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FACILITIES MANAGEMENT OUTSOURCING

# Prioritizing Activities is Critical to Success

ISG

ISG WHITE PAPER 

# INTRODUCTION

Any outsourcing arrangement involves a range of complex issues related to personnel, management sponsorship, and strategic fit and alignment. A facilities management (FM) initiative, by its nature, must address a number of unique criteria related to these issues. For executives on both the client and provider side, a further challenge is prioritization to ensure that the right activities are receiving adequate management attention.

This ISG white paper examines key functions in facilities management outsourcing, describing specific considerations and challenges for each. The author makes a distinction between critical activities that deserve a high degree of management attention, and activities that may merit less consideration, thereby freeing up management to focus on what really matters.

  

### Relationship Management

The contract manager on the client side sets and maintains the tone for the relationship, work completion and contract management. Roles and responsibilities include defining the appropriate attitude and behavior of the team and of internal clients; this includes ensuring civility towards the service provider, and promptly responding to service provider concerns. The client side also needs to focus on outcomes (as measured by key performance indicators) rather than tasks performed. This is essential to avoid micro-management. If members of the client team function as a task supervisor looking over the shoulder of the service provider, the client's management team has to nip this in the bud, as the two teams need to collaborate to ensure work gets done, rather than to point out what's not done.

The service provider's management team can play a key role as the "eyes and ears" of the client, since the provider's team outnumbers the client's and is closer to where the work is performed. An effective provider is proactive – and will escalate issues before they are escalated by the client's customers – and will take the initiative to minimize recurring customer-generated work orders by implementing routine and preventative maintenance. Regular communication of work order status can increase customer satisfaction and avoid second-guessing and duplication of effort.

**Services delivered by a facilities provider, however, impact all of a client's employees on a daily basis, and involve multiple points of potential failure.**

While critical to any outsourcing relationship, ongoing communication and attention to detail are particularly essential to facilities management. In an HR or Finance outsourcing arrangement, internal customers deal with service providers on a relatively infrequent basis, and interactions typically involve specific tasks or functions. Services delivered by a facilities provider, however, impact all of a client's employees on a daily basis, and involve multiple points of potential failure. Consider: If someone spills something in a lobby, if a parking lot isn't cleared of snow, if offices are too hot or too cold, if restrooms are dirty, the facilities management service provider is accountable.

Because of the range of scope involved, service levels are usually more tightly defined for an external provider, and are also more tightly adhered to by the outsourcer. This "by-the-book" approach can result in customers feeling that an FM provider is delivering inadequate service. Moreover, after outsourcing, many customers tend to have unrealistically high expectations of their new provider relative to the levels of service they had previously received internally. Finally, potential problems can occur during transition, since every activity performed by a previous technician is seldom recorded. While these slips may be understandable, they are highly visible to customers and are likely to make an impression.

  

The client-side's relationship management function has to own responsibility for setting and communicating expectations. In many cases, the transition to a third-party service provider is soft-pedaled and internal customers are told "nothing will change," when in fact the service provider has been mandated to cut costs significantly with the understanding that service levels will be lowered.

Indeed, ISG has observed numerous initiatives where a weak client manager sabotages an initiative. In one instance, while the business case for outsourcing was being developed, the client's relationship manager (RM) waited for all stakeholders to provide input into the process, constantly delaying the project as new stakeholders stepped up, until it died a slow death by committee. Potential savings were also lost since the outsourcing initiative didn't move forward. Rather than managing expectations, adhering to timelines, and stating the anticipated business benefits of the initiative (20 percent cost savings), the RM waited for someone else to make the go-forward decision or to cancel the project.

**The contract manager needs to communicate to the executive team that, in order to realize anticipated benefits, the business may experience an increase in staff complaints as well as see some service levels lowered.**

### Executive Sponsorship

As with any outsourcing arrangement, top management sponsorship of the initiative is essential in facilities management. One key task for the client-side contract manager is to manage executive-level expectations around the initiative. Specifically, the contract manager needs to communicate to the executive team that, in order to realize anticipated benefits, the business may experience an increase in staff complaints as well as see some service levels lowered (e.g., trash removal changed to every three days instead of daily, daytime office cleaning instead of at night). Obtaining buy-in from the executive's direct reports and/or peers can facilitate senior-level support, as can developing and presenting a proactive communication plan around the initiative.

### Strategic Fit and Alignment

Strategic fit and alignment between the client and service provider is also important to an FM deal's success. For example, a service provider that takes on a substantially smaller contract than usual will be unlikely to provide its best personnel and managerial attention to that client. Similarly, a large global corporation maintaining a Class A standard may not be a good fit for a provider offering a low-cost, low-quality value proposition to smaller businesses.

To ensure strategic alignment, key questions a client should pose to prospective providers include the following:

1. How many clients do you service that have similar size, scope of work, and service levels to ours? What percentage is this of your total client base?

2. How do you ensure that accounts such as ours get the high-quality service we expect?

  

### Alignment of Relationship Incentives

Alignment of incentives between the client and service provider teams merits significant upfront attention. The potential value of many contracts goes unrealized when both parties resort to finger-pointing, or worse, when he client team perceives its role as finding the cracks in the service provider's work.

To facilitate teamwork, the client-side manager needs to set the correct tone. For example, a dying indoor plant, an un-cleaned closet or an un-emptied trashcan has to reflect on both sides, not just on the provider. One specific way to build this sense of partnership is to have the client RM team input work orders themselves rather than provide a list of them to their outsourced counterpart.

The best way to ensure mutual accountability is for the client and service provider teams to have the same sets of Critical and Key Performance Indicators. These can include:

1. No more than 5% of non-urgent work orders delayed by more than 24 hours.
2. 97% of delayed work orders resolved within 24 hours.
3. 97% uptime of non-critical space.
4. 99.9% uptime of critical space (e.g. data centers, executive offices).
5. Above average grades in customer surveys.

If both sides are accountable for achieving these standards, they are compelled to work together. This is not as simple as it sounds, however. In one example we've observed, a client's FM team was constantly berated by its head of real estate and facilities department for not providing timely updates on delayed work orders. Rather than informing the client the moment the delays went beyond the threshold of acceptability, the provider reported a summary at month's end. By making timely and accurate reporting of delays a KPI, the situation was corrected and the client's FM team was better able to manage internal client expectations.

## LESS CRITICAL FACTORS

### Technology Alignment

Since facilities management sits outside of the core business for most companies, alignment between the client's and supplier's technology platforms is of minimal importance. Most large FM service providers have good IT capabilities that are flexible enough to meet most client requirements around security and other areas. Ideally, FM work order input is integrated with the client's existing user desktop, but many successful partnerships input work orders using a Web browser. Similarly, while embedding the service provider's reporting into the client's reporting dashboard may be desirable, an additional service provider dashboard can also be effective. In fact, since FM is not core to most businesses, clients tend to have inferior reporting tools prior to outsourcing, so adding the service provider's reporting dashboard can eliminate the need to query multiple disparate systems for generating reports.

### Contractual Clauses

The popular adage has it that a strong contract that rarely needs to be pulled out of the desk is best practice. Effective contractual provisions, including clearly defined scope of work, pricing provisions and termination rights, provide incentives to keep both parties together. However, unless both parties benefit from the outsourcing arrangement and meet at least some of their goals, relationship pressures will build. As highlighted above, the role of the relationship manager, backed by top management, is paramount to success.

While a strong contract may be easy to recognize but hard to describe in detail, some specific contractual pitfalls and problems to avoid include the following:

1. Signing a contract with the assumption that the provider's charges are capped at a maximum. This can be a problem if the statement of work does not include all the activities previously performed, requiring the client to pay for "extra" un-contracted services. A "Dragnet Clause" can protect against such a situation.

2. Signing a contract with the assumption that service levels will be unchanged from previous contracts. If service levels are not clearly defined, or if contractual clauses to ensure adherence are not included, the client may have to pay extra for obtaining previous service levels.

3. The transition plan is not carefully ironed out and included in the contract, leading to delays, outages, and lots of extra work by the client's team.

4. Reporting requirements are not laid out in the contract, so any customization has to be paid for separately.

5. No transition support is required by the contract, leaving the client at risk if they move to a different service provider.

### Change Orders

Change orders, considered by some to be the bane of a contract, are generally not onerous to an adequately staffed contract management team. While change is natural in any agreement, both due to lack of adequate discovery and changes in the underlying business, in an FM arrangement mutual flexibility and understanding can ensure that the relationship managers govern the contract, rather than the accountants and lawyers.

  

## CONCLUSION

Facilities management represents a unique set of outsourcing management challenges. As with many other services, no one tends to notice FM until something goes wrong. Given the ubiquity of services delivered within a business facility – HVAC, sanitation, security, landscaping – and all the potential points of failure on any given day, an FM provider and client team face a formidable "devil in the details" task. Ensuring collaboration and communication between the two parties, defining meaningful incentives and building organizational support for the initiative are essential to success.

  

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