

A RESEARCH PROPOSAL INTO THE PRACTICE OF OUTSOURCING OF FACILITIES MANAGEMENT

Maizan Baba

Assoc. Prof. Dr. Abdul Hakim Mohammed

*Faculty of Geoinformation Science and Engineering,
Universiti Teknologi Malaysia.*

ABSTRACT

This working paper aims to justify the need to research into the operations, supervision and monitoring mechanisms of facilities management outsourcing. From the findings, the research proposes to develop a contractual framework for managing the facilities outsourcing contract. The objective is to help ensure that the services provided meet the requirement of the users and customers. The framework will be developed based on the best practice in international environment. Outsourcing is an organizational agenda. Its performance will strategically affect the business of the organization. Outsourcing involves a number of parties namely the client, service provider, users and customers of the client organization. This nature of transaction requires for suitable operational, supervisory and monitoring mechanisms to succeed. It has to fulfill the benefits expected by the client. This nature of transaction also has certain risks and has the potential to fail the outsourcing venture. The management of outsourcing of facilities management comes with pressures from the above transacting parties including the technologies and business of the client organization. Researches in the practice of outsourcing have also focused on the factors to ensure successful facilities management outsourcing. However, there is still the need to investigate further the issue to help the client and service provider to achieve the benefits of outsourcing especially in the health industry. None of the researches were conducted from the combined perspectives of the client, service provider, users and users. In fact there were also no researches conducted with the client, service provider and users as respondents. Only one research took the view of both the client and service provider. The rest of the researches focused on the view of the client or users separately. In Malaysia, the researches conducted were in logistics and facilities management (i.e. building cleaning). Therefore, there is so much opportunity for researches into outsourcing practice including in facilities management. At the same time there are many big outsourcing projects implemented in the public as well as private sectors. The government hospitals support services privatization project is an outsourcing project that is into its second-half of the 15 years concession period; the concession may be negotiable for further extension. There is the need to re-assess and re-evaluate the performance of the whole outsourcing contract to ensure it really meets the requirements and benefits expected by the users. The operations, supervision and monitoring mechanisms need to be re-looked to identify the weaknesses and to come-up with the solutions so that the users (doctors, medical assistants, nurses, attendants and other health workers) are satisfied with services that meet their requirement which is necessary for them to provide quality health care to the patients.

Keywords: Facility Management, Outsourcing, Hospitals (JL just added)

1.0 WHAT IS OUTSOURCING

Outsourcing involves *“the engagement of an outsider, either a firm or someone **not on the institution’s payroll**, to perform services or functions that would otherwise be performed by that institution’s staff, faculty, or students”* (Weizenbach, 1982). The *“giving of responsibility for service delivery to outside **vendors who are experts** about a business whose primary focus is to provide that particular service”* (Butterfield and Wolfe, 1990) is also outsourcing. Outsourcing can also be described as *“the significant contribution by external vendors in the physical and/ or human resources associated with the entire or specific components of the IT infrastructure in the user organization”* (Loh and Venkatraman, 1992). *“The purchase of a **good or service** that was previously provided internally”* (Lacity and Hirschheim, 1993) is a simpler but narrow description of outsourcing. A more detail definition of outsourcing would be *“the commissioning of a third party (or **a number of third parties**) to manage a client organization’s IT assets, people and/ or activities (or part thereof) to **required results**”* (Fitzgerald and Willcocks, 1994). A more comprehensive description of outsourcing is *“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 transfers to that supplier assets, including people and management responsibility”* (Barrett, 1995). A definition relating outsourcing to the strategic objective is *“the **organizational decision** to turn over part or all of an organization’s IS functions to external service provider(s) in order for an organization to **achieve its goals**”* (Cheon, Grover and Teng, 1995). *“The **transfer by an organization** of one of its support functions – such as catering, sanitation or security – to third party service provider”* describes precisely the outsourcing scenario in facilities management. The high quality expected in outsourcing is described by *“the concept of hiring outside **professional services** to meet the **in-house needs** of an organization or an agency...in areas as diverse as human resources, facilities management, or environmental regulations”* (Gupta and Gupta, 1995). The contribution of researchers in IT or IS to the many definitions of outsourcing includes *“the turning over to a vendor **some or all of the IS function**”* (Apte, Sobol, Hanaoka, Shimada, Saarinen, Salmela and Lepsalainen, 1997) and a *“business practice in which a company **contracts** all or part of its IS operations to one or more outside IS suppliers”* (Hu, Saunders and Gebelt, 1997). Defined in the manner of its process,

outsourcing is “*a decision taken by an organization to contract-out or sell the organization’s IT assets, people, and/ or activities to a third party vendor, who in exchange, provides and manages assets and services for **monetary returns** over an agreed **time period***” (Kern, 1997). The more recent descriptions of outsourcing are “*the handing over to a third party management of IT/ IS assets, resources, and/ or activities for **required results***” (Willcocks and Lacity, 1998) and “*the **third party provision** of IT products and services*” (Hancox and Hackney, 1999).

The above definitions and descriptions characterized outsourcing as follows:-

- a. To outsource is an **organizational decision**.
- b. The vendors or suppliers or contractors or service providers (termed as vendors throughout this working paper) are **experts** in the facilities services they are providing and therefore can provide **professional services**.
- c. The vendors are **paid** to provide **goods or services**.
- d. The goods or services provided by the vendors are expected to meet the client’s **in-house needs**, deliver **to the required results**, give **significant contribution** and enable the client **to achieve his goals**.
- e. The vendors are **third parties** who are **not on the institution’s payroll** and the outsourcing can either involve **multiple or single third party**.
- f. The engagement of the vendors is **under a contract** either determined by the client or negotiated between them.
- g. Outsourcing may involve **some or all of the...function**.
- h. Outsourcing involves the **transfer by an organization or sales of the organization’s...assets, people, and/ or activities**.
- i. Outsourcing ventures are **over a certain time period determined by the client or negotiated between them**.

Therefore, outsourcing is a **strategic effort**, therefore can negatively or positively affect the **competitiveness** of the client organization. The **well-being** or even the **survival** of the client’s business is linked to the **performance of the vendor**. The decision to outsource should then be made only after thorough study and analysis, and careful considerations **of the rationale, the advantages, disadvantages and the risks** involved. The strategic nature of outsourcing venture demands for **professional**

services from vendors who are supposed to be **experts** in the provision of the goods or services. The process of outsourcing should then be planned and implemented properly right from the stage to consider for outsourcing option. From the above descriptions and characteristics, outsourcing can then be more comprehensively and precisely described or defined as **“an organizational decision, to pay an expert party or parties (who are not on the client’s payroll), to professionally provide goods or services (for some or all of a function), with significant results, govern by a contract, over a time period.”**

A more detailed explanation of outsourcing is as follows (Bendor- Samuel, 2000):-

Outsourcing is *“when an organization transfers the ownership of a business process to a supplier”*. This transfer of ownership by the organization means...

- a. **The transfer of control.**
- b. **The buyer (or client organization) does not instruct the supplier how to perform his task.**
- c. **The buyer focuses on communicating what results it wants to buy.**
- d. **The process of accomplishing those results is the supplier.**
- e. **The buyer hands over a process i.e. including responsibility to determine if the tasks involved are appropriate, and if appropriate, how they should be executed.**
- f. **Appropriateness and how to decisions belong to the supplier.**
- g. **The buyer – the key is to focus on the results of the process.**
- h. **The nature of the beast is that the supplier controls the process.**
- i. **Control is not lost, only the means of control has changed.**
- j. **Outsourcing is not contracting as contracting is the purchase of goods or services when the buyer owns the process, if the supplier owns the process, then the buyer is outsourcing.**

The above descriptions also used the contract, privatization and outsourcing interchangeably. Therefore, for the purpose of this working paper, the three terms will be used interchangeably as they have the same meaning which is the use of external resources to either identify or design or document or resource or deliver or supervise or monitor or manage services for the use and benefit of the client organization. It can

also apply to combination of any of the steps in the facilities management process or all of the steps. This is also in-line with Wertz and Dreyfuss (1995)'s “*..it has been common practice to use the terms outsourcing, privatization and contracting-out interchangeably*”. It was also noticed that the above descriptions used the term vendor or supplier or service provider or external parties or outsiders. Again, for the purpose of this working paper, the term service provider will be used which refers to the other terms mentioned above including the term contractor.

2.0 THE PARTIES TO AN OUTSOURCING

Outsourcing **involves the client organization and the service provider.** Within the client organization, there will be the **outsourcing management team.** The members are responsible for supervising the delivery process of the outsourced services. They are also responsible for monitoring of the overall performance of the vendor. To enable measurement of the performance, indicators should be negotiated and agreed with **the users or customers of the services.** Therefore, the users and customers are also part of the outsourcing venture. They are the **beneficiaries of the services** therefore, the **judges of the services delivered.** The beneficiaries' opinions should be gathered to identify the suitable performance indicators for measuring of the service provider's performance. The service provider is the party who is employed for his expert service provision skills and availability of relevant resources; the provision of the services is his core business. The service provider has to provide his own service management team, supervisors and service people to plan, deliver and control the services. This means the service provider has to coordinate his whole service management team to ensure smooth, continuous and quality services are delivered every time. Each member should understand the requirements of the client organization and the users or customers of the services. This will ensure the success of the outsourcing venture.

3.0 SUCCESS FACTORS OF OUTSOURCING

The management of outsourcing ventures should be targeted at meeting the desired performance as expected by the client (Domberger, Fernandez and Fiebig, 1999). Some of the performance indicators are the ready availability of the outsourced service and in timeliness manner, out-of-hours availability or available including beyond official working hours, there should be credible response in cases of emergency, provision of the outsourced services at expected cost, delivery is to expected quality, advice given should be accurate, any errors fixed should be the correct ones and minimization of the system down-time.

To succeed in the outsourcing ventures, the following factors must be practiced and incorporated by all relevant parties (as described in item 2.0 above):-

- a. **Communication** between users and providers of the facilities management services which is essential for **coordination of internal corporate functions** [Andel (1994), Bowman (1995), McKeon (1991) and Trunick (1989)].
- b. The managers of the outsourcing venture must **communicate exactly what they are outsourcing and why**, to get the necessary support of every department (Bowman, 1995).
- c. The **management** of the client organization must be educated on the **benefits of the facilities management contract** [Richardson (1990) and Maltz (1995)].
- d. The relationship between the users and service provider should be based on **mutual trust and faith** [Bradley (1994) and Sheehan (1989)].
- e. The client should mandate **periodic reporting** by the service provider (Richardson, 1990).

- f. **Control of the performance** of each party must be maintained and trust must also be built into the outsourcing relationship (Richardson, 1994).
- g. All works done or services delivered must be **tied to internal controls that links to all payment** (Bradley, 1994).
- h. The users of the services ought to be **willing to part with proprietary information** that can help providers to reduce total facilities management costs (Bowman, 1995).
- i. The service providers have the responsibility and obligation **to protect the users' sensitive operational and business related information** (Anonymous, 1995).
- j. The whole facilities provision should **focus on the users and customers** (Richardson, 1990).
- k. **Operating standards** should be established (Richardson, 1990).
- l. Monitoring of the performance should be against **established standards** (Richardson, 1990).
- m. Know the payback period so that the contract is fixed at **a business-viable period** (Richardson, 1990).
- n. The **benefits expected by the client and users** should be clearly defined and **the means to achieve them** should be clearly described (Richardson, 1990).
- o. The client and service providers should **understand each other's cultures** (McKeon, 1990).
- p. The client and service providers should understand each other's **organizational structures to ensure good match** (McKeon, 1991).

- q. The service provider must know the facilities management strategy i.e. **understand the facilities function's role in meeting client's business objectives** (McKeon, 1991).
- r. There must be **continuous evaluation** of the performance of the service providers where the **results are discussed, performance improvements regularly targeted**, distinct steps are taken to attain the targets, having **regular face-to-face meeting and open discussion** (Bolumole, 2000).
- s. There should be **risk-share/ gain-share arrangement** incorporated in the **outsourcing contract**. To succeed, this arrangement requires for due-diligence on both the client and service providers. To avoid disputes arising, a model for both must be **tightly defined and agreed upon in advance** (Benn with Percy, 2002).
- t. Make the outsourcing venture an **enduring and mutually advantages relationship** (Reuvid and Hinks, 2002).
- u. The **client has to be clear about what he wants to achieve** from the outsourcing venture (Reuvid and Hinks, 2002).
- v. **Working in close harmony, continuously and simultaneously with new technology and service delivery team** to reduce risks (Reuvid and Hinks, 2002).
- w. Practice **single-point accountability** (Reuvid and Hinks, 2002).

The above observations can be summarized as follows:-

- **Communication.**
- **Coordination of internal corporate functions.**
- **Communicate what the clients are outsourcing.**
- **Communicating why the client are outsourcing what.**

- **Benefits of the facilities management contract.**
- **Mutual trust and faith.**
- **Periodic reporting.**
- **Monitor and control of the performance of client and service providers.**
- **Tie to internal controls that links to all payment.**
- **Willing to part with proprietary information.**
- **To reduce risks.**
- **To protect users' sensitive operational and business related information.**
- **Focus on the users and customers.**
- **Establish operating standards.**
- **Business-viable contract period.**
- **Benefits expected by the client and users.**
- **The means to achieve the expected benefits.**
- **Understand each other's cultures.**
- **Client and service provider's organizational structures.**
- **Ensure good match between client and service provider.**
- **Understand the facilities' role in meeting client's business objectives.**
- **Continuous evaluation of performance.**
- **Results are discussed.**
- **Performance improvements regularly targeted.**
- **Distinct steps taken to attain targets.**
- **Regular face-to-face meeting.**
- **Open discussion.**
- **Define and agree risk-share/ gain-share arrangement in advance.**
- **Enduring and mutually advantages relationship.**
- **Client has to be clear about what he wants to achieve.**
- **Working in close harmony with new technology and service delivery.**
- **Single-point accountability.**

The above outsourcing success factors can be grouped in four main factors namely communication, the operating and performance standards, control and monitoring, and compatible culture and structure. Therefore, for the outsourcing ventures to achieve the expected performance and benefits, both the client and service provider, including the users and customers must practice the followings:-

- an effective communication strategy for effective coordination
- establish performance and operating standards for service focus and assessment
- have compatible culture and structure for effective operations
- incorporate reporting, monitoring and control mechanisms.

Other factors are the requirement for single-point accountability to ensure right focus and contract period that is business-viable to the service provider.

4.0 RISKS AND FAILURES OF OUTSOURCING

a. Outsourcing ventures involve the client organization, external service providers, users and the ultimate customers of the organization. It also involves the matching of the client organization's business objectives and the service providers'. This nature of business transaction poses a lot of risk with the potential failure of the outsourcing ventures. Due attention must be given to the risks, including identifying and assessing the real risks, its root causes and designing the necessary mechanisms to eliminate or to counter or to manage them. Benn and Percy (2002) observed the following risks in outsourcing ventures:-

- i. Strategic lock-in - if the outsourcing venture is based on a single strategic model, the client may not be able to re-align his business strategy, should the need to change direction exists.
- ii. Closing the door on differentiation.
- iii. Relationship breakdown.
- iv. Outsourcers in trouble.

- v. Contractual risks – contracts, governance and Service Level Agreements.
- b. If not properly addressed, the above risks may result in failures of the outsourcing venture in the following areas (CBI Business Guide, 2001):-
- i. Loss of shared vision between the client and service providers.
 - ii. People problem such as attitudes towards the venture, not focusing on the objectives of the outsourcing venture.
 - iii. Communication problem among the parties involved.
 - iv. Pre-contractual mistakes such as the risks were not all identified and properly addressed.
 - v. Lack of understanding of the outsourcing processes which may include the release of relevant information at certain stage of the ventures.

All the risks and failures of outsourcing ventures described above are related to the communication aspect, and the performance of the client and service provider. These risks and failures may be overcome and avoided by incorporating and practicing the parameters for outsourcing success as described in item 3.0.

5.0 MANAGEMENT OF OUTSOURCING

The risks and potential failures described above result in pressures for the client organization and service providers in ensuring the ventures result in the achievement of the performance indicators determined and gaining of the benefits expected by the client. The pressures as observed by Bendor-Samuel (2000) are as follows:-

a. Changing business objectives/ conditions

Universities or colleges that decided to be accessible physically in as many areas as possible will require for different facilities management strategy since there will be branch campuses to manage besides the main campus.

b. Client/ buyer budget pressure

Budget constraint in times of economic recession or higher cost of resources will demand for more efficient provision of facilities management services or omitting of certain auxiliary or facilitating services.

c. Service provider/ supplier revenue imperative

The inclusion or exclusion or change of certain operational items will result in different amount of budgetary allowance as well as amount to be paid to the service provider/ supplier.

d. Changing technologies

The introduction of more effective or efficient technologies will help the service provider/ supplier to increase its productivity. This may result in more initial cost and lower running cost. The amount of profit for the service provider/ supplier may change as well.

e. Client/ buyer changing expectations

Threat from competitors in the marketplace may change the way the client/ buyer defines the quality of the facilities management services provided by the service provider/ supplier. The client/ buyer may determine that the rate of response should be the focus besides reliability of the facilities management services.

f. Service provider/ supplier profit imperatives

The expectation of the service provider/ supplier of the risks he has to take in managing the client's facilities may adjust the margin of profit he expects to gain from the outsourcing venture.

6.0 RESEARCHES IN OUTSOURCING

A survey of the literatures in facilities management outsourcing showed researches have been carried out to study seven (7) aspects - the outsourcing practice, the outsourcing decisions, the reasons for outsourcing, the services outsourced, the satisfaction levels in outsourcing, the concerns about outsourcing and issues relating to the success of outsourcing. The various issues studied in the seven aspects are as follows:-

a. Outsourcing practice

The researchers and the issues studied were:-

- **Ekern (1997)** - Outsourcing of non-educational services.
- **Gribenas (1997)** - Degree of outsourcing used.
- **Buttleman (1998)** - Degree of outsourcing used.
- **Woolcock (1998)** - UK current practice in outsourcing management.
- **Mc Ivor (1999)** - How companies carry out outsourcing process.
- **Crane (2000)** - Impacts of outsourcing on organization's culture.
- **Yiannakas (2000)** - Influence of outsourcing phenomenon.
- **Marshall (2001)** - Impact of organizational strategy, political manoeuvre and decision effectiveness on outsourcing process.
- **FMLiNK and Encompass Global Technologies (2002)** - Various aspect of outsourcing practice.
- **Building Operating Management (2004)** - Potential issues to impact facilities in 10 years time.

b. Outsourcing decisions

The researchers and issues studied are:-

- **Goldstein (1993)** - Outsourcing decision-making.
- **Wertz (1997)** - Steps in outsourcing decision-making.

- **Ekern (1997)** - Outsourcing decision-making.
- **Gilley (1997)** - Determinants of outsourcing decision.
- **Buttleman (1998)** - Process employed when implementing outsourcing.
- **Flannery (1998)** - Outsourcing decision-making.
- **Park (1999)** - Effects of independent variables on outsourcing decision.
- **Gonzales (2001)** - Outsourcing decision factors.
- **Pittman (2003)** - Decision-making process in outsourcing of campus service units.

c. Reasons for outsourcing

The researchers and issues studied are:-

- **Gribenas (1997)** - Reasons for outsourcing.
- **Wertz (1997)** - Reasons for outsourcing.
- **Buttleman (1998)** - Motivations for outsourcing.
- **FMLiNK and Encompass Global Technologies (2002)** - Reasons for outsourcing.

d. Services outsourced

The researchers and issues studied are:-

- **Wertz (1997)** - Services outsourced.
- **Agron (1997)** - Services most often privatized.
- **Chandra (1999)** - What services to outsource.
- **FMLiNK and Encompass Global Technologies (2002)** - Mission critical services outsourced and facility management functions outsourced.
- **Accenture (2004)** - Functions outsourced.

e. Outsourcing satisfaction level

The researchers and issues studied are:-

- **Owen (1994)** - The advantage exceeds the disadvantage in bundle-service contracting.
- **Arthur Andersen and The Economic Planning Unit (1995)** - Satisfaction level to outsourcers.
- **Frost (1996)** - Contribution of outsourcing to adaptation.
- **Ekern (1997)** - Satisfaction level in non-educational services outsourcing.
- **Buttleman (1998)** - Satisfaction level.
- **Piachaud (2001)** - Cause and effect of outsourcing on organizational process.
- **FMLiNK and Encompass Global Technologies (2004)**- Savings from outsourcing.
- **Accenture (2004)** - Satisfaction and performance to outsourcers.

f. Concerns about outsourcing

The researchers and issues studied are:-

- **Wertz (1997)** - Concerns about outsourcing.
- **Gribenas (1997)** - Concerns about outsourcing.
- **Buttleman (1998)** - Concerns about outsourcing.
- **Khalfan (2001)** - Issues, evidence and lessons in outsourcing in Kuwait.

g. Outsourcing success

The researchers and issues studied are:-

- **DeHoog (1984)** - Conditions for success.
- **Chung (1996)** - Success factors of information system outsourcing.
- **Gilley (1997)** - Performance measures.
- **Robinson (1998)** - Failure to capture outsourcing efficiency.
- **Chandra (1999)** - Conditions for Relationship Exchange

Mechanism to superior performance.

- **Lee and Kim (1999)** - Effect of partnership quality on outsourcing success.
- **Mc Ivor (1999)** - Collaborative relationship reduces risks.
- **Kern (1999)** - Framework for effective relationship management.
- **Nellore (2000)** - Role of specifications and contracts.
- **Jenkins (2001)** - Partnership qualities for outsourcing success.
- **Goles (2001)** - Client-vendor relationship and outsourcing success.
- **Pittman (2003)** - Greater outsourcing success through Goldstein, Kempner and Rush (1993)'s outsourcing process framework.
- **Davidson (2003)** – Inter-organizational learning in outsourcing.
- **Goo (2003)** - Success of outsourcing and relational aspects.
- **Accenture (2004)** - Skills set to manage outsourcing and outsourcing approaches to maximize business performance.

The literature survey showed that more researches were conducted to study issues in the aspects of outsourcing practices, outsourcing decisions, outsourcing satisfaction levels and outsourcing success. The more recent researches focus on the issue of outsourcing success. The success of outsourcing contracts is linked to the relationship between the client and service provider. The relationships are also studied from the perspective of partnership. However, Nellore (2000) conducted a study to link the success of outsourcing to the contractual ingredients of an outsourcing venture, the specifications and contracts. In general, the other researches in outsourcing success looked at the relationship from both the perspective of social and contractual relationships as an important factor for success in outsourcing ventures, with more focus given to the social aspects. Studies in the success of outsourcing were from the perspective of the client; only Gilley (1997) involved both the client and service provider in seeking the factors considered as critical to the success of the outsourcing. No research was conducted on the combined perspective of the client-service provider-users or client-service provider-users-customers.

7.0 THE ISSUES AND PROBLEM

The literature reviews described above showed that outsourcing is an organizational agenda. Therefore, it has strategic impact on the business of the organization. The performance of the outsourcing venture has bearing on the operations and credible presence of the organization in the marketplace. An outsourcing venture involves the client as the buyer of the service, vendor as the service provider, staff of the client organization as users and the external customers of the client organization as the ultimate users. The involvement of the four parties require for certain operational mechanisms to ensure success of the venture. Some of the important mechanisms are communication, continuous monitoring and evaluation of the performance, establish standards for measurement, define and describe client's requirements and expectation clearly at planning stage. The nature of an outsourcing venture describe above results in the existence of certain risks and potential failures. Therefore, outsourcing ventures need to be managed properly to meet the benefits expected by the client. However, the management of such nature of transaction will face pressures in respect of the changing technologies, client or users or customers expectations, service provider profit imperative, changing business objectives/ conditions, client budget pressure and service provider revenue imperative.

In Malaysia, the government adopted privatization as a national policy in 1983. As at February 1991, a total of 37 projects have been privatized. Twenty-seven (27) of the projects were the existing government entities. The other 10 were construction of new infrastructure projects. However, minor privatization projects by various government departments have been practiced through contracting-out of services such as laundry, security and cleaning (Economic Planning Unit, Prime Minister's Department, 1991). One of the mega outsourcing projects implemented by the government is the privatization of the support services in government hospitals throughout the nation. The support services involved are the clinical waste management, clinical waste management, cleansing services, linen and laundry services, facility engineering maintenance services and bio-medical engineering maintenance services. The project involved 123 hospitals and 4 un-bedded institutions. The project was awarded to 3 private companies according to the zones of North Region, Sabah and Sarawak; Central Region and East Coast; and Southern

Region. The government, through the Ministry of Health, has invited the local public universities to submit the Request for Proposal for the provision of consultancy services to conduct an assessment of the performance of the privatized project. Eight main objectives of the consultancy project have been determined (Ministry of Health, 2003). Firstly is to assess the effectiveness of the five support services. Secondly is to identify the shortfalls and weaknesses of the performance of the five support services including proposals for solutions to overcome them. Thirdly is to re-evaluate the mechanisms for supervision, monitoring and management of the privatization project including at the hospital, SIHAT (the monitoring company) and the Supervisory and Control Unit of the Engineering Services Section, Ministry of Health. Fourthly, is to identify the shortfalls and weaknesses of the mechanisms for supervision, monitoring and management of the privatization project including proposals for the solutions. Fifthly is to carry out costs comparison, to ascertain its reasonableness. The comparison should be based on hospitals in other countries and the local private sector hospitals. Sixthly is to study the existing fees payment structure and to propose a sound structure and policy on the fee which is fair to all parties. The seventh main objective is to conduct a study on the impacts of the patient care services. The eighth and last is to forward recommendations to the government on other options which can bring about a more effective impact on the privatized services.

A committee from UTM (the researcher was one of the member) had a meeting with the Director of Health, Johor, on 11th November 2003 at his office. The Director explained that deductions as penalty in accordance with the concession agreement would be made for non-performance of the part of the concession company. However, he stressed that the end users of the services i.e. doctors, medical assistants, nurses, attendants and other health workers, could not afford failed services. Any service failures may jeopardize the health and life of patients. He also cited the inability of SIHAT, a company appointed to supervise the performance of the concession companies on behalf of the Ministry of Health, to carry out its responsibilities effectively. The privatization project involved the Ministry of Health as the client organization, the concession companies as the service providers and SIHAT a private company who supervise the concession companies' performance, the Engineering Service Division of the Ministry of Health as the monitoring agency (who has representatives at all the hospitals).

The same committee visited the Sultanah Aminah Hospital, Johor Bahru on 12th November 2003 to have more understanding of the operations of the privatized project. The concession company, Tongkah Medivest Sdn. Bhd.'s Area Manager informed that his company performance were 89.92% in 2000, 95.89% in 2001 and 96.81% in 2002. This is based on the deductions formula for non-performance. The Area Manager explained further that the concession company has to get approval from SIHAT before final approval by the Ministry of Health to carry out new or refurbishment works or when there is no rates/ prices to base on in calculating the costs of additional works. The decision taken by the Ministry of Health, the performance by the concession company (Tongkah Medivest Sdn. Bhd. at Sultanah Aminah Hospital, Johor Bahru) and the unsatisfactory feedback from the State Director of Health, Johor show that the privatization project need some assessment and re-look to identify the weaknesses and shortfalls. Besides the above privatization project, the Deputy Prime Minister (New Straits Times, 2004) has stated that the government was revisiting the privatized projects for better quality and cost-effectiveness. The Prime Minister (New Straits Times, 2004) has also stated that concession agreements can be re-negotiated where either party faces problem in the project. Both statements imply that effort should be made to improve any privatization contracts for better results and benefits.

In Malaysia, the study into outsourcing practice was conducted by Sohail and Sohal (2003) on the use of third party logistics services. Their study focused on the extent to which Malaysian firms use the services of logistics companies, the time period these have been used, the decision-making process for choosing contract logistics and its impact on the organization. Ahmad Zulkepli Md. Tamami (2002) studied the supervision and monitoring aspects of the building's cleaning contract. The service provider performance was supervised and reported by representative appointed from among the user departments' staff. It was discovered that only 32 or 15.6% out of 205 daily reports analyzed were reliable for the purpose of performance assessment and evaluation for payment. It was identified that, the representatives were replaced from time to time without proper training in the supervision aspect. Another problem identified was the performance report from is too detail and tedious to prepare. On the practice of contracting-out or privatization or outsourcing, The New Straits Times issue of 21st June 2004 reported that the Petroliam Nasional Berhad or

PETRONAS has outsourced its information technology worth multi-million RM. This shows that outsourcing is a strategy adopted by both the public and private sectors.

Therefore, the proposal for research into the outsourcing practice of facilities management is justified based on the above descriptions which are summarized as follows:-

- a. Outsourcing is a big agenda as its performance has strategic impact or influence on the success of the organization.
- b. Outsourcing involves the client, service provider, users and ultimate customers.
- c. Outsourcing can be successful with certain implementation, supervision, monitoring mechanisms designed into its operations and management. They are the communication structure, assessment of the performance against established standards, precise definition of what benefits are expected by the client and clear description of how to achieve them.
- d. Outsourcing ventures have risks and potential failures that require for proper management to ensure success.
- e. More researches on outsourcing success need to be conducted to investigate further the ingredients for its success especially from the perspectives of all parties concerned to an outsourcing venture including the client, service provider, users and customers. The researches conducted so far focused on the opinion of the client with a research seek the combined view of the client and service provider. None has been conducted on the client, service provider and users, as well as combination of the three parties with the customers.
- f. Outsourcing is a government agenda as well as being practiced by the private sector and this makes it a national agenda.

- g. The statements by both the Prime Minister and Deputy Prime Minister that imply that the government privatization contracts should be improved for better quality of performance.
- h. The unsatisfactory feedback on the public hospital support services privatization project from the State Director of Health, Johor as well as from the users (doctors, medical assistants, nurses, attendants and other health workers) as related by the former.
- i. Findings of the research by Ahmad Zulkepli Md. Tamami (2002) discovered the problems in the supervision and monitoring aspect of an outsourcing contract.
- j. The research by Sohail and Sohal (2003) identified that the practice of outsourcing of logistics services is increasing in Malaysia.

8.0 OBJECTIVES OF THE RESEARCH

From the above descriptions of the background of the outsourcing practice, researches, issues and problems, this research will be conducted by following the objectives:-

- a. To identify the operations, supervision and monitoring mechanisms as described in the government hospital support services privatization contract.
- b. To benchmark the above outsourcing contractual framework with overseas hospitals.
- c. To develop a contractual framework for local hospitals' facilities management outsourcing that meet the users' requirements.

9.0 SCOPE OF STUDY

This research will be conducted covering the following scope of:-

- a. The facilities engineering management services (FEMS) package as contracted under the government hospital support services privatization program (covering all engineering plants, systems, facilities, non-biomedical equipment and civil engineering work).
- b. The research will focus on the operations, supervision and monitoring mechanisms.
- c. The case study is Sultanah Aminah Hospital, Johor Bahru.
- d. Two case studies for overseas hospitals will be in the United Kingdom.

10.0 RESEARCH METHODOLOGY

This project will be conducted through the following research methodology:-

LITERATURE
REVIEW



DEVELOP
CONCEPTUAL
FRAMEWORK



1. Literature review

An extensive literature review on the operation, supervision and monitoring of facilities management will be carried out. Literature review will involve gathering of secondary data from journals, conference papers, books and research reports.

2. Conceptual framework

A conceptual framework of the management of facilities will be developed. This will be based on a thorough study of the contract documentation of the government hospital support services privatization program. A focus group approach will be used to gather information on the practice of the operation, supervision

and monitoring mechanisms to be incorporated in the conceptual framework.

BENCHMARK
INTER-
NATIONAL
BEST
PRACTICES



CONDUCT
CASE STUDY
AT HSA



VALIDATE
CONTRAC-
TUAL
FRAMEWORK

3. Benchmarking of international best practices

The conceptual framework developed (of the local outsourcing contract) is then benchmark against two hospitals in the UK. Visits to both hospitals will be made to gather data on their framework of the contractual management of the same facilities (FEMS). The aspects to be studied, compared and incorporated into the local outsourcing framework will cover the operation, supervision and monitoring mechanisms. The product of this exercise is the contractual framework for managing the facilities outsourcing contract based on international best practices.

4. Case study

The above contractual framework, which is based on the international best practice, will be used to design a survey and interview questionnaires. Both primary data collection methodology will be targeted at the medical and facilities management staff of the Sultanah Aminah Hospital, Johor Bahru or HSA. A focus group will be formed, consisting of representatives of the hospital medical staff, hospital's facilities management team, service provider/ concession company and SIHAT.

5. Validate contractual framework

The framework will be developed from feedbacks of the above questionnaire survey, interview and focus group discussion. This framework is the best practice contractual framework for outsourcing of facilities management, especially in hospitals.

11.0 CONCLUSION

This working paper has justified the need to research into outsourcing of facilities management by presenting the characteristics of the practice in respect of its strategic impact on the client, the involvement of four parties with differing focus, the requirement for operation and monitoring mechanisms, the existence of risks and potential failures, it being a national agenda, the statements by the Prime Minister and Deputy Prime Ministers on the need to provide better quality services and, the researches by Ahmad Zulkepli Md. Tamami (2002) and, Sohail and Sohal (2003). The justification were described by the literature studies conducted on the subjects of the what of outsourcing, the parties to outsourcing ventures, the success factors, the risks and failures and the pressures in managing of outsourcing. The literature review of previous researches strengthen the justification for this study – the aspects of outsourcing studied so far cover the outsourcing practice, outsourcing decision, reasons for outsourcing, outsourcing satisfaction level, concerns about outsourcing and outsourcing success. The performance of the service provider in the government hospitals support service privatization project was decided to require for re-assessment and re-evaluation is a further argument for the need to study the management of outsourcing contracts. Hence the research into the operation, supervision and monitoring mechanisms of the government hospital support services to develop a contractual framework for guidance to the client organizations and service providers in the facilities management industry.

REFERENCES

Accenture, 2004, Driving High Performance Outsourcing – Best Practices From The Masters – Executive Survey Results, Accenture, Philadelphia, USA.

Agron, J. Sept. 1997, Changing The Guard, Fifth Annual Privatization/ Contract Services Survey, American School And University, USA.

Andel, T. May 1994, Seal Your Victory Through Logistics Communication, Transportation And Distribution Journal, UK.

Anonymous, Nov. 1995, Divorce – Third-Party Style, Journal Of Distribution, UK.

Apte, U.M., Sobol, M.G., Hanaoka, S., Shimada, T., Saarinen, T., Salmela, T. And Lepsalainen, A.P.J., 1997, IS Outsourcing In The USA, Japan And Finland – A Comparative Study, Journal Of Information Technology, USA.

Arthur Andersen And The Economist Intelligence Unit, 1995, Research Report – New Directions In Finance – Strategic Outsourcing, The Economist Intelligence Unit, New York, USA.

Barrett, Peter, 1995, Facilities Management – Towards Best Practice, Blackwell Science Ltd., UK.

Bendor-Samuel, Peter, 2000, Turning Lead Into Gold – The Demystification Of Outsourcing, Executive Excellence Publishing, Utah, USA.

Benn, I. And Percy, J. 2002, Strategic Outsourcing – Exploiting The Skills Of Third Parties, MCA – Management Consultancies Association, Hodder And Stoughton, UK.

Bolumole, Y. 2000, Outsourcing The Logistics Function – The Supply Chain Role Of Third Party Logistic Service Providers In UK Convenience Retailing, Cranfield School Of Management, University Of Cranfield, UK.

Bowman, R. J., Dec. 1995, A High-Wire Act, Distribution Journal, UK.

Bradley, P., Oct. 2004, Contract Logistics – It's All About Costs, Journal Of Purchasing, UK.

Building Operating Management, June 2004, In www.Facilitiesnet.Com, Accessed On 6 July 2004.

Butterfield, B.S. And Wolfe, S., 1990, Contracting-Out – Deciding Whether To Lease Or Own, In You Can Get There From Here: The Road To Downsizing In Higher

- Education, College And University Personnel Association, Washington, USA.
- Buttleman, K. R. 1998, An Investigation Of Outsourcing Of Functional Service Areas At Two-Year Colleges, Doctoral Dissertation, North Carolina State University, USA.
- Chandra, M. 1999, Strategic Outsourcing Of Services – A Decision And Procedural Framework, Doctoral Dissertation, University Of Texas At Austin, USA.
- Crane, W. G., 2000, The Impact Of Outsourcing On The Culture Of The Independent Schools In New Jersey, Doctoral Dissertation, State University Of New Jersey, USA.
- CBI Business Guide, 2001, Outsourcing IT, Joanna Reeves, Editor, Caspian Publishing Ltd., London.
- Cheon, M., Grover, V. And Teng, J., 1995, Theoretical Perspectives On The Outsourcing Of IS, Journal Of Information Technology, UK.
- Chung, Young-Soo, 1996, An Empirical Study Of Success Factors Influencing The Implementation Of IS Outsourcing, Doctoral Dissertation, University Of Nebraska, USA.
- Davidson, M. V., 2003, Information Technology Facilitating Inter-Organizational Learning In An IT Outsourcing Collaboration – An Examination Of Transparency And Receptivity, Doctoral Dissertation, The Claremont Graduate University, USA.
- Dehoog, R. H., 1984, Contracting-Out For Human Services – Economic, Political And Organizational Perspectives, State University Of New York Press, USA.
- Domberger, S., Fernandez, P. and Fiebig, D. G., 1999, Modeling The Price, Performance And Contract Characteristics Of IT Outsourcing, University Of Sydney And University Of New South Wales, Australia.
- Economic Planning Unit, 1991, Privatization Masterplan, Prime Minister's Department, Kuala Lumpur.

Ekern, S. L., 1997, Outsourcing Non-Educational Services In Higher Education, Doctoral Dissertation, University Of Central Florida, USA.

Fitzgerald, G. And Willcocks, L., 1994, Contracts And Partnerships In The Outsourcing Of IT, Proceedings Of The Fifteenth International Conference On Information Systems, International Information Systems Association, USA.

Flannery, K. A. 1998, Outsourcing Training – A Survey Of Decision Makers Regarding The Influence Of Selected Organizational Factors And Their Effect On Decisions To Outsource Training, Doctoral Dissertation, Pennsylvania State University, USA.

FMLiNK And Encompass Global Technologies, January 7, 2002, FMLiNK Outsourcing Survey In Fmlink.Com, Accessed On 6 July 2004.

Frost, Y. R. J. 1996, A Study Of The Contribution Of Outsourcing Of Services To Adaptation In Organizations, Doctoral Dissertation, University Of Brunel, UK.

Gilley, K. M. 1997, An Analysis Of The Determinants And Performance Implications Of Outsourcing Decisions, Doctoral Dissertation, University Of Texas At Arlington, USA.

Goldstein, P. J. 1993, Contract Management Or Self-Operation – A Decision-Making Guide For Higher Education, Council Of Higher Education Management Association, USA.

Goles, T. 2001, The Impact Of The Client-Vendor Relationship On IS Outsourcing Success, Doctoral Dissertation, University Of Houston, USA.

Gonzales, J. E. 2001, Outsourcing Decision Factors In Public-Owned Electric Utilities, Doctoral Dissertation, University La Verne, USA.

Goo, J. 2003, An Investigation Of Issues In IS Sourcing Management, Doctoral

Dissertation, State University Of New York At Buffalo, USA.

Graham, R., April 1995, Outsourcing: The Legal Problems And Pitfalls, In Facilities Management, Vol. 2 No. 4, Eclipse Group Ltd., London.

Gribenas, D. A., The Privatization Of Public Two-Year Colleges, Doctoral Dissertation, University Of South Carolina, USA.

Gupta, U.G. And Gupta, A., 1995, Outsourcing The IS Function: I S It Necessary For Your Organization?, in Khosrowpour, M.C., 1995, Managing IT Investments With Outsourcing, Idea Group Publishing, UK, 1995.

Hancox, M. And Hackney, R., 1999, IT Outsourcing – Conceptualizing Practice In The Public And Private Sector, Proceedings Of The 32nd Annual Hawaii International Conference On System Sciences, USA.

Hu, Q., Saunders, C. And Gebelt, M., September 1997, Diffusion Of IS Outsourcing – A Reevaluation Of Influence Sources, Information System Research, USA.

Jenkins, M. A. 2001, What Partnership Qualities Lead To Outsourcing Success?, Doctoral Dissertation, University Of Alabama, USA.

Kern, T., 1997, The Gestalt Of An IT Outsourcing Relationship – An Exploratory Analysis, Proceedings Of The Eighteenth International Conference On Information System, International Information System Association, USA.

Kern, T., 1999, Relationship In IT Outsourcing – An Exploratory Research Study Of A Conceptual Framework, Doctoral Dissertation, Oxford University, UK.

Khalfan, A. M. 2001, IS/ IT Outsourcing – Issues, Evidence And Lessons From Kuwait – A Developing Country, Doctoral Dissertation, University Of Leeds, UK.

Lacity, M. And Hirshcheim, L., Fall 1993, The IS Outsourcing Bandwagon, Sloan Management Review, USA.

Loh, L. And Venkatraman, N., 1992, Determinants Of IT Outsourcing – A Cross-Sectional Analysis, Journal Of Management Information System, USA.

Maltz, A. B., March 1995, Why You Outsource Dictates How, Transportation And Distribution Journal, UK.

Marshall, D. 2001, The Outsourcing Process – From Decision To Relationship Management, Doctoral Dissertation, University Of Bath, UK.

Mc Ivor, R. 1999, The Implications Of Core Competency Strategies Or Buyer-Supplier Relationships – A Case Study, Doctoral Dissertation, University Of Ulster, UK.

McKeon, J. E., Sept. 1995, Outsourcing Begins In-House, Transportation And Distribution Journal, UK.

Nellore, R., 2000, The Role Of Specifications And Contracts In Outsourced Product Development In The Automotive Industry, Doctoral Dissertation, Newcastle-Upon-Tyne University, UK.

Owen, D. D. 1994, Contracting-Out In A Facilities Management Context, Doctoral Dissertation, University Of Salford, UK.

Park, W. G. 1999, Logistic Outsourcing – Empirical Research On Subjective Decision-Making Of Logistics Service Buyers In The Korean Market, Doctoral Dissertation, University Of Salford, UK.

Piachaud, B. S., 2001, An Investigation Into The Outsourcing Of Research And Development In The Pharmaceutical Industry And Its Impact On Conventional Thinking About R & D Organizations, Doctoral Dissertation, Robert Gordon's University, UK.

Pittman, J. S. 2003, Privatize Or Self-Operate – Decision-Making In Campus Service Management, Doctoral Dissertation, Old Dominion University, USA.

Reuvid, J. And Hinks, J. 2002, *Strategies For Outsourcing And Facilities Management – Managing Business Support Services*, Second Edition, Kogan Page, London.

Richardson, H. L., July 1990, *Explore Outsourcing*, *Transportation And Distribution Journal*, UK.

Robinson, B. B., 1998, *Bureaucratic Inefficiency – Failure To Capture The Efficiencies Of Outsourcing*, Doctoral Dissertation, George Mason University, USA.

Sheehan, W.G., 1989, *Contract Warehousing – The Evolution Of An Industry*, *Journal Of Business Logistics*, Vol. 10, No. 1, 1989, UK.

Sohail, M. S. and Sohal, A. S., 2003, *The Use Of Third Party Logistics Services: A Malaysian Perspective*, Technovation, Pergamon, UK.

Trunick, P.A., July 1989, *Outsourcing – A Single Source For Many Talents*, *Transportation And Distribution Journal*, UK.

Weizenbach, L., 1982, Editor, *Contracting For Services*, National Association Of College And University Business Officers, Washington, USA.

Wertz, R. D. And Dreyfuss, J. V., 1995, *Privatization Of Services On Campus – A Growing Trend In American Higher Education In Meeting Financial Difficulties In Privatization In Higher Education – Papers And Presentations*, National Association Of College Auxiliary Services, Staunton, Virginia, USA.

Wertz, R. D., 1997, *Privatization Survey Summary*, National Association Of College Auxiliary Services, Staunton, Virginia, USA.

Willcocoks, L. And Lacity, M., 1998, *Strategic Sourcing Of IS – Perspectives And Practices*, Wiley, Chichester, UK.

Woolcock, P. H. 1998, IS/IT Competences Under Outsourcing, Doctoral Dissertation, University Of Brunel, UK.

Yiannakas, A. 2000, Outsourcing The Internal Audit Function With Special Reference To The UK Public And Private Sectors, Doctoral Dissertation, UK.