

INNOVATION IN FACILITIES SUPPLY CHAIN

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This paper reports on research undertaken on behalf of three UK-based facilities management client organisations. It surveys 12 service provider organisations of these three clients to understand the conditions for facilities management service provider (SP) organisations to innovate. The study has been undertaken in two parts. The first part addresses SP's view on: criteria for a successful relationship between client and SP, best practice examples from SPs clientele, the differentiating feature of the best practices. The second part explores the relationships, firstly between contract duration, contract phase and innovation, and secondly between four pre-identified procurement options for facilities management and their relations to innovation.

Keywords: innovation, facilities management, service provider-corporate client relations

INTRODUCTION

Contracting out has always been questioned in the FM field (Atkin and Brooks, 2000; Hinks and Reuvid, 2002; Payne, 2002; Granath, 1995; Brochner, 2001; 2000). Although market analysts show the trend towards one or two contracting models (Varcoe, 2000; Williams, 1996), whether outsource or not have remained as a question for most decision makers.

Despite the fact that the major benefit of outsourcing was increasingly mentioned as the input of suppliers' expert knowledge (Grimshaw, 2003) into the client organisations to continuously improve service quality, reduce risks and increase cost effectiveness, suppliers could not meet the clients' expectations to innovate yet. And continuous improvement and innovation remained neglected and marginal in service industries (Miles, 2004).

Until recently, efforts to manage facilities supply chain have been focused on the monitoring and gate-keeping of service performance of the suppliers. As a result, suppliers keep the status quo of the current delivery with no or less effort to improve their service delivery and find innovative solutions for specific accounts.

This paper reports on the outcomes of a research project undertaken by the Centre for Facilities Management of the University of Salford in partnership with three client organisations and their supply network. The enquiry originates from the client organisations focusing on a practical problem of how can clients create the conditions for suppliers to innovate? This practical problem is transformed into a research question (Booth et al., 2003) and phrased as: "*What are the enablers for supplier organisations that make them more innovative?*"

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METHODOLOGY

12 service providers of three clients have been surveyed by structured face-to-face interviews and the aggregated results were fed into a workshop involving the clients only. Whilst the surveys aimed to capture the SPs views and quantitative data related to the SP companies, the workshop aimed to conduct an in-depth exploration for the correlations between innovation and contractual arrangements from the client's perspective and discuss the emergent results from the SP surveys.

Both surveys and workshop were recorded for coding in respect to grounded theory. The results of the coding were then categorised for primary (core) and secondary (non-core) categories (Glaser, 1992; Glaser and Strauss, 1967). These categories were supplied into the workshop, and correlations are developed between primary categories and the contractual arrangements. The research has two hypotheses:

Hypothesis 1: Innovation in supply side depends on investment in the relationship by the demand side.

Hypothesis 2: Enabling supplier innovation depends on the size, phase and models of contracts.

The research has been undertaken in two parts due to the concentration on each of the hypothesis. The first part gathered the SP's views on the following aspects:

- criteria for a successful relationship between client and SP,
- best practice examples from SP's clientele, and
- distinctive feature of the SP's best practices.

The second part followed this exploration by correlating the innovation to the contractual arrangements between the SPs and the clients on the following aspects:

- contract phase and cycle v innovation
- contractual models v innovation
- size and turnover v innovation

RESEARCH FINDINGS

The emergent findings from the two parts of research are grouped as: qualities of client-SP relationship, best practice examples and correlations between contractual arrangements and innovation.

Successful Client- SP relationship

The criteria for successful client-SP relationship is asked to respondents. Interestingly, none of the them included innovation or continuous improvement as a criteria for successful relationship. Instead, long term contract based relation between clients and SPs is stressed as the main criterion for a successful relationship. Of the 12 service provider company's senior managers interviewed, 11 of them indicated that "retention of contract", and hence "achievement of a long term relation" is the number one performance criteria for a service provider's business account.

The interviews also revealed how and in which circumstances the long term relations could be sustained. According to the majority of respondents, accessibility of

supplier's and client's management team were the first two main criteria. These were therefore added as the primary categories for the emergent findings. Secondary categories included *competition between suppliers* in a contract and the *win-win culture*.

The primary and secondary categories and their sub-categories are presented in the following fishbone diagram:

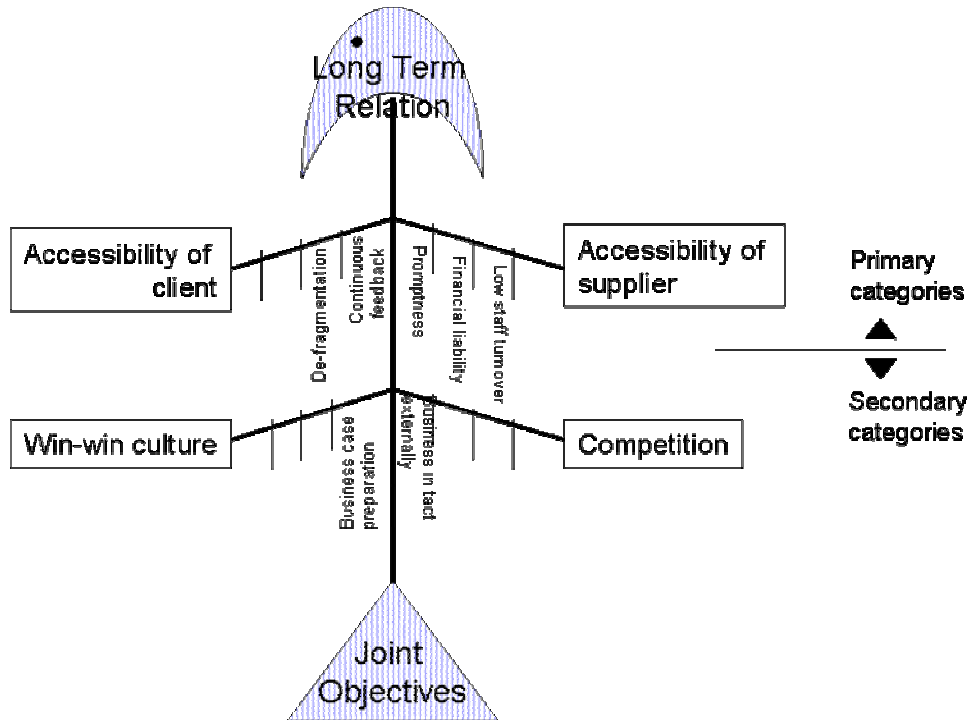


Figure 11: Primary and secondary categories in defining successful Client-SP relationships

Best practices in successful relationships and their distinctive characteristics

The interviewees gave the following relations as the most successful SP-client relations and highlighted the distinctive characteristics for each.

Table 6: SP's best practice examples

Client	What makes the relationship different?
1 British Library	KPIs involve continuous improvement (CI) and innovation and measured for rewarding not for penalty. Dedicated SPs manager working in the same office as the client and being part of the BL's staff to boost innovation. His role is dedicated merely onto CI and innovation.
2 Prudential	Suppliers meet together to come up with new ideas, and they are rewarded collaboratively. Fairness is achieved amongst different suppliers.
3 Abbey National	High volume of work is given to suppliers at once. This creates long term project based work.

4	Manchester City Council	The SP is working directly with the client. There is no third party involved between SP s and clients.
5	GSK	One supplier one team. Client works on joint objectives and deliver to the same.
6	Lloyds TSB	Introduction of a concept called: ‘Partnership in Excellence’
7	HSBC	Commitment of the client’s top management, and them taking the initiatives to speed up the process in a very large hierarchical organisation.
8	Merrill Lynch / Texaco	Engagement of current suppliers to global development; i.e. the current suppliers are treated as preferred suppliers, and even though they do not necessarily have global market, they are pushed to get in.

The distinguishing features of the practice in these examples were categorised into two:

- successful management initiatives of working relationships between clients and SP, and
- commitment of clients at strategic level.

Correlating contractual arrangements to innovation

In the second part of the research, the hypothesis two was addressed for the investigation of the correlations between innovation, and phase and cycle, models of contracts, and size and turnover of contracts. Definitions of those are as follows:

Phase and cycle: The stage the contract in, beginning, middle and end.

Models of contracts: Two types of contracts are investigated (Type- A and B). Type A describes “managing agent contracts” with less supplier visibility; Type B describes “direct service supervision” with higher supplier visibility.

Turnover of contracts: Annual turnover of a contract excluding the additional work required by the client is proportioned to the annual turnover of the SP company.

Table 7: SP’s contract data

			History of			Contract Turnover /		Generic Offering
			Age (years)	relation (years)	Duration (years)	Turnover (£m)	SP Company Turnover (£m)	
Client A	SP1	A	12	4.5	3	25	4.75	Envelops, prints
	SP2	B		1	3	38	10.5	Office cleaning
	SP3	C	15	12	3	3000	200	Global Foodservice
	SP4	D	4	10	3	9000	140	Mail delivery
	SP5	E	59	7	3	900	35	Mail delivery
	SP6	F	10		3	150	18	design -m cost
	Ave		20.00	6.90	3.00	2185.50	68.04	
Client B	SP7	G	27	11	N/A	10	1	Refurbishment project work
	SP8	H	45	25	N/A	77	2	Project based
	SP9	I	47	1	3	70	1.5	Security manguarding
	Ave		39.67	12.33	3.00	52.33	1.50	
Client C	SP10	J	20	3	5	55	0.55	Document management
	SP11	K	19	13	3	50	1.3	Waste, pest control, cleaning, recycling
	SP12	L	23	12	5	47	2	Manned guarding, security, reception, photocopying
	Ave		20.67	9.33	4.33	50.67	1.28	

Contract Phase v Innovation

We have divided the contractual period into three: beginning, middle and the end of the contract, and asked respondents at which period do their company introduce more new ideas? To illustrate their answers, they are provided with a blank diagram.

All of the respondents illustrated that most of the ideas are introduced at the end of the contract, also with some proportion of them being in the beginning. The diagram, which was agreed on is sketched below:

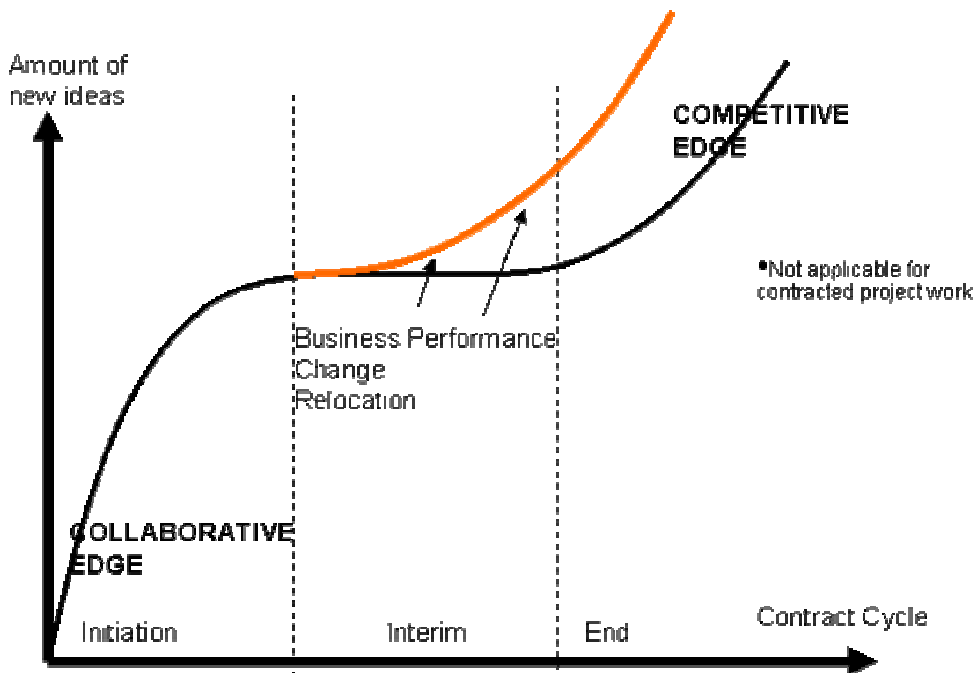


Figure 12: Phase of contract v amount of ideas introduced

Amount of ideas introduced to the client perceived to be changing according to the phase of the contract under two different scenarios based on the appointment of the contractor. If the SP is newly appointed, the ideas introduced follow three patterns at the beginning, interim and the end of the contract cycle. At the beginning, the ideas introduced boost, while stabilising in the interim, and once again increase at the end of the contract. If the SP's contract is renewed, the introduction of new ideas remains at the same amount, unless the client intends to change the mode or tasks of service delivery. This suggests that unless clients attempt to change the way service is delivered, SP's are perceived to be less proactive in taking the initiative for introducing new ideas.

During the interim period, the respondents indicated that when there are changes in the business arena, they also introduce new ideas. These changes in business include upsizing, downsizing due to business performance, business change and restructuring, or relocation. The main driver for introducing new ideas during the major business change is not to lose the contract and keep the relation in the same level and strength as business as usual.

Models of contracts v Innovation

During the interviews, two alternative enabling innovation models were drawn and the respondents were asked about their opinion on the effectiveness of each model (Type A and Type B) concerning innovation.

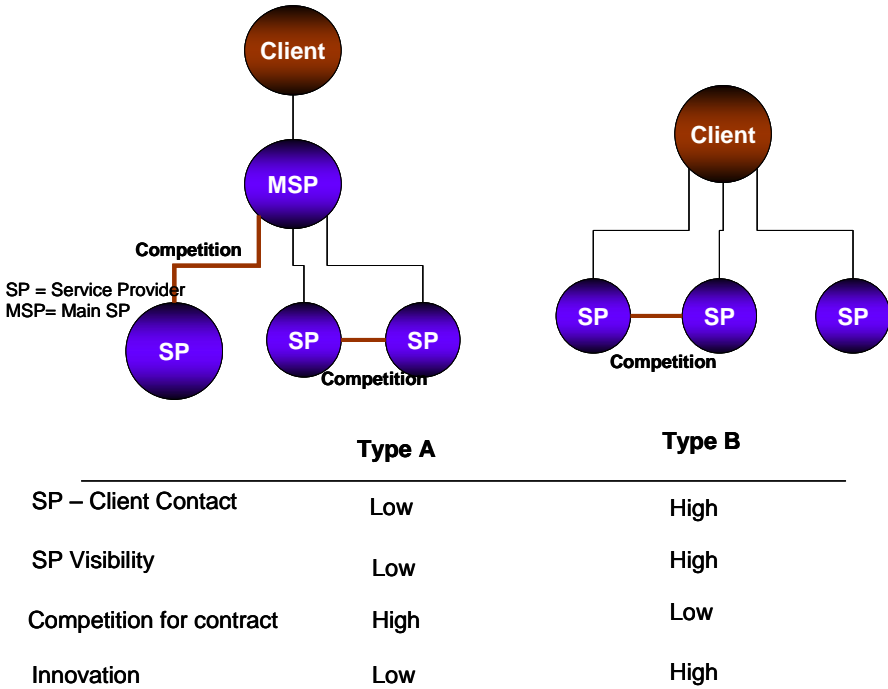


Figure 13: Models of contracts investigated

Type- A contract is managed by a main service provider or a managing agent, to whom risks and the operational control are fully transferred. The main service provider can have sub-contractors, however the visibility of SP and client sub-contractor are low. Most of TFM and PFI contracts are examples of Type-A.

Type- B contract is managed by the client’s in-house team, and unlike Type-A, includes more than one service provider appointed for single or bundled services. Due to direct reporting line to the client, the visibility of the SP is high.

The main difference between Type A and Type B is the involvement of third parties between the SP and the client. While this creates an advantage to transfer the operational and even financial risks, it creates redundant competitiveness between parties involved in the service delivery and hence reduces the amount of new ideas introduced to the client. The SP’s main concern in Type-A is related to its competitors, who can take credit of a successful innovation introduced to a client. The client’s role in such environments is to manage the tension between cooperation and competition (Kay, 1993) so as to maintain a fair distribution of recognition in the parties involved in service delivery.

Some of the interviewed SP companies’ senior managers also involved in other service delivery models using Type A contracts as the main service provider. They have also agreed that parties in Type B contracts introduce more innovative ideas than Type A contracts.

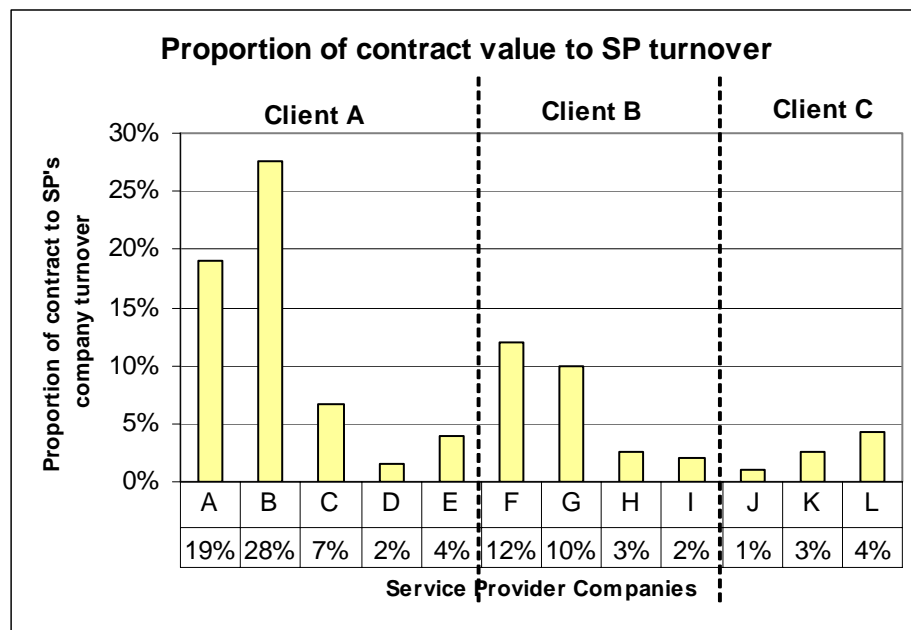


Figure 14: Proportion of contract turnover to SP company turnover

The two peak values in Client A’s service provider companies (A and B) illustrate an interesting pattern. The contract value between SP company B and Client A is one third of the entire volume of SP B’s business. This means that almost one-third of SP B’s business relies on the contract with Client A. And similarly, almost one-fifth of SP A’s business depends on the Client A account. This is a remarkable dependence in comparison to the other proportions. The research is scrutinising the drivers for such procurement decisions and the liabilities of these contracts in relation to innovation.

CONCLUSIONS

The reason why innovation or continuous improvement have not been included as criteria for successful relationship is due to the fact that they have been ignored and neglected in a relationship (Tether, 2004). The best practice examples illustrate the difference that the pull should come from the clients, since SPs do not necessarily push for innovation, or they are less convincing in their argument that innovation adds value to the client organisation. On the other hand, clients' proactive role in both maintaining a successful relationship and creating motives for innovation such as management initiatives have been found as the distinctive features of the best practice examples. In these examples, those management initiatives like "one service, one team" or "excellence in partnership" approaches create the condition for primary categories of successful relationship, which is derived from the client's accessibility and the desire to make accessible senior management teams.

Admittedly, these research findings should be carried into discussion forums to understand why the SPs are less functional when the client's cannot create the right conditions for them to innovate. The main drivers and motives are still on the demand side of the FM industry, and hence the need for intelligent client function (BWA, 1996) is still a priority. This largely reinforces the first hypothesis in that innovation in supply side is largely affected by the investment in the relationship by the demand side.

In respect to the correlations between contractual arrangements and innovation, the research findings highlight that some contractual models, (e.g. Type B) are more likely to be more innovative than others (e.g. Type A). The data collected represent the perceptive primary data of service providers, and the quantification of innovation is difficult. However, in this research we have used sole qualitative data based on the perceptions of people from both demand and supply side. The correlations are hence based on these perceptions.

It is of remarkable importance that new ideas are not introduced by service providers at every stage of the contract. In order to retain the contract and keep the relationship stable with the client company, the SPs introduced new ideas either at the beginning of a new contract, or at the end. Cases where new ideas are introduced in the interim of the contract involve major business changes.

The fear of losing the contract to another company, is a business paranoia revealed in the cases, where the business is changing significantly, and the need for SP's to innovate are becoming to play a vital role. It is hence the client's role to keep and manage the tension between this fear and the introduction of new ideas.

The research is in progress by the time this paper is presented. Further evidence is been collected from SPs and client organisations regarding the enabling contractual models. However early findings highlight that there are enabling contractual models of innovation, and these are related to the size, phase and structure of the contract.

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