

IN-HOUSE VERSUS OUTSOURCING FACILITIES MANAGEMENT: A FRAMEWORK FOR VALUE-ADDED SELECTION IN SRI LANKAN COMMERCIAL BUILDINGS

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ABSTRACT

Facilities Management (FM) in the commercial building industry has been receiving increasing attention recently. FM is a multi-skilled profession which gives resources support for the core business because it concerns both optimizing building performance and ensuring the commercial success of the organization. However, in the Sri Lankan context, most organizations solely focus on the financial aspect while choosing between the outsourcing and in-house FM options, thus excluding other non-financial aspects such as the extent to which the FM route contributes to improving internal business processes and the overall strategic health of the organization. Hence, there is a need to arrive at specific framework for efficient decision making when choosing between the outsourcing and in-house FM approach for the purpose of addressing FM needs. However, the literature so far has failed to develop a framework when choosing the best FM approach for commercial buildings. The present research intends to fill this gap. This study presents the results of an investigation through a literature review into arriving at a holistic perspective on the key variables to be considered in choosing between outsourcing and in-house FM in order to provide value added services and to improve organizational performance. The paper therefore develops a decision support model for selection between outsourcing and in-house FM services through research.

Keywords: Commercial Buildings; Facilities Management; In-house, Outsource.

1. INTRODUCTION

1.1. BACKGROUND

Facilities management (FM) has been one of the fastest growing professional disciplines in the present (Lomas, 1999; Barrett and Baldry, 2003). International Facility Management Association (IFMA, 2012) defined FM as a profession that encompasses multiple disciplines to ensure functionality of the built environment by integrating people, place, process and technology. Further, FM provides an integrated approach for operating, maintaining, improving and adapting the buildings and infrastructure of an organization in order to create an environment that strongly supports the primary objectives of that organization (Barrett and Baldry, 2003).

In practice, FM covers a wide range of services comprising the real estate, financial management, change management, human resource management, health safety and contract management, in addition to building maintenance, domestic services and utility supplies (Atkin and Brooks, 2005). Further, Atkin and Brooks (2005) emphasized that these extensive facilities management functions may be successfully performed or provided either by in-house or out sourcing approach, on which the selection depends on the priority of the activities or services of an organization. Further, Barrett (1995) opines that some organizations favour a totally in-house option, while others literally contract out every service possible, yet others use a combination of both. However, most of the organization solely rely on cost factor in making a choice of in-house or outsource and mostly end up choosing outsource option. Further, there might be other factors which could prove in-house option to be effective in the long run.

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As a result, considering only the cost factor might be misleading and could result in a misalignment between FM services and corporate objectives of the organization (Cotts, 1999). To guard against this decision to choose between both approaches should be made having regarded to the path that lead to long-term best value for the organization

Hence, choosing an appropriate FM approach especially for commercial building becomes even more vital as in any country, among the variety of industries; commercial buildings provide a significant contribution to the economy (Fisher and Collins, 1999). As a result, some researches such as Nadeeshani (2006); Haseena (2010) and Meepage (2011) have conducted certain research on FM sourcing strategies as common basis to solve these issues. However, the extent of literature has failed to develop a framework or guideline to choose the best FM approach for commercial building in Sri Lanka. Moreover, in a developing country like Sri Lanka, the need of FM is becoming a prominent especially for commercial buildings. According to Nadeeshani (2006) emergence of large building properties in Sri Lanka has increased complexity of the supportive environment required for the core business of the organization. Thereby felt the need for a systematic approach for management of non-core activities of the Organization in the Sri Lanka. However, Currently, Professionals in Sri Lanka maintain their building without a proper guideline about choosing FM approach where they use their experience to take decisions which sometimes work and sometimes fail. Hence, there is always an uncertainty about these decisions where sometimes awful decision might bring massive loss to the organization.

Hence, it is proven that in Sri Lankan context, there is lack of efficient decision making frame work for choosing between outsourcing and in-house FM approach in meeting their FM needs. Hence, especially for the Sri Lankan commercial buildings, there is a requirement for any criteria or framework for efficient decision making to choose between outsourcing and in-house FM approach to fulfil the FM needs as at present, such criteria or frameworks are not available. Therefore, this research anticipates fulfilling the research gap that is to identify the key variables to consider in choosing between outsource and in-house FM in order to provide value added services and improving organizational performance.

1.2. AIM

The aim of this research is to develop a framework for value adding selection between outsourcing and in-house FM routes for the commercial buildings of Sri Lanka.

2. METHODOLOGY

A comprehensive literature survey was carried out through books, journals, articles, conference proceedings, unpublished dissertations and the internet to obtain basic and clear idea of in-housing and out-sourcing of facilities management services and identify existing decision making factors. .

2.1. FACILITIES MANAGEMENT IN GENERAL CONTEXT

Facilities management is gaining increasing recognition as a significant contributor to the overall effectiveness of many organizations in the world. FM offers an integrated approach in maintaining, improving and adapting the buildings and other infrastructure of an organization in order to create an environment that strongly supports the primary objectives of the organization (Barret and Baldry, 2003). Further, the International Facilities Management Association (IFMA, 2012) described FM as a profession that encompasses multiple disciplines to ensure functionality of the built environment by integrating people, place, process and technology.

In addition, Hinks (1998) argued that FM is indeed a means of contributing to the multidimensional enhancement of business competitiveness through the strategic management of built asset, rather than the cost efficient management of the built asset for the benefit of the business. From a strategic management perspective, Nutt (2004 cited in Chotipanich, 2004) observed that FM is the prime source

for management of infrastructure resources and services with the focus to support and sustain the operational strategy of the organization overtime. On the other hand, Amaratunga *et al.* (2000) visualised FM as an umbrella term under which a broad range of property and user related functions may be brought together for the benefit of the organization and its employees as a whole.

In terms of scope of services, facilities management encompasses a wide-range of activities. Alexander (1996) observed that the scope of FM discipline covers all aspects of property and space management, environmental control, health and safety, and support services, and requires that appropriate monitoring and control centers are established in the organization. Binder (1989) sees FM as a field that incorporates many diverse functions including master space planning, space inventory, space and furniture standard settings, project management, programming requirements, financial control, purchasing, construction management, scheduling, layout and design and on-going maintenance management

The above perspectives show that the definitions and scope of facilities management and FM services could be wide-ranging. It was argued that “the differing definitions of facility management show that it is an evolving field whose nature is still somewhat fluid” (Hamer, 1988). It is therefore inadequate to formulate a holistic definition, which will capture the true essence and scope of FM functions. However, the above reviews provided some holistic insights into the wide spectrum of FM services upon which this research and the findings will be anchored.

2.2. CLASSIFICATION OF FM WORKS

From an administrative perspective, several authors (Then and Akhlaghi, 1990; Alexander, 1996; Chotipanich, 2002) classified facilities management works into three distinctive groups: strategic FM, ManagerialFM and operational FM. The Figure 1 illustrates the FM levels and characteristic of FM works in different level.

		FUNCTION	GOAL	CONCEPT	
FM	Strategic FM	-Direct facilities -Direct services -Direct practices	-Income -Productivity -Sustainability	-Strategic -Integrative	↑ Sophisticated Simple
	Management FM	- Implement Controland monitor -Project management	-Achievement -Satisfaction -Performance	-Proactive -Integrative -Planning	
	Operational FM	-Run facilities -Services	-Minimum cost -Meet need -Quality	-Cost effective -Quality assurance	

Figure 1: Characteristics of FM Works in Different Levels (Source: Chotipanich, 2002)

The strategic FM focuses on the receptiveness of the facility to the organization and business challenges; it concentrates on the complement between facilities and corporate objectives. On the other hand, the managerial FM works are basically emphasized on the organization and administration procedures (Kincaid, 1994). The scope of operational FM covers all types of daily and routine services on the workplace. It is further concerned with the effectiveness of the service functionality in an

organization. However, Service levels begin with simple actions, easily carried out, and develop into sophisticated processes which are more difficult to implement.

Therefore, it can be concluded that these three disparate sets of complementary activities can be effectively performed with an impressive array of facilities management sourcing strategies which is best suit for the organizational FM functions.

3. SOURCING STRATEGIES OF FACILITIES MANAGEMENT

Atkin and Brooks (2005) emphasize that facilities management functions may be successfully performed or provided either by in-house or out-sourcing approach, depending on the priority of the activities or services of an organization.

3.1. IN-HOUSE SERVICE PROVISIONS

In-house approach is essentially referred to as a service that is provided by a dedicated resource directly employed by the client organization, where monitoring and control of performance is normally conducted under the terms of conventional employer / employee relationship; although internal service-level agreements may be employed as a regulating mechanisms (Barret and Baldry, 2003). Further, Atkin and Brooks (2002) emphasized the retention of the organization's employees for the delivery of estate related and facilities services are considered as in house service provision. The in house provision is characterized by the following (Luciani, 2005):

- a. vertical integration within the organization of processes and production;
- b. permanent teams of employees assigned to job specific tasks; and
- c. Direct employment by the organization.

Advantages of in-house provision of FM functions

Wise (2007) insight to the benefits of in-house provision of FM functions:

- People who are in-house own their work. In-house employees usually will perform better than outsourced employees who make decisions based on how they will affect their own employers, not the people for whom they are working by proxy.
- Results of long-term financial analysis usually support in-house rather than outsourcing option.
- In-house option leads to improve the level of employee as well as customer satisfaction at the same time.
- In-house solution offers the company the opportunity to grow people instead of hiring from outside, and so provide career prospects that reduce staff turnover.
- Outsourcing could enable the organisation to pick the best service provider in terms of experience, quality, speed and efficiency. However, these may be quick fixes which are not sustainable in the long run.

Disadvantages of in-house provision of FM functions

Atkin and Brooks (2005) provide insight on the disadvantages of in-house provision of FM functions:

- A poorly defined scope will lead, almost inevitably, to problems in the management of the service with higher supervision costs and lowering of customer satisfaction. Consultation with all stakeholders is essential.
- Without delineation of roles and responsibilities, it can be difficult to measure the performance of in-house personnel.
- Given that the organization's management may be looking periodically at the market for external service provision, it makes sense for the in-house team to operate in business like way so that it can compete fairly if the need arises

- One of the biggest threats to the success of the in-house team is from complacency, which is easily noticed by customers.

3.2. *OUTSOURCING SERVICE PROVISIONS*

The term Outsourcing considers the involvement of an external party to the management role of facilities. Barrett and Baldry (2003) has used the term contracting out for the same and defined contracting-out as the generic term to describe the process by which a user employs a separate organization (the supplier), under a contract, to perform a function, which could, alternatively, have been performed by an in house staff. Outsourcing is generally characterized by (Luciani, 2002):

- individual service providers along a company's value chain;
- contingent and 'portfolio' workers assigned on a project-by-project basis; and
- Spot transactions and contracted procurement.

Advantages of outsourcing

Fill and Visser (2000) concur that the decision to outsource enable organizations to achieve cost reduction, expand services and expertise, improve employee productivity and morale, as well as achieve greater potential towards sharpening corporate image. In addition, Wise (2007) opines that outsourcing enables organizations to select the best service provider on the basis of wide ranging experience, quality, and speed as well as performance efficiency. From a business perspective, Hill (1994) argued that outsourcing has a great potential in bringing a business-like approach to bear in areas which may have no run on traditional lines for a long time, introducing new ideas, technologies and new findings; providing attractive possibilities for existing and new staff with appropriate skills, upgrading assets and services as well as providing reduced costs through specializations and large scale economies.

Disadvantages of outsourcing

Several authors (Collings, 2007; McCray and Clark, 1999) listed the problems with outsourcing as follows:

- Outsourcing vendor unable to deal with volume of activities.
- Variance in work ethic between organization and outsourcing vendor.
- Outsourcing vendor might be unable to perform task in specified time and fail to produce contractual results.
- Inadequate contract performance measures and penalties.
- Lack of capability to deal with time management when associating with outsourcing vendor.
- Lack of flexibility.
- Contracts solely focus on cost cutting issues.

However, In Sri Lankan commercial building context, some organizations favour a totally in-house FM option while others literally contract out every service possible, yet others use a combination of both; is depend on the priority of the activities or services of an organization. Since, both in-house and outsource facilities management have unique abilities to contribute to the achievement of best value for money.

4. CRITERIA FOR EVALUATING VALUE ADDITION IN FM FUNCTION

Through the literature survey, ten factors were identified as decision-making factors for sourcing strategies in facilities management. Table 1 shows Comprehensive evaluation criteria in clarifying value addition in FM functions. These factors act as success factors as well as to assist in determining the best decision on whether to retain services in-house or out-source them.

Table 1: Criteria for Evaluating Value Addition in FM Function.

Criteria	Description	Reference
Cost	The total cost of the contract including all self-performed and subcontracted specialist services.	Adler (2000); Kremic <i>et al.</i> (2006)
Quality	The service levels as defined in Service Level Agreements or other contractual or specified input or output structures.	Hubbard (1993); Kriss (1996); Kremic <i>et al.</i> (2006)
Risk and Liabilities	The degree to which the effective cost of the contract may vary to either party.	Usher (2004); Kremic <i>et al.</i> (2006)
Specialization and diversity	Many functions within an outsourcing contract are occasional rather than full-time equivalent roles of a specialized and marginal nature.	Hill (1994); Blumberg (1998); Lankford and Parsa (1999)
Responsibilities and accountabilities	The complexity and clarity of specific and general roles and assigned duties within and for the contract.	Hubbard (1993); Usher (2004)
Flexibility	The potential and ability to action changes in the nature, magnitude, resource, location and focus of the service delivery when required.	Drtna (1994); Kremic <i>et al.</i> (2006)
Innovation	The degree to which newly designed or conceived processes, methods, solutions or products are brought to bear within the outsourcing contract.	Blumberg (1998)
Investment	In respect to the agreed length and determined stability of the contractual relationship, the degree to which time and money are dedicated to improvements in, and development of the scope and facets of the service delivery.	Blumberg (1998); Usher (2004)
Information	The nature, format and validity of data, qualitative and quantitative, determining performance and metrics in relation to the provision of the services, and the regularity and manner of presentation of this information for the benefit of both client and supplier	Usher (2004)
Customer Orientation	The degree to which the provision of the services understands and responds to the specific needs of the customer at all levels, in support of its business in relation to its own customers and shareholders, its management and staff, and those persons interacting with the business on a regular basis.	Blumberg (1998); Usher (2004)

The factors given in Table 1 provides strategic guidance in choosing between outsourcing and in-house approaches to providing part or whole of FM services in Sri Lankan commercial buildings. This ensures taking into consideration a wider range of key variables underpinning value-adding selection – a marked departure from the current practice of concentrating only on financials to the exclusion of other equally important variables that add value. Hence these factors provide the basis for making the optimum value adding selection in facilities management services.

5.1. FRAMEWORK FOR VALUE ADDING SELECTION BETWEEN OUTSOURCING AND IN-HOUSE FM

Based on this literature survey, a conceptual framework was developed by incorporating the key variables to be considered in choosing between outsourcing and in-house FM in order to provide value-added services and to improve organizational performance. In this study, the criteria that add value to FM function as gleaned from the literature could be identified within the three broad respective facilities management functions; namely the strategic FM functions, management FM functions and operational FM functions. Each group may have its own unique value adding criteria that collectively contribute to the value added facilities management function (see Section 3.2)

Figure 2 represents the fundamental process in making rational decision in choosing between outsourcing and in-house approaches to meeting whole or part of FM needs. The process starts by

comprehensively identifying vital FM functions that need to be performed in the organization such as strategic, management and operational FM functions and each functions compared with the value adding criteria include cost, quality, risk and liabilities, specialization and diversity, responsibilities and accountabilities, flexibility, innovation, investment, information and customer orientation. Subsequently, the levels of suitability of the use of outsourcing and in-house approaches to meeting each criterion under each subset of FM functions could be analysed. According to that, most suitable sourcing strategy could be selected for each FM functions.

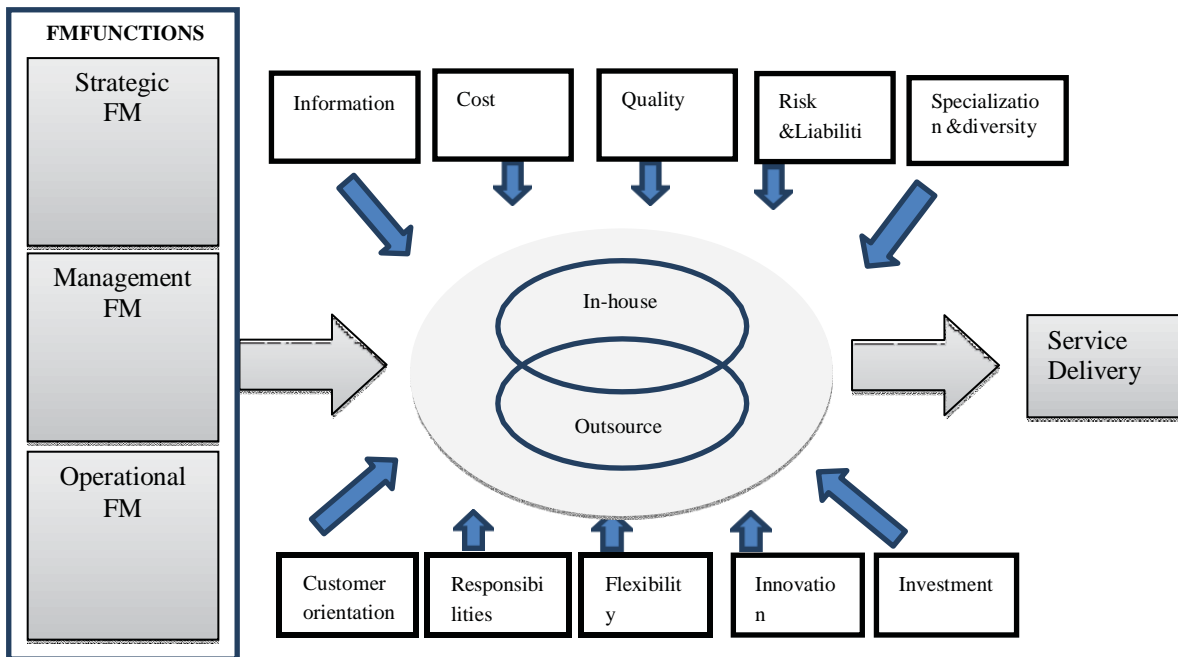


Figure 2: Frameworks for Value Adding Selection between Outsourcing and In-House FM

Above conceptual framework was developed for use by property and facilities managers in making a strategic choice between outsourcing and in-house approaches to providing part or whole of FM services. The conceptual framework ensures that wider criteria, other than costs, are considered, which underpin value addition in the provision of FM services.

6. WAY FORWARD

This study aimed to identify the criteria underpinning value-adding facilities management (FM) service, compare outsourcing and in-house approaches in terms of their value-adding capabilities in providing the components and sub-categories of FM functions, and subsequently establish a conceptual framework for choosing between outsourcing and in-house FM routes. Outcomes from the literature review show that the criteria for assessing value addition in FM services include cost, quality, risk and liabilities, and other criteria listed in Table 1. However, notwithstanding the above criteria for assessing value addition as gleaned from the literature, other equally important criteria might exist, especially those that were identified through the international literature. Therefore, this study will explore additional criteria used by client organizations in assessing value addition in FM services. In addition, the empirical study will be conducted by adapting qualitative research approach, which would lead to in-depth study and better understanding of selection between outsourcing and in-house FM services for the commercial buildings of Sri Lanka.

7. CONCLUSIONS

Facilities management (FM) is a major function in a business organization and it should be procured in an effective way in order to create an environment that strongly supports the primary objectives of the

organization. In house option and outsourcing option are identified as major means of procuring facilities management while they have inclusive secondary options. In order to achieve the strategic objectives of an organization it should consider the best options for procurement of FM and select the effective approach which is best suited for the particular functions. A framework was developed, which provides strategic guidance in choosing between outsourcing and in-house approaches to providing part or whole of FM services. This ensures taking into consideration a wider range of key variables underpinning value-adding selection – a marked departure from the current practice of concentrating only on financials to the exclusion of other equally important variables that add value. The study recommends the use of the framework in making strategic choices between in-house and outsourcing in providing part or whole of the FM services by the facilities managers, property managers and other stakeholders who may be faced with the dilemma of choosing between outsourcing and in-house approaches to providing FM services.

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