OUTSOURCED FACILITIES MANAGEMENT

THE BENEFITS AND CHALLENGES

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What is insanity?

Doing the same things over & over, whilst expecting different results

I don’t suffer from insanity. I enjoy every minute of it.
OUTSOURCED FACILITIES MANAGEMENT

THE BACKGROUND
The industrial revolution resulted in many challenges for many companies that hindered their productive levels and made it very difficult for them to generate profitable income. One of the major challenges was the ability to exploit their competitive advantage to increase their markets and their profits.

Diversification became very critical...

By diversifying companies expected to protect profits, even though expansion required multiple layers of management.
As a result organisations attempting to compete globally in the 1970s and 1980s were handicapped by a lack of agility that resulted from bloated management structures.

To increase their flexibility and creativity, many large organisations were “pushed” to develop a new strategy of focusing on their core business, which required identifying critical processes and deciding which could be outsourced.
In the 1990s, as organisations began to focus more on cost-saving measures, they started to outsource those functions necessary to run a company but not related specifically to the core business.

Contracting with emerging service companies to deliver the following services:

- Accounting
- Human resources
- Data processing
- Internal mail distribution
- Security
- Plant maintenance, and the like as a matter of “good housekeeping”
The current stage in the evolution of outsourcing is the development of strategic partnerships through integrated facilities management contracts.

- The Telkom and TFMC contract being arguably the biggest outsourcing contract in South African to date.
Defining FM outsourcing

There are many definitions provided for outsourcing, in 1998 Barrett described outsourcing as – “a type of contracting out, namely the process by which a user employs a separate company (the supplier) under a contract to perform a function which had previously been carried out in-house, and by doing so transfers to that supplier their assets, including people and management responsibility”.

In 2006 Robert Handfield, Ph.D. described outsourcing as – “the strategic use of outside resources to perform activities traditionally handled by internal staff and resources”. Sometimes known also as “facilities management”, outsourcing is a strategy by which an organisation contracts out major functions to specialized and efficient service providers, who become valued business partners.
Defining FM outsourcing

Over the years and with my experience in working on major outsourced facilities management contracts, I have come to understand outsourcing of facilities management services as:

“The transferring of facilities management processes and operations from one company to another. By having the management of and the day-to-day execution of these functions performed by a third-party service provider whose core business is facilities management and is thus the specialist.”

In essence in the past 10 years or so FM outsourcing has evolved to being an integrated FM partnership more than just a contract, mainly because of the complexity and duration of the contracts.
WHY OUTSOURCE?
There are number of reasons why organisations go the outsourcing route, the following are the most common and critical:

- Reduce and control operating costs
- Improve company focus
- Gain access to world-class capabilities
- Free internal resources for other purposes
- A function is time-consuming to manage or is out of control
- Insufficient resources are available internally
- Share risks with a partner company
The case in principal

The case for outsourcing in principle is a simple one, based on these arguments in favour:

- **The 'non core' argument** – whatever the organisation's business, it is unlikely to be delivery of FM services. Therefore, it won’t be configured to deliver these services effectively, or in an industry standard way.
- **The 'cost' argument** – the organisation doesn’t fully understand the FM service, cannot run it effectively and cannot readily tap in to economies of scale. Therefore it must be cheaper to outsource.
- **The 'flexibility' argument** – an external resource allows an organisation to adapt more readily to changing conditions and to modify its activities in the light of experience.
- **The 'expertise and innovation' argument** – an external provider has other clients in differing business sectors, effecting a synthesis of best practice and innovation that will somehow be shared by association.
Do outsourcing outcomes live up to both client and service provider expectations?
The case in practice

The practical application and outcomes of outsourcing can differ significantly from the benefits promised by service providers.

The 'non core' argument – Use of an outsourced provider is no guarantee of improved service quality and the FM client’s ability to incentivise the provider is a key factor.

The 'cost' argument – Significant efficiencies have to be identified for cost savings to be achieved.

The 'flexibility' argument – Changing client environments are easier managed when the non-core is outsourced. However, the implications of employee protection, the risk of staff redundancy and redeployment costs, make this less straightforward than the FM industry suggests.

The 'expertise and innovation' argument – FM is a service defined by management of day-to-day, business-as-usual tasks. It is all too easy, and regrettably common, for service providers to focus on business as usual and not deliver innovation.
OUTSOURCED FM VS IN – HOUSE FM
Due to the fact that an efficient maintenance and housekeeping working environment represents an enormous overhead needing significant ongoing investment of managerial time and resource.

**FM Outsourcing is often seen as a better option**

**IS OUTSOURCED FM THE BETTER OPTION?**
Very often the facility management service is not seen as a core function of the organisation. Although a facility department may be successful in delivering world-class services, often the overall facility function is not strategically linked to the corporate business mission and is not one of the company’s core competencies.

Typically this means that the facility department is considered to be an operational function that could just as easily be performed by an external source, so organisations tend to redirect its resources to core functions performed in-house and select facility management as a candidate for outsourcing.
THE BENEFITS
FM outsourcing is not only about cutting costs. The real tangible benefits are:

- Increased business efficiency,
- Focused risk management
- Improved productivity and customer service
- Reduced turnaround time
- Operational excellence
- Generating more profit

Effectively contributing to an organisation's profitability.
When the FM outsourced contract is achieving the client organisations objectives for outsourcing the following tangible benefits will be evident:

- Reduced risk burden
- Better developed internal task force which is used more efficiently on core activities, increasing production levels.
- The outsourcing partner, with their skilled expertise will produce quality deliverables faster, increasing turn around time to the customer.
When implemented Successfully

FM Outsourcing partnerships will result in an increase in an organisation’s productivity, customer loyalty, level of quality, business value and overall business profits.
THE CHALLENGES
repetition of behavior

expectations of different results

→ Insanity or Chaos theory
The Risks Associated with the challenges of FM outsourcing

- Critical service or asset failures
- Loss of business knowledge
- Service provider underperformance
- Financial underperformance
- Cultural rejection
- Loss of knowledge
- Labour risk
- Lack of benchmarking

The most effective method of dealing with the risks associated with outsourcing is for the client to understand and manage risks through each phase of an outsourcing initiative.
Three common reasons why outsourced FM contracts run into problems

1. The Buyer specifies the work process

In many outsourcing contracts, the facility manager specifies how the work is to be done versus what result the work is to produce. These are "process" specifications that list the variety of tasks to be performed, at a required frequency.

2. The WIIFM syndrome (What's In It For Me)

Many facility service outsourcing problems can be traced back to a situation where the two parties really don't have common interest. Where everyone is looking out for their own best interest, the more one party is successful, the less the other party is successful.
Three common reasons why outsourced FM contracts run into problems

3. Service Provider selection is price-driven.

Even though we now talk about partnering, performance, and about alliances in ensuring successful outsourced FM contracts. In reality the three things that drive service provider selection of contractors are price, price and price.
Some of the challenges of big scale and more than 5 years long FM outsourcing partnerships

• Merging two very difficult cultures to service the contractual requirements.
• Merging IT structures and systems
• Ensuring that Financial systems, payroll management systems, management structures, call centre management and corporate office accommodation is well collaborated.
• Ensuring that the transitional handover period is seamlessly management
• SLA management
• Continuous Improvement monitoring
• Setting and achieving common goals
• Managing performance incentives
• Poor dispute resolution process
BRIDGING THE GAP
Hey, Dilbert, would you mind stopping by my house after work and seeing if you can fix my computer?

Sure, and while I do that you can be at my house cleaning the grout in my shower.

That's crazy talk.

Hey, I'm not the one who majored in comparative literature.
There are so many different schools of thought on outsourcing facilities management services that deciding where to begin can be overwhelming.

Before deciding on an FM strategic outsourcing plan...

THE MOTIVE FOR OUTSOURCING IS CRITICAL

To rationalize the outsourcing effort, client facility executives should be certain they understand the motives for considering externally provided services.
The first and crucial step in the strategic outsourcing plan is reviewing the vision for the facility management enterprise.

Many outsourcing ventures have failed because of insufficient attention upfront to where the facility management enterprise within the client organisation is headed and what it wants to accomplish through outsourcing.
The direction of the facility management enterprise needs to be analysed in relation to the overall corporate vision to make certain facility management goals and objectives are in sync with those of the organisation.
Very often the crucial question...

**IS OUTSOURCING A GOOD CHOICE?**

Is hastily answered by the client organisation. Over clouded by the immediate need to cut costs and thus overlooking the fact that tangible cost savings in an outsourced contract are only truly achieved in the longer term.
In order to bridge the gap between expectations and the reality which leads to the many challenges affecting successful implementation of FM outsourced contracts...

Client facility executives need a thorough knowledge of what they consider to be the core functions and services they provide and how these directly impact their customers before they can determine if outsourcing is viable.
Building a Good Relationship – Partnership

Once an outsourcing provider is selected, the client facility organisation must take steps to create the right relationship, one based on a blend of accountability mixed with a true sense of partnership from the beginning.

To ensure the right atmosphere for a successful outsourcing relationship, facility organisations should:

- Provide opportunities for the outsourcing firm to explore and understand the corporate culture.
- Establish a full disclosure policy with respect to information sharing.
- Create an orientation and training program designed to acclimate the provider to the client’s way of doing business.
- Negotiate an ongoing monitoring and problem resolution process.
- Create incentives tied to a risk-reward philosophy.
If facility management executives understand...

• The difference between core and non-core services
• Clearly express their motives for outsourcing and the goals and objectives they hope to achieve.
• Establish key performance indicators to evaluate the value of the outsourced services versus the service investment.

FACILITIES MANAGEMENT OUTSOURCING WILL BE A POWERFUL BUSINESS TOOL.
If only implementing a successful outsourced FM contract/partnership was as easy as this...
THANK YOU.