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Inside Out?

A directors' guide to choice in the delivery of facilities management services

- 1 Introduction
- 2 Facilities management service delivery
- 3 Making the right decision
- 4 Outsourcing versus insourcing – risks and rewards
- 5 Managing facilities services
- 6 FM as a core discipline
- 7 Key decision map

Introduction – Getting the best from critical support services

Every organisation, regardless of size or sector, depends on a range of 'non-core' services to support its 'core' operations. No organisation can thrive or perhaps even long survive without effective security, cleaning, catering, maintenance, and a host of additional facilities services.

These, and the management required to deliver them in line with dynamic corporate needs, are increasingly recognised as critical business functions. So how should they be sourced: through in-house capabilities, one or more outsource providers, or a combination of both?

The choice is not an easy one; nor is it a case of 'once done and that's finished'. The purpose of this paper is to help senior executives think through the decision, whether for the first time or in review of a past choice. It does not advocate a particular course: the best option can only be identified in the light of the organisation's own circumstances.

Context and considerations are explored on pages 2 to 6 with the decision making process illustrated in a decision map on page 7.

The key messages to take away from this document are:

- *You've built a corporate strategy for success – do you have an FM strategy to support it?*
- *Every organisation has to be light on its feet. The FM service must reflect the need for fast change, flexibility and reliable service. Is your FM service innovative in its response capabilities?*
- *FM delivery has to represent optimum value for money – but which solution is best – Insourced? Outsourced? Or a mixture of the two?*
- *Keeping your choice of FM service under review is crucial. You must protect your opportunity for choice in the future.*



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Facilities management service delivery

Review is critical to overall business performance

Most of the drivers that will shape your business in the future are visible now. Try to assess how these trends may influence your decisions during the coming decade. Be clear as to the facilities management strategy you propose and the way you will shape FM operations in practice over time.

The importance of facilities management is increasingly recognised by organisations that have previously struggled to identify its impact on corporate objectives. FM's role in delivering sustainability in the management of resources, security, safety, business continuity, legislative compliance and the management of assets throughout their whole life is receiving ever more attention from commercial organisations and government.

Ensuring the most efficient delivery of facilities services is thus an increasingly critical decision. It is also a decision with far-reaching consequences. Should facilities services be delivered through an internal workforce, a network of outsourced service suppliers, a combination of internal and external service providers or a single 'total facilities management' provider?

The dispassionate and objective process that this decision requires must avoid superficial analysis of headline costs in favour of an in-depth review of FM's impact on the entirety of the operation. An approach that regards FM services as 'non-core', and by association of little importance to the performance and delivery of an organisation's critical success factors, has to be avoided. FM is very much 'core' in the sense that it is about providing the support to meet business objectives. It should not be perceived as some sort of add-on or after-thought.

Any organisation considering its needs for support services and for procuring the most advantageous solution should begin by analysing the strategic importance of FM to achieving the main purpose and objectives of the business. An organisation's response to this will be driven by many factors including but not limited to:

- What is the 'essence' of the organisation's proposition – its strategy, structure, operational ethos, future vision and corporate culture?
- What is the organisation doing – expanding, contracting, changing direction?
- What is the corporate strategy – is it supported by a delivery model for facilities services which enables that strategy to be achieved?
- Does the organisation have a strategy for FM and has it taken full account of the intentions of the Board?
- How would the organisation's Corporate Social Responsibility agenda be affected by its FM procurement strategy?
- Has the organisation developed its own sustainable estates strategy and how are decisions about FM services tied to this?

The full scope of business support service requirement needs to be understood in its specific local context. The relationship and role of FM services must be assessed alongside other key services, including finance, human resources, IT, logistics, asset management, property management and other professional services.

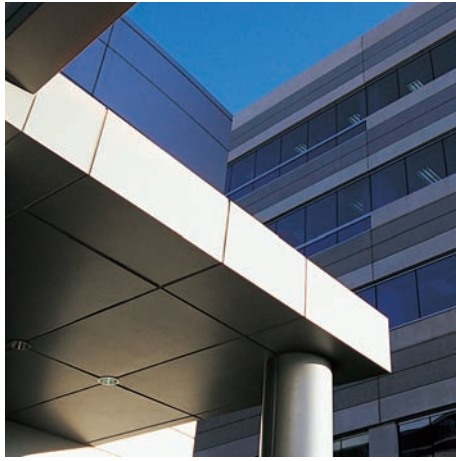


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Making the right decision

Plan your work and it will go to plan

The decision about how facilities services are to be provided can be a complex one that needs to be considered carefully. Often, organisations don't invest sufficient time and resource to ensure the chosen delivery model and procurement strategies are properly thought through. This can sometimes lead to a 'pendulum effect' by which a decision to outsource FM services is followed at the end of a contract term by a decision to bring some or all of the services back in house – followed later by another review and decision to outsource. This cycle indicates a failure in the way the chosen mode of service delivery is introduced and managed. To break the cycle requires an awareness of some of the common pitfalls, if problems such as staff de-motivation and mistrust are to be avoided.

There can be no 'one size fits all' solution. Internal factors, external pressures, political, economic, social, technical and environmental considerations will drive the use of different criteria and will affect fundamental decisions, including whether to provide services in-house or to outsource them.

Whilst cost savings may be an important objective of any change process, such savings need to be weighed against the value obtained. By structuring a service in such a way that it is delivered more efficiently, and not simply by reducing pay rates or trying to squeeze too much into too little time, levels of service can be maintained and customer satisfaction enhanced.

If major rationalisation is required due to cost pressures (perhaps as a result of restructuring or takeover), serious consideration must be given to how this will be handled and what consultation processes are required. The human dimension to change is often given too little consideration. Cutting corners can bring disastrous results, and indiscriminate reductions in staffing levels or pay rates will have the same effect. These changes become apparent in the poor performance of the service when either reduced service content or delivery occurs or additional charges are needed to compensate. This can be true in either an in-house or outsourced environment.



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Outsourcing vs. insourcing – risks and rewards

Amateurs hope for the best; professionals plan for the worst

It is not the purpose of this paper to argue in favour of either an outsourced or in-house solution. In truth, the decision must be based upon a consideration of what is right for the organisation given the commercial and operational circumstances at the time.

The main reason for considering the outsourced route may be the specialisation and expertise offered by the outsourced supplier in delivering quality services – an expertise which a client would otherwise find difficult or costly to replicate from its own resources.

The benefit of outsourcing can often be significant, but one must be satisfied that the supplier passes stringent tests in respect of access to staff resources, training, service quality and standards, health & safety and other key considerations. Their approach to customer relationship management is also important. These aspects must favourably compare with the direct control of standards offered by in-house services.

The case for outsourcing as against in-house provision is often promoted on the basis of risk transfer. Some organisations mistakenly view this as eliminating all risk to their business by placing the responsibility on the FM provider. In practice, the impact of failure always remains with the client, whether or not the cost of failure has been shared with others.

Any client will ultimately retain a significant element (if not the whole) of the business risk associated with outsourced contracts. This is supported by the experience of clients whose supply companies have ceased trading and have then realised the importance of the outsourced services to their ability to continue to deliver on their own business commitments.

Failures by suppliers may provide some expectation of recompense but this will not ultimately absolve the client from the obligation to secure alternative sources of supply and may also lead to lengthy litigation to win compensation.

Risk transfer comes at a price, and an assessment of the true value should be undertaken before decisions are made. Although risk can be transferred, legal duties and responsibilities cannot. A risk assessment is needed so that consideration can be given to those risks that should be transferred or retained. It is important to identify the likely risks, which may be categorised as follows:

- Design risk
- Construction risk
- Standards and performance
- Demand (and changes in demand)
- Health & safety risks
- Financial risk
- Loss of flexibility
- Service risk (for each service).

The specific risks will vary depending on the organisation and the range of services involved. A detailed risk register will be required to identify the consequence of failure and the cost of transferring the risk to a partner organisation. Value-based decisions can then be made on those risks to be transferred and those to be retained.

To ensure a good chance of success, thorough evaluation of the performance of service providers is an essential part of any procurement exercise and arrangements to ensure robust performance and contract monitoring must be in place from the start of any contract. The structure and relationship involved is likely to remain in place for a minimum of three years or longer. An ill-prepared approach will result in long-term difficulty, disruption and costs.

Managing risk needs to be fully integrated into the contractual arrangements and the day-to-day management of the FM undertaking, whether this is in-house or an outsourced service contract/partnership. Risk ownership must be carefully identified and accepted and a contingency plan agreed to deal with any incidents or issues that arise.

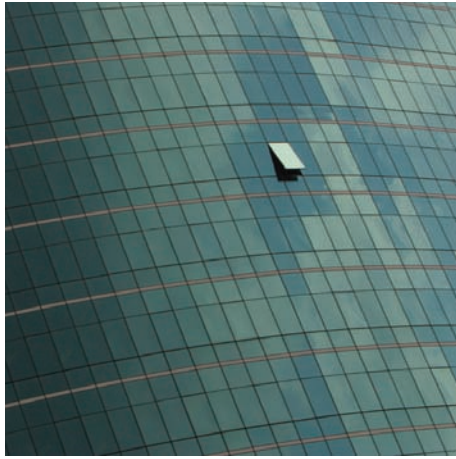


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Managing facilities services

People are at the heart of the decision

Whether services are provided in-house or by contracted staff, ensuring the commitment of the people involved in the delivery of those services at all levels is critical. Would an in-house or outsourced service arrangement provide a better solution in terms of cost, value and/or service quality? Would retention of an existing in-house facilities team provide better understanding of the business requirement, or is a completely new approach required that will be better supported by the introduction of new managers from an external contractor?

Is an outsourced arrangement a corporate risk? If so, the Board must weigh the potential risks of providing unfettered access to potentially sensitive information, for example marketing strategies, inter-company relationships etc, and consider the need to carry out in-depth security checks to ensure the chosen contractor will never be in a situation where it could be working for a competitor.

A clear procurement strategy for the FM supply chain should also be considered. When using in-house services, arrangements with existing suppliers should be reviewed in context. In an outsourced contract situation, there may be no opportunity to move tasks outside the contract provider, as this may strain relationships and deprive the contractor of their right to do the work.

In-house teams, provided they are properly integrated, can be closer to corporate strategy than external providers. In-house facilities managers may collaborate and liaise much more closely with business stream managers because they are viewed as being 'on the same team'. In-house managers can also obtain access to other management peers more easily and know who to speak to in order to make things happen.

As they can become so close, they also come to know and understand the nuances of the business, its culture and sensitivities. This understanding can be made much stronger through management courses provided by the employer as the in-house FM becomes an extension of the core business. They also acquire critical skills that are only available to in-house teams, as external providers are limited in the access and understanding their operational staff can obtain.

In-house teams are often looked upon as being more loyal to their employer. There is an expectation that, particularly in secure environments, an in-house employee will be more interested in his or her long-term employment prospects and the importance of 'getting it right'. This interest in longevity may bring with it an extension of knowledge of the business and the way it operates. This in turn brings the additional benefit of historic knowledge, a factor often overlooked when making in-house versus outsourced decisions.

The benefits of knowledge of organisational nuances, cultural factors and corporate sensitivities can be enhanced over a period of employment through corporate training programmes geared closely to the needs of the organisation. Managers who are provided with corporately driven development and training are very well equipped to support the needs of the organisation. This enables them to become close to their peers and the way the business operates, but also to create operational strategies that reflect most strongly the accommodation and facilities structures that are necessary to provide a successful working environment, a result that will transfer positively to the bottom line.



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FM as a core discipline

Why review is critical to overall business performance

Facilities management lies at the heart of business organisations, and indeed forms an essential part of economies and of society itself. Regardless of the sector – retail, finance, R&D, education, health or defence – facilities management provides the backbone from which economic and social endeavour can grow and develop.

FM requires management skills, as well as a range of technical skills. Implicit is the need to be able to manage a diversity of service areas in a manner that makes the whole much greater than the sum of its parts. FM adds value to organisations at all levels, and therefore is far from a 'non-core' activity.

What next?

Readers are encouraged to evaluate their own FM provision using the key decision map overleaf. If you have further questions, please contact Action FM by email – info@actionfm.org

Whether part of an in-house, outsourced, or mixed mode resource and contract model, FM is there to ensure corporate objectives are met. There is no 'right approach' to whether it should be handled internally or externally under contract. The right decision depends on specific circumstances and context.

Pressure for operational change is heightened when significant external influences, such as poor economic conditions, are felt keenly. It is natural for organisations facing such constraints to review all of their activities, but to impose change in the operation of facilities services without the due process outlined here is a mistake which may prove costly, both in economic and reputation terms.



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Inside Out – key decision map

1 Corporate strategy for success

Corporate strategy must be complemented by the delivery of facilities services to enable corporate objectives to be achieved. This demands a corresponding FM strategy that takes full account of the intentions of the Board. →

2 Does the current service match corporate strategy?

Has past experience of the delivery of services and the facilities management strategy demonstrated that the existing structure and content are worth maintaining? →

3 Does the current service deliver value for money?

Value for money is not always demonstrated through lowest cost. It is more often exhibited in good quality environments that enable the organisation to carry out its business efficiently and effectively. →

4 Is the current service flexible and reliable?

All service delivery staff must be committed to providing whatever type and level of service is required by operational teams, as long as the budget and scope fit with that approved by the Board. →

5 Would an in-house / outsourced service offer a better solution?

Can it be said with clear justification that one option or the other would be best for the organisation? Would the retention of the in-house facilities team provide better understanding of the business requirement – or is a fresh approach needed? →

6 Is an outsourced arrangement a corporate risk?

The Board must weigh the potential risks of losing local knowledge and introducing third-party operators to a site. In-depth security checks may be needed, as well as provisions against over-dependence on external suppliers. →

7 Could service standards drop?

Standards can fall off, particularly where there is inadequate senior management control or supervisory cover. When considering change, it is essential to define what structure is needed to ensure that where low standards exist they are improved. Conversely, where over-delivery is occurring rationalisation must be possible. →

8 Would corporate social responsibility be enhanced?

Which sourcing option provides the greatest opportunities to support CSR policy and practice? A strong plan should be put in place to ensure the objectives of the organisation are met. →

9 Could losses be experienced?

Business continuity and security are two areas that require serious consideration. Change without thorough planning and review could result in extensive adverse effects. Will the move to one option or the other create a situation where risk is increased? →

10 Could image be adversely affected?

Moving to an option that is unable to fully support service delivery requirements will almost certainly damage the corporate image. Conversely, an approach that incorporates a robust delivery and monitoring structure can be used to advantage in promoting the organisation. If redundancies are likely to ensue, serious consideration must be given to how those will be handled and what consultation processes are required. →

11 Will cost savings be achieved?

Cost may be an important driver of the change process. Savings can almost certainly be achieved, but this must be through structuring services to be delivered more efficiently – not simply by reducing pay rates or cutting resources, which can be disastrous. →

12 Making the decision

When all the relevant research, analysis and consultation has taken place then, and only then, can the Board come to its decision. A fully informed decision will ensure that services are properly scoped, specified and costed – ensuring in turn that the FM strategy aligns with the corporate strategy. ←



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Action FM contact details

ActionFM is a dedicated industry promotion group. Its role is to represent facilities management – both in-house and outsourced – promoting its strengths, benefits and opportunities to key groups including business, education and the media.

ActionFM is supported by

 • Asset Skills



• British Institute of Facilities Management



• Business Services Association



• Chartered Institute of Building



• Chartered Institute of Building Services Engineers, FM Group



• Facilities Management Association



• Institute of Administrative Management



• Royal Institution of Chartered Surveyors, FM Faculty



• The FMA Young Managers Forum.



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