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Received 11 September 2014 Revised 3 March 2015 17 May 2015 Accepted 7 June 2015

# Tight budget constraints and the absence of strategic planning

# An exploratory analysis of FM service outsourcing

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### Abstract

Purpose – This paper aims to identify the factors that affect facilities management (FM) service outsourcing.

**Design/methodology/approach** – Five focus group discussions (FGDs) were conducted for this study. A total of 25 professional FM managers were invited to participate in the FGDs. The qualitative data collected from the FGDs were analysed with the coding method.

**Findings** – FM managers commonly regard that tight budget constraints and the absence of strategic planning are two important factors that affect FM service outsourcing. Tight budget constraints reflect that clients control their service providers by constraining budgets, which creates a series of inefficiencies in the outsourcing process and thus lead to adverse outsourcing relationships. A series of strategies are recommended to deal with the challenges posed by budget constraints and the lack strategic planning.

**Research limitations/implications** – Twenty-five Hong Kong-based FM managers were interviewed for this study. The empirical data collected mainly reflects FM service outsourcing in Hong Kong. It is important to test the findings with a bigger group of FM managers from other regions.

**Originality/value** – The managerial significance of FM service outsourcing has not yet been valued in practice. This study draws academic attention to FM service outsourcing practice and provides practical opinions from FM managers. Also, this study adopts the FGD method in data collection, which extracts to a maximum degree of authentic opinions from practitioners.

**Keywords** Outsourcing, Integration, Value added, Facilities management services, Strategic facilities management, Tight budget constraints

Paper type Research paper



Facilities
Vol. 34 No. 7/8, 2016
pp. 380-393
© Emerald Group Publishing Limited
0263-2772
DOI 10.1108/F-09-2014-0074



#### Introduction

Facilities management (FM) service outsourcing has become a common practice in the past 10 to 15 years (Plane and Green, 2011). FM services have long been considered services peripheral to an organisation, with the main reason to outsource FM services being to save costs for an organisation's core business (Alexander, 1992). Thus, budgets are emphasised as key to FM planning (Cotts, 1999). As modern corporations require a wider variety of FM services, the scope of FM services has expanded, and therefore, FM services have shifted from being supporting services to integrated corporate services (Then, 1999; Alexander, 2003). Consequently, FM services outsourcing has evolved from single service out-tasking to integrated FM service provision (Hui and Tsang, 2004). The strategic importance of FM service outsourcing in a corporation has been enhanced and now exceeds budgeting as the core concern of the client (Barrett, 2000; Jensen, 2008). However, according to a report by the International Facilities Management Association (IFMA) produced in 2006 (IFMA, 2006), FM managers from the client side tend to over-emphasise contracts and prefer short-term outsourcing contracts. The stringent contractual monitoring and short-term outsourcing contracts involve a considerable degree of inefficiency because of constant contract renewals and possible adverse outsourcing relationships between clients and FM service providers (Lehtonen, 2006). Also, a report by the Royal Institute of Chartered Surveyors entitled *Raising the Bar*: City Roundtable Report (2014) reveals that there is a low degree of strategic management in the process of FM service outsourcing, a symptom or consequence of which is the lack of integration between operational level FM service provision and top management, and between internal functions and external functions. Hitherto, these issues have not yet been studied thoroughly in the existing literature.

Studies on FM service outsourcing are insufficient, and the literature is limited to several issues: maintenance service outsourcing (Hui and Tsang, 2004; Shohet and Lavy, 2004; Lai *et al.*, 2004, 2006, 2008), FM service procurement (Lehtonen and Salonen, 2006; Plane and Green, 2011; Natukunda *et al.*, 2013), the FM service market (Bon and Luck, 1999; Zhou, 2008), contract management (Kadefors, 2008), risks in FM service outsourcing (Ikediashi *et al.*, 2012), FM service outsourcing among small to medium-sized enterprises (Cigolini *et al.*, 2011), FM service outsourcing relationships (Salonen, 2004; Lehtonen, 2006) and sourcing strategies (Alexander, 1992; Phil, 2001; Chotipanich, 2004; Hui and Tsang, 2004). These studies show that academic approaches have been taken to explore practical and strategic issues related to FM service outsourcing. However, their emphases are either too general or too specific, and there is also a lack of focus on FM service outsourcing.

Lacking literature support, an empirical study on FM service outsourcing is necessary in the cut-throat FM industry (Brauers, 2004). To identify the factors that affect FM service outsourcing, this study will review the current FM practice in Hong Kong; identify the factors that affect FM service outsourcing through focus group discussions (FGDs); and recommend strategies for FM service outsourcing practice.

This paper first reviews the literature on the development of FM service outsourcing, the characteristics of both traditional FM services and integrated FM services and the growing significance of integration in FM service outsourcing. The research methodology is then described, followed by the findings obtained from FGD. The empirical findings reveal that FM managers commonly regard that tight budget constraints and the absence of strategic planning are two important factors that affect



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FM service outsourcing. An analysis of the empirical findings reflects that a low level of integration during the outsourcing process is the reason that leads to the clients' conduct in cases of tight budget constraints and the absence of strategic planning. Thereafter, recommended strategies are presented.

#### Literature review

Traditional facilities management service outsourcing and integrated facilities management service outsourcing
By definition, a supply chain is:

[...] a set of three or more entities (organisations or individuals) directly involved in the upstream and downstream flow of products, services, finances, and/or information from a source to a customer (Mentzer *et al.*, 2001).

The supply chains for traditional FM service outsourcing are relatively linear because they only involve the transfer of one kind of service between two entities – a client and a service provider – and are, therefore, regarded as FM out-tasking. To gain a competitive advantage in the market, clients seek integrated FM service provision nowadays. Traditional FM service outsourcing and integrated FM service outsourcing represent two types of FM service outsourcing models. These days, the latter is being adopted more often. In other words, companies, especially larger companies, tend to outsource integrated FM services.

Integrated FM services outsourcing differentiates itself in terms of the volume and variety of procured FM services, the number of entities involved in the stream of service delivery, management models, etc. In the current FM market, the larger FM service providers provide integrated FM services, mostly managerial services, including consultancy, financial/budget management, human resources management, project-based procurement, long-term FM planning, while most of the operational tasks are sub-contracted to individual service providers. The development of FM service outsourcing has created a major challenge for FM managers. Traditional FM managers are mainly responsible for monitoring the process of service provision in terms of service level and cost efficiency (Selviaridis and Norrman, 2014). Integrated FM service outsourcing requires FM managers to not only multi-task but to also be able to integrate the entities involved in FM service supply chains in a strategic manner and to maximise their benefits through FM service outsourcing (Barrett, 2000). The over-emphasis on contracts and short-term outsourcing contracts reflects that FM managers do not view FM service outsourcing process as a holistic and integrated process and only focus on task-level outsourcing. These managerial practices are not conducive to efficiency in the development of integrated FM services outsourcing.

# Integration in facilities management service outsourcing

In recent years, FM has regarded to be an integrated corporate function that plays an important role in integrating different organisational functions to maximise competitiveness and profitability (Then, 1999; Jensen, 2008). In other words, successful FM is achieved through effective integration of different functions in an organisation, with integration being the key concept in current FM development. Traditional FM outsourcing usually emphasises the operational level of FM service provision. At the operational level, FM is a series of activities of FM service provision. Integrated FM service outsourcing focuses on the strategic level of outsourcing. At the strategic level,



FM is a process of strategic integration of different functions from separated sessions in an organisation to facilitate the core business (Lehtonen, 2006). For example, although office space configuration, such as heat, ventilation, air conditioning, lighting and cleaning, are separate FM services, strategically integrating these services can help to facilitate a sound working environment and thus enhance working efficiency. Sound FM service outsourcing requires a higher level of integration because the provision of FM is on an external basis. Aside from integrating different departments within an organisation, FM managers must integrate the service provider(s) during the service provision process. Integration is a core element in enhancing the efficiency of FM service outsourcing.

Integration emphasises the bringing together of different entities and implementing value-added activities through the product/service supplying process to achieve efficiency. It is a process of aligning the interests and goals of different parties to apply integrated resources and to implement activities so as to maximise the holistic profitability of an organisation (Kahn and Mentzer, 1998). When an organisation outsources business functions to external parties, it is important to integrate the external operations with its internal needs and functions. Integration between the clients and service providers can create value to the outsourcing relationships (Lambert et al., 1998). A high level of integration of different functions in the outsourcing process is regarded to be strategic outsourcing (Then, 1999). However, practitioners have not yet recognised the importance of integration and been able to implement activities to enhance integration. In other words, the level of integration in current FM service outsourcing is relatively low. This has thus given rise to a growing number of uncertainties during the outsourcing process (Salonen, 2004). Uncertainties can yield big challenges among different entities and bring inefficiency to outsourcing performance, making it necessary to enhance integration in the FM service outsourcing process.

# Methodology

Focus group discussions

This study was initiated to explore the factors that affect FM service outsourcing. Explorative inquiry requires qualitative data that can provide in-depth information on the FM service outsourcing process. FGDs were adopted as the method of data collection because they promote interaction among the participants, which creates the following strengths for the exploratory study. The interactions built in the FGDs among the participants help:

- to encourage involvement and stimulate thought among the participants and, therefore, generate diverse points of view;
- to create discussion among the FM practitioners and illuminate the most influential views and eliminate the less significant views; and
- to modify the actual communications in an FM service outsourcing process and provide subjective observation to the researcher.

The opinions and experiences of the FM practitioners who participated in the FGD vary accordingly to their positions and roles in their FM service outsourcing relationships. An FM service outsourcing relationship involves at least two groups of FM staff: the client side and the service provider side, with hierarchies within FM managers generally including FM directors or senior FM managers, FM managers and frontline supervisors.



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The structure of the hierarchy varies from organisation to organisation because of the scale and nature of outsourced FM services, FM managers from different hierarchical levels are responsible for different levels of work. FM directors and senior FM managers are in charge of managerial-level work, while frontline supervisors monitor the delivery of on-site FM services. As such, this study invites FM practitioners from different management levels to participate in the FGDs. At least one FM practitioner from each management level was included in each FGD to validate the findings.

Twenty-five FM managers from different organisations were invited to the FGDs based on the non-probability sampling technique (Murphy et al., 1998), which is regarded by Tongco (2007) to be "the most effective method for studying a certain domain with knowledgeable experts within". This study intended to reconstruct communication scenarios between clients and service providers through FGD to obtain their opinions. Therefore, the study adopted a non-probability sampling technique to control the selection process of FGD participants. A random sampling approach was not given consideration because it may have omitted important FGD participants through chance.

In this study, a similar number of FGD participants from both the client side and service provider side were selected with the purpose of obtaining opinions from both sides of outsourcing relationships. This study included FGD participants that represent organisations of different business. Participants that represent the client side were selected from organisations that outsource a package of various FM services in Hong Kong such as a hospital, university, commercial bank, shopping mall and science park. FM services in these organisations are believed to be dynamic and play a significant role in supporting the core business to function properly (Alexander, 2003). Participants from the service provider side were selected from major FM service companies (FM consultants) in Hong Kong, and included Jones Lang LaSalle, ISS East Point, Savills, Urban Group, etc. The profiles of the participants are shown in Table I, and the profiles of the client organisations are shown in Table II. The FGDs were semi-structured to solicit new ideas from participants that adhere to the following research question:

RQ1. What factors do the FM practitioners consider to affect FM service outsourcing.

The participants were divided into five groups (Group A-Group E). Table III shows the groupings of the FGD.

	Job title	Affiliation	No. of participants
	Assistant Director (Facilities and Campus Management)	Client	1
	Senior FM Manager	Client	2
	Facilities Manager	Client	2
le I.	Assistant FM Manager	Client	5
mary of the	FM Director	Service provider	2
s group	Facilities Manager	Service provider	12
icipants' profiles	Facilities Manager Analyst	Service provider	1

Table Sumn focus partic

Business/Organisation	A summary of major outsourced FM services	Analysis of FM service
Hospital	Cleaning, security, catering, transportation services, clinical waste management, medical equipment maintenance	outsourcing
University (A)	Cleaning, parking, security, moving services, property management, catering	
University (B)	Cleaning, parking, security, repairs and maintenance, catering, property management, transportation services	385
Commercial bank (A)	Cleaning, catering, office management, transportation services, asset management, emergency management, security	
Commercial bank (B)	Cleaning, catering, IT, maintenance, transportation services, asset management, labour supply, emergency management, security	
Shopping mall	Cleaning, parking, security, property management, mechanical and electrical services, asset management, tenant management, crowd management, event management	
Science park	Cleaning, parking, security, transportation services, repair and maintenance, catering, project management, asset management, tenant management, event management	Table II. Profiles of the client organisations

Group	Representatives from the client	Representatives from the service provider	
Group A	1	4	
Group B	2	3	
Group C	2	3	Table III.
Group D	3	2	Composition of the
Group E	2	3	FGDs

#### Analysis of qualitative data

The discussions were recorded with the permission of the participants, and the contents of the discussion were analysed with the coding method. As shown in Table IV, the data analysis procedures for this study were divided into six steps.

Ten descriptive codes were created according to the participants' answers to the question – "what do you think affect FM service outsourcing?", as shown in Table V. The column on the left shows the codes for the FGDs, while the column on the right indicates the groups that provided the answers.

Table VI shows the frequency of the codes in each FGD. The frequency number represents the number of people who mentioned the issue in the FGD.

According to the results, tight budget constraints and the absence of strategic planning were mentioned in four of the groups and appeared most frequently in each of the FGD, suggesting that they are commonly believed by FM practitioners to be important factors that affect FM service outsourcing.

## Findings of the focus group discussions

The empirical findings have revealed that tight budget constraints and the absence of strategic planning were regarded by FM managers to be the most influential



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F 34,7/8	Analytical step	Contents		
J <del>1</del> ,770	S1. Transcription	The contents of the FDGs were recorded with the participants' permission and were transcribed into written text		
386	S2. Creating categories (or codes)	The issues/opinions/points of views shared by the participants were identified and summarised		
	S3. Descriptive coding	Data regarded as indicative or are relevant to the categories created by the analysts were sorted in		
	S4. Frequency analysis	groups The frequency of the issues/opinions/points mentioned by the participants indicating whether the issues happen often or seldom/whether the opinions or points are commonly believed by FM practitioners was analysed		
Table IV. Data analysis procedures	S5. Interpretative coding S6. Synthesis	Identified relationships among the categories (obtained from S2) and integrated the data Integrated the data into one explanatory framework		
procedures	Codes (issues discussed in the FGD)	Group		
	<u></u>			
	Budget-driven FM market	A, E B		
	Destructive competition in the FM market Vague attitudes towards FM service outsourcing			
	Lack of business insights	c C		
	Tight budget constraints	A, B, D, E		
	Absence of strategic plan planning	A, C, D, E		
	Insufficient on-site resources	A, C, D,		
Table V.	High staff turnover	A, C		
Codes created from FGDs	Performance of the services User satisfaction	В, Е С		
LODS	User sausfaction C			

factors in the FM service outsourcing process, given the high frequency in which they were discussed. The following section describes the opinions from the participants relevant to the two factors. They are tight budget constraints and absence of strategic planning. Table VI shows that the code - tight budget constraint indicates highest frequency in FGD (Focus Group Discussion) A, B, D and E while the other code - absence of strategic planning shows highest frequency in FGD C, D and E.

# Tight budget constraints

According to the participants from the service provider side, the issue of tight budget constraints is manifested in three ways. First, clients tend to select service providers that provide the desired services at lower prices. Second, tight budget constraints involve many back-and-forth negotiations on the cost of purchase for new projects during the outsourcing process. Clients tend to be very critical of the budget proposals for new projects. They demand that service providers justify the proposed budget to them, which involves



FGD (A)	Frequency (F)	Analysis of FM service
Budget-driven FM market	2	outsourcing
Vague attitudes towards FM service outsourcing	1	outsourcing
Tight budget constraints	4	
Absence of strategic planning	2	
Insufficient on-site resources	1	387
High staff turnover	2	301
FGD (B)	(F)	
Destructive competition in the FM market	3	
Tight budget constraints	4	
Performance of the services	1	
FGD (C)	(F)	
Lack of business insights	2	
Absence of strategic planning	3	
Insufficient on-site resource	3	
High staff turnover	2	
User satisfaction	1	
FGD (D)	(F)	
Tight budget constraints	4	
Absence of strategic planning	4	
Insufficient on-site resources	3	
FGD (E)	(F)	
Budget-driven market	2	
Vague attitudes towards FM service outsourcing	3	
Tight budget constraints	7	Table VI.
Absence of strategic planning	7	Frequency of codes
Performance of the services	1	in each FGD

time-consuming negotiations. Third, the procurement process on the client side is considered to be redundant because of close monitoring of budgets, which, in turn, causes projects to be delayed.

Tight budget constraints directly affect on-site FM service operation. It was mentioned that on-site manpower shortages are often because of limited input in FM service outsourcing. For example, workloads that are usually shared by four security guards are often divided amongst three security guards because the service provider must arrange resources for other services, which, therefore, significantly compromises the performance of security services. In a second example in an outsourcing project, the workload usually shared by five staff was allocated to three staff. The arrangement increased the degree of difficulty in shift planning, resulting in the staff being exhausted from the heavy workload. Participants from service providers suggested that budget constraints are a means by which client companies exert control over them and constrain their administrative power. They claim that they are under great pressure because "one cannot make bricks without straw". Stress-related burnout among FM practitioners because of budget constraints has led to high staff turnover at the operational level. The participants pointed out that FM practitioners tend to change jobs frequently to opt out of such predicaments, creating vicious cycles in FM service outsourcing.



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Absence of strategic planning

In response to comments involving tight control over operating budgets, the participants from the client side emphasised that the key aspects for overcoming the aforementioned challenges are related to strategic planning. They suggested that the absence of strategic planning is the main reason that leads to inefficient FM service outsourcing. Synthesising the opinions from the participants, the issue of absence of strategic planning manifests itself in three ways in the outsourcing process. First, some FM managers lack business insights and fail to unlock the true value of FM services. They simply regard FM service delivery to be separate operational tasks, and they complete these tasks without employing strategic management techniques. Second, FM plans remain at the operational level, and a project-based decision-making mindset affects long-term FM planning. Third, the budget-oriented management model has led to adverse relationships and ends up leading to the frequent changing of service providers.

In the course of explaining the absence of strategic planning in the process of FM service outsourcing, the participants also emphasise the "missing links" between operational tasks and FM strategies, between service provision and strategic planning, between frontline staff and top management and between different functional units and FM department. Even though there is a considerable amount of communication among different functional units and different levels of management on a frequent basis by method of briefings, regular meetings, *ad hoc* meetings, written reports, etc., the participants revealed that the FM strategies are not well understood in the organisation.

### Discussion

The findings from the FGD revealed that tight budget constraints and the absence of strategic planning affect the FM service outsourcing. The findings also reflect that clients tend to exert control over the service providers in a rigid manner during the outsourcing process. In the name of monitoring the performance of the service providers, clients exert control over the service providers by constraining the budget. The following section discusses the negative consequences of rigid management on the part of the client side and suggests that strategic activities such as value-for -money activities and integration be conducted in the outsourcing process to achieve strategic FM. This section also recommends strategies on how to leverage operational-level outsourcing to strategic-level outsourcing.

# Tight budget constraint versus value-for-money activities

As revealed in the empirical findings, the over-emphasis on budgets is due to the nature of FM service outsourcing, which is a corporate strategy to better allocate resources to enhance a company's competitive advantage in the market. Traditionally, the criteria for outsourcing decisions relate to financial resources and include controlling costs, freeing capital funds, improving return on investment (ROI) and reducing turnover and training costs (IFMA, 2006). Resource allocation, especially the allocation of financial resources, once played a significant role in decision-making in FM service outsourcing and had in the past influenced many aspects of the FM service outsourcing process, including FM services procurement, the development of service-level agreements, FM planning, performance evaluation,



etc. However, the allocation of financial resources has been implemented in such a rigid manner that it ends up losing its strategic thrust in the outsourcing process and becomes a constraint to service providers. Tight budget constraints trigger a series of negative consequences in which overall FM service performance is adversely affected in the long run. It is implied from the empirical findings that the limited financial input restrains the value that potential FM services can bring to the core business.

Value for money in FM has been emphasised and practiced because FM services have been recognised as value-added services in an organisation. The concept of value for money advocates that more effort should be made to adopt practices that yield value throughout the outsourcing process instead of cutting off budgets in a rigid manner. In the long run, the intangible value will spontaneously transform into tangible benefits to the core business (Alexander, 2013). The performance of FM services is linked to a corporation's financial performance and corporate image (Jensen, 2008). Therefore, FM managers should shift their mindset from being a service provider to being an integrated planner. For example, routine FM services may not be universally suitable for every company. FM managers should identify the organisation's needs and the functions of other units in the organisation, and estimate the potential value that can be created through integrating different functions to fulfil the need. Recognising the value created by certain FM services, FM managers should plan tasks accordingly to realise the potential value by delivering FM services. Value-for-money activities shall be designed and implemented to explore and unlock the true value from the FM service delivery process.

# Rigid control versus integration

According to the empirical findings, the clients adopt budget control strategies in the name of cutting costs for their core businesses, but their actual intention is to exert control over the service providers. Clients aim to undermine the possible opportunistic behaviours of the service providers mainly by limiting on-site budgets. Other than that, clients also adopt a series of common management practices to monitor the performance of the service providers such as establishing service-level agreements, performance evaluations, user satisfaction surveys, etc. However, the clients' conduct in management can run counter to their original intention for engaging in outsourcing. Outsourcing is the process of contracting out a business process along with a certain degree of managerial power.

In an FM service outsourcing relationship, the service provider is entitled to manage the on-site assets, first-hand information of outsourcing, relationships with the sub-contractors, etc. However, rigid control over budgets constrains the service providers' managerial power over allocating resources and affects the operational management of FM service delivery. Control over FM services outsourcing is necessary, but rigid control creates inefficiency.

'According to Raising the Bar: City Roundtable Report' (2014), a report issued by the Royal Institute of Chartered Surveyor (RICS) in an organisation, FM departments/teams develop sound cooperation with internal departments within their own organisations. The departments/teams adopt a strategic approach so as to benefit the organisation by integrating the resources and functions of different departments. Internal meetings with human resource, information technology,



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finance and other departments are held on a regular basis to embed FM holistically and to bring out value through integration. The FM departments/teams take the initiative to collaborate with them by establishing communication with other departments, aligning interests among different units, collecting information and opinions from them, integrating resources efficiently, etc. However, these practices do not yet apply in the outsourcing process. One possible reason is that the FM department/team is equal to other functional units within an organisation in terms of hierarchy or authority, but external service providers are perceived to be their supporting units. This kind of mindset has been found to affect the integration of outsourcing partners. Alliances should be established between FM departments/teams and their external service providers because sound FM services are the most valid proof to demonstrate the value of the FM departments/teams to other internal departments.

# Conclusion

Tight budget constraints along with the absence of strategic planning have been proven to be influential factors in FM service outsourcing based on the empirical findings of this study. It has been found that the mindset of FM managers in Hong Kong needs to shift from supporting the core business to creating value-added activities to increase FM value and enhance profitability. Also, FM managers should shift their role from exerting rigid control on the service providers during the outsourcing process to establishing integration in the outsourcing relationship. This study sheds light on a challenging issue, systematically analyses a common concern among FM practitioners and provides practical and strategic recommendations to FM practitioners. A series of specific strategies have been recommended for future FM practice in Figure 1.

In FM service outsourcing, budget constraints are adopted in different stages of FM service outsourcing. Clients procure FM services based on budget

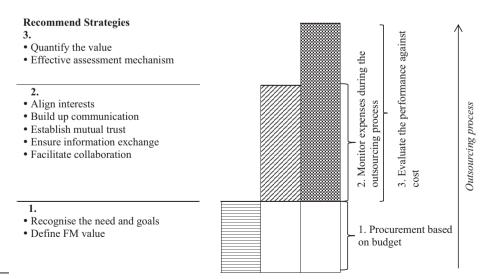


Figure 1. Recommended strategies for FM service outsourcing



Analysis of

FM service

outsourcing

considerations, strictly monitor expenses during the outsourcing process and evaluate FM service performance against costs, etc. At the procurement stage, negotiation is the main task for both clients and service providers. From a strategic management perspective, the process of negotiation is a process of mutual understanding for clients and service providers to recognise each other's business needs and goals in both the short term and long term. At the same time, clients should articulate their definition of FM value aside from setting the requirements and service standards. The definition of FM value is fundamental for future cooperation.

When clients and service providers enter an outsourcing relationship, clients should take the lead in building up a collaborative outsourcing relationship in terms of aligning their interests with their relationship partners, building up channels for formal and informal communication (e.g. meetings, gatherings, events and activities), establishing trust among the FM practitioners – especially at the operational level – and ensuring the most updated information can be exchanged between the relationship partners (e.g. technology, knowledge and experience). FM managers should also jointly develop an effective mechanism to quantify FM value to demonstrate to the internal units the profitability of FM services. However, as the FM market is becoming more competitive, budget constraints will not likely disappear overnight, especially in Hong Kong. As such, it is necessary to explore successful FM outsourcing cases to consolidate the findings of this study and test the feasibility of the recommended strategies.

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