Outsourcing facilities management: The effects on building maintenance

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The research examines the evolution of outsourcing and the intelligent client within the English public sector. The paper discusses that evolution and the attributes needed to perform as an intelligent client and examines the outsourcing relationships with that client. The level of substitution and strategic impact of the relationship indicates the extent of the dependency and the level of minimalisation that can then occur. Within the public sector it is argued that the minimalisation process can include core activities, including facilities management, without affecting service delivery. The research is in three discrete phases. The first phase is the contextualisation of outsourcing within the English local government community by survey instrument, which this paper introduces. The second phase will utilise interviewed using Personal Construct Psychology to provide a synthesised framework. The framework will determine how thin the residual organisational structure can be without affecting the quality of the building maintenance, or increasing on going servicing and cyclical maintenance costs. The final phase will consist of a Delphi review of the research findings. The review will use the client’s management team to predict the appropriate strategic approach to outsourcing, considering the residual organisational structure required to deliver effective repair and maintenance regimes.

Key Words: Facilities Management, Intelligent Client, Outsourcing, Personal Construct Psychology

Introduction

Public sector service delivery drivers, namely: compulsory competitive tendering, best value and later outsourcing were all progressive routes to improving services and achieving financial efficiency. The research discussed in this paper examines those drivers in the general context of English local government service provision. The literature review presents the main research both past and present for each of the delivery drivers, mentioned above. This will provide the reader with an understanding of those drivers, their transitions and also examine any recurring themes such as political influences and outsourcing contract failure. Subsequent research will focus specifically upon facilities management and what impact outsourcing facilities management services may have had on the property portfolios repair and maintenance quality. The research hypothesis considers that, the incidences of organisations experiencing outsourced service failures are more prevalent where the level of contract manager is low within the organisational structure.

The research is split into three discrete phases, the first being the contextualisation of the current outsourcing position within the English local government sector, which is currently in progress and to which this paper relates. The initial research as well as capturing general outsourcing information also identifies participants for the second phase, which will be by case study/interview. Those participants have indicated in the survey that they have already outsourced facilities management services to some extent. The interviews/case studies will be undertaken using Personal Construct Psychology to examine the outsourced services success and failure factors, the effects on building maintenance and the nature of the residual organisational structures. The substantive research will bring forward a theoretical framework, synthesised into an operational framework to assist in determining the outsourcing decision and quantifying the residual organisational structure. From the research undertaken, it is clear that there are in fact very few academic contributions that propose practical frameworks for assessing the suitability of outsourcing (Boer, Gaytan et al. 2006).
The final phase of the research will involve the presentation of the research outcomes to the client with the researcher facilitating a Delphi review, assisting the client to predict the most appropriate future strategies to implement a thin facilities management structure. Such strategies have to be mindful of the clients need to maintain the property portfolio in the best possible condition, whilst obtaining the most from the budget available, and to encourage Building Information Modelling processes and workflows.

Literature Review

Compulsory Competitive Tendering

The public choice theory (Boyne 1998) suggested that town hall bureaucrats selfish motives and desire to monopolise power resulted in a massive inefficiency within local government. It was thought that the way to reduce those monopolies, although this could not change the motives of senior managers, was to introduce competition. It should be noted that the same author did recognise that competition and potential privatisation could in itself introduce a new level of red tape.

Privatisation and contracting out were often confused by many commentators (Domberger and Jensen 1997). Privatisation refers to the transfer of ownership of assets, which have a physical presence such as buildings, vehicles and other equipment. The same authors argue that those privatised organisations do not necessarily have to be exposed to competition; although how much competition if any they would have faced would have been largely dependent on government policy (Vickers and Yarrow 1988). Conversely, contracting out exposed to competition those operations or economic activities such as blue and later white collar functions but not tangible assets. The competition often resembled an auction (Domberger and Jensen 1997) with an ex-ante or ‘for the market’ approach as opposed to competition within it.

Competition within local government has been an essential part of proving the delivery of effective and cost efficient services. In 1979 the Conservative party took power, one year later Compulsory Competitive Tendering (CCT) was introduced in construction, maintenance and highways work by the Local Government Planning and Land Act 1980. Over the coming years the scope of services included within the CCT basket was expanded to include white collar or ‘professional’ services. The conservative government published a pamphlet entitled ‘The local right’ and argued that councils should shift to an enabling role as CCT had driven down costs and introduced an innovative culture. The development of CCT to incorporate professional services heralded that transition towards the enabling function (Putt 1994). Enabling authorities would become largely residual organisations, coordinating and monitoring contracts (Walsh and O'Flynn 2000). Within the enabling organisation three distinct roles were established; Client side manager, contractor either in-house or external and corporate manager.

An area of concern (Fenwick and Shaw 1994) was that if the contractor was ‘in-house’ then potentially they are all a part of the same organisation. The potential for a more sympathetic approach to contractual enforcement may then arise, as opposed to the contractor being external to the employing organisation and receiving no preferential treatment. That view is supported within the literature (Domberger and Jenson 1997). However, it could be argued that the amount of scrutiny, inter alia, of such public contracts gives little opportunity for anything but a robust contractual evaluation and implementation.

The manager of the client side will have a substantially reduced workforce to manage (Fenwick and Shaw 1994), the majority having migrated to the contracting side. The same authors make the important point that the client side manager despite having fewer staff to directly manage is likely to have greater responsibilities in terms of budgetary control. The client side manager’s role has now morphed into a decreased man management role with very little line management responsibility. The role does have increased budgetary responsibilities and carries the need to engage much more with service users to monitor performance.

It is worth noting that this was not a typical hierarchical local government line manager’s role. The Direct Service Organisation (DSO) manager’s role quickly moved towards a commercial bent, the typical responsibilities including: monitoring operative performance, acting with commercial integrity and ensuring performance meets the required outputs.
The DSO by the very nature of competition began to operate lean (fewer employees) services as well as providing an efficient and effective service, which had to make a profit. It could be argued that this was alien to the public sector.

The final, but crucial role is that of the corporate manager. Crucial because CCT enforces organisational fragmentation (Boyne 1998). The same author identifies the following as key skills of the role necessary to prevent such fragmentation, those being: communication, problem solving and political awareness.

Compulsory competitive tendering did impart huge decentralising forces in terms of management and organisation structures and more importantly employee relations.

A great emphasis was placed on making the in-house bid as competitive as possible with some suggesting that bids were manipulated (Domberger and Jensen 1997) to preserve jobs. This competitive edge had the undesirable effect of eroding the working conditions (Walsh and O'Flynn 2000) at the expense of saving those jobs. It is written (Domberger and Jenson 1997) that contracting out services has little effect on the overall employment levels which is contrary to the opinion of other authors (Boyne 1998); although they do acknowledge that contracting out inevitably results in job losses. Domberger and Jenson (1997) spend little time identifying where the contracting out savings are derived from other than employee reductions, wage reductions and other wealth transfers. Boyne’s argument holds as contracting out will inevitably result in employment reductions, as salaries are the biggest costs within the public sector and hence where immediate efficiencies can be made.

The overall effect of CCT on local government was a dilution of strategic and corporate management, fragmentation leading to ‘small’ local government (Boyne 1998) as the shift to private sector management commenced.

**Best Value**

Many local government officers will give differing definitions of ‘best value’. What best value did was to establish a framework to plan, deliver and to attempt to continuously improve services to meet the user’s needs. The legislation driving this initiative was the Labour Governments introduction of the Local Government Act, 1999. Under this act, local government had a duty to secure continuous improvement ensuring its functions are ‘exercised’ with regard to economy, efficiency and effectiveness with due consideration of cost.

The significant features of a best value regime were an annual performance plan, a five yearly review and annual performance publications.

The review had to apply what was known as the 4 C’s; to Challenge why, how and when a service was provided. Compare the council’s performance with others by using performance indicators. Consult with stakeholders to establish expectations and aspirations and finally to Compete to deliver efficient and effective services.

A white paper ‘Strong local leadership: Quality public services (2001) changed that approach; audit and inspection became integral to a Comprehensive Performance Assessment (CPA) of each council. Councils were assessed and if they met either good or excellent the requirement to produce a separate annual performance plan was removed. As can be seen from the 4 C’s above there was expected to be an element of comparison with other service providers, both public and private sector, and to compete against those providers. Some commentators expressed the view that competition was a fundamental requirement of best value (Luck 1998), however it can be argued that it is possible to challenge that approach; If the ‘compare’ phase illustrated that the public sector provider was indeed effective then further competition would be pointless.

A performance measurement gap existed within local government (Luck 1998), but the same author later went on to say that local government had “a rich history of collecting data” such contradictions are common due to the assumption that the private sector must be more effective and efficient than the public sector. The underlying issue appears to be that public sector managers are in fact aggressively engaged in performance measurement and management but not using that data to inform performance improvements (Jarrrar and Schiuma 2007).

Exposing the public sector to competition can also result in a ‘hold up’ where the new service provider escalates the costs of providing the service in subsequent contract renewals or where the contract has not been robust enough and extras (contingencies) are required. These issues result in the contractor charging substantially more for a service due to the client subsequently being unable to provide this service as the infrastructure has transferred to the contractor.

Best value in construction was clearly demonstrated as an effective project delivery tool when a performance based specification was utilised (Kashiwagi and Savicky 2003). This approach required a win-win benefit to exist between
client and contractor, where the client receives best value, possibly by way of a project delivered which is fit for purpose: such as a roof replacement which is effective and has guaranteed longevity rather than the contractor simply maximising profit with minimum outlook of call back due to faulty workmanship.

Outsourcing

Within the literature examined there is much debate in defining outsourcing, varying from the “reliance on external sources for the manufacturing of components” (Lei and Hitt 1995) to the explicit definition of “another firms employees carrying out the tasks previously performed by ones own employees” (Perry 1997). Sharpe (1997) makes reference to services or operations outside the organisations “core activities or competencies” being the focus of outsourcing. In its simplest form outsourcing can be defined as “employing another firm or organisation to undertake tasks which were previously undertaken within the employing organisation”. A clearer definition (Gilley and Rasheed 2000) suggests outsourcing as something which originally involved procuring something which could have been sourced within an organisation, notwithstanding the decision to go outside that organisation. Outsourcing has also been referred to as vertical disaggregation as opposed to in vertical integration as in-sourcing (Harland, Knight et al. 2005).

The principal reason for an organisation moving to outsource a service or services is that it allows that organisation to focus on its core competency (Rajabzadeh, Rostamy et al. 2008) and that the organisation receiving the outsourced operation will already be operating within its core competency. It can be argued that this is not always the case as there are some outsourcing organisations that will predatorily seek outsourced services without necessarily having the understanding in depth of that operation.

Within the local government sector, political drivers appear to overrule any strategic or planned business derived approach towards policy making. Policy making cannot be comprehensively informed without access to research (Harland, Knight et al. 2005) or managers with knowledge of the implications of outsourcing and the necessary skills to select the most appropriate model.

The common outsourcing models are described below, the most appropriate model to be implemented should be assessed by its intrinsic properties in correlation with the business outputs of the purchasing company (Executive-Brief 2011). Those models are: Staff augmentation – vendors are employed to expand the operational capabilities of the purchasing organisation. Out tasking – typically used where the purchaser has skills gaps and requires task specific skills. Project based – entire projects are outsourced enabling the purchaser to concentrate on strategic project delivery. Managed services – a longer-term strategic expansion with the vendors acting as consultants. Build, operate, and transfer – with typically an off shore vendor operating the business for a specific period of time, this approach is usually built around call centre operations.

Each of the above models has distinct relationships between the client and outsourcing service provider. Kishore et al (2003) developed the Four Outsourcing Relationship Types (FORT) framework which has a more considered approach to the vendor / purchaser relationship. The framework consists of two dimensions relevant to the outsourced relationship, those being: Substitution, which deals with the levels or extents of ownership or control of assets transferred to the new service provider; and strategic impact shows strategy of the outsourcing organisation in terms of length and depth of relationships with the service provider(s).

The four resulting relationship types are:

- Support relationship – there is limited use of outsourcing, use of the in house services are more popular.
- Alignment relationship – the use of the outsourced service provider tends to be on a project-by-project basis, possibly exploiting expertise not available in-house.
- Reliance relationship – shows a high level of commitment from the vendor as a significant level of the clients operation is transferred.
- Alliance relationship – allows clients and service providers to work together to achieve common strategic and operational goals.

This framework can be used to illuminate both the static and dynamic characteristics between the client and service provider correlation (Domberger and Jenson 1997; Kishore, Rao et al. 2003). The changes within the framework between relationship cells can be monitored over time using a similar survey process to that described within the methodology section. The effectiveness and ultimately the success of the outsourced service are highly dependent
upon the relationship between the client and the service provider. The skills required to deliver a successful outcome are significantly different to traditional contracts (Harland, Knight et al. 2005). The service provider can assume differing levels of responsibility, from a simple defined service provision to large infrastructures with multi interdependencies and complexities (Kishore, Rao et al. 2003). The survey instrument described within this paper uses embedded questions to determine where each respondent is positioned within the framework shown above. Observing the respondents position within the framework gives an indication of the type and depth of support being sought, the results of which will be reported in a future paper. The respondents to the survey were also asked to indicate the drivers of their decision to outsource.

It is extremely important to understand the reason to outsource, a range of criteria for consideration as part of the decision making process will have been explored by the organisation seeking to outsource a service or services (Langfield-Smith and Smith 2003). The criteria include: the cost of providing the current service, identifying cost efficiency routes, if there be human asset transfer issues, if outsourcing will augment strategic planning, defining what outsourcing may add to core competencies and clarifying how/who will administer the contract. The same authors put forward motivational factors including, access to expertise, cost improvement, addition of discipline and control to residual in house functions, governmental policy orientation and the creation of a new culture to override the existing. All of the aforementioned issues have been addressed within the survey instrument described within the methodology. The importance of understanding the reason for the outsourcing decision cannot be overstated, for example, if the objective is a culture change, retaining some staff may not allow that embedded culture to be changed.

Identification of core activities

There is a great deal discussion relating to the identification of core and none core functions within the literature researched. The importance behind this discussion relates to an organisation retaining core activities and outsourcing none core activities. Retaining core activities allows an organisation to lower costs and release resources to concentrate on improving those areas (Harland, Knight et al. 2005); it can be argued that this approach can assist in breaking interdepartmental barriers. Identifying core activities can also assist an organisation to develop a competitive advantage (Burnes and Anastasiadis 2003) whilst outsourcing them may lead to the loss of a competitive advantage. However others argue with limited evidence to support, that outsourcing technical and human skills leads to a loss of competitive advantage. This argument does not hold, particularly where the human asset does not have a unique skill set or a large financial investment is required. Contrary to the retention of core activities, leading companies have outsourced core activities or processes (McIvor 2011), and these companies have benefited from being able to access specialist processes and expertise.

Within the public sector, the identification of core activities is not straightforward, it can be argued that, at the operational level the core activities are social service functions, education and refuse collection. Supporting those functions is: administration, payroll and pension, legal services, facilities management, planning and building control, council tax, etc. It could also be argued that all of the above functions are noncore and could be outsourced with little effect on the recognisable service provided to the public. The public sector would retain a limited number of key personnel as a part of the ‘core’ service management and become a virtual council. The survey instrument described below seeks the individual councils assessment of the services they have outsourced as core or noncore.

Methodology

The initial phase of the research, which this paper discusses, was a survey of all councils within England. The survey instrument would examine inter alia, attitudes towards the outsourcing decision, levels of management, and numbers of staff transferred. Although this initial phase is important, it would not allow anything other than a corporate response. It was considered that a survey instrument distributed to the local government population within England would be an appropriate tool for that contextualisation process. Surveys are associated with the deductive approach (Saunders, Lewis et al. 2000) and allow the acquisition of large amounts of data. Surveys are also described as a collection method to describe, compare, or explain individual and societal knowledge, feelings, values, preferences and behaviours. (Fink 2006) A multi choice type survey collecting categorical data was the
chosen instrument due to its simplicity for the respondent, such surveys lend themselves to an automatic high degree reliability and validity (Fink 2006).

The reliability function is enhanced due to the uniform data surveys provide; in this case the analysis was by two-way tables due to the nature of categorical variables.

The validity of the instrument is high due to the responses always being within pre-determined parameters, although within this survey there are opportunities for alternative responses. Such ad hoc responses were nonetheless controlled by the question context. Practical measurement of the reliability was undertaken by the test – retest method. A retest coefficient of $r > 0.76$ will be an acceptable indication of reliability (Fink 2006). Of 20 retest surveys that were administered, 9 were returned. Using the formula:

$$r = \sqrt{\frac{\sum_{i=1}^{n} x_i y_i - \frac{\sum_{i=1}^{n} x_i \sum_{i=1}^{n} y_i}{n}} {\left( \frac{\sum_{i=1}^{n} x_i^2 - \left( \frac{\sum_{i=1}^{n} x_i}{n} \right)^2}{n} \right) \left( \frac{\sum_{i=1}^{n} y_i^2 - \left( \frac{\sum_{i=1}^{n} y_i}{n} \right)^2}{n} \right)}}$$

A retest coefficient of 0.87 was obtained which proves the level of reliability to be acceptable.

A panel of 3 outsourcing managers examined the validity of the completed surveys for any anomalies clearly outside the range of the multi choice parameters, no such returns were observed. The response rate achieved was 26%, typical response rates are in the region of 20% to 30% although every effort should be made to increase this to above 50% (Rumsey 2011) to avoid biased results.

The objective of the second phase of the research is to discover the reality, behind the reality. This would involve the use of case studies/interviews to allow the participants to fully express their views and experiences without inhibition or influence from the investigator. The strategy to enable such an uninhibited flow of data from the participant involves the researcher using Personal Construct Psychology (PCP). PCP allows the researcher to elicit constructs from the participant, in this case relating to the effectiveness of outsourcing facilities management services on the building maintenance regime.

Many strategies belong to either an inductive or deductive approach (Saunders, Lewis et al. 2000), although simplistically applying a strategy will not necessarily provide the desired quality of research. The key factor for the researcher to consider is that the strategy is appropriate for the research questions.

When devising the strategy of this research, it was considered that more than one research tool would be required as varying levels and complexity of information are required from the local government community to contextualise the empirical research.

The final part of the strategy will be the inclusion of the client in the evaluation of the findings to close the loop and facilitate their interpretation and strategy formulation using the Delphi methodology.

### Research Findings

The survey instrument, which has not been included within the document due to space constraints, examined the extent of services outsourced by councils in England. That wider approach included determining: which areas were outsourced, the contract values and duration, levels of satisfaction, an assessment of core or non-core service outsourcing, numbers of staff transferred, political drivers, etc. An extract of the initial results are shown in table 1 below.
Table 1

Extract of survey findings - general

<table>
<thead>
<tr>
<th>Number of services outsourced</th>
<th>1 (9%)</th>
<th>2-3 (27%)</th>
<th>3-5 (16%)</th>
<th>&gt;5 (30%)</th>
<th>Other (2%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contract value range - £m</td>
<td>£0-5m (29%)</td>
<td>£5-10m (15%)</td>
<td>£10-15m (6%)</td>
<td>£15-20m (6%)</td>
<td>&gt;£20m (31%)</td>
</tr>
<tr>
<td>Contract duration - Years</td>
<td>0-2 years (1%)</td>
<td>3-5 years (30%)</td>
<td>6-7 years (23%)</td>
<td>8-9 years (8%)</td>
<td>10+ years (35%)</td>
</tr>
<tr>
<td>Number of staff transferred</td>
<td>1-100 (46%)</td>
<td>101-200 (22%)</td>
<td>201-400 (14%)</td>
<td>401-500 (8%)</td>
<td>&gt;500 (10%)</td>
</tr>
<tr>
<td>Level of contract supervision</td>
<td>Admin (2%)</td>
<td>Senior (9%)</td>
<td>Principal (50%)</td>
<td>Head of service (39%)</td>
<td>Other (0%)</td>
</tr>
</tbody>
</table>

Table 2 illustrates the levels of facility management outsourcing and its client satisfaction level.

Table 2

Extract of survey findings – facilities management

<table>
<thead>
<tr>
<th>Percentage of councils outsourcing facilities management</th>
<th>29%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Satisfaction levels with outsourced facilities management services</td>
<td></td>
</tr>
<tr>
<td>Poor (0%)</td>
<td>Fair (23%)</td>
</tr>
</tbody>
</table>

Conclusion

The literature illustrated that throughout the transition from compulsory competitive tendering to outsourcing the skills and role of the client manager have remained the same. The client manager role, although having little line management responsibilities, involves careful delivery of the project with an awareness of the users feedback but carries significantly higher budgetary responsibilities. The literature did illustrate that successful contract delivery relies upon the organisational level of the client manager being sufficiently high to possess those skills, a claim which is supported by the analysis of the initial phase of the research.

Understanding the nature of the outsourcing relationship type and its evolution is an important part of the outsourcing process, possibly more important than understanding the hypothetical model being applied, as the relationship is directly associated with the levels of the transferred / residual employees. The outsourcing relationship also provides an indication on the extent of reliance upon the service provider, a strategic issue for the client to consider when the contract draws to a close, if the original vendor is not re-employed a skills/knowledge gap could ensue. Any framework developed as a result of this research must be cognisant of obtaining vendor feedback monitoring to provide an early indication of performance related issues.

The survey findings illustrated that councils were predominantly either adopting: a support relationship outsourcing 2/3 (27%) services at a value of £0-5m (29%) or a reliance/alliance relationship with >5 (30%) services at a value of >£20m being outsourced. Contracts are being operated by middle managers (principal officer 50% and head of service 39%) illustrating the desire to avoid contract failure.

Of the councils surveyed, 29% had outsourced facilities management services with a range of satisfaction levels (fair 23%, good 28%, very good 42%). The research will now progress to phase 2, examining specific facilities management issues including, inter alia, the impact on the repair and maintenance regime using the techniques described within the methodology.
References


