

# Supporting decision-making process in facilities management services procurement: A methodological approach <sup>☆</sup>

Alessandro Ancarani<sup>a,\*</sup>, Guido Capaldo<sup>b</sup>

<sup>a</sup>Department of Civil and Environmental Engineering, University of Catania, Viale A. Doria 6, 95125 Catania, Italy

<sup>b</sup>Department of Managerial and Business Engineering, University of Naples Federico II, P.le Tecchio, 80-80125 Naples, Italy

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## Abstract

The aim of this paper is to make a contribution to the decision-making process related to procurement of facilities management services in the public sector, particularly with reference to local authorities. Adopting a contingency approach, a model for selecting sourcing strategies is presented. Some empirical evidence resulting from the analysis of various managers' experiences is reported and, based on the results of the testing of the model, theoretical and managerial implications are discussed.

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## 1. Introduction

In recent years, both in the private and in public sectors, organizations have placed more attention on cost reduction and flexibility, concentrating on core competences and outsourcing non-core activities. However, the relevance of these activities for the organization's performance requires an accurate analysis of what it is outsourced and how (Walker et al., 2001; Kakabadse and Kakabadse, 2005).

Outsourcing can be defined as the 'contracting-out' of services that were previously performed in-house. Outsourcing is a supply strategy often chosen as a means of increasing organizational efficiency and effectiveness (Steane and Walker, 2000). Whilst some short-term benefits for organizations can be achieved through outsourcing, there is a growing recognition that there may be longer-term costs not fully assessed by them (Bettis et al., 1992). Outsourcing can impact on the size, structure and

competitiveness of purchaser and vendor sectors (IFMA Italia, 2004). Outsourcing also has an effect on employment levels, patterns and conditions (Postner, 1990). Social issues may be affected in respect of growth in earnings inequality since the contracts offered little scope to compete other than by worsening employees' terms and conditions of employment (Patterson and Pinch, 1995). Moreover, there are political effects at local and national levels since one conclusion that might be drawn from this trend is that the public sector has managed effectively to transfer low-paid jobs into the private sector (Cully et al., 1999; Sachdev, 2001). Risks of outsourcing include losing in-house expertise and knowledge (Boston, 1996), unintentional loss of control, and reductions in quality (Lei and Hitt, 1995).

There is an increasing awareness in management literature that the decision to outsource is a complex one with uncertain outcomes (Hui and Tsang, 2004). Knight and Harland (1999), argued that in the public sector there should be some sector level monitoring and, if necessary, pro-active interventions to guide and regulate local decision making since the cumulative effect of locally taken outsourcing decisions can be to create a supply market structure that is detrimental to the purchasers and suppliers in the long term.

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\*Corresponding author. Tel.: +39 095 7382715; fax: +39 081 7382748.

E-mail addresses: [aancaran@dica.unict.it](mailto:aancaran@dica.unict.it) (A. Ancarani), [gcapaldo@unina.it](mailto:gcapaldo@unina.it) (G. Capaldo).

In relation to these issues, it is relevant to investigate the facilities management (FM) sector whose importance is increasing all over the world. FM is a typology of contract for services provision, which covers an extremely wide field of activities. FM encompasses workplace, facility, support services, property, corporate real estate, and infrastructure. In general, support services concerning FM range from building operational services, to construction management, and real-estate activities (Chotipanich, 2004).

Thus, FM activities are complex since they require both low- and high-level technology with a broad range of abilities necessary to provide such diverse services adequately. Since its origin FM was based on the concept that it is necessary to rationalize and optimize non-core activities reducing costs. Nowadays, it is becoming important also from a strategic point of view (Then, 1999). It has become apparent that there are clear shifts in focus as the practice of FM gradually matures. It is already discernible from published literature and review of practice that the initial preoccupation with tasks and functions has given way to an emphasis on processes and their management. The changing focus on FM as an integrated resource management framework requires dramatic shifts in competencies for both the demand side (purchasers of facilities and services) and the supply side (suppliers and service contractors). The trend towards organizational downsizing and outsourcing collectively imposes on many organizations the need to review seriously the internal competencies necessary for managing this new era of choices and flexibility (Then, 1999).

The paper aims to make a contribution to the decision-making process related to procurement of FM services in the public sector, particularly with reference to local authorities (LAs) procurement strategies. In particular, using a contingency approach, a framework for selecting the sourcing strategies is presented and the alternatives are discussed with reference to the Italian FM market. Some empirical evidence from the analysis of various managers' experiences is reported. The specific contribution of the paper is to identify, on the basis of the literature review, authors' experience, and direct interviews with top managers of firms directly involved in FM service provision (both public and private), the significant variables which should be taken into account when facing decisions on the outsourcing of FM in public sector organizations either to public multi-service firms or to private suppliers.

The paper is organized into eight sections. The first section highlights the increasing diffusion of FM services in different countries and sectors and its growing importance in the public sector. The second section describes FM processes, main management issues and procurement alternatives in the public sector. The third section focuses on outsourcing strategies and the managerial implications of a total FM approach. The fourth section identifies main contributions presented in the literature about the identification of variables relevant for sourcing decisions. The

fifth section presents a conceptual framework for supporting decision-making process in choosing sourcing strategies. The sixth section reports the testing of the conceptual framework through direct interviews with top managers involved in FM service provision. The seventh section explains how the framework could be applied to the FM services required by LAs. Finally, some conclusions are proposed.

## 2. Facilities management services: countries and sectors

FM services were first provided in the 1950s and 1960s in the USA and they were fully developed in the 1970s. But it was only in the 1980s that such an FM market developed in Europe (Salaris, 2002).

The UK is the most important FM market in Europe. According to a recent survey of the British Institute of FM (BIFM, 2004) in the UK, facility managers claimed that reducing the cost base and affordability are the most important issues for public sector client organizations, often at the expense of best value, and that good management practice is still lacking. The majority of the respondents (55.1%) to the survey reported the use of solely in-house provision (by direct employees of the organization), 36.7% had mixed provision (partly in-house, partly outsourced), and only 8.2% had fully outsourced provision. However, it was felt that this situation could change over the next 5–10 years with mixed provision growing in importance and overtaking in-house provision and also an expected growth in fully outsourced provision (BIFM, 2004; International Facilities Management Association (IFMA, 2004)). The most frequently outsourced services are catering, cleaning, waste and recycling, security and hospitality, whilst the services most frequently retained in-house are procurement, human resources, finance, estate management and business strategy. Facility managers are consolidating the choice toward performance quality and flexibility with respect to core business needs, and regard quality of services from suppliers as the most important current issue (BIFM, 2004).

Germany and France are also relevant markets. In particular, the German market is rapidly changing both on the supply and demand sides. A demand increasing at a rate of about 10–15% is expected in the next few years. French suppliers have internationalized their market, above all in Italy (Economical and Social Research Centre for the Construction Market (CRESME, 2002)). About 90% of contracts are still for a single service but in some sectors (health, universities) integrated contracts are increasing (Building Services Research and Information Association (BSRIA, 2003)). In Spain, after some delay, FM is becoming relevant, above all in the banking, telecommunications, and energy sectors (CRESME, 2002).

The growing importance of the public sector is paralleled all over the world by an increasing outsourcing of FM due

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