Article category: GENERAL

# FACILITIES MANAGEMENT

## from a project management perspective
(Part 1)

*By Heather Burden & Morgan Haylett**

*In today's global business arena, change is the only constant. To grow and maintain a competitive advantage in such an environment, organisations need to constantly adapt while remaining cost-effective and efficient. Outsourcing has been embraced as a business strategy through which organisations are able to exploit core business expertise by being flexible and capable of rapid change.*

Outsourcing also enables organisations to overcome the inherent shortcomings and inefficiencies associated with performing peripheral activities in-house, which often results in poor economies of scale and a lack of flexibility. Facilities maintenance and management are examples of services that can be outsourced by organisations resulting in improved competence, cost-effectiveness and lower overall costs.

One of the key challenges facing project managers in this industry is to manage the transition from in-house operational management to outsourced service provision and management. Planning and implementing projects in an environment of perceived threat to the incumbent service providers takes all the skill that the project manager can muster to keep all project stakeholders aligned with the project objectives. The project manager must, above all, understand the effect that change will have, and develop various techniques and processes to manage change to thereby add value to the client organisation.

Although the facilities management (FM) transition is a short-term project, the end result is valid for a longer term. The project manager should use an integrated management approach to ultimately ensure the fulfilment of the client's vision and business strategy.

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*Alice said to the White Rabbit, "Which road should I take?"*
*"Where do you want to go?" asked the White Rabbit.*
*"I do not know"' replied Alice.*
*"Well then, it doesn't matter which road you take, does it?"*
(Author, Lewis Carroll, Alice's Adventures in Wonderland).

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### Outsourcing process as a project

*"Projects are the nuggets… the atoms… the basic particles of life." (Management guru, Tom Peters).*

Mention project management (PM) and most people will conjure up the image of a large-scale construction project like the Channel Tunnel. Whilst there is much to be learned from studying a case of this magnitude, everyday managers from every kind of activity tackle smaller, but no less important projects. On a personal level, we all have to manage a number of projects – pursuing a course of study, preparing for a picnic, fixing a leaking tap, buying a house or organising a holiday. The level of complexity differs; the underlying principle of delivering the result to a defined customer at a given point in time remains the same.

At a commercial level, the effectiveness of the PM process will determine whether or not those projects play a role in providing a source of competitive advantage (or even continued existence) for an organisation. There is good practice to learn from all sectors. It is those organisations that are the most resourceful in seeking out best practice and making those aspects work for them that will be most successful. The individual too can succeed by looking at what the best are doing and adapting it to themselves.

Many progressive organisations believe that "to stand still is to go backwards". Organisations are constantly required to change what they do and how they do it. The most successful commercial organisations are those that have become best at changing. World-class performance is seen to be possible through the development of excellent management, one significant part of which is the management of projects.

The "process of change" or "outsourcing project" can be managed like any other project. No single industry or function has a monopoly on PM expertise; the average manager now spends more than 50% of his/her time on projects or project-related issues. At one time, it was accepted that there was no substitute for experience and a fundamental part of management was the acquisition and demonstration of this. In contrast, today the need for innovation, together with the ability to establish and maintain high rates of change, is what is required from managers.

Recently, the nature of PM has changed. It has ceased to be dominated by the construction industry, where much of the case material originated, and is now applicable in all organisations. PM is about the management of a process of change. Outsourcing of FM can thus be regarded as a project, i.e. a non-repetitive activity having the following characteristics:

- It is goal-oriented – it is being pursued with a particular end or goal in mind;
- It has a particular set of constraints – usually centred around time and resource;
- The output of the project is measurable;
- Something has to be changed through the project being carried out.

PM includes planning, organising, directing and controlling activities as well as motivating the people involved. Planning involves deciding what has to be done, when and by whom. Deciding what activities to outsource within an organisation would form part of the planning process of a project. The resources then need to be organised through activities such as procurement and recruitment. For example, FM service providers need to be selected.

Directing their activities towards a coherent objective is a major management role. Project control is about ensuring that the project is on target and that the correct results are being achieved. The critical success factor in a control process is good planning. Information technology is important in developing good plans and re-planning as more information is gathered through the control process. Reporting and variance analyses are critical skills that form part of the controlling process.

Not all tools, techniques and management ideas are universally applicable – the project that takes one person a week to complete clearly has very different managerial requirements from a highly complex project which requires many people and takes over a year to complete. In general, there is a high level of correlation between the level of complexity of a project and the strategic level. The level of complexity of an activity is a function of three features:

- The number of people, departments, organisations and nations involved, i.e. the organisational complexity;
- The volume of resources involved, time, capital, processes, i.e. the resource complexity or scale;
- The level of innovation involved in the product or the project process, i.e. the technical complexity.

As the overall complexity increases, so will the difficulty of the management task to ensure that the goals of the project are reached. The more complex a project, the greater the need for the formalisation of the project. Project plans, for example, will have to be explicitly stated in writing and formal procedures for evaluation and justification of the project derived. The implementation of an outsourcing project would be sufficiently complex for the project to require formal procedures to be put in place.

Organisations providing FM achieve their mission through the provision of project-specific management teams skilled in the selection, motivation and monitoring of specialist service providers. The FM team endeavours to understand the needs of the client and exercises control over quality and cost through every stage of the project. Projects are defined with clear milestones and deadlines to ensure that the outsourcing of FM is merged precisely with the needs and business activities of the organisation.

**Strategic planning to outsource FM**

*FM is "The process by which an organisation delivers and sustains a quality working environment and delivers quality support services to meet the organisational objectives at best cost." (Strathclyde Graduate Business School, Glasgow, UK).*

The importance of FM should be recognised by top management for FM services to be optimised. FM embraces all aspects of an organisation; its assets, people, systems and procedures. Strategic planning of FM requires that the organisation determine, within its own unique strategic framework, which services should be provided in-house and which services can be outsourced.

Every destination deserves a plan to get there. Project managers need to define the project's business objectives and goals, deliverables, assumptions and constraints, the project communication plan and the high-level phase plan. It is critical, for the success of any FM outsourcing project, to draw a clear distinction between scope and work and to develop a better understanding of each. Helping the client organisation agree upon the overall blueprint for managing the project is a vital part of understanding and developing the real project requirements and is the key to the success of the project.

Defining the project will enable stakeholders to understand and agree on the goals, responsibilities, assumptions and success criteria before the start of the outsourcing project. During the planning phase, the project manager must ensure that the critical path and project dependencies are well understood and managed. He/she must also be able to bring the right resources to bear, based upon a reasonable and feasible estimate. It is vital for the project manager to understand that estimating is an iterative process. He must also understand that the planning process must be repeated and the project re-estimated and re-planned at specific points during the project lifecycle.

The problem of which activities an organisation should outsource is complex and forms part of the planning process of the project. Too often this problem is addressed by simplistic arguments – we outsource our non-core activities and what we keep in-house are our core competencies. Carlos Cordon, Tom Vollmann and Jussi Heikkila believe that a more realistic assessment is required as the automatic outsourcing of activities judged to be non-core might be counter-productive in the long run.

**Understanding what should be outsourced**

*"Contract out everything except your soul." (Management guru, Tom Peters).*

The scale of what to outsource and how much an organisation chooses to outsource will increase significantly in the future. The drive to increase shareholder value and to focus on core business is pushing companies to assess outsourcing opportunities on a continuous basis. A survey of major European corporations carried out by IMD and consultants at Kearney in the summer of 1996 showed that 52% expected to increase their level of outsourcing. Despite the fact that outsourcing is on the increase, many companies still do not have a clear understanding of or a policy on how to evaluate and implement these outsourcing decisions.

As stated before, to classify competencies as "core" and "non-core" is to oversimplify the complexity of business reality. This does not mean that we must discard the concept of core competencies as popularised by CK Prahalad and Gary Hamel. The core competency concept is very useful in focusing an organisation on the key strategic actions to pursue in order to maintain its core expertise. What is important to note is that non-core activities should not be forcefully outsourced just because they are non-core in nature. Non-core activities should only be outsourced when it makes sense to do so.

### Reasons to outsource

*"It takes far more energy to improve from incompetence to mediocrity than to improve from first-rate performance to excellence." (Management expert, Peter Drucker).*

So, if the "core or non-core" argument is not sufficient, how do companies decide what to outsource? In order to answer this question, it is important to review the most common reasons for outsourcing:

- Capital is a limited resource: Outsourcing various activities can reduce the amount of capital required by an organisation.
- Reduce or control costs: By concentrating on the services and how they are provided, the outsourced FM company can usually reduce costs and certainly control them with measurements to monitor performance.
- Improve reporting: The systems and processes developed and used by the service provider will provide tailor-made reports that suit the needs of the organisation.
- Lack of expertise: This is often related to the difficulty of developing in-house competencies quickly enough.
- Access to world class capabilities: Through an outsourced company, whose focus is on FM, the organisation will have access to resources and knowledge of how services are delivered in other markets.
- Flexibility: Outsourcing enables an organisation to buy a service on a flexible on-demand basis. Costly investment in technology that becomes outdated very quickly is eliminated in this way.
- Asset utilisation or spare capacity: Some companies, for example in the chemical industry, require a minimum planned asset utilisation to authorise an investment. If this minimum is not reached, production is often outsourced.
- Economies of scale: Hewlett-Packard used to make its own printed circuit boards for PC's until new manufacturers began making these components for several companies, obtaining economies of scale.
- Emergence of an efficient supply market: Many companies used to deliver their goods to clients until efficient transport companies appeared in the market.
- Focusing of resources: Outsourcing enables the organisation to concentrate on the product or service it delivers, which leads to increased productivity, customer satisfaction and clear strategic focus. In this way, an organisation's resources are utilised optimally.
- Clearer strategic focus: Outsourcing allows management to focus on the organisation's strategic objectives. Before outsourcing, the many diverse functions of running the business caused fragmentation of the managers' time. The clearer strategic focus derived from outsourcing may be duplicated at all levels so that every single employee can relate his or her task to the organisation's overall objectives.
- Reduction in risk: The business risk of an organisation that chooses to outsource is reduced significantly as this risk is now shared with a service provider.
- High-risk investment avoided: Companies sometimes take a very conservative approach and outsource the production related to launching an innovative product whose impact in the market is uncertain.
- Catalyst for change: Using an outsourced company allows an organisation to generate changes in services and even re-engineer business processes.
- In most outsourcing situations, several of these advantages apply. This still does not answer the question about what activities companies should outsource and which should remain in-house.

## Two decision frameworks

*"Withstand the pressures created by overworked resources, and strengthen your relationship with external contacts." (PMP Construction Department Manager, Todd Walles).*

In order to assist managers in their decision about what to outsource, Cordon, Vollmann and Heikkila have developed two models. The first model provides a way of better understanding the current situation in an organisation and the second one helps in their preparation for outsourcing. In the first model, competencies are classified into five categories:

- **Distinctive Competencies –** A distinctive competency is the most important capability of an organisation. For example, driving very fast is a distinctive competency for Formula 1 driver Michael Schumacher
- **Essential Competencies –** These are activities that are needed for an organisation to operate. For example, an automotive supplier's essential competency might be high-quality management processes, certified as ISO 9000, in order to supply a particular customer
- **Spillover Competencies –** These are competencies that allow a company to obtain profits in a related activity thanks to its distinctive competency. For example, Michael Schumacher makes substantial revenue from the advertising he does for companies – his advertising activities are a spillover of his driving skills
- **Protective Competencies –** These are related to activities that pose a considerable risk for the success of the entire organisation if they are not properly managed
- **Parasitic Competencies –** These should rather be called parasitic incompetencies. These are activities done in-house that waste organisational resources. Often they are a legacy of history, i.e. previous decisions or industry situations.

The model shown in Figure 1 should be understood as a dynamic one in which activities move from one category to another over time. Typically, an essential activity can become parasitic because a supply market develops. For example, many Western companies when they started up their operations in China were forced to insource many activities because no reliable supplier existed. These were essential competencies. Once reliable suppliers started to appear, most manufacturers outsourced these activities.

The model is used to analyse what to outsource and how. Obviously parasitic competencies must be outsourced with the only consideration being to find the best deal available on the market.

Essential competencies and protective competencies can be outsourced provided an appropriate relationship can be created between the organisation and the supplier to ensure the continuous availability of the service and the minimisation of risks. The outsourcing relationship should be based on a high degree of trust and mutual understanding. The relationship between organisation and supplier should ideally be one of partnering.

Finally, spillover competencies can be outsourced provided it is understood that the company is going to keep the profits that could be made out of its distinctiveness. The framework illustrated in Figure 1 assists us to understand the effect of different activities on the distinctiveness of a company. The second model, presented in Figure 2, captures the efficiency of the in-house activity and the need to avoid outsourcing a problem and ending up with a problematic outsourcing relationship.

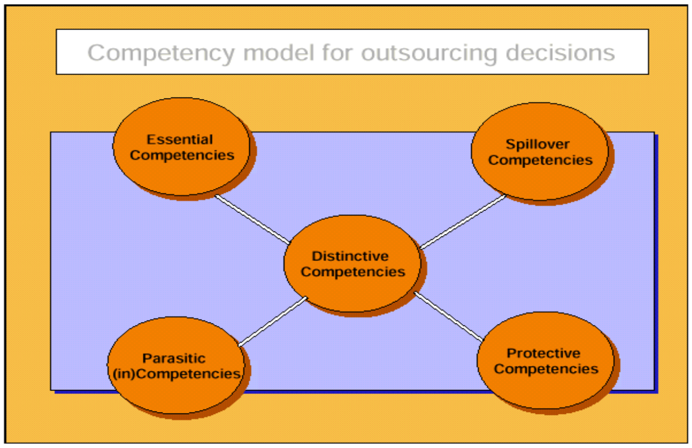


***Figure 1: Competency model for outsourcing decisions***

*The drivers of the Figure 2 matrix on the one side are the risks associated with the activity and on the other side are the effectiveness of the activity when performed in-house as opposed to being executed by an outside provider.*

For each quadrant, a logical action follows: If effectiveness is high, it is logical to keep the activity in-house, assuming that the company can maintain the effectiveness in the future. Risks can be managed by distinctive competency. Insourcing in high-risk environments means aiming at protecting the operation by better control of the activity. If the effectiveness is low and the risks associated are low, the logical action could be to outsource the activity.

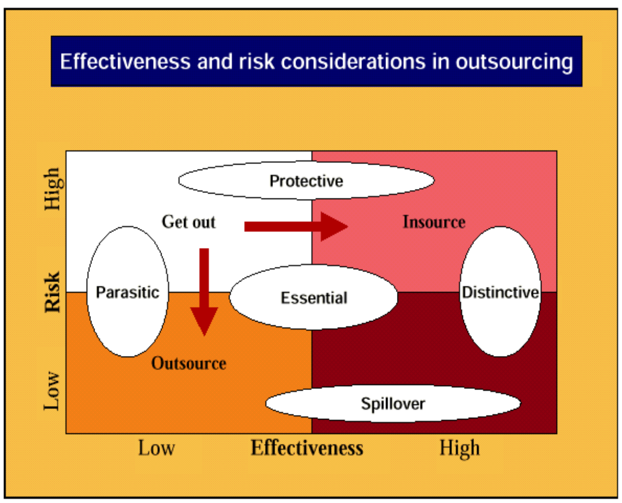


***Figure 2: Effectiveness and risk considerations in outsourcing***

*The main challenge is when the effectiveness is low and the risks high. In this situation, the task of management is to redesign the activity so that either it becomes more effective or the risks become lower. Once management has managed the activity so that it moves out of the high risk, low effectiveness quadrant, outsourcing alternatives can be considered.*

Very few companies have a definite policy in place to assist them in their decision of what activities to outsource. These decisions are important because they have social implications, employees often oppose them and they frequently injure the feelings of executives who, in the past, were associated with the activities.

When companies go through the evaluation of an outsourcing alternative, the entire internal activity of the organisation improves. This is predominantly because an activity not considered central by top management will typically not have received much attention and will therefore have become inefficient. By studying possible outsourcing alternatives, top management's attention as well as the attention of the entire organisation is refocused on the particular activity. In this way, a redefinition of the need for the particular activity is forced and, in so doing, many non-required tasks are eliminated.

Typically, senior management makes the decision on what should be outsourced in the organisation. When it comes to the implementation, however, senior management often delegates this task to the rest of the organisation. This is an implementation doomed for failure! Outsourcing is a transformation or change process that needs to be managed as a project, having the full support and involvement of senior management.

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