A Facilities Management Outsourcing Contract Framework

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Abstract

The objective of this paper is to review a framework of facilities management outsourcing contract, focusing on the processes of the operational stage. Several outsourcing success characteristics need to be addressed prior to the implementation of outsourcing. The outsourcing success characteristics can be grouped into four main factors: communication strategy; performance and operating standards; compatible culture and structure; and control and monitoring. A fluid communication between users and providers is important to establish a clear understanding of the role to be played by each party. Performance and operating standards are essential to ensure that the services provided are assessed and maintained respectively. It is important for the client and the provider to mutually understand the culture of each other's organisation to enable smooth-flowing collaboration and communication in the undertaking of the outsourcing project. The client's and service provider's organisational structures play an influential role in the outsourcing relationship. Reporting, monitoring and control mechanisms are required to assess provider's performance. The framework of facilities management outsourcing contract framework is divided into five operational aspects namely: service start-up; implementation; on-going service development process; review; and project close. The description of services to be outsourced should be outlined in a comprehensive and clear manner during the service start-up. Implementing the outsourcing project requires various undertakings and a client-provider communication is important throughout the implementation of the outsourcing project. Under the on-going service development process, the client and provider should monitor performance of the outsourcing contract including anticipating changes as an approach to adapt to market changes and transformations of trends. It is imperative that reviews on the success of the outsourcing project to be undertaken. Finally, proper mechanisms should be built into the outsourcing agreement for termination of service of the service provider.

Keywords: *Facilities Management, Outsourcing, Contractual Framework, Operation*

1.   Introduction

Outsourcing is one of two facilities management strategies. The other is in-house sourcing. Most organisations outsource facilities management to concentrate on their core business process. They will benefit from this, as facilities management is the core business of some specialized service providers, vendors or contractors. Hence the latter parties have the necessary resources and skill to deliver quality works/ services. The outsourcing process comprises pre-transition, transition and operational stages. The objective of this paper is to review a framework of facilities management outsourcing contract, focusing on the processes of the operational stage. The operational stage comprises service start-up, on-going service development, review and project close (Reeves, 2001). Facilities management involves the process of identifying requirements, designing (physical or services), documenting, resourcing, providing the physical facilities or delivering of intangible facilities and monitoring the provision or delivery processes. At the resourcing stage, facilities managers have the options of either using in-house resources or purchasing external resources to provide or deliver the requirements.

2. Outsourcing Success Characteristics

The previous studies in the area of facility management indicate that the demand for the facility management outsourcing service is on the rising. According to a study conducted in May and June 2001 by FMLink (*http://www.fmlink.com*) and Encompass Global Technologies (*http://www.encompassglobaltech. com*), a Beltsville-based provider of outsourced facilities systems and solutions, eight facilities management functions are being outsourced by at leased 45 percent of respondents.

Several outsourcing success characteristics need to be addressed prior to the implementation of outsourcing. The outsourcing success characteristics can be grouped into four main factors that include: communication strategy; performance and operating standards; compatible culture and structure; and control and monitoring. Therefore, for the outsourcing ventures to achieve the expected performance and benefits, the client, service provider, users and customers must observe the following criteria:-

- an effective communication strategy for effective coordination
- established performance and operating standards to ensure service focus and assessment respectively
- compatible culture and structure for effective operations
- reporting, monitoring and control mechanisms.

2.1 An Effective Communication Strategy For Effective Coordination

As in any venture, communication plays an essential role to the success of outsourcing. A fluid communication between users and providers is important to establish a clear understanding of the role to be played by each party, the goal to be achieved, the requirements of each party, as well as the smooth ongoing of the outsourcing venture (Andel, 1994; Bowman, 1995; McKeon, 1991 and Trunick, 1989). Firms need to specify clearly to service providers their role and responsibilities as well as their expectations and requirements.(Andel, 1994; Bowman, 1995; McKeon, 1991 and Trunick, 1989).

Prior to the approval of the contract by both users and providers, the benefits that the contract provides need to be assessed by looking into the short term and long term benefits that will be gained by both parties (Richardson, 1990 and Malm, 1995. As contract negotiations can be complex and time consuming, it is more advantageous to negotiate around a checklist of principles rather than get bogged down by the technicalities of draft contracts in the initial stage. From the checklist, a skeleton contract may result in the first few rounds of negotiations, leading to the formation of a full-fledged contract that benefits both the client and service provider.

The client should mandate the provider to report the work progress periodically throughout the undertaking of the outsourcing project. Matters and subjects to report include work requests, work orders, work orders summary, work orders summary in progress, work orders completed summary, work orders outstanding summary, planned preventive maintenance, maintenance schedules, process of payment such as invoice, performance documents; performance analysis for uptime, response time (Richardson, 1990).

2.2 Performance And Operating Standards To Ensure Service Focus And Assessment Respectively

Control can be gained over the function being outsourced- through ongoing monitoring of the work performance as well as monitoring aspects of the outsourcing relationship. This may be achieved through the use of performance measures and benchmarks, focusing on areas such as customer satisfaction, delivery responsiveness, product quality and cost. Informal mechanisms may be necessary to gain control. The implementation of formal control may not be sufficient. This is highly dependant on the nature of the relationships that build up between the parties. High level of trust, though difficult to achieve, may also help to facilitate effective control (Richardson, 1994).

In any outsourcing ventures, the end-users and client's customers are the ones that will face the impact of the service delivered by the service provider. Partly, the performance of the end-users, the smooth-flowing of the client's business operation and satisfaction of the client's customers are influenced by the quality of service provided by the service provider. Basic needs that are essential for the running of the client's business operation are of the utmost concern that should be prioritized by the service provider. Hence, the implementation of the outsourcing project should

fulfill the mandatory and supplementary requirements of the client (Richardson, 1990).

Both clients and providers need to establish the agreed operating standards of the outsourced work and written down in the outsourcing contract. These standards help ensure the results of the outsourcing project are stable and not influenced by individual conduct. Guiding principles allow for replication so that if more than one individual evaluates a specific program, the results will be the same (Richardson, 1990).

The client's organisation should consider the means of achieving the expected benefits of its outsourcing project. This may come in various different forms that could include the allowance of a more flexible contract, incentive provisions, the establishment of a friendly relationship with the provider, etc (Richardson, 1990).

2.3   Compatible Culture And Structure For Effective Operations

It is important for the client and the provider to mutually understand the culture of each other's organisation to enable smooth-flowing collaboration and communication in the undertaking of the outsourcing project. The failure to understand and appraise the culture of the opposite party may result in dissatisfaction and doubt on one's behalf. (McKeon, 1991).

The client's and service provider's organizational structures play an influential role in the outsourcing relationship. Understanding the organizational structure of both parties leads to a fluid interaction throughout the undertaking of the outsourcing relationship. It is also worthwhile noting that the selection of key person to run outsourcing operations is one of the most important factors for success. A strong champion in the parent company also helps the cause of the outsourcing project. The establishment of protocol for communication is an important aspect of effective relationship management. There should be a single point of contact between the firm and the outsourcer. This contact person must be highly skilled in the area being outsourced. Strong relationships are also needed between the senior managements to make it easier to solve conflicts (McKeon 1991).

2.4   Reporting, Monitoring And Control Mechanisms

Periodically undertake studies to assess provider's performance compared to the value being delivered and the extent to which the providers performance is improving overtime. Ongoing monitoring of work performance may gain the firm control over the function being outsourced. (Bolumole, 2000).

Regularly targeting of performance improvements allows the client to evaluate the benefits that the outsourcing project has delivered. As the market scenario changes through time and technology development, the targeting of performance improvement should be seen as an ongoing process as previous expectations may not suffice for the current and future demands. The era of "redesign everything at once" taught an important lesson: wholesale process redesign is overly exhausting for an organization and unlikely to achieve sustainable improvement. Targeted redesign, in contrast, allows organisations to get the biggest bang for their redesign buck (Bolumole, 2000).

Regular face-to-face meeting encourages a greater sharing of views and emerging problems, as well as promoting a stronger bond between the client and service provider. Though communication through phone calls, emails, and faxes is sufficient for up-to-date information sharing, a regular face–to-face meeting adds the value of familiarity that enhances trust and kinship between the client and service provider (Bolumole, 2000).

The decision to outsource should start with a sound business plan that identifies all costs, related to the current method of conducting business and the anticipated cost reached after outsourcing. This inevitably requires the client to truly and clearly understand what he wants to achieve. What is the improvement and improvement level that are expected out of the outsourcing venture? What level of quality of service is required from the service provider? Truly understanding of what a client wants will enable a clear briefing of the requirements of the client to the service provider (Reuvid and Hinks, 2002). Prior to the negotiation with the service provider, the client must have a clear view as to exactly what part of the company's function is required to be outsourced.

The success of outsourcing is closely related to technology expansion and up-to-date service delivery standards. As new technology emerges, work

efficiency improves for the better, influencing the standard of the service delivered by service providers. It is important for the client and service provider to keep a keen eye on the latest technology and service delivery standards pertaining to the outsourcing project to ensure satisfaction and instilling a competitive edge of the outsourcing project (Reuvid and Hinks, 2002). It should also be realized that working in close harmony with new technology and service delivery may save cost on the client's behalf.

The cost of technology is diminishing on virtually a day-to-day basis and the client's technology demands may also change in time in response to market dynamics, it is advantageous to include in the agreement a mechanism for (downward) price and payment re-negotiation at a frequency of say, once every two years. The chances are that the same level of service can be obtained more cheaply in two years because of the inevitable drop in technology price/ performance ratio. Such provisions will help the client avoid a situation where an outsourcing deal appears attractive in the beginning but two years down the road becomes extremely expensive and the client has no way of getting out of it.

The above outsourcing success characteristics can be grouped into four main factors viz, communication, operating and performance standards, control and monitoring, and compatible culture and structure. Therefore, for the outsourcing ventures to achieve the expected performance and benefits, the client, service provider, users and customers must observe the above criteria.

3. A Facilities Management Outsourcing Contract Framework

Outsourcing transactions involve social and formal relationships (Heckman, 1999). Social relationship is the soft component of the relationships between the contracting parties in an outsourcing transaction. A contractual relationship is based on the terms and conditions either agreed between the parties to an outsourcing contract or as determined by the client or owner of the facilities. The contractual provisions describe the subject matter of the outsourcing contract; the responsibilities, rights and remedies of all parties to the outsourcing contract; the quality of the services to be performed by the external service provider; the operational system, procedures and process including the supervision and monitoring aspects. Nellore (2000), in studying the role of

specifications and contracts discovered that the latter is the agreements to ensure continuing supply of outsourced automotive components. Contracts also assist in the validation of specification, another major component of outsourcing contracts

The contract should precisely describe the costs and performance requirements of the contracting parties (Saunders, Gebelt and Hu, 1997). The contract must help the contracting parties to organize their working relationships towards achieving the expectations and goals of the outsourcing (Gulati. 1995). This is important since the success of outsourcings is dependent on relational aspects of its contract (Goo, 2003). For maximum performance. Accenture (2004) recommends active governance in managing the relationships exist in outsourcing. A successful outsourcing venture does also require for flexibility and joint problem-solving mechanisms in its contract (Chung, 1996). To succeed, an evaluation system is also needed to enforce accountability on the part of the contractor (DeHoog, 1984). Above all, outsourcing venture shall embark on a balanced contract provisions, not one-sided (Kern, Willcocks and van Heck, 2002) to ensure success.

A literature review carried out has highlighted a number of different issues, factors and characteristics of a good outsourcing contract framework. They have been categorized into five operational aspects namely service start-up, implementation, on-going service development process, review and project close. The characteristics as grouped under the five aspects of outsourcing contracts are described in the following sub-heading.

3.1 Service Start-up

Commencing the outsourcing service, it is important to determine the extent of room for interpretation of the terms of agreement and its procedures should be established (Piachaud, 2005 and Barthelemy, 2003) including the issue of charging the services (Graham, 1993) and terms of payment (Zhu et. al., 2001). The description of services to be outsourced should be outlined in a comprehensive and clear manner (Graham, 1993). It is also essential to state client's expectations and requirements thoroughly and with detailed specifications (Andel, 1994; Bowman, 1995; McKeon., 1991 and Trunick, 1989).

To enable the providers to truly understand what is expected of them by the client it is important for the

roles and responsibilities of providers to be spelt-out precisely and clearly (Andel, 1994; Bowman, 1995; McKeon, 1991 and Trunick, 1989). Both parties should also come up to an understanding that the price agreed between client and provider shall cover all services required to be performed (Matthew, 1996) including to check and clarify what costs are included and what are not (Davis, 2004/05).

Managing the outsourcing contract involves individuals from the client organization to monitor the progress of the outsourcing work. This requires defining of the outsourcing contract management structure including ensuring that appropriately empowered individual from the client organization to oversee the work (USGA, 2003). Line managers or process owners should be assigned to take charge of each component of the facilities management services (Huiskonen and Pirtfila, 2002). As communication plays a vital role in the success of the outsourcing venture, communication procedures need to be established with the acceptable mode of communication agreed/ determined (JSHSB, 2004).

Performance expected measures (Barthelemy, 2003) and targets to be determined and precisely defined (Langefield-Smith and Smith, 2003), with as many number of elements as possible taken into account in the contract (Barthelemy, 2003). Priorities shall be classified as short and long-term (Huiskonen and Pirtfila, 2002). Minimum service level shall be made and specific (Piachaud, 2005).

Audit interval and procedures shall be agreed between client and provider (Zhu et. al., 2001). Any disclaimers from client and contractor are to be clearly described (Piachaud, 2005).

3.2   Implementation

Implementing the outsourcing project requires various undertakings. Service reports should be aligned with determined service level measures (Barthelemy, 2003) and standard tools for managing the client-contractors-users relationships should be defined and effort must be made to ensure the provider uses them (USGA, 2003).

Client-provider communication is important throughout the implementation of the outsourcing project. Realizing this fact, an effective procedures should be implemented for communication between users or internal corporate functions and outsourced

provider (Andel, 1994; Bowman, 1995; McKeon, 1991 and Trunick, 1989) and an effective vertical communication in respect of point of contact high in the provider's management structure for elevating provider performance concerns should exist (Huiskonen and Pirtfila, 2002 and USGA, 2003). Operational points of contact and the manager in-charge should also be determined and identified (USGA, 2003).

The provider needs to inform the client before proceeding with on-site works or servicing. However, the provider can still commence works or services without the presence of the client or his agents. Verification of the works or services is still required to be done by the relevant person, after completion (JSHSB, 2004). The provider also needs to get client's prior approval for servicing and rectifying works affecting the latter's business operation (JSHSB, 2004) as well as informing the client before proceeding to replace parts (JSHSV, 2004).

As a performance control mechanism, penalties should be used to motivate providers to meet performance requirements (USGA, 2003). Cash penalties should be imposed for provider's non-performance (Barthelemy, 2003). Incentives, including cash should be used to motivate provider to exceed performance requirements or provide superior performance (Piachaud, 2005; USGA, 2003 and Barthelemy, 2003).

To ease payment calculation and variation, price list (including for spare parts) should be made part of the outsourcing contract (JSHSB, 2004). As for payment purposes, services or works invoices (certified by the consultant or client) are to be submitted together with service reports (verified by consultant or client) to the client (JSHSB, 2004).

Firms need to consider both their internal organizational stability and contract flexibility when developing and outsourcing contracts. The major rationale for creating flexible contracts is to recognize the fact that certain external factors not under the control of the contract may change. Flexibility has been recognized by many as one of the factors that leads to outsourcing success and is necessary in respect of the ease of changing the structure and decision-making process of organizations involved (Harris, Giunipero and Hult, 1998). Flexibility is also necessary in respect of the ease with which the day-to-day operations may be changed (Harris, Giunipero and Hult, 1998).

In order to ensure the quality of works delivered by the provider fulfils the requirements of the client, all works discharged by provider shall be evaluated (JSHSB, 2004) and the monitoring of work or service performance shall be on-going (Langefield-Smith and Smith, 2003).

Throughout the implementation of the outsourcing project, two-way and up-to-date information sharing and discussion should be held between the client and service provider. Bi-partite committees should be formed with regular meetings (Barthelemy, 2003). The frequency of meetings (including for monitoring purposes) shall be determined (Huiskonen and Pirtfila, 2002).

Monitoring the progress and performance of work requires on-site support team to serve as liaison between client and provider to be established (USGA, 2003). Periodic facilities audit on the other hand shall be conducted by consultant or provider and the recommendation submitted to client (JSHSB, 2004).

3.3   On-going Service Development Process

Under the on-going service development process, the client and provider should monitor performance of the outsourcing contract including to anticipate change (Piachaud, 2005) as an approach to adapt to market changes and transformations of trends. Issues requiring resolution shall also be identified in the contract (USGA, 2003). There should be provisions to resolve contract disputes in a timely manner as resolving disputes is a time-consuming and difficult process, hence requiring a mechanism that both client and providers have agreed upon.

It is important that the contract includes the price list used shall act as guidelines to evaluate the costs for works or services outside those included in the contract (JSHSB, 2004) and extra services or works requested by client should be specified together with the relevant charges (Davis, 2004/05). For unforeseen additional charges, suitable mechanisms should be designed for provider to quote (Davis, 2004/05). The contract should also allow for change in contract price, either escalation or de-escalation (Harris, Giunipero and Hult, 1992). Suitable charges may be adjusted in accordance with changes to client's business (Barthelemy, 2003). Necessary procedures and mechanisms shall be provided under the contract for the purpose (Barthelemy, 2003). For easy management, the increase in prices should be

link to published indices (Davis, 2004/05).

As technology and the market changes through time, changes of the price of service are expected to occur, hence requiring the contract to include provisions for renegotiation of payment (Matthew, 1996) including to bring forward determination of the precise price change (Harris, Giunipero and Hult, 1998). It also important for the contract to allow for suitable method for making changes to the outsourcing agreement (2001).

3.4   Review

It is imperative that reviews on the success of the outsourcing project to be undertaken. Scheduled periodic working level meetings need to be held with both end-users and providers (USGA, 2003). The end-users shall provide a comprehensive input on the quality and deficiencies of the service provided, assisting the service providers to evaluate and further improve the level of performance of the service that they have delivered.

For a systematic and informative review task on the success of the outsourcing project, mechanisms for measuring provider's and overall outsourcing performance should be implemented (Piachaud, 2005). The measurement should be at realistic time frames, as agreed by the provider (USGA, 2003). Meetings to measure performance and serves to reaffirm outsourcing objectives shall be held monthly (Taylor, 2001) and executive level oversight meeting with the provider's senior management shall be conducted (USGA, 2003).

An assessment of the extent to which the provider's performance is improving over time should be undertaken (USGA, 2003). The assessment is to be of end-customer-focused measures (Huiskonen and Pirtfila, 2002) through end-user survey (Barthelemy, 2003). This will help the client to determine whether the service of the provider will be continued or sought after for future outsourcing ventures. This is also a mechanism that could benefit the service provider to gain insights on the satisfaction of the client and end-users of the service that has been delivered.

Records about the outsourcing contract's operation shall be retained in proper format (Zhu et. al., 2002). The record shall include information on services rendered, costs and budget (JSHSB, 2004). Complete,

proper and standardized archiving of the outsourcing operation records will be useful for the retrieval of information by the clients for future references.

3.5   Project Close

Proper mechanisms should be built into the outsourcing agreement for termination of service of the service provider. Provisions for termination of provider's employment and bankruptcy shall be allowed with the reasons, procedures, consequences and follow-up actions described in as detail as possible (Graham, 1993 and Piachaud, 2005). Warranty for materials, tools. equipment and workmanship consumed, used and installed under the outsourcing contract shall be clearly listed and defined to ensure client's interests are well managed (Piachaud, 2005).

In particular, provisions should be made in the outsourcing agreement covering issues such as buy back arrangements for equipment and software and a formula for price determination, transfer of relevant third party contracts and leases (such as maintenance contracts), transfer of data and know-how, transfer of staff, and guarantee by the vendor to assist and cooperate in a smooth handover (of assets/ IT functions, etc.) There should also be explicit agreement in relation to the termination of services in cases where service levels are not met or when the vendor goes into liquidation. This issues need to be spelt out in the agreement as the relationship between the outsourcing customer and the outsourcing vendor is likely to be tense in termination cases and voluntary assistance based on an assumption of goodwill cannot be relied on.

The literature survey conducted shows that any outsourcing contracts require for the setting of goals and targets, and determining of performance requirements with evaluation system put in-place to ensure success. The contractual framework describes the relational aspects of outsourcing with active governance designed in it, while at the same time. should have some flexibility together with joint-problem solving procedure. The existence of contractual hazards must be recognized, requiring for a balanced contract for outsourcing to succeed. The description of costs involved should also be comprehensive and thorough.

4.   Conclusion

The literature survey shows that the FM outsourcing operational contract framework can be studied from the aspects of service start-up, implementation, on-going service development process, reviews and project close-up. The service start-up covers the issues of interpretation of terms of outsourcing contract, description of works and services, client expectations and requirements, measurement of performance and audit intervals, roles and responsibilities of contractors and consultant, contract management structure, communication procedures and any disclaimers.

For implementation aspect, there are issues regarding standard tools for managing client-contractor-users relationship, procedures for carrying-out works and services including supervision and verification, operational point of contact, penalties and incentives, and service reports including on-going monitoring meetings at operational, tactical and strategic levels. In respect of on-going service development process the contractual framework should include mechanisms to anticipate change, identifying of issues requiring resolution, methods to evaluate claims for extra and additional works or services, allowance for changing contract price and mechanism to change outsourcing agreement.

At reviews, the framework should include scheduled periodic operational meetings as well as meetings to measure performance and reaffirm outsourcing objectives, and senior management meeting. There should also be continuous monitoring of provider's performance at realistic time frame. Measurement of performance is trough end-user survey. All works and services performed should also be recorded. The literature also showed that the issues of termination and bankruptcy, and warranty for materials, equipment and workmanship come under this aspect of the outsourcing operation stage. The effective outsourcing contract framework should be designed with the characteristics required for successful outsourcing incorporated.

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