

The Business Process Outsourcing Strategy in Facilities Management

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Abstract

Facilities Management (FM) has been growing in importance as a major support activity to the organizations. Besides its suitability to outsourcing, the increasing enhancement of specialized providers in facilities management / services is making feasible the outsourcing option across the globe. Due to these circumstances, a strong trend is being observed in adopting facilities management outsourcing within business transformation strategies. Several outsourcing models such as Business Process Outsourcing (BPO), Offshoring Outsourcing and Shared Services, demonstrate the broad diffusion of this management practice, which has been intensified by globalization and information / communication technology.

This study, made both from the outsourcer's and supplier's perspectives, seeks to demonstrate that truly extended organizations are emerging, with synergy for both parties. In the emerging Brazilian market, the City of São Paulo is increasing as an important global destination for offshoring, showing a great potential for facility management services.

The business process outsourcing models in facilities management are analyzed by the author in its phases, with the risks and benefits of this transformation strategy being properly identified. In addition, due to Brazilian market peculiarities the author proposes a merging of the models examined in this research.

The research methodology adopted was the literature review in which the originality of the text is in the search of a systemic view of the outsourcing process in FM, with the additional intention to contribute further to the appropriateness of this tool to the Brazilian market.

Outsourcing FM is a practice of leverage the results with cost reductions and capability aggregation within the reach of any organization, regardless of their size, industry or life cycle. Companies seize upon this strategy according to various aspects: culture, maturity, positioning. Those who are more successful in this strategy can seize the opportunity to "extend" the company, establishing links with the supply chain and increasing its capillarity in the web of business relationships.

The adoption of the BPO framework models helps the organizations in planning their business process transformation in order to promote both operational and effective strategic changes, and also to reduce risks in adopting an inappropriate model, instead of a best practice.

Keywords: BPO-FM, Offshoring, Framework Models, Transformation Strategy

1. Introduction

The clear and profound changes that are currently underway in all areas of business due to the revolution in information technology have led organizations of all kinds to restructure quickly. From this observation, one important general nature conclusion may be made based on this research, using observations obtained from several sources. Outsourcing, in all its forms, is growing in importance and scope as transformation strategy adopted by organizations, probably because it has proved synergistic with the systemic philosophy that permeates the human thought today, but what is more relevant is that this emancipation of outsourcing is a function of three considerations: cost, focus on competence, and revenue.

According to Professor Ravi Aron, operation and information management professor at Wharton School, "the boundaries of companies are shrinking in many fields, while they are magnified in others. Aspects before administered inside the company became market transactions. It is emerging an extended enterprise model, where companies relinquish direct control and, instead, bet on monitoring"¹. The fact is that this new form of organization, "extended and with digital links that go beyond borders", in which activities that were previously managed within companies have become market transactions, is absolutely compatible and coherent with the strategy of outsourcing.

The Facility Management (FM) outsourcing or subcontracting is a practice of leverage results in lowering costs, increasing revenue and aggregation of capability, within the reach of any organization, regardless of its size, industry or life cycle. Companies use this strategy according to various aspects: culture, readiness, maturity, positioning. Those who are most successful in this strategy were able to seize the opportunity to "extend" the company, establishing links with their suppliers and increasing its capillarity in the web of business relationships.

1.1 The Latin American and Brazilian Facility Management markets

Trends applied to the Brazilian FM market were identified in the research, which presents a stigmatized situation in the adoption of the outsourcing strategy. The point is that in Brazil mostly service takers do not recognize the added value that outsourcing can provide and the sub-contracting comes up on a superficial level, by simply hiring direct labor for the implementation of support services. Precisely to avoid this "crisis of expectation" and to contribute to the construction of a culture of strategic outsourcing is that the work sought to present the arguments and trends identified in the business literature on the subject. This is certainly the biggest problem existing today in the Brazilian market: the service taker demands value aggregation and business transformation, but doesn't offer broad spectrum of activity, and the service provider, to break entry barriers, accepts fewer functions and end up not presenting innovations due to the imposed restrictions. This entire scenario is still worsened by the predatory competition practiced by the informality of some companies of the sector.

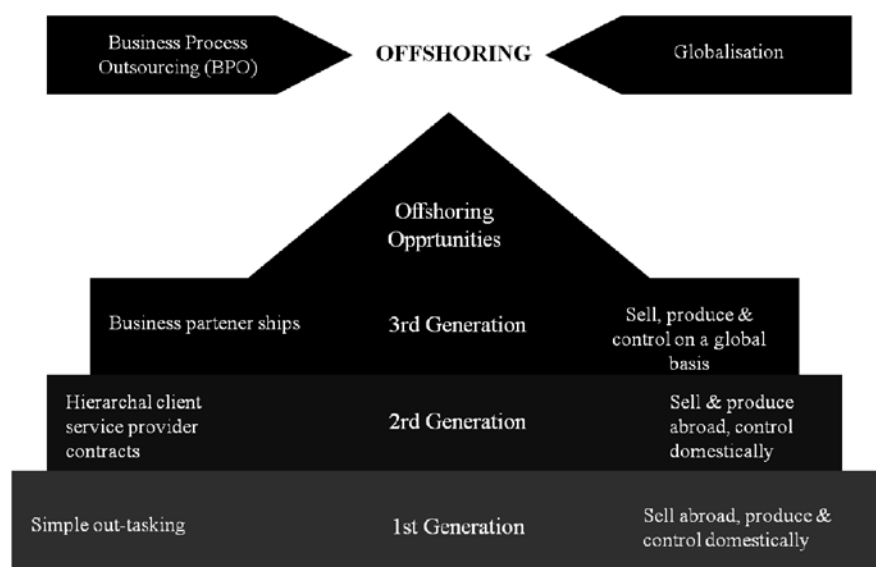
The central hypothesis of the research raised the question of the ability of process integration between the contracting-out organization and its subcontractors and, additionally, the question

of the need for education of both parties on the characteristics of the process. In an allusion to the marriage, there is a need for a good "prenuptial" preparation to increase the chances of a successful and lasting marriage. Because of its similarity to the concept of outsourcing itself, since these processes are non-core or peripheral to most businesses, FM has a natural vocation for outsourcing.

Among its various forms, deserves notability the outsourcing outside the borders (Offshoring Outsourcing - see figure below), a growing phenomenon in the global economy and a promising market for Brazilian FM, specifically at the city of São Paulo, which was identified as one of the main destinations of the world for this kind of outsourcing.

According to a research from Jones Lang LaSalle (2004), São Paulo is the second best city in the world for the outsourcing of jobs in the offshoring outsourcing model, due to the quality of its business environment, human capital and supply chainⁱⁱ. In this criterion São Paulo only loses to Manila, the capital of the Philippines, mainly because it is an English speaking country.

The Development of Offshoring



The Offshoring Development.

Source: Jones Lang LaSalle. Deciding Where to Offshore (2004).

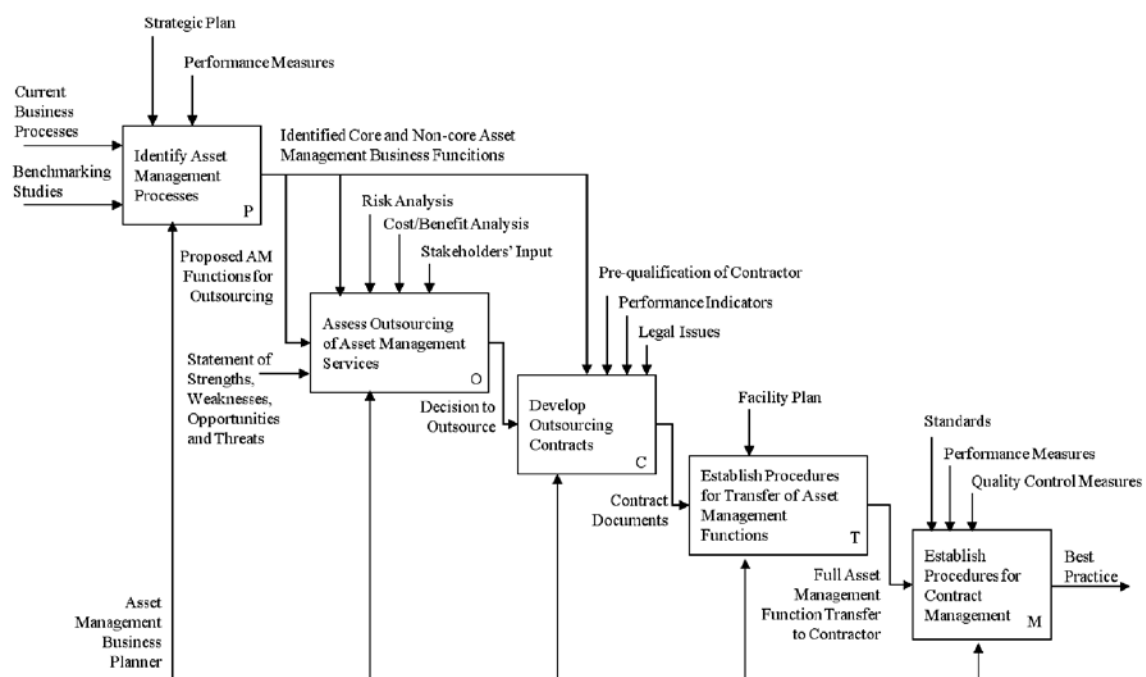
There is also the outsourcing market focused on the shared service's centers of the large company groups, which was identified by the work as another important opportunity of business and maturing of the business process of outsourcing (BPO) in the facilities management. Finally, is presented the macro economic megatrends for the coming years, in ways that it could interfere in the direction of outsourcing deals involving FM in Brazil, i.e. the Brazil's ascension to the group of the largest economies in the world.

2. The Analysis of the FM Outsourcing Models

With respect to the investigation itself on the outsourcing processes standards in FM were presented three models:

1. One of U.S. origin, which is based on the research conducted jointly by A.T. Kearney and CAPS Research (2005), a broad range study of great importance held on the subject, which estimates that companies still manage internally over 90% of its routine operational services, what represents a great opportunity for providing services companies of infrastructure and facilities managementⁱⁱⁱ;
2. Another from Europe, proposed by Franceschini, F. *et al.* (2004) which presents a generic model for outsourcing, with strategic focus and four main steps: internal benchmarking analysis, external benchmarking analysis, contract negotiation and management of outsourcing^{iv};
3. And the last one from Saudi Arabia, which has achieved remarkable growth in developing urban infrastructure in the past three decades, performed by Hassanain and Al-Saadi (2005), focused on BPO in the FM for municipalities (see diagram below)^v.

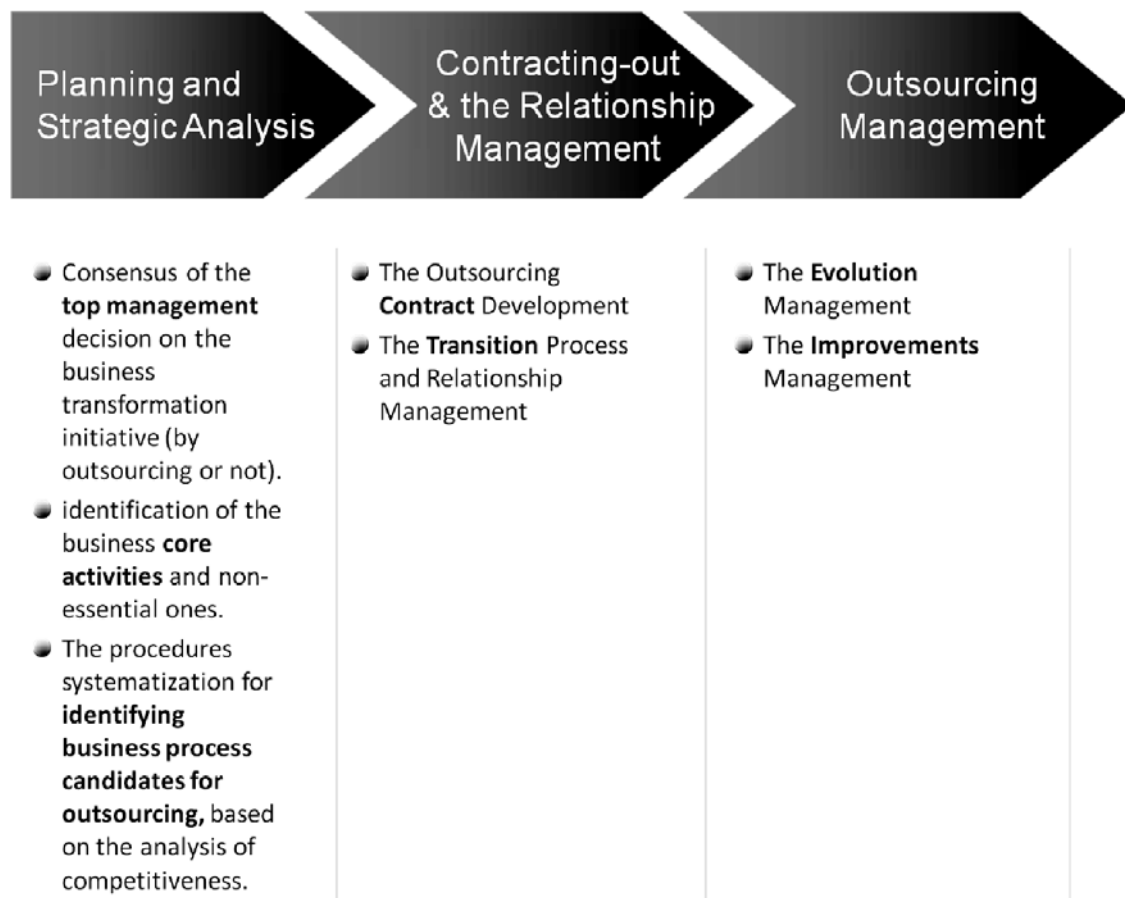
General process involved in outsourcing asset management services



The General Outsourcing Process in Facilities Management.

Source: Hassanain and Al-Saadi (2005).

From the study of the models surveyed, it was proposed a synthesis of the models, resulting from the symbiosis of the other three, and consistent with the peculiarities of Brazilian culture of business in this sector. This synthesis is given below, in its phases and main aspects:



The Synthetic Model for BPO FM decision and implementation.

Source: made by the author.

Some specific points are especially important to be observed during this process. At the “identification of the business **core activities** and non-essential ones” phase, the decision on Outsourcing versus Improvement on the Business Process takes place. It is the turning point of the whole process.

As the outsourcing strategy is decided, “the procedures systematization for **identifying business process candidates for outsourcing**, based on the analysis of competitiveness” happens in five steps: (1) the evaluation of internal references (**benchmarks**); (2) the standard **costs** nature; (3) the identification of the Customer X Vendor relationship nature; (4) the identification of outsourcing **targets**; (5) the outsourcing **risk management** in FM.

Next, during the outsourcing **agreement** development there are some key points to be carefully watched: the evaluation of **strategies for supply / assistance**; the agreement scope and the Service Level Agreement (SLA) development, with its Key Performance Indicators (KPIs); the

suppliers **pre-qualification** and the **proposal requests (RFI / RFP-RFQ)**; the suppliers **evaluation** and choice; the agreement **negotiation**; the nomination of the **head FM professional**.

During the **Transition** Process planning and the beginning of the relationship management it is essential to manage the **Information Technology** systems integration. To reduce resistance and to improve the change management, one of the key factors is **to achieve the internal staff support**.

One of the precautions taken in the core of the work was to present the stages of the synthetic model in detail, so that, wherever possible, could be added to each stage a dedicated and relevant methodological tool for implementation, analysis and / or planning process in question, in order to enrich the didactic use of the model in practice.

In the presentation of each phase of the model development, some topics were highlighted because of their importance in the process and peculiarities in relation to the Brazilian context of facilities management. This is the case of the item "The Outsourcing Risk Management in FM" which for the depth of the theme itself also offers enough content to an exclusive and comprehensive research. This was also the case of the "Request for Proposals – RFP", whose wide - although contested - adoption deserved a different comment because of its paradoxical nature. The dilemma is: to do a bureaucratic and closed process or a collaborative and open one.

Furthermore, in order to increase the transparency, the outsourcing agreements tends to evolve from fixed price contracts to contracts based in a management fee plus reimbursable expenses. More than make the profits explicit, these agreements complies with the requests of Sarbanes-Oxley Act which prescriptions are influencing the international trades since 2002.

3. The risks and benefits of Outsourcing

To provide an overview among the risks and benefits for BPO FM, an interesting table was made after the literature review, including Barrett (1995)^{vi} and others, enriched by the author's experience and yet, according to the perception of the answers to the inquiries of Monczka, R. M. PhD et. al (2005)^{vii} and Hassanain et Al-Saadi (2005)^{viii}.

Reasons for Outsourcing	Priority
COSTS	
Operational cost reduction / generate economy in scale	High
Reduce the capital investment	High
Transform fixed costs in variable	Medium
Downsize the head count / reduce space	Medium
Increase competitive intelligence	Low
FOCUS ON COMPETENCE	

Focus on core competence / strategic approach on services	High
Liberate managers time to focus on major priorities	High
Provide more creativity and innovation to increase processes	High
Increase productivity / operational efficiency	High
Gain access to the last technologies, not yet available in the company	High
Add value (without extra cost) / quality	High
Gain access to specialized capability	Medium
Provide alternatives to build capability	Medium
Create additional production capacity	Medium
Supply capability reserve (<i>back-up</i>)	Low
Align with philosophy / culture / company policy	Low
REVENUES	
Increase flexibility and response capacity	High
Increase market speed	Medium
Reduce customer response time	Medium
Increase quality	Medium
Raise the revenues	Low
Gain access to markets	Low

Table: Reasons for Outsourcing and it's perception of priority.

Source: made by the author.

The next table lists the main risks and disadvantages of outsourcing followed by its grade of importance to the organizations. This table has the same sources as the previous.

Disadvantages / Risks of Outsourcing	Importance
Perception of lost on suppliers control	High
Protection of intellectual property / confidentiality / information security	High
Conflicts with the policy / philosophy of the organization	High
The existing cases aren't enough to anticipate new management problems	High
Risks in selecting weak / incompetent suppliers	High
Outsourcing agreements expire or get outdated	High
Weak innovation capacity	High
Apprehension with the relationship between employees and community / union	High
Dependence on supplier: commitment, availability and continuity	Medium
Difficulty to revert to insourcing	Medium
Transaction costs (e.g. procurement cost of alternative suppliers)	Medium
Monitoring costs (e.g. if the subcontracted requires more than the insourced)	Medium
Loss of internal capability / expertise for a long period	Medium
Disadvantages / Risks of Outsourcing (cont.)	Importance

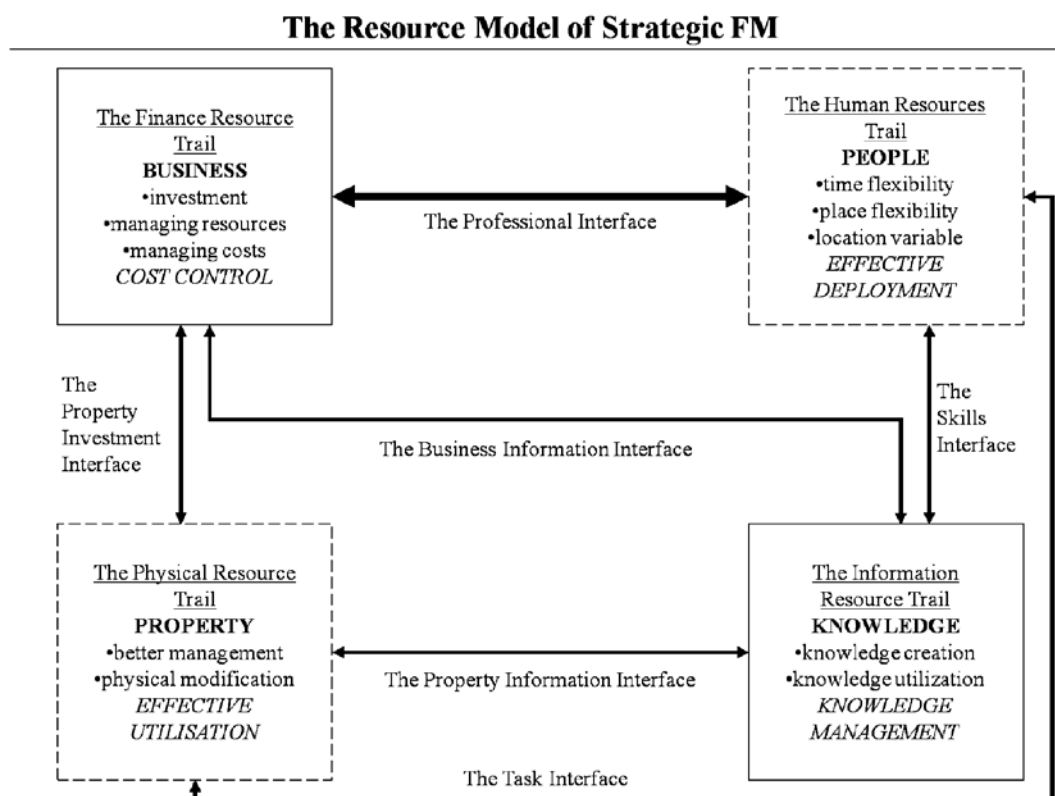
Loss of supply base	Medium
New applications owned by subcontracted	Medium
Loss of internal knowledge for a long period (information)	Low
Hidden costs	Low
Subcontracted becomes a competitor	Low
Keep the organizational climate	Low
Failure in previous outsourcing	Low
Legal restrictions on labor force contracts	Low
Department downsizing	Low

Table. Disadvantages / Risks of Outsourcing and its perception of importance

Source: made by the author.

4. The Interface Professional

Another interesting item extensively explored was "The Nomination of the **Head FM Professional**" which deals with the fundamental role of the interface professional in facilities management. It presented aspects of professional practice and the profile of required skills in this central pivot of the outsourcing process in FM. In the model below, Nutt (2000), quoted by Grimshaw (2003), shows an approach based on "resources", with its four "tracks" for the future in facilities management profession, highlighting the fact that the interfaces among the four infrastructure business focus are changing^{ix}.



The Resource Model of Strategic Facility Management

Source: Nutt. (2000) apud: Grimshaw (2003).

The model provides a framework for evaluating the issues in the tensions that occur in the six interfaces among the four tracks. Grimshaw concludes that "the management of these interfaces to ensure that tensions are creative rather than destructive defines the challenges facing the management of facilities today and tomorrow."

The facilities manager has a natural inclination to take up the role of professional interface between the companies in an outsourcing relationship. And one of the key factors for success in fulfilling this role is autonomy resulting from an organizational structure focused on service delivery: the higher and more sustainable the facilities manager autonomy associated to a support structure (back-office) able provide technological resources, administrative support, performance indicators, procedures, training and possible reinforcements in mobilizing task forces, the better the synergy resulting from outsourcing, as concluded by Jungman (2000)^x.

BPO FM is also a strategic solution for the Public-Private Partnerships, helping in funding and operating the facilities management in public infrastructure. Contracting-out specialized services by public companies is a broad range and important market to facilities management and facilities services private companies, and is a well succeeded model in several countries, i.e. Great Britain. Due to its importance as a model and idiosyncrasies, BPO-FM in PPPs is a major theme who deserves itself a specific research, reinforced by the business potential in this emerging market in Brazil.

5. Conclusion

The outsourcing opportunities in Latin America region have been growing very fast in the last five years, but there is still a lot to grow both in quantitative and qualitative ways. Likewise, the looking at the outsourcing FM market in Brazil is a new research area. There is not enough available statistics and surveys on this theme, even though the Brazilian market is enormous and emerging.

The adoption of BPO FM in Brazil is still in the beginning. Some big international players are already doing business here, mainly at the City of São Paulo, identified as one of the main global destination for offshoring outsourcing. Besides, facilities management and services are systematically subcontracted by the big Brazilian companies and multinationals. But there is still a huge middle market to be explored.

The major contribution intended with the research about the outsourcing models was to reduce the risks and mistakes during the evaluation of a business process. Many companies fail in outsourcing due to the lack of planning, and consequently missing the opportunity to choose the best model to adopt. This is very common in the Brazilian market, where outsourcing is still in development. An example is the PPP model, actually in a very embryonic stage.

Besides, the legal environment in Brazil still impacts the decisions about BPO when risk management is taken into account. On the other hand, companies tend to use more and more BPO as a transformation strategy, while service providers strengthen their capabilities and business platforms to be a trustful alternative.

The information technology is the vehicle which is boosting the changes. A new organization is arising, extended and with digital links, crossing borders and transforming insourced activities into market transactions.

Similarly, the role of the FM professional is changing into an interface manager, linking basically four tracks – business, people, property and knowledge – and struggling to ensure that tensions are creative rather than destructive.

An interesting perspective to make the research more complete would be a closer examination over the perception of quality in facility services. The integration process between companies, both the contracting and the subcontracted parties, using the concept of the Service Level Agreement is a large field to be explored in a research.

The paper concludes by suggesting a deeper survey among major Brazilian contracting companies in order to map and analyze the stage of actual development of the outsourcing management, its key-decision factors, its development and implementation improvements in a feedback system, the target activities for outsourcing and its organic growth, and the reach of the risks and benefits in a fast growing scenario.

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