A Contingency Model for Outsourcing Relationships in the Facilities Management Sector

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Introduction

Is there a need to establish a specific outsourcing relationship model in facilities management? Before answering this question, there is a need to discuss the kinds of outsourcing failures. Baithélemy (2003) found that one or more of seven "deadly sins" underlie most failed outsourcing efforts and firms generally are reluctant to report the outsourcing failures. According to Baithélemy, they are namely (1) outsourcing activities that should not be outsourced; (2) selecting the wrong vendor; (3) writing a poor contract; (4) overlooking personnel issues; (5) losing control over the outsourced activity; (6) overlooking the hidden costs of outsourcing; and (7) failing to plan an exit strategy (i.e., vendor switch or reintegration of an outsourced activity). Nevertheless, there is insufficient description of outsourcing failures on the perspective of outsourcing relationships in the entrepreneurial environment. Establishing a specific outsourcing relationship model in facilities management may possibly not find out the final answer, but at least it can explain and interpret the unseen and complicated scenarios.

Literature reveals that there are several outsourcing conceptual models: concept in logistics industry by Boer *et al.*, 2006; four types outsourced-outsourcer relationship in different fields by Franceschini *et al.*, 2003; outsourcing relationships management in information technology industry by Gottschalk and Solli-Sæther, 2006; strategic outsourcing research in operations and supply chain management field by Holcomb and Hitt, 2007 and four outsourcing relationship types framework in information technology industry by Kishore *et al.*, 2003. Various outsourcing models in various industries have their own deficiencies. The problems on the relationship between clients and service providers can be identified in the following business scenarios. In the field of logistics, prescriptive decision concept in models cannot align effectively with the outsourcing practice (Boer *et al.*, 2006). In the field of information technology, outsourcing relationships management model does not have a consistent understanding of relationships between vendors and clients in various stages within the framework (Gottschalk and Solli-Sæther, 2006; Kishore *et al.*, 2003). Furthermore, Franceschini *et al.* (2003) observe that there is no indication on evolution of the outsourcing relationships in a four types' outsourced-outsourcer contingency relationship model. The focus of this study is on investigating the Four Outsourcing Relationships Types (FORT) model in the facilities management (FM) industry. It is crucial to discuss the inter-relationships between outsourcing modes or types and outsourcing relationship maneuvers or strategic maneuvers. The FORT model is justified by detailed investigation.

Characteristics of Facilities Management Outsourcing Relationship Types

This study examines the Four Outsourcing Relationships Types (FORT) model specifically in the context of the FM industry. The model is significant because it covers the relationships between outsourcing modes and outsourcing maneuvers. Here, further arguments are employed to justify the FORT model. Every outsourcing model has its own specific advantages due to its particular characteristics and underlying theory, but also has its own disadvantages. It is thus rather complicated to discuss which model is generally the best. The aim of this research is to investigate the rationale proposed by the FORT model. The most interesting trait of this model is that it examines the evolution of the outsourcing relationships of companies. Outsourcing relationships are not static, and are liable to change and evolve over time due to changes in the external environment and in clients' internal requirements (Kishore et al., 2003). Other models are not dynamic in nature like the FORT model, and do not explore the development of companies' outsourcing relationships.

Benefits of the FORT model

- The model operates like an x-ray machine. It clearly explains and interprets the invisible and complicated scenarios related to outsourcing relationships in an FM contract, and also identifies each stage between the contractual parties.
- The model is efficient in the differentiation of contracts. It can interpret several kinds of FM contracts simultaneously according to the four relationship types.

- The model is easy to handle. It can simultaneously check the degree of responsibility and the strategic effect on the service providers' outsourced portfolio.
- The model is effective. It can check and update the outsourcing relationships between clients and service providers for each specific FM contract.
- The model is versatile. Although it originated in the information technology field, it can be conveniently applied in other industries.
- The model is user-friendly, and easy to understand and apply.
- The model is flexible. No time constraints on contracts are required.
- The model is the most reliable. It is the oldest of the five models identified, and is commonly applied in the information technology industry.

Limitations of the FORT model

In this research, the FORT model is used as an instrument to identify the four outsourcing relationships between clients and service providers. Although the FORT model can be used to identify and examine the four kinds of clients firms simultaneously, the characteristics of the evolution of the outsourcing relationships types cannot be fully applied when local private companies and public bodies have their own subsidiary property management firms or hire service providers for fixed client-service provider relationships at the outset in continuous contracts. It is also possible that FM practices differ between Western and Eastern Asian regions. Local clients seldom consider the evolution of outsourcing management relationships, and often there is only one kind of outsourcing relationship type throughout the whole contractual period and successive FM contracts between the parties. This study thus tests the applicability of the FORT model in the FM outsourcing sector.

Nature of the Four Outsourcing Relationship Types

This Four Outsourcing Relationship Types model (a framework called FORT) in Information Technology is contingent in nature. Finch (2012) explains that outsourcing relationship increasingly becomes one of mutual support and nurturing. Such a relationship may undergo significant change within the life of an individual contract and in the life of the relationship as the service provider acquires an increasing diversity of professional capabilities. He further reports that the first of these dimensions describes the amount of hardware (physical assets) and software (processes, intellectual know-how, and expertise) that has been transferred to the provider including "asset specific" knowledge. The second of the dimensions considers the extent to which the outsourced portfolio adds value to key business processes. This may include enhancement of customer relations, improved supplier relationships, improvement of product or service offering among others. There is a suggested FM outsourcing model as the following figure.

Ownership and /or control of various FM assets transferred to service providers			
	High	Outsource requiring service provider's more commitment	Partner having common goals
	Low	In-house	Outsource enabling acquiring service provider's technical expertise
		Low	High

Influence of the outsourced FM portfolio on the firm's competitive positioning and its long-term strategy

Figure 1 - The FORT Framework in Facilities Management

Kishore et. al. (2003) explains the working mechanism of FORT when the extent of service provider involvement is low, the case in support and alignment relationships, clients make little investment in service provider specific assets. Client-provider relationships in these two cells are usually short term

and are quite specific to outsourced projects and services. Hence, there is little need for incentives and penalties to be specific in detail in such contractual relationships. However, when the extent of service provider involvement is high, service provider specific investment by clients are also high. For example, clients become more committed to service provider's equipment, technology, systems and skills in the reliance and alliance cells, and this leads to a locked-in relationship. Williamson (1981) claims as "small numbers opportunism". In alliance relationship, trust becomes an important mechanism to ensure service providers' interests coinciding with client' interests. (Sabherwal, 1999)

Strategic Maneuvers of Outsourcing Relationships in alignment with Outsourcing Relationship Types

This study argues that it is important to go beyond contractual provisions as a means of achieving relationships in outsourcing. Specifically, this research focuses on the maneuvers that organizations can make to achieve the four dimensions of outsourcing relationships. To clearly understand the rationale for strategic maneuvers in outsourcing relationships, there is a need to study the related theories.

Transaction Cost Economics

Transaction cost economics (TCE), first introduced by Coase (1937) and further developed by Williamson (1985), considers the relative advantages of handling transactions through internal (hierarchy) or external (market) organizational forms. Outsourcing offers an organizational solution that can reduce production costs by leveraging on market economies, though this must be balanced against associated transaction costs. The level of transaction costs incurred depends on characteristics of the outsourced activities, in particular, asset specificity, uncertainty, and transaction frequency.

Agency Cost Theory

Agency cost theory (Jensen & Meckling, 1976), on the other hand, focuses on the principal–agent relationship inherent in any contract, its associated problems (adverse selection and moral hazard/shirking), and the resulting agency costs (bonding costs, monitoring costs, and residual loss). Outsourcing can be conceived as a principal–agent relationship that involves a client (principal) delegating the performance of services to an external vendor (agent), thereby introducing agency costs that need to be managed through different control mechanisms.

Resource Dependency Theory

Resource dependency theory (RDT) argues that all organizations are dependent, to varying degrees, on some elements in their external environments (Pfeffer & Salancik, 1978). This dependence arises from the control these external environments have on resources needed by the firm. By outsourcing, client organizations become dependent on their vendors who have control over the business services provided and the resources required in producing these services. RDT stresses the necessity of adapting to environmental uncertainty and actively managing resource flows, because the external vendors providing these scarce and critical resources acquire power in the exchange relationship.

Entrepreneurial Actions

Entrepreneurial action, as a theoretical perspective, stems from early work by economist Joseph Schumpeter (1883–1950) who argued that the main agents of economic growth are the entrepreneurs who introduce new products, new methods of production, and other innovations that stimulate economic activities (Schumpeter, 1936). He described entrepreneurship as a process of "creative destruction," in which the entrepreneur continually displaces or destroys existing products or methods, replacing them with new ones.

Social Exchange Theory

Social exchange theory argues that interorganizational exchanges are embedded in social relationships (Blau, 1964). The enforcement of obligations, promises, and expectations occurs through

social processes that are based on reciprocity, and involve cooperation and give and take between the parties. An outsourcing arrangement can similarly be considered as a social relationship between the client and the vendor (Kishore, Rao, Nam, Rajagopalan, & Chaudhury, 2003), requiring frequent communication, development of shared goals, and cultivation of mutual respect (Gupta & Goyal, 1989; Gittell, 2002).

Recently, there have been many regional FM outsourcing services in built environments due to the burst of economic recession. The following FM services are generally outsourced in Hong Kong such as computer Integrated Facility management, catering / vending, move management, project management (Major/ minor works), services installation (Mechanical, electrical, etc), cleaning and security (Moore and Finch, 2004). Late 1990s in Hong Kong, operation and maintenance work has triggered many commercial building owners to cut operation and maintenance cost via outsourcing (Lai, Yik and Jones, 2008; Yik and Lai, 2005). When rental income has been greatly decreased, expenditure becomes a great burden. Hence, building owners outsource the services for cost cut.

Importance of the FORT model to the FM industry

There are many reasons for the substandard performance of service providers. However, there is controversy as to whether this is caused by the complicated interactions between outsourcing relationships types and the three main FM stakeholders. Service providers obviously have the advantage in cost estimations in outsourcing because of their familiarity with the work environment and the conditions of the installations (Lai, Yik and Jones, 2008). However, poor performance among outsourced service providers cannot be eliminated, and is an unseen challenge. Today, the impact of outsourcing relationship types on user satisfaction in FM is still unclear. The question is whether it is valuable to explore outsourcing relationships types in FM. Although the value of post-occupancy studies has been emphasized (Cohen *et al.*, 2001; Leaman and Bordass, 2001), studies on outsourcing relationship types and their impact on clients, service providers, and general users of buildings in FM remain rare. An exception is the work of Lam (2008), which presents an evaluation best-value framework for the optimum use of resources in FM outsourcing by public managers.

An outsourcing model connects three stakeholders: user, client, and service provider. Various sourcing strategies are available in FM provision: in-house, outsourcing, public-private partnership, and total facilities management (Atkin and Brooks, 2002). The hidden problems in most outsourcing approaches can be identified and solved by a suitable model. A tailor-made FM outsourcing model can clearly identify the specific relationships between client and service provider. The client can review and improve the relationships with the service provider through the relevant outsourcing strategies, and can then systematically and logically identify the latent shortcomings of the relationships. Lok *et al.* (2010) proposes that outsourcing maneuvers can affect outsourcing relationship types and thus the profits equation of organizations. It is important that clients thoroughly and regularly review their relationships with service providers. Further, understanding the relationship between the outsourcing relationships types and the strategies in various FM contracts will help clients to improve and revise their related strategies.

Development of a Research Model on Facilities Management Outsourcing Relationship Types

The research model in this study is composed of two parts. This first part covers outsourcing relationships and the second part covers outsourcing categories. Figure 2 provides a graphic representation of the strategic maneuvers and the theoretical perspectives from which they are derived. It sets out the relationships between outsourcing relationship maneuvers as the independent variable and the four outsourcing relationship dimensions as the dependent variable, and between the four outsourcing relationship dimensions as the independent variable and outsourcing categories as the dependent variable. The interaction and combined effect of these variables determines the value of the dependent variables for the two parts of the model.

Outsourcing relationships include two elements: the extent of substitution and the strategic importance or impact. The four relationship dimensions can be measured objectively and subjectively, and are both

inter-related and intra-related. These factors form the dependent variables in this part of the model. Outsourcing relationship maneuvers are supported by five identified theories. These factors comprise the independent variables in this part of the model.

The outsourcing categories include in-house, service provider with commitment, service provider with technical expertise, and partner. These factors can also be measured objectively and subjectively, and are both inter-related and intra-related. These factors form the dependent variables in this part of the model. Outsourcing relationships and the four relationship dimensions form the independent variables in this part of the model.

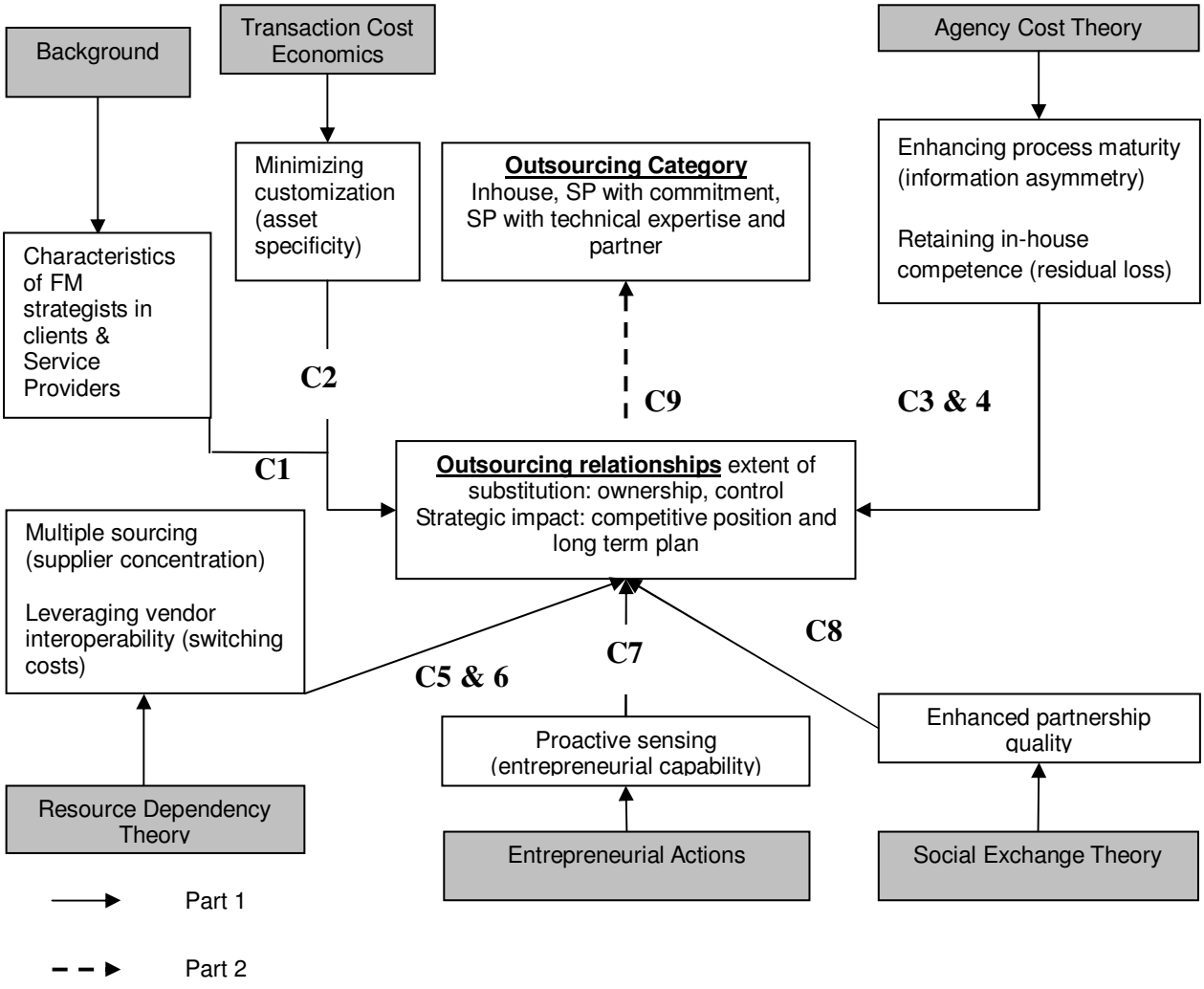

Figure 2: Research model on contingency model for outsourcing relationships in FM sector

Conclusion

The FM profession originated in Europe and North America in the early 1980s, but is still a young and growing profession in Hong Kong. The local FM industry has only developed in the past two decades. The majority of local FM practitioners in Hong Kong generally apply their own specific construction-related knowledge to their practice. During Hong Kong's economic boom from 1970 to 1997, local construction professionals gained fruitful practical experience from local and international construction projects. However, the Asian and global economic crisis from 1998 to 2008 led to a lack of jobs in the construction industry, and some local construction professionals chose to leave Hong Kong

to develop careers elsewhere, including mainland China, Macau, and even the Middle East. Others chose to leave their careers in building construction to enter the new local FM industry, where they faced many new challenges. Hence, there is a need to build a tailor-made FORT model for Hong Kong and the Greater Pearl River Delta region.

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