

# ASSESSMENT OF RISKS ASSOCIATED WITH THE PROCUREMENT OF FACILITIES MANAGEMENT SERVICES IN NIGERIA

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## **Abstract**

*Facilities management (FM) services can be managed in-house, outsourced or partly in-house and partly outsourced (Hybrid). Each of the FM procurement options possesses inherent risks of grave consequences. This study aim at assessing risks inherent in each of the procurement options for FM services. A structured questionnaire was used as the principal instrument for this study. 75 copies of structured questionnaires were distributed, 55 were completed and returned representing 73% response rate. Data for the study was processed and analysed using SPSS for both descriptive and inferential statistics. The analysis revealed risks with the highest level of potential occurrence in in-sourcing FM services as low labour productivity, overstaffing and poor accountability. While, threat to data security, loss of management controls and poor motivation are major risks in outsourcing FM services. This study concludes that poor accountability and low labour productivity are major risk factors that cuts across all FM procurement routes that is capable of affecting employees' relationship and passion for work. Performance reward and regular account reconciliation are therefore recommended since this can either reinforce an outsourcing relationship or enhance an in-house retaining of FM services.*

**Keywords:** *Risks, Procurement options, Facilities Management Services, and Nigeria.*

## **INTRODUCTION**

Facilities management (FM) has grown from what was traditionally perceived to be the mere managing of buildings or maintenance unit of an organisation to the holistic reality of being woven into the core and support services of organisations (Pitt and Price, 2011). The scope of FM services varies from one organisation to another depending on the size, complexity and line of business of the organisation procuring the service. Typically, FM services comprises of planned preventive maintenance, cleaning, catering services, pest control, waste management, security services, space management, move management among others. Facilities management adds value to organisations in a variety of ways; Connors (2003) opined that organisation's corporate objectives are easily achieved when FM strategic plan are well aligned with corporate strategic plan to ensure that spaces are available where and when needed, capital expenditures are planned and controlled, costs are minimized and waste avoided. There are different ways of procuring FM services. Smith (2003) and Atkins and Brooks (2005) identified three procurement approaches for FM services as outsourcing, in-sourcing or in-house and hybrid. Each of these procurement routes has inherent risk that must be well managed if successful service delivery is to be achieved. Adequate understanding of the risks inherent in each procurement route is necessary for corporate strategic plan.

Lonsdale (2002) suggests that outsourcing failures are not due to inherent problems in outsourcing but rather the lack of guiding methodology for managers. Taylor (2008) opined outsource provider needs readily available and skilled workforce to increase their profitability. However, the FM organisation is adopts proactive solutions that reduce costs

while increasing the overall service levels to the client. Where an organisation runs its Facilities management portfolio in-house is exposed to the risk of blank procedures and poor accountability in internal practices, the organisation that outsources its FM needs is exposed to the risk of getting required value and optimal performance. One of the major challenges faced by organisations is the decision on which activity to outsource and which to retain in-house. Many organisations follow a rule of chance approach by simply going ahead with any option that seems right at the time and then learn from the outcome later. This can gender expensive consequence to the organisation. Whichever sourcing decision an organisation makes is fraught with risks which could have minimal or grave consequences. Hence, there is the need for research to identify the risks associated with various FM procurement options on a broad spectrum.

This study aims at assessing the risk factors associated with procurement options for Facilities management services. The objectives of the study includes Identifying risks inherent in each of the procurement options for facilities management services and assessing the likelihood of occurrence for each identified risk factors inherent in FM procurement routes. The study hypothesises that there is no significant difference in the risk factors and the choice of facilities management procurement option.

## **LITERATURE REVIEW**

### **Facilities Management Procurement**

The FM industry provides services that range from management, products and services to enhance the built environment and work environment for public and private organisations. FM services are critical to enhancing the competitive position of the organization. The procurement routes adopted in sourcing for FM services have occupied a major strategic position for organisations. What is currently known as FM today began with financial institutions outsourcing their data processing operations during the evolution of the modern office of the 1970s (Price 2003). This depicts that outsourcing of the data processing operations was preferred to the erstwhile insourcing for strategic purposes. In the 1980's organisations began to outsource computers and other office services (Price 2003). This could have resulted from perceived success of the previous outsourced services. In 1990s and 2000s, general workplace management shrouds the FM practice. This implies a broad range of services provided that different professionals come under the FM umbrella.

FM service providers offer solution range for organisations core activities, core-close (support) activities and disposable activities (Arnold ,2001 , Kakabadse and Kakabadse 2000). In deciding on the procurement strategy to adopt, an organization needs to consider the activities across its value chain prior to taking strategic sourcing decision. The sourcing decision on core activities which determine an organisations existence are critical to both short term and long term survival and competitive positioning of firms. Jennings (2001) opine that the ability of a company to make profits and survive is embedded in the core services of the organization. Sourcing decisions on close core activities are equally critical because they determine the performance of core activities. Fill and Visser (2000) asserts that outsourcing of close core activities of an organization enables an organization to transfer or share its risks with FM organisations. Procurement or sourcing decisions on disposable activities which have indirect bearing on the core activities are also strategic to the overall success of organisations.

In most cases, the organisations that opt for outsourcing a service or services wants to be able to focus on their core competencies and expect that the organisation receiving the outsourced operation will already be operating within its own core competency. It can be argued that this is not always the case as there are some outsourcing organisations that will predatorily seek outsourced services without necessarily having the understanding in depth of that operation. A major cause of discomfort today for both parties of long-term

outsourcing relationships is that the outsource provider needs a constant source of knowledgeable workers to keep the monthly invoice on an upward trend, while the Facilities professional is asking for proactive solutions that reduce their monthly costs but increase the overall service levels to the internal customers of the enterprise (Taylor, 2008).

### **Risks in FM Procurement Options**

The successful implementation of any FM procurement tool by an organization requires a careful identification of the risk involved in various sourcing decisions. Organisations must identify the risk along the value chain of the activity and the impact of such risks on the corporate existence of firms. Of all sourcing options available to organisations, the FM providers become relevant when client involves them on the basis of outsourcing or hybrid procurement relationship. Not all risks of outsourcing are currently known (Tukel, 2006), but some of the following can be seen as potential risks: unrealized savings with a potential for increased costs, employee morale problems, over dependence on a supplier, lost corporate knowledge and future opportunities, and dissatisfied customers. It is also noted that outsourcing may fail because of inadequate requirements definition, a poor contract, lack of guidance in planning or managing an outsourcing initiative, or because of poor supplier relations. Turan (2003) also refers to sources of risks inherent in the decision to outsource as; vicarious liability for the actions of others of which you may not be aware, or in which you may not be fully involved, becoming an ignorant customer through the atrophy of internal management and technical skills, until you become unable to competently specify and manage the outsourced activity, losing the capacity to profit from the benefits of future productivity enhancement in changing industries or markets, by trading rights of first access to the outsource service provider, creating a self-imposed monopoly by emphasizing the short term transaction cost savings of having one outsource service provider over the long term strategic benefits of a healthy and competitive market to supply. Other risks associated with outsourcing as recognized by Shing (2010) include staff turnovers, redundancy in FM roles, incompleteness in FM solution by FM agencies.

Where FM services are source in-house; within an organisation, certain risks are also carried by the organisation. Such risks include high fixed overhead costs and staffing up or reducing headcount to meet fluctuating demand. It is expensive and time consuming for facilities managers to stay on top of all the latest technological advances and labour intensive functions drive focus away to other minorities. Other inherent risks presented by Shing (2010) are blank procedures, slow FM market trends, poor accountability in internal practice. Many clients are concerned with confidentiality risks associated with giving broad accountability of Facilities operations to a third party service provider while struggling thru the challenge of mitigating risks when the services are retained in-house. Risks in FM procurement can be managed by early identification of the risks peculiar to each sourcing option in relation to the FM service in view. Thorough understanding and management of identified risks through each phase of rendering such services could enhance prompt mitigation of risk consequences.

### **RESEARCH METHODS**

This study was aimed at three categories of respondents as sample of the entire population of this study, the client organisations (small, medium and large) requiring FM services, the service provider organisations and the end users of FM services. Asika (2008) define a sample as a good representative of the population. It is regarded as a specimen or part of a whole population. For the client organisation, key personnel that are involved in the decision making concerning FM procurement routes were the targeted respondents. On the part of the service providers, a list of 100 FM service provider firms was obtained from International Facilities Management Association (IFMA), Lagos state chapter from which 25 FM service providers firm were drawn at random using the table of random

numbers. A structured questionnaire was designed and three questionnaires was administered to each of the selected firms as the principal instrument for obtaining responses from the respondents. The use of the random number table was to ensure that no particular organization is given preference over the others and to avoid a cluster of samples. It will also help give a more reliable representation of data generated as it can be used to generalize the views of the entire population. Out of the 75 copies of research questionnaire distributed, 55 were completed and returned representing a 73% response rate. The returned copies were scrutinized for errors, omissions, completeness and inconsistencies and were found to be adequately completed and therefore used to carry out the analysis. Data for the study was processed and analysed with the aid of the Statistical Packages for Social Science. Frequency tables, mean item score and chi-square test were used in this study

## RESULTS AND DISCUSSION

Data collected from the questionnaire responses were analysed and presented as follows:

### Demographic Data of the Respondents

The demographic data of the respondents was investigated. The results are presented in Table 1.

**Table 1: Demographic data of respondents**

Demographic data	Frequency	%
<b>Designation of respondents</b>		
Facilities manager	20	36.4
Project manager	22	40.0
Contracts manager	12	21.8
Others	1	1.8
Total	55	100
<b>Respondents academic qualification</b>		
PhD	7	12.7
M. Sc.	5	9.1
B. Sc	26	47.3
HND/OND	17	30.9
Total	55	100
<b>Respondents professional qualification</b>		
NIOB	7	12.7
NIESV	13	23.6
IFMA	15	27.3
PMP	11	20.0
Others	9	16.4
Total	100	100

Table 1 shows the demographic details of respondents. In the designation sub-section; Project supervisors constitute the highest proportion (40.0%) of the respondents indicating their high involvement in the execution process of facilities management activities in various firms. Both facilities managers and contracts managers account for 58.2% of the total population with other designations constituting a very minute part of the total population. Table 1 further reveals that respondents with BSc academic qualification constitute the highest proportion of the total population of respondents (47.3%) meaning, they are the most encountered in organisations, respondents with the HND/OND academic qualification are next in proportion (30.9%) followed by those with PhD qualification (12.7%). This indicates that respondents with adequate academic knowledge were sought out to provide useful information for the purpose of this study.

Also shown is the professional affiliation of respondents that provided information for this study. Respondents with the IFMA affiliation constitute the highest percentage of respondents (27.3%) while respondents with the NIESV, PMP, NIOB and other profession-

al affiliations constitute 23.6%, 20.0%, 12.7% and 16.4% respectively. This shows that respondents with a working knowledge of the facilities management practice were approached to provide information to assist in this research work.

### Type of Organisations Sampled

**Table 2: Type of organisation/group of respondents**

Organisation type	Frequency	%
Client Organisation	17	30.9
FM service provider	26	47.3
End user	11	20.0
Others	1	1.8
Total	55	100

Table 2 indicates the type of organisation or group each respondent works for or belong. To assist in the generation of adequate data for the research work, three categories of organisations or group of respondents were sampled, consisting of the client organisations, the FM service providers and the end users. Respondents in the FM service provider firms constitute a major part of the total population accounting for (47.3%) while the client organisation, end users and those outside the pre-defined three groups made up the remaining (50.9%) of the total population of the study.

### Risks Inherent in the Choice of FM Procurement Routes

The primary objective of this study is to assess the risks inherent in the procurement options for facilities management services. To achieve this, this study suggests various forms of risks under each of the three procurement routes. The suggested risk factors are based on factors articulated in literature and various facilities management. Table 3 shows the list of factors presented to the respondents for assessment.

**Table 3: Potential Risk in FM Procurement Route**

Classification	Risk factor
Management Factors	Low labour productivity Overstaffing Poor accountability Poor selection partner Loss of management control Changing cultural values Poor morale/employee issues Blank procedures
Strategic Factors	Decreased flexibility Poor motivation Overdependence on third party service provider Confidentiality leaks High level of business uncertainties
Economic factors	Unreliable source of funds High cost of production Fraud Unrealised savings
Technical factors	Loss of skills Threat to data security
Quality factors	Poor quality of service Biased specification and job description

Source: Nili M. *et al.* (2013)

The likelihood of the occurrence the factors listed in table 3 for each of the procurement options for Facilities management services were assessed by the respondents using the scale 5= almost certain, 4= likely, 3= possible, 2= unlikely, 1= rare. The data obtained

from the responses were analysed and the results are presented in figures 1, 2 and 3 respectively.

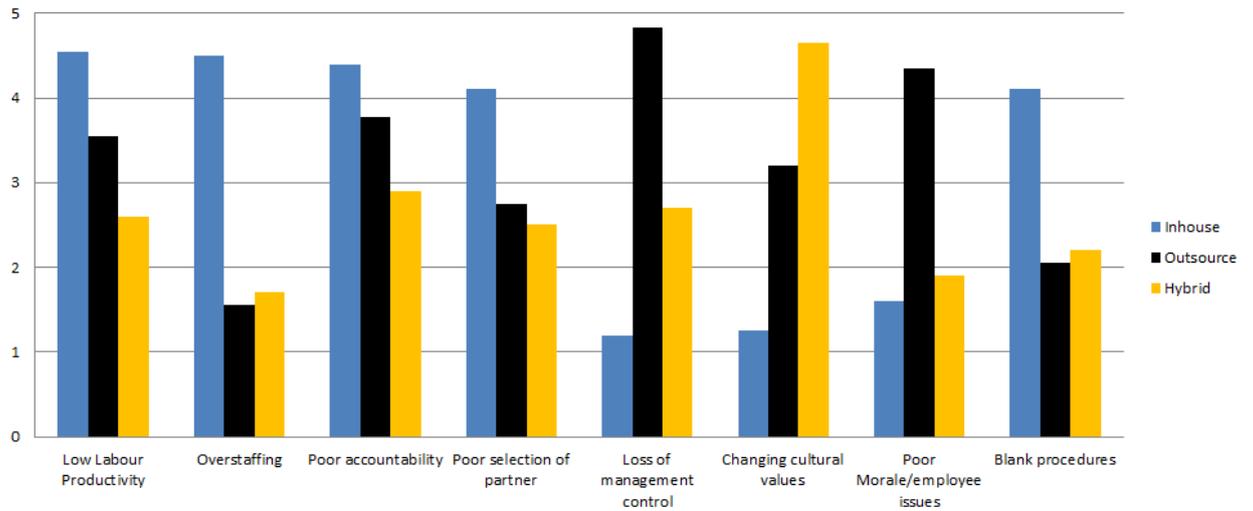


Figure 1: Management Risks Factors in FM Services Procurement Route

Fig 1 shows comparative analysis for potential management risk factors across the three FM routes of insourcing, outsourcing and hybrid. The analysis reveals that while it is almost certain that overstaffing exists in FM organisations that insource FM services, it is unlikely that this factor threatens the organisations outsourcing FM services. This implies that there is possibility of staff redundancy in organisations insourcing FM services as against the outsourced FM services provider who ensures that projected profit from the FM services been rendered at any point in time is not eroded by unwarranted overhead. Also, the analysis shows that the risk of loss of management control is a significant treat in outsourcing from services whereas the occurrence of such is rare in insourcing FM services. Furthermore, the analysis shows that change in culture and value system is almost certain a risk that will occur in the life of the FM organisation when procuring FM services through the hybrid route.

It is equally very important that when insourcing FM services, organisations needs to pay attention to the risk of low labour productivity and overstaffing. The figure shows that it is almost certain that these management risk factors occurs when insourcing FM services. It is also likely that organisations insourcing FM services may suffer the risk of poor accountability, poor selection of partners and blank procedures. This implies that organization insourcing FM services are likely to run an FM organization that does not have any documented procedure or a well-documented procedure. When outsourcing however, attention should be paid to poor morale of employee issues as this risk is likely to occur when outsourcing FM services.

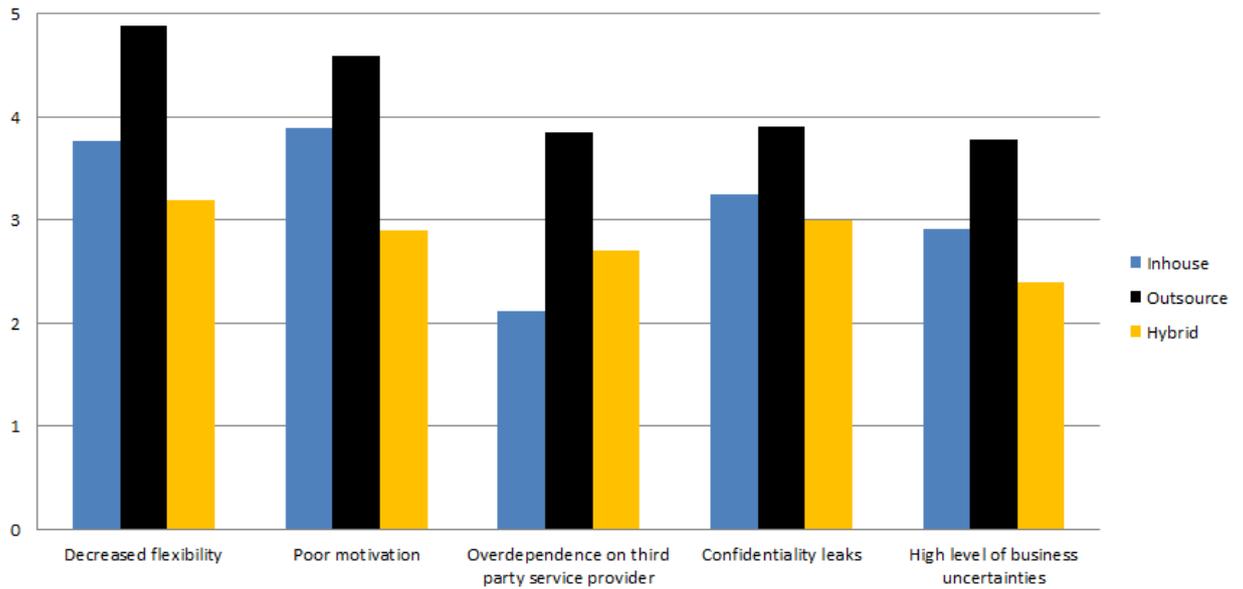


Figure 2: Strategic Risk Factors in FM Services Procurement Route

Fig 2 shows the analysis of potential strategic factors in FM procurement route. The analysis shows that while it is marginally probable that risks of poor motivation and decreased flexibility occurs in insourcing FM services, it is almost certain that the risk will occur when outsourcing FM services. The analysis also reveals that overdependence on third party service provider, confidentiality leaks and high level of business uncertainties are likely risks with significant levels of potential occurrence inherent in outsourcing FM services.

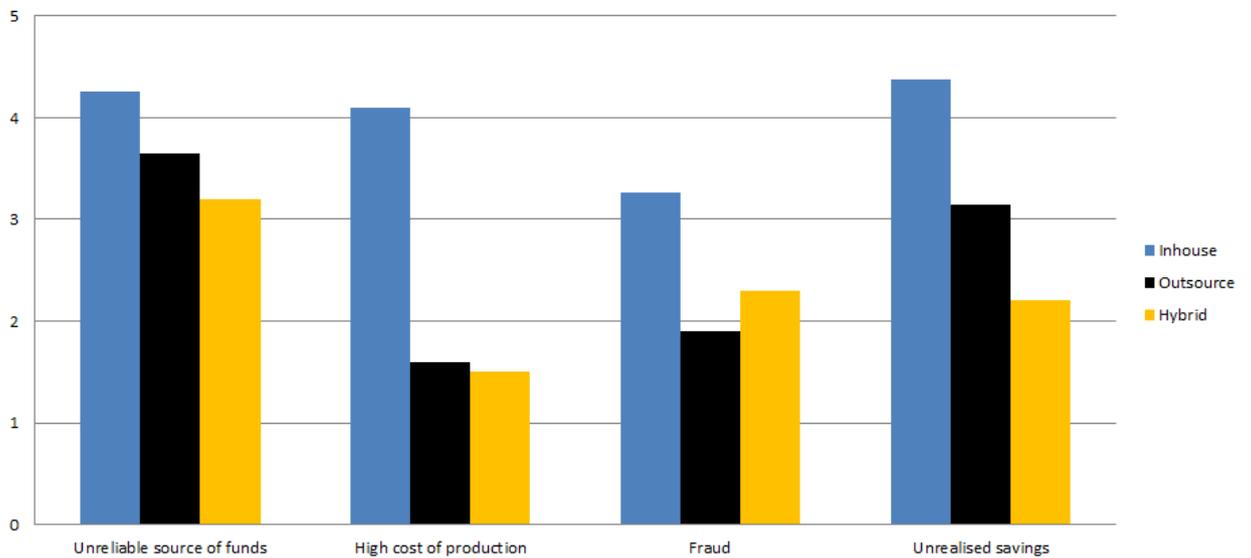


Figure 3: Economic Risk Factors in FM Services Procurement Route

In Fig 3 the analysis shows that unreliable source of funds, high cost of production and unrealised savings are risks with significant likelihood of occurrence when insourcing FM services. The occurrence of the risk of unreliable source of funds is also likely when outsourcing FM services. Meanwhile, it is equally likely that organisations insourcing FM services suffer the risks of high cost of production and fraud.

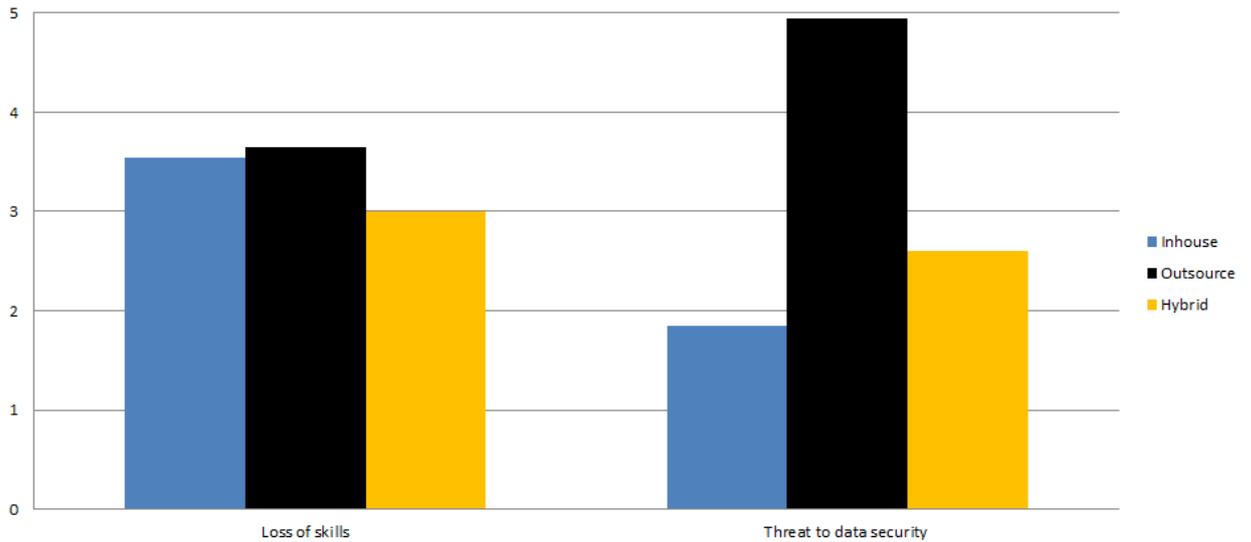


Figure 4: Technical Risk Factors in FM Services Procurement Route

Fig 4 shows the analysis for potential technical risk factors in FM procurement route. The analysis shows that the occurrence of the risk of data insecurity is almost certain when outsourcing FM services. The analysis also shows that the risks of loss of skills are likely to occur irrespective of whether FM services are insourced or outsourced. It is however unlikely that this risk factor poses any threat when insourcing FM services.

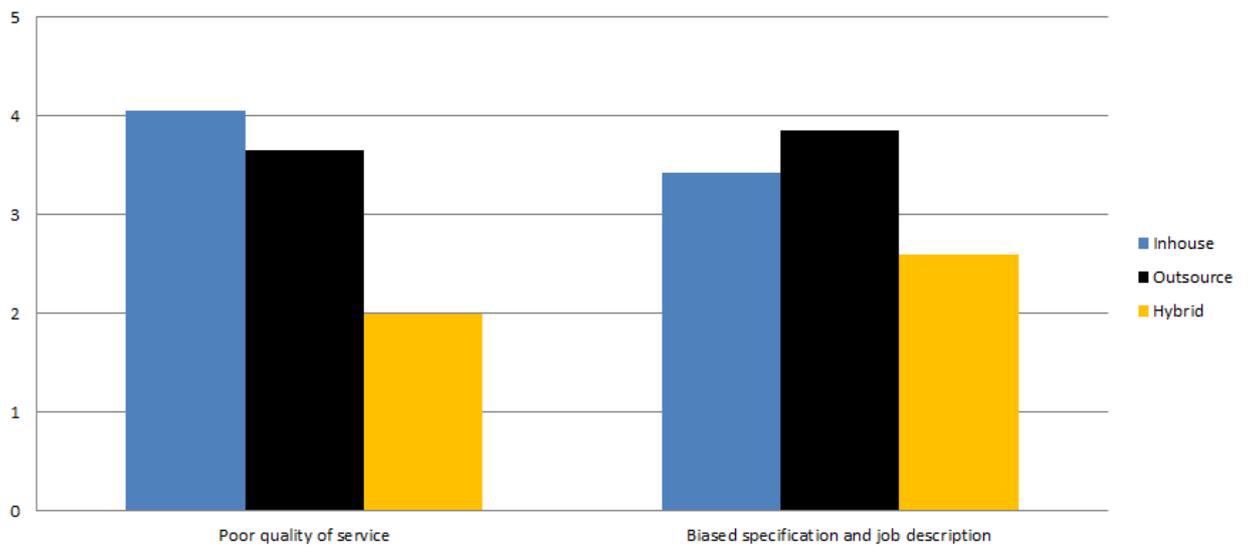


Figure 5: Quality Risk Factors in FM Services Procurement Route

Fig 5 shows the analysis for potential quality risk factors in FM procurement route. The analysis reveals that as the occurrence of poor quality of service is likely in insourcing FM services. It is also likely that the risk occurs when outsourcing together with the likelihood of occurrence of the risk of biased specification and biased job description.

**Test of Hypotheses**

To further evaluate the risk factors inherent in the procurement route of FM services, hypothesis was postulated for this study to examine if there are differences in the risk factors inherent across the procurement options. The hypothesis was stated as follows:

H<sub>0</sub>: There is no significant difference in the risk factors obtained across Facilities management procurement option.

H<sub>1</sub>: There is significant difference in the risk factors obtained across Facilities management procurement option.

Chi-square test was used to test the postulated hypothesis. The Pearson Chi-Square Asymp Sig. (2-sided) value was found to be 0.241 > 0.05. This implies that there is difference in the risk factors and the choice of Facilities management procurement option. Therefore H<sub>0</sub> is rejected and H<sub>1</sub> accepted.

### **Discussion of Findings**

This study identifies low labour productivity, poor accountability, decreased flexibility, poor motivation and unreliable source of funds as risk factors with significant level of potential occurrence across the FM services procurement route. For organisations insourcing FM services, significant risk factors with high chances of occurrence include: low labour productivity, overstaffing and poor accountability. When outsourcing however, risks with high chances of potential occurrence include: loss of management control, poor moral/employee issues, decreased flexibility, poor motivation and threat to data security. This correlates with the findings of Nili *et al.*, (2013). The authors posit poor morale/employee issues, threat to data security, unrealised savings and reduced employee loyalty as potential risk in outsourcing maintenance activities. The findings of this study also align with that of Lonsdale (2000) who identifies employee morale problems and lack of skills as significant risk factors in procurement route. For organisations with hybrid procurement approach for FM services, change in cultural values was found to be a risk with significant chances of occurrence.

### **CONCLUSION AND RECOMMENDATIONS**

This study was able to examine potential risk factors in FM procurement routes. It has been able to identify major risk factors in FM procurement routes as well as ascertain the level of potential occurrence in each of the procurement routes. Premised on detailed analysis of data collected as earlier discussed, conclusion and recommendation for this study are deduced as follows; Each of the Facilities Management procurement routes have peculiar set of risk factors that needs to be managed, organisations therefore should properly evaluate the risk factors peculiar to the procurement route by which their FM services are to be executed. For organisations insourcing FM services attention should be paid to the risk of low labour productivity, overstaffing, poor accountability, unrealised savings and unreliable source of funds. These are the top five risk factors with high likelihood of occurrence in FM insourcing. The consequences of not anticipating these set of risks in FM insourcing ranges from decreased quality of work to liquidity issues and consequently inadequate funding of Facilities management services

Organisations outsourcing FM services face the risk of threat to data security, loss of management control, decreased flexibility and poor motivation/poor employee morale. The consequences of these risks include but not limited to corporate information leak to competitors, rigid maintenance contracts even in the face of unfavourable production and economic conditions, negligence in operating assets and declining company image in the labour market. Low labour productivity and poor accountability are major risk factors that cut across all the FM procurement routes. This suggest that every organisation needs to handle these factors with utmost degree of diligence in terms of monitoring the productivity of FM team as well as regularly appraising the budgets and financial provisions allocated for the execution of FM services. Performance monitoring and control can be in form of the establishment of policies that rewards performance since this will no doubt affect employee relationship and passion for the work. Also, the measurement of FM team's productivity with regular and consistent performance benchmarking in line with the global corporate objectives of the organisation will overtime produce a valuable tool for informed management decision which can either reinforce an organisation's outsourcing relationship or enhance an in-house strategy for FM service delivery. Frequent and

regular account reconciliation and budget appraisal are effective means of controlling expenditure and realigning the focus of an organisation or a unit thereof. FM organisations should therefore adopt the practice of frequent and regular account reconciliation and budget appraisal as this will often bring to the fore available funds vis-à-vis outstanding and anticipated works for optimum prioritisation of needs and prudent execution of work.

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