

Procurement and relationship management trends in FM services

Tero J.T. Lehtonen

Helsinki University of Technology, CEM Facility Services Research
P.O. Box 9800, FI-02015 TKK
Finland
tero.t.lehtonen@tkk.fi

Anssi I. Salonen

Helsinki University of Technology, CEM Facility Services Research

Abstract

Although services are increasingly taking up a larger part of any organisation's purchasing expenditures, relatively few academic studies into buying business services are available. One important part of the business service sector is facilities management (FM) services. The aim of this paper is to recognise the procurement trends of FM services and to describe the partnership control mechanisms that contribute to the success of FM partnerships. The results are based on a questionnaire, which was carried out in Finland. As well as contributing to the supply chain and relationship management literature, this study offers potential benefits to both FM service providers and buyers in terms of how to formulate successful relationships and to improve the performance and efficiency of partnering relations.

It was found out that a similar transition towards closer relationships and bigger purchase entities is taking place in the FM context as well as in other industries. However, some exceptions were also identified. These exceptions could be explained partly by the novelty of the partnering phenomenon and partly by the operational nature of most FM services. In most cases, the choice of the partnering approach is related to the forming of wider service packets. When implementing partnering relations the role of top management is to set up the shared values and visions. Once they have established these in the organisation they do not have any remarkable role in relationship management. During the ongoing partnership, the operative level runs the daily initiative, development and problem solving based on ad hoc procedure.

Keywords: inter-organisational relationships, business services, procurement, relationship management, facilities management

Introduction

Despite the increasingly growing trend toward considering and using supply chain and relationship management as a means of creating and maintaining buyer-supplier relationships effectively, the literature on the subject is deficient some important ways. When looking at the studies intended to add to the knowledge on how to effectively operate in business markets and manage relationships, there is one sector that lacks attention, which is business services (e.g. Ellram, Tate and Billington 2004; Sheth and Sharma 1997; van der Valk, Wynstra and Axelsson 2005).

The examples and models used in academia tend to centre on the manufacturing sector and toward the physical transfer of goods. At the same time, services are increasingly taking up a larger part of any organisation's purchasing expenditures, and the role that purchasing plays within the organisation is changing: purchasing as a function is becoming more strategic (Arnold 2000; Macbeth 1994) with a smaller number of highly qualified buyers and with closer relationships with a reduced supplier base. As a consequence, the strategic processes of supply chain and relationship management are replacing the traditional function of purchasing, which focuses only on the efficient management of the workflow of goods and services supporting the manufacturing activities of the firm (Cousins 2002). These transformations have created new challenges. Since the formation and maintenance of closer relationships such as partnerships are costly and time-consuming processes (Lambert and Knemeyer 2004; Virolainen 1998) companies need to understand more thoroughly when it is worthwhile to choose a partnering approach, how partnering relations should be structured and managed and what kind of relationships they are by nature. Based on this, partnerships in the manufacturing sector have been a popular subject both in industrial practice and academic research (e.g. Ellram 1991; Landeros, Reck and Plank 1995).

Because services are usually produced in an ongoing buyer-seller interaction (Grönroos 2000), the importance of relationship issues is emphasised. In addition, as the process of purchasing services has been found to be more complex than the purchasing process of goods (Fitzsimmons, Noh and Thies 1998; Smeltzer and Ogden 2002), there is a need for research, which brings new insight into partnership sourcing in business services. This paper tries to create a deeper understanding of the above-mentioned issues in the area of facilities management (FM) services. When comparing FM services to other business services, one essential characteristic, which distinguishes them from other business services, is that they are delivered on the premises of clients (Bröchner 2001).

The aim of this study is to recognise the procurement trends of FM services and to validate the partnership control mechanisms that contribute to the success of FM partnerships. As well as contributing to the relationship management literature, this study offers potential benefits to both FM service providers and buyers in terms of how to formulate successful relationships and to improve the performance and efficiency of partnering relations. This study also serves as an outlook on the ongoing transition taking place in the purchasing of FM services and gives explanations of the motives in the background of this transition.

FM as a business service

FM services are an important part of the business service sector. From the cost perspective, the FM budget of an organisation may require up to 30 to 40 per cent of the outlay, being second in cost only to payroll (Amaratunga, Baldry and Sarshar 2000; Bon, McMahan, and Carder 1998). The importance of FM can also be seen from other perspectives. According to Amaratunga and Baldry (2002), FM is seen as being able to contribute to the performance of organisations in many ways, including having an effect on strategy, culture, control of resources, service delivery, supply chain management and, perhaps most importantly, the management of change. Other researchers illustrate the relevance of facilities performance for organisational success based on environmental differentiation as a source of competitive advantage and environmental influence on human/organisational performance (e.g. Balch 1994; Gajendran and Sabaratnam 2002). The relative importance of different business services may differ across sectors, industries and individual companies. But all companies need a workplace (i.e. a physical place and related services) to carry out their activities. Fearon and Bales (1995) found out that the FM services is the most important service category in terms of volume.

Facilities management is an umbrella term under which a wide range property and user related functions may be brought together for the benefit of the organisation as a whole and its employees (Amaratunga, Baldry and Sarshar 2000). In practice, FM can cover a broad variety of services including real estate management, financial management, change management, human resources management, health and safety and contract management, in addition to building maintenance, domestic services (such as cleaning and security) and utilities supplies (Atkin and Brooks 2000). These three last mentioned are the most visible. When thinking the role of FM, FM can be defined as a key function in managing facility resources, support services and the working environment, supporting the core business of the organisation in both the long and short term (Chotipanich 2004; Tay and Ooi 2001).

Since the late 1980s, FM has gradually gained a foothold as a service discipline and profession within the property and construction industries. Nevertheless, FM is a relatively new profession (Gilleard et al. 1994; Tay and Ooi 2001). While the profession of FM is new, the academic research and publishing of it has an even shorter history. Although the 1990s have spawned an increasing rise in serious theoretical investigation of FM (Price and Akhalghi 1999) the field of FM still remains under-researched (Nutt 1999).

In line with general business trends, everyone also in the FM context now appear to be “into partnering”. However, partnership research undertaken in the field of FM services has been scarce, and in business life the term partnering is used rather loosely to refer to a variety of different relationship types (Jones 1995; Miettinen, Ventovuori and Lehtonen 2004). On the other hand, procurement and relationship management seem to be topics with rising importance in academic FM publications (Salonen, Lehtonen and Ventovuori 2005).

The authors of this paper have approached relationship management in the FM environment from two complementary perspectives. The purpose of the study carried out by the first author was to add to the general knowledge about motives for partnership sourcing in FM services and to provide a framework for improving the management of partnering relations. The objectives of the study were to find out in which situations the partnering approach is chosen and to identify the factors that make a partnering relation a success. A qualitative case study approach was chosen as the primary research method, and six ongoing and seven dissolved relationships were analysed. The results indicate that the collaborative approach is in most cases justified by purchasing volume, and that the factors contributing to the success of a relationship are related to co-operation, communications, economical aspects and reliability (Lehtonen 2004; Lehtonen and Salonen 2005).

The second author has approached the relationship issues from a network perspective. He has been studying a triadic network over two years from its origin. The focus of the study was the forming of a partnership between a buyer and two suppliers. Research questions were centred on how to manage FM relationships and related risks. A longitudinal case study approach was selected using the action research method to carry out the actual study. The results indicate that companies do not take full advantage of the relationship management methods available. Additionally, companies face new types of risks (i.e. the relational risk) when they enter into closer FM relationships such as partnerships. All too often companies are not fully aware of these new risks and do not have proper risk management schemes (Salonen 2004a; Salonen 2004b).

Partnership sourcing

Over the last few decades, there has been a significant shift in the way organisations approach buyer-seller relationships. Recent years have seen an increased interest in buyer-supplier partnerships, which tend to be longer term, ongoing relationships involving a mutual exchange of ideas, information, and benefits (Ellram 1995). As market places have become more dynamic and competitive, earlier recommendations of arm’s length relationships with suppliers to avoid dependency and keep prices down have been replaced by an emphasis on the benefits that can be gained from close relationships.

The same kind of transition seems also to be ongoing in the procurement of FM services. Traditionally, relationships between facility service providers and clients have been based on the adversarial approach (Atkin and Brooks 2000). Services have been purchased separately for single sites and price has been the determining factor in choosing a service provider. As companies continue to

outsource non-critical activities and to reduce and trim their supplier bases, existing outsourcing contracts have been expanded, and on the other hand, also strategically more important services have been outsourced (Loosemore and Hsin 2001). As a consequence, the need to develop relationships based on a more collaborative approach has arisen (Incognito 2002), and nowadays only few would question the existence of the general trend towards using specialist service providers also in the FM context (Usher 2004).

Businesses do not enter partnerships to make friends; they enter them to gain some form of economic reward (Cullen, Johnson, and Sakano 2000). Additionally a company will remain in a partnering relation insofar as it continues to perceive it to be an efficient and equitable organisational form for its purposes (Árino and Torre 1998). Normally, interfirm collaborations contribute to value creation through several sources, including scale economies, the effective management of risk, cost efficient market entries and learning from partners. In addition, partnerships help firms to minimise transaction costs, cope with uncertain environments, reduce their dependence on resources outside their control, successfully reposition themselves in dynamic markets, share fixed costs, enhance their own core competencies, and acquire access to complementary competencies (e.g. Ireland, Hitt and Vaidyanath 2002; Nooteboom, Berger and Noorderhaven 1997). The partnership drivers fall into four categories – asset and cost efficiency, customer service enhancement, marketing advantages, and profit growth or stability (Lambert and Knemeyer 2004). However, most of these motives are derived from studies on goods or consumer markets and they seem to be slightly different from those associated with services.

It seems reasonable that the type of service impacts on the nature of exchange. For example: a customised service that is provided during a longer period of time will put emphasis on issues like stability of the supplier, sustainability of the quality of the service delivery process, collaboration aspects, and the matching of the buying firm's demand with the supplier's offer. In contrast, for a standardised service, which is only acquired once or with a low repeat frequency, the emphasis is likely to be on efficiency issues and price. The latter service purchase is of a more transactional nature, whereas the first is characterized by a larger degree of integration and thus has a more relational character (Radkevitch and van der Valk 2005). Ventovuori, Lehtonen and Miettinen (2004) found in their study that in the FM service context, a partnership approach is chosen when the strategic importance of a service is high for the client's or end-user's business, the service to be purchased is complex, there is a need to share sensitive and strategic information or the purchasing volume is high. On the other hand, the authors of this paper have found in their previous qualitative studies that in most cases the choice of the partnership approach in FM services seems to be justified only by purchasing volume.

To increase the purchasing volume, clients are currently forming wider service packets by purchasing services regionally for more than one building at a time and moving from the adversarial to the collaborative approach in managing their relationships with service providers. These decisions are a consequence of problems and costs related to the management of wide service provider bases using the adversarial approach. By bundling services or sites regionally, benefits are to be gained through the economies of scale. Thus, cost advantages are created, which service providers can convert into corresponding lower prices or higher service levels, novel technologies or innovative structures and procedures (Meneghetti and Chinese 2002). By reducing and trimming their service provider bases clients are also trying to trim their FM organisation and change the job description of in-house FM staff from routine purchasing tasks to more strategic tasks including the creation and managing of external and internal relationships, which support the overall goals of the company (cf. Kadefors and Bröchner 2004).

As a result of the re-structuring of buying organisations and supplier bases, a wide variety of different relationship forms has emerged (e.g. Webster 1992). When giving guidelines to selecting relationship type, usually only partnership sourcing and competition are discussed as discrete categories (e.g. Macbeth 1994). However, even casual observation of actual supply relationships reveals that there are different forms of partnership sourcing (e.g. from operational to strategic forms) and different forms of competition (e.g. very short-term contracting to long-term competitive contracting) (Parker and Hartley 1997). Operational partnering refers to working with several suppliers and focusing mainly on the certainty element of the relationship and process elements (Cousins 2002; Mentzer, Min and Zacharia 2000). The relationship between organisations is strategic when a firm perceives that it needs the relationship in order to be competitive in the industry and that if the partner goes out of business, the firm would have to change its competitive strategy (Johnson 1999). Based on discussion

above and the authors' prior qualitative studies it seems that the FM partnerships are by nature more operational than strategic.

Management of partnering relations

While partnerships have the potential to enhance a firm's performance, creating partnerships is challenging because of the difficulty in managing them (Ireland, Hitt and Vaidyanath 2002; Park and Ungson 2001). Working across organisational boundaries is one of the most difficult activities that managers have to accomplish, since it always involves actual or potential problems (Ford et al. 2003; Peng and Kellogg 2003). Relationship activities are difficult to manage, due to the differences in organisational goals and structures between companies, the distance involved, the inability to use hierarchies, which help in internal activities as well as the dynamics of the relationship itself (Ford and Havila 2003; Sabherwal 2003).

To gain benefits from co-operation, effective management of partnerships is necessary (Blumberg 2001; Ireland, Hitt and Vaidyanath 2002). Partners must trust each other not to take advantage of dependencies or chances for opportunistic behaviour. The structuring and control on inter-firm relations require the establishment of suitable management control systems and processes (van der Meer-Kooistra and Vosselman 2000). Different control mechanisms have an impact on different risks or perceived risks. Parties will choose the appropriate partnership control mechanisms based on their risk preference and the provided safeguard (Chiles and McMackin 1996; Ring and van de Ven 1992). A recurring source of risk in all transactions is the need to make decisions in the face of the uncertainty of accomplishing tasks that require sustained co-operation with others (Ring and van de Ven 1992). With the advent of outsourcing and the formation of closer relationships like partnerships, the risk is increasing and shifting around supply networks (Andersson and Norrman 2003; Harland, Brenchley and Walker 2003). This risk will increase as the firms develop closer ties until the firms truly integrated in their operations (Masters et al. 2004).

The problem with partnerships is the problem of creating co-operation among a collection of individuals, units or companies who share only partially congruent objectives. The two dimensions of this partnership problem are, firstly, the creation of conditions that motivate the partners to achieve the desirable or predetermined outcomes and secondly, the coordination of interdependent tasks between partners (Dekker 2004). This problem is managed using multiple relationship governance or control mechanisms. Different control mechanisms serve as the building blocks for complex structures of governance that combine elements of markets, hierarchies, and relational exchange in complementary, supplementary, or alternative ways (Cannon, Achrol and Gundlach 2000).

It is agreed to some extent that all organisational control systems consist of formal as well as social controls (Langfield-Smith and Smith 2003). Formal control consists of contractual obligations and formal organisational mechanisms for co-operation and can be subdivided into outcome and behaviour control mechanisms. Social controls, also referred to as relational governance and informal controls, are related to informal cultures and systems influencing members and are essentially based on mechanisms inducing self-regulation (Ouchi 1979). Formal controls include such mechanisms as joint goal setting, planning, command structures, authority systems, incentive systems, standard operating procedures, dispute resolution procedures, and pricing systems. Social controls include the following mechanisms: partner selection, shared values, reciprocity norms, reputations, trust, personal relationships, prior ties, and embeddedness.

Some relationship management control mechanisms have been seen as success factors (Ellram 1995; Frankel, Whipple and Frayer 1996; Whipple and Frankel 2000) or as creators of competitive advantage (Ireland, Hitt and Vaidyanath 2002) for a partnership. Ellram (1995) found in her study covering a broad range of industries that the five most important factors in a relationship for buyers were: two-way information sharing, top management support, shared goals, early communication to suppliers and suppliers adding distinctive value. Ireland, Hitt and Vaidyanath (2002) studied partnerships from the network perspective and listed following partnership management mechanisms having potential for value creation: dedicated relationship management functions, relationship portfolio management, determining the scope, partner selection, compatible strategic intents, and complimentary resources as well as a willingness to accommodate a partner's needs, conflict handling and working together at all managerial levels.

However, it is important to note that the relationships, which work successfully in one business environment, may not be as successful when transplanted elsewhere (Cox 1996). Different logics of value creation result in different levels of interdependence, requiring different degrees of mutual adaptation and adjustment (Borys and Jemison 1989). In addition, the differences in the degree of tangible and intangible elements in service industries compared to manufacturing industries may cause differences between relationship management methods (Leek, Turnbull and Naudé 2004). Thus there is good reason to expect that also the methods of management of FM partnerships will differ to some extent from the management methods delineated in general management literature. Lehtonen and Salonen (2005) found that the success of collaborative relationships between clients and FM providers seems to have some exceptions but is still based on quite similar general management methods, namely, clearly defined and mutually-agreed goals, mutual involvement in relationship development, joint problem solving, two-way information sharing, and the partners' ability to meet performance expectations.

Methodology

To solidify earlier relationship research conducted on FM field, there was a need for a descriptive survey. To answer this need and to gain a deeper understanding of the trends in procurement of FM services, and to investigate the respective importance of different management methods or success factors in establishing and maintaining partnering relations, a questionnaire was developed. The questionnaire was aimed at companies buying FM services (i.e. user or user-owner company, real estate investor, property management company). In this study, FM services mean real estate maintenance, technical maintenance, cleaning, grounds maintenance and waste management. In the questionnaire, a partnering relation was understood as a mutually beneficial relationship in which both parties are committed in the long-term to develop and maintain this two-way relationship (cf. Ellram 1995).

The questionnaire was divided to four parts. The first two parts covered the procurement of FM services. The first part of the questionnaire consisted of questions related to purchasing management and the second part of questions related to transitions in service procurement practices. The last two parts concerned the partnering approach. There were questions about motives and circumstances for partnership sourcing, and in the last part the success factors of partnering relations were investigated.

The first draft of the questionnaire was developed by the authors based on their previous studies. The precise wording of the questions was tailored to fit the FM context through a collaboration of industry experts. The purpose of this collaboration was to develop a set of items that tap each of the relevant topics and to provide an initial test of some of the measures. The first version was modified with representatives from RAKLI (The Finnish Association of Building Owners and Construction Clients), an interest group and trade association representing the most prominent real estate owners, investors and service providers in Finland. Based on their recommendations, a few questions were removed and some of questions were modified. The next version was piloted with the Senior Vice President of a Finnish real estate investment company. Based on his comments, one question was added for the final version of questionnaire.

The questionnaire was carried out in co-operation with RAKLI. The internet-based questionnaire was sent to the 50 most important buyers in the Finnish FM market. The buyers represented both public and private organisations. This was considered to cover extensively the Finnish FM market, especially as the focus of the study was on partnership sourcing.

The importance of buyers was determined using the following approximations for importance: Firstly the amount of owned square meters, and secondly, for management companies, the turnover, and for municipalities the size of the population. The identification of key informants was based on information in the databases of RAKLI. The database contains information about the buyers of FM services and people who are responsible for decisions related to relationships with FM service providers. The key informants were contacted via email and asked to respond to the survey. To improve the response rate, the importance of the survey for RAKLI and development of the FM industry were promoted. Initially we received 19 responses, and after one week of the first contact a reminder was send to those 31 informants who had not responded yet. The total response rate was 66%.

The questionnaire form was filled in anonymously. For questions covering the procurement trends, respondents were asked to answer either yes or no. In relationship management questions they were asked to rate the importance of different factors on a 5-point scale (from strongly agree to disagree) and after that to choose the most important factor of the group. The assessment was not targeted at any specific relationship by authors, which served the capturing of general trends, perceptions, and goals.

Results

The results mainly supported observations from authors' earlier qualitative studies. Nevertheless, they showed many somewhat interesting and even surprising observations. We delineate our results and discussion of our findings in this section. The conclusions from these results are covered in the next section.

According to our data, the use of partnership sourcing is a growing trend also in FM services. The results show that 67% of buyers have established or aim to establish a close partnering relation with one or more FM service providers. On the other hand, interestingly, over half of the buyer organisations (64%) did not have a sourcing strategy for FM services, which is usually used as the basis for the choice of relationship type. 77% of those who used the partnership approach had increased purchasing volume by bundling multiple sites to one service provider compared to the 45% of users of the adversarial approach. When analysing the use of the method of increasing purchasing volume via bundling of different services to one service provider, we found that 68% of partnership proponents used this technique for one or more sites. On the other hand, only 27% of users of the adversarial approach had used bundling of services for one or multiple sites. Based on this, it seems that wider service packets are positively related to partnership sourcing in FM context. The main path to increasing purchasing volume was found to be the bundling of a specific service in multiple sites to one service provider (67% of all buyers had used this during the last five years) compared to the bundling of different services to one service provider (15% had used this at a one site and 39% had formed multi-site bundled service packets).

While the reducing of the supplier base is usually associated with the partnering approach, we did not find that this was happening in the FM context. At the same time when 33% of respondents had reduced the number of their partners, 21% did not undergo such changes and 45% had increased their supplier base. So actually the overall number of supplier bases was increasing. This might be the case because 67% of the buyers had outsourced a growing number of their facilities related functions during the last five years. On the other hand, interestingly, 82% of those buyers who had reduced their supplier base had increased their outsourcing during the same period. Despite of the general increase in the supplier base, buyers still seemed to be able to reduce their in-house staff (33% of all respondents). When we analysed the data more thoroughly we found that out of those who had reduced the number of suppliers, 64% had also reduced the number of in-house staff, while 47 % out of those who had an increased supplier base had also increased in-house staff. Thus, it seems that the reducing of the number of service providers has made it possible to re-structure and trim the FM organisations.

One of the main results is that FM partnerships have some specific characteristics, and there seem to be differences between FM and general partnerships (i.e. those related to supply chain management). We defined partnerships to be mutually beneficial relationships in which both parties are committed in the long term to the development and maintenance of this two-way relationship. But our data does not support the generalisation of this view to apply to FM partnerships.

Firstly, partnerships in Finnish FM are formed in order to gain quality improvements and further the development of activities and processes. Nonetheless, in contrast to the motives for forming the partnership, the choice of partner is based mainly on price and prior experiences of working with the supplier in question. Especially the first criterion is in contrast with generally mentioned decision-making criteria, e.g. the perceived potential for long-term improvement, the compatibility of partners and a shared vision. Thus, it seems that the drivers for FM partnerships are distinct from those mentioned in context of traditional supply chain management.

Secondly, the ongoing co-operation on the strategic level was not seen as important for the success of partnership. This is in contrast to the prevailing philosophy according to which partners should have strong organisational fit. However, the strategic level input at the origin in the form of setting up the mutual vision and values for the partnership was perceived as an important management mechanism to ensure partnership success.

Thirdly, in Finnish FM, partnership benefits gained from the relationship are usually not shared proportionally with respect to the investments of the various parties, and in addition, risk sharing is not perceived to be an essential part of partnering. Besides the lack of risk sharing initiatives, parties do not have formalised risk management methods related to the alliance risk. According to our data, only 9% of respondents had a clearly stated risk management procedure.

Fourthly, our data do not support the assumption that partnership sourcing would result in long-term contracts. Only 33% of buyers practicing partnership sourcing reported the use of longer contract periods, while 61% of all buyers reported that the length of contracts had not changed.

Summarising the unique characteristics of (Finnish) FM partnerships we could state the following: Top management (i.e. strategic level) agrees on shared values and visions. Once they have introduced these to the organisation they do not have any remarkable role in the partnership. During the ongoing partnership, the operative level runs the daily initiative, development and problem solving based on ad hoc procedure.

We did expect that as FM partnerships would be distinct from those found in literature and have their unique characteristics, the management of those would also be different to some extent. It was found out in an earlier multiple-case study carried out by the first author that the successful FM partnership is managed by following relationship management mechanisms: (a) clearly defined and mutually agreed goals, (b) mutual involvement in relationship development, (c) joint problem solving, (d) two-way information sharing, and (e) the partners' ability to meet performance expectations. To analyse this statement we used several sub-constructs for each management method. The first management method, implementing "clearly defined and mutually agreed goals", was studied using two sub-constructs: "partners have shared visions and values" (average value of 4.39) and "partners have mutually-agreed upon goals for the relationship" (average value of 4.58). The values for the sub-constructs indicate that the mutually agreed goals are important for partnership success in the FM context.

Mutual involvement was studied with two sub-constructs: joint planning (3.79) and mutual relationship development (4.33). According to our data, it is important that both parties collaboratively participate in the relationship development. But we did not find support for the assumption that joint planning would be important for partnership success. Interestingly, the other aspect of joint action, joint problem solving (4.27), was found to be important for management mechanisms.

Two-way information sharing included altogether five sub-constructs in two sets. In the first set, we had two questions covering systematic information sharing: partners have defined what kind of information is shared, how often, and who is responsible for collecting the data (3.81) and partners have defined the content and frequency of different type of meetings and defined which organisational levels take part in these meetings (3.69). In the second set we had three questions covering interaction between different organisational levels. Firstly, there are meetings between the top management of the companies to set mutual strategic long-term goals and to try to discover the potential synergies between the operations of the service provider and the client (3.19). Secondly, there are meetings between the managerial levels of companies to develop the operations related to the relationship (3.75). And finally there are operational level meetings to adopt new courses of action and to solve practical problems related to service providing (4.54). Thus, it seems that only operational level meetings are seen to be important for the success of FM partnerships. On the other hand, this is in line with the operational nature of the studied FM services.

The partners' ability to meet performance expectations was studied with the following four sub-constructs: service provider takes care of problems related to its subcontractors (4.36), service provider takes care of advising new service employees (4.32), service employees have the technical know-how and skills needed to provide service (4.24) and the accomplishment of the goals is monitored and goals are updated if required (4.14). The values for these sub-constructs indicate that

the partner's ability to meet performance expectations is perceived to be an important part of successful FM partnerships.

In addition to the above mentioned management mechanisms, we discovered the emerging importance of front-line staff's capability to provide friendly customer service, and positive feedback from end-users. This is in line with the authors' previous qualitative studies. The reason is probably that FM services are delivered on the premises of the client and thus, the impact of end-users on the success of the relationship is perceived to be significant.

Conclusions

This study has attempted to clarify the procurement and relationship management trends in business services, particularly in the FM setting. It was discovered that a transition towards closer relationships and bigger purchase entities is taking place in FM in the same way as in other industries. However, some exceptions were also identified. These exceptions could be explained partly by the novelty of the partnering phenomenon in the FM context and partly by the highly operational nature of most FM services.

Since the formation and maintenance of partnerships are costly and time-consuming processes, organisations should adopt them only after rigorously conducted strategic analyses. However, there is a gap between theory and industrial practice as only few organisations have a sourcing strategy for FM services. In the future, companies should evaluate each sourcing situation more thoroughly and decide which relationship type to apply.

In contrast to the prevailing trends in other industries, there was increase in the size of supplier bases in FM. This might be partly due to the organisations outsourcing more of their facilities related functions during the last years and partly due to the shift from using a sole supplier to using a number of specialist partners. As the lack of sourcing strategies, this also mirrors the fact that the outsourcing and procurement practices of FM services are still under transformation phase.

Since organisations have not yet recognised the importance of the relational risk and formalised their management mechanisms of providing services in closer relationship, there is still strong potential for organisations to tap into by adopting relational risk management schemes and more sophisticated relationship management methods already in use in matured industries. In addition to the business perspective, relationship success in FM services includes the end-user perspective, which emphasises the importance of site-level operations. This, alongside the fact that FM services have usually only minor strategic value, could also explain why little attention is paid to the management of FM partnering relations in the strategic overall management of the company.

This study also offers potential benefits to service providers in terms of how to formulate successful relationships and manage buyers' perception of service quality. Firstly, as partnerships yield competitive advantage only through effective management, suppliers should exploit the success factors mentioned in the paper. Secondly, suppliers may reap the potential benefits of partnerships fulfilling buyer expectations by focusing to their front-line staff's friendliness and ensuring good end-user feedback.

Altogether, the study contributes to the relationship management literature from the business services point of view. The results could be exploited by both service provider and buyer organisations to improve the performance and efficiency of partnering relations. However, some limitations should be recognised and taken into account when interpreting our findings.

Limitations and further research

The results of the study may be applied to other business services to some extent, particularly to support services, which are operational by their nature. However, it is important to note that the relationships, which work successfully in one business environment, may not be as successful when transplanted elsewhere. The generalisability of the results is reduced due to four reasons. The first reason is that the study was carried out only in a single country. Thus, differences between different

markets could not be observed. The second limitation is related to our sample. Even though our response rate was exceptionally high one should also pay attention to the possible effects of nonresponse. On the other hand, although the sample covers extensively the Finnish FM service market, it is still quite small from the statistical point of view. Due to the data capturing methods used we were not able to analyse the possible differences in the answers of the early and late respondents. Additionally, the sample was formed mainly of large companies who are members of RAKLI. Therefore, the study sample may be somewhat skewed toward companies with proactive facilities management. The third reason is that the data were gathered only from the buyer side of the dyadic relationship. It has been noted in the literature that the emphasis on each control mechanism differs between suppliers and buyers (cf. Leek, Turnbull and Naudé 2004). Finally, FM relationships (in Finland) are often buyer-dominated. As a consequence, further research should include using the same questionnaire in different business environments. In addition, to be able to make stronger claims to support the supposition that particular governance mechanisms result in partnership success, one should conduct an extensive test including the mechanisms' effect on the partnerships' performance (cf. Cannon, Achrol and Gundlach 2000).

References

- Andersson, D. & A. Norrman (2003), "Managing risk when outsourcing advanced logistics," in *Proceedings of the 12th International IPSERA Conference*, 377-391.
- , D. Baldry, and M. Sarshar (2000). "Assessment of facilities management performance - what next?" *Facilities*, 18 (1/2), 66-75.
- and ---- (2002). "Performance measurement in facilities management and its relationships with management and motivation," *Facilities*, 20 (10), 327-336.
- Atkin, B. and A. Brooks (2000), *Total facilities management*. Oxford: Blackwell Science.
- Árino, A. and J. Torre (1998). "Learning from failure: Towards an evolutionary model of collaborative ventures," *Organization Science*, 9 (3), 306-325.
- Arnold, U. (2000), "New dimensions of outsourcing: a combination of transaction cost economics and the core competencies concept," *European Journal of Purchasing & Supply Management*, 6, 23-29.
- Balch, W.F. (1994), "An integrated approach to property and facilities management," *Facilities*, 12 (1), 17-22.
- Blumberg, B.F. (2001), "Cooperation contracts between embedded firms," *Organization Studies*, 22 (5), 825-852.
- Bon, R., J.F. McMahan, and P. Carder (1998), "Property performance measurement: From theory to management practice," *Facilities*, 16 (7/8), 208-214.
- Bröchner J. (2001), "Facilities management as a special case of business service management," in *Facility management and service concepts – International research seminar on real estate management 29th to 30th March 2001*, K.I. Leväinen, Ed., Helsinki University of Technology, 12-18.
- Cannon, J., R. Achrol and G. Gundlach (2000), "Contracts, norms, and plural form governance," *Academy of Marketing Science*, 28(2), 180-194.
- Chiles, T., and J. McMackin (1996), "Integrating variable risk preferences, trust, and transaction cost economics," *Academy of Management Review*, 21(1), 73-99.
- Chilton, J.J. and T. Baldry (1997). "The effects of integrated workplace strategies on commercial office space," *Facilities*, 15 (7), 187-194.
- Chotipanich, S. (2004). "Positioning facilities management," *Facilities*, 22 (13/14), 364-372.

- Cousins, P.D. (2002), "A conceptual model for managing long-term inter-organisational relationships," *European Journal of Purchasing & Supply Management*, 8 (2), 71-82.
- Cox, A. (1996). "Relational competence and strategic procurement management – Towards an entrepreneurial and contractual theory of the firm," *European Journal of Purchasing & Supply Management*, 2 (1), 57-70.
- Cullen, J., J. Johnson and T. Sakano (2000). "Success through commitment and trust: The soft side of strategic alliance management," *Journal of World Business*, 35 (3), 223-240.
- El-Haram, M.A. and A. Agapiou (2002). "The role of the facility manager in new procurement routes," *Journal of Quality in Maintenance Engineering*, 8 (2), 124-134.
- Ellram, L.M. (1991), "A managerial guideline for the development and implementation of purchasing partnerships," *International Journal of Purchasing and Materials Management*, 27 (3), 2-8.
- (1995), "Partnering pitfalls and success factors," *International Journal of Purchasing and Materials Management*, 31 (2), 36-44.
- , W.L. Tate, and C. Billington (2004), "Understanding and managing the services supply chain," *Journal of Supply Chain Management*, 40 (4), 17-32.
- Fearon, H.E. and W.A. Bales (1995), *Purchasing of nontraditional goods and services*. Tempe, AZ: Center for Advanced Purchasing Studies.
- Fitzsimmons, J.A., J. Noh, and E. Thies (1998), "Purchasing business services," *Journal of Business & Industrial Marketing*, 13 (4/5), 370-380.
- Ford, D., L.E. Gadde, H. Håkansson, and I. Snehota (2003) *Managing business relationships*. Second edition. Chichester: John Wiley & Sons.
- and V. Havila (2003) "Problems in relationships: when it all goes wrong," *19th Annual IMP Conference*, 4th-6th September, Lugano, Switzerland.
- Frankel, R., J.S. Whipple, and D.J. Frayer (1996), "Formal versus informal contracts: Achieving alliance success," *Industrial Journal of Physical Distribution & Logistics Management*, 26 (3), 47-63.
- Gilleard, D., M.W. Chan, J. Ratcliffe, and E. Pilling (1994), "The impact of facilities management in Hong Kong," in *Proceedings of the CIB W70 Tokyo Symposium*, 151-158.
- Grönroos, C. (2000), *Service management and marketing – A customer relationship management approach*. Second edition. Chichester: John Wiley & Sons.
- Harland, C., R. Brenchley, and H. Walker (2003), "Risk in supply networks," *Journal of Purchasing & Supply Management*, 9, 51-62.
- Incognito, J.D. (2002), "Outsourcing – Ensuring survival with strategic global partners," *Journal of Facilities Management*, 1 (1), 7-15.
- Ireland, R., M. Hitt, and D. Vaidyanath (2002) "Alliance management as a source of competitive advantage," *Journal of Management*, 28 (3), 413-446.
- Johnson, J.L. (1999), "Strategic integration in industrial distribution channels: Managing the interfirm relationship as a strategic asset," *Journal of the Academy of Marketing Science*, 27 (1), 4-18.
- Kadefors, A. and J. Bröchner (2004), "Building users, owners and service providers: New relations and their effects," *Facilities*, 22 (11/12), 278-283.
- Kincaid, D. (1994), "Measuring performance in facility management," *Facilities*, 12 (6), 17-20.

- Lambert, D.M. and A.M. Knemeyer (2004), "We're in this together," *Harvard Business Review*, 82 (12), 114-122.
- Landeros, R., R. Reck, and R.E. Plank (1995), "Maintaining buyer-supplier partnerships," *International Journal of Purchasing and Materials Management*, 31 (3), 3-11.
- Leek, S., P. Turnbull, and P. Naudé (2004), "A comparison of manufactures and financial services suppliers' and buyers' use of relationship management methods," *Industrial Marketing Management*, 33, 241-249.
- Lehtonen, T. (2004), "Attributes and success factors of partnering relations – A theoretical framework for facility services," *Nordic Journal of Surveying and Real Estate Research – Special Series*, 2, 31-46.
- and A. Salonen (2005), "Attributes and success factors of collaborative relationships – a case study in facility services," in *Proceedings of the 14th IPSERA Conference*, 709-719.
- Loosemore, M. and Y.Y. Hsin (2001), "Customer-focused benchmarking for facilities management," *Facilities*, 19 (13/14), 464-475.
- Macbeth, D.K. (1994), "The role of purchasing in a partnering relationship," *European Journal of Purchasing and Supply Management*, 1 (1), 19-25.
- Masters, J.K., G. Miles, D. D'Souza, and J.P. Orr (2004), "Risk propensity, trust, and transaction costs in relational contracting," *Journal of Business Strategies*, 21 (1), 47-67.
- Meneghetti, A. and D. Chinese (2002), "Perspectives on facilities management for industrial districts," *Facilities*, 20 (10), 337-348.
- Mentzer, J.T., S. Min, and Z.G. Zacharia (2000), "The nature of interfirm partnering in supply chain management," *Journal of Retailing*, 76 (4), 549-568.
- Miettinen, I., T. Ventovuori, and T. Lehtonen (2004), "Identifying the enablers of partnering: A case study in facility services," in *Proceedings of the 3rd European Research Symposium in Facilities Management*, 113-120.
- Nooteboom, B., H. Berger, and N. Noorderhaven (1997), "Effects of trust and governance on relational risk," *Academy of Management Journal*, 40 (2), 308-338.
- Ouchi, W.G. (1979), "A conceptual framework for the design of organizational control mechanisms," *Management Science*, 25 (9), 833-848.
- Park, S. and G. Ungson (2001). "Interfirm rivalry and managerial complexity: a conceptual framework of alliance failure," *Organization Science*, 12 (1), 37-53.
- Peng, T.-J. and J.L. Kellogg (2003), "Partners, resources, and management mechanisms of inter-organizational collaborative ties in non-profit organizations," *Journal of American Academy of Business*, 3 (1/2), 291-298.
- Radkevitch, U. and W. van der Valk (2005), "Buying business services through auctions: From transactional to a relational approach," in *Proceedings of 14th IPSERA Conference*, 851-863.
- Ring, P. and A.H. van de Ven (1992), "Structuring cooperative relationships," *Strategic Management Journal*, 13(7), 483-498.
- Sabherwal, R. (2003), "The evolution of coordination in outsourced software development projects: a comparison of client and vendor perspectives," *Information and organization*, 13, 153-202.
- Salonen, A. (2004a), "Dynamic view to relationship management – A case study in real estate industry," in *Proceedings of the 13th Annual IPSERA Conference*, W-657 - W-666.

- (2004b), "Managing outsourced support services: Observations from case study," *Facilities*, 22 (11/12), 317-322.
- , T. Lehtonen, and T. Ventovuori (2005), "A review and classification of empirical research in facilities management," in *Proceedings of the 4th European Research Symposium in Facilities Management*, 477-485.
- Sheth, J.N. and A. Sharma (1997), "Supplier relationships – Emerging issues and challenges," *Industrial Marketing Management*, 26 (2), 91-100.
- Smeltzer, L.R. and J.A. Ogden (2002), "Purchasing professionals' perceived differences between purchasing materials and purchasing services," *Journal of Supply Chain Management*, 38 (1), 54-70.
- Tay, L. and J.T.L. Oi (2001), "Facilities management: A "Jack of all trades?," *Facilities*, 19 (10), 357-363.
- van der Meer-Kooistra, J. and E. Vosselman (2000), "Management control of interfirm transactional relationship: the case of industrial renovation and maintenance," *Accounting, Organisations and Society*, 25, 51-77.
- van der Valk, W., F. Wynstra, and B. Axelsson (2005), "The trouble with purchasing services," in *Proceedings of the 14th IPSERA Conference*, 1033-1045.
- Ventovuori, T., T. Lehtonen, and I. Miettinen (2004), "Selecting relationship type in facility services," in *Proceedings of the CIBW70 Hong Kong International Symposium*, 385-393.
- Virolainen, V.-M. (1998), "Motives, circumstances, and success factors in partnership sourcing," doctoral dissertation, Lappeenranta University of Technology.
- Webster, F.E. Jr. (1992), "The changing role of marketing in the corporation," *Journal of Marketing*, 56 (4), 1-17.
- Whipple, J.M. and R. Frankel (2000), "Strategic alliance success factors," *Journal of Supply Chain Management*, 36 (3), 21-28.
- Yik, F. and J. Lai (2005), "The trend of outsourcing for building services operation and maintenance in Hong Kong," *Facilities*, 23 (1/2), 63-72.