

# Outsourcing: A cost-saving approach in FM?

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# Overview

- Introduction/Methodology
- General Facts/State of the Art
- Results
- Practical Implications/Conclusion

# Introduction I

- Facility Management (FM) according to the EN-15221-1: “In general, all organisations, whether public or private, use buildings, assets and services (facility services) to support their primary activities. By coordinating these assets and services, using management skills and handling many changes in the organisation’s environment, Facility Management influences its ability to act proactively and meet all its requirements. This is also done to optimize the costs and performance of assets and services”.
- A lot of companies have recognized FM as a management strategy capable to reduce costs for facilities.

# Introduction II

- Outsourcing: common practice for companies and an important element in business strategy. → in the area of FM the facility services are contracted out to external service providers instead of carried out in-house.
- Outsourcing decisions are based on the potential to realize cost savings through economies of scale and specialization by the outsourcing providers.
- There are also risks (e.g. poor performance/quality) that may be realized if outsourcing is not successful.

# Introduction III

- Since 2005 the Vienna University of Technology analyze the demand side of FM on a yearly basis in different European countries (e.g. Austria, Germany, Bulgaria, Romania).
- The researches have been based on a (standardized) questionnaire survey.
- The questionnaire was subdivided into the parts: the general part (questions about the industry of the company, turnover etc.), FM organization, value added, the way of service provision, IT support, sustainability.
- The “Mixed Research” was used to combine quantitative and qualitative data collection methods.

# Introduction IV

- The population for the surveys were the Top 500 companies in the different countries (selected randomly).
- Interviewees were the internal Facility Managers or the persons responsibly for all FM tasks according to the EN 15221-1.
- Tools for the surveys were phone and/or E-Mail and personal face-to-face interviews.
- The research objectives were to help facility professionals better understand the functions, reasoning, advantages and disadvantages and trends typically involved in the outsourcing process and to better understand how the outsourcing process is managed.

# General Facts/State of the Art I

- IFMA: tracking survey on the practice of outsourcing in the FM field (1993, 1999, 2006) → study of its members to measure use and practices of outsourcing.
- 2006: 487 complete surveys
- The use of out-tasking (hiring individual, specialized vendors to provide one or more FM functions) has decreased from 91% in 1993 to 77% in 2006.
- The steepest decline has come from 1999 to 2006 with a corresponding increase in the number of companies that are outsourcing (hiring full-service, single vendor to provide many services bundled together).

# General Facts/State of the Art II

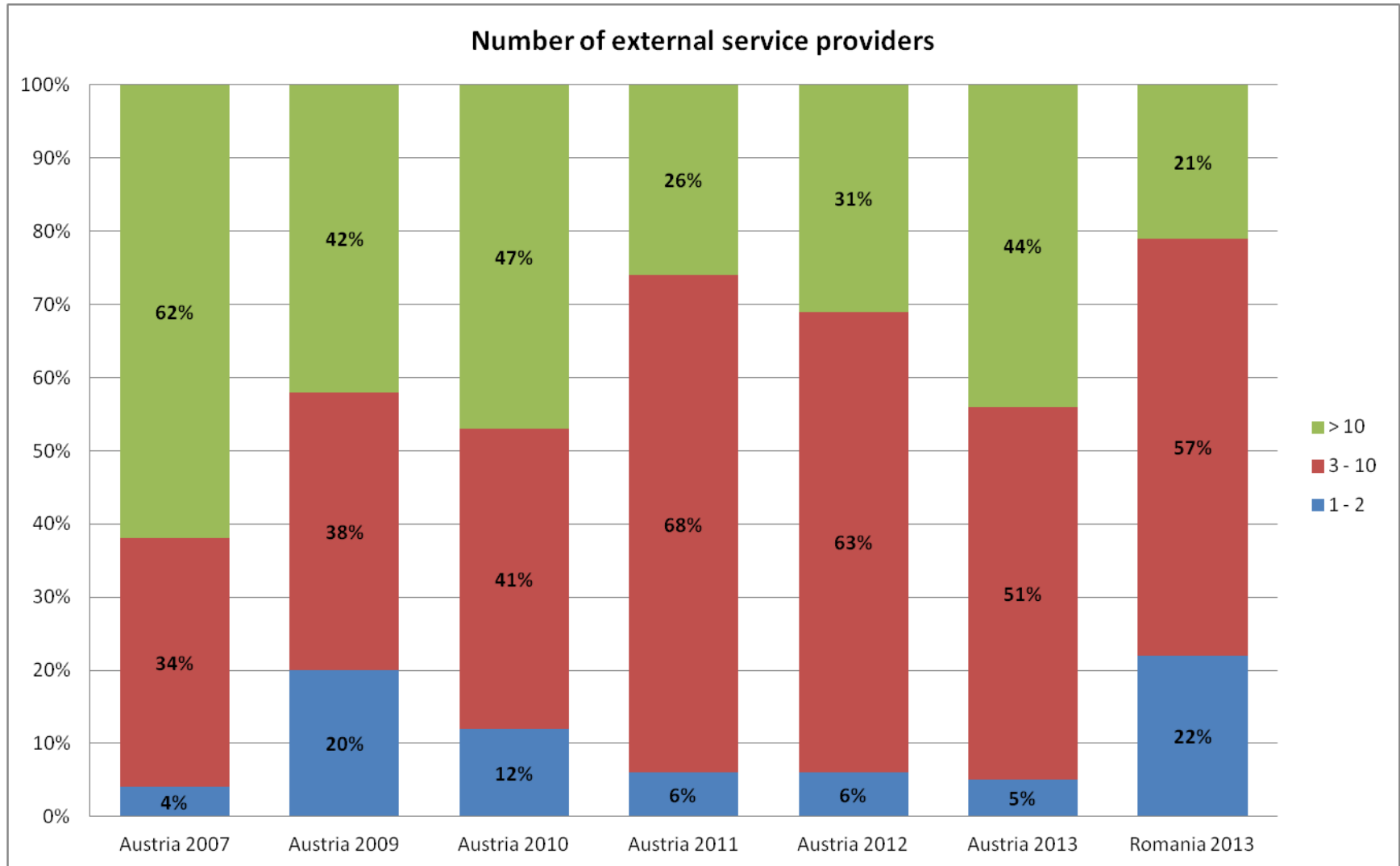
- Criteria's when deciding whether or not to outsource: controlling costs, freeing capital funds, improving ROI, reducing turnover and training costs.
- Over one-half of the companies have saved money through outsourcing/out-tasking; one-third has seen quality improvement.
- Two out of five companies have brought services back in-house → reasons: regain control of the service (costs, quality, response time).
- Since 1999, one-half of the companies have consolidated their vendor base to use fewer service providers.



# General Facts/State of the Art III

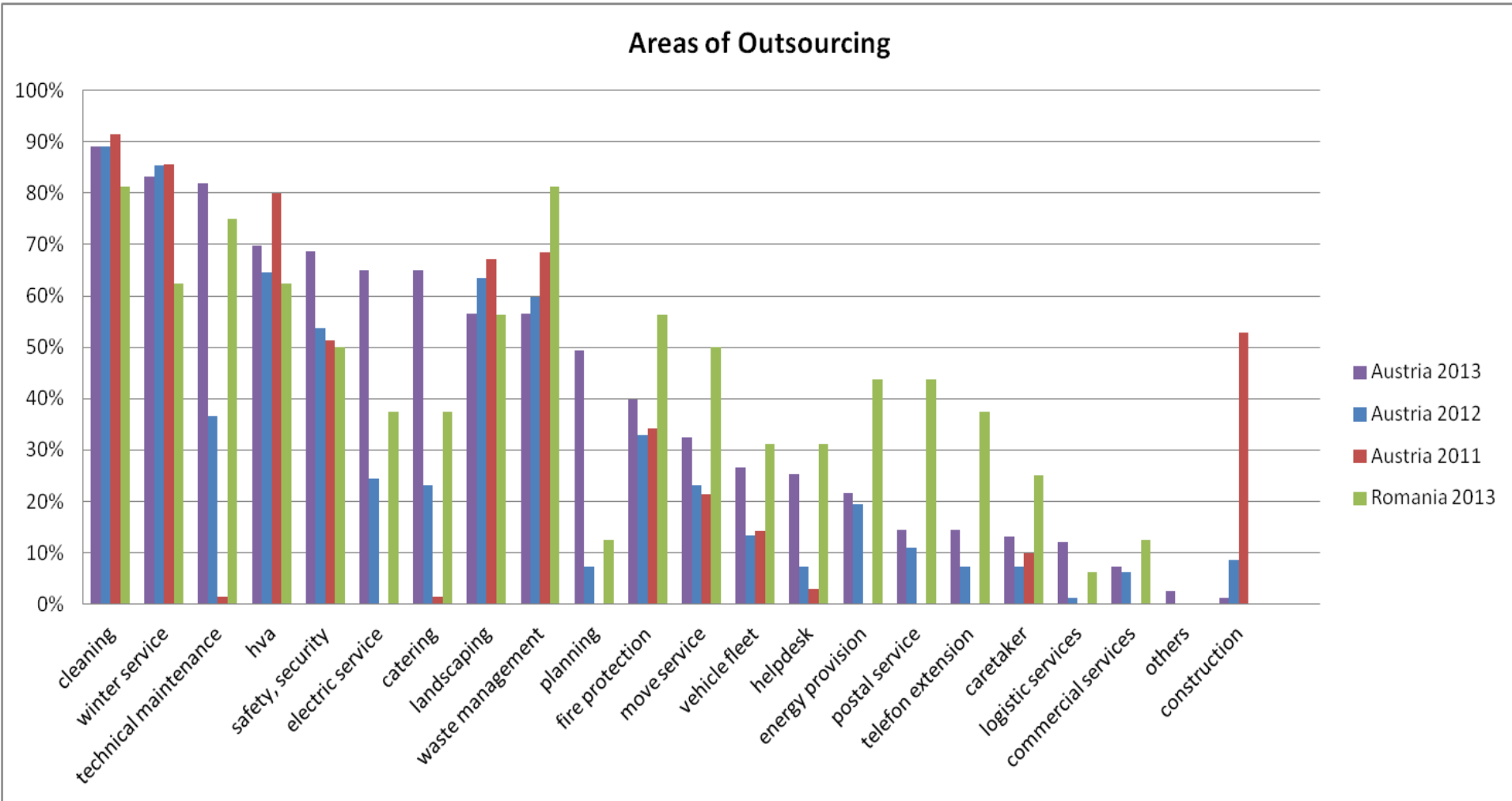
- Atkins and Brooks (2009): Risks that organizations face in their pursuit for more and effective FM → e.g. inadequately resourced or experienced client function, poor relationship between contractor and contract manager, possible loss of control over the facility services/functions.
- Ikediashi et al. (2012): Risks associated with outsourcing of FM services in Nigeria → e.g. poor quality of services, security issues, inexperience of client, contract risk → Outsourcing is risk prone.

# Results I



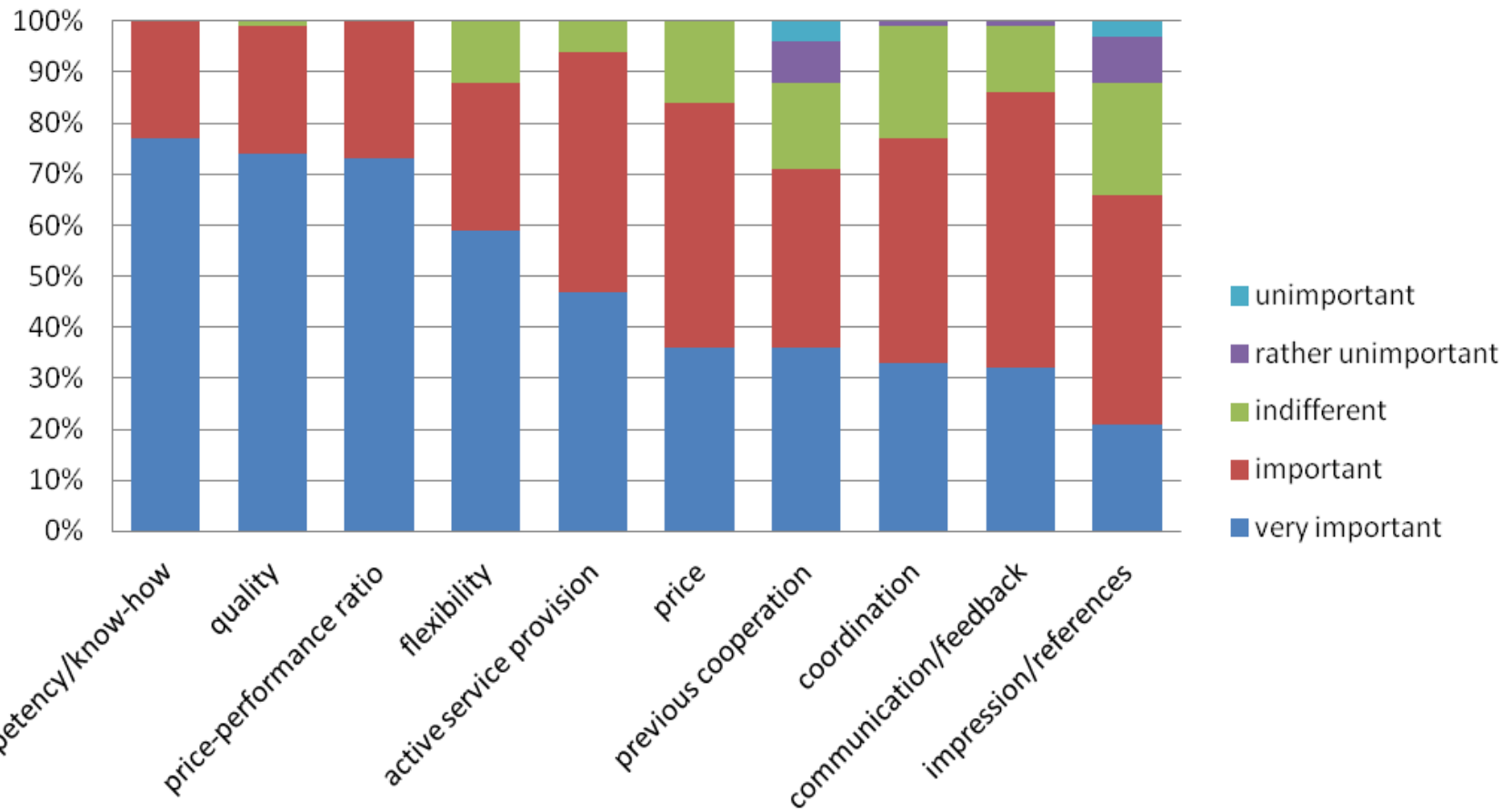
# Results II

## Areas of Outsourcing



# Results III

Selection criteria for external (FM) service providers (Austria 2013)



# Results IV

- To see if the degree of outsourcing of Facility Services has an effect on the added value of an organization, the degree of outsourcing is compared with the parameter annual savings.
- Regression analysis: quantitative estimates of the relationship between these two variables/parameters. The goal is to estimate the value of one variable as a function of one or more other variables. Regression analysis allow furthermore examining whether the results are statistically significant.

# Results V

Regression Analysis (degree of outsourcing - annual savings %) Austria 2013 (Model Summary)				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,031 <sup>a</sup>	,001	-,030	8,505

a. Predictors: (Constant), degree of outsourcing

The **R square** value identifies the proportion of variance in annual savings accounted for by the degree of outsourcing. In this case .1% (0.001) of the variance in annual savings is explained by the outsourcing degree.

ANOVA <sup>a</sup>						
Model		Sum of Squares	df	Mean Square	F	Sig. F
1	Regression	2,250	1	2,250	,031	,861 <sup>b</sup>
	Residual	2314,691	32	72,334		
	Total	2316,941	33			

a. Dependent Variable: annual savings (%)  
b. Predictors: (Constant), degree of outsourcing

The table/regression ANOVA tests for (linear) relationship between the variables. **Sig. F** reflect the strength of the overall relationship between the independent variable (degree of outsourcing) and the dependent variable (annual savings). **Sig. F = .861 > 0.05 level (p-value) = not significant!**

Coefficients <sup>a</sup>						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig. t
		B	Std. Error	Beta		
1	(Constant)	10,664	3,126		3,411	,002
	degree of outsourcing	-,009	,053	-,031	-,176	,861

a. Dependent Variable: annual savings (%)

**Sig. t** reflect the strength of the relationship between each individual independent variable and the annual savings (dependent variable). **Sig. t = .861 > 0.05 level (p-value) = not significant!**

# Results VI

Annual Savings (%)						
Degree of outsourcing (classified)	Mean	N	Std. Deviation	Median	Minimum	Maximum
0-4%	9,00	2	12,728	9,00	0	18
5-24%	8,75	4	3,775	9,00	4	13
25-49%	12,00	8	7,131	11,50	0	25
50-74%	12,10	10	10,376	10,00	0	30
75-100%	7,60	10	8,475	4,50	0	25
Total	10,18	34	8,379	10,00	0	30

- If the degree of outsourcing influences the degree in added value (in this case: the degree in perceived annual savings), the degree in added value should be higher when the degree of outsourcing increases.
- The results show, that there is no statistical significant relationship between the degree of outsourcing and the annual cost savings. Only .1% of the variance in annual savings is explained by the outsourcing degree.
- The means and medians of the annual savings for companies with an outsourcing degree of 25-49% and 50-74% are highest and decrease with an increasing outsourcing degree.

# Results VII

**Regression Analysis (number of external service providers - annual savings %) Austria 2013 (Model Summary)**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,046 <sup>a</sup>	,002	-,029	8,500

a. Predictors: (Constant), number of external service providers

**R square** has a value of .2%. Only .2% of the variance in annual savings is explained by the number of external service providers.

**ANOVA<sup>a</sup>**

Model		Sum of Squares	df	Mean Square	F	Sig. F
1	Regression	4,878	1	4,878	,068	,797 <sup>b</sup>
	Residual	2312,063	32	72,252		
	Total	2316,941	33			

a. Dependent Variable: annual savings (%)

b. Predictors: (Constant), number of external service providers

The value of F is not significant (**Sig. F = .797**). It is above the .05 level.

**Coefficients<sup>a</sup>**

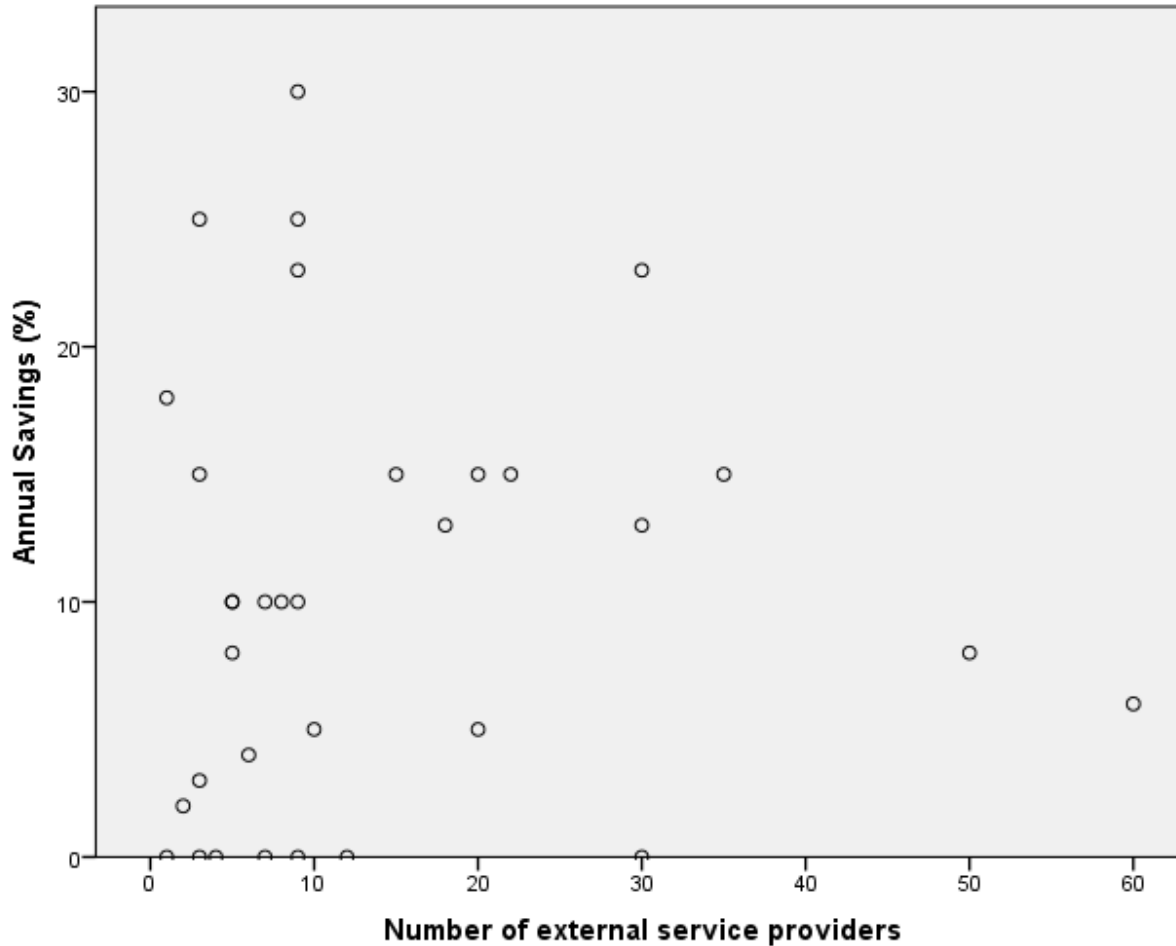
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig. t
		B	Std. Error	Beta		
1	(Constant)	9,811	2,027		4,841	,000
	Number of external service providers	,027	,104	,046	,260	,797

a. Dependent Variable: annual savings (%)

The p-value of t (**Sig. t**) has a value of .797, i.e. t is not significant beyond the .05 level for the variable number of external service providers.



# Results VIII



An increasing or high number of external service providers do not automatically generate more cost savings/annual savings.

# Results IX

- The less external service providers a company has to commission, the less complex is the internal administration and coordination of contracts in connection with external service providers.
- Indirect costs may include contract monitoring and oversight, contract generation, transition costs → these costs may increase with an increasing number of external service providers and reduce the annual savings.
- Another view is that external service providers with integrative service offer cannot provide the full-range of services required of companies that source out.
- If important functions are being outsourced, an organization is mightily dependent on the external service provider → Risks increase with a decreasing number of external service providers → may also reduce the annual savings.
- Find a trade-off between the costs for complex administration and coordination of contracts (according to a high number of external service providers) and the dependence on the external service provider.

# Practical Implications/Conclusion I

- Even FM does not equal outsourcing, it is still an important method within FM.
- Organizations may outsource for cost related reasons, but there are no guarantees that expected savings will be realized.
- A high or increasingly number of external service providers does not automatically lead to more cost savings.
- The literature also warns that there is an initial tendency to overstate benefits through outsourcing and that suppliers are likely to perform better in the beginning of a contract to make good first impressions.
- Each decision regarding to Outsourcing must be carefully reviewed from a risk and benefit perspective.

# Practical Implications/Conclusion II

- Facility Managers have to decide which and how many facility services are carried out to external service providers.
- It is important to specify which work has to be outsourced and to communicate expectations of how it will be provided.

Thanks for your attention!