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Outsourcing in Facilities Management- A Literature Review

M. K. Kurdi[a], A.H. Abdul-Tharim,N. Jaffar, M.S. Azli, M.N. Shuib, A.M. Ab-Wahid

Department of Quantity Surveying, Faculty of Architecture Planning and Surveying, UiTM Perak,32610 Bandar Baru Seri Iskandar, Perak,Malaysia.

Abstract

Outsourcing in facilities management involves turning over the complete management and decision-making authority of an operation to somebody outside organization .It may help businesses to maximize returns on investment and establish long term competitive advantages in the marketplace. The purpose of this paper is to overview the outsourcing in facilities management include the basic definition and process of facilities management. This study will present the comparison between outsourcing and in-house facilities management in terms of the definition, advantages and disadvantages. This paper will provide a useful management tool for selecting the appropriate strategy to maximize the facilities output in order to reduce building life-cycle costs and maximize profits.

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Keywords: facilities, management, outsourcing

1. Introduction

Most buildings nowadays are still practicing conventional management which includes a small organization or team in one department. They only pay attention towards the performance of the facilities and services of the building such as the maintenance department where they make sure all the equipment and services is functioning all the time. Facilities management can be used to help businesses maximize returns on investment and establish long term competitive advantages in the marketplace. It is necessary

* Corresponding author.
E-mail address: mohdk862@perak.uitm.edu.my

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for business to achieve maximum output from their facilities in order to reduce building life-cycle costs and maximize profits. The traditional approach to outsourcing cannot be the best sourcing strategy under all circumstances. Out-tasking is an alternative option that may be more appropriate in specific situations. This latter approach is widely practiced in information technology and facilities management. While the strategic importance of out-tasking is generally recognized, little is understood about its practice. The decision matrix of strategic sourcing presented in this paper provides a useful management tool for selecting the appropriate sourcing strategy. In addition, the ensuing discussion on the implementation process offers insights into the strategic and operational issues related to put specific sourcing strategies into practice (Encon, Albert) [1].

According to Salonen [2], when companies outsource maintenance, a contrast usually arises between the client's long-term maintenance strategies and the supplier's incentive to provide quality service. The Centre for Facilities Management, Strathclyde Graduate Business School defined Facilities Management as "the process by which an organization delivers and sustains a quality working environment and delivers quality support services to meet organization objective at the best cost". When making decisions about the best way to staff, facility executives should keep the focus on finding the right skills, not achieving short-term cost saving (Edward Sullivan)[3]. This is important for an organization in making decision to manage their facility in order to achieve organization objectives and goals. While Jennings [4] stated that outsourcing offers wide range of benefits to organization such as cost reduction, better access to superior quality, flexible in responding to market change, opportunity to focus on core competences and facilitate the development of product diversification. Facility management outsourcing can be an excellent way for large organizations to drive down operating costs, give more focus on the core mission and improve their competitive position (Timothy Maechling)[5]. This is due to achieve changing nature work and workplace to be more equipped with the latest knowledge and skills in Information Technology and management.

Brackertz and Kenley [6]believed that facilities management is becoming more widely recognized as a component in the business value chain and ultimately in the performance indicators that relate directly to the core business drives are keys to success of the organization performance. They added, most services are provided through facilities should relate to the main business indicators for the primary tasks such as customer satisfaction. Facilities management is the enabling function by which an organisation delivers and sustains a quality working environment for its human and physical resources so that managers can meet core business objectives (Alexander and Varcoe)[7]. Property in particular, as one component of an organization's facilities, is seen as a depreciating physical cost burden rather than as an asset that, when properly managed, can add strategic value to an organization. One reason for this negative perception is that the connection between buildings and organizational performance is not fully appreciated (Loosemore and McGeorge,)[8]

2. Definition of Facility Management

Over the years, researchers and practitioners alike have provided many definitions that specify the objectives and scope of FM. However, these definitions have prevented a common platform that is so crucial for cohesive theoretical development in FM. Through and examination of definitions introduced through thee last ten years, this section will attempt to identify the core competence that distinguishes the FM discipline (Linda and Joseph)[9]. Table 1 presents a sample of FM definitions.

Author	Definition of FM
Nourse (1990)	FM unit is seldom aware of the overall corporate strategic planning, does Not have a bottom- lines emphasis
Becker (1990)	FM is responsible for co-ordinating all efforts related to planning, designing and managing buildings and their systems, equipment and furniture to enhance the organisation's ability to compete successfully in a rapidly changing world
Bernard, (1996)	defines facilities as "the premises and services required to accommodate and facilitate business activity" .Bearing this in mind, to have any chance of being fully cost effective the management of facilities must directly embrace the three generic cost centres which includes premises, support services and information technology
Alexander (1999)	the scope of discipline covers all aspects of property, space, environmental control, health and safety, and support services
Hinks And McNay (1999)	common interpretations of the FM remit: maintenance management; space management and accommodation standards; project management for new-build and alterations; the general premises management of the building stock; and the administration of associated support services
varcoe (2000)	a focus on the management and delivery of the business "outputs" of both these entities [the real estate and construction industry]; namely the productive use of building assets as workplaces
Nutt (2000)	The primary function of FM is resource management, at strategic and operational levels of support. Generic types of resource management central to the FM function are the management of financial resources, physical resources, human resources, and the management of resources of information and knowledge
IFMA (2003)	Facilities must be managed as an integrated system. The International Facility Management Association defines facility management as the practices of coordinating the physical workplace with the people and work of the organization

Figure 1: Sample of FM definitions

Therefore, what does facilities management actually mean? Just like the cost/price/value issue considered above, facilities management means one thing or another depending on where in the management process one is located – or, in practice, whether you are managing a task, organizing and directing the whole range of activities or sponsoring the provision. There are in fact three facets of facilities management (Figure 1). In many organizations one or even two of these facets are either missing or depleted. For example, where the overall directive management is in-house –possibly managing a mixture of direct labour and "bundled" contracts – the "fire-fighting" function conventionally leaves little time for thinking, and little time for developing the "intelligent customer" facet so essential in a constantly evolving business scenario amid ever-changing service technology and delivery regimes. The proper allocation of resources to each of these facets is absolutely critical to the achievement of cost-effective facilities, an axiom to which we will return after considering yet another trinity of facets making up the true management concept of financial control. (Bernard)[10].

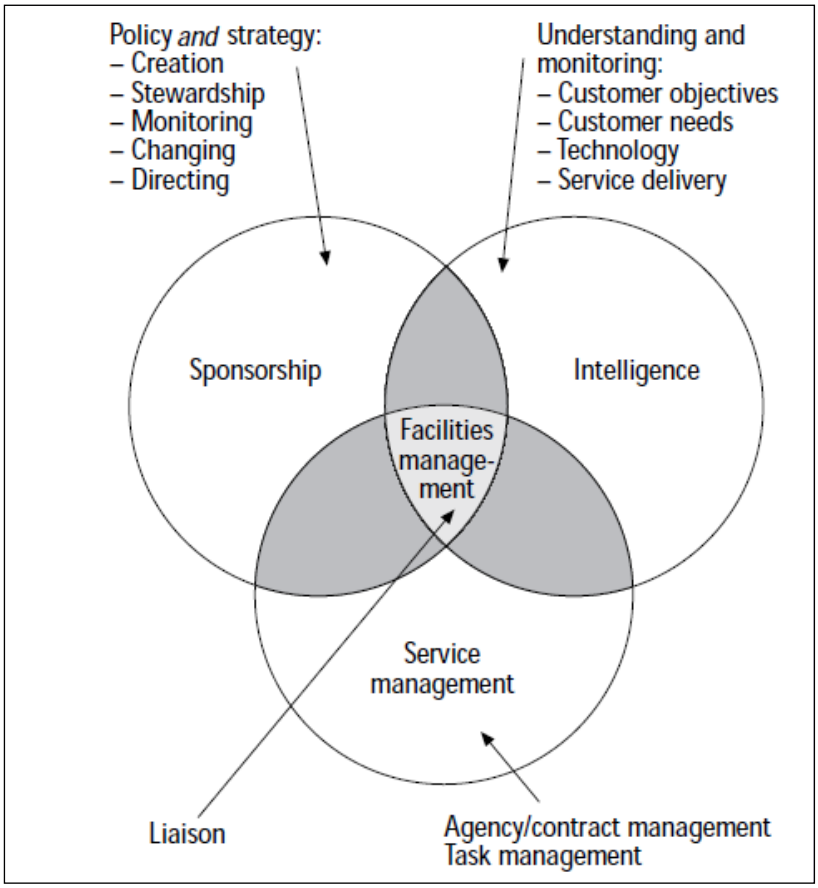

Figure 1: Three facet of Facilities Management
Source: Bernard (1996)

Facilities management (FM) is based on the premises that the efficiency of any organisation is linked to the physical environment in which it operates and that the environment can be improved to increase efficiency (Grimshaw and Keeffe)[11]. Becker[10] suggests FM is responsible for co-ordinating all efforts related to planning, designing, and managing buildings and their systems, equipment and furniture to enhance the organisation's ability to compete successfully in a rapidly changing world". The aim of FM should be not just to optimise running costs of buildings, but to raise efficiency of the management of space and related assets for people and processes, in order that the mission and goals of the organisation may be achieved at the best combination of efficiency and cost (Spedding and Holmes)[12].

3. Facilities Management Processes

Based on Atkins [13], facilities management is the application of the total quality techniques to improve the quality, add value of a building and also to reduce the risks involved in occupies a building and delivering reliable support services. This is an approach required to provide and sustain an operational environment to meet the strategic needs of an organization. Then the quality can ensure that core business processes are well integrated and supported in an operational environment which is the

workplace. The process is in cycle and produces result that can be tested against user satisfaction with the service as the following figure 2:-

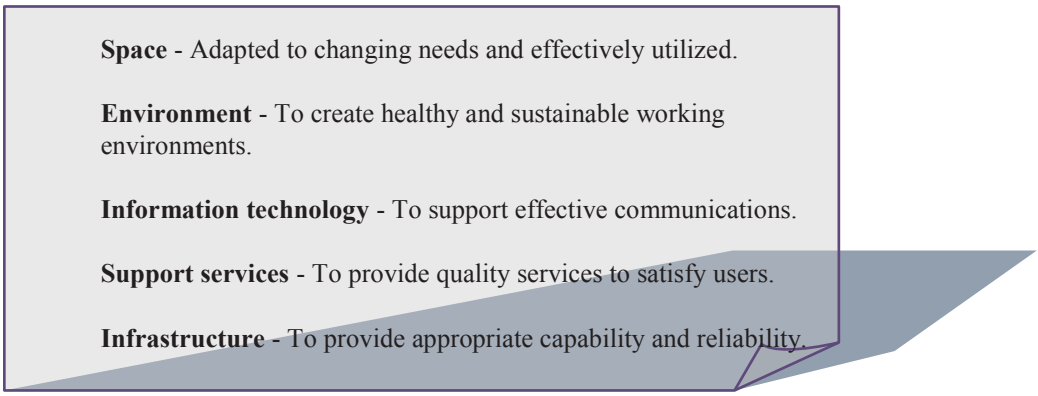

Figure 2: Cycle and Produces Result of Facilities Management Process
Source: Atkins (2000)

4. Integrated Facilities Management

Four components can be identified as comprising the major parts integrated facility management. These are operational activities, management roles, facility knowledge and management knowledge. Within each of these can be listed the subsidiary parts of which they consist as is shown in Figure 3.

In compiling the list under the heading of management knowledge, personal and management skills have been included in recognition of the often hectic nature of the real world of keeping facilities operational. This also acknowledges Mintzberg [14] findings that most managers do not spend their time in the classical roles of planning, controlling, etc. but in responding to and influencing people in a series of short disaggregated dialogues. The intention of this four-part structure is to provide a basis from which the considerations of both the technical needs and the management needs of facility management can be assessed. It should also reinforce an understanding of the importance and sophistication of the whole role. (David)[15]

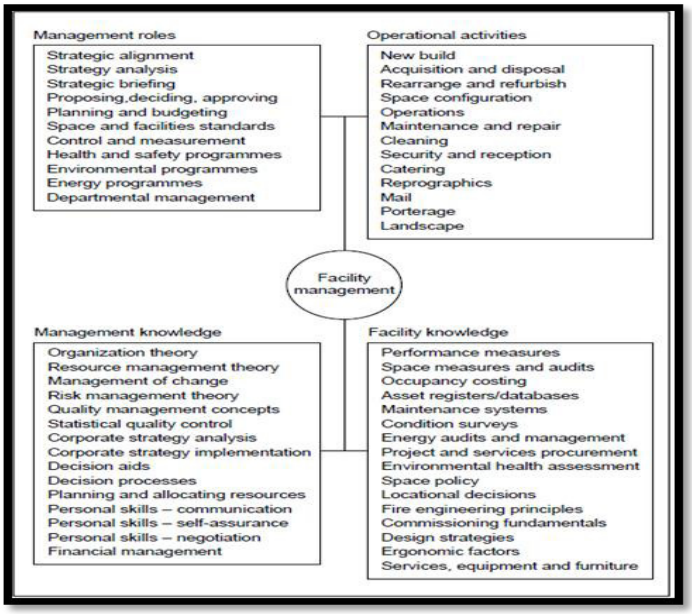

Figure 3: Integrated Facility Management
Source: David Kincaid (1994)

David [15] also summarized the integration of facility management as an effective function for an organization can be achieved by recognizing three key characteristics.

(1) Facility management is a *support* role within an organization, or a support service to an organization.

(2) Facility management must *link* strategically, tactically and operationally to other support activities and primary activities to create value.

(3) Within facility management, managers must be equipped with knowledge of facilities and management to carry out their integrated support role.

5. Outsourcing in Facilities Management

To make things easier Facility management covers all non-core activities of an organization. These possibly will include housekeeping, kitchen services, security and building setup, or interior and gardening services. All these activities are crucial requirements of any business institution. As the business develops and competition gets tougher it is not easy for an organization to monitor all these activities. Keeping up with diversified departments of each of these activities that do not directly affect the business becomes frantic and costly. Especially in a crisis market, even the wealthiest of the companies are considering of reducing costs to keep up with the market. Outsourcing facility management services not only releases the unnecessary headaches but helps reduce expenses. Focusing and performing well in primary activities is the new success secret.

Chase *et. al* [16] defined outsourcing process as an "act of moving some of a firm's internal activities and decision responsibilities to outside providers". Lankford and Parsa [17]

also said that "outsourcing is the procurement of products or services from sources that are external to the organization". Other definition is outsourcing is contracting out to obtain the services or products from an outside provider instead of having them provided by in-house resources. In the attempt of outsourcing, it is important to ensure that the institution's mission and long-term goals and objectives are achieved. In other words, outsourcing is a form of privatization in which institutions of higher education contracts with an external organization to provide appropriate functions or services. (Ender and Mooney)[18]. Outsourcing is transferring business processes from one company to another. The concept is to have the management or day-to-day execution of one or more business functions performed by a third-party service provider who is already in sourcing those same business processes. A parent company uses the outside firm to provide a business function that could have been done in-house. The aim of outsourcing is to make the business or organization more competitive by staying focused on its core competencies.

"When making decisions about the best way to staff, facility executives should keep the focus on finding the right skills, not achieving short-term cost savings." (Edward Sullivan)[3].Edward also states that the best way to start is by determining the top source for the expertise that is required to achieve facility functions that array from engineering to leasing, from space planning to maintenance, which some facility executives would see it as outsourcing.

According to Encon & Albert [1] there are better ways than the conventional method to outsourcing under all circumstances. Out-tasking is a complementary option that may be more suitable in specific situations. The second approach is usually practiced in information technology and facilities management. While the strategic consequence of out-tasking is generally acclaimed, little is understood about its practice. The decision pattern of strategic outsourcing raised in this thesis provides a practical management tool for selecting the appropriate outsourcing strategy. Two of the key success features in facilities management are choosing the right outsourcing strategy and its proper implementation. Preferably, the service provider should have the skills to deliver the service with reasonable reliability, certainty, cost effectiveness and on time performance. "When companies outsource maintenance, a contrast usually arises between the client's long term maintenance strategies and the supplier's incentive to provide quality service." Anssi Salonen [2].

6. Comparison between Outsourcing and In-House Facilities Management

Outsourcing as opposed to out-tasking, involves turning over the complete management and decision-making authority of an operation (e.g. maintenance) to somebody outside organization. The management contract for outsourced operation may be for a period of three of four years. Out-tasking, on the other hand, involves keeping the overall technical competency and decision making authority in-house and using outside specialty services on a temporary basis to supplement in-house capabilities (e.g. manpower, technical expertise).Outsourcing is contracting out to obtain the services or products from an outside provider instead of having them provided by in-house resources. In the attempt of outsourcing, it is important to ensure that the institution's mission and long-term goals and objectives are achieved. In other words, outsourcing is a form of privatization in which institutions of higher education contracts with an external organization to provide appropriate functions or services. (Ender and Mooney)[[18]. Atkins and Brooks [13], emphasize that same extensive FM functions successfully performed or provided either by in-house or outsourcing approach. There are two options exist in the decision to outsource or not to outsource:

1. The organization decides to retain or outsource the services on the whole basis,
2. The organization out-sources part of the services and retain certain services in house (particularly) if the FM function is part of the organizational strategic management process)

Atkins also states, observes that some organizations operate might be described as a mixed economy which retaining some services in-house whilst contracting out others. These observation stating, that some organizations favour a totally in-house option, while others literally contract out every service possible and other to use a combination of both. The decision should be made having regard to the path that leads to long term best value for the organization. Table below shows the comparison between in-house and outsourcing facilities management. Table 1 below shows the Comparison between outsourcing and in-house facilities management

Table 2: Comparison between Outsourcing and In-House Facilities Management

	In-House	***Outsourcing***
Definition	1. The maintenance team that being appointed by the company itself and using its own manpower to carry out the maintenance work. 2. Uses its own employees and time to keep a division or business activity (i.e. cleaning works, maintenance works etc). 3. Need to maintain the flexibility in those operations by keeping them in-house. 4. In-house usually for daily operations and minor works. Using own staff & own resources Mclvor R [19]	1. Contract out support services by appointed outside contractor in doing all the maintenance work. 2.To control and deliver the quality and service standard 3. Usually for major works 4. Outsourcing offers wide range of benefits to organization such as cost reduction, better access to superior quality, flexible in responding to market change, opportunity to focus on core competences and facilitate the development of product diversification. Jennings [4]
Advantages	1.People who are in-house own their work, perform better than outsourced employees who make decisions based on how they will affect own employers 2. Results of long-term financial analysis usually support in-house rather than outsourcing	1. Outsourcing your non-core activities will give you more time to concentrate on your core business processes. 2. Outsourcing can give you access to professional, expert and high-quality services.

	option. 3. Founded that employees are improved as well as customer satisfaction at the same time. 4.The company the opportunity to grow people instead of hiring from outside, and provide career prospects	3. With outsourcing your organization can experience increased efficiency and productivity in non-core business processes. 4. Outsourcing can help you streamline your business operations. 5. Offshore outsourcing can help you save on time, effort, manpower, operating costs and training costs amongst others.
Disadvantages	Atkin and Brooks [13], provide further insight on the disadvantages of in-house provision of FM functions :- 1. Poorly defined scope will lead, almost inevitably, to problems in the management of the services with higher supervision cost and lowering of customer satisfaction. 2. Without delineation of roles and responsibilities, it can be difficult to measure the performance of in-house personnel 3. Weakness in maintaining a consistent level over time for external service provision as it needs arises time to time. iv. Threats of complacency, which is easily noticed by customers	1.While outsourcing services such as payroll processing services and tax preparation services, your outsourcing provider will be able to see your company's confidential information and hence there is a threat to security and confidentiality in outsourcing 2. Outsourcing, though cost-effective, might have hidden costs, such as the legal costs incurred while signing a contract between companies. You might also have to spend a lot of time and effort in getting the contract signed 3. Your outsourcing provider might not be only providing services for your organization. Since your provider might be catering to the needs of several companies, there might be not be complete devotion to you and your company

7. Outsourcing Decision Framework

Kremic and Tukel,[20] defined outsourcing is a common practice among both private and public organizations and is a major element in business strategy. Perhaps most organizations now outsource some of the functions they used to perform themselves. Due to widespread outsourcing practices, it has

become a frequent topic in the literature. Numerous reasons why outsourcing is initiated have been identified by researchers. Organizations may expect to achieve many different benefits through successful outsourcing, although there are significant risks that may be realized if outsourcing is not successful. There is an abundance of outsourcing literature where many benefits, risks, motivators, and decision factors have been presented although the relationships, commonalities and disparity among the contents of these studies have not been investigated.

Below, the review on the outsourcing decision framework given in Figure 4 (Kremic and Tukel,) [20]. The figure depicts the typical elements of the outsourcing decision and shows where the motivators, benefits, risks, and factors are typically encountered in such decision

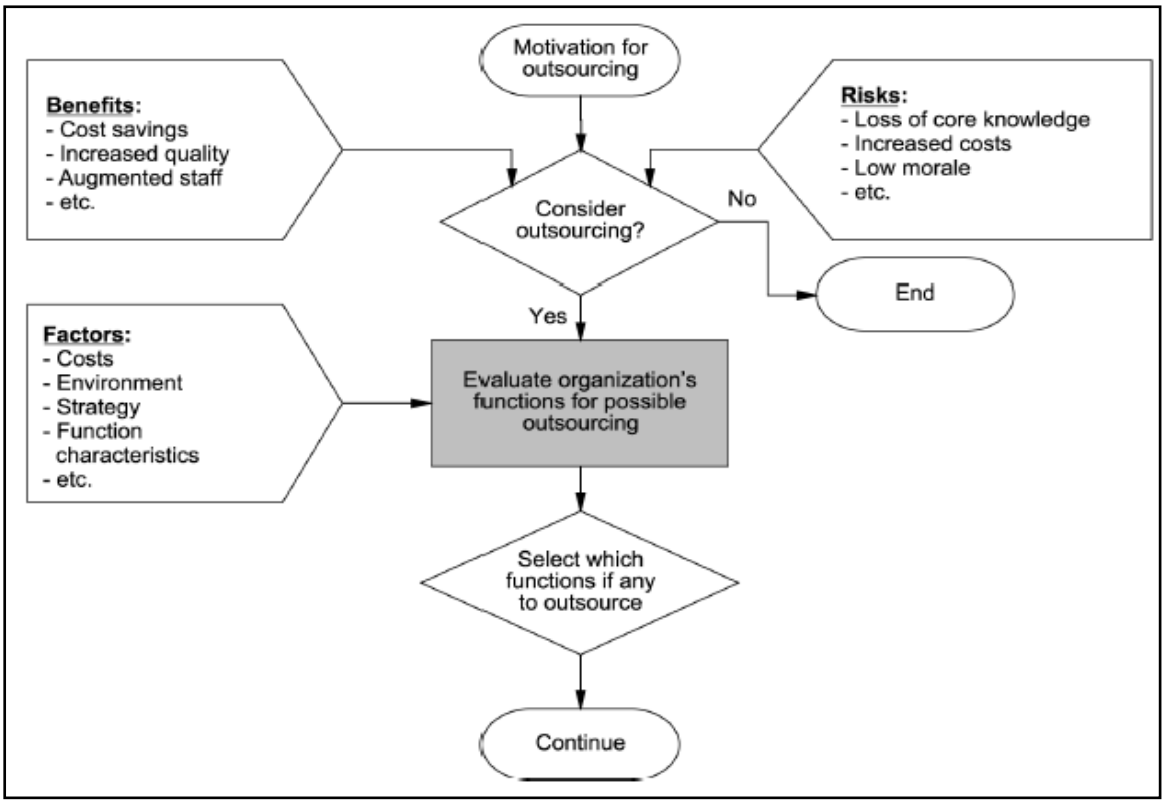

Figure 4: Outsourcing Decision Framework
Source: Kremic and Tukel, (2003)

7.1 Motivations for outsourcing

There are three major categories of motivations for outsourcing: cost, strategy, and politics. The first two commonly drive outsourcing by private industry. Political agendas often drive outsourcing by public organizations (Kakabadse and Kakabadse,)[21].

7.2 Cost driven for outsourcing

In theory, outsourcing for cost reasons can occur when suppliers' costs are low enough that even with added overhead, profit, and transaction costs suppliers can still deliver a service for a lower price (Bers; Harler,)[24].

7.3 Strategy-driven outsourcing

More recently the main drivers for outsourcing appear to be shifting from cost to strategic issues such as core competence and flexibility strategy (DiRomualdo and Gurbaxani)[23] , which may offer improved business performance on numerous dimensions (Brandes et al; Dekkers,)[24]

7.4 Politically-driven outsourcing

There are several reasons why a public organization may behave differently than a private firm and therefore may have different outsourcing motivators. For example, Avery [25] argues that the performance of a service by the public laboratory is not based on market demand or profitability. The issues may be more social than economic.

7.5 Expected benefits of outsourcing

The rapid growth of outsourcing suggests that both public and private organizations expect benefits from outsourcing. Naturally different organizations in different circumstances will expect different benefits. For example, all organizations may expect costs savings even though in government outsourcing, the typical cost savings are only about half of what the private sector achieves (Kakabadse and Kakabadse)[21].

7.6 Potential risks of outsourcing

The literature also discusses numerous risks associated with outsourcing. Because outsourcing is a rather recent tool of managers the complete costs are not yet known, which poses a risk in itself. The literature warns that there is an initial tendency to overstate benefits and that the suppliers are likely to perform better in the beginning of a contract to make good first impressions (Schwyn,)[26]. This thinking is supported by Lonsdale who suggests that outsourcing failures are not due to an inherent problem with outsourcing but rather the lack of guiding methodology for managers (Lonsdale)[29].

7.7 Potential factors to consider

In addition to benefits and risks, outsourcing literature also discusses factors which may impact outsourcing decisions. The factors are discussed individually in the following paragraphs. The factors are grouped into four categories, strategy, cost, function characteristics, and environment. Core competence is a strategic factor that has attracted much attention and is often linked to the outsourcing decision. Core competence is what an organization uses to sustain a competitive advantage. Core competencies in turn are utilized by core functions. There is debate in literature as to exactly what a core function is but it is widely recognized that how core a function is should have bearing on whether or not to outsource it (Quinn)[30]

8. CONCLUSION

The study on the comparison between outsourcing and in-house facilities management concludes that outsourcing in facilities management defined as contracting out to obtain the services or products from an outside provider instead of having them provided by in-house resources. In the attempt of outsourcing, it is important to ensure that the company's mission and long-term goals and objectives are achieved. While the advantages of outsourcing seems to give value for money to the company by having more time to concentrate on core business and having the access to professional, expert and high-quality services.

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