

OUTSOURCING OF FACILITY MANAGEMENT

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Introduction

The world financial crisis has influenced the whole entrepreneur society in a negative way. As a result of the crisis many enterprises are forced to undertake many costly actions, which sometimes are not even linked to their company's main focus of activity. Outsourcing represents a new way towards rationalization of enterprise activities, which means to submit internal side activities not generally linked to the main company's focus of activity, to external subjects. Outsourcing of facility management is one of the possibilities which mean the solution of this situation by the organisational changes. The main aim of this paper is to present a basic project for proposal of facility management outsourcing which depends on many factors (industry, region, experience with implementation of outsourcing and form of outsourcing). The paper also presents partial results of the research concerning on outsourcing utilization in companies of wood processing industry in Slovakia with the focus on the area of outsourcing of facility management using the methodology of correlation analyses.

1. Facility Management

To explain the areas of the facility management we can use the definition of IFMA (International Facility Management Association bringing together more than 18 000 members from 50 countries). IFMA defines Facility Management as "a method whose task is to match the employees of the organization, work activities and work environment that brings together the principles of business administration, architecture, humanities and sciences." Facility management is, according to the definition, characterized by linking three areas, namely [9]:

- Areas related to employees, i.e. human resources and sociological aspects,
- Areas of work, i.e. the performance and funding,
- Working environment, i.e. architecture and engineering.

The final effect of all reciprocal ties is to strengthen all processes with the help of which employees in their workplaces - in a pleasant and performance supporting environment - give an optimal performance. Ultimately, facility management contributes positively to the economic growth in the body and thus boosts its competitiveness.

As stated by Serina [8] it is clear that the first two areas are identical in all managements. It is always about a set of activities, supplying or assignments for a group of persons. For facility management, the third area marked as working environment, is specific. Essentially, we can say that the facility management aims to ensure the support of the company or building so that the employees have everything they need to operate and that the costs of providing all services were as low as possible (Fig. 1).

Overview of FM services



Fig. 1 Business areas of facility management Source: [12]

German National Association of Facility Managers GEFMA emphasizes the cost (i.e. economic) aspect of the processes that support the core business of the organization. Definition according to GEFMA is: "Facility management is defined as an analysis and optimization of all cost-relevant processes relating to building, construction of another facility or organization performance not belonging to the principal activity of the organization" [9].

The Technical Committee CEN TC 348 Facility Management established the European standard of facility management in 2007 which is valid also in Slovakia as BS EN 15221 Facility Management. The tentative standard defines facility management as follows: "**Facility Management represents the integration of activities within the organization for the purpose to ensure and to develop agreed services which support and increase the effectiveness of 'core activities'**".

According to Trstenský, Facility management includes the maintenance of technical parts, electricity, gas, water and waste distribution, the communications and other outdoor areas, cleaning or other activities requested [11]. Administration also belongs here; particularly work on payments for technical services and certified power of the medium.

The use of facility management services from a number of their providers can be found in many organizations in the banking sector, multinational retail chains, international corporations, as well as public and the government.

2. Outsourcing

It is possible to explain the term outsourcing as the acronym consisting of three English words "**OUTside reSOURCE usING**". This expression is a term of the American business English and it means „**utilization of external resources**“. In theory, outsourcing is a quite popular topic with help of which a lot of experts point out the trend and efficiency of external resources utilization in external company management. In general, it is theoretically presented as a modern trend of management which serves to transfer support company activities to an external provider.

During its development outsourcing became a complex object of doing business and that is why it can be characterized from different points of view. One can find a lot of definitions of different authors. According to the authors I. Hunter, J. Saunders, A. Boroughs, S. Constance „**outsourcing is a transfer of internal business activities or a group of similar activities and assets to an external producer or provider of services who is able to offer required service on agreed date and price**“ [4]. According to Vetráková "**Outsourcing in economy is a transfer of internal company activities usually not connected with its main activity to an external subject**" [3]. It is a special form of co-operation concerning internally executed processes where the object of performance is agreed in a contract. This way outsourcing differs from another "partnerships". Nowadays outsourcing is utilized worldwide as one of tools of the strategic company management, namely as a tool of optimizing company resources consumption aimed at basic strategic company goals.

Practical utilization and application of outsourcing is wide and favourite in many industries in all developed countries since it brings many positive effects. In our geographical conditions, in spite of initial distrust to it, its practical application is better now and outsourcing finds its application in many industries as well. The reason is foreign companies' and their management know-how penetration to our market.

In practice it is not possible to outsource all activities. It is ideal to determine a plan based on company business philosophy, it means to focus on a core of company interest and not to outsource this base. This procedure is logical – it is a must to have some area which the company fully deals with and not to let it to the other company. Doing that company's own existence would be threatened. An organization may outsource not only company activities which are classified to the category of „noncore business“, which means processes ensuring support activities in the company – it means it is right to select a process where we do not anticipate aversion to changes or aversion is as weak as possible and requirement for changes is strong. So it should be a process which does not work optimally or there are some costs or qualitative reserves.

Outsourcing utilization is often connected with the area of information systems/information technologies (IS/IT), where the extent of contracts is the biggest. In this case we speak about outsourcing of IT infrastructure, applications of technical support, hardware, software, data administration, professional staff, web site hosting, development of applications for business processes, help desk services (customers support), networking (net connection), communication services, data centres operations, IT infrastructure. Areas, where to utilize outsourcing apart from IS/IT is possible, have been recently found in many companies' activities: *Accounting and administration evidence, Facility management (cleaning services, supporting services, catering services, property services, security services), Human resources, Ecology and environment, Logistics, Science and research activities.*

3. Partial Results of Research Concerning on Outsourcing Utilization in Wood Processing Companies in Slovakia

Within the solution of the research project VEGA 1/0360/08. "Functional and Design Parameters for the Evaluation of Economic Effectiveness of Outsourcing in Wood Processing Companies" by means of a partial solution we have found out possibilities of outsourcing application in companies processing wood in Slovakia. Through the research which was done as a combination of a questionnaire and personal interviews we wanted to get responses to questions which characterize basic areas of outsourcing in selected wood processing companies in Slovakia. Our aim was to map the current situation in areas utilizing outsourcing and to find out potential opportunities, interest and barriers of practical utilization of outsourcing in a company practice of wood processing companies in Slovakia.

The preferred research goal was to carry out quantitative research by using the selected sample of companies of wood processing industry aimed at outsourcing utilization. During solving the research project within the defined research goal by means of the questionnaire executed through e-mail correspondence, telephone or personal conversation. We addressed totally 146 companies/enterprises belonging to the wood processing industry and located in Slovakia. At first we contacted all the companies associated in Association of Slovak Republic Wood Processors and later we have addressed individual contacts in given industry.

Since we made an effort we succeeded to summarise 49 completed questionnaires which present about 34% return. Representation of individual companies which were willing to provide information for the research in a structure of classification due to company regional location and due to the size of companies - based on classification of the European Commission number 2003/361/EC (Tab. 1).

Table 1 Structure of database of presented research enterprises

Size/ Region	Micro enterprises	Small enterprises	Medium- size enterprises	Large enterprises	Total
West	2	7	6	1	16
Middle	4	10	5	2	21
East	3	5	3	1	12
Total	9	22	14	4	49

Source: [6, p. 36]

As the primary goal of the task the response to the question "To which rate and in what areas is outsourcing utilized in companies of wood processing industry in Slovakia and what are preferred reasons of its utilization?" may be determined. This way defined goal is quite wide and that is why it was necessary to divide the research into several partial questions. Within the frame of content specification of our contribution we will present only **partial results of the research** in the following part together with the presentation of statistical reliance (by the correlation analyses) of selected questions.

For the valuation of statistical reliance of individual questions correlation analysis was used. Correlation means the linear dependence between random variables. Statistical dependence is called the correlation coefficient in the case of linear dependence between the variables degree of tightness. Correlation coefficient of two dependent random variables x and y is the proportion of covariance and the product of standard deviations. Correlation coefficient takes its values from the interval <-1,1>. The reader is referred to as the covariance which expresses the same time as changing the values of two variables. Pearson's correlation coefficient is calculated by dividing the covariance standard deviations. Pearson correlation coefficient (Pearson's product moment - r) is possible to determine by this formula:

$$r = \frac{\overline{xy} - \bar{x}\bar{y}}{s_x s_y} \quad (1)$$

where: r – Pearson's product moment (coefficient),
 x, y – variables x (y),
 s_x, s_y – standard deviations of variables x (y),

Interpretation of the size of the correlation coefficient is a very common problem. According to Cohen and the correlation is trivial under 0.1, from 0.1 to 0.3 correlation is small, from 0.3 to 0.5 correlation is medium and over 0.5 correlation is large. Correlation from 0.7 to 0.9 is very large and from 0.9 to 1 is almost perfect.

All of questions in questionnaire were compared each other through correlation analysis of pairs and then the correlation dependence was expressed. Tab. 2 presents the correlation matrix of the individual questions with expression of its levels depending.

Tab.2 Correlation matrix of the individual questions of questionnaire

	A	B	C	D	E	F	G
A	-	0,09	0,33	0,21	0,37	0,12	0,16
B	trivial	-	0,28	0,39	0,13	0,16	0,14
C	medium	small	-	0,77	-0,58	0,04	0,42
D	small	medium	very large	-	-0,60	0,19	0,56
E	medium	small	large	large	-	0,07	0,53
F	small	small	trivial	small	trivial	-	0,08
G	small	small	medium	large	large	trivial	-

-A Region -B Size of enterprises -C Outsourcing use in Facility management
 -D Reason for use of outsourcing -E Reason for rest of outsourcing
 -F Evaluation of economy efficiency of outsourcing use -G Interest in using of outsourcing
 Source: [6, p. 35]

The statistical analysis of correlation reported a high linear relationship between the possibility of outsourcing use in facility management and main reasons for outsourcing use, but also with the main reasons for rest of outsourcing in companies.

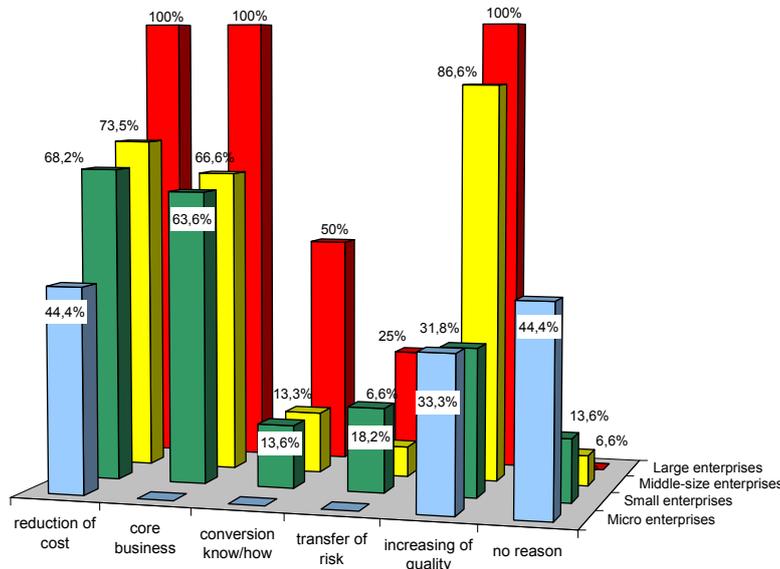


Fig. 2 Main reasons for outsourcing use in Wood processing industry in Slovakia

Source: [6, p. 39]

Wood processing industry in Slovakia is influenced by the economic crisis causing stagnation in the construction industry and decrease in the customer demand for construction, woodwork and furniture products. Many companies are looking for any ways of cost savings and recently more and more companies increasingly have used the possibilities of outsourcing.

The outsourcing is commonly used in large and medium-sized enterprises when the main reasons are reduction of overhead company costs, orientation into core business and increase of quality for outsourcing processes (Fig. 2). The use of outsourcing services absence mainly in micro and small enterprises. The main reason of inefficient using of outsourcing in the small companies is regarding to the lack of companies offering outsourcing and little time that companies spend on the research in this issue.

As it has been already mentioned, outsourcing of facility management includes not only technical management and administration of buildings, but also maintenance, special inspection, services, educational and catering activities, emergency and energy services. According to the survey result outsourcing of facility management (Fig. 3) in the complex form is most used in large enterprises. In the other types of enterprises it is used mainly in areas of educational and catering activities.

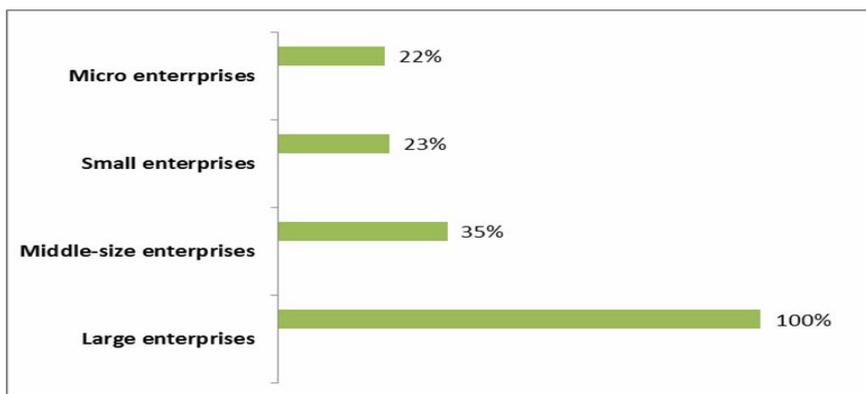


Fig. 3 Used of facility management outsourcing in Wood processing industry in Slovakia

Priority task of using facility management outsourcing in company practice is becoming increasing quality level of outsourcing activities performed with the aim of cost saving. However, experience has confirmed ideas on cost savings are often higher than it actually is possible. The problem to determine the level and to know their own costs for the implementation of the outsourced processes is quite difficult. For many companies is extremely difficult able to track costs on their own processes and subsequently to determine the level of potential cost savings from using of outsourcing services.

Interest in the use of outsourcing services in wood processing enterprises, as the results of the survey present, is evident (Fig. 4). Priority task of outsourcing use in the company practice is becoming increasing quality level of outsourcing activities performed with the aim of cost saving. However, experience has confirmed that they are often ideas on cost savings higher than it actually is possible. The problem is quite difficult to determine the level and know their own costs for the implementation of the outsourced processes. For many companies is extremely difficult able to track costs on their own processes and then to determine the level of potential cost savings from using of outsourcing services.

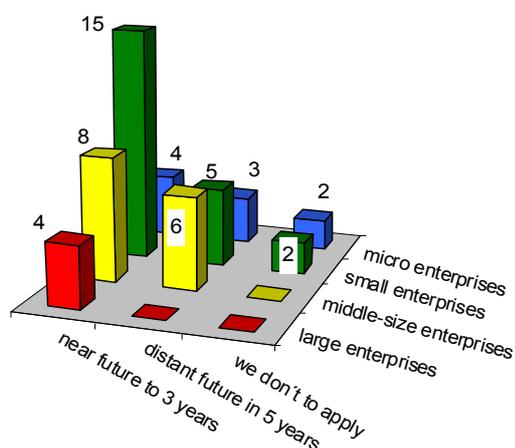


Fig. 4 The possibilities of outsourcing application in the wood processing industry in Slovakia
Source: [6, p. 42]

4. Project of Facility Management Outsourcing

The basic prerequisite for facility management outsourcing is optimization of business costs for their administering and improving the quality of services delivered. To implement the outsourcing of facility management in the organization it is necessary to prepare a high-quality project of its ensuring. The general model (design) of applications of outsourcing is very difficult to present because it is influenced by many factors, such as the specific features of the company (industry, size, region, organizational structure itself ...), the nature of the outsourced activities, the timetable for the implementation, financial budget and type of outsourcing relationship. In spite of it, there are attempts to define certain phases of outsourcing theoretically.

In the following part I show a brief summary of the draft form of the implementation process of outsourcing, according to various authors, for example to Corbett [7] and others [1], [5], [6] in accordance with the requirements of international standard ISO 10006. ISO 10006 "Quality management - Quality Directive in the Management of the Project" is an international standard that provides guidance on elements of the quality system and procedures, for which the application in terms of project management is important. This standard complements ISO 9004-1 standard and is applicable for projects of varying scope and complexity. The general application process of outsourcing facility management can be defined in several phases:

- *Analysis of the areas identified for outsourcing facility management,*
- *Definition of requirements for the supplier,*
- *Selecting an outsourcing provider,*
- *Terms and conditions for setting the outsourcing relationship,*
- *Management of the transition phase of outsourcing relationship.*

The overall implementation time of outsourcing greatly depends on many factors while the time horizon of implementation is estimated from a few months to one year.

4.1 Analysis of the Areas Identified for Facility Management Outsourcing

The aim of this stage is to analyze the areas of organizations with potential to be outsourced by facility management with the calculation of potential benefits in the reduction or cost savings. Based on the analysis of the functional areas, a company must answer a few questions:

- Which areas related to the administration of building would be appropriate to outsource?
- Outsourcing of which area will be of the highest benefit?
- What will be the potential cost savings resulting from the use of outsourcing services?
- It is appropriate to use the services of one supplier or more service suppliers?

The critical question of this phase, which greatly affects the decision-making of the enterprise, is to identify potential cost savings and other benefits arising from the use of outsourcing services. It cannot be presented in this contribution. The complex is presented in the literary sources *Potkány, M. Outsourcing Companies in the Wood Processing Industry in Slovakia. In: Scientific monograph, Zvolen: Technical University in Zvolen, 2011. - 79 p. ISBN 978-80-228-2194-0.* Very important information can be found in [10] and [2].

4.2 Definition of Requirements for the Supplier

Based on the results of the previous phase, it is necessary to define basic requirements for the supplier(s) of outsourcing services, whereby it is recommended not to focus on specific results but to identify the type of outsourcing relationship and definition of responsibilities for services rendered. Definition of requirements should include:

- detailed specification of the range and quality of delivered services,
- method of technology and information exchange in connection with outsourcings relationship (acknowledgment and acceptance of services),
- definition of liability (in the form of insurance guarantees determining the extent of insurance coverage),
- qualification requirements and the size of the supplier with proof of ownership of resources to provide services: licenses (certificates, certificates serving as permit the implementation of the activity or as proof of their quality), references (list of organizations using the services provider who predicate of the ability to provide services).

4.3 Selecting an Outsourcing Provider

Selection of the contractor to ensure the assigned area (therefore outsourcing provider), is based on the assessment of criteria set out in the previous stage. However, the bid for outsourced activities designated by the supplier is taken particularly into account - its financial stability, number and expertise of employees, licenses, certificates, licenses, references and guarantees the contractor. Own choice of an outsourcing provider can take different forms and most often takes the form:

- public tender,
- tendering,
- direct addressing of recommended suppliers.

When evaluating potential suppliers it is recommended to compile an Evaluation Commission (with internal staff of organization involved in the future cooperation but also with external evaluators) and use of multicriteria decision-making with more preference points or weighted point method with the assessment of the criteria scoring system based on defined criteria such as scale from 1 to 10.

4.4 Terms and Conditions for Setting the Outsourcing Relationship

In any relationship there must be conditions according to which this relationship is functional, therefore, negotiations about the outsourcing relationship is an inseparable part of the application process of outsourcing. Outsourcing contract is for a certain period and it is possible that, according to its content, the outsourcing relationship may continue for several years. The contract must be drawn up and written to describe the plan how the relationship will be managed.

In practice, there is no outsourcing contract type, because every relationship is different. When creating a contract, it can be inspired by a so-called checklist contract about outsourcing. Outsourcing contract of a specific type should contain at least the following points [7]:

- Definition of the Parties: the definition of customer service and its supplier,
- Subject of the contract: the essence is the determination and specification of services being provided within the outsourcing process with the possibility of defining their level of quality and specific outcomes,
- The clause on transfer of responsibility: the transfer of responsibility for services performed for the contractor with the possibility of defining the fines and compensation for damages,
- Life of the contract: determining the time horizon of the contract (minimum time is recommended for two or for three years),
- How to change the contents of the contract,
- Mode of termination of the contractual relationship: there are several options such as early termination of the contract, withdrawal, cancellation of the agreement (in each case, defining the reasons and notice period).

4.5 Management of the Transition Phase of Outsourcing Relationship

The project of outsourcing of facility management is not finished with selecting the provider (s) and with the conclusion of an outsourcing relationship contract but it continues in a so-called transition phase. Based on the Takeover documentation, the service provider takes over operation of the facility management services and become the legitimate executor.

The transition phase is actually a process of transformation when a selected area is replaced by an external service which often leads to restructuring of business processes and also to a change in the organizational structure of the enterprise. The incorporation of outsourced services to the restructured business processes should be closely monitored and evaluated. It is recommended to create a working position in the enterprise that would be responsible for relationship management, evaluation, and solving of any emerging problems and the preparation of business administration (the so-called outsourcing manager).

Conclusions

Facility management is an effective form of outreach business management which aims to provide relevant, cost-effective services to support the main business activities (core business) and allow them to optimize. At present, marked by the financial crisis, is the application of facility management most current because it provides savings and optimization of operating costs promotes increased employee performance and thus contributes to increase the profitability of the enterprise. The most common forms of application of facility management in the enterprise is a partial or complete outsourcing, whose main components are technical and administrative management of buildings, interior cleaning of winter and summer maintenance exterior, provision of energy services and water management, including services. For implementation of the outsourcing of facility management in the organization it is necessary to prepare the project's quality assurance which includes an analysis of areas identified for outsourcing facility management, requirements definition and vendor selection, to determine the terms and conditions related to outsourcing and management of organizational change.

The total process of outsourcing implementation in a company depends on many factors. Time horizon of outsourcing implementation is estimated within a few months to one year and it is necessary to consider the risks of outsourcing use (loss of control over the outsourcing activity, the possibility of an external orientation to their own targets, breach of contract from outsourcing provider).

Risks can be already eliminated in the process of negotiating its incorporation into the outsourcing contract, which will then manage the outsourcing relationship for several years.

Outsourcing is one of tools which are able to release potential fixed in the areas that do not belong among the core activities. On the other side if the way of outsourcing utilization is chosen correctly as well as the partner - company key abilities and their competitive advantages may be strengthened. But the task of economic and non-economic benefits is still the open one as well as the risks of its utilization. It is the competence of each organization to decide freely about the opportunity of its utilization. Problem of deciding of outsourcing facility management practices in use or not ?? is a question of its economic efficiency. The problem determines the level of its costs of outsourced processes that are not among the main items of core business activities. Most of the overhead costs must be allocated through a methodology of activity based costing calculation. The application of such calculations in enterprises, however, requires changes to the accounting and corporate governance costs.

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Abstract

Facility management is an effective form of organizational changes that support the core business orientation into main activities of the organization. At present, at the time of financial crisis is the application of facility management most timely even though it provides savings in operating costs of organization and their optimization. The most common form of application facility management is outsourcing. Outsourcing is understood as a modern trend of management and also the changes which serves to transfer support activities of a company on an external provider. Practical utilization and application of outsourcing is frequent and very popular in many industries of all developed countries since it brings a lot of positive effects. The outsourcing of facility management includes not only technical management and administration of buildings but also maintenance, special inspection, services, educational and catering activities, emergency and energy services. The main aim of this paper is to present a basic project for the proposal of facility management outsourcing, whose main task is to reduce the operating costs of a company. The paper also presents partial results of the research concerning on outsourcing utilization in companies of wood processing industry in Slovakia with the focus on the area of outsourcing of facility management.

Keywords

Facility management, outsourcing, wood processing industry, changes

JEL Classification

L69, M21, M29