The FM Industry and Adding Value for Clients

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Abstract

Many writers on FM stress the importance of the role FM should take in enhancing business performance. So far, the idea that FM itself is essentially strategic in nature, rather than operational, has not been widely accepted by senior management. Different writers take different approaches to this and there is no lack of ideas on how FM can be linked to business performance. This paper argues that the key issue is to help organizations increase the value gained from their use of the space that facilities provide. For the FM industry to significantly change the role it performs for clients and become a strategic rather than operational function will require a long-term approach using four approaches to value-adding for clients. This would be a major change in direction, both for the industry and the perception of FM by clients.

Keywords: Facility management, industry growth, value-add, strategic function

1. Introduction

The task of delivering ‘value for money’ is an important part of facility management (FM), but it is often not clear what ‘value’ is in the context of FM. Many writers on FM stress the importance of the business environment and suggest that there is a strategic role for FM in enhancing business performance. This would certainly add value. However, despite the importance of the workplace as a strategic management tool Price (2001) argues those involved in property and facilities, whether in research or professions, do not know how to describe themselves in terms of strategic value added. In his view “buildings operations and maintenance contracts dominate the FM market place. FM practitioners tend to focus on managing costs rather than thinking in terms of adding value” (Price 2001: 1).

While the idea that businesses use their facilities as a strategic resource is not controversial, the claim that FM itself is essentially strategic in nature, rather than operational, has not been widely accepted by senior management. FM is frequently referred to in the context of providing support to business. This divergence of views has encouraged a debate over the future development of the FM industry.

This paper first looks at the debate over the future of FM. In this debate the different directions the industry could, or should, take in its development have been identified, often reflecting different ideas held by these researchers on what FM actually is, or should be. Secondly, the paper considers the relationship between the growth of FM as an industry and the role that the increased use of outsourcing has played in that growth. There is a brief discussion on the nature of value to clients and
building owners. This leads to the main contribution of the paper, identification of the four approaches available to the FM industry that can improve its ability to add value for clients. The conclusion sums up these points.

2. The Debate over Future Directions

There has been an ongoing discussion about the future development of FM and the role FM should take in enhancing business performance. While the idea that businesses use their facilities as a strategic resource is not controversial, FM is often seen in the context of providing operational support and the claim that FM itself is essentially strategic in nature has not been widely accepted by senior management.

Different writers have taken different approaches to this. Duffy and Tannis (1993) emphasise the role of workplace design and productivity. O'Mara (1998) is concerned with the drivers of corporate change and development. Alexander (1996) sees FM as enabling organisational effectiveness, and argues for FM to be 'an enabling mechanism which responds to the evolving needs of business'. His belief is that the discipline should not be mistaken for a support function. Becker and Steele (1995) carry the workplace ecology argument through to its logical conclusion. Finally, McGregor and Then (1999) make the case that FM is the 'business of space' and Tay and Ooi (2001: 360) claim that "the core competence of a facilities manager is strategic level FM matters while overseeing operational matters … FM must play a bigger part in overall business development, becoming a strategic rather than operational issue".

This range of ideas is matched by the diversity of opinion on what FM is. Tay and Ooi (Table 1 below) reproduce eight definitions that vary from the comprehensive approach of Alexander (1999) or Nutt (2000) to the workplace and business focus of Becker (1990), Then (1999) and Varcoe (2000). Out of these ideas a debate about where FM is going, or should be going, has developed.

Nutt (2000) starts with the statement "the strategic objective of facility management is to provide better infrastructure and logistic support to business and public endeavours of all kinds across all sectors". Again, here is the emphasis on strategic aspects of FM that is not found in practice. Nutt identifies and discusses four basic trails or pathways to the future which are explored. These correspond to the generic types of resource that are central to the FM function: the management of financial resources, human resources, physical resources, and the management of the resources of information and knowledge.

The ideas and analysis that underpin the four trails are important and interesting. It is not clear, however, that they establish a genuinely strategic role for FM, rather than a complex operational role with some longer-term aspects. What the trails identify is the range of core areas for FM, and how developments in technology, work patterns and so on will challenge the industry to develop these core areas over the next couple of decades. In themselves, the trails will not provide the basis for a strategic role for FM, although the opportunities for making powerful contributions based on one or more of the trails are there for taking. Also, the four resource trails seem likely to be subject to radical change towards 2020, with a wide range of possible futures. While the trails share a common
objective - to provide strategic and operational support to all of our endeavours - they work to different agendas, serve different interest groups, with conflicting priorities and ambitions.

Table 1. Sample of FM Definitions

<table>
<thead>
<tr>
<th>Author</th>
<th>Definition of FM</th>
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<tr>
<td>Becker (1990)</td>
<td>FM is responsible for coordinating all efforts related to planning, designing and managing buildings and their systems, equipment and furniture to enhance the organisation's ability to compete successfully in a rapidly changing world</td>
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<tr>
<td>Nourse (1990)</td>
<td>FM unit is seldom aware of the overall corporate strategic planning, and does not have a bottom line emphasis</td>
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<tr>
<td>NHS Estates (1996)</td>
<td>The practice of coordinating the physical workplace with the people and work of an organization; integrates the principles of business administration, architecture, and the behavioural and engineering science</td>
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<tr>
<td>Alexander (1999)</td>
<td>The scope of the discipline covers all aspects of property, space, environmental control, health and safety, and support services</td>
</tr>
<tr>
<td>Then (1999)</td>
<td>The practice of FM is concerned with the delivery of enabling workplace environment – the optimum functional space that supports the business processes and human resources</td>
</tr>
<tr>
<td>Hinks and McNay (1999)</td>
<td>… common interpretations of the FM remit; maintenance management; space management and accommodation standards; project management for new-build and alterations; the general premises management of the building stock; and the administration of support services</td>
</tr>
<tr>
<td>Varcoe (2000)</td>
<td>… a focus on the management and delivery of the business 'outputs' of both these entities [the real estate and construction industry]; namely the productive use of building assets as workplaces</td>
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<tr>
<td>Nutt (2000)</td>
<td>The primary function of FM is resource management, at strategic and operational levels of support. Generic types of resource management central to the FM function are the management of financial resources, physical resources, human resources, and the management of resources of information and knowledge</td>
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Source: Tay and Ooi (2001: 358)

For Duffy the history of facilities management has been one of rationalisation. As the discipline developed cost cutting became the predominant objective and the chief distinguishing feature of facilities management in practice. What could have happened was the linking of design and FM, but after twenty years this link has not been established. “What has happened has been very different from what we expected. The skill of managing office space may have developed but the office environment itself remains very much as it was.” (Duffy 2000: 372). He sees the challenge as being using design to achieve business goals, and this will require the reinvention and the reintegration of the entire business of design, construction and space management.

Duffy has highlighted the dilemma under discussion. A greater link with design and development of workspace would give FM the strategic role that is being sought. Design is early stage, planning intensive work and involvement here by FM practitioners would deliver strategic significance. However, once again the fact that this is not the case illustrates how difficult it will be for to achieve place in these strategically important stages.

Bon et al (1998) argue that corporate real estate management (CREM) requires an organisational structure that stimulates interaction between researchers and practitioners of CREM. They conclude that the development of management tools for CREM will require close collaboration between
researchers and practitioners, with much of the research being conducted by CREM practitioners themselves. Performance measurement is one of the first steps in this direction. Therefore, the most important task is the development of management tools that can help close the feedback loop between managerial action and property performance.

A research intensive approach has much to recommend it, particularly in regard to medium-term improvement in the industry's performance. Will this also deliver strategic relevance? That probably depends on the scope, scale and focus of the research. However, practitioner led research is likely to go down the operational path the industry is already following, if for no other reason than that would be what appeals to the industry's clients.

Price (2002) argues for FM to be more focused on business language and a move from performance measured in terms of outcomes to performance considered in terms of outputs. His evolutionary perspective, also found in Price (2003), suggests that FM has yet to find its place in the marketplace for both ideas and business services. In many ways this sums up the key elements of the debate over the future development of FM rather well, given that FM is typically an outsourced function. In fact, the success of FM as an industry has been closely tied to the growth of outsourcing.

### 3. Outsourcing and the FM Industry

The response of many large organisations to the increase in demands for better performance, global competition or pressure on their balance sheets was to identify core activities and outsource as much of the rest as possible (Incognito 2002). Indeed, the growth of FM as an industry has been underwritten by the increasing use of outsourcing for non-core functions as business put the ideas of Hamel and Prahalad (1994) into practice. This has been crucial in establishing FM as an industry sector in its own right as organisations moved responsibility for asset management to specialists (Katsanis 2003).

However, if FM is largely responsible for managing an outsourced part of business operations (the use of physical space), how can it be included in the management tasks given to the senior executives responsible for strategic planning for these businesses? In this case, the success of FM will deny it the chance to become the strategic contributor to business performance that so many have claimed for it. Indeed, the more successful FM becomes at taking on and managing an outsourced function, the less likely it becomes that it will be included in the higher councils of management decision-making and strategy. Further, if FM is not included at this level of decision making, how will it be able to increase the value it adds for clients?

The argument for outsourcing is typically based on the perception of cost savings and improved quality. This comes through reduced capital outlay on facilities, manpower and equipment for the client while the provider is responsible for updating and maintaining equipment and technology. Other commonly recognised advantages of outsourcing include freeing up of resources, variable capacity, knowledge transfer from outside specialists, economies of scale by vendors, and it is particularly suited for specialised or risky operations (Embleton and Wright 1998). Outsourcing is seen as a means of concentrating an organisation's resources in its core competencies (Campbell
May (1998) argued that many organisations spend a disproportionate amount of management time managing non-core activities and that outsourcing can increase competitive advantage.

The growth of FM as an industry has been driven by outsourcing, and the future growth of FM will also be driven by outsourcing. There are still large industry sectors where FM is done in-house, higher education is a good example. As clients become more comfortable with using contractors to supply specialist services and the FM in industry becomes more sophisticated in its marketing, customer relations and performance measurement, the potential for continued growth is clear. There is of course a countervailing tendency of clients to take some functions back in-house due to reassessment of importance of technical requirements (Luciani 2005), but the overall trend should be toward more use of outsourcing in certain client industries.

While the figures for outsourcing and views on these advantages and disadvantages would vary across countries and industries, they reinforce the argument that the scope for growth of the FM industry through outsourcing is enormous. However, the problem of strategic relevance found in the current situation thus appears in the future for FM, with the same fundamental cause: managing an outsourced function may be important, but it is not strategic. If the future growth of FM is tied to the increased use of outsourcing, as growth in the past has been, the challenge for FM to become a key part of an organisation's strategic planning will become greater. Growth in the size or the turnover of the industry will not, in itself, solve the problem.

The opportunities that design integration, workspace management, research focus or the four 'trails' identify are more like extensions to the outsourcing based growth path rather than full alternatives. Extensions because they add depth to the outsourcing based model, but do not add breadth or offer a substantially different growth path. How to deliver different forms of 'extended outsourcing', where there are more of the higher value-added services present in the outsourced package, may be the key challenge in the future of FM. But what is value in the context of buildings and structures?

## 4. Value to Clients and Owners

How do buildings create value for construction industry clients and building owners, and what is the role of the FM industry in maintaining or adding value to clients and owners? That clearly depends on what particular concept of value is to be applied, out of the range that are possible.

Best and de Velence (1999) suggested that, for buildings, the forms of value include: utility; use as accommodation or for income; exchange or sale value; esteem, prestige or iconic value; and a quality-cost-functionality relationship (pp. 14-17). Similarly, Spencer and Winch (2002) cover three broad sources of value: financial value, based on capital and operating costs and investment value: business processes and the people, space and productivity matrix; and the symbolic and aesthetic value of buildings. There are many other variations on these ideas (see for example Kelly, Morledge and Wilkinson 2002).

For the FM industry, the idea of value has to be strongly related to the performance of the space occupied by the client, in the client’s terms. This makes a ‘one size fits all’ definition of value
difficult to find, because clients come in many shapes and sizes, with a wide range of requirements and levels of service demanded.

5. Adding Value

How can the FM industry improve its ability to add value to the way businesses approach the role, function and use of physical space? One way of responding to this challenge is to break the answer down into several parts, like a puzzle the industry has to solve. Four distinct but interrelated approaches to adding value for FM clients are identified and discussed below.

The first approach is based on the idea of business performance itself. Despite the emphasis placed on this, it is neither obvious nor constant. Both how performance is measured and how it is rated change over time. For example, the impact of Kaplan and Norton's (1996) idea of the 'balanced scoreboard' has been significant. Likewise, the growth of 'triple bottom line' reporting (financial + social + environmental results). Other measures that are widely but not universally used include R&D, innovation or revenue from new products, market share and financial ratios such as return on equity, revenue and profit growth. The implication here is that the specific indicators a FM client uses to measure performance need to be understood and targeted by the FM provider. Further, the particular measures applied to facility use and performance need to be developed for each client and made relevant to the client’s business practices and objectives.

A second approach to the problem is the changing nature of strategic planning. The detailed, prescriptive form of business planning is no longer popular, and what is considered strategic in business also changes over time. When Jack Welch became CEO at GE in 1983 one of his first actions was to close down the strategic planning department (with 200 people), and start the annual seminar series at Crotonville that became the foundation of GE’s success (Welch 2001). Mintzberg (1994) discusses the history of strategic planning in business, and argues that neither business planning nor strategic analysis are any less important now than in the past. It is how these are done that creates their relevance or lack of it. The opportunity here is for the FM provider to apply the specialist expertise and experience gained from improving facility performance and to identify how value can be added for clients in the long term, through more innovative design, use and management of facilities.

A third approach to meeting the challenge concerns the development of the industry. Tay and Ooi (2001) suggest a number of areas for theoretical development in FM (see Table 2 below) and three main building blocks of FM professionalism. First, FM as a discipline must be clear on its roles in industry and in organizations. Second, for FM to be taken seriously by management it has be a contributor to profits and manage facilities to enhance performance of the firm. Thirdly, FM must develop its own specialist knowledge and toolbox in managing the workplace across six areas, with an emphasis on workplace performance and performance measurement. They conclude that FM remains reliant on management and technical knowledge from other fields. The FM industry needs to establish a core knowledge base and the techniques available for its application.
Reliance on management and technical knowledge from outside FM is not in itself a problem, especially in a time of positive externalities from knowledge, an emphasis on training and human capital, and increasing returns from the effects of network economics on industry. Perhaps the challenge has more to do with sorting the wheat from the chaff in management ideas, not getting distracted by management fads and buzzwords, and coping with information overload with so many business management books being published.

Table 2. Suggested Theoretical Developments in FM

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<tr>
<th>Scope of FM</th>
<th>Suggested areas for theoretical developments</th>
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<tbody>
<tr>
<td>Location</td>
<td>Developing a model for locational decisions</td>
</tr>
<tr>
<td></td>
<td>Studies on the relationships between locational choice and business performance</td>
</tr>
<tr>
<td>Type</td>
<td>Understanding workplace requirements for various facility users, e.g. schools, hospitals, factories, etc.</td>
</tr>
<tr>
<td>Quantity</td>
<td>Developing a model to forecast space requirements</td>
</tr>
<tr>
<td>Quality</td>
<td>Performance measures to assess the quality of workspace</td>
</tr>
<tr>
<td></td>
<td>Developing performance standards</td>
</tr>
<tr>
<td>Allocation</td>
<td>Studies on emerging work patterns and their impact on space allocation</td>
</tr>
<tr>
<td>Content</td>
<td>Studies on the relationship between content layout and work performance</td>
</tr>
</tbody>
</table>

Source: Tay and Ooi (2001: 362)

Finally, the fourth approach is the type of contribution FM makes to its clients. Profit margins can be increased by either driving down the cost of products and services, or by pushing up their value and increasing the price customers’ will pay. The strategic objective is to maximise the difference between value and cost, and to build value which customers perceive to be better than that offered by competitors. For most businesses changes in revenue presents both the greatest opportunity and the greatest threat, and is more significant than major costs such as staff, technology and equipment and occupancy costs. Therefore there are greater opportunities to improve organisational performance through revenue and productivity improvement rather than through cost reduction and the risk to revenue and productivity due to poor facility design and management is far greater than the expense of building or occupying space.

Lower facility costs lead to lower production costs, and to reduce occupancy costs organizations can take a range of measures, such as re-negotiating leases, teleworking and hotelling and lowering the workspace ratio (Turner and Myerson 1998). The workspace ratio varies between industries, for example the Property Council of Australia found the financial services sector averages about 15 square metres per employee and the legal sector averages 20 square metres per employee. For any organization there is some level of optimal space efficiency (Smith 1999). Another factor that is important in industries undergoing restructuring and 'creative destruction' is reducing the cost of churn (relocating employees). For firms in these industries the cost of churn can be as high as rent. Space can contribute to strategic change through aligning facilities with organisational objectives, structure, cultural values and workstyles. Finally, organizations continually seek ways to reduce capital costs of buildings, but capital expenditure is minor when compared to costs over the life of the fitout and services. The issue here is maximising the benefits of capital spent to get the best return possible.

On the value side, strategic decisions on property location, space forecasting and usage are important. However, what is crucial is how FM can contribute to developing the competitive advantage of the
firm, particularly for firms or organisations attempting to enter new markets or confront global competitors. These firms are typically increasing their efforts to innovate and to develop new products or services. Also, facilities can be a source of competitive advantage if location or amenity is a barrier to entry for potential competitors.

Organisations are also looking for work environments which improve productivity and efficiency, support innovation and learning, allow introduction new ways of working, increase information exchange and accommodate a diversity of management and work styles (Zelinsky 1998). The pressure to achieve higher productivity through use of teams with more effective means of communication, both electronically (through bringing different departments together) and spatially through workplaces designed to encourage increased group and shared working patterns, is one of the great opportunities for FM to add value to clients.

6. Conclusion

Organisations spending money on the renovation or maintenance and use of a building try to get value for money, usually within a fairly clear budgetary framework. Those who authorise the expenditure will be looking at how much is spent, what return can be expected and how satisfied they will be by the outcome. The task of FM is to help users get the most benefits from their properties and facilities.

There has been an active debate over the future direction and development of the FM industry. This debate has highlighted a number of key issues for the industry, but also bought out the wide range of approaches taken by participants to both these issues and the appropriate role of FM.

This paper has argued that, if the FM industry is to significantly change the role it performs for clients and become a strategic rather than operational function, it will require a long-term approach focused on value-adding rather than cost saving. This is a major challenge, both for the industry and its clients. This paper then identified four distinct but interrelated approaches to adding value for FM clients.

The first approach involves performance measurement. By developing specific measures of performance to apply to facilities, to be targeted by the FM provider the industry can help organizations meet a range of performance criteria. These will vary between organizations and will typically be customized to take into account the location, purpose and strategic significance of the facility. Establishing for each facility this strategic significance could be the means to become relevant to and provide input to organizations' strategic planning.

The second approach is to increase this strategic relevance of the FM provider’s contribution to the client’s business practices and objectives. The opportunity here is to identify how value can be added for clients in the long term, through more innovative design, use and management of facilities.

The third part is developing FM professionalism. This involves the use of analytical tools for locational decisions, space use, work patterns and other characteristics of the modern work place. The objectives of this analytical approach are to help organizations lower occupancy costs and increase the value gained from their use of the space their facilities provides. This is the fourth and most
important part of the answer. In a world of ever-increasing competitive pressure and shorter product cycles, value creation is the key to survival for many organizations. By making itself an integral part of the value creation process, FM will become a strategic function.

Until recently few organizations paid much attention to how the planning, design, and management of their buildings and associated systems, equipment and furniture affected the organization’s ability to meet its business objectives. Information technology and competition, which have driven organisational changes, have placed new demands on organizations’ physical resources, increasing awareness of the importance of FM. As this has happened, the role of the facility manager has grown to include more than the maintenance of the physical structure of the workspace. There is an opportunity to shift the emphasis from controlling the cost of occupying and using facilities to the contribution of the workspace and its infrastructure to the productivity of the organisation and the efficiency with which it uses its resources. This fourth approach would allow the FM industry to add significant strategic value to the operations of clients.

Therefore, the opportunity exists for the FM industry to increase its strategic relevance to clients. The idea that businesses use their facilities as a strategic resource is not controversial, but because FM is typically an outsourced function the idea of FM as strategic, rather than operational, has not been widely accepted by clients. Different writers have taken different approaches to this and there is no lack of ideas on how FM can be linked to business performance. This paper has argued that the key issue is to help organizations increase the value gained from their use of the space that facilities provide. For the FM industry to significantly change the role it performs for clients and become seen as a strategic partner, rather than as an outsourced operational function, will require a long-term approach focused on value-adding rather than cost saving.

References


