring the impact of competition upon the performance of organisations within the sphere of “New public management”, with contradictory findings being reported. Hodgson *et al* (2007) suggested that there are a large number of studies identifying the positive effects of operational change inspired by the adoption of market like mechanisms; however Painter (2006) voiced a concern that the improvement in processes did not guarantee improved service delivery; a position supported by Ackroyd *et al* (2007) who was less optimistic about the benefits of such operational change and seriously questioned the efficacy of public sector reform.

Organisation and the impact of polarisation.

Penrose (1959) suggests that firm size is regulated by the degree of which the firm is influenced by market forces “The larger the unit is, the smaller the extent to which the allocation of productive resources to differing uses and overtime is directly governed by market forces and the greater is the scope for conscious planning and economic

²⁶ Homelessness is not usually a viable option.

activity”. Larger organisations therefore develop their own mechanisms for governance and control only secondarily related to market conditions. Cyert & March (1963) consider that executives work in accordance with what they describe as “sequential attention to goals”, a position supported by Katz & Khan (1966) who suggests that executives deal with issues in an established repertory of programmes for dealing with immediate problems which are a feature of the internal mechanisms and structure of the organisation. Additionally standardised decisions may be clearly communicated and objectively well defined but they will be subject to local interpretation and translation in the day to day work. (See Section 4.6: Management) either through the use of organisational language (Brunsson 1982; Dahlsten *et al* 2005; Hitt & Serpa 1997) or the multiplicity of activities which are aligned to the structural requirements of the business. (Chandler, 1977).

The hierarchical nature of bureaucracies sees adherence to the rules as being of greater importance than the decision itself (Tan and Rae, 2009; Keasey *et al*, 2000), with “sight” metaphors, specifically “organisational myopia²⁷” and “tunnel vision²⁸” (Smith, 1995) being highlighted by several writers in the area of performance measurement and its application within the sphere of new public management. The discussions range from “.....the public sector provides a leading edge on issues of performance measurement to the performance measurement systems have measured too many things and the wrong things” Wankhade (2011) with the author suggesting that public sector employees may be more adverse to operational risk than managers in the private sector, asserting that the “objectives of the public sector organisations tend to be less well defined and performance measurement focuses on the measurable at the expense of the intangible areas representing important aspects of the services provided. (p 385)

Tucker (2004) discusses the concept of trust in relation to the contractual nature of new public management from the perspective of them as a “buyer of services and also as a supplier of services” i.e. do they trust their suppliers and in turn are they trusted as a supplier. The causality of the “tipping point” from trust to distrust is complex as is the reverse. In reality the location of this point is more evolutionary than static because

²⁷ Myopia is the pursuit of short term targets at the expense of legitimate long term objective induced by performance indicators

²⁸ Tunnel vision being defined as an emphasis by management on phenomena that are quantified in the performance measurement scheme at the expense of those that are un quantified.

newly encountered situations revise the “tipping point”. However the binary distinction remains constant as in each instance both “Buyer” and “Supplier” must trust each other in order to produce the desired outcomes. Simultaneously there must also be enough distrust to be assured that they are both fulfilling the roles expected of them. (See Section 2: Agency). The traditional model of trust is based on reciprocity (Tyler 1999, Hardin 1993) the basic premise being A trusts B to do X; if B fails to do X the A is right to distrust B. This model is evidenced in both social exchange theory (Thibaut & Kelly, 1959) and economics (Dasgupta, 1988) the outcome being that trust worthiness is viewed as a probability analysis of the likely consequences of behaving and acting cooperatively. Trust is also considered from the relational aspect and linked to the social connection within or “community” (Tyler, 1999). Here A promises B to X, and then if A fails to do X then B still trusts A. The theory in use here is the social identity theory and trust is the key dynamic.

The “Public Value” aspect of the NPM seeks to capitalise on the tendency of people to trust service providers closer to them. However the finding from my study identified an increasing trend of market polarisation where HAs and contractors were getting larger in terms of market capitalisation and numbers of properties managed through acquisition and merger with smaller organisations with evidence of service “commoditisation” and de skilling and de professionalization of the management and workforce (Tan and Rae, 2009) all of which the effect of reducing the “tipping point”. The debate can be considered from two perspectives (1) the liberal democratic rules based relationships between “citizens and local government was substituted with a requirement for contractual compliance and (2) a market based relationship – if the design was to improve the functionality of service delivery as opposed to adapting service user needs/ requirements. The reduction in the “tipping point” has created a tendency to micro manage frontline service delivery with the consequence of influencing metrics design and increasing expensive inspection regimes. Smelser & Sweeberg (2004), “...social economic sociology where economic risk is mitigated through costly formal contracting and practice”.

There was little academic research in the area of economic market polarisation and its impact on the levels of trust in trading relationships. Additionally there was evidence within the literature of the effect of loyalty in the citizen’s trust/ public service provider debate, where continuous dealing with a service provider was seen to build trust

(Ricketts, 2001). This been examined from a post priori perspective although the impact of the contract supply cycle was not considered neither was the impact on the supply side of the market through polarisation which somewhat challenged the findings of the research.

Individual

The individual's role in the bureaucratic machine can be considered from two perspectives, these being the manager & management practice and the role of the individual as a stakeholder.

“The mechanistic approach to organisations tends to limit rather than mobilise the development of human capacities, moulding human beings to fit the requirements of a mechanical organisation rather than building the organisation around their strengths and potential” (Morgan 1997, p31).

Indridrasson & Wang (2008) discuss the concept of commitment or contract as a means of driving employee performance in outsourced relationships. Deakin & Michie (1997) argue that as organisations seek to create an environment of low risk business risks and improved “predictabilities” outsourcing increases in attractiveness. From a contractual perspective short-term inter organisational relationships are the norm within the market place for this study. Indridrasson & Wang (2008) suggest that this structure impacts on HR practice in several ways. Incentive for people investment and development is weak, hard driving uncompromising managerial practice is considered more efficient in delivering the low costs that the bidding companies commit to, short term contract and the potential for contract termination due to performance failure does not enable employees to create a “bond” either with their employer or client and degraded employment terms and a requirement for increased efficiency; a position supported by Cappelli (2000). This is negated somewhat by the Transfer of Undertakings Protection Employment (TUPE) which broadly guarantees comparable employment terms when employees are transferred following a successful contract win by a contractor.

The seminal study of the working environment is the Hawthorne study, the striking characteristics of which were the assumptions that had been formed pre – experiment and which were dramatically overturned specifically in the “Illumination tests” which were ultimately abandoned. Overall there were several conclusions.

- People are motivated by more than pay and conditions
- These is a need for recognition and a sense of belonging

- Informal groups exercise control over organisations
- Managers need to be aware of the social needs of the individual and the power dynamic of the informal group and the requirements of goal alignment.

The polarisation of organisations as alluded to in previous chapters is a significant element of this market place which is reinforced through the procurement process. See Section 4.2: Procurement. Organisational culture has been widely written on from the perspective of the “market”, “management accounting”, “strategic change” and “operational management”, but the impact of polarisation and cultural assimilation, inter-organisational working and the development of work attitudes & behaviours is conspicuous by its absence from published academic research²⁹. This is surprising given that contractual relationships are so common! And that sophisticated forms of collaborative networks are continuously developing.

The nature of work within bureaucracies has been identified as having been “commoditised”, (Williams, 2006). The nature of the services provided by “Supplier” within my study has changed. (See Section 4.2: Procurement). “Buyers” are securing service delivery based on a “schedule of rates” a pre agreed price for works³⁰ or other fixed method of pricing e.g. “Fixed price per property”. This imposed differing working practices for both the trades and their management, (See Section 4.5: Management-People and process). There is little academic literature in this sphere regarding the behavioural effect on individuals working within “scientific management principles” and FM Service delivery, but in terms of results, Indridrasson & Wang (2008) identify a deterioration in what they term HRM outcomes - Absence, staff turnover, conflict and low morale, with clients experiencing that “...The quality and performance of services deteriorated” (p81) a position supported by Painter (2006) who stated that improved processes did not guarantee improved services. Manufacturing has a history of scientific management, and some of the impacts on behaviour are well documented.(Tan & Rae 2009, Adcroft & Willis, 2005, Keasey *et al*, 2000) with evidence cited relating to inverse efficiency measures and poor role development resulting in organisational inertia.

²⁹ Google Scholar Business Source Premier Emerald. Search criteria. Polarisation and culture. Inter-organisational behaviour, TUPE.

³⁰ Covering prelim, labour, materials and margin

What is the impact of commoditisation? De-skilling in the context of trades skill and de-professionalisation in case of management within the FM services arena? Or does commoditisation assist the market by lowering skill sets and delivery standards to match the supply of talent that is available? Or does it have the opposite impact and increase the competition for talent? (Morgan, 1997). This being central to the “Systems” versus “Control” debate. There is requirement for further research in this area.

Management Practice

Management practice within the context of my study is considered from the position of the development of optimal organisation structure, process design & implementation and the process management of activities within an inter-organisation outsourced relationship. Service management is the “Linking of operational decisions to business performance” Johnston & Clark. (2001).

Ghobadian *et al* (2006) consider management practice from various theoretical positions, these being Stake holder theory (Freeman, 1999; Mitchell *et al*, 1997) and Resource dependency theory, (Pfeffer & Saleneck, 1978) and the application of theory and practice in the context of new public management. Particularly in relation to the importation of private management practices into the public sector.

Stakeholder theory suggests that managers will inevitably review the various stakeholders possessing a claim over the actions of an organisation. (Bryson, 2004; Moore, 1994) The Resource dependency theory argues that there is a balancing act which benefits stakeholders, “but only those which organisational managers believe possess critical resources which the organisation depends on” Ghobadian *et al*, (2006 p1528) The consequences for industrial relations are explored in this study - specifically the relationship with public sector unions Ghobadian *et al*(2006) citing the Amicus³¹ position, which espoused an imposition of service on employees and customers, “allowing public funds to be appropriated by the private sector. They suggest that both theories “attempt to explain or predict the actions which managers face with the difficult tasks of satisfying potentially conflicting interest” (p1522).

Mitchell *et al*, (1997) links Stakeholder identification and Saliency theory arguing for a marriage of the normative appreciation of what managers need to pay attention to and a descriptive assessment of why, suggesting that saliency is a product of various attributes.

³¹ A public sector Trade Union

They consider the power relationship of the stakeholder and the organisation, and the management of the “actions of the Organisation” and the urgency by which the action needs to be addressed. There is a link with the work of Coase (1960), (See Section 2.2 Agency) and the creation of property rights and the creation of rents. Pfeffer and Salenick, (1978) provide via Resource dependency theory, a rational explanation as to why managers will prioritise the interest of stakeholders based on a number of factors. Grant (2008) extends the “resource” to cover tangible, intangible and human assets and that if the firm adopts a resource based view this could be used by an organisation to develop critical success factors en route to a position of competitive advantage. The challenge to this must be the external environment. As within the context of my study some of the resources required must be obtained externally, via “Subcontracting”, which could critically affect the performance of the organisation As a consequence managers must prioritise, addressing the interests of the owners of said external resources to ensure both their continued availability and their continued support. There is therefore a clear link between Resource dependency and stakeholder theory and a requirement on the part of the manager to possess a level of capability to manage the supply chain as opposed to managing the task.

There has been criticism of public sector management, (Steele, 1999; Hoggett *et al*, 2004) in respect of their management of private sector contractors where there has been an alleged focus to favour the satisfaction of one shareholder i.e. the “Buyer” at the expense of Customers/ Residents, but is this an unintended consequence? Or a feature of poor contractor management due to a lack of capability or incompetence?

The propensity of managers to favour a particular Stakeholder position can be influenced through various factors: Congruent values within the supply network (Indridrasson & Wang, 2008), Targeting, (Ghobodian *et al*, 2006), Process and operational management (Dahlsten *et al*, 2005, Johnston & Clarke 2001; Jackall 1983) and Agency and Opportunism. The structure of the organisation and the contingent effect of the environment exert fluctuating pressures which as a consequence affect managers seeking to do all they can to achieve expected outcomes. The difficulty with strategy setting within the current market is that despite the good intentions of the executive and management in finding a successful strategy to meet the issues of agency; goal displacement, unpredictability in the market and the achievement of desired

outcomes for the business, ensures that their actions gravitate to become the focus of the “delivery manager”, considering only the point of service delivery. Introduce tunnel vision, local interpretation, target fatigue, poor measurement practice in conjunction with a toxic incentive programme and the consequences are now not only unintended but unavoidable. See Section 4.5: Management – People & Process. Jackall (1983) considers the moral choices tied to personal fates and the impact of bureaucracy in relation to its impact to shape managerial morality. In looking for a bureaucratic ethic he suggests that “...managers are the quintessential bureaucratic work group, they not only fashion bureaucratic rules but they are bound by them. Typically they are not just in the organisation; they are the organisation” consequently does this bureaucratic ethic shape the morality of society as a whole?

Procurement

Today’s purchasing practices are assumed by academics to have evolved in an orderly manner from past practice. Emiliani (2010) suggests that “practitioners of modern industrial purchasing and supply chain management lack a historical perspective in the execution of their strategic and day to day procurement practices assuming that current practices are favourably grounded in past practice, and as a consequence that avoid questioning their own practices in respect of ethics effectiveness or corporate responsibility”. (p116). Arguing that current practices have ignored history and the hard won lessons and that subsequently procurement practice has become reutilised for both the “Buyer” and the “Supplier” organisations, resulting in tensions between the parties whose interests are fundamentally similar and not different.

At the heart of the debate is a mathematical equation. The optimum design would be a Non –Zero-Sum (win-win) outcome, where as in practice Buyers seek to realise Zero-Sum outcomes (Emiliani 2010, 2004). The supply network within my study operates within a volatile and highly regulated environment³² with polarisation of “Buyers” and “Suppliers”, and exacerbated by a fixed market in terms of stock volume³³. Given this position are the unintended consequences of aggressive procurement practice opportunistic behaviour as the Supplier seeks to redress the position. See section 4.2 The Procurement of outsourced services.

³² European Union procurement regulations

³³ Driven by numbers of housing stock and R&M contract duration.

Effective procurement process design is limited and outlined specifically by OJEU³⁴, but crucially the content and its design rests with the “Buyer”. (As discussed in Section 4.2: Procurement). New public management and the desire to adopt the practices of the market could increase the desire to adopt a price reduction strategy (Oliver, 2006; Arneth *et al*, 2008), despite what the purchasing media (Supply chain management.com) have long said about the shortcomings of “price beating” and the use of finance based performance based metrics as a measure of success.

Academically the effects of polarisation or “Buyer” / “Supplier” consolidation is not widely covered within the context of procurement and supply network development, although the fixation with price beating, the adoption of sharp practice and coercive practice within the product and services industries is widespread (Fishman,2003; Stecklow *et al*, 2003). As are studies that show the consequences of such actions i.e. poor supplier relationships (John, 2008; Hannon, 2003) loss of supplier technology, bankrupt suppliers (McCracken & Glader, 2007) and supplier retaliation (Emiliani and Stec, 2004,2005), in the form of agency, price fixing and Bid rigging³⁵ and an unwillingness to succumb to “Buyers” requests.

The academic literature available is based within the context of the procurement professional. A feature of my study is that the well intentioned amateur is prevalent in procurement design and process, predominately with a skill bias in finance or operational practice (either housing or maintenance) in all but the largest of the “Buyer” organisations. This links to management practice and capability (See Section 4.6: Management) and again are the consequences unintended or due to unconscious incompetence? Keasey *et al* (2000) suggest several dysfunctional consequences of such practice specifically misinterpretation, ossification and sub optimisation. Bouwman (1984) compares the decision making process of what are deemed “Experts” and “Novices”, the former who typically transferred reason into recognition, a position supported by Dreyfus & Dreyfus (1986, p30), espousing that “...experts don’t solve problems and don’t make decisions; they do what normally works”. In summary,

³⁴ Directive 2004/18/EC of the European Parliament and of the Council of 31/03/2004 on the coordination of procedures for the award of public works contracts, public supply contracts and public service contracts

³⁵ In 2009 the OFT imposed fines totalling £129.0m in 103 construction firms which it had found had colluded with competitors on building contracts. These activities were mostly in the form of “cover pricing”. This total was reduced on appeal.

finance and operations are not good surrogates for professionals in purchasing. See Section 4.2: The Procurement of outsourced services.

However, a lack of economic trust and in particular *ex ante* opportunism, due to poor assessment capability (Rickts, 2001) cannot be “defended against” by an all embracing contract. Additionally goal distortion, caused by internal toxic incentives (Chapman, 2005) a “milk and move” culture (Jackall, 1983) and the implications for service delivery when managers “Hit the target” from the perception of securing works for a budget, but “miss the point - fixated on targets without appreciating the impact on quality of service” Bevan & Hood (2006). A point infrequently considered within the sphere of procurement literature is service delivery and in particular the cost of measurement and management. “... another aspect of managing the contract is the monitoring of performance and quality of delivery”. Indridason & Wang (2008)

Targeting & Measurement

Section 2.1 sets out the literature review relating the context and practice of performance measurement. Here the literature is reviewed from the perspective of management practice reflecting on design targeting and monitoring. Deming (1986) – and the “plan do check and act” approach provides a suitable frame work.

As Tom Peters, cited by Varcoe (2000) stated in *Thriving on Chaos*, “*What gets measured gets done*”, but is what is “*done*” necessarily what was expected, required or even desired. This position is further developed by Adcroft & Willis (2005) “*What gets measured gets done, even if it is not measured or done particularly well*”. Charles Goodhart, (Chrystal & Mizzen 2001; Pidd, 2005; Price & Clarke 2009), in his paper delivered to the Reserve Bank of Australia in 1975, titled “*Monetary relationships: a view from Thread needle St.*” observed that statistical regularity will tend to collapse once pressure is placed upon it for control purposes. Or when a measure becomes a target, it ceases to become a good measure. It can be stated more generally as “*Targets are only useful as long as you do not use them to manage by*” (Pidd, 2005).

Targets – design and outcomes

Johnston & Clarke (2001) argue that there are four reasons to take measurement of performance: communication, motivation, control and improvement. Perrin (1999) considers measurement from the perspective of outcomes, asking to what extent does the performance management process really result in a increased focus on outcomes as

it sets out to do and questions “ does it really result in more effective and efficient delivery of public services programmes?” (p102).

The critical element is the selection of target to avoid as Bevan & Hood (2006) suggest “hit the target - but miss the point”. Target design has been influenced by past performance (Tan & Rae, 2009) influencing what the future performance may look like – here history context and accuracy combine and potentially limit the success of achieving the target which may be insufficient to meet the new performance measures. The generalisation of targets within an industry sector or market place is debated from the perspective of the target set and its link to a specific organisation and how this shapes and defines the organisation through its application. However from an industry perspective and in particular a market that is regulated, does the target transcend individual organisations as the market regulation does? What is the scope and impact of target generalisation when considered in the context of commoditised working practices? Gosling (1999) highlights the tension in data collection between what is easy to gather and measure and what is useful to measure but more difficult to gather and focuses on the easy to hit measures rather than the organisationally critical.

Itner and Larcker (1998) suggest that effective targeting relates to basic causality and determining the relative importance of performance measures. Without this triage effect, the unintended consequences of poor targeting practice are distortions in performance (Meyer, 2004) suggesting that the day job becomes the collection of data and monitoring rather than management activity per se or “everything is urgent”. This has the potential to increase the level of commoditisation of services delivered by an increasing de-professionalised workforce. Here values become less important than the adherence to regulations and rules and finally where a hierarchy of measurement is produced and due to limitations in design, one measure impacts negatively on another. Humphreys & Francis (2002). Poor target design, (Wankhade, 2011) increases Tunnel vision, ossification and sub optimisation –the pursuit of narrow performance objectives at the expense of organisational objective as a whole. Smith (1995, p286)

Generalised targeting within a regulated industry or market segment creates distortions that favour larger players in the market. Pashigan (1984) Dean & Brown (1995) argue that market regulation / compliance could lead to additional capital requirements, which

may impede or discourage smaller players from either bidding for work or entering a market. The situation is further exacerbated by the short-term nature of contracting in the social housing FM sector. Tan & Rae (2009) suggest that in the short – term the impact of regulation in industry and performance management has the potential to impact cost and efficiency for all organisations. However the impact of increased cost and reduced efficiency would be greater for smaller firms. Larger firms potentially have the capacity through economies of scale, innovation and process development to negate these increased costs in a shorter time frame. See Fig 2.2

Fig.2.2 The Bidding dilemma for smaller suppliers

Figure removed for copyright reasons

The design of procurement practice and the content of OJEU notices have potential to influence the market and could be deemed a systemic dysfunction. The unintended consequence being: a reduction in the competitive nature of the procurement practice and an increase potential of opportunistic behaviour on the part of suppliers within the supply network. Wankhade (2011). Jackson, (1988) and Likierman, (1993) indicate a key requirement for design is in devising targets to establish realistic levels of achievement prior to the target being set. Additionally, post priori it has been acknowledged that managerial targets need time to develop, performance targets should have the capacity be revised in the light of the experience of their implementation and monitoring and should be responsive to change to reflect a change in performance , statute or the environmental conditions. Procurement Guidance from HM Treasury suggests that “Continuous improvement with performance targets should be a central part of any procurement option” (p1).

Measurement. Collection and interpretation

Polarisation within the Buyer/Supply network is a feature of the FM social housing market and impacts on organisational design influencing the allocation and control of resources that are fundamental to the delivery of R&M Services. e.g. Multi-divisional organisations compete with SME's in a profit constrained market with an increasingly commoditised product, which is defined by a "cost" within a "Schedule of rates"³⁶. Here the activity costs are fixed and measurement of activity is a simple management process. The use or misuses of measurement in performance evaluation in making resource allocation decisions require an assumption of causality. That is, the method chosen assumes that the activities will achieve a desired outcome, and why performance management processes are subject to misuse. Perrin (1999) proposing that "performance management without evaluation about causality, are insufficient for deciding on budget allocations" (p105).

The use of scientific management or "...management by objectives may be more extensively used in current operational practice than research suggests". Dahlsten *et al* (2005, p539) with structure, remuneration policy and culture (Harris & Ogbonna, 2002) enforcing its use. Additionally, a lack of desire to change or adherence to a tribal practices being cited, "symbolic management activities, and ceremonial and ritual performancesthat can integrate the organisation and make sense to different organisational members. MBO is a means of management control in organisations regardless of the dismissive views of academic researchers portraying MBO as a management fad par excellence". Dahlsten *et al* (2005 p539). From an effectiveness position; command & control and execution of task is welcomed; however in term of efficiency it is frequently challenged. However the suitability of MBO is supported by Burns & Stalker (1961) and Mintzberg (1983) in machine bureaucracies, wherein objectives more readily trickle down the organisational hierarchy.

The multi-divisional structure of the larger "Suppliers" and "Buyers" is divided into operational units on the basis of services, the processes of the SBU or geographical location, "the rationale being that divisionalisation comes as an attempt to overcome the problems that functional structures have in dealing with diversity", Johnson & Scholes

³⁶ A Schedule of Rates is a menu of activities which encompasses the cost of labour and the time to undertake the works in conjunction with the cost of materials and Overheads and margin.

(1999, p404). The potential for irregularities in the data collection process (Tan and Rae, 2009), compounded by local interpretation and challenges over the centralist/ regional dichotomy (Chapman, 2005) have the potential to be exacerbated as part of a performance interpretation process, particularly within the use of performance management, league tables³⁷ and the use of an aggregate measure to indicate a level of “overall performance”. Here, “Measure fixation” as Smith (1995) defines it - as an emphasis on the measure of success and an organisational or informal encouragement to focus on the performance indicator rather than the desired outcome of the delivered service internalises performance to the potential detriment of the Buyer.

The Commons

A major problem that economics associates with the “commons” is that its benefits are readily accessible to all and that it is generally seen to have few barriers to entry and as a consequence is prone to misuse, resulting in the well known “tragedy of the commons”(TOC) (Harding, 1968).

Economic convention presents arguments about the commons, premised on methodological individualism and rational choice presenting a model that conceptualises the commons as being (1) owned by a collective of actors and (2) objectively given, where the pursuit of self-interest can lead to the degradation of the said commons. The basically essentialist model make an assumption that the actors are norm – free and opportunistic maximisers of short–term interests, who in the absence of restrictions to access, their actions tend not to contribute to the long-term interests of the collective. Additionally the collective action of the group has the potential to lead to sub – optimal outcomes for all actors. Consequently it creates collective misuse and a “degradation” of the commons. Ostrom (1999) describes the “tragedy of the commons” as a metaphor for the problems of overuse, citing that resource users are norm free maximisers of immediate gains, who will not cooperate to overcome the common dilemmas that they face.

Within the context of my study the commons is seen as the social constructed market with the literature reviewed to provide both a social and economic perspective. Ansari *et al* (2010) argue that the commons are social constructed, suggesting that the “commons”

are conceptualised in economics “as a large-scale environment, or social system, consisting of natural or cultural resources and ideas”. (p.2).

Economic

The “tragedy of the commons” is frequently cited as an example of market failure, where organisations using the commons impose external costs on their rivals. Mason & Phillips (1997) suggest that “this externality can be both static and dynamic”. Static externality reflects the “crowding” problem where each firm’s costs rise with industry output as the number of players in the market increases e.g. *ex ante* transaction costs linked to procurement, additionally a larger number of firms increases competition, potentially leading to lower “output” prices and a squeeze on margin. This indicates that either the crowding effect will dominate or the price distortion effect will dominate and impact the industry size. The dynamic externality exists if current actions lead to higher future costs. (p148) e.g. cost will change from one period to the next when access to “stock” changes.

A feature of the Social housing R&M market, are the variables. The constraints on the market are the stock volumes³⁸ and the number of “Buyers” in the market which is static but reducing due to amalgamation. Additionally access to the market is governed by contract availability generated either by renewal activity on the basis of time fixed contracts or contract determination for poor supplier performance or contract breach. Ostrom (1999), provides a description of a common – pool resource as being “a man made or natural resource from which it is difficult to exclude or limit users once the resource is provided, and consumption of the resource makes those units unavailable to others”. (p497). Thus “subtractability” or competitive rivalry is a salient feature of most commons. (Al-Fattal, 2009; Feeny *et al*, 1990)

The Social housing R&M market is dynamic in terms of competitive procurement practices which are highly regulated via OJEU. Al-Fattal (2009), suggests that the TOC has proved to be an important political economic concept as it has the capability to determine cooperation between actors to “conserve the common good and to lessen the transaction costs of negotiation and enforcement”. However within OJEU practice co

³⁸ There has been little reduction due to “right to buy” and practically no increase in the housing stock due to new building projects

operation is seen as a major source of post award legal challenge due to opportunist behaviour and profit maximisation.

Given then that liberalisation of trade is a pre-requisite, and desirous on the part of the “Buyers”; what is the impact of suppliers seeking to win greater market share within a cyclical pre defined market? Mason & Phillips (1997) outline the non cooperative equilibrium, setting out that a dash for growth by Suppliers reduces their short term profitability. This is further exacerbated over time as the size of the cyclical market alters, as there may not be sufficient work available to win in the medium-term / Longer-term. Should this reduce the numbers of actors competing either through polarisation (the financially / operationally stronger – buying the weaker) of administration / liquidation, the long - term position would be increased negatively for Buyers. Several writers outline strategies for averting, mitigating or coping with the effects of the commons (Ellis & Van Den Nouweland, 2006; Brook, 2001; Copeland & Scott-Taylor, 2009) espousing cooperative behaviour as a means of reducing the effects of corporationalisation, but economic polarisation and its consequences is not generally discussed. However Ostrom (1999) considers such effects on the market as stagnation in terms of technological development, and the capability of Suppliers re management and governance of “Cyber corps” (Rowland, 2009) and corporate social responsibility suggesting that they are “only responsible in the narrow sense of being prudent of its own interest”. (p115).

The conventional economic literature does not discuss how or why the actors generate differing interpretations of the commons and specifically their motivations to pursue differing courses of action irrespective of the widespread initiatives relating to governance.

Social perspective

Institutional theory would suggest that a process of social construction applies the notion of the “commons” as what is deemed to constitute the commons - in the case of my study a “market” is contingent on the institutionalised norms and practices of the actors engaged. Schnable (2006) suggests that through a process of instigating, developing and specifying the scope, significance and rarity of the commons resource, actors are participating in socially constructing a commons. Ansari *et al* (2010) propose that a commons can “be understood as a socially laden concept that is discursively

constructed, justified and enacted through a language of right and justice”. Building on this view, suggesting that via institutionally sanctioned discourse, the participating actors ascribe meaning to the market which devises accessibility and governance.

Ostrom (1999) considers the affects of Boundary rules / pay off & position rules within the context of membership of the commons and specifically their link to reciprocity and trust and the corresponding impact on transaction costs. The content of the OJEU notice may specify who can apply to the market place and who can be considered to be capable of delivering the works.³⁹ Having overcome this hurdle, the supplier may then be “Invited to tender” for the contract. The first section of boundary rules thus relates to an organisations “citizenship” or membership of a club, the second boundary relates to ascribe of acquired characteristics - capability, and the third group relates to a relationship with the “commons” itself.

Payoff and position rules are used to redirect or reduce the appropriations from a common – pool resource – for example to add a penalty to prohibited actions. Within the Social housing market, The “Buyers” – as a user group adopt norms that rule breakers should be shunned. Two broad types of pay off rules are used extensively (1) the loss of rights to the market⁴⁰ and (2) the imposition of a fine.⁴¹ The difficulty relating to pay off rules relates to monitoring specifically capability and its associated costs relating to moral hazard. Brook (2001) explores the concept of externalities or “spill over effects” which are outcomes from the processes practiced by capitalist corporations indicating that whilst there are unintended consequences of trade, they are not unknown- specifically polarisation which he describes as “mal distribution” and its impact, suggesting “that a measure of efficiency to be seen as positive should be placed within a social and cultural context”. (p613)

The “commons” is clearly populated by a web of actors within the Value network with both aligned and contradicting perspectives where each party has the potential to organise to the detriment of the wider commons. Equally the action and outcome is clearly known to all the players. My thesis outlines the unintended consequences of the

³⁹ This us undertake by applying for and submitting a pre qualification questionnaire -PQQ

⁴⁰ Due to loss of credibility, e.g. a contract being determined or poor references from another player in the buyer market. Or opportunistic behaviour

⁴¹ See references with the thesis to the OFT fine for cover pricing

traditional practice and structure of the Social housing sector and the delivery of outsourced maintenance services.

3 Methodology

The design method to be adopted would be one of “mixed methods” via data triangulation or methodological pluralism. The rationale for collecting both quantitative and qualitative data was to allow comparison, validation or corroboration of the results. The two forms of data bring a greater insight into the problem than would be obtained by using only a single type of data. To facilitate this, a convergent parallel mixed methods approach which utilised both quantitative - documentation analysis and, data charting, and qualitative - a semi structured interviews and an ethnographic study over a specific time period would be adopted. “Organisations are often intensely political arenas.....researchers relying on documentary evidence are advised to use triangulation to enhance validity and reliability”, (Saunders *et al*, 2000). In adopting such a design I noted that there would be challenges, “The benefits of a triangulated approach have a potential benefit from the reduction of in appropriate certainty. However the inaccuracies of one approach cannot be expected to overcome the inaccuracies in another”. (Fielding and Fielding, 1986).

Definition of method

From a design perspective “it is recognised that triangulated or mixed method designs can be fixed or emergent”, (Creswell & Plano Clarke 2011 p 55), albeit these two positions should be considered as end points on a continuum and not as a clear dichotomy. The triangulation design will be a typology - based approach in which the design emphasises the classification of useful mixed methods designs and the selection and adaptation of that particular design to the study’s purpose, questions and source of data i.e. Mixed method simultaneous design. Morse & Neihaus (2009).

Bryman and Bell (2007) suggest researchers can weigh alternative choices and use this to justify their mixing decisions. One of his choices is “triangulation”, where the traditional view holds that quantitative and qualitative research might combine to triangulate findings in order that they may be mutually corroborated and increase credibility. Building on the suggestion that employing both approaches enhances (1) the integrity of the findings, explanation, where one is used to help explain findings generated by the other, and (2) the diversity of views, namely combining participants and researches perspectives by uncovering variables through quantitative research and also revealing meanings and the position among research participants through qualitative research.

Teddlie & Tashakkori (2009) suggest that components of a research study are comprised of “strands”, with mixed methods studies including at least one quantitative and one qualitative strand. They espouse four critical decisions for a researcher prior to selecting an appropriate mixed methods design to adopt in undertaking the study. These being:

- the priority or relative importance of the strands, i.e. quantitative priority, qualitative priority or equal priority,
- the level of interaction between strands i.e. are they independent of each other or interactive,
- the temporal relationship between the two strands i.e. sequential timing where the strands are implemented in two distinct phases, concurrent timing where both the qualitative and quantitative strands are implemented during a single phase of the project and multiphase combination timing, where concurrent and sequential timing is included during the programme, usually where there are several phases to study being undertaken, and
- When the two approaches are mixed, specifically the explicit interrelating of the two strands. Morse & Niehaus (2009) deem this as the point of interface. There are four potential “points of interface”, mixing at the level of design, data collection, data analysis and mixing during interpretation. The point of interface is pertinent to my study due to the data gathered by qualitative methods within the Value network. Semi structured questions will be put to various actors which are similar but different. Mixing the stands prior to this position runs the risk of perverting the issues surfaced. A position that I was acutely aware of due to my a priori knowledge.

Type of design – Convergent Parallel design

Within the concept of Data Triangulation, convergent design is the most well known of the mixed methods. The concept of mixed methods was discussed in the 1970’s; Jick (1979) noted the concept of triangulation allowed researchers to be more confident of their results, by stimulating creativity in data collection, and enabling a synthesis of theory to provide a richer pool of data for analysis. The method was originally conceptualised as a “*triangulation*” design where two different methods were utilised to obtain triangulated results about a single topic. There is frequent confusion by researchers about the correct use of triangulation in qualitative research and the concept is often misused for purposes other than to produce triangulated findings. This type of

design has been known by many names since its inception, but its objectives have always been consistent, and “convergent design occurs when the researcher collects and analyses both quantitative and qualitative data during the same phase of the research process and then merges the two sets of results into an overall interpretation”. Creswell & Plano Clark, (2011).

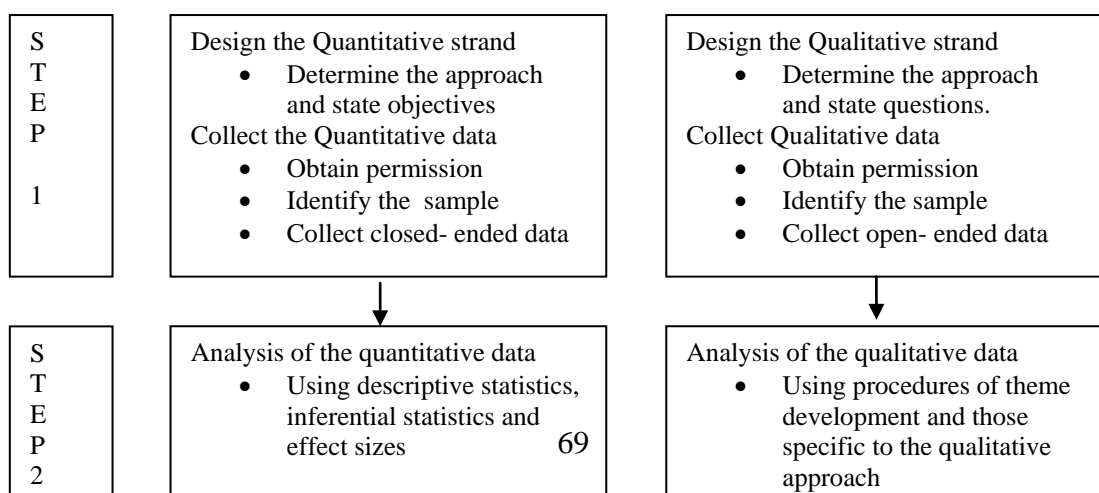
Morse (1991, p122) states that the purpose of convergent design is “to obtain different but complementary data on the same topic”. In using this approach the researcher is able to triangulate methods by directly contrasting and comparing qualitative findings with quantitative statistical results for validation and corroboration purposes. Patton (1990) suggests that the researcher’s intent in using this approach is to bring together the strengths and weaknesses of the qualitative methods i.e. small samples, details, depth, with those of quantitative methods i.e. generalisations, trends and large sample sizes.

This is a typology based design where the researcher is provided with a framework and logic to enable the implication of the methods ensuring that the resulting design is of high quality, persuasive and academically rigorous. Utilising this approach, *concurrent timing* is utilised to implement both the qualitative and quantitative strands during the same phase of the study. Additionally there is equal *priority* of relative weighting. The two strands remain *independent* during analysis and then the results are *mixed* during the overall interpretation of the findings.

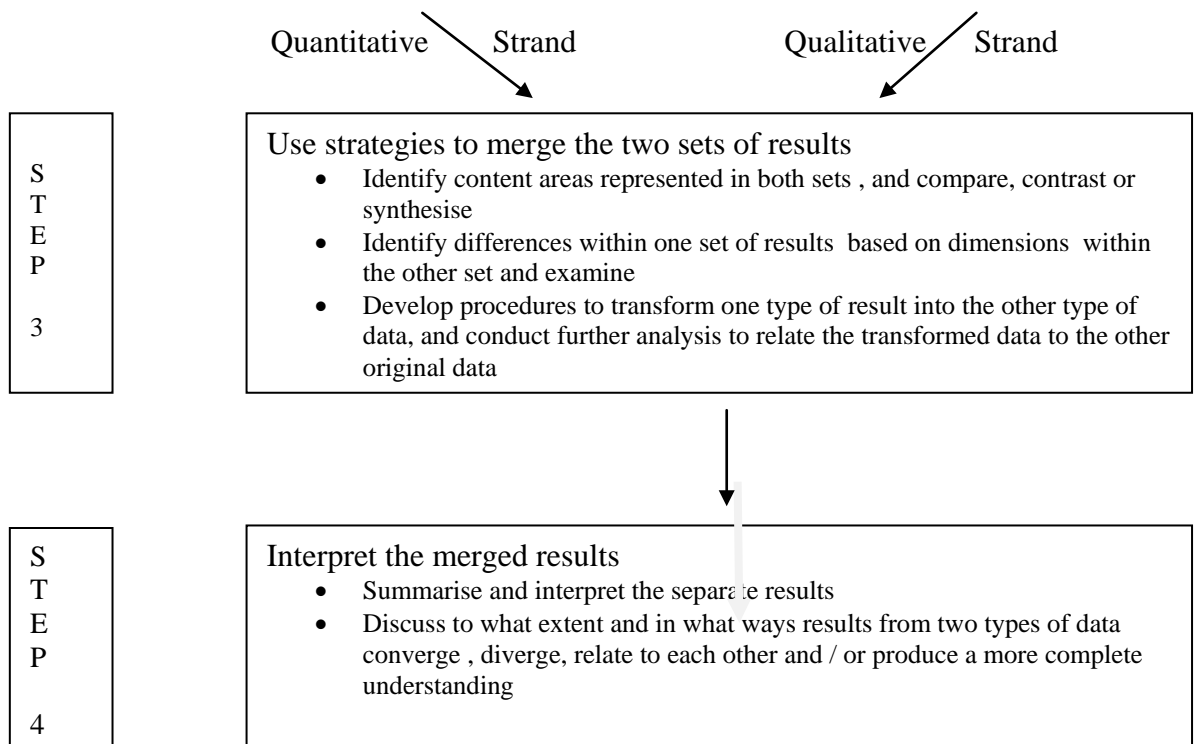
Implementation procedures for a convergent design relative to this study are outlined in the model below.

Step 1, both qualitative and quantitative data on the project or topic of interest is collected concurrently but separately. Relative to my study, the ethnographic sessions and semi structured interviews, and the document analysis. The researcher then analyses the two data sets independently using appropriate analytical procedures. **Step 2**.

Fig 3.1 The Methodology process for the Research Project.



At the point of interface the results are merged. **Step 3.** Finally, **Step 4.** The researcher interprets the findings to create a better understanding in response to the research projects overall purpose.



The convergent parallel design has a number of advantages and strengths for the researcher; specifically:

- the design approach is intuitively sensible, following a logical process and pragmatic
- it is efficient regarding timing – both sets of data are collected in the same research phase
- data can be collected and analysed independently and separately

Conversely it is challenged by the need for good design to avoid conflict, a requirement for an alignment of samples, between the qualitative and quantitative research targets (generalisation versus “in depth”), and where the data is divergent, contradictions may provide new insights into the topic. This may require a further phase of data collection. However the researcher must then decide what type of additional data to collect, and will the subsequent analysis of the new data spark further debate and more data collection to understand the issues raised.

This method has particular relevance to my research, specifically relating to data capture from semi-structured interviews and the use of literature and data collected from other strands within the analysis process. Additionally, as documents, which are readily available within the public domain i.e. financial statements and audited accounts, can be gained contemporaneously during the research phase.

Qualitative research

Bryman & Bell (2007) suggest that qualitative research is to be considered as “An inductive view of the relationship between theory and research, where the former is generated out of the latter” (p402) In terms of epistemology and ontology their respective positions are described as interpretivist, arguing that in contrast to the adoption of the natural science by quantitative researchers, the focus is on the understanding of the social world through the examination of “the interpretation of that world by its participants”. Ontologically the position is deemed constructionalist, implying that social properties are the outcomes of interactions between individuals rather than “...the phenomena ‘out there’ and separate from those in its construction”. Bryman (1988) argue that qualitative research has been subject to a proliferation of definition on what it is and is not, but its distinctiveness does not rely solely on the absence of numbers. Silverman, (1993) is critical of the accounts written of qualitative research that do not examine the variety of form that a qualitative research strategy can take.

Qualitative researchers tend to treat theory as something that emerges from the collection and analysis of data. There is however an argument that qualitative data should have a significant role in the testing of theory. This is supported by Silverman (1993) who suggests that researchers are becoming increasingly interested in the testing of theories and that this is a reflection of the maturity of the research approach and its strategy⁴². This view is also supported by Bryman & Bell (2007) who espouse the view “that there is no reason why quantitative research cannot be employed in order to test theories that are specified in advance of data collection Much qualitative research entails the testing of theories in the course of the research process”. In summary, Silverman states that “it is undoubtedly correct that pre-specified theories can be and sometimes are tested with qualitative data, but the generation of theory tends to be the preferred approach”.⁴³

⁴² And evidence that a positivistic approach to the world gets things done!

⁴³ Is the philosophical approach then one of pragmatism?

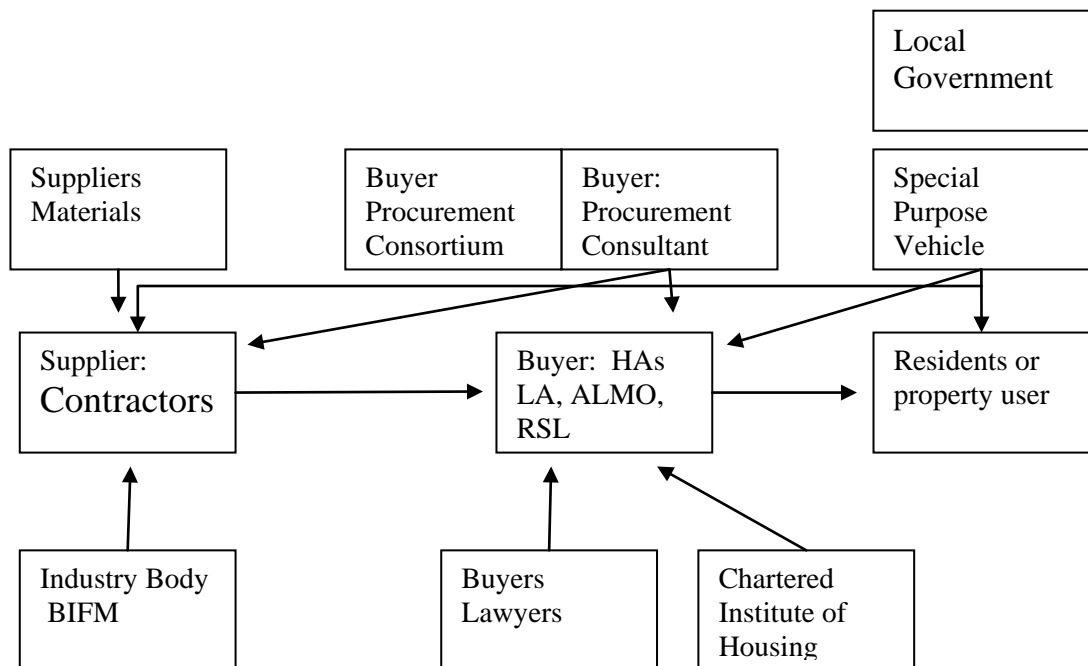
Concepts and measurement appear to be a dichotomy for the qualitative researcher. Blumer (1954) stressed the distinction between definitive and sensitising concepts and the way in which they are considered, arguing passionately against the use of definitive concepts in social research. An approach he considered to an “application of a strait jacket on the social world”. The idea of a definitive concept is typified by the process by which a novel concept once developed becomes fixed through the elaboration of indicators; Bryman & Bell (2007) argue that “definitive concepts are really concerned with what is in common to the phenomena that the concept is supposed to subsume rather than with variety”. Blumer’s position was to recommend that researchers of social science should recognise that the concepts used by them are sensitising concepts in so much that “they provide a general sense of reference and guidance when approaching empirical instances” (p7). Concepts should therefore be employed in such a manner as to provide a general sense of what to look for and provide a means for uncovering the many varieties of form that the phenomena to which they refer can assume.

There are several critiques of the qualitative approach to social science research. Firstly that it is too subjective on several counts, due to the relationship between the researcher and those being studied and the unsystematic way in which qualitative findings reinforce in the researchers views of what is significant and or important. By its nature, qualitative research commences from a relatively open ended stance and entails a gradual narrowing of the research question or the issue, and indeed it there is often little in the way of clues for the reader as to why this final area was chosen rather than another. Secondly, the research is difficult to replicate, due to its unstructured nature. Additionally the researcher is “the instrument” of data collection, and therefore what is recorded is very often a by-product of predilection. There is also the issue of empathy between the researcher and researched, which may bias the data collected. Interpretation of the data collected may become biased based by the subjective or epistemological position of the researcher. The scope of findings has itself been considered a generalisation especially when unstructured interviews are conducted with a small sample size, and is this a true representation of the unquestioned remainder? Finally the issue of transparency is relevant. How did the researcher undertake the study, how were the study’s conclusions arrived at, and to take the challenge further, was the process of

data analysis clear, and what influences was the researcher subject to? A critical issue for me as a researcher is my a priori knowledge, and the fact that I would be known to many of the interviewees as a “competitor”. Therefore central to the qualitative element of the research would be how I positioned “neutrality” within my relationship with the interviewee.

Sampling

In setting out the method strategy the overriding goal had to be to see the issue in the “round”, and to identify the rhetoric and the reality of short-termism for all stakeholders. In reality the supply network is both practical and logical in its structure. The desired position would be that I would be able to generalise my findings from the qualitative research and that therefore the sample should be a representative sample for the sector / industry being considered. Therefore a quota sample that would produce a sample that reflects the target population, however unlike a stratified sample the sampling of the targets is not carried out randomly since the final selection is at the behest of me - the interviewer. To counter this I had a privileged level of access to interview targets within the industry and Value network. Fig3.2 The Value network



It could be argued that there is an element of bias due to a non – probabilistic or non-random sampling method being used. However the source of bias is reduced through strategic sampling via targeted selection and design.

The targets for the interviews were:

- A past president of the Chartered Institute of Housing. The institute is the professional body involved in housing and communities. Its purpose is to

promote the ideal and standards for training and education of those involved in the profession of housing practice. This interview will act as the lead to gain the perspective from a housing management context and will assist in the shaping and delivery of the following interviews with the RSLs.

- Managing Director of a Special Purpose Vehicle (SPV) which manages 6 PFI contracts. This organisation is the market leader in the management of residential PFI contracts. There is no other organisation that has the same level of “long-termism” in Housing FM contracting in the UK
- The Senior Directors of 6 Registered Social Landlords. Separate entities with a focus on different sectors of the market. ie general needs, care special needs/ dependency. All of the organisations surveyed will have different buying criteria, and as such will stimulate the debate.
- The Operations Manager of a HA, who is actively engaged in the simultaneous day to day management of both a Direct Labour Organisation and out sourced services provided by sub contractors. This has the full impact of the long term / short term debate and the impact of politics in effecting the delivery of services to property residents.
- Two senior partners of solicitors. Whilst being partners within the same firm each has differing perspectives of the procurement and contractual elements of contracting in the market specifically relating to procurement and transaction cost analysis and the other contract dispute settlement.
- The Managing Director of a firm of consultants engaged in assisting HAs with the design and implementation of their procurement strategy. Linking to the “Buyers” supply chain, these organisations are engaged with the design of the specification for FM service that will be delivered. These organisations seek to create “value” for their clients via the specification of services within the OJEU framework.
- A Director of an Industry Body i.e. British Institute of Facility Managers who set a code of professional conduct for the supply and delivery of property services. The BIFM represent the overarching views of FM service providers and are at the fore front of the drive to improve professionalism and academic and technical competence.
- Three Managing Directors / Operations Directors of contractors engaged in the supply of services to Local Authorities, RSLs and ALMOs. These organisations

are the “suppliers” of services. Their views on the short term / long term debate and in particular the measurement and reporting of performance will be central to the process. See Section 1.4: a priori knowledge.

- Senior managers within Government bodies, specifically the Dept of Communities and Local Government, The Homes & Communities Agency and the TSA, who will provide a perspective from the centre of what is happening within the sector.

In terms of the sampling procedure the individuals selected will have experienced the key concepts being explored, the sample can be deemed heterogeneous due to the different jobs and the different impact that the central phenomena, i.e. contract duration, its effects on them and the organisations that they represent.

Regarding the HA and Contractor targets; the targets represent different perspectives within their respective market place. These are based on organisational size in terms of revenue, and properties managed, numbers of employees and market focus, i.e. general needs, sheltered, special needs. As a consequence of the participants being purposefully selected, it is envisaged that their views will be reflective and provide a rich picture of the phenomenon.

In terms of numbers of interviewees selected it is believed that the small number recruited will provide sufficient in – depth information for analysis.

To identify the candidates for interview, a current database of HAs was obtained, and this was categorised by size and specialism. Once suitable targets had been identified emails seeking interviews were sent to the contacts within the target organisations.

Within **Step 1** of the process. The “design & data collection”, relating to the Qualitative stream research, the concept of triangulation would include a more detailed investigation of one specific organisation. In this investigation the directors of two separate legal entities within the group would be interviewed, in addition to the Head of Operations – whose SBU provided services internally to the organisation and the management of contracted out services suppliers. The Interviews will be supplemented with an ethnographic study of a group consisting of two diverse operating groups from within the organisation, specifically “property services” and “housing development/management”. This “Micro study” would be used to compare and contrast against the general findings of the triangulated approach. Additionally the data collected would be

used to develop or challenge the structure and content of the remaining semi- structured interviews.

Realist Ethnography

Suckley *et al* (2013) building on the work of Scott-Morgan (1994) suggest that ethnography is conceived within current paradigms of organisational studies as qualitative and passive with the ethnographer through immersion in a setting aiming to achieve “a rich interpretation of a particular socially constructed context, hence ethnography has come to be perceived and both inductive and passive”. Their challenge is that ethnography as inductive can be realist and “in this view uncover real unwritten rules of the game in such a manner that enables diagnosis”. Scott-Morgan (1994) in support for this position argues that analysing ethnographic data for “common motivators”, “enablers” and “triggers” would reveal unwritten rules as routines of organisational behaviour. Additionally suggesting with his pragmatic stance “against necessary immersion” where “....a combination of internal and external research can assist with the speedy elucidation of a particular set of unwritten rules”. Suckley *et al* 2013. (p12). Suckley *et al* and Scott- Morgan seem to be suggesting that ethnography can be any full or partial description of a group as a means of identifying common threads. (p11). The pragmatic approach I adopted is broadly ethnographic but is not obeying all the conventions of mainstream ethnography, considering SBU observation, semi structured interviews and netnography within the context of Realist Ethnography.

A study of inter-organisational SBU's

Ethnography draws attention to the fact that the researcher “immerses” himself in a group for a period of time, listening to what is said or discussed and observing the behaviour of those participating in the group. Further data will be gained through the collection of reports and documents relating to the activity of the group. A temporal study of a HA repairs panel will be undertaken over a 4 month period during 2011. Critical to this approach is access to the group, the meetings of which are closed to both the Residents and to the employees of the organisation who are actively engaged in the delivery of services, albeit the minutes of the meetings are widely circulated. The Managing Director of the organisation will be the subject of the semi-structured interviews. This will assist in identifying and understanding the vertical flow of instruction / command within the organisation, and additionally provide an insight into internal politics and goal alignment. My position within the meetings will be overt, with

all participants being aware that I am an independent researcher. It is not envisaged that there will be issues relating to reactivity of the taking of notes.

In terms of information bias, it is envisaged that the problems or issues raised by the group may be done so for the “benefit of the researcher”; therefore “my role” will be crucial. Gold (1958) Cited in Bryman and Bell (2007), identifies a continuum between *Involvement* as a “complete participant”, through to *Detachment* and a “complete observer”. Each position carries with it a level of risk.

Fig 3.3 Ethnographic observation perspective.

Figure removed for copyright reasons.

Gold identifies the positions as (1) a fully functioning member of the social group,(2) , a participant role, but the members are aware of the researchers status, (3) the researcher is mainly there as an interviewer, and (4) the researcher does not interact with the people.

Data capture will be by field notes based on contemporaneous observations. There will be specific themes and key issues that will be identified prior to the work being undertaken and this will form part of a framework that will enable me to progress and tabulate effectively all the data gathered from the various research methods. After each session a review will be undertaken with the chairman to enable me to check and reflect on my notes.

Realist Ethnography – semi structured interviews.

Structured interviews enable a level of standardisation for both asking questions and recording the responses and as a consequence reduce the levels of interviewer variability. Within the research project, semi-structured interviews will be used as a means of collecting data. The interviewer will have a series of questions in the general format of an interview schedule, and typically they will be less structured in nature, to give the interviewer latitude to ask supplementary questions or to probe responses.

The interviewees were contacted by email and provided with a rationale for the research and how it was pertinent to them or their organisation. A copy of both the research proposal and SHU consent form was forwarded to them. If they responded and agreed to the interview, the themes to be discussed and the questions were sent in advance to enable the interviewee to prepare and also to add openness to the process. Scott – Morgan (1994) suggests that the questions should be designed to make the participant feel comfortable through the interview process and enable them to both discuss freely the issues and enable them to disclose their true feelings. Additionally, the semi-structured nature of the interview would allow me to probe further the responses to certain questions to gain a greater insight and understanding of the subject that would assist with the analysis of the data. See Appendix. 8.4. Consent form.

The recording of the interview output was by two methods; where possible, by digital audio recording and through note taking, where I will be noting the main points presented, and making detailed notes where the issue is particularly technical. With any notes taken contemporaneously, maintenance of accuracy will be of paramount importance. (See Section 3: Ethical issues)

The interview was constructed around three areas; Structure, Process and Management. The content of the questions considered the interviewee organisation from the perspective of 4 elements of the performance network (Johnston & Clarke, 2001). The topics to be covered within the process related specifically to: Organisational Structure, Legal Contract, Measurement, Supply chain management and Business relationships, The procurement process and Management of people and process.

The content and subject matter for the interviews were developed from my a priori knowledge of the sector and the subject (see Section 1: Philosophical Foundations). Prior to the interviews, the questions were trailed, for both relevance and comprehension on the part of the interviewee, by several informal meetings with people working within the sector who were not going to be interviewed as part of the research process. This also provided interview timings. It is envisaged that as the interviews progress, new themes for investigation will emerge, and, due to the inductive nature of the project, that certain strands of the enquiry will start to take precedence within the

interview process, and that additional questions will have to be devised to develop and understand both the breadth and depth of the issue.

Realist Ethnographic - Web chat rooms – Netnography ?

Kozinets (2002) suggested the term “netnography” to refer to a marketing research method that investigated computer-mediated communications in connection with market related topics. The author illustrated the value of his approach arguing “...as with most specialised on line discussion groups that engage in computer-mediated communications around a certain topic they are likely to be well-informed knowledgeable enthusiasts. Therefore they are well placed to provide interesting market related information about trends and meanings in relation to the specific consumer topic”. (p61). Grint and Woolgar (1997) view virtual technologies as “texts that have interpretive flexibility”, suggesting that a social science researcher should approach any technology through an examination of the principles inscribed into it and also how it is interpreted by users, i.e. The audiences of the text should be as much at the centre of attention as the context of the text themselves. This will be explored during the semi structured interview process. Hine, (2000) adds support to this position. Describing her approach as virtual ethnography, she describes the web as “... a product of culture: a technology that was produced by particular people with contextually situated goals and priorities. It is also a technology which is shaped by the ways it is marketed taught and used (p9). Hine’s approach was heavily influenced by discourse analysis specifically highlighting the discursive moves through which those engaged in the chat room sought to construe the authority, truth or factual nature of their information. There is however a dualism. Whilst one cannot escape the virtual context of the situation - that is it is virtual i.e. ethnography is usually of or in a place, it also links time and space of its participants, so that it has boundlessness, which is a major problem to both its participants and its analysts alike. Sandlin (2007) suggests “...it has been used as a way of bringing anthropological methods into marketing and research.... It views online gatherings of consumers interested in similar products and brands as virtual communities”.

Netnographers are consistent in identifying that there are several classifications of online communities, each of which offer the potential to provide different kinds of

information⁴⁴. Kozinets (2002) and Sandlin (2007) argue that when researchers have identified the communities that they wish to investigate, they should spend some time “amongst” the group to get a feel for the norms and characteristics of the group. A principle consideration being trustworthiness and the demographic characteristics of participants, a view supported by Dholakia & Zwick (2004) who suggest that people engaged in online communities, may present an image that is significantly different than their real selves, or may even be someone else. In terms of data collection, there is the opportunity to collect two types of data:

- Written communications that occur among persons engaged within the online setting, and
- The researchers own field notes, where typically these would be a reflection, and an analysis of what the researcher is observing.

To overcome identity issues, Kozinets (2002) advises that to make the unit of analysis the speech act or communication act rather than identify the individual.

Several Blog sites and chat rooms were identified.

Inside Housing

“Inside Housing is the leading weekly magazine for the UK’s housing professionals, it publishes a range of exciting special features and supplements on everything from housing finance to development and from leadership to education and training. The magazine has a weekly circulation of 26,343, with a total weekly readership approaching 100,000. Online forums and blogs allow housing professionals to share opinions.”

British Institute of Facilities Managers

FM World

Housing & Communities Agency

Supply Management.

Operational Excellence

It was envisaged that by analysing the issues aired on a daily basis, it would be possible to obtain a view of the issued from the perspective of differing user groups which were identified from within the supply chain.

⁴⁴ electronic bulletin boards through to “multi user dungeons”

Quantitative – Documentation Analysis

The emphasis will be based on reviewing documents that will not have been produced by me as a researcher and can be deemed as “out there and waiting to be assembled and analysed”. In terms of relevance and materiality the documents must be gauged against a rigorous set of criteria. Scott (2004) argues that there are four principle criteria to be considered. These being: *Authenticity*, *Representativeness*, *Meaning* and *Credibility*. Typically the documents to be used will be deemed public documents or organisational documents, as they will be audited financial accounts and board reports, Audit Commission reports and TSA Surveys: quality control and audit reports and official “White papers”. Scott’s (2004) criteria identifies that the materials can be seen to be having both meaning and authenticity, but is the issue of credibility addressed due to potential bias, Hargreaves (2009), and indeed are the documents representative of an industry or sector and can generalisation be made about the market sectors based on what is a relatively small sample size. Bryman & Bell (2007) “.... Documents cannot be regarded as providing objective accounts of a state of affairs. They have to be interrogated, and examined in the context of other sources of data”. (p568). Saunders *et al* (2000), argues that documented data may be available in sufficient detail to provide the main data set from which to answer your research questions and to meet the objectives of the assignment. However, in utilising this approach it is vital that a multi source data set utilising different data items from a variety of sources is compiled to ensure that a sufficient breadth and depth of data is obtained.

Triangulated data analysis & interpretation

As out lined in Section 3.2: Convergent parallel design, **Step 2** through to **Step 4** data analysis will consist of techniques applied to both the qualitative and quantitative as well as mixing the two forms of data concurrently, (**Step3**) to allow interpretation to take place (**Step 4**), This process involves looking at the findings and results and then making an informed assessment as to how the information gathered addresses the mixed methods question central to the project. Teddlie & Tashakkori (2009) deem this interpretation or conclusions as “inferences and meta – inferences”, with the meta-inferences being drawn from the convergent data.

A strategy for data analysis will encompass techniques to identify whether the results are congruent or divergent, and how they converge. To facilitate this there will be a “data transformation” (Creswell & Plano Clark, 2011, p223), which will involve

“.....presenting the quantitative results and the qualitative findings together in a discussion document or summary table so that they can be easily compared”. As a means of commencing exploratory data analysis, cross tabulation formalises the common practice of looking for relationships in data which documented data analysis is not designed to test. Within this practice individual variables and their components and additionally the inter dependence between variables can be examined. Sparrow (1989) cites specific values, trends. Proportions and distributions can be linked and explored and additionally areas of conjunction and interdependence and relationships can be readily identified. Data transformation as a strategic option has been addressed by several authors in mixed methods literature, (Caracelli & Green, 1993, Teddlie *et al* 2003, Sandelowski *et al* 2009), the principle issue being which data source to “inform” which.

Within the research project it is envisaged that the process of transforming qualitative data into quantitative data will be undertaken by the themes or codes. The central issue being: which aspects of the qualitative data to quantify and then how to quantify. Onwuegbuzie & Teddlie (2003) argue that a logical approach is to define dichotomous variables which would indicate whether a theme is present or not present for each variable; additionally a counting process could be adopted to identify a number of times that the theme appears in the data but this seek to quantify qualitative data and may not provide any additional insight other than a number or frequency of use.

Central to the process of interpretation will be the extent to which the two data bases are congruent or divergent, and what conclusions can be drawn from the identified position. As this interpretation process is emergent the level of discrepancy or congruence from the data will be indicative of a number of variables, i.e. methodological problems in the design of the study, e.g. sampling or theme development issues or limitations in quantities analysis.

To gain a macro understanding of what is “going on”; large “mind maps / spider diagrams” will be developed from the outputs of the interviews. Each section of the semi structured interview would have its own mind map, with the objective being the identifying of emergent themes from the conversations. **Step 3** would see these themes would be merged with data collected from the Qualitative stream within **Step 1 & 2** and

also the data collected via netnography from the various professional and commercial “blog sites” that would be monitored as part of the qualitative data collection process.

The emergent themes from the research project would then be the subject of the literature search. Utilising Google Scholar, Business Source Premier and Emerald as primary sources in addition to texts provided by industry noted academics. Research would be undertaken from the subject area (FM) and other “services” industries. Relevant sources/ themes would also be mind mapped as part of the cross tabulation process and coded.

Step 4 would then be to interpret the data collected from the two streams and the literature search. The outputs from the literature search would be used to compare / contrast and challenge the findings of the research project and be utilised in the development of conclusions which added to current academic research, proposals to develop industry practice and the identification of future research topics.

Potential ethical issues

Ethical issues abound at a variety of stages in research projects, and relate directly to the integrity of the work.

Due to the research being conducted throughout the Value chain, it is paramount that confidentially, and where it is requested, anonymity is preserved, as it is likely that elements of the data will be commercially sensitive, and consequently present issues surrounding conflicts of interest.

Prior to any interviews being undertaken all potential participants will be written to asking for formal consent to be involved within the project. See Appendix 8.4. The correspondence will provide them with a copy of the research proposal, and an outline of the method to be used to collect the data. In the structured interviews, copies of the initial questions to be asked will be enclosed. Additionally, they will be advised that prior to the data being used for analysis, they will have access to it to ensure that it is unbiased and a true reflection of the conversation. Finally, I will confirm that they will have a right to reply. Affiliation is a potential problem, as is it likely that I will have commercial relationships with supply chain partners, and also be seen as having a competitive interest where I may well be working for a company in direct competition with the organisations that I have selected for potential interview. To overcome this

element of trust it is envisaged that an element of reciprocity around collaboration or active participation within the research project will be built into the project from the outset.

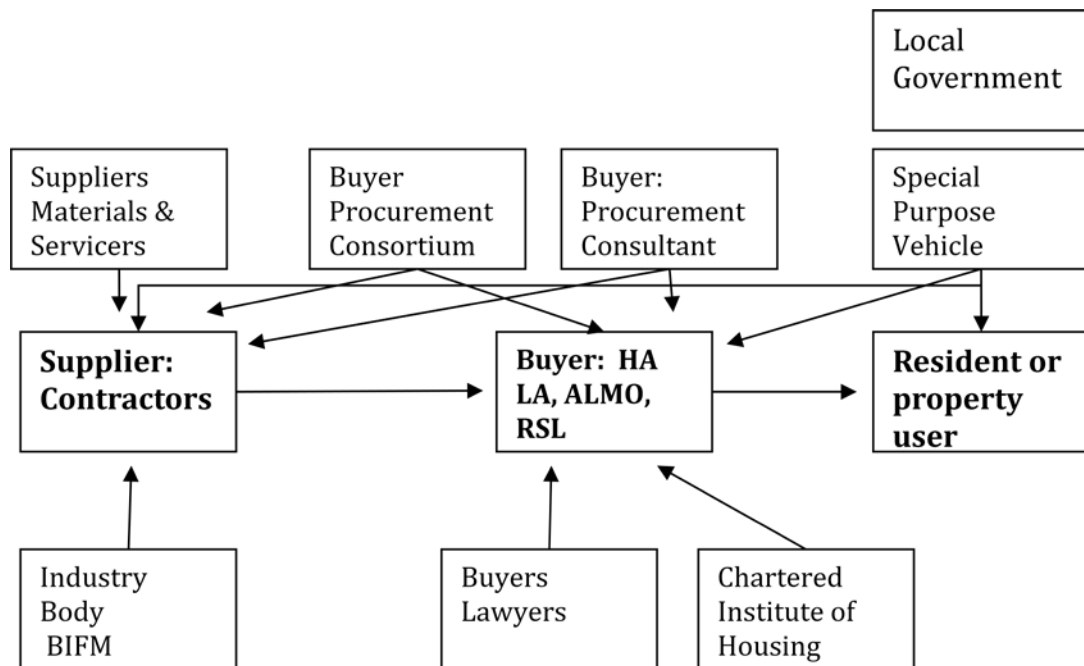
The 1988 Data Protection Act, outline succinctly the principles of data protection and qualitative data obtained during the research project will be managed within the guide line outlined. All the documents to be analysed will be in the public domain, i.e. financial statements, and Audit Commission reports.

There are two ethical considerations surrounding online research due to the nature of the medium i.e., what constitutes informed consent in cyber space? And are online forums a private or public site? Covert or Overt? My current proposal is to advise the magazine or Group of my presence in their online community by formal registration under my own name with my occupation declared as an academic researcher and to explain the nature of my research. Primarily: to assure them of the intent of the project and the confidential nature of the data. Feed back and right to reply may pose a problem, and I am unsure as to how this could be resolved. Alternatively, if the magazine deems the “chat room or message board to be a source of public communication media” (Langer & Beckman 2005, p197) Heggerty (2004) argues that that online data is “...public announcements, compatible to letters to the editors and as such amenable to academic analysis without the necessity of ethical review”. (p405), and to use the data obtained from the research. Ensuring the anonymity of the “chat room” respondents in any relevant findings by presenting the data via a coded process would be a prerequisite.

4. Findings and interpretation of findings

As outlined in Section 3. Methodology, the desired aim was to interact with indicative members of the “Buyers” and “Suppliers” within the Social housing network; to gain an insight into the causes and consequences of short-term trading. The objective was to understand the relationships, boundaries and the constraints in which these organisations operate and trade and additionally to identify its potential impact on the Value network, which has the “Buyer / Supplier” relationship at its centre.

Fig 4.1 FM Value network .

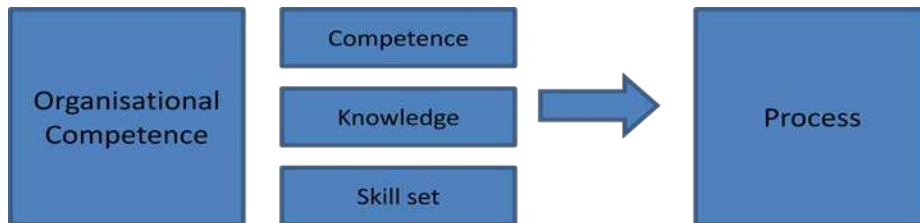


The interview process consisted of questions on six topics: Structure, Procurement Contract, Measurement, Relationships and Management. Each of the sections consisted of semi structured questions that had been coded and adapted to reflect the position and views the target audience. The outcomes from the interviews were transcribed verbatim and the issues identified transferred to “mind maps” which were developed as either “Buyer” or “Supplier” and their associated industry commentators. These “maps” would then assist in identifying the emerging themes from the conversations. These themes would form part of the triangulation process, jointly with the analysis of documents, and available literature, which would again be “mind mapped” and coded to mirror the research output. See Appendix 8.8: Mind maps.

The issues consistently identified via the mapping process could be grouped into specific themes:

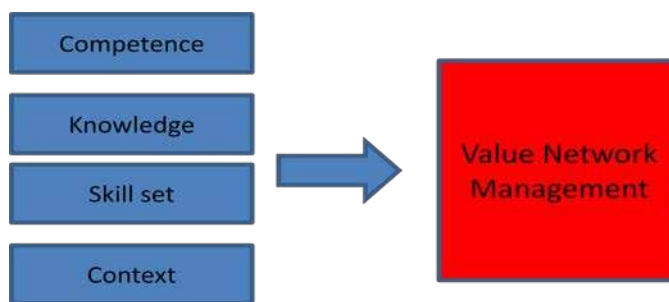
- Process – specifically connected to the procurement of outsourced suppliers, the contracts, the process within which suppliers were engaged and performance measurement, as a means of quantifying and assessing supplier performance. These elements are central for the achievement of a level of “operational competence” within the industry.

Fig 4.2 Operational Competence – Process content



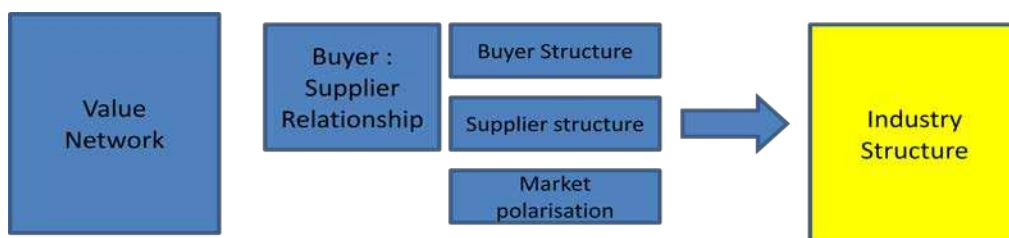
- The activity of managers within the supply network – relative to contract delivery and strategic & operational management, their skills and capabilities, and additionally opportunistic behaviour. And

Fig. 4.3 Management Competence



- Industry structure - The organisational structure of the actors within the network, the impact of “Buyer / Supplier” polarisation of the network and the trading relationships which are at the heart of relational exchange.

Fig 4.4 Value network: Structure and relationships

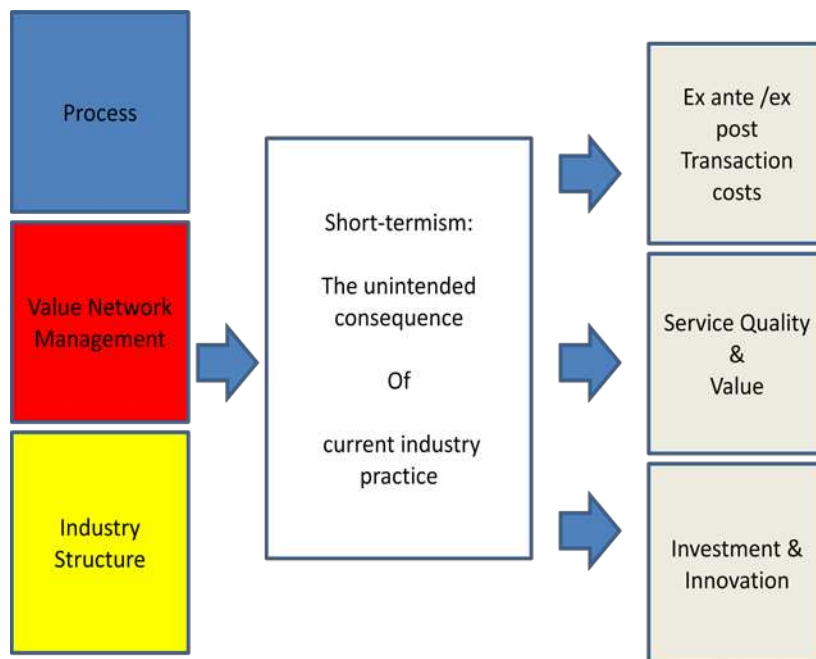


The outcomes from the research are presented under the headings of the questions. It was identified that during the relational exchange process, although the “desired result” was achieved to a level of performance – a volume of work delivered, the forecasted

level of profitability achieved, the KloE requirements and the delivery of a level of service to the Residents was frequently under achieved. This was particularly impactful when the performance metrics used to measure performance were actually achieved or exceeded but “value in use” for the Residents was not created.

All parties readily acknowledged that contracts could be of greater duration and that the rationale for contract duration has its provenance in the structure, processes and management of the organisations engaged in the delivery of R&M services. In short is it the unintended (or intended) consequence of current industry practice?

Fig. 4.5 The unintended consequences of short-termism.



The consequences of such practices impact: transaction costs within the Value network, service quality and value for the Buyers and their Residents, and restrict investment and innovation.

4.1 Structure

Introduction

This section discusses the organisational structure of the “Buyers” – “Suppliers” within the relational exchange and the impact of the Audit Commission regulatory regime and the wider environment in impacting structural design choices and its effect on contract duration.

Sub sections

The impact of the environment and Key lines of Enquiry

Buyers – organisational structure

Buyers structure summary

Suppliers – organisational structure

Suppliers structure summary

“Strategy is formed at the “top” and the rest of the organisation is a means of implementation. Such principles of control are known as bureaucratic or “mechanistic”. Johnson & Scholes (1999, p401). The nature of the industry has as its principle design parameters: the co-ordinating mechanisms for the standardisation of work, practice and the technostructure being the key part of the organisation. The internal features of the organisation are its regulated tasks and technocrat control, which are the feature of the “machine bureaucracy” (Grey, 2009; Morgan, 1997). The ideal environment for such a business to thrive is static; however, in reality the business environment since 2008 has been volatile and dynamic. Organisation structure is a means to an end - improved performance and sustainable performance. It can be argued that an inappropriate choice of structure can impede the strategic intent of an organisation; additionally a change of structure will not be a guarantee of success. How relevant is organisational structure in R&M services delivery and does it facilitate short-termism or is it a feature of it?

There were emerging trends from the research data relating to the structure of an organisation and the impact on the Value network. Specifically: Polarisation, structural design & working practices, and Value network alignment. The findings from the research identified that a “Buyer” or a “Supplier” within this sector can be deemed to be working in a “functional Structure” Johnson & Scholes (1999, p.405). This is based on the primary activities that the organisation carries out. Mintzberg (1979) considers six organisation configurations in terms of: the circumstances or situations to which each is best suited, the “modus operandi”, shape of the organisation i.e. its co – coordinating mechanisms and building blocks, and the situational factors e.g. the environment.

The impact of the environment and Key Lines of Enquiry

It has been suggested that the environment shapes the structure of organisations, (Johnson & Scholes, Mintzberg 1979, Slack *et al*, 2009). However is there a dichotomy between the “Buyers” of outsourced FM services and the “Suppliers” of said services? Does their organisational structure facilitate a fit to the operating environment? Is the service encounter a three-way fight between supplier, client and the end recipient? A perspective developed by Auty and Long (1998) who argue “the service encounter is a compromise between partially conflicting parties”. (p7)

The output of HAs service to its residents was defined in terms of “*Value for money*” as defined by the Tenants Services Authority (TSA) within its 2010 regulatory

framework and assessed by the Audit Commission⁴⁵ (AC). The AC conducts a structured audit of HA performance against a set of 18 published criteria called Key Lines of Enquiry (KLoEs). Analysis of the KLoEs of the A C (2009) identifies that HAs have their performance reviewed and audited over 3 strategic criteria. Specifically:

- **Vision and strategic approach.** How effectively does a HAs and its partners strategically plan work to balance the housing market and develop sustainable communities
- **Capacity to deliver.** Does the HA have the capacity to deliver its housing vision effectively now and in the future? This KLoE considers: *2.1. The right skills and tools* in place to ensure effective delivery of housing *priorities*. *2.2 Arrangements to keep priorities on track and to promote a culture of continuous improvement* and *2.3. The effective management of its resources and finances*. *2.4 Commissioning and procurement decisions to maximise value for money*
- **Improving housing outcomes.** Is the strategic approach to housing delivering better housing outcomes.

Their performance against these standards is measured against a 4 point scoring system, with 4 being the highest.⁴⁶ Additionally there are several other KLoEs which relate to the provision of R&M services. See appendix 8.3. It would therefore follow that to achieve an excellent performance against the KLoE criteria, the structure of the HA, its governance, its managerial and operational processes should be designed to achieve the optimal results. Logically these features should also be extended to its supply chain, where goal alignment and congruence of activity would be a prerequisite for success. See Section 4.2: The Procurement of Outsourced services and Section 4.3: The Contract. Are the KLoEs an appropriate measure to encourage organisational development? Or a method of achieving a subjective standard?

Analysis of R&M services delivered at a macro level to the Social housing sector identifies several trends (TSA, Existing Tenants Survey 2008⁴⁷ ; Housing Corporations Survey of existing Housing Association Tenants, 2006⁴⁸).The high-level results indicated that the top 2 services, which tenants viewed as being important to them, were:

⁴⁵ The Role of the Audit Commission has been redefined following the “bonfire of quangos”

⁴⁶ **Level 4** – excellent. Well above minimum requirements, **Level 3** – good. Consistently above minimum requirements, **Level 2** – fair. Only at minimum requirements, an adequate performance and **level 1** a failure to achieve **level 2**!!

⁴⁷ D 19307 successful interviews undertaken by Ipsos Mori

⁴⁸ 9184 successful interviews were conducted with tenants from 97 HAs based in the UK

- Home repairs and maintenance. 95% of respondents viewed as very important or important and
- Repairs and maintenance to shared services. (89%) of the respondents rated this as “very important and important”.

The 2006 report cited that *“There was a clear link between the repairs service provided by the HA and the HA overall satisfaction level”*. With tenants who were satisfied with the repairs service being satisfied with the overall services of the Landlord (91%) and tenants who were dissatisfied with the repairs service reporting that only (28%) were satisfied with the overall performance of the landlord.

All respondents were asked to rate their satisfaction with the way in which their Landlord deals with day-to-day R&M. (71%) were satisfied with this aspect of service delivery. There was an improvement in these figures where tenants had direct experience of the R&M service (75%). However, where tenants had reported a repair but had had no work completed the overall Landlord satisfaction falls to 54%. The Existing Tenants Survey (2008) indicated that 42% of the respondents had had a repair completed in the previous 12 months. Of these 75% of respondents were very satisfied or satisfied with their R&M service. A conclusion of the 2006 report being, *“...which suggests that between 200,000 and 250,000 tenants had reported a repair across the UK social housing estate and that no repair works had been completed”*. There were geographical variations cited with the South West and North East of England having the highest conversion rates of repairs request and completed works (85%) to the lowest South East and Merseyside (71%). But is geographical variation relevant? For example is 75% in Merseyside a good performance? This is pertinent to my study due to increasing polarisation in the Value network and indicating inconsistency in R&M service supply. The key elements relating to satisfaction with the R&M works were:

- the time it took for the works to commence,
- the slow speed with which the work was completed and
- the repair being completed first time.

Again the main variation in performance related to geographical location.

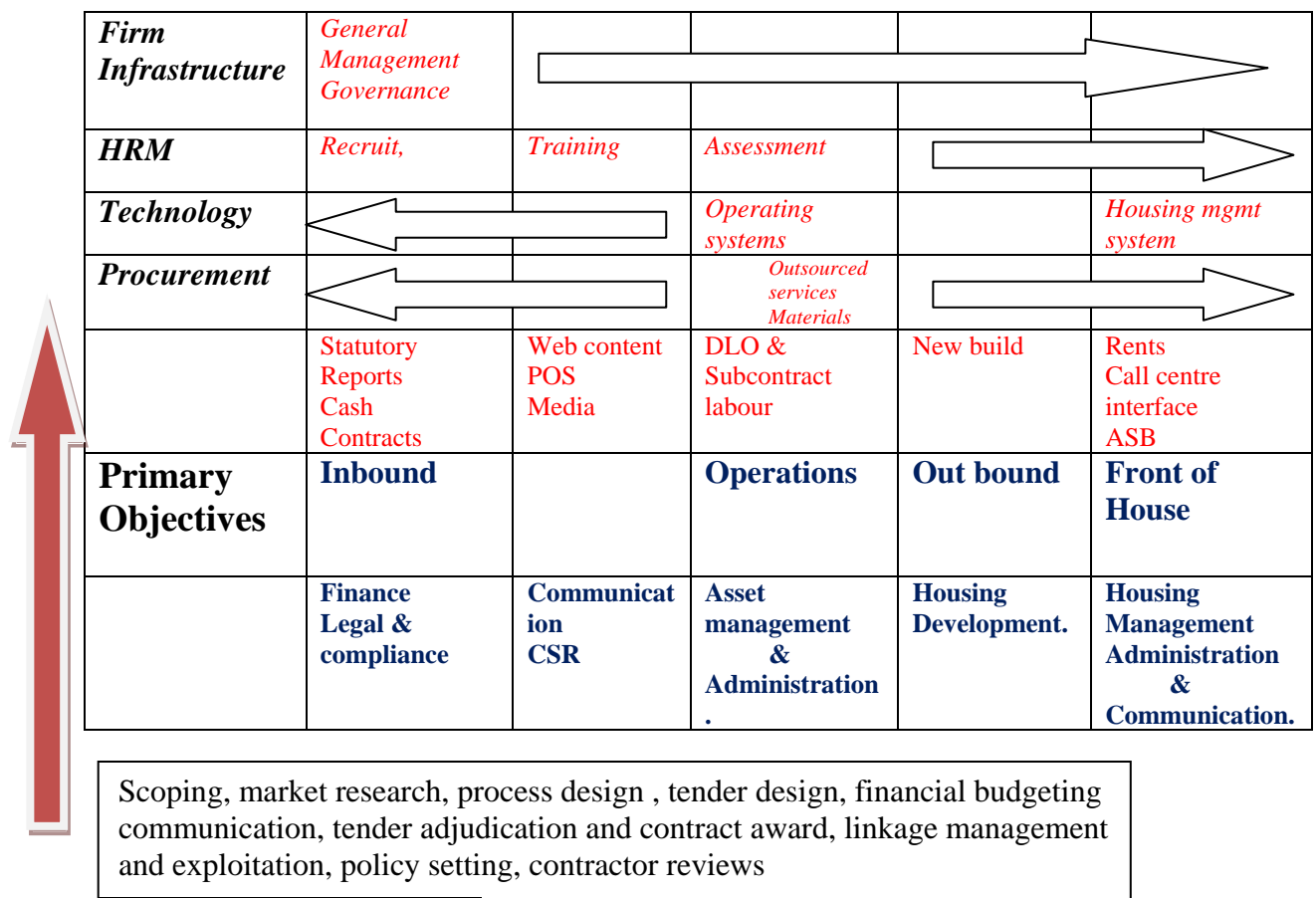
Drawing on the trends identified in these two surveys and the numbers of properties in the HA estate, it would be reasonable to postulate that there would be approximately 15,000,000 R&M activities per annum and that potentially 3,000,000 of these activities

would leave the tenants dissatisfied with the service that they have received. Given the importance of R&M to the tenants in the surveys, and the clarity provided by the KLoEs to the HAs and through them to the supply chain, it could be argued that the structure adopted within the Value network does not facilitate a consistent R&M service delivery. Is this a feature of the operational structure of the “Buyers” and their supply chain or the historical working practices of a sector that lacks the will⁴⁹ of innovation and investment due to short- term trading relationships

Buyers - organisational structure

The research objectives were to identify the structure of the organisation and its relevance and consequence for the delivery of R&M services and if it was instrumental in supporting the strategic choices made for services delivery. The model below is based on Porters Value Chain (Porter, 1985). It is used here as a framework for taking data gained about the business to provide insights into the business. It identifies the primary activities of the organisation in **bold** and secondary activities in *italics*.

Fig. 4.6 VC of a Buyer identifying a core competence in primary or secondary activity.



⁴⁹ Or the requirement

The second layer by cascading through lower levels of activity analysis adds a further segment to reveal where the operators believe that “value” is created. Ambrosini (1998). The output from the interviews identified that these are considered constituent elements of an effective HA function at “Buyer 2”. With procurement practice be cited as a core competence.

Because of the nature of this industry sector and its evolution following the Housing Act 1980, The HA organisations and their working practices could be classed as being “in common”. The primary difference between the HAs interviewed being (1) - *what is considered their principle activity?* Is it Asset management? Property development? Alternatively, is it Housing management? (2), how the organisation via its SBUs is aligned to meet the demands and needs of their “segmented “customers e.g. general needs , special needs , high dependency and (3) by geographical location and coverage, i.e. regional or national player.

The research data identifies a variance within what they deemed to be their core competence e.g. housing management, property development, procurement or asset management. Additionally, if these areas were not their “core incompetence” they were certainly their areas of weakness. The contributing causes to indifferent performance being identified as: boundary management and overlapping authority, goal orientation, conflicting objectives and evaluation, and task inter dependence.

All four organisations although identified as Housing Associations are by legal definition “Registered Social Landlords”. No “Arms Length Management Organisations” or Local Authorities were interviewed and consequently neither the variance between the structures of the different type of organisations is identified. However all were created via stock transfer from Local Authorities and are subject to external governance via the Audit Commission

Buyer1

Formed in 1994, it manages 7500 properties and operates across 60 local authorities throughout England and part of Scotland. It employs 350 staff and has rental revenue of £35.0m⁵⁰. It has grown through the amalgamation of smaller HAs and provides services

⁵⁰ 2005/6 figures from the Audit Commission review.

to a number of sectors of the social housing community⁵¹ via specific divisions. There is autonomy within the organisation with each divisional Business unit being managed by Managing Director and an “operating board”, with a shared supply of “group” operational resources e.g. The Property Services Division (PSD).

Within this organisation I interviewed two of the groups Managing Directors, the operational head of one of the shared services provided to the group (PSD) and undertook an ethnographic study over several months of a cross boundary / cross business unit liaison group.⁵² See Appendix: 8.7 Ethnographic study. Operationally, this organisation self delivers R&M services via a direct labour organisation (DLO) within a 30 miles radius of its heart land and subcontracted R&M services throughout the rest of the UK. This position is a legacy of organisational growth and an emergent strategy.

AB1 *“Does it work? (The organisational structure) The answer is yes and we don’t know! We are comfortable with the set up but we are not 100% sure that we are effective in our operational delivery albeit our customer satisfaction stats are very good. We do not review our strategy frequently with the last review being in 2002. Our belief is that the DLO adds value to our tenants through call effective scheduling and in the delivery of its service levels but there is variation in the delivery of our subcontractors”*. Additionally this dual approach to delivery impacts on the supply chain with an adverse consequence for service delivery. See PB1 comments.

“We have a good relationship with our suppliers - for the local works (in the NW), we look at it, as an extension of our own business. It is providing us with a just time approach and our vehicles contain the correct levels of impress stock - but labour and materials supply is variable across the rest of the UK, albeit we have supply contract with merchants and contractors” EB1

There was a desire at director level within “Buyer 1” to self deliver R&M services across the UK. This is driven by a belief that “service quality” would be improved via the DLO as a consequence of cultural fit with the Residents, although no financial planning or modelling had been conducted to develop the viability for this position.

Additionally, I interviewed the Head of Operations, whose management team directly managed the DLO and outsourced R&M delivery. He confirmed the emergent nature of operational structure which had developed in response to the acquisition and transfer of properties from HAs. In his opinion, the R&M services were delivered within a hierarchical structure which was geographically focussed but not geographically

⁵¹ General needs, sheltered housing, assisted living

⁵² This was the first batch of interviews and enabled development of both content and technique

structured. There was pressure to be more cost effective within the budgeting process, but no sanction for budget over spend, specifically within the DLO and relating to inefficient working practices. Additionally there was an internal challenge relating to service delivery and effective asset management in the group, with evidence of poor delivery in areas where works were subcontracted. This being cited in internal documents reviewed during the research project.

“Service performance is not consistently managed between either the DLO or the sub contractors -being totally honest we do not manage sub contractor performance – we do not have a system to manage their performance”.PB1. He also highlighted conflicts between the “housing team” and the FM team. *“There are issues with other business units within the organisation who do not fully understand the issues - for example when a resident rings up and wants a new front door- you would not send a joiner, you would send a surveyor to see if it wanted a new front door. This is ok for a local issue, but in geographically dispersed areas this is adding time and cost”*.

The ethnographic study undertaken within this organisation considered the “working relationships” between SBUs i.e. the housing management team and the FM team relative to outsourced service delivery. Each of the attended meetings exposed issues relating to customer complaints, an inability to deliver R&M services, poor contractor management and antagonistic working practices between the SBUs. All of which had a cost implication for the HA and a negative impact on the Resident. The data identified a dissonance in terms of the R&M service delivery and its understanding at different levels of the organisation, with a clear power struggle taking place at middle management levels in the different SBUs. “Tribal warfare” (Gummesson, 1991).However this was not identified by the external auditors of the A C, who gave this organisation a positive report. *“A good service that has promising prospects for improvement”*.

I was unable to identify any unique core competences which provided the organisation with a source of competitive advantage. If their market place was “competitive” it was unclear as to the basis of their market proposition other than to target a specific niche market segment irrespective of cost. There was clear evidence of bureaucratic dysfunctionality within operational practice, (Grey, 2009) at SBU level. Goal displacement between the various groupings within the structure ensured that there was

a clear focus on the means⁵³ and not the end in so much as the means had become the end itself with a corresponding impact for the Resident. This was driven by politics and supported by the organisational structure.

Buyer 2

“Buyer 2” is one of the UK’s largest providers of Social housing. Working in 232 local authority areas it manages 46,000 properties. It employs 3782 staff and has a turnover of £304.0m. The CEO instigated a major review of the organisations structure, and its alignment with their strategic intent. An outcome being the appointment of “out of sector” specialists at director level and the creation of a new 4 year business plan, outlining several strategic changes; principally the creation of a specialist procurement team and the outsourcing of several services, the delivery of FM services being one.

My interview was with the Director of Procurement. This was his first appointment to the Public Sector, having worked previously within Financial Services.

The core differentiator of “Buyer 2” is in a Secondary activity -“Procurement” which challenges Porters view of primary / secondary activities (1985). “The core competence of an organisation is its enabling culture which could be likened to its motivation and applied skills”. Tampoe (1998). This is supported by the concept of Value in exchange. But does it necessarily create value in use for the Resident? The concept of Value in “Customer – Customer” relationships is explored in Section 4.6. The Audit Commission (2010) commented. ***“Buyer 2 manages procurement well saving over £10.0m over the past 3 yrs ...saving 2.5% of the Responsive repairs budget. Effective procurement has cut costs and increased quality.....This modern approach improves efficiency”***.

The “commercialisation” of the organisation had affected the structure and infrastructure of the business. Whilst outwardly the SBUs would be recognised from their title, there was evidence that the working practices had been significantly affected and reflected the private sector input into their design and management. Horton (2003).

Buyer 3

Created in 2003 by stock transfer it manages 4500 general needs properties, It has a “tight” geographical location and provides services to both urban and rural locations. My interviews were with the Director of Property, and the Assistant Director of Property. Both had worked extensively in the private sector before joining the organisation. They consider the asset management of their properties to be a core

⁵³ And specific SBU control

competence of the business and a major influence over the Development and Housing Management SBUs within their organisation.

Fig 4.7 A “Buyers” Value chain identifying core competence within a primary activity. (Ambrossini, 1998)

Figure removed for copyright reasons

RB3 “We contract out or FM works, as we do not have the management and skill in-house to deliver. This does expose us to further cost even within an open book arrangement as the costings and practices are not very transparent. With current issues in mind,⁵⁴ we are reviewing this against our 30 year business plan to see if there is a viable alternative to take the services for R&M and void works in house. A further consideration is the supply chain and we have held discussions with them re direct supply in a bid to drive down costs”.

BB3 “Regarding our structure, we are generally in good shape from an asset management perspective, albeit if we went down the DLO route, this would require additional resource and capability. From the perspective of Cave, we have the ability to deliver in all three areas, with a director heading up Development and Housing and we work very closely as a management team for the benefit of our residents”

I explored the business structure and its links with its suppliers within the context of a Value system, where the organisation exploits intercompany links as a method of creating value. *“Embedded staff from our supply partners into our business units is an interesting option and one, which would address some of the reservations that we currently have with the operating structure,⁵⁵ and likewise we would like to see close*

⁵⁴ The collapse of ROK and Connaught

⁵⁵ Their R&M partner embedded staff in Sept 2011. The interview was conducted in Feb 2011.

*working integration with the supply chain partners – specifically materials*⁵⁶. See also MBE. Section 4: Supplier structure summary. Auty and Long (1998) considered the impact of significant imbalances in the size and power of “Buyers” and “Suppliers” and the distortions created in the operating structures of organisations. This links to Hakansson’s (1982) Interaction model and the use of procurement clubs and consultants who “Buy” the services of Tier 1 contractors for their clients. De Burca (1995) emphasises the impact of this “false” trading environment in the exchange. (See Section 4.2: The Procurement of outsourced services)

Buyer 4

This firm “... is a unique network of locally focused member organisations working together to provide housing, regeneration, community, care and support services” (Annual Report, 2010). Managing 35000 properties, 20,000 are in the London Boroughs it was created through the amalgamation of smaller regionally based HAs. Analysis of its financial reports identifies that “*Every year “Buyer 4” updates its five year business plan to reflect the changes both internal and external that have or are likely to take place that will have an impact on our business. The Business Plan ensures we are monitoring the delivery of our business objectives and the key strategic objectives of the partnership*”.

Their annual report states that the underlying objective for “Buyer 4” is “*Getting the Basics Right*”. Its key priorities for its 2010 plan.

- *Achieving efficiencies across the business through lower operational costs.*
- *Consolidating our property portfolio – providing better quality more tailored services for residents and reducing management costs.*
- *Improving the quality of our homes.*
- *Improving our business performance.*
- *Meeting the Decent Homes standard and providing cost efficient properties for residents to occupy and Buyer 4 to manage.*
- *Improving customer satisfaction*⁵⁷

⁵⁶ The major suppliers have had an e capability for several yrs to identify source order and arrange delivery of parts. The biggest inhibitor to its adoption is operating system capability, skill sets, traditional working, and management practice.

⁵⁷ Did they mention that they were a social housing provider?

The organisation has embarked on a major restructuring programme. Stating in their annual *report* “***We need to improve the way we are organised to help deliver better services for less money. To do this we must change the way we work and how we provide you with services***”. The main changes we are proposing include:

- ***“Centralising some of our services into one location – wherever possible, services will be centralised and delivered from the Midlands because the costs of staff and offices are significantly lower in the Midlands than in the other areas where Buyer 4 has properties. e.g. moving the customer service centre to the Midlands;***
- ***Saving over £3m per year by reducing duplication and reinvesting the money we save back into our key services***
- ***Delivering a clear and consistent standard of service across “Buyer 4”, with better monitoring of our performance”.***

The Head of Procurement, was an interim procurement specialist and not from within the Social housing sector. The organisations policy is to outsource where possible utilising two of the UK larger contractors to supply R&M services. ***“All our properties are at the Decent Homes standard⁵⁸ and we believe that our contractors provide a good service. Our resident’s interest is their home, the quality and promptness of repairs and their safety. Our preferred position for the delivery of FM services is to outsource. VAT is a consideration but we believe that contracts can be better managed and more effectively delivered by contractors than by a DLO”. “One of our core competencies is effective procurement of services and products. Asset management is not one of our strengths”.*** Performance data from their web site identified. Routine repairs completed on time 95.5% against a target of 98% and percentage of overall resident satisfaction with repairs being 69%, i.e. a level significantly below the sectors already indifferent performance.

There was a recognition that the organisation needed to develop to their structure to meet the challenges that they faced. ***“There are other internal conflicts, particularly in relation to the procurement team and the asset management team. This is a legacy of the commerciality aspect of what SBUs deliver for the organisation; the national***

⁵⁸ Decent Homes Guidance. Published by the Department for Communities and Local Government 2006

reach of the business also compounds this where there are geographical and political considerations". Tribal warfare. (Gummesson, 1998).

Supplier alignment with their geographical position was an issue. Their Tier 1 contractors had to replace failing Tier 2 and Tier 3 subcontractors. *"We do have examples of poor communication between regions at all levels. Directors following their own agendas exacerbate issues and contradict our operational protocols, primarily because they do not consider the economic position of the organisation as a whole. Some of SBU activity negates the "buying" power that we have leveraged within the supply chain. One of the observable outcomes of their actions is SBU friction"*. This links to du Gays concept of the Shadow organisation. (2000)

See appendix 8.2 for additional AC comments.

Buyer structure summary

From a "Buyers" perspective the most frequently surfaced themes from the research suggested their organisational structure was based on traditional concepts and working practices. They were bureaucracies operating in silos, which failed to flex the linkages between the various business units for the advantage of their customers. Additionally polarisation within the market was highlighted by all interviewees, with a desire for the *"...big to get bigger and the smaller RSLs to operate in geographical or specialist niches"* KB2.

There was a challenge from Parliament reported in Inside Housing 10/5/2011, *"Labour MP's launch attack on housing associations"*. The article seems to be suggesting that housing associations were now too large and unaccountable. John Mc Donnell (Hayes & Harlington). *"Housing associations play a key role in providing social housing. They had specialist roles...no one ever envisaged them becoming the large corporations that they are now....some of the management is extremely poor"*. James Corbin (Islington North) was quoted *"...He did not see any accountability in the majority of Housing Associations"* Andy Slaughter (Hammersmith) stated *"... that the larger associations were corporations in all but name.....The trouble is that while they would like to think that they are out there wheeling and dealing in the business world, they are very poorly run and doing a very poor job for our tenants. It's a disgrace. These are people whose only job is to provide affordable housing for people and they are simply not doing it. That is a scandal which should be exposed"*. The

drivers for their tirade are unclear. Politics with a big “P” or concern with poor performance levels on behalf of their Residents? (aka voters)⁵⁹

Analysis of TSA Report (2009) identified a need to consider stock rationalisation further, which was impeded by Local Authorities’ reluctance to initiate “the conversations” due to conflicting regulatory and investment policies. There are questions relating to *“...the apparent failure of HAs and the unacceptability of providing poor performance for tenants”*.

The concept of structural design was cited frequently in the interviews, with A at NGO 1 stating that *“there was a complete lack of design, but then what do these organisations deliver?”* A suggested that the HAs operational focus was based on two reports written in the early 1980’s which were commissioned by the Government. The “Cave report” was a review of social housing regulation. Its principle observations (1) how the provision of social housing operates from a market perspective, espousing the view that the current structure did not deliver for Residents and (2) setting out the case for “the vertical un bundling” of the social housing market. Cave identified that HAs may not have all round “housing” skills, and they tended to focus on their core skills at the expense of their less developed capability. *“The social housing domain encompasses a range of different roles and services. The review sees development, ownership and management as three separate functions which should not have to be combined in one organisation”* Cave (1985; 5.122) His review considered that there were benefits to breaking up the roles of HAs and challenging the structure of the HAs suggesting *“...the best manager may not be the best developer. There are many associations with homes that are remote from their core operations which may be better managed on a local basis. There are also estates in multiple property ownership which may benefit from having a single manager”*. Additionally he saw the absence of effective markets in housing as limiting the potential for Residents as consumers to have a “choice”. Whilst varying in size due to revenues and numbers of properties managed - due to their provenance, working practices, governance and audit policy, by initial observation the “Buyers” operational structures appear similar, but have been impacted by design and polarisation. (Penrose, 1959)

⁵⁹ The geographical positioning of the MP’s is of note. A major supplier of R&M being Buyer 4 with dissatisfaction with R&M services being higher than the national average.

This section commenced by asking how appropriate the HA was structure to the achievement of the KLoEs to provide **“Value for money”** and in the context of this study it can be argued that there is a clear link between “Value for money” and “Value in Exchange” (Enquist *et al*, 2011) Whilst this is a moot point, the research data indicated that there was little evidence of “Value in use” created by the “Buyers” structure, as there was evidence of a failure to manage the internal linkages of the SBUs to ensure effective service provision. See Section 4.4: Measurement. The finding challenge the theory that the environment shapes organisational structure and practice and raise a question as to whether the “gap”⁶⁰ (Parasuramam *et al*, 1985) exacerbated or reduced through outsourcing service delivery? Given the comments of the A C there is a “gap” relating to the achievement of the KLoEs strategic criteria relating to **“the capacity to deliver”**. However the adoption of NPM has not impacted the design of R&M service delivery. (Ackroyd *et al*,2007) and where “value” is created via “secondary activities” in Buyer 2 and Buyer 4 it may actually reduce the “value in use” for the Resident. Overall Buyer structure impacts short-termism due to SBU policy and practice influencing strategic choice.

⁶⁰ Gap 3 difference between service delivery and quality specifications and the actual service delivered.

Suppliers – organisational structure

The objective of the research was to identify the structure of the “Supplier” organisations and the impact for R&M services delivery. Was the structure of these organisations as a consequence of the requirement of its market? In addition, is it shaped by the demands of customers and the OJEU procurement process? Or is it created through deliberate design by its executive? Using Porters Value Chain (Porter, 1985) as a means of structuring the research data gained. It can be argued that the primary and secondary activities of organisations engaged in the delivery of R&M services are similar but not identical with differing core competences providing differentiation within the market place.

Fig 4.8 A “Suppliers” Value chain identifying common activities within the R&M service sector.

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The external influences on the organisations are from various sources. Trade bodies, e.g. NICEIC and HVCA, who supply contractors with details relating to Trades pay, job titles, job descriptions historical terminologies and contracts of employment, and Trade unions who focus on workers’ rights, and terms and conditions of employment all heavily influence the sector primarily due to the impact of TUPE. Additionally, working practices are also heavily influenced by legislation with organisations like “Gas safe” being instrumental in setting engineer’s qualifications and accreditations, working standards and inspection regimes. Traditionally this heavily influences the operating structure by reinforcing the working practices of an organisation and consequently increases the cost of delivering trade based services. In terms of structure there are identifiable pressures and consequently *ex post* transaction costs on the “Suppliers”

created by compliance with a “traditional” services delivery methodology and a requirement to fulfil the “Buyers” procurement requirements.

Supplier 1

The firm is a wholly owned subsidiary of “family owned” PLC Construction Company. It delivers its services on a “Hub and spokes basis” via four geographical regional locations and is flexible to its market in the delivery and pricing of its business proposition. Although delivering services nationally through a “functional” structure, (Johnson & Scholes, 1999) its principle focus is to grow its business via its regional proposition, managing contracts on a portfolio basis. The organisations SBUs have clear definition of roles and tasks and managed by a centrally based “operating board”. *“The majority of our other functions i.e. finance, IT and its support, the Call Centre/ Help desk and HR function are all in house and based at the central HO”. In term of FM operations, we self-deliver and use subcontract labour, to support our geographical and technical supply issues where we do not have specialist skills, and to minimise risk in relation to variable workloads and working patterns. Extended management and differing objective does create some issues particularly in KPI measurement”.*

DS1

Following a strategic review in 2006 the organisation changed its strategy from a traditional M&E contractor to specifically target Social Housing PFI, Statutory compliance services and FM/ R&M delivery. Arguing that the additional contractual rigour of PFI, would reshape their focus and influence process design, contradicting traditionally contracted R&M delivery.

“Suppliers 1’s” core competencies lie in the management of its day to day service delivery, which in conjunction with its operating system supports a horizontal strategy that is customer centric - with its customers gaining web based access to their IT based service infra structure *“... for live and transparent MI”* DS1.

Fig 4.9 Supplier 1 Value chain Primary Objectives with core competencies identified.

Figure removed for copyright reasons

“The differentiators can come from almost any part of the supplier’s value chain, and their potential impact is similarly dispersed through the customer’s value chain”. Shepherd (1998).

The “portfolio” management practices of the organisation ensures that management and trades are not totally specific to a designated HA contract or indeed to the Social Housing market place. The Business support unit plans PPM and statutory works which are deployed to trades via PDAs. Responsive repairs are scheduled via the operating system to ensure that repairs are completed in line with contractual obligations. Additionally their subcontract supply chain would be deemed as trade generalists with Tier 2 and Tier 3 contractors overtly⁶¹ delivering up to 25% of works. With the exception of contract specific trades and supervisory management, all trades are engaged on Social housing, PFI FM and commercial FM to entities within the geographical regions of the business.

Their supply chain is not contractually “back to back” with the “Buyers”⁶² and was not traditionally contract managed. It was considered more as Supply chain management with management practice underpinning ideas which relate to alignment and integration of activity, rather than achieving service specific tasks. “Supplier 1” goes to market as a Tier 1 and Tier 2 supplier, supplying specialist services and “selling” their underutilised labour geographically to Tier 1 R&M suppliers. Their asset specificity and portfolio approach to service deliver therefore offers the opportunity to reduce *ex post* transaction costs. (Williamson, 1996). See Buyer Structure Summary.

Although the business interfaces with various HAs it cannot be argued that their environment shapes their operational structure and whilst the HAs are reliant on “Supplier 1” to ensure their compliance with the KLoEs no evidence was obtained from the research data that the directors of “Supplier 1” considered the compliance of the KLoEs or the achievement of contractual KPI’s in the design of their business structure and operating processes, where they considered “*...their use of technology to be market leading and providing them and their clients with a clear competitive advantage... we*

⁶¹ Their customers are fully aware of their use of subcontractors and are advised who is working on their contract.

⁶² This was common to all “Suppliers”

actually promote our operational methodology within the OJEU process and commercial tenders as innovation within the tender evaluation elements ”DS1.

Supplier 2

“Supplier 2” is a VC fund backed national contractor. It has entered into the Social Housing market and service provision as opportunities in its existing markets diminished i.e. traditional construction contracting, BSF works and FM. My interview was with the Managing Director of the services division. The organisation is structured on a “hub and spokes” basis with the admin and governance structures based at the centre. It differentiates its business proposition via its segmentation of the Social housing market place, i.e. principally targeting existing trading relationships between the “group” and larger HAs. The organisation focus is on R&M contracts that can provide revenues in excess of £5.0m pa.⁶³ Strategically, they look to provide a totally integrated business offering to the market featuring R&M, New build and housing refurbishment.

Fig 4.10 Supplier 2 Value chain with core competencies identified.

Figure removed for copyright reasons

Each contract operates independently i.e. it has a “contract manager” and support team who are engaged only on a single specific contract but is managed within a regional structure. *“We can create a locally based dedicated team that is managerially self sufficient is economically viable and is focussed on one client”*. Tier 2 and Tier 3 contractors are utilised to deliver specific works and specialist statutory works but do not solely supply to “Supplier 2”. By observation the organisation operates within vertical contract silos within each region.

Their business model is designed to compete only with large Tier 1 suppliers *“...our structure and business model is similar to our larger competitors which enables us to go head to head on a level playing field”*, and to *supply services to larger HAs who we see as being more informed, and they value what we can bring e.g. investment in IT,*

⁶³ The business now produces revenues of circa £80.0m pa

training and H&S our approach is recognised valued and understood". There is a challenge which relates to "order qualifiers" and "order winners" (See Section 4.5: Management: people & process) and investment in capabilities which would be deemed as a basic requirement for the market. Auty and Long (1998) suggest that within an organisational context customer expectations are an amalgam of the views expressed of interested parties rather than the conclusions of an individual, which when considered from the perspective of the procurement process within a segment of a specific market deepens "Group think" and may be expressed within the content of a "contract notice" within the OJEU process (See Section 4.2: The Procurement of outsourced services) i.e. only businesses with a turnover in excess of £x.0m can tender for these works – the expectation being that only big organisations can undertake works for big organisations.

Is the structure of "Supplier 2" a feature of a micro-environment within the Social housing market place? In order "to supply to the larger "Buyer" – you need to be a certain size and shape. *"...this is what they want from a provider!"* DS2. Analysis of the content of *Contract notices* of the larger R&M contracts does not identify or specify a "structural requirement". Is this a legacy of Goods - dominant logic of the construction industry, where the "Buyer" buys a product rather than a service? (Lusch *et al*, 2010) DS2 recognised that to operate this structure in this segment of the market had a "cost" in terms of management and trade utilisation but was unaware of the value of the cost in sterling.

Analysis for the financial statements for 2010 for "Supplier 1" and "Supplier 2", identified that "Supplier 2" had a revenue stream that was 4x that of "Supplier 1". Analysing the two businesses from a ratio perspective, indicated that "Supplier 1" had a GM of 16.6%, and NM of 4.77% and a ROCE of 44.59%, in comparison, the ratios for "Supplier 2" were GM 8.63%, NM 2.98%, and a ROCE of 5.45%. Cash management provided a further insight, with Debtor days and Creditor days for "Supplier 1" being 40 and 20 days respectively, for "Supplier 2", 76 days and 59 days.⁶⁴ (See Section 4.3: The Contract). The variables being profitability of the large "Buyers" micro-sector, increased operating costs due to firm structure, and processes that are service based against product based? Or just management practice?

⁶⁴ If you were a sub contractor working for these organisations. You would wait 3x as long to get paid by Supplier 2. See Section 4.3 The Contract.

The tragedy of the commons is frequently cited as an example of market failure. Mason and Phillips (1997) suggest that this externality can be both dynamic and static, with static being reflected by the “crowding” problem with firms costs rising and a squeeze on trading margin. The headline for Inside Housing 27/10/2012 “Contractor in fight to keep framework deal” referred to the local procurement vehicle "SCAPE" inviting expressions of interest to bid for in excess of £1.0bn of work over the next 4 yrs. With the article suggesting that the incumbent supplier “*...will face stiff competition to hold onto this highly prized public sector contract*”. Does short-termism therefore create a false market and a dynamic externality as current actions lead to higher costs, e.g. as costs change from one “contract period” to the next when access to a market changes? Is this dash for revenue growth reducing a “Suppliers” short-term profitability, within the context of non cooperative equilibrium? Mason and Phillips (1997)

Supplier 3

Is a national organisation with a group turnover of £1.0bn. It is one of the largest privately owned companies specialising in construction, development, and support services. The support services element of the business has a turnover of £85.0 (2010) and has worked in the Social housing sector for 15 yrs.

Fig 4.11 Supplier 3 Value chain with core competencies identified.

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This organisation focuses on contracts with a minimum turnover of £5.0m per annum and again delivers via a regional network with contract specific teams, which are “*well managed by a capable and experienced local team*”. MS3.The Centre provides governance and administrative support. My interview was with the Operations Director. The focus on this “large Buyer” segment is to ensure that the business competes on a like for like basis against other large suppliers. As a means of differentiation at the “Contract notice stage” “Supplier 3” is actively lobbying the market with its “white

paper” indicating how the market needs to change to improve quality, acknowledging that the procurement process is inhibiting services bought, and suggesting a move to *Competitive dialogue* from the *Restricted Procedure*. Chotipanich (2004) suggesting that “...with precise understanding FM can link to the clients business by providing services that fit and respond to the actual needs and constraints of a particular organisation and organisations changes effectively” (p364). Analysis of the Contract notices reviewed identified only 1 notice referring to competitive dialogue. The revenue stream for the contract period being cited as £120m.⁶⁵ Glaser (2006) proposes that “in general volume is more important to a Seller than a Buyer, particularly if the Seller enjoys economies of scale as volume take off increase. In turn buyers would want a volume related discount” (See Section 4.3: The Contract). This has consequences for the Social housing market.

Supplier structure summary

By observation, the “Suppliers” although differing in size are providing similar trade based services to the HAs and Residents at the point of delivery. This influences their structural design “*which is predominately hierarchical and traditional*” SRB, but unlike the HAs, whilst all three suppliers are structured on a “hub and spokes” basis there are elements of differentiation relating to service delivery, which is a feature of their strategic intent. This affects their organisational structure and is a feature of their market focus.

The industry commentator’s views on supplier structure were sanguine. When asked if contractors were in the correct shape to meet their clients’ needs the response was: “*They like to think they are! However, in reality there are very few who actually deliver what they say that they are going to deliver during the “bid process”. This could be a feature of OJEU and drafting and the unintended consequence of challenge to the award if a bidder is not successful, additionally to the information that the public sector provide or do not provide in their tenders is usually poorly drafted*” SRB. (See Section 4.2: The Procurement of outsourced services)

The Views of SPV1 developed this debate and added a further challenge to the “Supplier” business model. Commenting on how organisational structures influences delivery. “*Our biggest issues with FM providers is that they have a good basic*

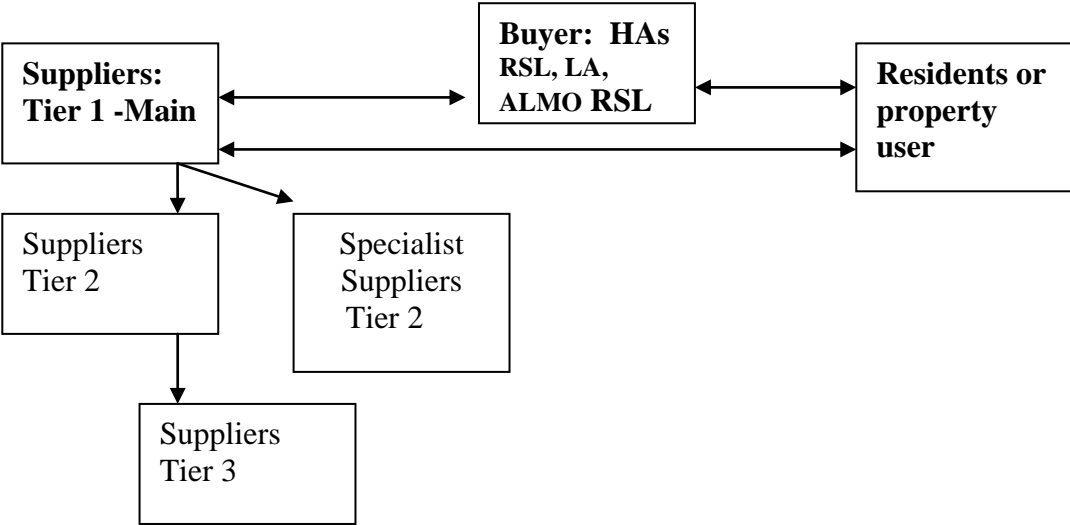
⁶⁵ 1 large egg in small basket?

structure, but they cannot deliver a fully integrated service, as there is usually too much being outsourced, and typically this is been poorly managed from the perspective of delivery and quality”.

This is a view shared by SRB who suggests,

“Currently within the UK there is not one TFM or M&E contractor who provides services to the whole UK at best they have 80% - 90% geographical coverage. Additionally they are sub contracting up to 40% of their works to Tier 2 and Tier 3 and on some occasions Tier 4 contractors. Consequently, there is a challenge to management practice and quality and so the customers are potentially losing any benefits of going for a national One-stop shop. An extended supply chain specifically relating to material provision can add value if it is engrained within the delivery model, however generally poor supply practice generally adds cost. In addition the supply of labour only and 2nd tier contractors does not generally add to service delivery. Additionally they are more difficult to manage in terms of volume and quality than the contractors own labour - and rarely provide a cost advantage”.

Fig 4.12 Supply chain of the Suppliers within the Value network and its links to the “Buyers”



The views of a specialist procurement consultancy MBE additionally challenge the “Supplier” delivery model, *“As a business, we are passionate about integration and shared facilities between “Buyers” & “Suppliers”, so that people can see how their role affects their counterpart and the extended group. We believe that “Suppliers” should improve customer engagement, by providing a bespoke service that considers the “Buyers” housing stock and the “suppliers” capability to gain an understanding*

of the issues. Unfortunately the majority of contractors supplying to this market place adopt a one size fits all approach and as a result they fail, and the contract fails with consequences for them the HA and the resident".

The impact of polarisation in the supply side has been a feature of the volatile market place of 2011/12. There were various mergers and acquisitions of "Suppliers" within the M&E/ FM market and evidence of the larger contractors "winning" a greater R&M market share. The "trade Blog" from FM world, 08/08/2011, commented, *"That since the publication of its 2010 results Mears had signed a £52.0m deal with a Bedford based HA for R&M works and voids and had secured an addition £30.0m of R&M works over a 4 year period with Leeds City Council and Dover City Council".* In contrast from the client side, Inside Housing commented negatively on the deals, with an additional bloggers comment from "To whom it may concern" – *"perhaps some caution is required in light of recent events before allowing too much provision to fall into the hands of a single provider",*

FM world reported the proposed merger of Apollo and Keepmoat in a £1.0bn revenue merger. *"the combined business will benefit from numerous cross selling opportunities whilst delivering significant financial synergies"* interviewing the CEO of the business, he stated *"that the bringing together of these two businesses represents a compelling proposition for shareholders, customers and employees alike..... in this challenging economic climate we will create a national champion in our market with substantial opportunities for growth"*⁶⁶ Inside Housings take on the subject, *" It will be interesting to see how the deal progresses, and what impact it has on the sector , but one thing is certain we have lost another contractor and reduced competition and although different than Connaught and ROK, it must surly set alarm bells ringing".*⁶⁷

There was little evidence gained during the interviews of a "service sector "mentality in the approach to service delivery - which could basically be deemed to be "trade" or "construction" based. It could be argued that the "traditional" approach to service

⁶⁶ Both companies are owned by Cavendish Square Partners an SPV which is majority owned by the private equity firm Coller Capital

⁶⁷ By October 2012 the newly formed business had lost its CEO and had to re structure and secure an additional £150m of working capital.

delivery of “Buyers 2 & 3” with their contract specific teams operating in vertical silo are replicating the design and function of the DLO. The irony cannot be lost on the larger “Buyers” who want to outsource R&M services, to larger FM “Suppliers”, who will TUPE their staff, replicate their ineffective business model and seek to deliver it for an uneconomic sum. And then repeat the process every 3-4 years. Although perennially failing in terms of Service quality and “Value in use” for the Residents, this may achieve certain criteria for the KLoEs and provides a level of “value for money” and create value in the exchange but would be challenged from the perspective of the KLoEs **“Capacity to deliver”**, specifically **2.3 “The effective management of resources”**.

The Financial comparison between “Supplier1” and “Supplier 2” considered the performance from a perspective of certain ratios. It does identify how the structure of a business impacts the *ex post* transaction costs. This is pertinent when the comments of “Buyer 2” are considered relating to their rationale to totally outsource - the “standard” DLO model was costly and inefficient. This is an interesting area and worthy of further investigation. Additionally, it should be noted that “Suppliers 2 and 3” supply R&M services to “Buyers 2 & 4” where the AC has identified service delivery failures which challenges the “value in use” of the R&M services.

As per the “Buyers” there is a potential challenge to theory. Atkin and Brooks (2000) and Stephens (1994) suggesting that the characteristics of the organisation and the business sector and the environment may shape the structure and operations but is it the suppliers who are dictating the environment or at least the service output? Porters (1985) theory of the value chain is challenged due to the level of subcontracted works. This supports the perspective of the NGO’s and Government. The unintended consequence being that R&M services are not being “designed” to be delivered to achieve the AC’s KLoEs or the required level of “Service quality” for the Residents.

Is short-termism a “Buyer” “defence mechanism” against a contractual outsourced position imposed due to financial constraint and a lack of capability on the part of the HA? A view espoused by MLD. However, the mobilisation and operational costs for the “Suppliers” cannot be absorbed by the revenues within the time scale, additionally as expressed in **“Cleaning up the mess”** Inside housing 09/09/11 Gary Moreton identifies

“that the majority of the Tier 1 contractors are generating cash but trading with profit margins of less than 2%.”

4.2 Process: The Procurement of outsourced services

This section considers the role of the EU procurement process. The critical question: how does the procurement process, its design and management influence short-term trading and identifies the consequences for businesses and stakeholders within the relational exchange and wider Value network.

Sub sections

Familiarity with EU policy and process

Current procurement process activity

Process within EU public procurement directive 2004/18/EU

Buyers familiarity with the EU procurement process

Contract notice design

Suppliers familiarity with the EU procurement process

The perceived inefficiency and costs of the EU policy

Organisational incentives- pressure and attitudes

The intelligent client- supplier selection and availability

Section summary

Within the Social housing sector, the operational structure, practices and trading relationships are heavily influenced by how the market operates – central to this is the procurement process. EU procurement regime in the 2004 Directives had three core objectives:

“To promote competition for contracts

Deliver best value for money by generating the least possible transaction cost to achieve the best possible procurement outcomes, and

Aid the fight against corruption.”

EU Evaluation Report 2011 (EU1)

The research project sought to identify emergent themes from the data obtained via interview and document analysis and then to compare and contrast this with established literature on the topic. Given the volume of literature on this subject and the EU legislation which relates to the outsourcing of public sector contracts a conceptual framework was adopted which would be used to post the themes from the research data and the literature. My conceptual framework draws on previous frameworks from Walker & Brammer (2009) and Gelderman *et al* (2006).

Fig 4.13 A Conceptual framework of effective public procurement.

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Conceptual model adapted from (Gelderman *et al* 2006)

My framework was developed within the context of the EU tendering directive for the supply of outsourced services to the public sector, the way in which the aspects of

public procurement policy translate into operational practice and particularly its influence on short-termism in the award of contracts.

“The starting point is that sustainable public procurement arises primarily because of pressures on the organisation to undertake it. In the context of public procurement the key pressures stem from the character of the policy environment including a sense of how these to the objective of public procurement such as obtaining value for money – defined as “the optimum combination of whole life cost and quality (fitness for purpose) to met the users requirements”. Walker and Brammer (2009, p 129).

Familiarity within the relational exchange with EU Policy and process

The process for procuring outsourced public sector supply contracts is set out in the EU public procurement directive 2004/18/EC and subsequent directives. Analysis of EU Evaluation report, Impact and effectiveness of EU public procurement legislation (2011), (EU1) identifies several high level trends which may be indicative of UK outsourced services procurement but not representative of the Social housing market sector.

Current procurement process activity

Patterns of use for procedures and techniques are determined by the public procurement directive.

There are 4 procedures.

- Open procedure
- Restricted procedure
- Negotiated procedure , and
- Competitive Dialogue.

The Open and Restrictive procedures are most frequently used and account for the highest share in the “£ value” of contracts awarded. EU1 identified that during the period 2006-2010, 73% of the contracts were “Open”, 9% “Restricted” and 3% were “Competitive dialogue”. Of these Open tenders, 80% were for values below €1.30m The average award value for service contracts being €2.40m.

Competition and reduction in *ex ante* transaction costs are the key objectives of the 2004 EU directive. EU1 identifies that on average an OJEU Contract Notice receives

7.8 bids for the “Open” procedure⁶⁸ and 5.5 bids for the “Restricted” procedure for property services within the UK. This figure would seem “light” against interview data obtained and my a priori experience. “Buyer 2” Shared Business Services report for Q3 2010/11 advised that it had taken the strategic decision to outsource R&M delivery fully across the group. It reported that ***“the contract notice was published on 19th January 2011 and within 7 days of the notice being published 90 statements of interest had been received”***. Mason and Phillips (1997) identified the economic effects of the tragedy of the commons and the impact of static externalities caused by “crowding” on *ex ante* transaction costs.

For 3 months in 2011, I monitored the TED Website⁶⁹ daily to understand the content and the structure of the tenders for the supply of services to the Social housing market place. This identified

- The date of the tender
- The tender number
- Type of works i.e. Repairs and Maintenance
- Approximate value
- Contract period and available extension
- The availability of a variant bid to the tender
- Form of contract
- Pricing methodology – e.g. schedule of rates
- If consultants were heading up the bid
- Evaluation methodology – how the contract award would be made
- Any specific award conditions e.g. framework, or “size of contractor based on Revenue or experience caveats.

The whole life value of the tenders published was £1.21 bn, the average contract period and value was 41 months and £15.0m respectively. 12% of the tenders were being led by consultants or buying consortia. 18% of the Contract Notices would allow variant bids. 95% of the tenders were via the “Restricted” procedure and there was one “Competitive dialogue” tender notice⁷⁰. Additionally, 25% of the awarded contracts were to be on a framework basis. EU1 identified that during 2006-2010 there an

⁶⁸ Construction/ service sector

⁶⁹ Tenders Electronic Daily – ted.europa.eu

⁷⁰ This being for £27.0m and 120mths contract duration

increase in the use of centralised purchasing bodies and framework contracts or call off contracts⁷¹.

“...the expansion and professionalism of centralised purchasing bodies and more flexible arrangements, which allow specific contracts to be concluded without the need to re advertise and re apply selection and award criteria have led to more contracting authorities to make use of these techniques”. (p95).

Further analysis identifies that the UK is the largest user of framework contracts, with over 40% of the OJEU notices posted being by UK authorities. The NAO confirmed that 93% of all bodies surveyed in 2009 had used a framework agreement during 2008/09. Is the UK market place contradicting the EU statistics or being a trading feature and reflecting the nuances of the UK Social housing market?

Process within the EU public procurement directive 2004/18/EC

The “Restricted” process consists of the *Contract Notice* being posted on the TED website. In response, contractors express an interest and request a *Pre qualification Questionnaire* (PQQ) from the “Buyers”. This is submitted to the “Buyer” for assessment, and if successful, the “Buyer” forwards an *Invitation to tender* (ITT). This forms an element of the evaluation process. Subject to positive assessment of the ITT there is an *Interview and the taking of trade references* which forms the final element of supplier evaluation and is followed by the *Contract award* to the successful bidder.

“The critical element is a thorough understanding of what you seeking to buy and how this relates to the EU procurement directive”. SRB. *“This will influence the budget for the services/ works, the design of the contract tender notice, the questions within the PQQ and ITT, the tender weightings (price and quality) including their interpretation and the Interview process and a thorough understanding of the risk”*.

Of the contract notices monitored, the predominant evaluation criteria (94%) was the “Most economic and advantageous tender” – “MEAT”, with a scoring weighting in a ratio of 70:30 **Price: Quality**, up to 100% evaluation on bid price for certain contracts. MBE suggests *“the weightings are reflecting the economic squeeze. Quality is of paramount importance but it is the secondary consideration”*. Typically the “Quality” element of the evaluation process may consider but not be limited to: capacity, technical merit, capability, work force skills, technical assistance, customer care, sustainability

⁷¹ A framework contract differs from an ordinary contract in that it does not commit the authority or authorities to actually buy anything

and environmental characteristics. The maximum possible score for any one of the Quality criteria could be 5%, up to an overall maximum weighting of 30%. “Price” - on which the principle weighting of the award decision is made, considers the lowest price tendered. The capability to design, operationalise and manage service delivery is not generally an evaluation criterion. All “Buyer” respondents referred to “quality” in the context of delivering the works. (See Section 4.5: Management: People & process).

Buyers familiarity with the EU procurement Process

“Buyers 2 & 4” had a specific procurement department within their structure, which could be deemed as strategic contingencies (Pfeffer & Salancik, 1977) as they shaped the structure of their organisation, and were competences in terms of the competitive and strategic advantage that they created for their organisation (Bouwman, 1984). “Buyers 1 & 3” undertook procurement work in-house, but had access to and utilised procurement clubs and buying consortia, e.g. Northern Housing Consortium, who specialise in the supply of services to HAs.⁷²

From the interviews, the principle issues identified for the “Buyers” related to process capability: the content and design of the Contract Notice, PQQ/ITT, evaluation process and the context management. *“External commissioning is beset by barriers. The cost of procurement is stated as a substantial concern. Money is considered “wasted”. Technical barriers are cited as relating to staff, due diligence and cost, but there is acknowledgement of the inevitability of consultancy fees.”* TSA Document 2009.

Contract notice design

For service contracts, the average duration of a procurement procedure from the dispatch of an OJEU notice to an award in the period 2006-2010 was 161 working days (32 working weeks)⁷³ In addition to the duration of procedure, “person days” are considered to understand the amount of time invested by the “Buyer” and the “winning” Supplier⁷⁴. Within UK service tenders, this relates to 23 days for the “Buyer” and 17 days for the “Supplier”.⁷⁵ Which clearly makes the link for effectively drafting the Contract notice succinctly to avoid unnecessary costly requests for PQQ’s and would

⁷² To generate their revenue stream they charge both the Buyers and Suppliers for their services.

⁷³ It was noted that during 2009 /2010 this may have had an impact on the economic situation of the country

⁷⁴ They do not consider the time for the unsuccessful bidders or for professional advisors who have assisted in the procurement process.

⁷⁵ These figures are based on 7.8 bids per contract notice.

indicate that there a number of PQQ's and ITT sitting on a desk somewhere at any one time! None of the "Buyers" interviewed measured the time spent on R&M procurement activity or allocated a specific budget to cover the activity to be undertaken. AB1, suggesting that this was provided for within the "**Gross Margin of the operation**".

PBD ⁷⁶suggests that the procurement process should "**...achieve a combination of price and quality. With price being the more significant of the two. The aim is to get a contractor to deliver the service for a price that the authority is prepared to pay – under a contract that they are prepared to enter into. Basically it's to get someone to deliver a good job for a reasonable price**".

The design of the Contract notice is the first step of the relational exchange. It should set the tone of the relationships and the expectations of the HA for service delivery.

The contract notice consists five sections

1. **Section 1:** Contracting Authority. Advising who has raised the notice.
2. **Section 2:** Object of the contract. Stipulating the works and their location, value and details relating to lots/ bundles and the issues relating to variant bids.
3. **Section 3:** Legal, economic, financial and technical information. Which outlines the conditions relating to the contract and the conditions relating to participation i.e. trade basis, economic and financial capacity and technical capacity
4. **Section 4:** Procedure. Which outlines the type of procedure the number or operators who will be invited to tender, the award criteria and any administrative information
5. Complementary information. Stipulating any additional information and the appeals process.

"Buyers 2, 3 & 4" demonstrated a good understanding of the mechanics of the Directive/process, and adopted a very bureaucratic approach in terms of its application. Polarisation in the supply chain is impacting the procurement process and relates to **Section 3** within the Contract Notice. Smaller HAs have traditionally considered "supplier sourcing" on a Regional/ National basis and had frequently purchased "Regionally" to support the local economy. The Larger HAs driven by procurement savings and economies of scale bought services from larger contractors on a "National" basis. **Section 3** stipulates Contractor size in terms of revenue / turn over - as an item of selection criteria. The issue is two-fold: it reduces the access to the market for SMEs

⁷⁶ A specialist procurement lawyer

and increases procurement costs which are exacerbated with increased competition. Brook (2001); Mason and Phillips (1997) (See Section 4: The perceived inefficiency and costs of EU policy). EU1 identifies that in contract number terms SME's won 31% of contracts. The size of contracts is a major barrier to SME participation within the process as they do not have access to the resources, i.e. have neither the capacity nor capability to bid for contracts and or unable to fulfil the delivery requirements. In the UK the share of SME contract wins is the lowest in the EU and falling. Pottinger (1998) suggests that suppliers were adopting a more commercial stance regarding their decision to bid, considering if the bid is an appropriate investment or a speculation of time. "Clarity of the client's specification, selection criteria and tender evaluation procedures are therefore very important in helping firms assess their own prospects of success at an early age, and so avoid bidding for contracts that they are not able to win or fulfil". (p95)

Analysis of the Contract notices, PQQs and ITTs identifies that there is an element of commoditisation within the content. This is also reflected in the use of standard contracts. (See Section 4.3: The Contract). PBD commented *"...generalisation can cause a problem downstream due to adverse selection. You can identify the source of origin of the documents because some consultants just cut and paste – it goes back to the central question are they responding to individual need or seeking to comply with a process? You may have specific criteria – localism. There needs to be certain core elements but there must be flexibility around the criteria to make sure that you are procuring what you really want"*.

Within the tender notices I reviewed, 18% would allow variant bids to the specification outlined in the Contract notice. Given the degree of difficulty in assessing the bid against the notice, none of the "Buyers" interviewed would request variant bids. I was therefore unable to ascertain the selection criteria and weighting utilised in this scenario. SRB commented *"... that it is difficult to provide a variant bid when the contract documentation has been drafted from specifying an "input" rather than an "output". Generally HAs have an idea how services will be delivered but this is looking backwards and the industry needs to be more innovative in developing and delivering FM solutions"*.

Other procurement trends identified within EU1 related to the increase in financial size of the contracts and the use of subdivision into financial or geographical lots. This increases both *ex post* and *ex ante* transaction costs because of the increased volume of submission documents, and increases contract management resources, which would be required to manage the fragmented service delivery.

Transaction cost thinking (Williamson, 1979/1985) is context free and is applicable to both “Suppliers” and “Buyers” and transaction uncertainties can be adapted to support outsourcing risk and cost analysis. Within HAs, the outsourcing of services is an unwanted relationship (See Section 4.6: Relationships. The Intelligent Client), with R&M being seen as a “*...loss of control of the asset and a negative cultural issue which guides the traditional views held regarding contracting*”. A at NGO1. Driving this is the potential for “Supplier” opportunism, where in the future, the transaction cost curve rises as “Suppliers” perceive an opportunity to increase prices as the “Buyer” has no other option to buy or produce the service. This is exacerbated by the possibility of the loss of practical control and contact to service production. Consequently “Buyers” become victims of information asymmetry and moral hazard or imperfect commitment.

Suppliers familiarity with the EU procurement process.

The “Buyers” process familiarity should be compared and contrasted with that of the “Suppliers”. All the “Suppliers” interviewed confirmed that they had both a business development function and a bid team. MLD confirming that the Tier 1 contractors within the market place were “*sophisticated bidders*”. (See Section 4.2: The Intelligent Client - Supplier selection and availability). The “Suppliers” interviewed confirmed that they had a “decision to bid” process, which was adjudicated prior to incurring tender submission costs

My challenge related to their knowledge of their client’s requirements, their knowledge of services delivery, and their contract management requirements. “Did their bid team, know what services they were operationally supplying? Or, was it a simple “pricing exercise” and the submission of standardised responses to questions to comply with the requirements of the Contract notice?⁷⁷

⁷⁷ This caused a problem in 2009 with the OFT imposing heavy fines to contractors found guilty of price fixing

“Suppliers 2 & 3” did not make the link between service delivery and the requirements of the HAs KLoEs, which are fundamental to the Residents and the “Buyers” acting on their behalf. (See Section 4.5: Management- People & process). This supports the position of measurement fixation and its unintended consequences espoused by Keasey *et al*, (2000).

The perceived inefficiency and the costs of EU policy

The second factor of the conceptual model emphasised the financial aspect of public sector procurement.

Duplication of procurement activity was a feature of the interview data from “Buyer 1” and “Buyer 3”. Both advised that they would seek tenders and bids from “Suppliers” utilising the OJEU process and from “buying consortia” where they were members. “Buyer 1” suggesting that the use of approved buying consortia assists with the AC inspection process “*...as it is easier to prove that you are obtaining value for money, however in reality we can get the value and quality that we seek from our existing supply chain*”. EB1. They did acknowledge the duplication of activity and the associated increased cost in terms of time, but deemed it as part of the procurement process.

“The challenge to the use of procurement consortia being, that they are buying in “bulk” and they are not familiar with the asset stock and its issues”. PBD. “Suppliers 1 and 2”, highlighted several impacts of “buying consortia”. From a “Suppliers” perspective the model will work successfully, providing that all the “Buyers” in the consortium accept “standardised” ways of working either through operating systems or service regimes. However in practice this is rarely the case and additional costs are incurred by both parties. Cost are further increased, when having been prequalified by a “buying consortia”, they frequently have to undertake a “mini bid” thus bidding twice for the same contract and usually trading away margin in the process. The issue of power within the trading relationship was also highlighted. Smaller HAs are “apprehensive” about the concept of a trading relationship with a national based supplier. See Section 4.6: Relationships). Do buying consortia create a false market? The unintended consequences being mal distribution (Brook, 2001) and a fixation with price beating (Ostrom, 1999)

The EU Directive is criticised for not being in line with best procurement practice relating to the selection of contractors within private purchasing practices (Cox and

Furlong, 1995). Several factors were identified. Firstly, the typical length of the EU process in comparison to private sector service procurement. The average length of the procurement process from the invitation to suppliers to the receipt of tenders is 2-3 weeks, with contract award some 4-6 weeks later, additionally the average of tenders submitted is 2-3 tenders.(EU1, p129). Secondly, the dichotomy being all Tier 1 contractors, and DLO's subcontract works to some extent. Their procurement process is not "back to back" with the EU Directive, and there is little scope for "control" over this element of supply by the "Buyers"⁷⁸. ***"There is a realisation of this and the smarter HAs seeking procurement advice as to how to legislate for Supplier practices within the procurement process"*** PBD.

A feature of UK R&M procurement practice is the use of frameworks. Here *ex ante* transaction costs are incurred by the "Supplier" with no guarantee of revenues. Additionally, frameworks carry further operational costs, e.g. the use of subcontract labour to deliver the outsourced services. No contractor does have to design processes to have labour deliberately underutilised. There is a cost to including the asset data within the contractor's operating system, and the depth of knowledge about the asset to be maintained is not continuously updated. It therefore follows that the quality of services delivered is as ad hoc as the frequency of works. Usually, where services are sub contracted there is "margin" on "margin" in the pricing of the works, further increasing costs or reducing profitability.

MLD ***"there is always a problem when you are pricing from a larger framework - The Buyer is not going to select a contractor who has bid in a process, and who know you and has forensically examined their stock and their business. Where it is a HA that has insufficient expertise, they can complete an OJEU contract notice, and draft out a PQQ, but the issue is that procurement is becoming more legal, and we are seeing that clients and contractors are having more difficulties satisfying the requirement of the directive – specifically the remedies directives. Even for a smaller HA who may be doing only 2 or 3 procurements each year are now looking at legal costs of £60k per year"***.

EU1 identified that 20% of the advertised contracts were potentially covered within existing contract awards, concluding that 2500 public tendering exercises during 2008

⁷⁸ None of the Contract notices reviewed as part of the research process made reference to any form of conditional selection on the part of subcontracted works

were unnecessary. Additionally the frameworks covered similar services but with widely differing prices. The NAO report concluded that *“if public bodies coordinated procurement more effectively it would significantly reduce their tendering costs; additionally three quarters of the suppliers interviewed confirmed that their tender costs would be reduced and that they thought that they would be able to pass the savings made onto public bodies”*. (National Audit Office, 2010)

EU1 considers the cost of procurement measured in “person” days. As a result the average cost of a successful award can be estimated at €28,000 for “Open” procedures,⁷⁹ and €42,000 for “Restricted” procedures, due to this being more resource intensive. This is based on an average of 7/8 submitted tenders. Kulmala *et al* (2006) suggests that cost associated by underutilised administrative teams is forecasted within Transaction cost theory, and concerns the inflexibility of public sector organisations as many do not adjust the numbers of employees, maintaining their cost base and consequently decreasing the utilisation rate of resources. See comments re “Buying consortia”.

Considering procurement costs as a proportion of contract value, EU1 identified that at the lowest threshold for the EU directive (€125, 000) the total cost of procurement can amount to between 18% and 29% of the contract value. At €390,000 the costs reach between 6% & 8 %. Delivering a tender in line with the directive can potentially constitute a significant amount of the contract value or large element of the “Suppliers” gross margin. An unintended consequence of the directive will be higher levels of competition for service contracts and increased bid costs for the industry sector.(Mason and Phillips,1997) Additionally this is compounded by larger value tenders being more complex. Transaction costs for “Buyers and Suppliers” will increase, delivering poor profitability for the “Supplier” and increased operating costs for the “Buyer”, reduced tax revenues and potentially increased prices as “Suppliers” seek to redress the situation and recover unsuccessful tender costs. (Construction Enquirer, Nov 2012) Within EU1 the effect of the duration of contract period a means of reducing transaction costs is not examined. Dixon and Pottinger (2006), commenting on critical success factors within contracting for the built environment suggest that establishing an appropriate length and form of contract are critical success factors at an operational level for the intended

⁷⁹ Based on the Buyer: Supplier time – including the failed bids but excluding professional advisor costs

benefits to be realised, and to ensure that the contract design contains conditions that will not become out of date or inflexible.

The conclusions of EU1 suggest, “...*The directive increases compliance costs for both contracting authorities and suppliers. This level of cost is the largely unavoidable price to be paid for sustain competition in markets for public contracts.....The suppliers’ costs will overall and over time be recouped from successful bids and built into tenders to the public purchases*”.(p154)

Both the Interviewees of NGO 1 and NGO 2 challenged the procurement capability of HAs arguing that they do not possess the skills “in house” to successfully scope the process, and frequently bought in advice which they did not have the capability to manage. Dreyfus and Dreyfus (1986). (See Section 4.2.4: The Intelligent Client – Supplier selection and availability). Inside Housing 11/02/2011, suggested that complying with EU procurement rules costs HAs approximately £30.m annually⁸⁰. The report did not identify the costs as being purely *ex ante* transaction cost but did not make the link between the frequency of “tender” and the reduction in costs. The TSA (2009) “*identified that there are significant transaction costs – especially at the outset. i.e. specification of services and service levels, the tendering exercise and process, costing complexities and the VAT*”.

Organisational Incentives – pressure and attitudes

This element emphasised the degree to which the Social housing sector and organisational culture is supportive of the procurement practices, and in particular the link to internal SBU relationships and external trading relationships with the Value network.

Kulmala *et al*, (2006) argues that cost pressures within the operating environment should be guiding decision makers to seek new ways of procuring public services to ensure that outsourcing decisions are made which avoid the selection of the “lowest price supplier” instead of the “lowest cost supplier”, using transaction cost thinking to challenge the "stop-go" mentality of short-term oriented procurement decisions. MLD suggests “... *people ignore that when you are procuring over longer periods – you are spreading the procurement cost. If you want innovation and economies of scale you have to look at longer term contracts, but at the same time the Buyer can lose a degree of control and you need to include elements of certainty in your trading*

⁸⁰ There was no note as to how this figure had been calculated.

relationships if you are going to contract for larger periods of time” .(See Section 4.3 The Contracts)

The economic pressure to reduce costs since 2008 has exaggerated procurement behaviours and practices. All the “Suppliers” identified commoditisation within the procurement process, acknowledging that there was a need to be consistent within their responses to tender documentation for ease of evaluation. This did limit the requirement and the capacity for innovation, consequently further “mechanising” service delivery. Examples cited were schedules of rates (SOR) within pricing metrics, which in operation have the potential to increase transaction costs via processing and monitoring, and stipulating the supply chain for materials suppliers and material manufactures⁸¹.

Analysis of the Sourcing & Supplier Performance report for “Buyer 2”, 2010/11 identified that the Shared Business Service teams’ objective was an operating cost reduction. The Business unit has a stretch target to achieve a saving against budget of £3.625m and it was seeking to “sweat” its supply chain via the use of “volume” that it has at its disposal. (Emiliani, 2010). “Buyer 4” confirmed the use of incentive schemes to reward individuals who successfully procured services under budget (Chapman, 2005). Additionally “Suppliers 1 & 2” highlighted management controls within their procurement practice at tender adjudication stage which would have identified sub economic bids and bids which were not within supply criteria⁸². This challenged the “decision to bid” process alluded to in Section 4.2: The perceived inefficiency and the cost of EU policy. Rhetoric or reality?

All “Buyer: Supplier” interviewees highlighted the pressure that was focussed on procuring services for the lowest price, (Oliver, 2006) they expressed an opinion that it was a traditional view, which may be unsustainable. A view echoed within EU1 ***“...there may also be situations when aspects of procurement regulation and practice give rise to unintended consequences for the wider economy – notably market shrinkage and closure”*** and supported by Hanlon (2003) and John (2003)

⁸¹ The Buyer having negotiated a supply volume rebate, reducing the profitability potential for the Suppliers further.

⁸² This being driven by minimum contract value or geographical location.

The intelligent client - Supplier selection and availability

All the “Buyers” interviewed advised that they had been party to adverse selection in the procurement of R&M services. Kulmala *et al*, (2006) questions the sunk costs errors in poor decision making and how organisations account for or reflect costs within their organisations. SRB suggesting that such costs are not routinely measured. During the research project there were two high profile supplier failures⁸³ and the OFT case relating to “Cover pricing” in tenders to the Public sector. The impact was felt across the sector, as it exposed the procurement practice and contract management of outsourced FM services and the Social housing sector to the “outside world”.

Inside Housing blog “Cleaning up the mess” Aug 2011 asked if “Buyers and Suppliers” had learned their lesson from supplying and accepting “suicide bids”. The article cited that contractors were continuing to bid “low” with possibly unsustainable pricing, and that they had not changed their “bid” approach. Citing Paul Dooley “... ***they are still bidding very very low. We are seeing in some instances contractors bidding 20% lower across the board than we wanted.***” There was no comment with regard to procurement practice from a “Buyers” perspective other than they were continually seeking “... ***to be paying more attention to quality and service delivery in the evaluation process***”. This does contradict the findings of my research relating to the contract notices issued by the HAs.⁸⁴

The “Intelligent Client” was raised several times during the interviews by the Industry commentators (See Section 4.6 Supply Chain Management and Business Relationships). To test some of the initial findings from the research, I posted a number of questions / statements on FM blog sites⁸⁵ to test the reaction to my research. Specifically, how does an “intelligent client impact the procurement process” – I got little reaction from the “FM market”. The questions were re written in a simplified manner, and put out again. The response was again disappointing and primarily a wish list of the skills and competencies that an organisation should have.

The industry commentators interviewed had a different perspective. This related not to the possession of competencies or knowledge, but its understanding and use,⁸⁶ with

⁸³ Connaught and ROK

⁸⁴ Truth getting in the way of a good story?

⁸⁵ I - FM, BIFM

⁸⁶ Epistemology?

SRB providing an example of an “intelligent client” in action, “ *... and if they act as an intelligent client they should have data stored that enables them to know that the “costs will be the costs” – there should be very little ambiguity or very little risk in “unknowns – so if the cost is fairly certain then they should be looking for increases in quality from their supply chain, which when linked to innovation will seek to drive cost down over a period of time”.*

The design of the Contract notice, PQQ and ITT are primarily driven by commercial considerations, as are the responses from the “Suppliers”. It is about “Price”, in which the services supplied are further commoditised by the use of either a SOR or a “price per property” model. “Supplier 1” confirming that they had undertaken a thorough analysis of their operating costs and materials procurement to understand their base position against the “National Housing Federation V6.1” schedules. Additionally, they had delivered residential PFI contracts, and had data that related to actual price per property maintenance for an 8 yr period. These had been equated back to their own IRR and operating margin requirements. The Department of Communities and Local Government published a “Report on model inputs assumptions and outputs for the use in developing business plans” in February 2011. Pertinent to this research project were the details relating to maintenance and major repairs allowances suggesting that *“nationally the average “revised major repairs allowance across all archetypes was approximately £825 per property which comprises £734 for ongoing maintenance and replacements”.* None of the “Buyers” interviewees referred to this document in the context of setting budget pricing for service delivery or the evaluation process. If the tender price submitted on a “price per property” basis was “equal to or less than” the D of CLG, this should have highlighted a potential sub optimal bid.

The pricing methodology selected for the Contract notice provides debate on both the criticality of process design for “Buyers” and “Suppliers”, and the unintended consequences of their actions. Poor pricing, will result in, increased Social housing sector transaction costs and aids creating an environment for opportunism on the part of the “Supplier”.(Tan and Ray, 2009).Contracts which utilise SORs could see suppliers “job build” to increase the revenue stream. Conversely “price per property” encourages “non-working” and repair rather than replace to further reduce supplier expenditure. The potential impact of short-term contracts also encourages the use of cheaper materials in

a “Price per property”⁸⁷ scenario. This further reduces the “value in use” of the asset for the “Buyer” and Resident. (Enquist *et al* 2011). The only potential remedy is an increased inspection regime with the associated *ex post* costs. (Idridasson and Wang, 2008).

The capability of suppliers to design, deliver and manage services delivery is not tested within the procurement process and was not specified within the Contract notice as an evaluation criterion in any of the notices that I reviewed. Within the evaluation process it is mathematically possible to calculate the tipping point where a “Supplier” with the maximum score on “Quality” i.e. 30% and being the within x% of lowest “Price” submitted fails to be awarded the contract, as the “Supplier” who submits the lowest price and has 6% quality score⁸⁸ and achieves the award criteria with a higher overall score.

The “Buyers” do not have the depth of understanding relating to service supply which is further exacerbated by the use of computerised operating systems and CAFM. This is now seen as an “order qualifier” within the market. Stene & Walker (2000) suggest that the key area for successful procurement relates to how supplier productivity and effectiveness can continually be improved to yield genuine value for the “Buyer”. - Value in use? Or value in exchange?

Within tender evaluation undertaken by the “Buyers” procurement team it is possible that they would not know if the contract could be delivered for the price submitted. However, they had obtained the keenest price in an open market situation. (Bevan and Hood, 2006) MBE argues that HAs undertake insufficient scoping of the procurement exercise and its alignment with their core business to enable them to understand what is the “cost” of the services they need to buy. The A C’s three strategic criteria, specifically “*Capacity to deliver*”, *2.4 commissioning and procurement decisions to maximise value for money*, is challenged by current content design and management practice. The high level failures within the sector identified the financial impact of the procurement process. After the initial appointment of a “Supplier” there was no

⁸⁷ The price per property models works well within the PFI scenario, primarily due to the length of the contract – the supplier duplicates cost by supplying inferior services or material via re work, and is subject to performance penalty for unavailability due to equipment failure.

⁸⁸ 1% for each of the quality criteria

financial review of the contractor's ability to successfully trade for the contract period. The "Buyers" primary defence was the "*...The Contract. It's T&C's and the length of exposure to the supplier*". EB1. Additionally when the contract was extended in line with its contractual conditions none of the "Buyers" interviewed undertook a financial review of the "Suppliers" financial ability to continue to trade or a "Cost: Benefit" analysis relating to the merit of an extension against a re-procurement exercise.

Pottinger (1998) argues that the concept of the informed client is central to a successful tender process, with skills relevant to the process being acquired by managers within the FM Supply chain, suggesting that "*...contract management, procurement skills, formal and informal relationship management skills and Communication skills are highly important to achieve an understanding of the clients objectives and to develop an appreciation of the issues*" (p97)

In spite of the increasing levels of mergers and acquisitions within the Value network, there was little evidence of innovation or debate around the procurement of outsourced R&M services, primarily due to the risks relating to the award challenge and or collusion within the EU directive. "Supplier 3" had launched a white paper on the requirements for transformational change in R&M. Based on systems thinking for service delivery and Competitive dialogue for the procurement methodology, they believed that this would challenge current traditional thinking with MB3 advising that it had had a favourable response in the market place⁸⁹. I queried its alignment to the strategic criteria within the KLoEs, the impact of TUPE of their systems thinking approach to service delivery, and what would be their principle challenges with the "Buyers" within the competitive dialogue procedure? The response was one of "*work in progress*" Acknowledging that it is a brave development and it could be a challenge for "unintelligent Buyers" who are not willing entrants to the market. Pottinger (1998). See Section 5.2: Summary.

⁸⁹ Buyers 2, 3, 4 had a trading relationship with supplier 3. They had not seen the white paper or discussed the context of Suppliers market views at contract review meetings or relationship development meetings

Section summary

From the findings of my research the following conclusions can be drawn.

The duration of the contractual term and its consequences are recognised but not considered within the procurement process. The primary objective for the “Buyer” is to create “Value in the exchange”. “Value in use” is not a prerequisite for a successful procurement exercise for the “Buyers”.

The current use of the procurement directive for outsourced R&M services identifies that due to the traditional contracting practices this market place is not aligned with UK or EU norms of practice suggesting the requirement for bespoke processes.

The procurement practices and the design of process within the framework create mal distribution. The impacts of static externalities, which are caused by “crowding”, create *ex ante* transaction costs.

The design of the process and the content of elements of the process by the “Buyers” identify a lack of understanding of the process, and the services that they are seeking to procure. The relative financial aspects of the “Supplier” during the contract duration and the impact of cash flow is not considered within the process. This adds *ex ante* transaction costs and potentially leads to adverse selection.

The capability of the “Buyers” to effectively procure outsourced services is questioned by Government bodies. The process is supported by consultants and consortia. This commoditises the process further, potentially creating a false market and introducing price beating, creating the opportunity for retaliatory opportunistic behaviour on the part of the “Supplier”.

There is a consensus within the Value network that short-term trading adds costs and that contract term is driven by traditional industry practice and the adherence to G-D logic.

4.3 Process: The Contract

This section considers the role of the EU procurement process. The critical question: how does the procurement process, its design and management influence short-term trading and identifies the consequences for businesses and stakeholders within the relational exchange and wider Value network?

Sub sections

The Buyers intent of the contract

The characteristics of the exchange

Standard forms of contract

Contract duration

The Buyers views on contract duration

The Suppliers views on contract duration

The central position on contract duration

The services – Standardised or Bespoke?

Define and measuring performance within the contract

The Suppliers perspective

The Buyers perspective

The characteristics of the relationship: Power & dispute resolution

The power dimension

Section summary

My objective for this element of the research project was to gain an understanding of the impact of the contract to reinforce or challenge short-termism in the Social housing market. The research identified several emerging themes, which were consistently cited by all the interviewees. These were:

- The intent of the contract
- The content of the contract
- The management of service delivery, the review process and measurement of performance
- The relationship between the parties, and
- The avoidance of risk via the form of contract and contract term.

The critical element of my research focussed on the design criteria for the governance and control of the contractual relationship and compared and contrasted the findings with current academic thinking relating to contracted services supply.

Roxenhall (1999) proposes that the importance of contractual relationships is to specify agreements, serve as a communication tool and reduce risk. As legal documents, contracts explicitly specify the rights and obligations and rights of parties to a business relationship, and therefore constitute a foundation for the control and measurement of business performance. Within the context of this governance role, a form of contract demonstrates an organisations commitment to fulfil its strategic intent and additionally serves as a means of providing structure and management to an organisations day to day operation. Austin (1996) argues that the stipulation of contractual governance lacks the ability to provide the motivation and exercise the control required within some types of inter-organisational interaction and the addition of performance measures to complement contractual requirements in directing and achieving activities has merit.

Enquist *et al* (2011) suggest “... that a contract is supposed to set the parameters or the management of performance, whilst the measurement system assesses whether or not performance is heading in the right direction” (p218) concluding that both performance measurement and contractual governance are central in the role of managing a business relationship.

The relationship between contractual governance and measurement has been commented on from the perspective of the “neoclassical” preoccupation with units of

output and operand resources. (Vargo and Lusch, 2004, 2008a). Within the traditionally espoused view of conventional “production” which is driven by “goods-dominant logic” (G-D Logic) and in the context of this study, a “construction” perspective of performance measurement and contractual governance. Section 4.6:Supply Chain Management and Business Relationships discusses the traditional concept of “Value in exchange” and the evolution towards the current literatures focus on “value in use”, delivered by the outcomes achieved relative to the supply of FM services. The legacy of linear, one directional and clearly bounded thinking from construction based environment is being challenged by the needs of the market, and replaced with interactive fluidly bounded multi-dimensional thinking, which focuses on people, their skills, processes and the environment. Lusch *et al* (2010) challenged this perspective and considered “Service dominant logic” (S-D logic) in the context of analysing contractual governance and performance measurement within the governance of service delivery to public service businesses in a value network.

Dean & Kiu (2002). Considered Value networks, in which the public sector and private sector are contracting out services and various activities whilst aiming to control those activities due to them, retaining responsibility to their ultimate customers via contractual means. Enquist *et al* (2011) sought to establish a link between contractual governance and performance measurement within a value network for public service organisations. They argue that S-D logic was “essentially customer – orientated and relational, utilising operand resources (knowledge and skill) for the benefit of and in conjunction with another entity as part of an exchange process”. (p220).

It was acknowledged by “Buyers” 1 & 3 that in reality their organisations were reluctant outsourcers, however in contrast the larger HAs embraced outsourcing. Their motives varied, but cost efficiency, productivity, capability, efficiency growth, cash management and market ratios were cited. So would the sector governance requirements be similar? Additionally, do they achieve the same service outcomes with standard forms of contract?

The criteria to be considered within the governance design process were identified as:

- The intent – Will the contract reflect what we want to achieve - “*the spirit versus the letter*”
- The characterises of the exchange – positioning & relationships

- The services
- The definition of and management of performance, and
- Power in the exchange relationship.

The Buyers intent of the contract

“A contract has to work on so many levels - but the most critical one is that the people who operate it on a day to day basis have to be able to understand it. When you outsource services you will either have a good relationship with your contractor or you will not – it does not matter what type of contract you have. People are now going back to a clearer, basic form of contract where each party’s obligations are clear and unambiguous and providing that both parties get on well and coping with their contractual obligations - it will remain good. A contract is there to regulate a legal relationship- something else is there to govern how you may operate” PBD.

The “Buyers” advised that they used various examples of the “standard forms of contract” ⁹⁰ available for their outsourced R&M contracts. Primarily, their choice was due to their familiarity and knowledge of the contract terminology, rather than a fit with R&M delivery, performance management and governance of the relationship. With all expressing a view that the standard forms of contract were ***“probably geared to construction rather than service and I do not think that the T&C’s have any actual bearing on the delivery of services – it’s purely a document that people refer to when things go wrong”***. DS1.

Additionally the lack of a contractual link between the “Residents: Supplier” was confirmed. ***“Basically it’s a contractual arrangement between two organisations for the benefit of a third”*** RB3. Albeit it there was no link to the achievement of the KLoEs, either from a performance / compliance perspective or in the event of their non achievement, a trigger for contract determination. The “Buyers” commented on the lack of variation to the T&C’s to reflect specific requirements of the asset or to the specific requirements of the Residents.

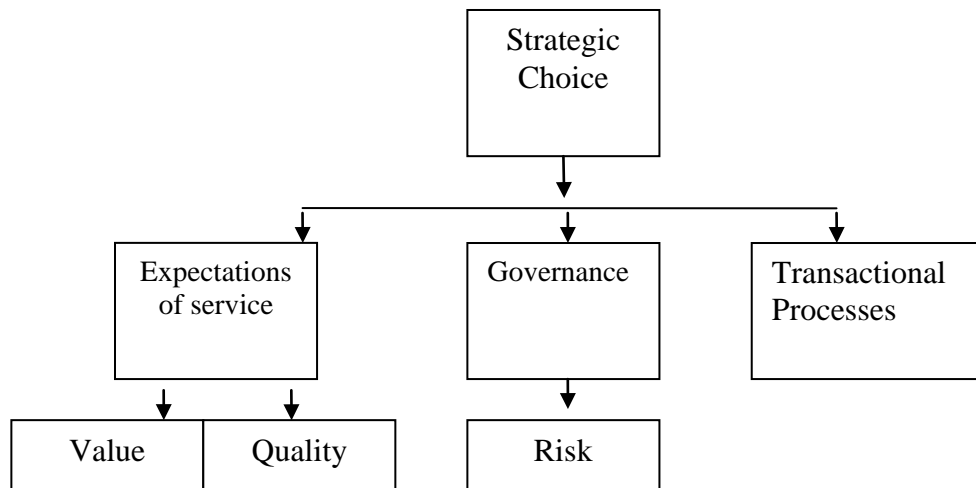
There is a clear link to the standard forms of contract utilised and the concept of G-D Logic (Enquist *et al*, 2011) with its emphasis on operand resources and physical output

⁹⁰ JCT, NEC, TPC, MTC ect.

which is driven by the OJEU procurement process and the view that “value in exchange” is the primary requirement for an effective procurement in the “HA world”.

From the “Buyers” interviews, the following framework was established.

Fig 4.14 Rationale for contract content



Based on S-D logic, there is clearly a “gap” between the current contracts in use and the requirements of the Social housing market. See Section 4.2: The Procurement of outsourced services.

The characteristics of the exchange

The central consideration for this exchange is that it is “outsourced”. Strategically, a fundamental element of the business operations has being seen as non-core to the delivery of their business proposition. Based on transaction cost theory, when a firm has already integrated its operational functions, the decision to outsource elements of its proposition to the market should be made to either create or protect a firm’s value.

In general, formal written contracts, as in the case of the standard forms of contract have three main functions;

1. To provide evidence of the nature of the agreement and its enforcement (Blomqvist *et al* 2005)
2. To bind the parties together, and
3. To specify the content of the transaction.

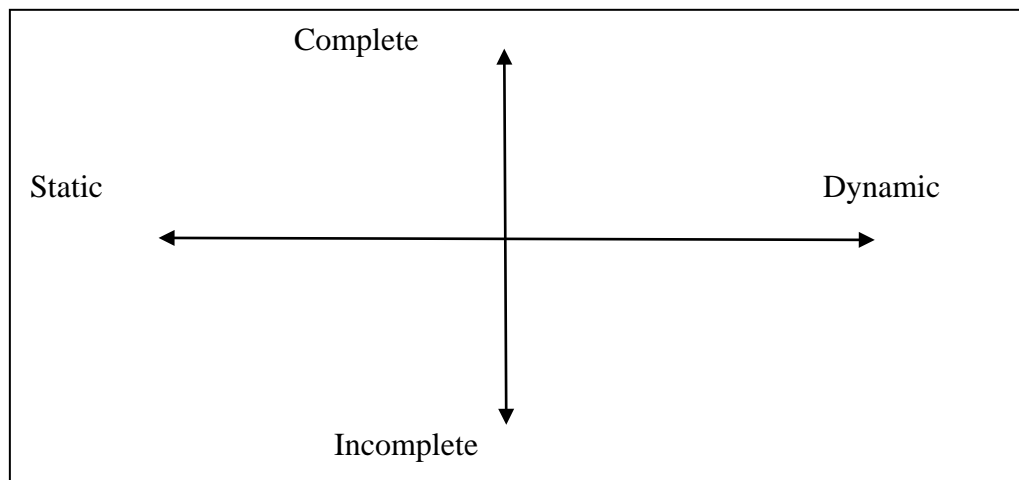
Additionally they should maintain relationships over a passage of time and in that context they should be dynamic and not transactional (De Toni *et al*, 2007) reflecting the changing requirements of the asset and the relationship.

McNeil (1978) identified three types of contract:

1. Classical
2. Neoclassical, and
3. Relational

1 and 2 can be categorised as being “transactional” due to their content and typical length, i.e. being short in duration and focussing on deliverables. They are concerned with the securing of resources, typically with a focus on capacity and measurement (Ramirez and Wallin, 2000) and are termed as “Static contracts” in terms of their content as typically they cannot be changed during their term. (Enquist *et al* 2011) Relational contracts although usually specific in duration, have exchange variables contained within the document that are not restricted to measurable quantities and are considered “dynamic contracts”. Additionally, there is a continuum between “complete” and “incomplete contracts”. Where one specifies all conceivable scenarios and the other recognises that not all factors are foreseeable at the time of negotiating and signing the contract.

Fig 4.15 The Contract Continuum.



It is apparent that contracts must sit in a spectrum containing various levels of flexibility in terms of variables, text, content and outcome. Lai *et al*, (2006) develops the context of incomplete contracting and relational contracting from a perspective of transaction cost economics (TCE), where Williamson (1979) suggests that an appropriate choice of governance structure is dependent on the investment characteristics (asset specificity) frequency and uncertainty of the exchange. All these factors affect the *ex ante* and *ex post* transaction costs due to gathering information, drafting contract notices, evaluation of tenders, the costs incurred in the monitoring and measurement of performance, and

for the enforcement of the contract. They argue that incomplete contracting is an extension of TCE, asserting that “the contracts are unavoidably incomplete because the contracting parties are subject to bounded rationality and are given to opportunism”. A further challenge to the concept of complete contracts is due to the increasing complexity of contractual environments and the realisation that the complete contract is “hindered by the significant transaction costs required for defining *ex ante* contingencies, their *ex post* renegotiations and for enforcing or adjudicating the contract by an outsider” (p332).

McNeil (1974) argues that a relational contract would incur less transaction costs than a classis or neoclassic transactional contract. Rao (2003) suggests that *ex ante* and *ex post* costs are inter relational with lower *ex ante* (T1) potentially leading to higher *ex post* costs (T2).

Fig 4.16 Inter relational transaction cost curve

Figure removed for copyright reasons

There is a link to the level of *ex ante* cost and the relationship between complete and incomplete contracts. Specifically, do minimal *ex ante* resources produce contracts which do not reflect the desired service outcomes and as a consequence require substantially more *ex post* transaction costs for monitoring and measuring the supplier’s performance? If greater *ex ante* costs are incurred is there an argument that more effective contracts can be produced which could reduce *ex post* transaction costs? However regardless of the cost incurred *ex ante* there will always be an *ex post* requirement for performance measurement. In reality most contracts will be considered incomplete due to opportunism and bounded rationality via human intervention. Within

the context of this study it was identified that the majority of contracts being utilised within the exchange were of the “standard forms”. Increasingly, all interviewees confirmed that they required amendment. This increased costs and challenged the concept and perceived benefit of standard contracts for the delivery of R&M services to the Social housing sector.

Standard forms of contract

Lai *et al*, (2006) report that “using standard contract forms, with well established, well understood and widely accepted clauses would help economise on the *ex ante* costs for drafting contracts, contract negotiations and can facilitate timely settlement of *ex post* disputes, leading to benefits which will far outweigh the resources input for the formulation of the standard contract forms” (p323). In contrast the industry commentators provide a different perspective.

MBE “They work to a point. they have strengths and weaknesses but as an off the shelf contract none of them will work without modification, as every client should want something different – a service which is matched to need, a specific requirement of their asset. I.e. gas, electricity, ground works R&M - all require work and the big bit is around TUPE which can never be off the shelf because it is about people and their circumstance, and 95% of all these deals involve TUPE – it is peculiar to the market..... We think that there is a variable amount of legal work to adopt the standard for of contract to deliver a format that we would be happy for the client to proceed with”.

Do they reflect the needs of the client in terms of output?

MBE “No – they require additional design to the cost models, services specification and the performance management criteria, specifically to address issues that relate to service delivery. For example the contract says that PDA’s are going to be used and if they are not being used what we can do about it. The contracts must reflect the service culture that need to have to progress. They must be more dynamic and enable a different relationship between buyer and supplier that is closer to supply chain management rather than contract management – it must be about outcomes”.

Possibly the major failing of standard forms of contract was exposed with the failure of Connaught. As a result of the contract drafting, the contracts were unable to be novated.

Consequently forcing HAs to re-procure services, thus incurring additional and unbudgeted *ex ante* costs.⁹¹

Contract Duration

Central to the research project was the question relating to short-termism and the issues for the drivers of term selection. A literature search⁹² did not identify any current research on issues relating to the length of FM contracts and its impact on transaction costs within the Value network. Interview questions relating to the contract term identified a dichotomy in the views expressed. The “Industry commentators” considering the question posed, from both an “intelligent clients” perspective, and their own perspective as “consultants and advisors” to the Social housing market⁹³.

MBE. “The client really needs to think what their objectives are, what a contract is and what they are contracting for. You have different contractors supplying “bundles of services” one is good, one is not. If your contract is for 3 years you would have to re-procure both when in reality you would not wish to so it’s not about the length of the contract it’s about design, with break clauses for non-performance at the relationship level and at the delivery level. Without longer terms you will not get the investment from contractors regarding IT, which is now a fundamental driver in this industry. Like it or not IT and excellent operating systems are a “value add must have requirement”.

SRB. “It should be longer term. But it relates to procurement and contract management. Do they have the knowledge, do they have the capability to manage contracts of this length. If they have not they will always opt for a shorter contract and recognise that there will be potentially less risk but this is a premium to pay.”

The lawyer’s views on the subject again considered contract length within the context of the “intelligent client”, linking the strategic aspect of the business rather than the delivery of FM services.

PBD. “It does relate to client capability, particularly in dramatic political and economic times. Some longer term contracts are struggling, specifically when contractors are struggling to source capital to support trading. Additionally there is a

⁹¹ A request for information under the freedom of Information Act 2000 relating to the tender costs incurred by Norwich CC for the failure of Connaught was declined on the basis “that the cost of locating and retrieving the information exceeded the statutory cost limit” - £450 !

⁹² Emerald, Business Source Premier. Google Scholar

⁹³ And fee earners from transaction costs. Inside housing 18/1/2012, identified that KPMG had generated £6.4m of fees from the Connaught insolvency.

requirement for longer term contracts when there is a TUPE which involves hundreds of people- you need time to change working practices and time to influence culture and behaviours”. MLD “Government policy is not going to change, but funding is. How much visibility have you got to pay for your funding for this contract, because everybody is looking at recent policy changes and the impact that they have, but they will influence the contract term. Contracts are generally just too short- we would not disagree with that but a consideration has to be given to contractor viability”.

The impact of contract duration and cash flow was not recognised or “surfaced” by the “Buyer; Supplier” interviewees, and was not considered as part of the procurement process selection criteria. (See Section 4.2: The Procurement of outsourced services). The critical elements for the “Suppliers” being mobilisation and the absorption of the costs related to it, and additionally, the invoice settlement terms and its impact on debtor days ratios. Whether the payment mechanism for the delivered works is either based on a twelfth of the annualised revenues or on the actual costs as submitted within a schedule of rates, with contractual payment typically being 60 days from receipt of invoice, the additional costs of mobilising the contract and the service delivered places a significant strain on cash flow. This is exacerbated either by, increased levels or shortfalls of works against the tendered budget or peculiar to this market place, the number of contracts that commence from the 1st April, both achieving a classic over-trading situation.

The “Buyers” views on contract duration

The “Buyers” views were consistent with the exception of “Buyer 2” regarding the length of contract duration.

RB3 and BB3 “it is to do with risk aversion, trust and cost. With the public sector you get mildly abused when you cover your back but flayed when you make an expensive mistake additionally we like to play the market. 3 years is about the shortest time that you can get the best out of a contractor and it is the longest time that we were prepared to take as a risk on a contractor that we have not been terribly happy with – and we did not want to go through the cost of re-procuring the works. However what has come out of our due diligence is that it takes 2 to 2.5 years to get a position where the labour was manageable yet alone proficient so if you apply that to a three year period it is virtually a wipe out”.

AB1 and EB1. *“I have no idea as to how we decide the length of a contract but we naturally pick periods between 3 and 5 yrs, because we have always done this and because it give us security and options. It’s a bit like interest rates – a fix gives your certainty but you would not want to fix for too long as that then becomes restrictive We would extend if we’re happy with a contractor “.*

KB2 *“We want to do away with short-termism. We are working with our own solicitors to develop a partnering contract and will have a basic 5 yr contract with pre-determined extension periods within the contracts which reward innovation and excellent performance in service delivery. Longer term contracts will ensure that contractors include innovation and we will want to see yr on yr improvement with a focus on margin rather than price. We recognise that there is a price to do the job and that contractors want to make a margin but we want them to invest in delivering services to us and that commitment cannot be given in the short term”.* Here the real focus is on the relationship and there is a clear link to contracting and the procurement process. Is the longer term position taken because the “Buyer “is adopting a strategic position relating to their procurement decision making, rather than considering the exchange purely as operational? Heibuch (1996) argues that process is the key to success in achieving effective service contracting results. Stressing in the summary and conclusions “the taking of a long – term perspective to outsourcing decisions and that managers have the requisite knowledge to conduct and manage a contract process which determines the service relationship to the organisations objectives”. (p40)

The Suppliers views on contract duration

In contrast the “Suppliers” were consistent in their responses; with all considering that longer term contracts were to their financial benefit, which would enable them to invest in the deal.DS1 *“we need longer term contracts to achieve our own IRR and to build our order pipeline, however in reality due to potential termination clauses a 60 month contract could be deemed as a rolling 90day contract”.*

DB2 *“From a supplier perspective - obviously the longer the better and ideally 10 years I think that the structure of the contract needs to focus on the relationship. From a client perspective they would like to see a collaborative and strategic approach to service delivery approach with a focus within the contract on quality and innovation and measures that consider and drive a concept of continuous improvement”.*

The central position

Within the EU evaluation report 2011 (EU1) the impact of the form of contract and the contract term has not been considered in relation to the impact that it has on transaction costs with the supply of services. In practice is this seen as irrelevant by Government? The Government via the Department of Communities and Local Government and two NGO *“Central government and local government have an obsession with short-termism which is driven by CSR and in particular the review periods which do not always stray across parliaments”*. R

A-NGO2 *“the logical choice for R&M term length should be business plan terms. This may vary between 3-15 years dependent of the properties their state of repair and their period from construction. You would of course have to legislate for their use i.e. general needs or sheltered and reflect on the tenants who are living in the properties. The procurement process may need a different focus for longer term projects as the contractual relationship may be more important than the short term advantage of price”*.

The services – Standardised or Bespoke?

Examination of an OJEU contract notice issued under Directive 2004/18 EC identifies within **Section 2. “Object of the contract”**,

- The Description of the contract or purchases
- The quantity or scope of the contract
- The Duration of the contract

Within **Section 3** it considers **“Legal, economic financial and technical information”** where the principle consideration relates to “conditions for participation” in the process relating to

- Personal,
- Economic and financial capacity, and
- technical capacity

Two contract notices reviewed within the research process were for identical HAS services as defined by Section 2 of the Contract notice and outlined as “specialist and standard R&M works”, but with differing UK geographical locations and differing end users i.e. sheltered housing and general needs. Both advised the evaluation criteria and applicable weightings. The larger of the two contracts by £’s value was further split by geographical lots where the Contract notice envisaged that there would be a minimum

of 5 and a maximum of 10 operators who would be invited to tender⁹⁴ and additionally “Variant Bids” were allowed. The form of contract was not outlined, but it is probable that the same form of contract would be consistently applied. This poses questions regarding the regulation of the trading relationship, the delivery of the services, the management of performance and critically from the “Buyers” perspective the link to the achievement of the KLoEs. The contracts were standardised, whereas the R&M services would not be. Noor and Pitt (2004), highlighted the issues relating to outsourcing of services emphasising that there is “... no standard FM contract or model that can be offered when creating an outsourced contract”. They further argue that all contracts should be structured according to the requirements and demands of their clients.

The Social housing market place is based within a Value network and the difficulties of divergence between “Buyers” and “Supplier” only increase with the introduction of additional parties to the equation (Cardellino and Finch, 2006). The need for regulation of relationships not only between “Buyer” and “Supplier” is seen as critical to multi contractual relationships. All the “Suppliers” confirmed that they subcontracted works, based either on a geographical location or the requirement to supply specialist services. SRB suggested that even the major suppliers of services may only deliver 85% of their contracted services. The majority of these 2nd Tier and 3rd Tier suppliers are not on back to back contracts with the “Buyers: Suppliers” potentially exposing both parties to financial and regulatory risk which may not have been envisaged by the “Buyers” when the decision to outsource or the selection of contractor was taken.

Define and measuring performance within the contract

Enquist *et al* (2011) argue that both contractual governance and performance measurement are critical in managing outsourced business relationships suggesting that the two strands are mutually interdependent (p218).

Fig 4.17 Management / Measurement “strands” in contractual governance

Figure removed for copyright reasons

⁹⁴ Before tender due to these being on a restricted basis there would be a submission of a PQQ by an operator that would be evaluated and then placed within a short list of ten who would then be eligible to actually tender for the works.

From a contractual perspective Franceschini *et al* (2007) suggest that a measurement system is used as a means of understanding and estimating the level of achievement of targets. However within the context of this study, some of the aspects of the implied performance expectations within a contract can be difficult to capture by quantitative performance measurement or be irrelevant or irrational in relation to the design and intent of the contract, where measures of performance are seen as instruments of static hierarchical control. Within the context of mutual interdependency, Hakanson *et al* (2009) propose that the role of contracts and performance measurement systems in value networks is best understood as a variation to the distinction between relationship and hierarchical governance. Specifically within a value network there is a requirement for a more complex form of governance / coordination than a hierarchical one, i.e. 1st Tier, 2nd Tier or 3rd Tier contractors, and equipment / materials or services suppliers. This is compounded by the procurement process and the use of delivery frameworks. See Section 4.2: The Procurement of outsourced services.

Analysis of several forms of standard contracts identified standardised terms and conditions and key performance indicators. MBE “*the T&C’s are now so standardised by firms of consultants , they are like finger prints – you can read them and identify who has amended the contract as even the amendments are now becoming standardised !*”

The Suppliers perspective

“Supplier 1” and “Supplier 2” cited the issues relating to the relevance of the KPI’s to the effective monitoring or driving service performance and additionally the volume of the number of KPI’s which ensured that they were anything but key .“*...the KPI’s were set to an unreasonable level where the clients do not realise that they are adding cost*”.DS1 Primarily linked to response times to “attend site” and or “rectify the problem”, they suggest that it should be about balancing expectations against delivery. Both interviewees expressed an opinion that the measures adopted should be flexible and should change to reflect the maturity of the contractual relationship and the asset. Additionally, to ensure that there would be a stretch in delivery, and a focus on the changing importance of priorities – which the current contracts in use do not allow for without considerable re negotiation and consequent additional cost.

“Clients see performance measures in tablets of stone and will not change. There should be a re focus in the delivery of performance. Regarding continuous improvement we should put some indicators into the contract that drive management

attention for example travel time reduction and more effective service planning which would be a win for all parties to the agreement” DB2

The industry commentators concurred. SRB arguing that the current structure and use of contract KPI's are *“past their sell by date”* suggesting that the KPI or contract performance measurement should be *“stipulated within the contract notice so that it is a level playing field for everyone to price up to. Additionally the structure of the measures should have an impact on the service tasks and their design and so as the contract matures they should be changed to reflect the desired outcomes. They must be refreshed. If they are not there is no point in collecting them”*. The design and structure of the contract should reflect the changing nature of the relationship and asset either by innovation in design or change order. A position supported within the context of S–D logic (Lusch *et al*, 2010; Enquist *et al*, 2011). Contract step downs and the use of Tier 2/ Tier 3 subcontractors highlighted that the “Suppliers did not routinely measure or use proactive measures of assessing the performance of subcontract delivery. This potentially creates delivery risks for both the “Supplier” and the “Buyer” and is a problem with hierarchical governance structures. Hakenson *et al* (2009). Amaratunga and Baldry (2002) suggest that measures should be appropriate. However are the metrics used within FM appropriate for outsourced services delivered within a Value network? A position challenged by Brignall and Ballantine (1994) who suggest that performance measurement has ignored the development service industries.

The Buyers perspective

There was consensus in the need for the contract to have a formal link to service performance, and agreement that current practice did not achieve what was desired or required. KB2. *“When you ask customers what they want they all say – a decent repairs service. Fundamentally this is the only time that the majority of our residents come into contact with us. How can we put performance measures into service design and service delivery? Currently everyone is focussing on delivery where really it requires better design. Our customer satisfaction ratings vary – at the call stage received stage we get a 95% positive response which drops down to 50% at the service delivery stage, which indicates that collectively we have failed”*.

There is a requirement for contractual governance within inter - organisational service businesses to have a wider perception of performance measurement, where the measures adopted within the governance framework are considered from a stakeholder

perspective. Accordingly, flexible to evolving needs of the client and the business environment and have the capability to develop working practices within a concept of continuous improvement.

The characteristic of the relationship: Power & dispute resolution

As discussed previously, the form of contract is driven by G-D logic (Lusch *et al* , 2010) and a focus of the hierarchical governance of construction based contracting rather than the S-D logic and the Value network that is involved with R&M service delivery.

In his report “Constructing the team” Latham (1994) suggested that the client should be at the core of the construction process, with co-operation and team work identified as the key drivers to improve client satisfaction. The debate was progressed by Egan (1998) where the benefits of longer term partnerships was suggested in a trading format for the improvement in “quality” with several writers additionally promoting the value of long term trading relationships (Ford *et al*,2003: Black *et al*, 2000: Doz and Hamel, 1998).

The concept of partnering is a misnomer that is used as a colloquialism to describe the way in which the actors within the exchange trade with each other. Writers have debated the characteristics which have challenged this partnering ethos, citing institutional norms, management procedures, capability and the dynamic and complex nature of internal and external business relationships (Tang *et al*, 2006). Additionally commercial and environmental pressures, bounded rationality and an unwillingness or at best an uneven level of commitment have led to challenges within the trading relationship and ultimately its failure, with Roberts (2001) establishing the link with levels of corporate competence in FM and the concept of the intelligent client function. “*A reluctance to lose ownership of the asset - HA culture sees transfer of management as a failure*” (NGO 1). Lai *et al* (2006) considered critical contractual issues within outsourced maintenance operations, identifying within their research that that issues relating to the scope of works had the highest incidence of contractual dispute, followed by workmanship. Concluding that the relevant requirements were ill defined within the contract, and consequently are frequently unsatisfactorily implemented.

PBD “*the economy is squeezing the market. The bottom line is that public sector budgets have been reduced and they have to procure the same or larger services for the same money and we will start to see more aggressive contract terms. the concept of partnering is difficult and the features of the current economic climate will put a*

strain on exchange relationships and we will see a more attritional way of trading primarily because it's easier to make the changes you want – when you have the money”.

The research identified that in many instances the “Buyer” was an unwilling partner to the relational exchange, and there was a view espoused that the form of contract was there to provide some comfort when they were “*swimming with the sharks*” RB3. However, 17 years further on from Egan’s vision of collaborative working within long term partnerships it would seem that little has developed either within the design of the form of contract or with psychological contract between the actors. “*There is widely held suspicion of contractors in the HA sector*”. (NGO 1)

MLD “*...in order to have success in a contractual relationship you have to have a combination of trust and fear and an acceptance on the part of the supplier of the underlying contract - plus trust usually disappears very fast when there is a significant problem. However the contracts are now more balanced but you still get contracts that give the employers rights that ordinarily they would not have. By and large an employer has to assume that a contractor is in a position to comply with their contractual obligations for the price that the employer has agreed to pay – and that is where the contract usually starts to fall apart because the contractors cannot deliver the deal for the price. this is where you have issues e.g. contractors start to job build with the SOR, or use the wrong quantities to increase their revenues , and that is where the relationships starts to fall apart*”.

The Power dimension

A critical element of the hierarchical governance rests within the concept of power and politics and the context of the contract as a means of control within the relationship. All interviewees were asked where they viewed the control of power. The views expressed are identified below.

With the Buyers	With the Suppliers
<ul style="list-style-type: none"> • KB2 • SRB • DS1 • DS2 • MS3 • AB1 • EB1 • MLD • MBE • BB4 	<ul style="list-style-type: none"> • C & LG • NGO1 • NGO 2 • PBD

The concept of “Power as a property”. Huczynski and Buchanan (2007) identifies power as a property of relationships and of power as an embedded property of structures (p799) where the exercise of power is dependent on the beliefs, perceptions and desires of followers⁹⁵ and supported within the organisational structure and content of the form of contract. The language and phraseology of the content re enforcing the proposition with a link to Foucault, (1979) and his view of disciplinary power with a focus on the way that the employer seeks to sustain their dominance in the relationship by reducing the “Suppliers” ability to dissent by creating their reality and managing their meanings. In the context of this study i.e. how the R&M services will be delivered. He suggested that power was a set of tools which achieved their aims via disciplinary practices e.g. “Surveillance”: - contract management, “Assessment” – performance measurement and “Coercion”– contractual T&C’s and the risk of determination.

The “Buyers” seek to create dependency through the value of their assets. KB2 *“...through amalgamation we have grown into one of the top 5 HAs in the country, as a consequence we have economies of scale which changes the balance of power and potentially the “dynamic of the market”*. There was a consensus within the “Buyers” *that “I am paying for the service” and with that comes a level of influence”*.

Conversely the Government (D of C&LG) and the NGO’s believe that the power in the relationships sits with suppliers due to the centrality of activities with a concern being that *“a corresponding professionalism in securing contracts by the major contractors is not matched by contract delivery”* (NGO2) with A NGO 1 commenting *“.... in general these are significant weaknesses in the operation of this market and it*

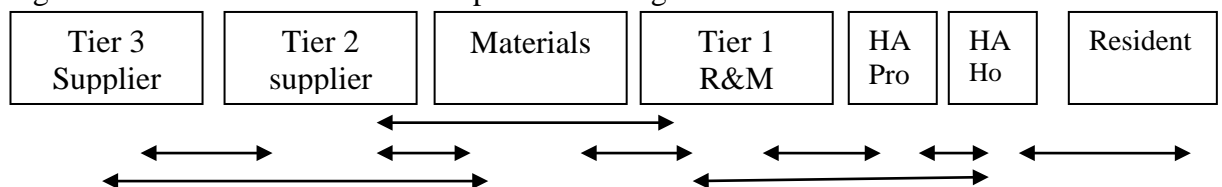
⁹⁵ In the case of this study the supply network.

operates very strongly in favour of the supplier. We see a vibrant and mature market in repairs and maintenance. Strategic analysis points very clearly to this strength of market and its bias in favour of the contractor”.

There are varying forms of contract which are used within this marketplace all of which have their provenance in the construction industry. The move to TPC (Term partnering contract) was an early attempt to move FM delivery into the “service sector”. Despite the direction of the National Housing Federation to ensure adoption of the form of contract (MLD) selection and choice remains with the procuring body and their level of knowledge not the level of appropriateness for the services sought or the level of contract knowledge of the SBU managing service delivery.

But what of power within the relationships of the Value network?

Fig 4.18 The hierarchical relationships between organisations



There are identifiable strategic competences (Pfeffer, 1979) within the Tier 1 suppliers and HAs SBUs, which shape the strategic intent of the business proposition. In reality the use of Tier 2 and Tier 3 contractors to deliver FM services without an overarching contractual relationship can at best be deemed as control through budgets and the use of rewards and punishments (Hellriegel and Slocum, 1978). This in turn creates further tensions within the network due to a constraint in cash flow.⁹⁶ Foucault uses the metaphor of the *panopticon* for his paradigm of disciplinary technology, however the form of contract nor its content in terms of measurement does not support the “panopticon gaze” of the Contract Administrator of the HA and potentially creates an environment where opportunism can evolve, with the unintended consequence of increased transaction costs due to poor service delivery and “job building” within the network to increase revenues.

DB2 “it is a master – servant type of relationship. This actually works against them. The contract sets the rules for the relationship and the rules of engagement. Get these

⁹⁶ Within this world “pay when paid” is alive and well.

wrong and people will revert to what I call protectionism⁹⁷ – are they are protecting the bottom line, and the client? They are busy protecting themselves from perceived exploitation, with a view that these awkward devils are trying to turn us over. So I had better have some weaponry in the contract, and then we go head to head and the customer - the resident gets forgotten. The clients are making cost by the processes that they are building in, and additionally they have lost sight of their own cost base. This interaction is just costly dead money”.

RB3 “our view on partnering has changed from our initial thoughts. There always remains some examples of hidden agenda which should not be apparent if you entered into a full partnership – but I am at a loss to know what a full partnership would look like as I cannot share the responsibility that I have for the residents , and therefore there may be partnering somewhere - but it is not here”.

Section summary

Contracts should establish a link between contractual governance and performance measurement. Traditional views within the sector have a preoccupation with units of output and operand resources making a link to construction bias and goods dominant logic.

The contracts are a relational exchange between two parties. They do not recognise that services are delivered within a Value network.

The use of standard forms of contract based on G-D Logic is driven by “Buyer” knowledge and not the requirements of the asset or the Residents. These forms of contract are inflexible frequently requiring amendment. They do not link to an evolving trading relationship or the condition and development of the asset stock, frequently stiffling innovation in delivery. This has the potential to limit S-D logic and the creation of Value in use for the Residents.

The contracts are incomplete and an extension of TCE. The contracting parties are subject to bounded rationality and are given to opportunism.

⁹⁷ Opportunism by another name. One man’s protectionist is another man’s opportunist ! With apologies to the terrorist and the freedom fighter.

4.4 Process: Measurement.

This section considers the use of performance measurement at an organisational and contractual level within the relational exchange and the wider Value network

Effective measurement is the cement of the Value network. My research identified that “Measurement” issues pervade all the other topic areas of the research project. My research focused on the role of performance measurement within the supply network considering organisational structure, effective process measurement, its use as a management tool and its influence on short-termism in the relational exchange.

Sub sections

The Suppliers

Supplier “internal” measurement of performance within the relational exchange

Supplier – Service quality

The Buyers

Benchmarking

Buyer – Service quality

The cost of measurement activity

Contractual performance measurement

Suppliers views on contractual performance measurement

Buyers views on contractual performance measurement

Section summary

Uniquely within this element of the research project there were differences between the “Buyers” and “Suppliers” which had a further dimension relating to intent within metrics design. The themes which surfaced:

Buyers and their suppliers;

- Design intent
- KPI & Content - measure the right things
- Link to contract
- Benchmarking
- Customer satisfaction
- Lifecycle – contract and Asset

Suppliers

- Design intent
- KPI & Context - measure the right things
- Task / activity focus
- The contract
- Supply chain
- Customer satisfaction

The Suppliers

“Performance measurement is costly; few organisations have calculated how much time and energy they spend on measuring performance. Even fewer have calculated if all their systems, procedures and person hours spent on performance measurement provide them with value for money. Two useful tests of a performance measure are what is its purpose, and what systems are in place to support or achieve that purpose” Johnston & Clarke, (2001, p268).

The issues relating to commercial entities can involve different levels of aggregation, and cover fiduciary requirements in addition to governance, strategic and operational management. Performance measures can be considered within a hierarchy, with the more aggregated performance measures having a greater strategic relevance and communicating the overall performance of the organisation. Within the context of this study, it is the use of generic performance measures which can either be (1) aggregated into composite measures for example “overall service delivery performance” (2)

expressed as an idiocies - “customer satisfaction” or (3) broken down into more detailed performance measures, which are measured or monitored more frequently but provide a limited view of operational performance, albeit potentially more descriptive in terms of specific issues.

Fig 4.19 Performance measures and levels of aggregation- Adapted from Slack *et al* 2009

Figure removed for copyright reasons

There is consensus amongst writers on performance measurement of the main purposes or reasons to take measurement: Communication, Motivation, Control and Improvement. Prajogo and McDermott (2007) espouse the notion of external fit; how well the organisation, its goals and strategic objectives are congruent with the markets in which it operates and within the context of my study, the Value network.

Do the performance measures adopted articulate its operational activities and its strategic intent? Analysis of the reports and financial statements for the three “Supplier” interviewees identifies that all three organisations are complying with the financial reporting requirements of the Stock market,⁹⁸ which by its governance and reporting requirements is forcing a short-term perspective to the strategic intent of the organisations to generate shareholder return. At the “**functional strategic**” measurement level, all organisations are utilising multi faceted measures in the form of

⁹⁸ All are FTSE quoted organisations

a scorecard “...with the principle advantage being that it is presenting and communicating an overall picture of an organisations performance in a single report, and being comprehensive it encourages organisations to take decisions in the interests of the whole organisation rather than sub-optimising around narrow measures”. Slack *et al* (2009, p431). However does the content of the scorecard reflect the context of the business or just reflect a current vogue in management practice?

Fig.4.20. Hierarchical organisational structure and aggregated measurement methodology

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There is consensus and support within the literature reviewed for a measurement programme that adopts a multi dimensional approach. The current view is contrary to the traditional narrow approach to measurement, which is universally chided for its concentration almost exclusively on financial measures. (See Section 2.1.3: performance Measurement- FM Service Provider) Crucially an organisation’s success depends not only on its financial measures, which at best are lagging indicators, but also how it adapts to the environment in which it operates, its impact and the value it creates for its buyers. Varcoe (2007) summarises the debate well, arguing that modern business has a need for dynamic measures which motivate organisations continuous improvement in critical areas – customer satisfaction, service flexibility and productivity and concludes that old style traditional measures, particularly those derived from accounting systems, are past their “sell by date”.

The FM industry has the almost singular focus on monetary targets at the strategic level, and volumetric and temporal measures as output targets at the point of service delivery; the latter to be achieved if the “Supplier” is to be deemed to be achieving its key performance indicators. These are typically “set” for the FM sector by the various trade bodies and associations or in the case of the public sector, enshrined in idealistic measurement dogma or the “Benchmark” standards. But they are rarely those contractually specified within “standard forms of contract”, where their impact influences the working practices / methodology adopted, increases sub – optimisation and potentially damages the performance of whole Value network (Pidd, 2005).

Varcoe (2001) outlines the case for a portfolio approach for the performance measurement of buildings and real estate per se; Price and Clark (2009) argue the case for a portfolio approach linked to the “Buyers” market sector. Here there is the opportunity to develop Supplier “learning” and to create the environment for innovation, whilst interlinking to the Value network and developing their business proposition. By nature measurement in the sector is “*Goodhartian*”. However, it could set the agenda for a continuous improvement framework rather than the negative spiral of commoditisation and cost leadership approaches which are a feature of the performance measures in use.

The critical questions remain how the performance measures should be designed to ensure that they effectively monitor the contracted performance, link to organisational measurement, and they do not encourage dysfunctional or opportunistic behaviour. Additionally, how relevant are they to the Value network and the market in which they operate?

Supplier “Internal” measurement of performance within the relational exchange

All three “Suppliers” structurally operate on a “Hub and spokes” basis See (Section 4.1 Structure). “Supplier 1” was the most technologically enabled of all the “Supplier” organisations interviewed. The use of technology was considered by them to be an “order winner” (Hill, 1993). The dichotomy between the uses of disparate performance measures was clearly exposed by the structure and infrastructure of the business. The

organisation had restructured to be more effective in its market place and be more efficient and profitable to benefit its various stake holders.

The management information (MI) from the CRM module of the operating system identified and tracked the end to end bid process. Supplier 1 could identify:

- The volume of bids, and source of bid
- The number of PQQ submitted
- The number of ITT's submitted
- The number of presentations and site visits from clients, and
- the number of tenders won , and the value and the number lost and the reason for the unsuccessful bid⁹⁹
- The total value of the “won work” building into the forward order book

All this data was collected, and the ratios for each element identified. This enabled a ***“faster more accurate bid process”*** as most of the variables were known, but DS1 could not advise me within the interview of the *ex ante* costs of the OJEU process for their business.

The asset management module of the operating system identified the volume of activities planned and completed by action code. This was then linked to the accounting module to identify the revenue and utilisation/ productivity by region, contract and delivery team member. A critical output from the system was to provide data for activity based costing and activity based management. This was linked to the telemetrics from the vehicle management system to provide geographical variance for operating the van fleet. (See Section: 4.4.3: Contractual performance measurement). This IT infrastructure supports their portfolio approach to service delivery.

The issue for “Supplier 1” at the ***“functional strategic level”*** related to the targets against which performance was measured, and that the goals and objectives for the SBUs were not congruent. ***“The bid team could not win more high value contracts as the inefficient operations team were considered too expensive – quality performance data is of no use if it indicating that were are uncompetitive”***. DS1.

“Supplier 2” was also aware of the success ratio of tenders to bids, citing that business development and bid management was a core competence of the organisation. (See

⁹⁹ Too expensive generally!

Section 4.1: Structure). In terms of its bidding costs or ex ante transaction cost – these were unknown. Both organisations advised that these costs were absorbed into central overheads and built into the tender price submitted. Both cited that success for the bid team did not readily equate for success for the operational service delivery teams or the organisation as a whole. (Pidd, 2005)

“Supplier 1” and “Supplier 2” used monthly Business Unit Reviews or Cost / Value Reconciles (CVR’s) as a means of measuring Business unit performance against an annual financial “Budget”¹⁰⁰. Performance is reviewed at a contract level and at an “Operational / Regional level”. Here the measurement process can be deemed as **“generic operational performance measures”** due to the frequency of measurement, and the implied diagnostic power of the process. However in reviewing the content of the CVR’s of “Supplier 2”, they measured only financial data. “Supplier 1” utilised outputs from its operating system to combine activity and cost against budgets and year on year performance. The Review process is based on traditional contracting review methodology and “G-D logic”. (Enquist *et al*, 2011). The central issues discussed within the CVR process relate to the cost of labour and materials, and a comparison of actual performance to an annual budget. The CVR is an accounting practice which is challenged by Varcoe’s arguments (2007). The process cannot be deemed internally supportive (Hayes and Wheelwright, 1994) as there would be a challenge against hitting revenue targets at the expense of others¹⁰¹, which would not enable the organisation to excel. Within the CVR process **“there is a preoccupation with activity and revenue – cash flow is rarely discussed and is not seen as a problem”**. DS1¹⁰²

There is a link to the CVR process and to bureaucratic control, and a mechanised model of service delivery. Dahlsten *et al*, (2005) suggests that the unintended consequences such a process are fatigue and frustration, which lead to reduced effectiveness and the promotion of local interpretation and variation, primarily due to the measures of performance adopted offering neither qualification nor context. **“Torture the numbers for long enough and they will tell you anything”** DS1. Sulek and Hersey (2010) highlight “...the failure to provide motivation and improvement”, arguing that such a process is “subject to forces such as entropy that will increase variation and reduce

¹⁰⁰ Those SBUs involved in the delivery of FM R&M services.

¹⁰¹ i.e. cash. This is an industry that over trades and provides “credit facilities” for its customers due to the contractual payment terms.

¹⁰² Both interviewees were unaware of the under cashed position relating to contract mobilisation and payment cycles.

process performance over time”. (p478). Additionally the use of narrow performance measures does not always identify issues relating to “cause and effect” negatively impacting co ordination and resulting in a lack of corrective action. (See Section: 4.4.3: Contractual performance management).

The performance gap between the tender price submitted, and the operational cost that the contract can be delivering for; basically “budget versus actual” is usually exposed during the CVR process, exposing the “level” of external internal fit of the organisation to its market (Prajogo & McDermott, 2007), where inefficient labour cannot “deliver” to the bid price.

It was identified in Section 4.1: Structure that all Tier 1 contractors are subcontracting service to a degree. Both interviewees acknowledged that supply chain performance was not rigorously measured, creating the opportunity for moral hazard due to imperfect commitment and consequently, higher transaction costs.

DS2 “ we do not measure sub contract performance as well as we should , especially when they are used on a ad hoc basis it is much harder to get true measures as there is not the critical mass to get the leverage that you would want to make sure that everything is perfect.”

DS1”there is no formal monitoring of performance in place for our sub contractors”

Additionally it was cited that TUPE’d staff had a different psychological contract with KPI’s and the performance measurement regime, many of which had only previously been “guided” by HA service level agreements. (Dainty *et al*, 2004). The measurement of the delivery team’s performance identified a difference of opinion in relation to TUPE with Supplier 2 advising that it was a “*...help in successfully resourcing and mobilising, where it would be very challenging to bring in a completely fresh group of people, who do not know the location and the properties. The down side is that they have not been a well managed group and usually underperform, requiring additional investment to get optimised performance out of them*”. DS2.

With DS1 suggesting that “*... it is a hindrance depending on how heavily unionised they are, how effective they are, their levels of productivity – there is usually a step up in performance required, and this is against a contract usually being awarded of a reduced price against the previous contractor*”.

The argument by Gummesson (1998), that a drive for increased productivity from an inefficient workforce, under the guise of lowering costs, usually has the unintended consequence of lowering service quality.

The overall findings were that the metrics and processes in themselves may be appropriate (Amaratunga and Baldry, 2002) but the mismatch and lack of alignment would challenge the principle objectives of a performance measurement regime. The focus of the “aggregated hierarchy of measurements” and variance in measurement methodology within the “Supplier” organisations, is exacerbated throughout the supply network, and could drive bureaucratic dysfunctionism due to goal displacement within the organisations (Merton, 1941). This supports opportunism within the relational exchange due to information asymmetry, creating quasi rents and ultimately affecting *ex ante* and *ex post* transaction costs. (Marr, 2007; Hobbs, 1996). A further consideration is the “distance” identified between contractual performance measurement and its relation to measurement used in setting strategic options and decision making for the “Supplier” organisations. (See Section 4.4.3: Contractual performance measurement)

Supplier - Service Quality

All “Suppliers” discussed “Quality”, and in common with “The Buyers” indicated that it was related to “*delivering the service works*”. The challenge from literature comes from the “Buyers” expectations about service, and their perception of the way in which it had been performed, i.e. Service Quality (Caruana, 2002) and the outcome quality and process quality (Gronroos, 1984) defined by “what had been delivered” and the “end result of the process”. MDL suggesting that, “*Quality is about doing the job “properly”, and quality only becomes an issue when a lack of it is discovered. For the vast majority of R&M works, they are either done right or they are not!*”

The importance of Customer Satisfaction is central to the Social housing market. (See Section: 4.1: Structure). All “Suppliers” indicating that customer satisfaction was a critical part of their business proposition. “Supplier 1” advised that surveys were undertaken within the contractual exchange. “Supplier 2” advising that in addition to their contractual obligations, they undertook an independent Customer satisfaction survey.

There is a critical area relating to design and content. For example a contractual requirement stipulates:

“The supplier shall undertake a customer satisfaction survey. The purpose shall be: “To assess the level of satisfaction among service users, with the services (including the way in which services are provided, performed and delivered), and in particular with the quality, efficiency and effectiveness of the services.”

(Clause from R&M contract).

Given the disparity between the interviewees responses, the content of the TSA and HCA reports, and the AC reports, this highlights the requirements of good performance measurement design and the relevance to the organisation and its market (Price and Clark, 2009) Additional the data challenges the output from various Benchmarked reports of the “Buyers” as it creates performance gaps and a “catch up” mentality. (Tranfield and Akhlaghi, 1995)

The Buyers.

All the “Buyers” indicated that at a strategic level the performance of the organisation was measured either by a scorecard or suite of high-level strategic and operational measures. ***“Typically the measures considered are Finance, asset management, customer service and group and division performance. Which are further broken down to cover Finance, covenants, budget performance, cash flow and performance against the long term plan of the organisation, Customer – CSI and diversity, Process – growth , housing stock, help line , repairs voids and arrears”.***EB1

The functional structure of the “Buyers” organisations was identified as being “in common” within the Social housing industry (See Section: 4.1) and whilst there is variation relative to operational size and geographical location, the businesses are hierarchical bureaucracies. The measurement processes of the organisations re enforce this position, being both temporal and volumetric throughout the SBUs.

It could be argued that the model identified within Fig 4.20 is valid, with the organisations being subject to stringent scrutiny at the executive or strategic level by external Government departments and NGO’s, with ***“composite measures and generic performance measures”*** being adopted at the point of service delivery.

The impact of measurement relative to organisational structure and SBU relationships was identified within the Ethnographic study at “Buyer 1”. Emerging from the meetings

was the political use of measurement to gain or influence positions of power (Pfeffer, 1992a; Hellriegel & Slocum, 1978) over SBUs operating in adjacent silos and which supported the strategic competencies of the dominant groups within the organisation.(Pfeffer, 1981).¹⁰³Consistently during the ethnographic study period, issues which would have been identified within the scorecard were seen to remain unaddressed. I queried the impact of operational measurement and its reporting with the chair of the meeting, as issues relating to finance, customer satisfaction and operation performance appeared to continuously remain unresolved during the period of my research. This supported the position of the Rational-Cheater. Nagin *et al* (2009) where the information providers are creating information-rent for their own benefit.

“Buyer 1” adopted the hierarchical mix of measures as identified in Fig 4.21, where Service level agreements supported with KPI’s were utilised at the “*generic operational / detailed performance level*” for call centre performance, asset management and R&M delivery. EB1 confirmed that there were service level agreements for some of the internal SBU which indicated that performance was in line with expectations. This was contradicted by the outputs from the ethnographic research, and would challenge the content of their strategic measures the provenance of data collection and the rate of systematic monitoring are an issue for the sector.

At the point of service delivery, “*Generic and detailed performance measures*” were utilised. All of which contained KPI’s. These again were time bound and volumetric in nature, counting an activity or non activity, usually against a fixed delivery time. Whilst not as specific as management by objectives, the processes and their measurement were all task focused, reinforcing the bureaucratic functions of the organisation. Additionally the larger the organisations - the greater the levels of market control established by them. Penrose (1959) suggests, that larger firms have a greater scope for conscious planning and economic activity, consequently developing their own mechanisms for control which, are only secondarily related to market conditions. This assists in creating a concept of sequential attention to objectives, where work is orientated to a linear series of actions which are focused on the internal mechanisms or processes, providing support to the notion of service as a “product” that can be consistently applied and delivered to the residents.

¹⁰³ This was not identified within the Suppliers possibly due the hierarchical level of interviewee who were generally interested in making money rather than considering the political positioning of SBUs

Analysis of the KLoE provides an indication of the process and the measures which could be adopted,¹⁰⁴ and clearly links a regimented process to the achievement of “excellence” within the audit framework. However, examination of the performance criteria identifies variation in the desired performance outputs, due to poor measurement design and a lack of “client intelligence” to interpret the data and respond with the appropriate actions. (Atkins and Brooks, 2000) The unintended consequence? A potential failure of the performance measure? or a satisfied Resident or vice versa? (Bevan and Hood ,2006)

Benchmarking

The benchmarking of R&M performance was undertaken by all “Buyers”. However there was a difference of opinion relating to the “value” of the exercise, and the validity or relevance of the data. There was consensus in the view that the benchmarked data was not generally used to develop operational performance. AB1 advising that data relating to VFM is compiled from each HA and collectively shared. *“Issues arise due to the varying condition of the stock¹⁰⁵ and the archetype of the property, with some newer properties costing more to maintain which negatively impacts the long term i.e. 30 year business plan. There are geographical issues where subcontract labour costs more and where the SOR is completely ineffective”*. EB1 *“we are only looking at past performance- which cannot be indicative of what lies ahead. We can try and establish trends as a means of developing performance or look to get in to the upper quartile percentage for the Social Housing sector”*. The catch up scenario as argued by Tranfield and Akhlargi? (1995)

The provenance of performance data used within the benchmark exercise is a potential issue, with SRB suggesting *“that it is about collecting the data, and having an understanding around what contractors will do to try and manipulate the data to make it fit, and “Buyers” will not generally admit when they are wrong!”* Tranfield and Akhlarghi (1995) consider the use of inappropriate features within benchmarking exercises and McDougal and Hinks (2000) argue that the use of benchmarking as a means of cost reduction can be considered an unsuitable activity and at best unhelpful. The Buying consortia used within the procurement exercise frequently circulate their

¹⁰⁴ Stock Investment & Asset Management: Maintenance works , R&M, Gas, Voids- Value for money

¹⁰⁵ At the decent homes standard

benchmarked data. Examples circulated in their promotional material as “best buys” of “products”. However purchase price, without the benefit of installation, and whole life asset management, could lead to poor decision making, with EB1 advising that *“frequently assets were unnecessarily changed”* and that the “Decent home” programme *“had caused millions of pounds to be unnecessarily spent”* DS2. This challenges the use of benchmarking to establish forms of best practice. (Parker, 2000)

Buyer - Service Quality

Within the HAs, Customer satisfaction is a *“Composite, Functional and Board level”* measure. It forms a critical element of the KLoEs and is a principle driver of access to funding. All “Buyer” interviewees expressed a view that service quality was a prerequisite for Customer satisfaction.¹⁰⁶ All confirmed that they conducted additional and independent Customer satisfaction surveys in addition to those required contractually.¹⁰⁷

AB1 advising that that the group has quality standards *“... It basically means that the end user is happy with what they get”* EB1. *“...the ultimate measure by which we are judged in the outside world is by CS - Our reality is it’s not about financial performance or KPI’s, it’s about keeping the customers happy”*.

My follow up question related to the “right of repair” for tenants under the Housing act and how this drives SBU operations. AB1, *“... for our resident’s quality means that the repairs are being actioned promptly”*. EB1 *“it is about getting a repair done to a quality that is appropriate in a manner that is appropriate..... From a customer satisfaction perspective - they want a decent home to live in. The biggest driver of complaints relates to R&M..... It’s about the basics R&M and ASB¹⁰⁸ everything else they don’t give a toss about”*.

The consensual position established from the interviews was that *“doing the job at the specific time ... I just look at this as being ... “is it just fit for purpose”!”* KB2. With SRB suggesting *“... quality, from a client perspective - is the finished product”*. This “understanding of Quality” matched that as provided by the “Supplier” interviewees. It’s about job delivery, with a poor job being considered of low quality. But by whom? When does the volume of poor service delivery indicate adverse selection? *“Customer satisfaction per se is not well measured. We try to survey every job but we do not do it*

¹⁰⁶ Having already stated that quality is a misnomer. It is just delivering the service works

¹⁰⁷ Survey fatigue is a feature of this market place, but is not considered within the context of this study.

¹⁰⁸ Anti social behaviour

very well. Our response rate is very low, and generally those we do get confirm a high level of satisfaction with our R&M services” EB1. TSA 2009 Internal research document identified “*...an apparent failure of HA’s to recognise the unacceptability of providing poor performance for tenants”*.”

“Service quality” and “Customer satisfaction” in academic literature are closely related but conceptually distinct (Cronin,2000: Pantouvakis,2010), with satisfaction being commonly positioned as an affective post purchase experience of the service encounter, with a role being played by the cognitively oriented construct of service quality. Lee *et al*, (2000). Within the context of my study it is arguable that the concept of Service Quality is effectively replacing the missing “product” within R&M service delivery. The dimensions of service quality therefore approximate to product features, the resident “consuming” either the outcome (in products) or processes (in R&M service) a position supported by Gronroos, (1998).

Leverin & Lijander (2006) suggest that the contentious constructs of “Satisfaction” and “Quality” merge and develop in time into an overall concept of “Relationship satisfaction”. This is directly influenced by perceptions in functional quality (interactive or process) and technical quality (Physical of tangible). This establishes a link to G-D logic (Lusch *et al*, 2010) the construction provenance of the “Suppliers” and the “Product” purchase methodology of the OJEU procurement process, where “Buyers” seek exchange value in the form of “Price” at the expense of “value in use” of the R&M services for the Residents.(Bowman and Ambrosini, 2000).

The cost of the measurement activity

The cost of measurement was discussed at length, With all “Buyer” interviewees commenting that the time spent monitoring was significant.BB3 “*...on R&M we have spent an extraordinary amount of time on monitoring – meetings , checking the KPI’s checking the invoices¹⁰⁹ and doing Quality control checks . The cost for this is in our budget, there is not a monitoring or budget checking figure per se in our management accounts.*” RB3 advised, “*... there are 7 FTE’s engaged in the contract management of the R&M contract, with a similar number from their side. We have calculated that*

¹⁰⁹ For the SOR make up

the time spent checking this account equates to 10% of revenue¹¹⁰. There is a cost for ensuring contract performance and that is the price we have to pay". SRB advised that "... where the organisation is running as an intelligent client it is possible to measure service delivery and equate it to the level of performance sought. If the skill is not in house it needs to be brought in. They need to have an independent 3rd party monitoring performance. If they are duplicating roles - that is additional cost".

Although they were aware of *ex ante* and *ex post* costs per se, they were not routinely measured as a means of improving control over the process or driving performance. The similarity of measurement process between the "Buyers" and "Suppliers" was noted. The critical difference between the two groups being: the relevance of the design criteria for the measures adopted, and the use of the measures to influence the organisations operational performance. As both organisational groupings had a symbiotic relationship with the Residents, the lack of goal or objective alignment within the Value network was an issue which none of the parties or the regulators appeared to give much credence to, and whilst the measurement and reporting processes was similar, the differing content and context adopted does not enable a "fit" to be achieved in the Value network.

Contractual performance measurement.

Enquist *et al* (2011), argue that contractual governance and performance measurement are critical to the effective management of business relationships. See Section 4.3. Analysis of the standard and bespoke contracts in use for R&M delivery identifies the use of KPI's and the role of customer satisfaction to exercise control over the "Supplier" in the exchange. Traditionally: time, cost and money, are the three primary indicators of performance in construction projects. The leap of KPI's to FM can be identified to Hinks and May, (1999) who identified 23 performance indicators for differing facilities. Meng and Minogue (2011) considered the importance of performance measurement and the effectiveness of models concluding that the use of KPI's was "Effective" in measuring performance. Conversely they temper this view by suggesting that "measurement can be ineffective if you do not set the right criteria, and may mislead the performance if the wrong indicators are given." (Pidd, 2005). The critical element must therefore be the design of the "measures" and they should consider concept, context and content if they are to be effective.

¹¹⁰ Potentially £300k

The interviews identified that there was consensus from all parties that “*KPI’s had had their day*”. However, was this due to poor design and a lack of understanding of what was to be achieved? The industry commentators suggesting that “*It is an overhang from the measurement culture that we as an industry have fallen into –it’s about hitting numeric targets, which are fundamentally the wrong things to measure. The real issue is to learn – what is not working, what is working and why?*”MBE. With SRB arguing “*... KPI’s are past their sell by date. Is the achievement of a KPI a true reflection of what is being delivered? It depends on what was specified and who is collecting the data. There are easy things - volume of activity that can be measured, but the understanding gained of how the services are impacting the asset and the people who use it are generally ignored*”. See Section 4.3: The Suppliers perspective.

The general criticisms from the interviews related to:

- The relevance of the KPI’s to the asset, the Buyer and the end user - the Resident
- The inconsistency and variation within the market relating to the priority of works
- The volume of KPI’s and their rigidity and a failure to evolve
- Their inability to drive improvement and create value and their capability to increase *ex post* transaction costs. The measurement process creates transaction cost, with poor metrics of a higher number increasing transaction costs, however better designed metrics or a lower number does not guarantee lower transactions cost due to the potential impact of agency.
- Their lack of ability to identify the creation of quasi rents through opportunistic behaviour
- The feasibility of their achievement and consequently their relevance.

A position supported by Brignall and Ballantine (1994) who suggest that the measurement of performance has largely failed to adapt to the operating environment.

Both interviewees suggested a balanced multifaceted approach would be more objective. Making the link to Gummesson (1998) in improving the productivity and quality of the service offering and to Enquist *et al* (2011) considering where value is created within the Value Network, and how that is measured and reported on. This providing a challenge to Porters (1985) theory of the Value chain due to “Customer to

Customer” trading relationships which is a facet of Social housing “outsourced” trading relationships and the use of multiple tiers of sub contracted suppliers.

Suppliers views on contractual performance measurement

The “Suppliers” highlighted the generalisation and volume of contract KPI’s. Citing that the measures used did not reflect the variables faced or the requirements of the services procured i.e. the property archetypes, the internal assets, the Residents or the geographical location. DS2 highlighting that some contracts had up to 20 KPI’s, which may be a feature of a *“bad client experience”* and are used to reinforce an already adversarial contract. He suggested *“what people overlook is if you build up an over burdensome process with loads of checks and balances it creates cost, and that cost eventually comes back to the client. They may get a short term win, but in the long term it will result in the contract ending”*.

Inside housing 21/02/2013 reporting that *“Wates agrees to end “unfeasible “Southwark deal”*. The report continues *“Southwark will consult with the residents before deciding to appoint a reserve contractor or retender for the work”*. But at what cost?¹¹¹ Southwark advising that *“... it is vital to offer value for money to its tenants”* the report also suggested that the local authority will consult with their residents before deciding to appoint a reserve contractor or retender for the works.¹¹²

All the “Suppliers” confirmed that the contractual KPI’s are unknown at the time of tender, creating a possible information rent for the “Buyers”. This poses two further questions. If known would they be reflected in the bid price of their tender? Potentially increasing costs, and when the contractual requirements were known did this vary their contract mobilisation process? DS2 suggesting *“ Buyers who clearly have had a bad experience, and who create highly adversarial KPI’s within the contract – to protect themselves - potentially get services that are going to cost them more than they really wanted. They create costs because they have acted in an adversarial way, quite often because they employ advisors who have their own agenda. Consequently they often get the shape of the services they really want wrong. All these decisions affect all parties affecting cost negatively due to a lack of thought and applying standard metrics or doing what they have always done”*.

¹¹¹ The initial contract by the London Borough of Southwark appointed 5 contractors to cover R&M on 54,000 properties for a 2 yr period

¹¹² See conclusions section 5.3.2. Southwark have also terminated the contract of one of the other contractors delivering works. Expensive retender? But what of service quality?

Contractual KPI's are ignored within the CVR process adopted at SBU and operational level, and there is little connection to the functional strategic measurement process-Balanced score card approach adopted by both the "Buyers" and the "Suppliers". Similarly from a "Buyers" perspective, the relevance and consequence of generic operational and detailed performance measures is diminished as performance measurement focus moves from the operation to the strategic levels of the organisation. These contractual measures deemed as "generic performance measures/ detailed performance measures" Fig 4.20, support Meyer's (2002) view of what we want to measure and what we can measure, but do little to improve communication, motivation, control or significantly improvement. AB1 suggesting that at the operational level "*... measurement is primarily used to compensate for a lack of "trust", with a failure against performance measures been seen as confirmation of the lack of trust in the ability of the supplier*".

Within the hierarchical structure of the "Suppliers", analysis of the current theme of contractual KPI's based measurements have little connection to creating "value" in use for the "Customer to Customer" relationships at the delivery team level. Additionally, the lack of holistic measurement in the Value network indicates, that where providers do not have the same objectives, gaps are created creating the potential for agency and opportunism. The consequence being increased *ex post* transaction costs. (Marr, 2007).

Buyers views on contractual performance measurement

The "Buyers" confirmed that they considered the content and format of their contractual KPI's to be "traditional" for the sector. Baldwin *et al* (2000), arguing that "Buyers" and "Suppliers" select metrics that reflect their expectations, with data that is easy to access¹¹³. "Buyer" related metrics converging on output, whilst "Supplier" related metrics emphasise the implemented processes. Document analysis identified that the main contract KPI's consisted of a priority code, a descriptor, and a time frame, or were volume related, either containing a percentage or numeric target linked to a time frame.

¹¹³ Which may be different in reality

Fig 4.21 Buyer 1 contract KPI performance categories¹¹⁴

<i>Code</i>	<i>Category</i>	<i>Completion target</i>
<i>P1*</i>	<i>Emergency</i>	<i>24hrs</i>
<i>P2*</i>	<i>Urgent</i>	<i>7 days</i>
<i>P3*</i>	<i>Routine</i>	<i>31 days</i>

“Buyer 2” had a similar KPI format, but required completion targets of 6 hrs for Emergency calls and 3 days for Urgent. Both “Buyers” were supplying services to similar housing archetypes, to similar resident groups in identical geographical locations and yet working to different KPI’s. A NGO2 (2009) cited the *“logistically challenging nature of responsive repairs because of the potential impact of location and lack of predictability of the works set against target delivery times”*. (Bergen et al, 2007).

Cooper and Locke (2000) suggest that targets are future orientated, providing a link to both organisational structures, process design and management practice. From document analysis, there was a variance in customer satisfaction performance, with “Buyer 2” reporting lower satisfaction responses for their R&M services than “Buyer 1”. An additional KPI was the percentage of jobs being completed on first visit attendance, which again identified a variance in the reported performance statistics between “Buyer 1” and “Buyer 2”. Is an unintended consequence of demanding performance metrics lower service quality? (Gummesson, 1998). Or inappropriate organisational structure, information asymmetry and information rents, and a lack of thought relative to the practices required in fulfilling contractual obligations?

KB2 highlighted a problem with both internal and external consistency in terms of job reporting / service delivery and the impact of regional variation, making a link to the geographical structure of their business, their supply chain and the risks of opportunistic behaviour. There was also a suggestion that jobs were frequently “logged” as a lesser priority by the “Suppliers” to “Buy” time and that this varied between contractors and geographical locations. A counter point raised by DS2, who cited that jobs were frequently logged as “Emergency” by the “Buyer” via the direction of the “Resident” in a bid to effect a faster response by the “Supplier”. Additionally, the varying states of

¹¹⁴There was no variation for the building archetype, asset, and resident of geography.

repair of some HAs housing stock, rates of obsolescence of equipment and general standards against the “Decent Home” standards exacerbated further the reported KPI performance and challenged the use of standardised measures.

A critical element frequently missed at the contract level, was the measurement of “Service Quality”. Given that Quality may typically account for up to 30% of the contractor selection within the tender evaluation criteria, it is frequently absent from performance measurement at the point of service delivery.

Section summary: A desire to count

The finding of the research provided a contradiction to current themes academic of writing.

There was consistent support for a balanced multifaceted approach to contractual performance management from the industry commentators and the “Suppliers” who recognised that the currently favoured regimes are not congruent with the requirements of the dynamic trading environment.

There was recognition that there was a cost to performance measurement, and that there was a requirement within the sector to move to an S-D logic approach, where service is co created between “*Supplier – Buyer – Resident*” and value is seen “Value in use”. The regimes adopted are driven by G-D logic.

Within the Value network performance measurement practice is not robust, and driven by the separate provenance and organisational culture of the “Buyers” and “Suppliers” and is frequently ignored within the lower tiers of the outsourced supply chain.

The concept of performance output and service outcomes was frequently cited in the interviews, linking to Johnston and Clarke (2001), who categorised the different dialogues that are important for managing and controlling service delivery in a Value network into “Business related, operations related and encounter related dialogues”. The critical element being measures designed to reflect the current and future operational variables and how these impact organisational structure & process, productivity & performance improvement, and service quality & customer satisfaction.

Measurement and governance are mutually interdependent within the contractual requirements of the relational exchange. Collier (1994) argues that the concept of

interlinking is the organisations understanding of the relationships between various measures, and using the knowledge gained, to become “systematically smarter”. A key objective of performance measurement systems and governance systems in which they are embedded is that they should link day to day service operations and strategic planning. (Brignall & Ballatine, 1996).

The identity of the relationships between business performance and operational actions, and operational performance and contractual performance is not routinely recognised due to poor design and goal displacement leading to a structural agency (Grey, 2009). This creating inertia rather than improvement, which pervades the industry sector leading to a cycle of perennial failure to achieve the desired objectives of the various actors. Additionally, the variation in performance measures adopted at hierarchical levels and “board” aggregation as identified in Fig 4.20 creates sequential attention to goals (March 1963: Katz and Khan 1966). The unintended consequence of this bureaucratic dysfunctionality is increased *ex post* transaction costs.

At the contract level Meng and Minogue (2011) suggest that performance measurement is a management tool, with performance improvement being the goal? However, if sustained sub-optimal performance is identified, or more importantly not identified does performance measurement provide a call for action for both “Buyers” and “Suppliers”? The critical element must therefore be design. The adoption of KPI’s which do not reflect the nature or context of the evolving relational exchange have largely failed to link the contractual performance and organisational performance.

In agreement with Price and Clark (2009) the measures adopted must be sector specific or provide a fit to the industry in which they are used.

4.5 Management: People & Process

This section considers the role of management in the relational exchange and the impact of management behaviours and actions relative to inter organisational trading within a Value network. It focuses on management capability and its role in strategic and operational design and implementation questioning if this is a feature of the wider environment in which the organisations operate or of “traditional” working practices.

The level of competence and skill sets within the sector support “traditional” management values from the perspective of process management and people management, linking to the role of management in setting the duration of R&M contracts.

Sub sections

Strategic intent

Buyers

Suppliers

Management by design

Suppliers – Design

Buyers – Design

The Management of performance

Buyers- managing performance

Suppliers – managing performance

Managing for Quality & Value

Management skills

Management competence – Strategy

Management competence – operations

Management competence: people and the impact of TUPE

Opportunism. The issue of agency

Managing the relationships

Section summary.

“Perhaps the most important resource of an organisation is its people, so how people are organised is crucial to the effectiveness of the strategy” (Johnson and Scholes, 1999). Process management is about how organisations produce goods and services. Management within FM is about the tasks issues and decisions that are necessary to manage people and processes effectively. Management capability is the catalyst for success. The research project identified several consistent themes; specifically:

- The management of the procurement process. Do the contractual arrangements reflect what was desired?
- The management of contractual service delivery – does delivery reflect what was expected?
- The skill set and capability within the management cadre in the SBUs within the FM Value network
- The design of process and their impact on working practices

These themes were then grouped and categorised into 4 areas which were deemed to representative of the output from the research. They are:

- The strategic intent of the organisation, and its positioning within the market place
- The design and management of R&M service delivery and procurement process
- The management of performance and the impact of quality and value, and
- The management of contractual relationships

Strategic intent

“All great service companies have a clear compelling service strategy. They have a reason for being which energises the organisation and defines the word *Service*”. Johnston & Clark (2001) suggest that a strategy should “allow organisational managers to identify opportunities for bringing value to customers and for delivering that value at a profit”. (p343). All the organisations interviewed had a formal business plan which was a feature of an intended strategy i.e. an expression of a desired strategic direction deliberately formulated and planned by managers which espoused their strategic intent. From a literature perspective, strategy development within the value network could be place within the “Planning school”, (Johnson & Scholes, 1999; Mintzberg *et al* 1980).

Buyers

The intent of their “business proposition” was predominantly communicated via public documents and audited financial statements. The target “market” for these reports being: funding organisations, NGOs (HC, TSA, AC) and industry commentators e.g. “Inside Housing” and Residents & Residents associations. This was usually supported by a “strap line” and logo on the said documents and organisational vehicles.

“Housing with Care”, “Improving life together”, “Opening doors”

Internal strategy documents were provided and discussed during the interviews. The documents were described as “high level” and focussed on the internal aspects of the business rather than the “business and the environment” in which it operated, and as such did not communicate or indicate an “external fit” to the value network or the environment in which they operated. (Prajogo and McDermott, 2007).

Central to the “Buyer” business plans was the organisational structure of the business. (See Section: 4.1), and how it was internally supportive of their strategic intent and “enabled” delivery of business operations. (Hayes and Wheelwright, 1994). From a “Buyer” perspective, the internal operational plans were driven by “vertical silos”, with the organisational structure reflecting the priority of the organisation i.e. Development, Housing management and Asset management. Section 4.1 contrasts this with the TSA and HCA Reports, which suggested that Residents perceive satisfaction with “Repairs and Maintenance” as being the principle arbiter of the quality of the relationship with their landlord. *“Amongst those tenants who are satisfied with the repair service, 91% are satisfied with the overall service provided by their landlord. This falls to 28% where the residents are dissatisfied with the repair service”*. (HC, 2006. p62) The impact of their customer’s perception of their performance as “housing providers” could challenge their strategic intent. (Roth and Van der Valde, 1991).

The “Buyer” hierarchy was driven by function, the intent of the SBU and the positional aspiration of their respective leaders. (Pfeffer, 1981). The Strategic intent of the business was shaped by what was perceived as the core competence of the organisation e.g. Housing. (Pfeffer & Salancik, 1997). With the exception of “Buyer 1”, I was unable to confirm or challenge the core competence information provided as I only had one interview session within each firm. ¹¹⁵.

¹¹⁵ Buyer 1: three interviews undertaken with Operating board members and a three month long ethnographic study on two SBUs.

The Procurement Director of “Buyer 2” confirmed that their commercial focus was purely on operational cost reduction. **“Buy better and you have room to manoeuvre”** KB2. There was a direct link to the “size” of the organisation and their perceived core competence e.g. the volume of properties managed, procurement spend, its national footprint and the impact that could be made by effective procurement processes. The sentiment was echoed by “Buyer 4”. Their competence in this area was commented on in the independent audits undertaken by the A C. There was an attitude of “We” will lead the firm and the other business units will get in line. With little to connect his views to the sentiments expressed in the public facing documents or the findings of the Resident’s survey relating to R&M service delivery. (HC & TSA, 2006.2008) For the Organisational Executive, the challenges for the organisation were economic, and effective procurement was central to the financial stability and development of the organisation.

Suppliers

The “Suppliers” were all PLC’s or subsidiaries. All produced annual reports and audited accounts, which were in the regulatory compliance structure. The target “market” for these documents being: financial institutions and industry commentators. The business plans of the “Suppliers” focussed on hitting the “numbers” and the maximisation of shareholder value or the “financialisation of the organisation” Froud *et al*, (2006). None of the interviewees were aware of the importance of the effective delivery of R&M works to the in relation to the quality of the tenant / landlord relationship, (HC, 2006). Additionally, the core competence of the “Supplier” organisations was reflected in their operational structure, with “Supplier 2” and “Supplier 3” having similar core competence and structure, with both organisations adopting similar “low cost” strategies and targeting the same market segments.¹¹⁶ “Supplier 1” targeted different market segments with a differentiated market proposition. See Section 4.2: Procurement. Overall it could be argued that there was a fit between the strategic intent of the organisations and the operational strategies adopted (Smith and Reece, 1999).

Management by design

“Service industries” have a number of characteristics which shape the management practices of organisations. These consider (1) the intangible nature of services suggests

¹¹⁶ The larger HAs. The largest 7% of HA manage 33% of the housing stock. TSA 2009.

that the services and their quality are difficult to describe to perspective customers.¹¹⁷(2) Heterogeneity, services have important attributes, however their importance can change relative to their location and the urgency of their requirement. (3) Customer's involvement in service production. In R&M service delivery the customer must or want to participate in the creation of and the delivery of the service. (4) Production workers. Production or delivery of the service is close to the customer and has direct interaction, as a consequence the service facility must be designed and operated, staff selected and trained with dual functions of service production and marketing / customer services orientation.

In Section 4.1,;Structure the impact of the KLoEs is considered in relation to their impact on organisational structure, but no specific link to the business structure or management processes could be made from the data obtained specifically relating to KLoE achievement. Is FM service delivery now so commoditised it is "one size fits all, irrespective of its market place"? Lewis (2003).

Through the observation of operational practice and the hierarchical structure of the organisations within the Value network, it could be argued that they are bureaucracies. The exceptions being; the "consultancies" engaged by the "Buyers", who provided professional services i.e. specialist procurement and legal advice. The principle challenge to the effective design of services come from four sources, (1) Capacity of the organisations to undertake the level of works, (2) the capability of the "operative resource" and its management,(3) customer segmentation and (4) the impact of "Supplier" and "Buyer" polarisation. (Johnston & Clark, 2001) Gummesson (1998) considers service design, and implies that there is connection between "service activity", "productivity", and "service quality" and eventually to "Profits", and that these "triplets serve the purpose of making service operations efficient" (p4). The critical variable for "Supplier" organisations is ensuring that they have the capacity to satisfy the volume of works required, and that this is the central element of the design of their service proposition. However is capacity management a key criterion for design and measurement practice?

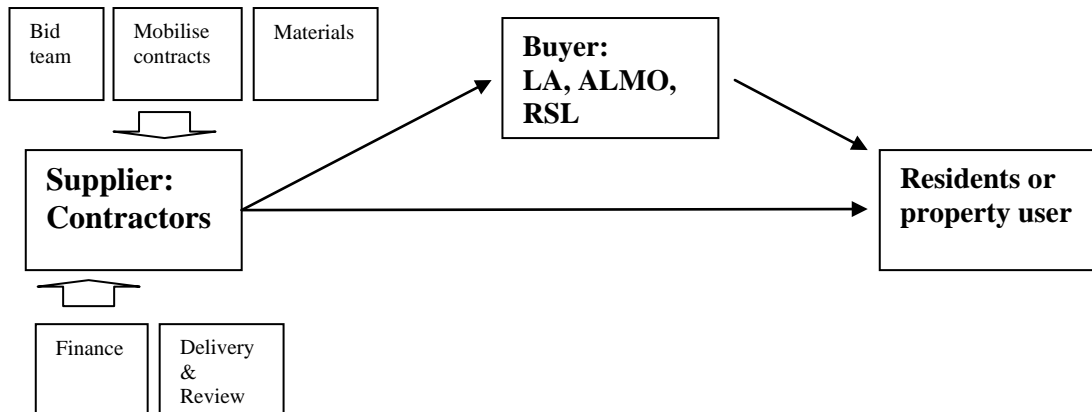
¹¹⁷ Often contractors are asked for method statements as to how the R&M works will be undertaken. But what do they represent to a clerk in the procurement department of a "buyer" or to a resident in a property?

Suppliers - Design

From a “Supplier” perspective the principle elements of process design are related to R&M service delivery. This included the procurement / bid process, contract mobilisation, service delivery, including the impact of TUPE and the management of resource and the review / understanding of performance both operational and financial. Aligned to this were inbound/ outbound materials and the finance function.

Fig: 4.22 Supplier SBU’s and link to Customer: Customer relationship

“Supplier”



The design and positioning of services is influenced by the volume and variety of activities undertaken, Slack *et al*, (2009). The Variety axis refers to the level of customisation, customer contact time and Focus of the works, i.e. capability or commoditised. The volume axis refers to the number of activities or customers attended to in a given period.

Figure removed for copyright reasons

Additionally, processes can be classified by “service processes”. Slack *et al* (2009) These are categorised as by the degree of customer contact with the service process, the degree of labour intensity, the degree of process customisation and the degree of

interaction and customisation. The above model is an “overlaid” depiction of the two models.

In the context of my study, the professional service advisers to both the “Suppliers” and the “Buyers” would be categorized as professional services, the “Buyers” of services who interact with the residents would be seen as “Mass service shops” which fits in with the desire of new public management (Horton, 2003) providing housing services in an efficient process within a people focussed environment and finally the R&M services would be supplied within “Mass services” due to the provision of high volumes of task with low variety. The volume and variety of task / activity impacts the management of service delivery and the measurement of performance.

Analysis of the management of the service delivery process identified working practices that have changed little in 20 years, and have been further commoditised by the adoption of a “SOR”¹¹⁸ approach to procurement practice, service delivery and billing. This is additionally supported by hierarchical management structures throughout the Value network and the adoption of MBO as a means of control at the point of service delivery. The process is reinforced by the language in use (Gummesson, 1988). This was a legacy of a cultural dogma. Although organisation culture is not part of this study the engrained working practice reinforced organisation culture and vice versa.

In most circumstances it is not the resources engaged, but the processes which deliver the R&M services to the markets that directly create competitive advantage (Penrose, 1959). Particularly in a commoditised service offering and an increasingly deskilled work force. Additionally, when operating in commoditised markets there is only one source of competitive advantage - which is "Low cost". (Porter, 1985) Indeed the strategic intent of “Supplier 2” and “Supplier 3” is volume and revenue driven, and to some extent it could be argued that short-termism makes and supports their market sector. See Section 4.1: Structure Suppliers. However are sector management skills sufficiently developed to understand the complexities of capacity management?

“Supplier 1” had a core competence in service planning and operative deployment which was supported by its management structure, processes and the performance measurement regime adopted (See Section 4.4: Measurement). Recent changes in

¹¹⁸ Fixed pricing which includes labour, materials and margin for a schedule of service activities.

service delivery design have been brought about through the use of technology which “Supplier” organisations have had to embrace as a contractual requirement.¹¹⁹ The interview established that “Supplier 1” had redesigned their business proposition, both at the bid process and service delivery, and “went to market” with a higher priced offering, supported by what it deemed its “value proposition” to specific segments within the Social housing sector, establishing the link between Order Winners / Order Qualifiers as espoused by Hill (1984) and the connection of operational structure / infrastructure and operational processes. This is in turn framed against the competitive nature of the operations, and it’s fit to the environment. A position supported by Hayes & Wheelwright (1984).

“Supplier 2” and “Supplier 3” manage services delivery through a hierarchical management structure that was contract specific albeit not contractually specific¹²⁰. See Section 4.1: Structure. Johnston and Clarke, (2001) highlight the importance of capacity in the design and delivery of service works suggesting that there are five critical elements. Specifically:

- The service output – the overall capacity of the operation
- The service resource - staffing availability, skills
- Service demand – the demand profile of the work – level capacity or chase
- Service capacity management, scheduling and utilisation and
- Capacity leakage

Within their organisational design they did not consider the variables relating to size, specifically revenue and activity volume, labour capability and the heterogeneous nature of the larger HAs, adopting a similar service delivery structure for each contract gained, potentially incurring greater *ex post* transaction costs in the “Smaller” or sector specific contracts, (Johnston and Clarke, 2001) and failing to achieve volume related issues with a “one size” fits all approach as expressed by CS survey data.

All “Suppliers” recognised the impact of operating systems and CAFM systems. Which were used to a greater or lesser extent – dependent on operator capability within the contract teams, and the management team’s ability to enforce its use. The adoption of technology, by default has enabled the machine bureaucracy to be more efficient.

¹¹⁹ Operating / finance systems with a work deployment function to a mobile hand held unit (PDA) and vehicle tracking / telemetric systems

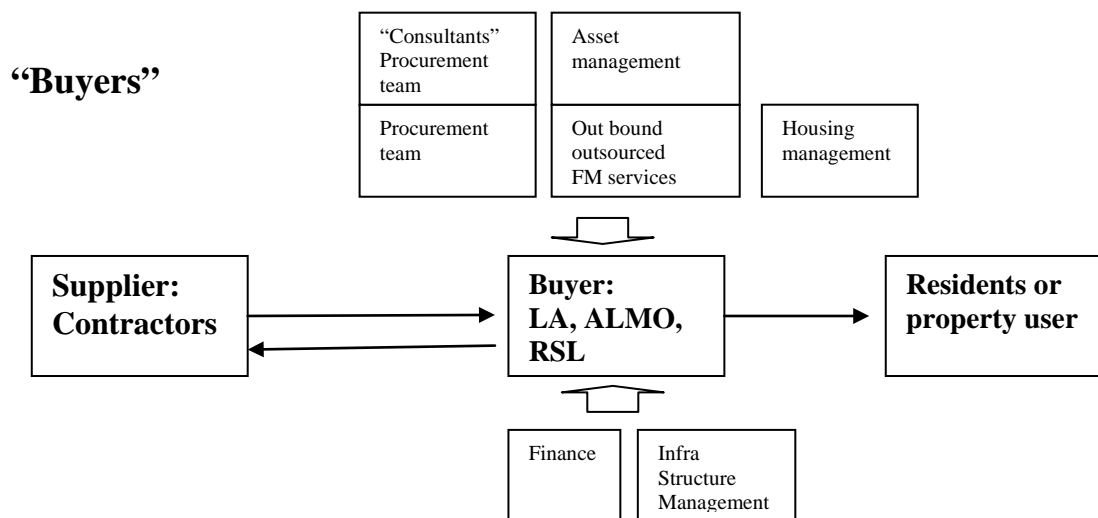
¹²⁰ It was not specified in the contract notice within the OJEU procurement process.

However, bureaucratic dysfunctionality has not decreased due to *".....agency, unpredictability, goal displacement and overall unintended consequence"*. Gray (2009, p33). Gummesson (1988) espousing that technology will exert a major influence on services business, but it cannot be a panacea. There is the requirement for human intervention (p14).

Arguably, do all "Suppliers" have a "fit" with their target market segment? (Bowman: 1998).

Buyers - Design

Fig 4.24 Buyer SBU's within the organisation and the to the Value network



The research identified misalignment of process between (1) the procurement of an outsourced services provision and (2) the management of the R&M service delivery. This impacted the service delivery perception of the resident and raised "trust" issues at interpersonal levels within the "Buyer" SBUs. This was exacerbated by organisations vertical structure, the targets adopted / measurement process and the skill set of the "Buyers" Procurement and R&M support team.

The desire to move to "New Public Management" and the efficiencies of the private sector "services market" was a challenge to the traditional bureaucracies of public administration. (Horton, 2003, p203). Further support for NPM was provided by a structural change to create the autonomous agencies, (within the sphere of this study - the creation of the Housing Associations - out of the Local Authorities housing departments). There was a desire on the part of the "architects" of NPM for greater transparency in the delivery of public services and consequently a plethora of "targets" were created which related to the "new" organisations ability to satisfy the expectations

of their Stakeholders. The structure and operational processes of the old Local Authority “Housing” department have generally not been challenged. Consequently this has the potential to negatively impact the achievement of new desired performance objectives. A perception of HA performance being reflected in the output of the resident’s surveys conducted by the HC, (2006) and TSA, (2008).

“Buyer 1” was unique within the study. It had a retained a R&M operation team that self delivered services within a 35 miles radius of its “heartland” and, used outsourced subcontracted services throughout the rest of the UK.¹²¹ It managed its DLO via a service level agreement, and had no formal contracts for the delivery of services with its contractors. It did not formally review the delivery of R&M services. The ethnographic study observed the internal relationships between two separate SBUs¹²². Whilst this relationship was dynamic in “Buyer 1”, it highlighted a general lack of internal process on behalf of the “Buyers” per se as to how they should work within their business and the Value network. A principle objective for the “Buyers” is to manage the “Supplier” to achieve a consistently high service quality for their customers - the Residents. The ethnographic study identified shortfalls in the level and quality of service delivery, which were measured by complaints received and “open jobs”, some of which were incomplete for several months. A critical measurement for HAs “void properties”,¹²³ and their ability to “turn round” empty properties, refurbish them and re-let them. This was a source of consternation for the “Housing management” team who were critical of the “Asset management” team’s ability to prepare the properties to be re-let. The consequences of these actions potentially negatively impacting the revenue stream of the HA and external relationships with the commissioners of sheltered housing in certain geographical locations.

“Buyer 2” and “Buyer 4” had grown exponentially through acquisition and amalgamation. Within these organisations the perception of the “procurement” teams was that the inter-organisational FM /Asset management teams responsible for R&M delivery were not up to the task *“.....colleagues who are responsible for the management of major contracts...have limited skills, experience and knowledge in*

¹²¹ Buyer 2. Had a mix of DLO and outsourced labour, but following a structured review had made the decision to outsource 100% of its services delivery.

¹²²The Housing Development team and the Asset management team. Further details of the ethnographic study are within the appendix

¹²³ Properties without tenants- with a resulting loss in rental income

contract management” KB2. This was exacerbated by geographical “native” practice which was influencing process design at a local level in a bid to achieve a level of “workability” with the volume of activity which they were facing. *“Who thinks about design, when everybody is talking about delivery”* NB 4. (du Gay 2000).

“Buyer 2” & “Buyer 4” had adopted private sector purchasing methodologies, primarily through the appointment of ex-private sector procurement directors. In the case of “Buyer 2” it was recognised that there were operational tensions within the structure of the organisation due to indifferent management practice and R&M delivery and management capability – as a consequence the decision had be taken by the Executive to re-engineer the whole business and focus on procurement as the key strategic competence. This would set the commercial agenda for organisation¹²⁴. “Buyer 4” had adopted a similar commercial procurement practice, which had created purchase cost savings against budget, but which had failed to realise the desired levels of service delivery in practice primarily due to geographical variation, issues relating to variation in sub contractor management and smaller sized contracts.¹²⁵ During 2011 they embarked on a major restructure, confirming their strategic intent to gain “control” of their business.

Generally within the Social housing industry sector it could be argued that R&M process design is failing to achieve the external fit with the environment. Consequently creating higher transaction costs within the Value network (Williamson, 1996) and delivering a lower than expected service offering for its customers. (Gronroos, 1984)

The management of performance

Fitzgerald *et al* (1991) highlighted the complexity of measuring performance within services industries specifically relating to “intangibles”.

Buyers – Managing performance

“Does service delivery reflect what we wanted to purchase?” RB3

The interviewees frequently highlighted the contractual performance review process. The “Buyers” cited limited knowledge of the R&M services and their delivery which raised issues relating to their management capability and skills. The question being whether the requirement was to review task or people and the risks posed. There was an

¹²⁴ They decided to completely outsource R&M delivery and to TUPE their DLO

¹²⁵ These being the “defence” measures espoused in “Cleaning up the Mess” Inside Housing 2012

expression of a feeling of “inferiority” within the review process, with the capability to manage the process being supported or undertaken in some instances by the use of external contractors. Their feeling of “inferiority” being born out of a lack of trust, insufficient experience and a fear of opportunistic behaviour on the part of the Supplier?¹²⁶ There was an acknowledgement that this additional managerial support did increase *ex post* transaction costs.¹²⁷

A feature of the “Buyer” hierarchical structure is “Grade” management, where individuals seek promotional opportunities for grade advancement, which may negatively impact R&M service operations management in the short-term. SRB ***“The difficulty within the public sector is that people move around their businesses on a role by role basis.... There are examples of people who have worked in estates departments with no experience, albeit they have worked for the authority for 20 yrs – and they get there because there is a grade that needs filling and the organisation needs to find a / fill a job at that grade”***. Three of the “Buyers” interviewed questioned whether they had the capability or the resources to manage the contractor review process. A position supported by the NGO1 & NGO2 who suggested that the lack of capability was impacted by a “lack of ownership” of the review process and a lack of competence in relationship management. (See Section 4.5.5) All contracts have by definition a role of “Contract Administrator” who is designated as the “Buyers” owner / manager of the contract. There was consensus within the “Buyers” regarding the skill set that was desirable for this position. A position supported by the Industry commentators, and one generally ignored in practice!

Several of the “Buyers” questioned if the metrics being reviewed reflected what was required contractually or the level of actual performance being delivered. (Brignall and Ballantine, 1996) With several believing that the contracts should have been more specific in their drafting or that the contract did not specify the desired outcomes sought. (See Section 4.3: Contracts) Management of contractual performance is by the KPI without an acknowledgement or understanding of how the KPI’s are achieved, how the KPI data is captured, or if the KPI’s are critical to the services objectives. (See Section 4.4: Measurement)

¹²⁶ Or own colleagues who had procured the work within a “suicide bidding” tender process.

¹²⁷ And was never budgeted for.

The procurement process (See Section 4.2: The Procurement of outsourced services) routinely stated within the contract notice that all suppliers used telemetrics¹²⁸ as part of their FM service provision. All “Buyers” with the exception of “Buyer 1” had web access to their “Suppliers” live service delivery data. In practice the opportunity to maximise the information provided within the Value network was not taken, most of the output from the telemetric suppliers was used reactively to support volumetric measurement as opposed to proactively to effect improvements in service delivery.

Suppliers – Managing performance

There was clear evidence of MBO in all the “Suppliers”¹²⁹ at the point of service delivery. All were comfortable with the numerical / volumetric output which was linked to “productivity” and reward. Computerised operating systems and the use of technology were utilised re-enforced MBO. Additionally, all Suppliers measured cost and value via a form of CVR at the contract level. There was no evidence gained from the interviews that the contract KPI’s were used as internal measures or to develop service delivery standards. See Section 4.4: Measurement and Section 4.3: The Contract – Suppliers perspective.

“Supplier 1” had developed their performance management practices and had implemented a balanced scorecard which was drilled down to contract level. Within the scorecard, the principle operational measurements of service delivery at a field level were engineer utilisation¹³⁰ and quality¹³¹ and associated metrics for the business support unit / call centre. All the operational SBUs were linked via metrics and success had to be achieved in all business units for certain performance bonuses to be triggered. “Supplier 1” used the outputs from the operating system to drive their pricing model. The pricing was dynamic and gave a detailed and accurate assessment of the actual time and cost to complete works which could be related to the SOR’s. This information was used to procure suppliers and to compile whole life data for the various housing archetypes. Additionally, “Supplier 1” used this understanding of activity/ utilisation to better manage capacity planning to trigger recruitment for helpdesk staff and additional trades. However it also adopted an accounting based a CVR process which created

¹²⁸ Vehicle tracking

¹²⁹ With the exception of the DLO being managed within the operations team of “Buyer” 1 where there were no objective measurements of service delivery.

¹³⁰ An expression of volume and time , as opposed to working either 8 hrs or completing “x” jobs / activities

¹³¹ First time fix rates and return to completed jobs.

conflict between some of the board members. With CVR figures being used to calculate financial incentives at the “board” level. Whose figures actually reflected the performance of the business?

Managing for Quality and Value.

Several questions were put to the “Buyers” in terms of their perception of “Quality” and “Value” within the context of management and measurement structures. The understanding of value and quality and their “standards” varied between the “Buyer” interviewees. The general view being that “Quality” is achieved by the delivery of the services.

“I think that it is about doing the job properly. Quality only becomes an issue when a lack of it is discovered”. MLD

The contract award evaluation criteria is predominantly based on the “Most economic and advantageous tender” which is typically weighted on a 70:30 basis of *“Price versus Quality”*. “Buyer 2”, as a top 5 Social housing provider successfully procures £145.0m of R&M services per annum¹³², but acknowledges a lack of competence in its ability to manage service delivery. The impact of strong skills or well developed management capability in a specific SBUs and its ability to distort the overall performance of the organisation was identified within in all the “Buyer” interviews. It was not however an unintended consequence but a source of power and influence with the organisation. (See Section 4.6: Supply Chain Management and Business Relationships).

But is doing the job “Quality”? My research identified that has been an assumption in the past within the Sector that reaching people and delivering services constituted “effectiveness”¹³³ with SPV1 describing quality as *“... a misnomer it is nothing more than doing what you are contracted to do”*. Is “Quality” a human construct that relates to the capability to design effect and manage service delivery to an agreed standard? Consequently, is a failure to achieve the agreed standard poor “Quality”? Clearly the definition and measurement of the “standard” is critical. Gummerson (1998) indicates that quality is “perceived by the “user specialist” - the customer and expressed as customer satisfaction, value to the customer and revenue to service supplier”. Additionally, he develops his argument to include what he identifies as “Customer to

¹³² The measure of success being the value paid for the volume of the services obtained against a pre ordained budget.

¹³³ Little must have changed in the 16 yrs. Is this a public sector perception?

Customer” interaction which is a feature of outsourcing and the Social housing market place. The “Buyers” of outsourced FM services are perceived to add value in the relational exchange for the Residents, suggesting that this calls for “novel” approaches to management, “as current management theory and practice are not sufficiently sensitive to the customer’s role in services”. (p10).

Kok *et al* (2011) distinguish between “value in use” and “exchange value”. “Value in use” refers to the specific quality of a service or task, which the user experiences in relation to their need”. The “exchange value” is “the value and monetary amount or price the user is willing to exchange and the risk that the user is willing to take” (p252). The actual assessment of value is dynamic and relational, and is determined by customer perception. However, within the context of the research project the delivery of R&M services was a key indicator for the Resident to express overall satisfaction with their landlord. The management processes observed could only be deemed as traditional housing management practices, and by the “Buyers” admission failing to achieve “value in use” for their customers. Value for the “Buyers” within the context of this study is “exchange value”, as it procured within the context of the contractual relationships. Low “value in use” is only an issue for the “Buyer” when it is discovered, i.e. a stream of complaints.

Examination of the “Buyer: Supplier” contracts reveals that there are generally no direct links to R&M service performance and the Residents. Consequently the unintended consequence of R&M service incompetence and its inconvenience caused to the Residents can be deemed as Taguchi’s (1986) “loss to society”. The only source of recourse that the Resident has is with the “Buyer” via their tenancy agreement and the Housing Act 1980. Andreassen (1994) suggesting that where public services operate as monopolies, dissatisfied users who wish to improve service performance have no means of doing so other than to voice their dissatisfaction. It could be argued that economic theory has analysed monopolistic markets in terms of “offered quality” and established that improved quality equates to greater costs particularly when a lack of management has to be replaced by performance control by external authorities, i.e. HC, TSA. (Keehley & Mac Bride, 1997). This dichotomy is considered within Section 4.2: The Procurement of outsourced services.

Generally the “Buyers” considered to have obtained good value if the services procured were delivered for the price at which the contract was awarded. This is contradicted by the data identified within the HC and TSA reports, and potentially creates a dichotomy between “Value in use” and “Exchange value” within the “customer to customer” interaction. The impact of short term contracts exacerbates the issue due to a lack of investment in service delivery by the “Suppliers”.

A final issue relating to management of performance is the appropriateness of a contingency perspective, which recommends sensitivity to variations in the organisational context and boundary conditions. Lam (2008) suggests that from a strategic management perspective managers should always review the technological, social and economic changes, and seek opportunities to develop and improve organisational performance relative to competitive changes in the market place and in customer expectations. Sulek & Hersey (2010), argue that all systems and processes “are subject to forces (such as entropy) which will increase variation and reduce process performance over time”. (p478). The use of Operating Systems by FM service suppliers, frequently sought as an “Order Qualifier” in the procurement Contract Notice was a performance management tool which was not “readily” adopted by the industry.¹³⁴ With HAs considering splitting or bundling service delivery by defined segmentation as a defensive measure against *ex post* opportunistic behaviour (“Clearing up the mess”, Inside Housing 2011). The possibility of 7 suppliers working on the same operating platform is remote. The capability of HAs to significantly develop service delivery has to be compared and contrasted to the transaction costs of managing 7 FM contractors. The research considered the “cost” of contract management in terms of time and finance.

There was a view from “Buyer 3” that the cost of contract management was “immense” and that they were taken aback by the level of involvement in multi-tiered groups to which there was a binding contractual attendance requirement- additionally their belief was ***“We have “paid” for this all this bureaucracy within the tender price - and the contract is open book!”*** RB3

“There is a desire for the sector to move to a partnership approach and demonstrate modern procurement practice. The smaller HAs generally do not have the resources

¹³⁴ Although a contractual requirement stipulated within the procurement process, this is frequently not enforced by the contract Administrators who have to manage supplier’s service delivery.

available to manage within these types of frameworks. Larger HAs have the resource but this is an administrative cost, and generally they do not have the capability” BB3.

Is this a case of managers having to deal with the unintended consequences of previous actions? Gray (2009)

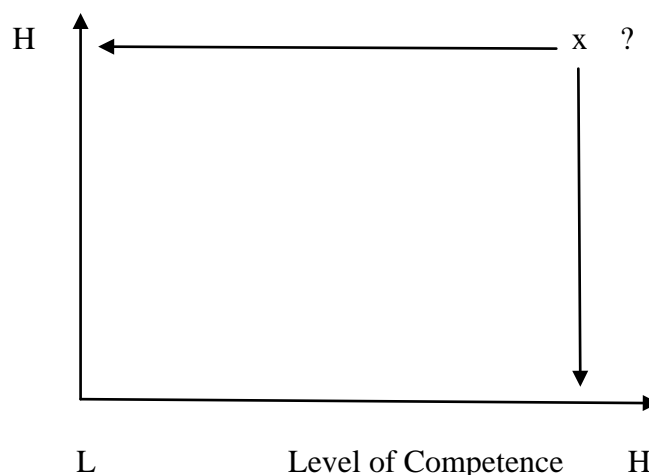
Management Skills

There is a substantial body of literature which has attempted to identify the management practices required to improve service performance, but much of it is theoretical and practice light (Lee *et al*, 2000). The challenge for the management cadre of both “Buyers” and “Suppliers” is multi-faceted. For the “Supplier” – The strategic positioning of the organisation within the market place and the achievement of fiduciary requirements, the management of outsourced services from within their supply chain & FM service delivery and the contractual and relationship management of their “partners” within the Value network. From a “Buyer” perspective, the positioning of the business to comply with their provision of housing services via Government & NGO’s relating to fiduciary practice, compliance and the management of their outsourced suppliers to financial budgets.

The notion of competence (competere – Latin verb “to be suitable”) was originally developed to describe an individual’s ability to respond by the contingent demands placed upon them by the environment. Lewis (2003) suggests a competence model where the level of managerial competence is expressed as a requirement of the market, but fails to address evolution, and how competence is enhanced or increased. Does a market create its “ceiling” through tradition, practice and dogma?

Fig: 4.25 Management competences

Level of Market demand



This concept as interesting as it is does not develop how the competence threshold for each market is assessed. Equally as markets develop, is there a need to flex the competence level and how is this to be achieved? Equally what is the construction of a competence quotient? Is it driven by a role within an industry or a role across industries? What is the impact of protectionist behaviour by the dominant group? This stifles entry and therefore the evolution of thought and practice – re-affirming “traditional practice” in the process.

Management competence - Strategy

“There can be little doubt that “Quality” is nowadays among the most critical of aspects for the strategic management of a services firm”. Robeldo (2001, p23) However there is a controversial debate referring to the conceptualisation and measurement of Service Quality within FM. (Tucker & Pitt, 2009) where there is a propensity to either rank everything in a league table by benchmarking¹³⁵ or categorise with a “number”.¹³⁶

Buyers

As discussed (Section 4.1: Structure) the practice and structure of the HAs is in theory guided by the KLoEs. A at NGO2 suggests that “*NPM and its impact on running a business, procuring services and managing delivery and relationships are all new skills for the HAs ... which will be aligned to the type of organisation that they are – they all have different characteristics depending on their history*”, developing the idea that we all start the process from differing positions, consequently, putting additional pressures on “standardised” processes and practices. The unintended consequences are increased transaction costs.

The cost of R&M services and operating budget are key drivers for the strategic intent of HAs , “*...which may be influenced by access to and the cost funding their organisations (R at Dept of C& LG) of which is further exacerbated by polarisation in the “Buyers” and their supply chain where complexity of size manifest itself in the procurement practice required to meet the needs of the organisation and the desire to achieve services at a price which in turn is reflected in contractor capability and service output*”. (R at Dept C & LG)

¹³⁵Developing the concept - We are better than the average

¹³⁶ Confirming a concept - We are better than the number below us

As discussed, “Buyers 2 & 4” claimed a core competence in procurement practice, demonstrating a capability to ensure a national supply of R&M services for highly competitive price¹³⁷. “Buyers 1 & 3” questioned if they had that capability within their structure and management cadre, and so utilised buying consortia and procurement consultants to assist in the selection and procurement of service supply, with the corresponding increase in *ex ante and ex post* transaction cost and the increased risk of “supplier” opportunism. There is a further “step away” in terms of establishing a “Buyer: Supplier” relationship and a “*...feeling of buying a commoditised product off a shelf*”.RB3 Additionally, the issues relating to “suicide bidding” are not addressed and were experientially increased through the selection of the larger national contractors supplying R&M services to the smaller HAs. However, for all the “Buyers” interviewed the achievement of the price equal to or less than their “budget” remained the overriding “selection” criteria within the tender award process. See Section 4.2: The Procurement of outsourced services.

Relative to this study was strategic intent and the position adopted relating to the delivery of services. As stated, “Buyer” 1 desired to totally self-deliver R&M services. However they did not routinely measure “quality”, and examination of internal documents and the outputs from the ethnographic sessions identified conflict between the actual levels of performance and those reported at “Board level”, which would potentially question the Executive strategic choices (Johnson & Scholes, 1999).

“Buyer” 2 was a “national” housing provider who had a mix of DLO and outsourced services. Following a strategic review they had elected to tender all their R&M works and to go to 100% outsourced services delivery. Additionally their analysis of the cost of self delivery of R&M services identified that they were economically unsustainable “*...they were a classic example of a monopoly operating without competitive challenge*” KB2, and that there were economies of scale to be gained through effective procurement programmes.

“Buyer 3” outsourced service delivery but expressed a desire to “take some of the services back in house!” They had experienced poor quality of delivery and were

¹³⁷ Better than the last financial year and below the budget of the current financial year

suspicious of the contractor, believing that they were not achieving good value even in an open book scenario or cost effective supply.¹³⁸

“Buyer 4” – a “national” social housing provider had adopted a 100% outsourcing policy for R&M services deliver¹³⁹. Having reviewed their management capability they concluded they did not have the capability to manage self deliver, and the interviewee expressed a doubt that they had the capability within their regional structure to manage the outsourced suppliers.

Both “Buyers” 2 & 4 had data which challenged the competence model of Lewis. All the organisations espoused a corporate strategy as being defined “...as that concerned with the overall purpose and scope of the organisation” (Johnson & Scholes, p11), but to some extent they were challenged by the operationalisation of their strategy and so sought to minimise the exposure to risk that outsourcing entailed. (See Section 4.3: The Contract).

Suppliers

“Supplier” Strategic intent was as discussed in Section 4.5.1, the interviewees advised that strategy primarily related to creating shareholder value and irrespective of the words was “numbers” driven. “*Achieve X % profit and grow market share “increase shareholder value”*”.MM3 However in terms of design and content it followed a corporate template and there was consensus within the interviewees that the strategy was not owned by the “management” as it cascaded through the hierarchical structure as evidenced by SBUs and geographical variance in performance and compliance. (du Gay, 2000)

Management competence – Operations.

Lewis (2003) links the management of operations to the analysis of organisational competence suggesting that operations management has increasingly addressed the alignment of operations and the market or industry in which the organisation operates. A unique feature of this section of the FM industry is high volume of service activities, supply chain interaction and TUPE. As a result, informal benchmarks are abundant, most of which are used to impede levels of productivity to those within a traditional

¹³⁸ There is a potential saving of the 20% VAT element of the service provision for RSL who self delivered services

¹³⁹ At the time of interview they were also actively looking to outsource other service and operational activities

“range”, based on “old” methodology and “old” technology (See Section 4.4: Measurement). This impacts revenues, profitability, and service delivery. However, are the “Supplier” management practices and the design of the service delivery truly aligned to the “procurement requirements” of the “Buyer” or the actual requirements the market place as dictated by the “Supplier”?

There was a belief within the “Buyers”, that the levels of management skills were linked to the discipline in which they worked. e.g. there are under graduate housing degrees and qualifications from the Chartered Institute of Housing which are a prerequisite for advancement either within the HA or the industry, with a similar requirement for financial positions i.e. CIMA, ACA. There was no evidence of similar practice for FM management. Generally, Asset operational management was deemed by the interviewees to be of a poor standard driven by a “competence trap” (Karapetrovic, 1999) and managerial operational behaviours (Haywood-farmer, 1987; Mudrak *et al*, 2004) driven by bounded rationality. (Lewis, 2003)

“Control of public service quality is a recent trend within the context of public sector management” Ancarani & Capaldo (2001, p331) propose that there is a requirement for change at both an organisational and technical level. Further suggesting, that management skills should be comprehensive “not only in the consistency of service and in meeting customers’ expectations, but also in the efficiency of technical and organisational process”. (p333) the challenge for managers relating to evaluation, specifically the aim of evaluation being carried out and the evaluation method. They do not discuss capability or the motive for action.

MBE suggests “..... *it is about intelligent client management, and this needs someone who has a “business brain” on them... it is about what you can do as a client to ensure that your contractor can meet the required levels of performance and delivery ... generally when contracts fail in this sector they have not solely been contractor issues, they have been badly managed by the clients*”.

There is evidence of increasing commoditisation of R&M service delivery, which is being exacerbated by the procurement process (See Section 4.2: The Procurement of outsourced services) and the use of standardised pricing methodologies. This commoditisation of activity, shapes both management practice, which fits the

bureaucratic model of managing by objectives (MBO) Dahlsten *et al* (2005) and the traditional mechanised working practice of the operatives, in theory further deskilling them in the process, (Buchanan & Huczynski,1997) but achieving a level of consistent service delivery - Macdonaldisation, (Ritzer, 1993).¹⁴⁰

SRB argues *“from a clients perspective all you actually want is efficiency – the SOR ensures that you do not pay for the inefficiencies of your subcontractor. Everybody knows what they are paying for in the pricing of a specific task and they assume a set standard for quality – if the job is not correctly completed or they take 4 times as long it is at their cost”*. The provisos being, 1.the time to complete the works and 2. The quality of the service activity. The impact of the *ex post* transaction costs considered within a SO? SRB additionally suggests *“...that SOR’s work well in conjunction with an effective “operating system”, additionally they can be seen an administrative burden if it is not done properly. A small HA with 5000 properties would expect 20,000 repairs per year. That is 20,000 jobs reported, 20,000 jobs deployed, 20,000 jobs hopefully fixed first time and 20,000 jobs invoiced. Additionally where a price per property model is adopted this poses operational challenges relating to the development of Non- activity”*.

MBE commented that he frequently asked HAs *“How much it costs to run a contract ?”*, with most advising that it was the “ invoice cost” that they paid for the services, indicating that they did not track or measure *ex post* transaction costs.

All “Suppliers” highlighted a weakness in the management of operational service delivery. The issues identified a predominance of trade skill base over managerial skills and a greater value of perceived experience and technical knowledge over managerial capability. There was a clear “construction” culture as opposed to a “service” culture in all the organisations interviewed, which was re-enforced by the structure and issues relating to “Span of control” within the businesses. There was an expression of “doing and not managing” and comfort with the MBO working practices of managing numbers and activities, not people and outcomes. This was re-enforced by the traditional working practices of the industry and the use of SOR methodology. Is this a feature of the Social housing market place specifically relating to work process design and resource management? Or a feature of public sector outsourced FM contracts per se?¹⁴¹

¹⁴⁰ Consistently average!

¹⁴¹ My work in FM in different outsourced public sector markets would indicate that this is “in common”

Management competence: people and the impact of TUPE

Are the management challenges exacerbated by TUPE? This a major feature of this market, where a readymade workforce (skill capable or not) comes with winning the contract. The interviews provided mixed responses, with all recognising that you gained a work force and that a TUPE'd work force did not reflect the skill capability or productivity alluded¹⁴² to in the submitted OJEU bid document submitted. The potential consequences are “performance gap” in service delivery that differs from the clients “contractual expectations”. As Service Quality is expressed as $SQ=P-E$, is the bid process “designing in” initial contractual failure and contributing to the “perennially failing: never actually achieving” debate? As Gray (2009) states “The unintended consequences may always be with us – but some are more foreseeable than others”.

Additionally, there has been much written about the recruitment, selection and training of employees but little with regards to understanding the impact of TUPE on motivation for the TUPE'd and the incumbent workforce within FM service providers or the link to variations in service performance due to incompatible goals and objectives. If a workforce is frequently transferred from employer to employer due to successful tendering and contract wins,¹⁴³ with little investment in training and development, what is the impact on service delivery and the consequence for both “Supplier” and “Buyer” and the employees? Does the meaning of work change by “Brand”? The unintended consequences - increased inertia and greater transaction costs due to imperfect commitment?

DS3 “ *it is remarkable that a HA which has experienced variable levels of quality relative to their contractual expectations of service delivery, goes to market rather than extends a contract period to seek an economically improved deal, and expects the service delivery to be quantifiably improved by the new contractor*”. Additionally at a “round table” event sponsored by Inside Housing. July 2011, a delegate “Gordon Brockington” caused consternation by proclaiming “*We look at a return on our investment over the course of the contract.... our worst case scenario is a contract of 3+1+1+1 yrs. You are never going to get anything from us because we are not going to put any money into it*”.¹⁴⁴

¹⁴² Or the productivity expected to be achieved within the pricing model of the service supplier

¹⁴³ Almost always achieved via marginal pricing

¹⁴⁴ Brockton was a senior executive with a major supplier of outsourced services to the social housing sector. This organisation ceased to trade in 2012,

Commenting on the de-professionalization of managers working with a commoditised service delivery process, Grey, (2009) suggests “That it may well strip out those (managers) with the greatest degree of technical knowledge and experience of the services that the organisation offered”. Morgan (1997) suggests that “the mechanistic approach to organisations tend to limit rather than mobilise the development of human capacities, moulding human beings to fit the requirements of the mechanical organisations rather than building the organisation around their strengths and potentials”. Several writers discuss the impact of standardisation of working practice (Johnston & Clarke, 2001; Slack *et al*, 2009) but when considered within the context of goal displacement (Merton, 1940) it enables the process of evacuation from the meaning of work, with the unintended consequence of breeding low commitment and low quality, due to a focus on the means and not the end, and simultaneously the erosion of employee discretion. The operationalisation of management practice links to market structure. Giddings (1984) proposed the concept of Structure – Agency, and in the operational management of commoditised FM services it is clearly not case of *either/ or* but *both/ and where* the duality of structure and action is clearly evident. Here structure conditions and shapes action, and action reproduce and re affirms structure.

Opportunism. The issue of agency.

My research identified the potential for opportunism within the relational exchange and indicated the areas where the “Buyers” interviewees believe where they were at risk. From the “Buyers” perspective, evidence of opportunism was discussed which impacted both *ex ante* and *ex post* transaction costs. The procurement process covers the issues of *ex ante* costs, with the link made here to management skill and the processes adopted to fulfil the OJEU procurement obligations. The issues being bounded rationality and information asymmetry. “*Do they know what to ask for? Do they know the relevance of what they have been given? Can a decision be made that satisfies the requirements set out in the contract notice and realistically addressed the service needs of their clients?*” SRB. A Position supported by Dale *et al* (2001) who discussed the impact on the clients when the delivery of services was not in line with those purported or “expected”

Relating to the delivery capability of the “Supplier”, BB2 proposed that “*it is a route that we are driven down. In most cases contractors have these method statements “off pat” –they have provided all the info that comes with it –but in reality it does not tell you if they are good bad or indifferent. References from other HAs can assist, but*

they must be taken by people who really understand the services that we are proposing to buy and we take buying consortia references with a pinch of salt

Opportunism is a two way street. “Suppliers” cited instances within the tender process of information asymmetry, relating to the provision of information which would (a) inflate the tender price - information relating to staff levels and TUPE information, and (b) reduce the tender price – to achieve low competitive tenders prices. “Buyers” suggested the suppliers frequently supplied information as part of a tender submission that was irrelevant, retentive or misleading, an example being method statements. (Dale *et al*, 2001). Grezeskowiaki *et al* (2009) suggesting that exchange partners are motivated by self interest.

The contract management process and performance review process highlighted the issues of moral hazard. The ethnographic study of “Buyer”¹ identified both vertical and horizontal control of information within the SBUs. This was via controlled and distorted information and bounded rationality. The motive for moral hazard was discussed with PB1, who cited that his role had moved so far from what he believe it to be, that he was managing the information to create a picture of what he believe people wanted to see¹⁴⁵. (Kirkbride *et al* 2008) However his direct reports were aware of his position and were using the situation to their own political advantage, which was observed over the 4 months of the ethnographic research and which resulted in the Asset management team ceding control of a critical process to the Housing team.

“Buyer 4” expressed issues with the review process, citing the capability of individuals to manage and direct current and future actions. This raised further questions, which were used to develop future interviews. Some of their specific responses were

- Management motive and cultural issues - goals not achieved ***“I am not bothered about the review process - no one goes the extra yard to improve contractor performance”*** Buyer 4. Is outsourced service performance important to the manager and their perspective relative to the overall positioning of the business? ***“We do housing – My team do procurement”***. (Kok *at el* 2011)
- Management working practices – skill development and exposure to reviews/ working practices limited. ***“does not drive optimum efficiency”***

¹⁴⁵ The management board of the organisation

Within the “Delivery Performance Review” process and its management - All the performance data to be reviewed was nearly always provided by the “Suppliers”. Reviews followed the same template format and outstanding issues were carried forward. Frequently it was not in the format or depth required by the contract – but this was never addressed. Jensen (2003) suggesting that actors will exploit the gap between what is measured and what is wanted. MBE suggesting, that this is constructed by the “Buyer” environment and the constant rotation of contractors due to the length of contract period and subsequent changes in presentation format. Identifying a potentially negative position, this would decline further due to the reduction in “revenue” size of the contracts or geographical bundling. Dale *et al* (2001). Was this as a consequence of ineffective management practice by the “Buyers” management or excessive trust or ulterior motive? That was not established during the research process.

From a “Suppliers” perspective, bounded rationality, moral hazard and information asymmetry were highlighted as the principle “enablers” of opportunistic behaviour. This is driven to an extent by the pricing methodology adopted within the procurement process. A case of management having to deal with the unintended consequences of previous actions? i.e. SORs can create an opportunity to job build and at the other end of the continuum, a price per property could drive “non-activity”. Either extreme position increased transaction costs and diminished trust. Externally, Information asymmetry was frequently suggested as being practiced to ensure that “delivery against expectations was on track” and to influence increase loyalty towards the supplier in relation to their experience of cost performance (Stank *et al*, 2003). Additionally, to build resistance to switching costs (Lam *et al*, 2004) if the performance was not as expected or in line with contractual requirements or as Andressen and Lindestad, (1998) argue, in support of the “brand leaders image”.¹⁴⁶

Internally the “Suppliers” issues related to goal and target setting for productivity thresholds, where results and operating processes were ignored. Quality control items are being made to fit contractual requirements and performance data being misreported – the issues relating to the bid team submission and the reality of the service delivery team in provision of FM services. This was highlighted throughout the hierarchical structure of the organisations. Bounded rationality on the part of line managers, with a

¹⁴⁶ With a passing nod to Connaught and ROK

motive of an easy life? or the potential for financial incentives? both being cited as the principle drivers. Additionally Dale *et al* (2001) provide evidence of the transient nature of senior management – the “milk and move” scenario, driven in some instances by the use toxic incentives, which increases a lack of stability within the organisation.

Managing the relationships

Lonngren *et al* (2010) suggest that supply chains in this sector evidenced a marked tendency for waste and inefficiency, citing poor design in process and relationship management practice. Supply chain management is “...the task of integrating inter-organisational units along the supply chain and coordinating labour, materials information and financial flows in order to satisfy customer demand” (Stadtler, 2000). The building blocks of what is deemed as a “cooperative strategic alliance” (Love *et al*, 2002) is central to an efficient business relationship, with supply chain optimisation drawn from established management theory. (Emmett & Crocker, 2006; Ellram and Sifred,1998).

The trading relationships within the industry are predominantly shaped by the form of contract, and the internal organisational relationships through which the service proposition is developed and co produced. (See Section 4.6: Supply chain management and Business relationships) The OJEU procurement process and the “Buyers” market has not shaped the “Suppliers” operational structure and practice, as evidenced by the variance in all three “Suppliers” strategic positioning. But is the relational exchange or the relationship managed at any point in the Value network? Is it a symbiotic or adversarial relationship?

Section summary

The research identified that the organisations central to the relational exchange were bureaucracies. The design choices of the “Suppliers” made either at a strategic or operational level were not directly influenced by the Social housing environment or specifically the AC’s KLoEs. Construction thinking and G-D logic pervades the supply chain where processes have become commoditised de professionalising and de skilling in the process. This is driven by TCE and low cost strategic intent to provide Value in exchange within the procurement process.

NMP and the adoption of “market” influenced technology and process when allied to traditional operating structure has increased bureaucratic practice negatively impacting the achievement of the desired performance objectives within the Buyer organisations. Set within the context of the research was the management dichotomy of qualitative versus qualitative, and the capability of managers within the Value network. Lam (2008) espouses that the “ultimate aim of managers is to ensure that resources are effectively and efficiently used to accomplish organisational objectives” (p227). The A C (2005) advocates that social housing services should be monitored and measured to ensure “**Value for money**”. Whilst it details what should be measured from the perspective of outputs, it fails to mention what management input should be adopted in the management and monitoring process to improve service delivery. As a consequence strategic competencies have the potential impact the delivery of the service proposition.

Both “Suppliers” and “Buyers” are measuring performance at the point of delivery with volumetric and temporal measurements in the form of KPI’s. (See Section 4.4: Measurement) These may be enshrined in practice, enhanced by procurement activity and contractual structures - as a defensive measure against opportunism and poor management practices. However, due to misalignment and goal displacement, knowledge gaps are created which have the potential to misinform and consequently misguide management practice. This challenges structural contingency and strategic choice theory and the fit of the organisations to their environment.

The performance review process and the generation of management information creates the potential for opportunism when linked to low skilled management capability.

From a management perspective there is a requirement for performance outcomes and a different management focus to deliver them. This does pose questions relating to bounded rationality (Lewis, 2003) and competence traps (Karapetrovic, 1999). Within the relational exchange, the principle question relates to the management capability of organisations within the Value network, and its attempts to mitigate or marginalise trading risks and the unintended consequences that this poses for increased transaction costs.

TUPE is a feature of this market place. This potentially has a self limiting effect on service delivery due to a lack of investment in the skill set of frequently transferred tradesmen which is compounded by the skill sets of the “Supplier” managers.

4.6 ■ Process: Supply chain management and business relationships.

This section considers the Relational exchange from the perspective of “Buyers”- “Suppliers” and the Value network. It discusses supply chain management, the inference of “partnering” and the impact of polarisation on the sector. Power and politics relative to “ownership” in the exchange is considered with a comment on the perspective of the “intelligent client” relative to relationship development and management.

Sub sections

Familiarity with EU policy and process

Current procurement process activity

Process within EU public procurement directive 2004/18/EU

Buyers familiarity with the EU procurement process

Contract notice design

Suppliers familiarity with the EU procurement process

The perceived inefficiency and costs of the EU policy

Organisational incentives- pressure and attitudes

The intelligent client- supplier selection and availability

Section summary

Coase (1937) suggests that traditionally only hierarchies and markets have been considered in economic science for coordinating economic activities and resource allocation. Williamson (1991) promoted the notion of collaborative / partnering relations as being characterised by the “Buyer” working with a number of “Suppliers” over an extended time scale. A feature of these relationships the requirement of higher levels of communication, interdependence, relational-specific investment and commitment potentially supported by a form of contract. Lehtonen (2006) contrasts this position with transactional approaches, in which the products purchased “...are usually non strategic and standardised and the selection of the supplier is based on competitive bidding. The amount of interaction is minimised and only a few people are involved in the management of the relationship.” (p450) Several writers have written on inter-organisation relationship types and commented on their merits and the disadvantage of various relationship types. (Mentner *et al*, 2000; Cousins, 2002).

The business relationships at the centre of this study can be considered as “Business services”, (Ellram and Sifred, 1998). Here the purchase of services, and the role played by procurement in a structural context for the “Buying” organisation is central to the delivery of their business proposition. Within the context of this study they are grouped within the “industry structure” and are considered from the perspective of “Buyer: Resident” relationships, “Buyer: Supplier” relationships, “Supplier: Supply chain” relationships and as a collective within a wider value network. See fig 4.1. Section 4. Findings and Interpretation of Findings.

There are additional dynamics at play, specifically relating to UK statutory requirements, the provision social housing services¹⁴⁷ and European procurement law, relating to the provision of outsourced services to Government bodies¹⁴⁸. The “Buyer: Resident” relationship is primarily considered from an economic sense as being “not for profit”. The supply chain, predominantly its first tier contractors are PLC’s, supported by several tiers of regional FM specialist service suppliers, all of which are primarily driven to create shareholder value. This creates a potential dichotomy in values and a

¹⁴⁷ The Housing Act 1980

¹⁴⁸ Directive 2004/18/EC relating to the coordination of procedures for the award of public works contracts, public supply contracts and public service contracts.

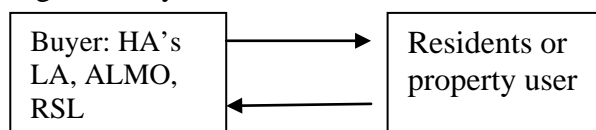
different market perspective within the “Working relationship”. All the actors within the market can be considered to some aspect “Stakeholders, and from the perspective of this study Stakeholders can be deemed as Payer, Beneficiaries and Participants. (Johnson & Clarke, 2001)

The Value network has at its centre the “Buyer: Supplier” relational exchange. The market and its practices influence the player’s organisational structures. (See Section 4.1: Structure) The procurement practice and operational processes are highly regulated, controlled and defined by the level of contractual compliance and performance measurement. Working practices are governed by contract, unions and trade bodies and when outsourced contracts are won: lost in this sector, the employees move to the winning contractor and their T&C’s remain the same¹⁴⁹.

Client side: The Buyers

From an internal perspective there are two sets of business relationships. There being (1) the relationships within the “Buyers” SBUs and (2) the organisation (SBUs) relationship with the Residents.

Fig 4.26 Buyer: Resident.



The ethnographic study of “Buyer 1” provided an illuminating insight into the operation of a HA. There were themes relating to emerging operational issues that were discussed, mitigated, traded and ignored through a process of power plays and negotiations. (See Section 4.6.4, Power and politics in relationships) The effectiveness of the “Buyer” business proposition was linked to the level of conflict and coordination (Buchanan & Huczynski, 1997) within the SBUs. The critical elements being: goal alignment and goal evaluation, boundary management and overlapping authority. There was a consistent theme in all “Buyer” interviews that there was a degree of conflict within SBU relationships in the “Buyers” structures. This was primarily based on a perception of capability, which was supported by data contained within external audit reports. i.e. the A C praising or criticising individual SBUs. It was acknowledged by the interviewees that this conflict potentially impacted their service delivery to their Residents.

¹⁴⁹ TUPE – Transfer of Undertakings (protection of Employment) (TUPE) 1981 Regulations.

“Buyer 2” Shared Business Services report. “ *During 2009 senior managers endorsed a view that certain colleagues who were responsible for the management of service contracts, who directly interface with our customers and are critical to our success, have limited skills, experience and knowledge in contract management*”.

The interviews identified several examples of indifferent working relationships between SBUs. There was evidence of zero sum games at all levels, and a lack of both economic and interpersonal trust between the business units. Within “Buyer 4” it was evidenced that services were procured which were sub economically viable, and where ultimately the R&M service provision would be constrained or the “Supplier” would exit the contract or resort to opportunistic or gaming activity to increase revenues. The interviewee suggesting that the contract gave them some defence, but he was ambivalent to the impact on the Resident, his colleagues and the transaction costs that would be created. Here the existence of financial incentives and poor goal alignment, in addition to opportunistic behaviour on the part of the actors, increased the potential for adverse selection. (Jensen 2003)

There is no formal contractual relationship between the “Supplier” and the Resident within the Value network. The TSA report (2008) and the Housing Corporation (2006) report reflect the views of the Residents relative to their relationship with their landlord. A of NGO1 suggests that “*housing management is actually about the Residents tenancy agreement. It is not about property management*”, however the chatter on the blog sites challenges this view. The blog sites monitored as part of the netnography process indicated the mood of the residents relative to the activity of the HAs pertaining to procurement activity.

“*...it is about choosing partners wisely*” Reality4all. IH 11/06/2011

“*... it involves becoming “intelligent” by employing skilled people in house to manage the contractual relationships with third parties*”. Jack Daniels. IH 10/06/2011

Equally within the “Buyer: Resident” relationship there is a dynamic which relates to tenure and time. Rarely does a Resident change HA .The Housing Corporation (2006) identifies that 74% of residents have been with their landlord in excess of 5 yrs and 38% greater than 10 yrs. 73% expressed no desire to move home. Of those who wished to move, only 20% of those residents were satisfied with the overall service of their landlord, and 19% were satisfied at the R&M performance. (HC, 2006) Identifying a

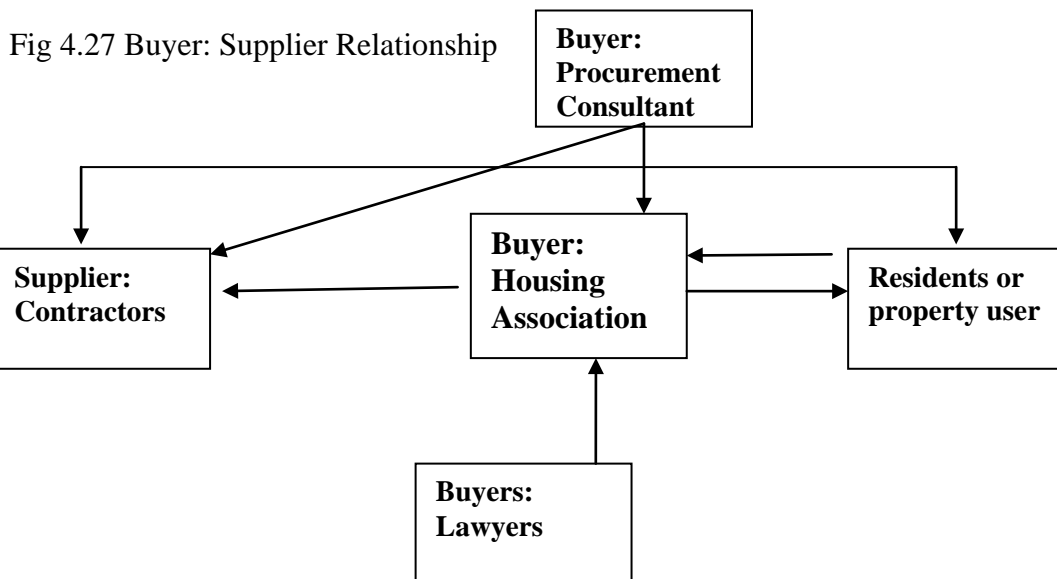
link between R&M service delivery and resident satisfaction with the landlord, I challenged the competitive nature of the HAs interviewed, asking “if within a street there were 4 HAs with identical properties why would a resident choose to rent from them?” And “what would be their USP?” It is a challenge that the industry has yet to consider as “Buyer 2” believes that the concept of competition is missing from their sector and that this potentially drives complacency. “Buyer 2” trailed the concept of the “Net Promoter” within its Resident communities. It identified that only 25% of all surveyed would recommend “Buyer 2” as a supplier of Social housing. The length of the “Buyer: Resident” relationship is in inverse proportion to the typical length of the relationship between the “Buyer: Supplier” there was little evidence either within a literary search or obtained from the interviews that this dichotomy and the impact of frequent supplier change had upon the Residents and the “Buyer: Resident” relationship. This should be an area of further research. The HAs all conducted R&M Customer satisfaction surveys. Were the principle objectives to establish the level of “Service Quality” in the service provision? The two issues identified, related to a disconnect between what “Quality” related to for the “Buyer” and the Resident, and the design and content of the survey.¹⁵⁰

With the emergence of HAs from the Local Authorities, there has been a requirement for HAs to set up management boards with a core membership containing a number of Residents. A at NGO1 suggesting that this has worked on a “local basis” but is proving problematic on a national basis, due to amalgamations and mergers of HAs, and the heterogeneous nature of the newly expanded organisations. Inside Housing 06/05/2011 reported “that Labour MPs have criticised housing associations for becoming too large and unaccountable” See Section 4.1. Structure. To address the situation The Government within its “Big society” programme has set aside funding to train 1500 residents to sit on tenant panels. *“Shapps launches tenant panels to hold landlords accountable”* Inside Housing 14/06/2011.¹⁵¹

¹⁵⁰ A position supported by the Housing Corporation, TSA, and the Audit Commission reports.

¹⁵¹ The blog comments were suppressing negative , suggesting that only “tame residents would be recommended for the training programmes

Supplier development / management. The “Buyer: Supplier” Relationship



A at NGO 1 suggests that “Buyers” and “Suppliers” trading relationships are primarily driven by a reluctance to lose control of the asset. The transfer of asset management is seen as a failure. It is wider than just the issues of R&M and is seen as a “Buyer” control issue “... *Outsourcing was often considered as a result of a failure (to do the work themselves against a continuing regime based of the constant desire or requirement to improve*”. (See Section 4.3: Contract and Section 4.5: Management: People & Process) Pottinger (1988) describes them as “... *not willing entrants to the market place*”.

Chin *et al.*, (2006) propose that the procurement process sets the initial tone of the trading relationship, which is reinforced by the contract and the capability of the “Buyer” to contract manage the “Supplier” and its supply chain. Given the importance placed on R&M by the Residents, and the influence that it has on the overall perception of the landlord, ¹⁵² supplier development and relationship management is insufficiently developed. Consequently both *ex ante* and *ex post* transaction costs are a feature of the relationships.

The cost of relationship management and development was not considered by any of the “Buyers” interviewed. AB1, suggesting that they had included the cost of monitoring

¹⁵² Housing corporation (2006) & TSA surveys (2007)

within their gross margin.¹⁵³ The “Supplier” review process typically consisted of a monthly meeting against a structured agenda, which looked backwards at the volume of work delivered and issues relating to complaints or H&S. In all interviews it was identified that the performance data provided at the review meetings was provided by the “Suppliers”. (See Section 4.5: Management: People and Process). I concluded that investment in the review process as a means of relationship development was not routinely considered.

Breakdown in trading relationships and associated costs was discussed, and the possible causes for determining service contracts. Lehtonen (2006) suggests that dissolved relationships within FM are characterised by the absence of definitions of the content and the frequency of different types of meetings between the representatives of the “Buyers” and “Suppliers”, which in turn exacerbates shortcomings in communication and interactions (p454). In addition, poor communication is a feature of this market place, which has an adverse effect on Resident satisfaction. (TSA, 2008) Specifically where the expectations of the Residents are not fulfilled and complaints’ relating to service quality is not taken into account. Consequently the trust of the “end users” in both the service provider and their HA is lost.¹⁵⁴ As discussed in earlier in Section 4.6, the design of customer satisfaction programmes was crucial. E.g. appointments’ being kept is more important to Residents than to the HA, and a “first time fix” more important to them than discussing “the job” with them. There was no evidence of a correlation between the customer satisfaction questions asked by the HA and the TSA and HC. Additionally anecdotally it was believed within the HAs that that the external reports contained a “*whingers charter*”. PB1. However, evidence gained during the ethnographic sessions identified that the internal CS reports were frequently considered in the same light.

At site level, the shortcomings in “Buyer” contract management were “... *frequently exposed, due to a shortfall in supervisor / contract management numbers and a lack of technical /functional service quality knowledge*. Buyer 2: Shared Services report. Where responsibilities between “Buyer” & “Supplier” are not sufficiently defined and

¹⁵³ Given that the primary source of revenue for HAs is Housing benefit and in the case of aged or special needs housing this could be 100% this statement may not have been accurate.

¹⁵⁴ Buyer 1 had several issues relating to outstanding repairs which were “aged” in their performance reviews

as such consensus between the parties is eroded, particularly where variations to a contract equated to additional and unbudgeted charges and fees for the “Buyers”. Relationship development was restricted due to the content of the contracts, it being deemed economically untenable for a supplier to put effort into “continuous improvement, and additionally a lack of relationship goals within the relational exchange. *“How does a contractual relationship evolve if it does not reflect the asset, its use, and the impact of a beneficial service regime”?* SRB

Polarisation of “Buyer” and “Supplier” is a feature of this market place. It was evidenced that this is a concern for the “Buyers” as senior relationships and the ability to control or influence them *“decreases with distance”* BB3, with their perceived defence being stronger and more punitive contracts, which have the potential to further increase transaction costs for both “Buyers” and “Suppliers”. See Section 4.6 Partnering

Supply side. Supply Chain Management.

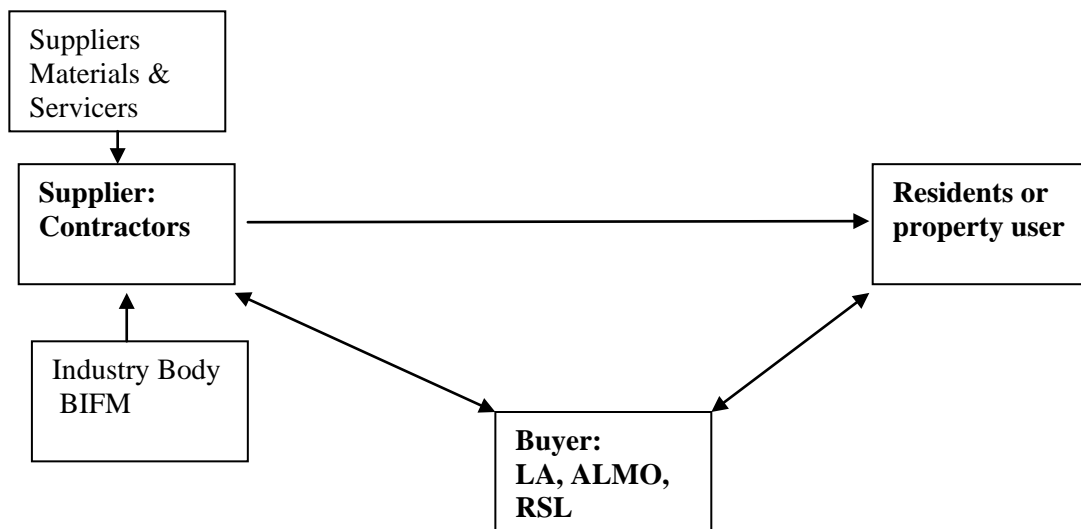


Fig 4.28 SCM

As discussed, the procurement process and contractual arrangements are central to the creation of the trading relationships between the “Buyer” & “Supplier”, and are guided by the management processes and performance metrics adopted. This is strategic relationship for both parties, (Cousins, 2005) with the “Buyers” deciding to outsource their requirements and the “Suppliers” to seeking to develop R&M service supply and delivery as a core competence. There is a dichotomy between the two concepts of Transaction cost economics (Grover and Malhotra, 2003) following a cost-driven approach and a Resourced based view (RBV) capability approach (Calatone *et al*, 2002)

which is frequently compounded by TUPE. Cousins (2005) argues that there is a cross over between TCE and RBV, with one taking greater emphasis than the other. However, with the “Supplier” procurement criteria heavily weighted in favour of Price over Quality, the key assumptions, constructs and propositions which underpin TCE, i.e. bounded rationality and opportunism, have a major implication for the management of inter-organisational relationships, specifically when contracts are agreed at sub-optimal pricing levels and where services are delivered within sub contract relationships.

The supply chain

The strategic nature of supply has been richly debated. Porter (1985) popularised strategic and economic thinking in the 1980’s with his suggestion of the “generic” strategy model. Cousins (2005) suggests that there is a link between cost focus and differentiation and the current debate on transaction cost economics (TCE) and a “differentiated” approach within a resourced based view (RBV). It was identified that the principle selection criterion for the “Buyers” was Price (See Section 4.2: The Procurement of outsourced services). As a consequence, the “Suppliers” seek to create trading margin within their supply chain at the time of procurement rather than seeking to gain efficiencies through operational practice. Again TCE, bounded rationality and opportunism due to imperfect commitment are evident. DS1 *“We have pre-agreed pricing with our sub contractors but we will still shop around to get the best price, in these austere times, price is the critical issue”*. These factors are frequently compounded where the contractual arrangements are not “back to back”, i.e. the contract terms between the “Buyer: Supplier”, are not those agreed between the “Supplier: Supply chain” either a second tier FM service provider or a parts or materials supplier. (See Section 4.3: The Contract).

Bounded rationality accentuates management issues in the Value chain. These primarily relate to the misalignment of process and contract management, specifically due to management capability and in appropriate performance metrics. Tiers of subcontractors are utilised in services delivery,¹⁵⁵ consequently, there are control issues for the principle “Supplier”, which impacts on service delivery for the “Buyer”. This stems from misalignment of procurement, where the subcontractors are engaged either on a labour or labour and material basis. They are contracted with an hourly rate or day rate

¹⁵⁵ SRB an industry commentator suggests that even the largest suppliers, are only self delivering 85% of the works, the remainder being sub contracted.

rather than a Schedule of Rates or “price per property” basis which was the requirement of the OJEU notice. However, where the subcontractors are engaged on a “Stepped back” SOR they have insufficient knowledge of their cost base to price the sub contract effectively. This impacts service delivery and performance management of the subcontractor, and frequently requires additional resources to manage for both the “Supplier” and the “Buyer”, with the corresponding increase in unbudgeted costs.¹⁵⁶ Mitchell *et al* (1997) consider conflicting interests and their impact on transaction costs.

The OJEU notice frequently stipulates the use of Operating systems and PDA’s to ensure the accuracy of information provided within the relational exchange and sub contractors do not have the capability to use the equipment or are not give access to the system, which leads to information asymmetry and the manual intervention of an IT driven solution. Ostrom (1999) suggests that this has a stagnating effect in terms of technological development within the sector. There was an acknowledgement by the “Suppliers” interviewed that this added cost to their operation, but the amount of that cost was unknown to them.

From a management perspective, shortfalls in performance, either in activity volume or service quality are not routinely addressed. This a feature of capability within the Value network due to bounded rationality and imperfect commitment. There is a debate within TCE as to the range and validity of measurable constructs that can be utilised. The three principle constructs are asset specificity, uncertainty and governance mechanisms. Asset specificity is applicable in terms of the human assets employed in the relational exchange, uncertainty relates to the environmental conditions in which the relationship operates, and the governance structures are the market and the hierarchical structure of the “Suppliers” firm and their supply chain. The effects of bounded rationality accentuate the uncertainty in the transaction process which exacerbate poor levels of contractual compliance.

Poor sub contractor control was identified within all three “Suppliers”, and was problematic for their relationship with the “Buyers”.¹⁵⁷ Johnston & Clark (2001) argue

¹⁵⁶ Supplier 1 confirmed that they have in excess of 60 quantity surveyors to support the management and billing of their service contracts.

¹⁵⁷ Buyer 1 operated a DLO. The issues relating to poor own labour management and subcontractor management were also observed.

that conditions for success within supply partnerships should contain both “strategic fit” encompassing goals, markets and expertise and a “cultural fit” relating to values, beliefs and controls. Whilst there is a strategic fit within the supply chain there is a disconnect re values to the principle supplier and a disconnect to the values of the “Buyers” and their clients - the Residents.

In a Value network that is clearly bureaucratic, the machine metaphor is applicable (Morgan, 1997) but it is not efficient and in most instances not effective, what is evidenced is what Gray (2009) terms structural agency, where opportunism is driven and supported by the unintended consequences of industry practice.

Partnering.

“We will partner with anyone as long as they will use our contract”. RB3

The concept of “partnering” within a trading relationship raised several issues. The overriding one being *“...that you will never see true partnering operating within this market place primarily due to environmental pressures and a desire to exert control”* SRB. “Supplier 1” arguing that “partnering” negatively affects the structure of the supplier organisations and increases operating costs, resulting in reduced margins when compared to traditional forms of contracting. There were several views from the “Buyers” which expressed that innovation was diminished within partnering agreements due to their design and objectives- a desire to share the operational economies of scale and operational efficiencies as the performance of the asset improved within the service regime adopted. RB 3 who had been in structured partnering agreements, citing that he *“... believed that traditional contracting with clearly defined goals and objectives was a preferable arrangement and that partnering was a frequently used metaphor for an outsourced supply relationship”*.

An emerging theme from the interviews was collaboration, specifically strategic collaboration, operational collaboration and marketing collaboration. R&M service delivery is not a fast changing business from a technical perspective (Salonen, 2004), but there is a requirement for the provision of services to be proactive and flexible¹⁵⁸. Therefore challenge, and an element of competition is required, otherwise the service concept supplied becomes unfit for both the “Buyer” and the Resident. A feature noted

¹⁵⁸ An element not frequently recognised within the form of contract adopted.

by “Buyer 2” who had made the strategic decision to outsource their FM provision and to “TUPE” their entire DLO and “Buyer 4” who had made a similar decision as their provision of services and the volume of properties under management grew. The challenge to collaboration comes from a potential state of dependency (Horton, 2003) the associated risk of opportunism, and the competitive requirements of the European tender process.

Salonen (2004) suggests that collaborative relationships can achieve the desired goals for both parties, specifically due to the context of the market in so much as:

- FM services are support services without significant strategic importance,
- FM services are routine or standardised, and
- There are many alternative service providers.

I would disagree. The TSA (2008) report, and Housing Corporation (2006) report cite the importance and relevance for R&M to the Residents, and increased polarisation within the “Buyers” increases their demand requirements and shapes their procurement practice. Additionally, due to the simplicity of service delivery there is limited availability to achieve a competitive advantage and to “stand out from the crowd” via technical differentiation. There could therefore be an argument that the delivery of services to the Social housing sector is specific and so requires a level of differentiation which considers procurement practice, the contractual requirements of service delivery and the performance metrics adopted.

From the interviews and the ethnographic study, the potential benefits gained from the trading “partnership” relationships were not shared proportionally with respect to the requirement to invest in technological solutions,¹⁵⁹ and that “risk” sharing did not exist. This is in conflict with Ring and Van den Ven (1994), and their concept of equity. Contra to this position Cox (2005) argues that the equal sharing of the benefits of “partnership” is not obligatory for the development of a collaborative relationship. MBE espousing that that *“...partnership is a concept of a relationship, which only works when there is understanding of each partners needs and drivers and when the supplier understands that the partnering relationship can work even when one partner is more equal than the other and it has to be driven by the client. The “Buyers” position being a belief that they have more to lose than the “Supplier”.*

¹⁵⁹ Both IT systems and trade skills and the technology required to implement them

However, industry commentators cite that collaborative or partnership relationships can only be worthwhile financially when structured over a longer term than traditional contractual relationships. Lehtonen (2006) proposing longer term collaborative contracts have the potential for the “Buyer” to achieve “improved profitability and cost savings, and for the “Supplier”, better margin and a steady cash flow” (p456). SRB suggesting that “*...in order to partner, the client has to be mature enough to deal with the outcomes of the relationship. A new or immature or non intelligent organisation will find it extremely difficult to partner. If they have the knowledge, experience and are willing to be involved and not operate at arm’s length then the trading relationship can work successfully*”.

Trust within the context of working relationships was explored, with all the “Suppliers” believing that trust in their operational capability was diminished by (either actual or perceived) poor service delivery. From a “Buyers” perspective, even with a contract in situ, there was an element of the relationship driven by a state of dependency, (Horton, 2003) that still required a level of economic trust¹⁶⁰.RB3 suggested that trust was not built up with organisations but individual actors within the trading relationships, citing the transient nature of employees being a source of strain in the trading dynamic. It was also perceived that as service packages become larger and trading relationships potentially longer in term, the application of standardised contracts will diminish as contracts will require changes and revisions to reflect changes to the “Buyers” assets. In these circumstances the concept of trust was seen to be crucial in the handling of complex and uncertain situations. (Coulter, 2003; Meyer *et al*, 2002).

The theme that individual actors rather than Organisations were trusted was explored, and a common view proposed, that in most trading relationships the “Buyers” held at least one relationship where it was deemed “*unconditional and that there was trust without fear of sanction*” BB3 i.e. Where the expected position was one of collaboration. Lehtonen (2006).

¹⁶⁰ Particularly relating to the delivery of statutory services, where in the worse case corporate homicide is the ultimate sanction for failure.

Power and politics in relationships

Power and politics have a major influence on the behaviour of people within the Value network. Buchanan & Huczynsky (1999) argue that amongst the causes of failure in relationships is political incompetence, political naiveté and the unwillingness or inability to effectively perform. (p667). Within the Value network the debate of rational or political behaviour (Pfeffer, 1981) is valid, however the findings from the research would suggest that each position is not mutually exclusive and is variable within the internal / external relationships which operate within the Value network. Power as a dynamic within the inter relationships was explored from two perspectives. Internally, within the SBUs of both “Buyers” and “Suppliers” and, between the “Buyers and Suppliers”.

The ethnographic study identified the struggle for ownership of the business proposition within “Buyer1,” and the ¹⁶¹level of distance adopted by the Executive from the inter SBU skirmishing taking place. There was a tribal effect which was clearly detrimental to the delivery of the business proposition, as identified within the meeting minutes, and which EB1 and AB1 appeared unaware of. I established similarities within all the “Buyers” interviewed. Within the larger “Buying” organisations interviewed, the power and organisational influence was held in the “procurement” element of the organisations, which was driven primarily by economic knowledge, technical capability and a “professional verses trade” attitude. Both Interviewees “Buyers 2 and 4” exercised a degree of influence and control throughout their respective organisations and were not from the social housing or FM industries. KB2 outlining that their principle organisational drivers were about cost management and service delivery, which were negatively constrained by the operating structure and processes of the organisation. Pfeffer & Salancik (1978) suggested that strategic contingencies are the events that must occur either inside or outside an organisation for it to attain its goals or objectives. Consequently, the SBUs that are responsible for dealing with the key issues and dependencies, which solve problems and which reduce a crisis will be more powerful. Additionally non-substitutability is a source of power¹⁶² Both “Buyers 2 & 4” had retained procurement and outsourced R&M delivery.

¹⁶¹ unexpected

¹⁶² Buyers 2 & 4 procurement consortia but directed their work. They did not utilise procurement consultants believing that they had “in house knowledge within this field that was in excess of what could be “brought” in.

The “Buyer” interviewees had different perspectives of power within their relationships, which was driven by their “closeness” to the trading relationship with the “Supplier” and their role/ position within the organisation. “Buyers 1, 2 and 4” all perceived that they were in control of the trading relationship whilst it was in their sphere of operation. However, they were unsure if or unwilling to confirm that ownership ebbed away within other SBU relationships. Uniquely “Buyer 3” considered that the power shifts within the duration of the contract, arguing that they held the decision making power regarding contractor selection prior to contract award and for a period up to the first 18 months of a contract, and that it returned back to them towards the end of the contract when the decision to extend or go to market is theirs. However, during the middle section of the contract, power is not related to decision making but to operational delivery - which sits with the contractors because they are in control of the resource to affect service delivery. Additionally, the type of contractual arrangement influenced power in the relationship with RB3 expressing to “ *being more comfortable with traditional contracting than with “open” book arrangements which again relied on the information provided or “controlled” by the “Supplier”*”.

“The bottom line is that we are buying in a service, and it is clear that all the costs and revenues that the contractor has are not laid bare.... when you start to drill down it takes more time and effort and there comes a point where you are starting to manage the contract for them and we have to consider that we have paid to outsource that and we are now incurring management costs”. BB2.

“Suppliers 2 & 3” believed that power within the relationship sat with the employer, albeit it “Supplier 2” believing that this worked against the “Buyer” where they over exerted their position, possibly encouraging and resulting in opportunism on the part of the “Supplier” “*to redress the situation*”. This was further exacerbated by the size of the client and the shape of the contract, suggesting that things worked well “in a position of equilibrium”. “Supplier 1” developed a position based on dependency, and the requirement of the supplier to deliver the contracted services with the supplier dictating as to how the services will be delivered.

“The more dependent on the contractor the HA is for the delivery of services, the more the power sits with the contractor and ultimately we are dictating how we will deliver those services – but it’s not about power” DS1.

The Industry commentators had differing perspectives; PBD suggests that power within the supply chain sits with the “Suppliers”. *“The employers may have an idea who has been subcontracted and retained to do XY&Z but would have little or no impact on the Supply chain and in reality the employers should be taking more interest who is delivering services specifically relating to statutory requirements”*. (See Section 4.6.6 intelligent client) MBE arguing that power should sit with the employer, *“... but due to poor procurement practice over the last few years there has been a misinterpretation as to what the trading relationship or partnering means, where too much power has been ceded to the contractor by poor design or by default¹⁶³, particularly around costing and the use of “Open book” arrangements and a lack of control. Power comes down to reducing and managing risk and how you manage risk. They have outsourced operational delivery not responsibility and control.”*

The effect of market Polarisation

A feature of the market has been several high profile mergers and acquisitions.¹⁶⁴ Literature on inter-firm relationships has focused on outsourcing, supplier delegation and supplier tiers. Both academics and practitioners have reflected that organisations must focus on their relationship management practice if they are to be adaptable, flexible and operationally efficient. The OJEU procurement process has impacted the supply strategy, and as such firms are moving towards selection from a narrower amount of suppliers, which has caused “Buyers” and “Suppliers” to become more dependent on each other (Cousins, 2005; Stuart, 2003). This increases the complexity of inter-organisational relationships where service delivery remains transactional.

A at NGO1 suggests that polarisation in the “Buyers” is linked to the work by Cave (1985) and the proposal relating to thinking around social housing in economic terms, where organisations which have a developed core competence in “Housing management” and whether they could manage the activities of an additional HA or transfer their properties. A arguing that *“it is very difficult to understand the business case or the context of a lot of the smaller providers where there is a requirement to demonstrate a balance of planned and responsive repairs and offer value for money”*.

¹⁶³ Poor contract management practice

¹⁶⁴ During the course of the research project, Supplier 1 was purchased by a larger competitor and Supplier 2 merged with an industry competitor to potentially form the largest FM supplier to the Housing market.

As financial budgets for the “mega” HAs increase in proportion to the numbers of properties they manage, the requirement for increased professionalism in procurement practice and contract management is paramount. This will increase both *ex ante* and *ex post* cost either through the outsourcing of specific roles, the requirement for professional advice or through the payment of commercial market salaries. PBD ***“some of the very big HAs starting to think about this very differently, there is money in the sector and people will have to invest but there is not the capability. If you consider how the housing sector has been driven – there has been a lot of external funding, this will be reduced and there will be a requirement for a net increase in income , and just as important as rents going up is costs coming down – there is a massive focus on the cost side and currently the sector is not sufficiently professional”***.

Additionally the ***“competition watchdog has housing in its sights”*** Inside Housing 15/08/2012, with the OFT probing the recent merger between two HAs where a merger presents a 25% control of geographical market supply, albeit the definition of a market requires further clarification e.g. in the North West there is plenty of “competition” within housing commentators asking, “where and how is competition supposed to take place?” Inside Housing published its annual return of the largest 200 housing associations by stock owned and managed. The largest single provider managing 70,888 homes an increase of 10,000 over the previous year. The comment on their blog site by TB

“...at the risk of stating the obvious to anyone with firsthand experience (tenants, staff) – is it possible that these housing associations have simply become too big to function properly?”

Despite these changes in the market, the average contract period for the provision of FM services typically remains less than 48 months¹⁶⁵ with clear evidence that following the demise of ROK and Connaught that HAs are becoming more risk averse. Inside Housing 09/11, describes three strategies which HAs could possibly adopt as a defensive measure against contractor failure, e.g. Small contract “parcels”, a move from SOR pricing, and taking the service in-house,¹⁶⁶ Gary Morton of Baker Tilly commenting ***“that there are no signs that competition for work is easing, there are***

¹⁶⁵ All the OJEU notices were analysed over a fixed period as part of the research project.

¹⁶⁶ It does not mention more effective procurement processes!

contractors operating at slim margins but with cuts in funding and the pressure for HAs to reduce costs the temptation to go with the lowest price remains”.

The issue remains that Transaction costs will increase as effective and efficient trading relationships remain elusive, and that TCE with its cost focus will be subject to bounded rationality and opportunism further increasing the operating costs within the “Buyer : Supplier” relational exchange. (See Section 4.2: The Procurement of outsourced services)

The intelligent client

A feature of the interviews with the industry commentators was an emerging theme of the “intelligent client” and the “intelligent provider”. Atkin & Brooks (2000) provide a wish list of the skills¹⁶⁷ that an “intelligent client” should possess, but do not suggest whether an organisation should have them all, or prioritise, or to what level they should be developed to be deemed intelligent. However, the element of relationships is absent. Are critical areas where “intelligence” is required predominantly in process - its design, operationalisation and management? Or is this a feature of a “task” driven sector.

Research undertaken by Cranfield University identified that there are 4 behaviours which characterise an “intelligent client” and specifically an “intelligent provider”:

- Who owns the risk and opportunities uncertainty
- The role of contracts in delivery
- How the supply chain is managed, and
- The real nature of the (so called) partners in delivery

The interview process was designed to identify “intelligence” within the context of the “Buyers” understanding trading relationships and their impact on *ex ante* and *ex post* transaction costs. The data identified two consistent areas of discussion:

- How are relationships measured, and
- Who is managing the relationships

From the data, a conclusion could be drawn that outsourcing R&M delivery was for the some of the HAs an undesirable and unwanted relationship. Pottinger (1988), with the traditional view being espoused, that service works should be undertaken in house. In reality due to political, financial, technical and environmental constraints, R&M service

¹⁶⁷ Predominantly task or process management

delivery had to be outsourced or “re-invented” to be effective. From that position all activity within the relationship related to how control over the supplier could be achieved.

Is the “intelligent client” the sum of all the parts of the knowledge and skills of the “actors”, driven by strategic competencies (Pfeffer,1981) rather than the organisation as a whole, and consequently, where there are gaps in the level of knowledge, is the client then to be deemed un intelligent? Or partially intelligent? Or is the concept an oxymoron? The data identified that there were excellent trading relationships between actors within the FM Value network which were driven primarily by collaboration rather than to obtain control, and that such relationships were a feature of an effective procurement and selection process, and effective contract management, where goals and objective were shared and agreed.

The views of the industry commentators were

MLD “You cannot realistically have that level of control – all that you can do as a responsible employer is to try and make sure that you enter into a contract with a contractor who is going to have a proper supply chain “. How do you manage this? You need to have a more professional industry; you need a more developed supply chain. There are plenty of decent material providers out there- so it is about the provision of labour and the physical work that is being completed. This is being compounded by a massive pressure on contract price which is reflected in management practice and trade capability and training”

SRB suggests that “...intelligence is linked to maturity, specifically: knowledge, practice experience and the adoption of CPD”. With A NGO2 arguing that “...HAs have the money – but have they got the knowledge and the skills to spend the money in the best way?”

Section summary

R&M services are delivered via a Value network at the heart of which is the “Buyer”- “Supplier” relational exchange. There is a “Customer–Customer” relationship between the “Buyer” and the “Resident” who have no direct contractual relationship with the “Suppliers”. Working practice is governed by contract and influenced by trade bodies

and trade unions. TUPE is a prominent feature within the majority of relational exchanges in the Social housing sector.

Within the Value network, the concept of Supply chain management is not well developed with the relationship being shaped by the procurement processes, contractual governance and TCE. This creates an environment for opportunistic behaviour. Bounded rationality accentuates management issues in the Value chain primarily due to misaligned processes, capability and inappropriate performance metrics. Poor subcontractor management has a negative impact for “Supplier” – “Buyer” and “Resident”.

Power and inter organisational politics, driven by strategic competencies impact service delivery within the “Suppliers” and the “Buyers”, challenging the concept of the “intelligent Client” and “intelligent provider” this is exacerbated via polarisation and extended lines of decision making.

Service delivery within the sector is specific and requires a level of differentiation on the part of the “Buyer” and “Supplier”, which should encompass the procurement process, contractual requirements, the design of performance metrics and management skill set development.

5.0 Conclusions - the causes and unintended consequences of short-termism

The summary of my findings demonstrates that EU procurement regulations, coupled with the traditional working practices within Value networks and supported by the standard forms of contract used to regulate the relational exchange introduce excessive costs without creating Value. Additionally, none of the actors engaged in the exchange actually quantifies the *ex ante* or *ex post* costs, consequently spending millions of pounds per annum on potentially irrelevant and unproductive activities.

Within the context of the tragedy of the commons (Harding, 1968), the market for the delivery of R&M services to the Social housing sector is socially constructed and could be deemed a complex system comprising of Social housing providers, interested government bodies and organisations who supply services to them on a contractual basis to support their business proposition. Ansari *et al*, 2010 argue that the commons are conceptualised in economic terms, as a large scale environment or social system. The Social housing market is defined by its key variables. Specifically: Its size in terms of housing stock and the number of and economic size of the “Buyers” of R&M services. Additionally there is only one route to this market, via the European tender system.

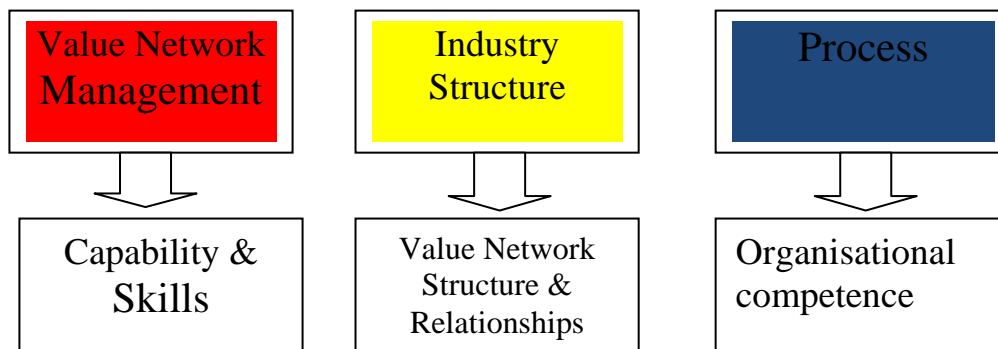
The causes of short-term duration trading relationships are known to all within the Value network, as are the consequences and generally they remain unaddressed.

The Causes of short duration trading relationships

The duration of the contract for the provision of R&M services is based on an adherence to the traditional working practice of the construction sector which has metamorphosed into an FM proposition without fully developing a “service management” ethos. Contemporaneously, the majority of Local Authorities have since the 1980’s formed “Housing Associations” and transferred their housing stock into them. In general they have retained the engrained organisational structure and working practices, whilst adopting elements of “New public management” which have further enhanced their traditional bureaucratic practice. Contract duration from their perspective, is driven by a lack of contractor trust, and an aversion to risk, which has created a culture of protectionism, especially concerning roles that have a direct relationship with the resident, and a reluctance to lose ownership of the asset. See Section 4.2: Procurement, 4.3: The Contract & 4.5: Management. Within the research a challenge to this position

was provided by the larger HAs and specialist advisors to the sector, who had recognised that change was required and were proactively developing more efficient processes within the regulatory frameworks. This change being sponsored and driven by “new blood” into the sector . The emergent themes from research data provided three clear groupings which are context free and therefore relative for both “Buyers” and “Suppliers”. Additionally they are considered to be fundamental to a relational exchange in the Social housing market place. See Section 4.3: The Buyers views on contract duration.

Fig 5.1 Industry practice



Management

Summary of findings from management: it’s about capability and skill sets. Do they create and reinforce short-termism?

Structural contingency and strategic choice theory suggests that a fit between organisations and their environment is something that can be and is achieved managerially. The research data identified that there were two critical areas for the management cadre of the Value network. Specifically: the context and content of organisational design and linking strategic and operational decisions to business performance and driving improvement. See Section 4.3: The Contract & 4.4 Management: People & Process

The “Buyers” are primarily unwilling partners to the exchange who are fearful of the concept of outsourced services supply, and are to a point “unintelligent clients” relative to the requirements to effectively maintain the UK social housing stock. The “Suppliers” are in business to generate and maximise shareholder return. They in turn can be deemed as “Unintelligent Providers” relative to their ability to deliver consistent “Value in use” and quality to their clients. However is Value in use an objective of the relational exchange?

R&M service delivery to the Social housing market generally remains product focussed, trade based, contract managed and driven by Goods-dominant logic. However Value network delivery has a requirement for a service focus, skill based, supply chain managed and a Service-dominant logic. Management at all levels remains task focused with Quality relating to achievement of task, and value created through achievement of a job for a “price”. See Section 4.2: The Procurement of outsourced business services. A lack of comprehension of the issues and stifling of innovation due to bounded rationality has not seen the level of advances in service operations management that have been made in other service industries, primarily as R&M clings to its construction roots and the “Buyers” of services seek comfort and redress within contractual relationships. Advances in Information Technology have not readily been adopted through deliberate choice, and transaction costs within the industry would, if measured, be seen to have remained at best static but in reality increased due to the impact of governance and regulation primarily due to asset specificity, frequency, governance and uncertainty. The static nature of the industry can be observed through its operational structures and practices, which are to a point driven by historically routed strategic competences and group and individual power plays influenced by agency and opportunism. As the leader of Inside housing 21/01/2012 “Survival of the fittest” suggests “...*the issues with recent takeovers and mergers has brought to light how difficult the shrinking R&M landscape has become for both contractors and their clients*”. See Section 5.2: Summary. To remain static is not a viable option.

Network structure

Internal and external fit to the environment has been a consistent theme with the research data. Internally, the structures of the “Buyer” and “Supplier” organisations have changed little over the past 30 years and throughout the Value network it was identified as hierarchical, based on operational silos and bureaucratic from a negative perspective. Externally, the structures had a link to property services, the delivery of a product and the provision of social housing within a tenancy agreement. Many academics have suggested that the environment shapes the organisation, its structure and process, however my finding challenge this view. See Section 4.1: Structure and Section 4.4: Measurement. The research identified that the larger services suppliers had replicated the “DLO” in their structure despite its well documented and inherent failure to consistently deliver R&M services, supporting this with Tier 2 and Tier 3 contractors by ways of traditional construction industry sub contracting. The third contractor

adopted a “service” driven approach based on the use information technology but this was not specifically designed to enable the Value network to comply with the KLoEs. Both the “Buyers” and “Suppliers” could deliver their business proposition, but as a Value network they are not delivering the most efficient and effective R&M proposition to the Residents who live in UK social housing. By observation the Value network does not have a symbiotic fit to the social housing market due to the impact of a “traditional” approach to organisation design and operations management. This is supported by findings of Customer satisfaction surveys. See Sections 4.1: Structure, 4.3: The Contract, Section 4.4: Measurement & 4.6: Supply chain management & Business relationships.

Process – organisational competence

The research project considered process and organisational competence from three perspectives

- The procurement process. The gateway to the social housing market is via OJEU. It is highly regulated.
- The form of contract adopted , and
- Performance measurement.

Procurement

The primary objectives of European procurement legislation are the creation of competition within the supply of services to government bodies, the delivery of the best value for money by generating the lowest transaction costs to achieve the best procurement outcomes and to aid the fight against corruption. This process has created interrelatedness within the Value network, adding concentration via “Supplier: Buyer” polarisation and the unintelligent design of process and OJEU content as evidenced by the design content of the contract notice. See Section 4.2: Familiarity with EU policy and process. The process has increased in fragility, created contradicting objectives and mal distribution within the market. The research identified that procurement process should designed to achieve the most competitive price that the services could be delivered for, and to achieve the strategic criteria of the KLoEs i.e. “**Capacity to deliver**” and “**Value for money**”, via “Value in exchange”. See Section 4.3: the Contract. However in outsourced R&M service supply, “Value in exchange” may not equate to “Value in use” for the Resident. See Section 4.2: The Procurement of outsourced services and Section 4.5: Managing for quality and value. With the argument, that the highly competitive nature of the procurement process destroys value creation and service quality. (Gummesson, 1998). The concept of Service quality is not understood or is ignored within the design of the procurement process. Within a

relational exchange a critical element is a “production- consumption” system which co-creates service quality and develops value in use of the service. (Gummesson,1998)

In the “Restricted” procurement process, the principle driver for a successful award is the content of the Contract notice. If adverse selection is to be avoided, consideration must be given to “scoping” the requirements relational exchange. The scope should include: the trading relationship, the requirements of the end users, and the location, nature and condition of the asset stock. The current vogue is to use commoditised pricing methodologies which assist with tendering for the Supplier and simplify comparison within the award evaluation process for the “Buyer”. However, there is insufficient knowledge in either the “Supplier” and “Buyer” to appraise if the figure tendered is realistic or sub-optimal or the relevance of the SOR to the stock. Additionally the capability of the supplier and a supply chain to deliver services over the life of the contract is not robustly assessed.

Overall the process is not well managed by either the “Supplier” or the “Buyers”. Short duration contracts are therefore considered from a procurement perspective to minimise exposure and risk, to make “market trading Cycles” and to perpetuate low price tender submissions. See Section 4.3: The Contract

Form of Contract.

The rationale for a contract is to specify the rights and obligations of parties within a business relationship and to serve as a communication tool and reduce risk. Within the context of governance, the form of contract should demonstrate a commitment to fulfilling strategic intent and providing structure and management to business operations, but it should not govern how businesses operate. The findings of the research identified that standard forms of contract were predominantly used in the relational exchange due to the “Buyers” familiarity rather than suitability. They can be considered incomplete relative to the level of *ex ante* activity within the procurement process, they did not reflect the heterogeneous nature or the future requirements of the HA and were static relative to the asset and levels of performance over the contract life. The T&C’s had a construction provenance and in conjunction with the performance measures contained in the contract were not reflective of the nature of the outsourced services. See Section 4.3: The Contract & 4.4: Measurement. The “Buyers” of outsourced services viewed the contract as a defence mechanism against poor delivery

and opportunism; however “...*in reality few “Buyers” take the opportunity to determine the contracts for such failures*”. MLD

The delivery of services is heavily influenced by the high levels of TUPE within this market place. This is not usually reflected in a standard form of contract, resulting in costly amendments frequently being required to make the contract fit the relational exchange. Critically the contract did not encompass the use of subcontract labour by the suppliers within the Value network, potentially the level of risk to the “Buyer” and Resident were exacerbated.

Performance Measurement

Performance measurement within the Value network is not aligned. With both “Buyer” and “Supplier” and their supply chain viewing the “performance” from different perspective within the hierarchies of their respective organisations, causing goal displacement and sequential attention, which may impact future strategic choices. The fixation with “lagging indicators”, predominately volumetric and time-bound measures is a legacy of the construction sector, and the KPI’s contained within the contract are frequently ignored due to volume – the number of “key” items to be considered, their relevance to the task - difficulty of obtaining data, the prospect of opportunistic behaviour due to information asymmetry, and that they are fixed and do not reflect the evolving nature of the asset or the trading relationship. The metrics adopted should be pertinent to the sector and not generalised from FM and the Local Authority sector. See Section 4.4: Measurement.

There is a requirement, within the relational exchange, driven by the KLoEs to provide Service quality and Value. However due to a lack of clarity and the market’s inability to successfully design, target, collect and interpret subjective data the industry fails to develop the concept that quality is co produced throughout the Value network. However is service quality a real consideration for both the “Buyers” and “Suppliers”? (Yousoff *et al*, 2008).

Summary.

Contract duration is a feature of management practice that has its roots in Goods-Dominant logic and is exacerbated by the “Buyers” via the use of duration as a means of risk management. FM and outsourcing continue to develop as a business sector,

however, development of the concept of the intelligent client and intelligent provider is stifled by dogma, loyalty to past working methodologies and opportunism, negating sector development and innovation due to the structural inflexibility of organisations, the poor process and contract design that do not reflect Service dominant logic and the creation of “value in use” via the delivery of services from a network of “Suppliers”.

The unintended Consequences of short-termism

For service industries; understanding the relationships between strategic and operational decisions and “business” performance is crucial if “*best in class*” performance is to be achieved”. (Johnston and Clarke, 2001). The unintended consequences of short-termism affect the drivers of performance and stifle the results that can be achieved due to the adoption of “easy performance targets” via the setting of self-fulfilling performance measures (Amaratunga and Baldry, 2002) The major areas of unintended consequences relate to transaction costs, reduced investment in organisations within the Value network and the creation of a “glass ceiling” in terms of service quality and the creation of value. The unintended consequences of short-termism in the UK social housing sector can be categorised within three areas, albeit “Service quality & Value” and “Investment and innovation” are interrelated with and co create “Transaction costs”.

Transaction costs.

Transaction costs are a feature of a relational exchange. EU 1 identifies *ex ante* transaction costs as a necessary cost to pay to ensure a competitive position within government outsourced markets. Within the procurement process there are three positions to consider.

- If the Services are effectively procured in line with OJEU protocol both the “Buyer” and “Supplier” will have incurred *ex ante* transaction costs, and *ex post* transaction cost in managing service delivery.
- If the procurement process is well designed and meticulously executed, possibly incurring increased *ex ante* transaction costs, there is no guarantee that the *ex post* costs for the both the “Buyers” and the “Suppliers” will be decreased, However,
- Where the procurement process is poorly designed and executed, *ex ante* and *ex post* cost will increase for both the “Buyers” and the “Suppliers”.

A critical finding from the research project was that I unable to ascertain a cost of procurement, or a cost of “contract management” for either a “Buyer” or “Supplier” organisation, as neither of these two activities were routinely measured within the sector with various interviewees simply responding that these were covered “*within the gross margin of the business*”. Inside Housing, (13/06/2011) reported that the National Housing Federation estimated that the *ex ante* cost for HAs was circa £30.0m per annum. The level of rigour within these numbers is unknown and the figure unsubstantiated. Within the supply chain no figures are quoted, however Inside Housing (04/05/12) undertook a case study of a procurement exercise, identifying that the cost of procurement was split 30:70¹⁶⁸ between the “Buyers” and “Supplier”. Extrapolation of these figures would indicate total *ex ante* cost for “Buyers” and Tier 1 “Suppliers” of £100.0m pa. EU1 makes an assumption that the “Suppliers” costs would be recouped via future contract wins, which is unlikely given the competitive nature of the current trading environment, and contra to my a priori experience. The Inside Housing scenarios would be “ideal world” based on journalistic licence and on EU data, these figures would not (1) represent the true volume of Supplier “interest” in responding to the contract notice, (2) would be increased due supply side costs incurred through the procurement of Tier 2 and Tier 3 suppliers and (3) The TSA (2009) identified that there was evidence of market inflation within procurement based legal costs – pertaining to legal and employment issues- which challenged the use of standard forms of contract. The frequent cycle of procurement activity, caused by the contract duration can be changed and a reduction in the level *ex ante* costs easily achieved. This is within the remit of the market.

Ex post costs are a significant feature of the contract management function of the sector, which is driven by the form of contract and the ability of the management cadre to ensure that the desired performance of the outsourced services is achieved. The findings of the research identified that the use of standard forms of contract increased transaction costs, as they were not usually reflective of the requirements of the relational exchange without amendment. The management of performance was impeded due to poor capability, misaligned goals between the actors, and further exacerbated by the poor design of performance metrics, which at best misinform or misguide decision making

¹⁶⁸ The exercise considered 90 requests for PQQ down to the contract ward to one supplier. The volume of requests further challenges the EU own figures and is in line with the findings of my research. See Section 4.2. Procurement

and create the potential for opportunist behaviour, creating quasi-rents for those procuring for the “Buyers”, and the “Suppliers” and their supply chain and increasing transaction costs in the process. Practice challenges current academic writing in this area. See Section 4.3: The characteristics of the relationship and Section 4.4: Measurement.

Service quality and Value

Value is created for the “Buyers” through “Value in exchange” within the procurement process, through securing the supply of R&M services that are fit for purpose for the lowest price. The research identified that that within the TSA and HC Residents satisfaction surveys, 25% of respondents expressed dissatisfaction with the R&M services provided. The management decisions relating to the procurement process does not routinely create “value in use” of the services for the Residents. Compound this with frequent contractor rotation, due to contract duration or polarisation and the customer relationship lifecycle is negatively impacted, reducing levels of trust and lowering tolerance towards inferior levels of performance on the part of the “Buyer”. This was identified as an area of potential further research.

Levels of delivered “Service quality” are a feature of the price paid for the services, and the effectiveness of management in process design. Specifically: Procurement and service delivery.

I revisited “Buyer 3” prior to completion of the thesis, who advised that they were taking some R&M services” back in house” after 6 years of outsourced supply. Their rationale was that they had legally extended the contract once, their current “Supplier” had been bought by a large national contractor and there was a perception that their relationship had changed. There was a risk that the procurement process would attract a price war to win their business and they did not want the impact of future sub-optimal pricing to affect R&M delivery to the Residents. In common with Buyer 3’s approach, in 2012 more “Buyers” are considering taking the services” back in house”, albeit on a “localised” basis, to remove themselves from the national supplier “radar” and to gain more control and improve service quality. The unintended consequences relating to a diminishing market for local SME’s and increased costs for the “Buyers” due to TUPE and potential loss of bargaining power with materials suppliers or the payment of commissions to buying consortia. Additionally the challenge of managing service delivery for the buyers will increase exponentially.

Out of the “top 10” by properties managed six “Buyers” now have an in-house delivery capability, with the largest organisation delivering 70% of all responsive repairs and 20% of all planned works. Here the “Buyers” have now adopted the problems of the “Suppliers” and now directly have to manage the cultural issues of TUPE and Tier 2 and Tier 3 Suppliers, creating “son of DLO”. With SCM issues and with no guarantee for the Residents that the “Buyers” now have the management capability to deliver services or that they will have control of costs, will they revert to “*...being an un competitive monopoly in terms of price and quality*” KB2

Investment and Innovation

The short duration of outsourced contracts detrimentally effects “Supplier” investment and reduces innovation. This potentially leads to organisational degeneration.

The absorption of the costs incurred by the “Supplier” relating to the mobilisation of the contract is impacting profitability due to the short duration of the relationship. The research identified that profitability within the Supply side of the Value network is constrained, which is compounded by the price driven procurement process and operating practice. EU 1 suggesting that reduced supply chain is a potential unintended consequence of OJEU driven practice. This is impacting investment in the skills required to operate the businesses and deliver the services, and the required investment in technology to improve service operations management. Consequently the “Suppliers” are delivering a “Boxed-Package” or a commoditised price driven offering which remains based within Goods-dominant logic. This will be reflected in future customer satisfaction surveys and A C reports as the “Buyers” fail to achieve the strategic criteria of the KLoEs. Specifically: “*The capacity to deliver*”, due to a lack of investment within their supply chain. My experience within residential PFI contracts concurs with the views of the independent commentators specifically relating to investment in technology and people allied to the adoption of an S-D logic approach sees service delivery and customer satisfaction levels positively evolve.

Summary

The tragedy for the social housing market is that collectively it is aware of the issues of short-termism, and yet with the exception of certain organisations, i.e. Buyer 2 and MBE, the sector continues to trade in the same traditional way¹⁶⁹. Remaining static is

¹⁶⁹ Supplier 1 has been bought by one of the big 5 National social housing service providers

not an option. There have been further high profile organisational failures during 2012, with management practice, and poor control of costs being in the seeds of their failure. The highlights being Metropolitan Housing Group, “Regulators concerned by financial risks at landlord” IH 07/12/2012, with views currently being expressed that “MHG is likely to go bust at the end of March 2013 unless a rescue deal with Riverside is completed 18/1/2013. This flies in the face of the views expressed in Section 4.1.1.1 relating to the size capability and social nature of the HAs. Additionally the “Morrisons” take over by Mears for £24.0m in Nov 2012, whose failure was due to poor service delivery and optimistically cheap bidding for contracts, highlights the procurement capability of the “Buyer” organisations and the impact of polarisation. See Section 4.2

The issues alluded to within my thesis are exposed within Contract notice 2011/2 137-227678 which was issued in July 2011. One of the UK largest HAs, “Circle” sought to overhaul its R&M services within a £1.6bn deal. Split into 5 geographical lots, the contract was to be awarded for 5 years with a possible extension. The type of procedure was Competitive dialogue, the award criteria based on the “most economic and advantageous tender”. As at January 2013, Keepmoat and United House have signed contracts worth £220.0m and £300.0m respectively. The United House award is subject to a legal challenge by Breyer, who recently have had a major contract terminated due to H&S related issues, (2013) and posted a pre tax loss of £959,000 in their 2011/2012 financial statements. Although the case has not yet been heard, the judge gave consent for the contract to be signed irrespective of the challenges as it was deemed to be in the public interest.

A separate challenge was launched by Apollo, who has since merged with Keepmoat, over the award of two regions worth £490.0m to Kier. This potentially creates further evaluation process issues due to “underwriting” operational capability and financial strength of the service provider. The final two contracts were awarded to Morrison, now bought by Mears, who are assessing the pricing and reviewing the contracts. If Mears will not sign, these two lots will have to be re tendered. In common with my findings – Was the design of the procurement process sufficiently robust? Were the management skills sufficiently developed to manage the process? How did the “Buyers” successfully manage and evaluate the Morrison bid? Due to polarisation and the crowding problem (Mason and Phillips, 1997) who can meet the contract notice requirements and tender?

The *ex post* issues of: TUPE, contract management and issues relating to the supply chain, the measurement of delivery performance and operating systems and IT integration may have been considered, but not as part of the evaluation process. Additionally, from a “Supplier” perspective, given the size of the contracts, can the costs of winning the work, successfully mobilising and delivering the works be absorbed and a profit made during the period? Finally, how were all the costs going to be absorbed within the duration of the contract?

Cui bono?

By observation short-termism creates rents for certain groups within the relational exchange. The advisors to the “Buyers” have an interest in maintaining short duration trading, also acting as advisors to the unsuccessful “Suppliers” within legal challenges¹⁷⁰. Those engaged with “procuring” the works within the “Buyers” who buy the undeliverable deal and then have to re tender within the complexity of the OJEU process. The large PLC suppliers, who need continuous cycle of short duration contracts with the larger “Buyers” to “make” their market, and potentially the mediocre employee constantly engaged due to TUPE. However, as I outlined in my thesis introduction, at what cost for the sector? And is this a price worth paying?

¹⁷⁰ Running with the fox and hunting with the hounds?

6 Reflections

Methodology

The central feature of R&M service delivery to the Social housing sector is that it is outsourced and usually delivered via a Value network. I identified early in my research design that there were two key objectives. Specifically: an external observation of the whole of the system of social housing contract maintenance and to gain an understanding of the boundaries and the unwritten rules of the system relative to short-term trading.

Adopting a pragmatic approach and mixed methods methodology, my qualitative research strand used ethnography, semi structured interviews and netnography. Whilst the ethnography undertaken would not be considered as classical ethnography, the aim was to get a “realist” insight in to a “Buyer” organisation and the internal working relationships of strategic business units engaged in R&M delivery. In addition the semi structured interviews could be described as “realist ethnography” (Suckley *et al*, 2013; Scott-Morgan, 1994) these being undertaken by me whilst being immersed in the wider system of maintenance contracting. The output would be compared and contrasted with the information from the Inside Housing blog site. This content was usually provided by residents, HA or Government employees.

The “realist” approach had merit. With the observation sessions, my overriding thoughts were that issues and tensions were surfaced through the interaction of the group and that these would not have been identified through semi-structured interviews. Additionally the findings from this element of the research contributed to the development of the primary and secondary questions within the semi-structured interviews where the SBU tensions identified within the observation sessions were probed in the other Buyer organisations. The combined output enabled a richer picture of the interrelationships to be gained. This internal relationship was frequently commented on within the blog sites – specifically relating to the quality of procurement decisions by HAs.

My second strand of research utilised document analysis. My ethnographic findings were generally mirrored by the findings of AC KLoE surveys and the TSA customer satisfaction surveys, which in turn added a level of credence to the triangulation of my research method.

From a Supplier perspective people interviewed “know me” and it could be considered that I was immersed in to the world of that business sector. My objective for the Supplier semi-structured interviews was to participate in growing the discourse through research whilst acknowledging an a priori perspective and managing the dualism between subject and object. Again the realist ethnography approach assisted in uncovering the unwritten rules of the system, specifically in areas relating to opportunism and agency within the procurement process and supply chain management.

Limitations and constraints of the research

The thesis considers a relational exchange between and Buyer and Seller for an outsourced service which is delivered within a Value network. Access to target interviewees did not prove to be problematic and through privileged access I gained meetings with senior members of the Social housing sector which assisted my desire to achieve a whole system approach. It could be argued that the organisations were not indicative of all elements of the sector but I am confident that the strategic sample represented the views of the industry. The interviewees were all open, unguarded and refreshingly frank in terms of their response, with only one person declining to have the interview recorded.

Additionally all the organisations gave me access to internal documents, some of which were deemed restricted, albeit the Freedom of Information Act can still be curtailed through its own process.

The time frames of the research project were arduous. I made progress through being able to fit extended periods of my academic work around my employment.

The output from the research was voluminous. It entailed detailed research and transcript writing which took approximately 9 months prior to commencing analysis of the data and which surfaced a limitation relative to researching books and journals around the emerging trends. Specifically, how much could be read to challenge or support a certain view especially as I wanted to explore academic writing from the perspective of service operations management as a means to challenge traditional construction based practice.

I was satisfied with the interview process from two perspectives. Forwarding an outline of the topics for questioning ensured a preparedness on the part of the interviewee, most of which provided me with internal supplementary documentation to develop or support their organisational stance, additionally I was able to have a mature conversation

particularly with the Buyers where there was an interest in the process and that something could come out that was beneficial.

Regarding the interview section topic, the number of the interview subjects created a large volume of data; however without this approach I do not believe that I would have had the same depth within my findings.

Future research

The research project uncovered a number of key areas where further study could advance our understanding of FM service delivery into outsourced public sector markets.

The areas for further research could include:

People

- Does the meaning of work change by brand for TUPE'd staff?
- The impact of Supplier change on Buyer –Resident relationships

A case study approach within a specific relational exchange would provide an opportunity to understand these two issues in greater detail primarily as it is possible that there would have been several changes of supplier.

Process

- The impact of polarisation on inter organisational working and the consequences for service delivery

A case study approach within a “top five” national-based contractor would provide an opportunity to research the effectiveness of organisational structures and infrastructures in the consistent delivery of outsourced services.

- Service quality: the Suppliers perspective

Quality is currently only considered from the “Buyers” and “Residents” perspective. Does service quality matter for the supplier in a transaction cost economy? A semi structured interview approach should be adopted and consider the tiers of the supply chain.

- Investing in long term outsourced relationships.

In a move to long term contracts where should investment be made to develop and maintain the relationship. Is this driven by contractual governance or S-D logic? This should be driven by semi-structured interviews with senior players within the sector possibly within an established community of practice.

Research in these and related areas could make a distinctive contribution to the evolving base of knowledge within the general field of Facilities management, helping to create and develop a more secure platform of practical theory with which to underpin the disciplinary base of facilities management and to assist in the development and professionalisation of management activities in all Public: Private sectors.

Implications from the research for practice.

At the base level my research confirmed that the Social housing sector management actions and behaviours create short-termism in outsourced R&M contracting consequently creating unnecessary *ex ante* and *ex post* transaction costs.

There were three significant areas from the research which had implications for practice.

The impact of Goods – dominant logic

G-D logic pervades the relational exchange and drives short-termism. It features in the design and process of the procurement process, the form of contract, the measurement metrics adopted and product delivery is “managed” by it. It shapes the strategic competencies of organisations which in turn shape and maintain organisational structure, which cascades through the levels of the Value network.

From Buyer perspective the KLoEs, specifically “**Value for money**” and “**Capacity to deliver**” support G-D logic which has been expressed in the design, content and process of procurement practice and the purchase of a product rather than a trading relationship and the supply of a service. Additionally in the use of standard forms of contract to provide governance to the relational exchange which has no formal link to the resident and is used as a form of control to compensate for a perceived lack ownership.

Its impact was clearly noted in the larger Buyers where “secondary” activities were seen as creating Value in exchange for the organisation which had unintended consequences of reducing service delivery quality and value creation for the Residents. The form of contract was specified due the familiarity or historical bias on the part of the Buyer rather than its relevance to the relational exchange, the asset or the Resident.

From a Supplier perspective G-D logic shapes organisational structure and practice, and in larger suppliers negates the effect of the environment with the suppliers practice irrespective of the services to be delivered, being driven by traditional construction based ideology, effectively increasing both *ex ante* and *ex post* transaction costs and reducing value in use for the Residents. Transaction costs and the propensity for

opportunism have been exacerbated by the use of commoditised costing and pricing via SOR's and price per property methodologies de professionalising managers and deskilling trades in the process.

The unintended consequence is the inability to adopt an S-D logic approach in the Social housing sector, where skills and knowledge deliver services within a Value network and Value in use is created for the Residents.

Measurement

Organisational performance measurement practice is hierarchically focused both within the Buyers and Suppliers and is omitted from the Value network with little evidence of goal alignment within the tiers of subcontract delivery. The hierarchically adopted metrics frequently are not aligned within the strategic business units of the organisations or to the contractually agreed KPI's or service delivery per se. This would challenge the academic conventions generally presented.

Metrics are not consistently applied within contracts for similar services, with a view that contractually challenging or difficult to achieve performance metrics have the effect of encouraging agency and opportunism consequently reducing further the concept of Value in use for the resident or service quality, This again challenges the desired outputs of the KLoEs and increases *ex post* transaction costs within the Value Network. The cost of performance measurement relative to contractual service delivery and management activity to support the process within the relational exchange was not understood and universally not measured, and supports the views espoused by Brignall and Ballatine (1996) that service industries have not kept pace with developments in performance measurement and improving service delivery capability. If performance improvement is the goal does current measurement practice identify sub optimal performance?

The unintended consequences of management behaviour and actions create Transaction costs.

It's about process design. Specifically in the areas of Procurement, Contract, Process Management and Relationship Management.

Ex ante transaction costs are features of the OJEU tender process, however poor procurement design due to a lack of understanding and inadequate scoping on the part of the Buyer is increasing transaction costs for all parties within the Value network.

Additionally, the adoption of standard forms of contract for relational exchanges that are generally incomplete contracts create cost through requiring amendment, and then do not reflect the services sought and frequently add *ex post* transaction costs due to heavy handed governance and in adequate contract management due to bounded rationality and agency issues. These costs are then compounded due to the frequency of the procurement cycle created by short duration contracts.

The broader challenges facing the Social housing sector are predominantly economic. Capital is scarce for development and the requirement for social housing increasing, consequently housing stock is well utilised and the requirement for effective R&M regimes to maintain the stock is paramount. From the Supplier perspective poor profitability and extended creditor days are impacting service delivery within the Value network which remains wedded to G-D logic shaped by historical traditional working practice. Short-term contracting and its unintended consequences impact the sector. Suppliers are unable to absorb mobilisation and bid costs over the short –term, with sub optimal pricing forcing an inability to invest in R&D and skill development which the TUPE process exacerbates further reducing Value for the residents. *Ex post* transaction cost are exponentially increased through poor process design and management practice again further developing a climate for opportunism and agency issues.

At face value the causes of short-termism are not immediately solvable and the consequences of known managerial behaviours and actions generally remain unaddressed making a link to the tragedy of the commons. The Mid Staffs Health Authority and the findings of the Railtrack disaster are two high profile examples.

To develop the thinking around the relational exchange and the impact of short-termism, there is the opportunity to create a “community of practice” from within the Social housing Value network. The membership of the group would be crucial if its output was to have credence. Hosted by CFMD this group could develop ideas and concepts to challenge the current inertia and feed these into Supply side and Client side forums. The objectives for the community: influencing procurement practice design and contract development, and enhancing operational management capability and developing performance metrics, with a goal of improving the service delivery performance. However current practice and thinking is deeply engrained and at best the community

could expect to influence behaviour and action and in the case of Mid Staff Health it required 1200 deaths to challenge inertia.

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8 Appendix

HC / TSA repair data

Analysis of the responses relating to the last completed repair

- Being advised when workers would call. Satisfied 80%
- Time taken to start work. Satisfied 75%
- Quality of work. Satisfied 78%
- First time fix. Satisfied 77%
- Work completed on time. Satisfied 78%
- HA kept you informed. Satisfied 79%

The key elements that relate to satisfaction with the overall standard of R&M works relate to the time it took for the works to commence, the slow speed with which the work was completed and the repair being completed first time. There were small variations relating to age, gender, and race. The main variation related to geographical location.

The Existing Tenants Survey 2008 indicated that 42% of the respondents had had a repair completed in the previous 12 months. Of these 75% of respondents were very satisfied or satisfied with their R&M service.

Relating to specific R&M work undertaken in the previous 12 months. Analysis of the responses identified:

- Being advised when workers would call. Satisfied 84%
- Time taken to start work. Satisfied 81%
- Quality of work. Satisfied 85%
- First time fix. Satisfied 77%
- Work completed on time. Satisfied 82%
- HA kept you informed. Satisfied 84%

AC comments Buyer 1, 2, 3 & 4

“Buyer 1”

- *A customer – focussed organisation which provides a good housing service with a demonstrable evidence of strong caring and professional housing support services”.*
- However from the perspective of R&M, it was identified that:“*...there was a weak performance in completing urgent and routine repairs, call centres are not answering calls within call targets and the operating systems were not fully integrated to track repairs, or address customer queries”.*
- There was a strong recommendation within the report to review working practices to ensure that performance levels improve in completing repairs within agreed target times. It was identified that there were inefficient working practices relating to call logging, and the monitoring and measurement of performance between the DLO and the outsourced service providers.

Buyer 2.

- *“It has not addressed barriers to accessing the services and resident satisfaction is low. The 2009 survey identifies that 75% of residents are satisfied with their overall service. This is in line with the worst 25% of associations nationally and below the average of 82%”.*
- *Telephone answering is poor, call handling is not comprehensive,*
- *“Repairs are not completed within time scales. 93.3% of repairs were completed in target time, which is below the national average. Performance on repairs completions in the South Region is particularly poor at 83%. The Repairs appointment system lacks customer focus. In the North West, only 47% of tenants get an appointment when ordering a repair against a target of 90%..... Resources are not being used in the most efficient manner making the service more expensive and the performance lower than it could be”.*

Buyer 3 were:

- *“...that customer satisfaction with service delivery was high with the focus being on the operational delivery of the repairs service”.* Here the inspection team noted that planned and cyclical repairs are strength with “Buyer 3”

reflecting Audit Commission good practice in terms of planned and responsive repairs expenditure” where it was identified that the proportion of appointments made was 99% against a target of 95%.

- In contrast its housing management processes were roundly criticised.

Buyer 4

- *“It has not addressed barriers to accessing the services and resident satisfaction is low. The 2009 survey identifies that 75% of residents are satisfied with their overall service. This is in line with the worst 25% of associations nationally and below the average of 82%”. Telephone answering is poor, call handling is not comprehensive, and Buyer 4 does not adjust staffing levels to cope with busy or quiet times.It does not know which parts of its service are failing to meet its tenant’s requirements”.*
- *“Repairs are not completed within time scales. 93.3% of repairs were completed in target time, which is below the national average. Performance on repairs completions in the South Region is particularly poor at 83%. The Repairs appointment system lacks customer focus. In the North West, only 47% of tenants get an appointment when ordering a repair against a target of 90%..... Resources are not being used in the most efficient manner making the service more expensive and the performance lower than it could be”.*
- *“Customers contacting Buyer 4 do not receive a quick service. Customer satisfaction, complaint handling, and service standards are not effectively monitored.....The organisation needs to develop a comprehensive asset management strategy. The resident satisfaction levels relating to repair works was 62% for 2010 compared to 66% in 2006. Overall resident’s satisfaction levels with the RSL were 67% 2010 and 69% 2006.*

Additional Key Lines of Enquiry

These are the Additional Key lines of enquiry that the AC uses to assess the effectiveness and efficiency of service:

- Access and customer care in Housing service.
 1. Corporate culture and governance. *How does the organisation respond to service users?*
 2. Access to service. *Are customers aware of the services available and how to access them*
 3. Information. *Is the information provided easy to understand?*
 4. Complaints. *Is the complaints service well publicised and easy to access. Does the results from the complaints process improve the services and the quality of services*
 5. Consultation and feedback. *Is good use made of the information provided?*
- Stock investment and asset management
 1. Access, Customer care and user focus. *How easily to service users access the service. How clear and comprehensive are service standards from a service users perspective. What service user satisfaction has been achieved through asset management*
 2. Diversity
 3. Capital improvements, planned works and major repairs. *Does the organisation comply with the statutory requirements and good practice on stock investment and property maintenance? Is the organisation carrying out the right maintenance and improvement work*
 4. Responsive repairs. *How effective and responsive is the organisation in keeping its homes and communal facilities in a good state of repair?*
 5. Void repairs. *How quickly and to what standard does the organisation complete repairs to its empty properties?*
 6. Gas servicing Value for money. *Does the organisation comply with the statutory regulations?*
 7. Value for money. *How well does the organisation maximise the impact from its resource on its stock investment and asset management. How effectively has the organisation established partnerships geared to achieve Value for money? Has the organisation used procurement to achieve Value for money in delivering services?*

Interview consent form



Sheffield Hallam University

Consent form

Title of project: Social housing: The causes and consequences of short-termism for outsourced maintenance contracts.

John Richard Hargreaves.

Sheffield Business School
Sheffield Hallam University
The Stoddart Building
City Campus
Sheffield

Programme leader. Dr. Murray Clark
Director of Studies. Prof. R. Garvey
Project Supervisor. Prof. I. Price

1. I agree to take part in the above study
2. I understand that my participation is voluntary and that I am free to withdraw at any time.
3. I understand that data confidentiality will be adhered to by the researcher and the University, and that the data obtained during the interviews will not be used other than in connection with this project.
4. I agree/ do not agree to the interview being recorded. Additionally the participant has the right to comment on any transcripts or notes taken by the researcher and has a right to reply.
5. I agree to quotes being used in the doctoral thesis on the basis that anonymity is preserved.

Name of Participant

Date

Signature

Name of Researcher

Date

Signature

John R Hargreaves

Realist Ethnographic Study - meeting 1snap shot

Meeting 1

Prior to attending the first meeting, I was supplied with an agenda. My initial observation related to the volume of items “brought forward” from previous meetings, with item 2 designated as “B/F from previous six meetings since 24/09/10. A similar format was adapted to items 3, 4, 5. Item 7 related to B/F items and the included new cases. The first item of the new cases identified that “the works were allocated to a sub contractor 21/12/10 and the works were due to start on 07/03/2011 and that an update was reqd”. Item 9 designated as “General repairs – new items for discussion” focused on void turnaround times not being met. It identified that property x had been inspected by two individuals 05/01/2011 and 10/03/2011 and that the works were not complete with the resident scheduled to move in on 14/3/2011. – This meeting date was 18/03/2011. On the basis of the minutes and the fact that the meeting was scheduled for 90 minutes I expected a lively meeting.

The meeting again chaired by #3 who adopted a confrontation approach to the group.

From the meeting there were three exchanges of particular note. They related to work planning, Information management, resource management and its control. The overriding issues related to boundary management and goal alignment.

Relating to item three on the agenda

“I am checking for clarification of an agreed process. Void "turn around" are not being tracked” #3

“The process is ambiguous due to there being various processes” #5

“Where are the controls? Is money being spent unnecessarily?” #3. She continued to push the point paraphrasing for added impact

“We do not want you wasting your time travelling on a national basis. Where are the controls?” #3

The debate then proceeded on to the operating systems in situ as a means of tracking works.

“Can we use the CRM system?” #2

“What is wrong with email?” #3 “what are the potential impacts?”

“CRM does not always link to the process”#4

“The target dates are set by the contractors, and we need consultation with them”#2

“Is there a problem with the contractors?” #3

“There is a problem with feedback and reporting “#5 “There was an access problem due to keys to the property not being available”.

“No one had a conversation with me - access was always available. I would have expected more and we have now lost considerable time as a result we now have multiple of engineers on site trying to catch up” #2

#2 continued to stress the point supported with strong non-verbal communication highlighting the duplication of works, and the issues of revisiting the property and that this was not her role!

There was an issue surrounding the tender process for contractors to undertake works. Following a situation in a geographically distant where a contractor had walked away from a specific job.

#5 “All the contractors who have tendered look good”

#3 “Why did the other contractor disappear?”

#5 “We do need value for money”. Their price submitted to undertake the Surveyor had not accepted the works as he deemed it too expensive. He had being using a consistently cheaper subcontractor from a different geographical area to the property.

#2 “Yes but the problem is the quality of the service provided”

#5 “We can discuss this and we will only sign up for a 12 month contract”. The inference being that the contract term mitigated the risk or exposure to poor service delivery.

The meeting moved on to a property where there had been a complaint

#3 to #5. “Why have we not had a response to these agreed works? There is no control, and this is due to there being insufficient communication. As a result, there are massive duplications or work. There are invoices everywhere. These issues continue to go on and it is just not good enough. Where is the control – the process is not being managed. “K” is not being advised until well after the works have been completed- there are gaps in the process and our spreadsheets are not being up dated”.

In response, #5 “is there any way that we can ban people from this meeting!”

#3 “We are looking for issues to be addressed”

#5 “We do not want to chase people for invoices for payment”

#3 “But this is not happening, and it will cause financial issues!”

#5 “We have now started to chase things up”

#7 “This will impact our workload at the yr end and put staff under even more pressure.

#3 "Can't you see this is a duplication of time and effort”

#5 “What should happen here is we will now start to do a manual check” implying a position of knowledge of working practices.

There was a discussion regarding information flow

#3 “it seems that due to budgets, some surveys are not being done and the staff think that they are being done. Housing management is not being informed, the issues are not being correctly managed, and due to no information being available, we are getting an increase in the number of complaints. Even with bad news we need to keep people informed”.

#5 “We are doing the surveys. What do you think? to #1

#1 “Well it depends if I get a brew!” – Flippant comment looking back at #5 and smiling

#3 asked that the repairs team provide information in a timely manner. #5 and #1 engaged in a bout of cognitive dissonance reduction ---"it's not my fault".

There was then a discussion on the operating systems in situ (four “systems” were identified as being in use excluding spreadsheets and email) how they conflicted with each other, who was responsible for updating and who had access to the systems.

The meeting overran its schedule by 1 hour 15 minutes.

During the session, I made notes of what I thought were questions that could have been asked to progress the meeting. These themes were fed into my semi-structured interview with “S”.

- ❖ Who sets the budgets for annual operating costs
- ❖ What do people measure to understand their level of performance
- ❖ What are the operating processes, are they documented and do people understand them
- ❖ Are there any common or aligned goals
- ❖ What are the issues for the residents who are supplied by the organisation
- ❖ What is the tender process for the supply of services to this organisation
- ❖ How are the work flows managed and who is managing them
- ❖ Who has access to the operating and management information systems
- ❖ How big is the loss of rent, the cost of duplication and the reputation damaged caused

It was clear that there is little goal alignment or purpose of objective between the SBUs in attendance at the meeting i.e. the housing management group (who were led by the chairperson#3) and the property services team fronted by #5. From the conversations, it

emerged that there was little process control over certain elements of the business, which were having an impact on the residents, and on increasing operational costs.

Following this meeting, I had an informal meeting with “S” who was the Head of Operations for the group. He explained that he had a finance meeting earlier in the day and that his role was now more like that of an accountant but additionally he was aware that there were a “few issues “that were going to be surfaced at the meeting as there was “an agenda”

After explaining to him that I had already interviewed two of the MD’s from within the group his response was:

“What were the answers that they gave you, because they do not know what is really going on?”

I asked for clarification re the operating systems in the business. He advised that there were only 3!, but that they do not talk to each other, that they had not purchased the supplier facing modules for IBS because of cost and so data which was being double or triple handled has to be manually inputted and that there is insufficient access to the system by grade and by SBU.

I agreed to send him an outline of a semi-structured interview, and to interview him as part of the research process. We arranged this prior to the next ethnographic session.

Realist Ethnographic study: Meeting 2 snap shot

I received the agenda and minutes for the meeting. It followed a similar format of issues brought forward from previous meetings and issues that had arisen during the month.

Prior to the meeting commencing, I waited until all members had taken their seats and then selected a different area of the room to sit in and take notes. A map of the attendees was made and they were allocated their previous meeting member number. My rationale to identify if my presence was influencing the discussion.

From the start, their tone and demeanour had changed from the previous meeting. I made a note to the effect-“who has spoken to them this has fundamentally changed”.

The principle issues identified were Information management, Planning, co-ordination and resource control. Inter SBU boundary management and communication.

#3 again chaired the meeting but the language used was more conciliatory and there was an actual attempt made to chair the proceeding rather than lead the charge on behalf of that SBU.

The meeting moved through the agenda items with #3 building on people's responses with an enquiry "how do you feel about that?" The step change came with a challenge relating to items, which had been flagged up in meeting 1

#6 "How can we put things onto the operating system? There are only certain people who have access"

#3 "Can you put info into a spreadsheet?"

#6 "We have spreadsheets coming out of our ears but they do not reflect the systems"

#3 "But we have to address these issues, we have to solve/ address the number of complaints that we are having".

#5 "We have a problem it other departments do not action items" This was expressed defensively.

#3 "We have to confirm to the residents what we are or are not going to do!"

An example was produced relating to a request for a new kitchen, which had been inspected by a surveyor who had provided no feedback either to the housing team, the resident or put any information into the operating system. #5 paraphrased the questions seeking understanding of their position but in doing so clearly understood the gist of their questioning.

#3 "These complaints are becoming major!"

#5 "Do you get many?" who is complaining? Is this a complaint or an enquiry? They only play us off against each other".

#6 "Can we have access to "the system?"

#7 "I always prefer to talk to staff about what can be done or not". If the residents want to know whether it is R&M, why don't they ring me? – why do they ring housing management?"

#6 "But we need to know!"

#5 "What do you need to know, the jobs, what we are doing, or the numbers of jobs outstanding?"

#6 "X promised me that this would be actioned"

#5 "I am not saying anything different"

#3 "I am not happy. It's about communication and the left hand does not know what the right hand is doing".

#5 "They are playing us off against each other. If it is a request? Put it in the spreadsheet".

A major point in the meeting related to the outstanding works and the delays in addressing these, which related to the appointment of subcontract labour.

3”Who manages the surveyors?”¹⁷¹ This process is shit and is causing problems for customers other business units and for people in the supply chain. What is the set up process and who is managing it. It has been outstanding for 2 months.”

#5 “we are still awaiting references”.

#3 “This is a simple job can you please put some pressure on!”

#5 “We could use another contractor but Arjo want too much money, and sometimes we have to say no, irrespective of what the OT advises”.

My overriding thoughts were; this is about power and budgetary control and information management within the SBUs. There must have been information that was flowing around the business regarding complaints or issues raised by outside agencies¹⁷². From my interview with “S”, he was the point for escalation. From my interviews with the MD’s, were they aware?

Realist Ethnographic study: Meeting 3 snap shot

I received the agenda and minutes in advance of the meeting. Again, they identified the items to be brought forward. The longest item requiring attention had been outstanding for 6 months. Prior to the meeting starting, I sat down first in the room and then observed where people would sit as the room filled. They sat in line with their business unit allegiances. The meeting was again chaired by #3 but prior to the meeting commencing it was addressed by ”S” to outline the senior managers support to the process. Was this because of my attendance?

The issue of feedback on outstanding jobs was again the principle item for discussion with the issues that were identified at the earlier meetings remaining unaddressed.

Agenda items related to work flow planning, specifically jobs not being logged and deployed to trades and contractors arriving properties to undertake works where the resident was not aware of the visit and would not give access to the property. Following investigation, it was identified that a member of the “housing team” had given an instruction to a contractor to undertake works. The property services team being unaware of the instruction.

#5”We have sent out an org chart to ensure that information goes to the correct place”

¹⁷¹ This was an ironic statement as everyone was aware of the answer

¹⁷² How would an elderly resident who had been visited by an occupational therapist, have a specialist bath that had not worked for 2 months?

#2 “information was sent to K on the 23/4 to put the job onto the system but it is not on”

#5 “we have an issue with finance. Who signs off contractor works when the contractor has taken information and instructions from people other than a surveyor? This is an issue relating to who has provided instructions to the contractor.”

#2”who is going to pay? Housing or the Surveyors?”

3" I cannot understand why you have asked this? All the people know the issues, so who is going to take responsibility for the works?

#2 it is clear that Housing is the drivers but what are the surveyors doing in response?”

At this point#3 are now quite and looking everywhere but at the people around the table. They get up and leave.

After the meeting, I sat in the room and reflected on the past 90 minutes. During this time, the “chair” got the team together to advise them that they now had control, that things would now be better managed, and that they could move towards their objectives.

Analysis - Mind maps

The mind maps are presented in a CD. And identified by the theme of questions e.g. Structure.