

## Client-Provider Relationship Processes in a Facility Management Context – A Typology

**Authors:** Jonas Molin, Henrik Agndal & Björn Axelsson

### Introduction

Whilst much of the debate on outsourcing focuses on off-shoring manufacturing to low-cost countries, in many firms an increasing range of functions are externalized. These include, e.g., R&D, IT, administration, facilities management and even the sourcing function as such (Agndal et al., 2007; Nordin et al., 2006). As a consequence, both the economic impact and the number of service client-provider relationships increase.

Studies on service procurement, however, are scarce relative to the sizeable body of literature on purchasing of goods (Nordin et al., 2006). In particular, service procurement processes and strategies remain poorly explored (Jackson et al., 1995; Fitzsimmons et al., 1998; Axelsson and Wynstra, 2002; Smeltzer and Ogden, 2002; Ellram et al., 2004; Murray and Kotabe, 1999), and longitudinal research that follows service procurement processes over time is rare (Nordin et al., 2006). Therefore, in spite of their economic impact for many firms, we know relatively little about how the nature of service client-provider relationships varies between contexts (Dyer et al., 1998; Gadde and Snehota, 2000) and, in particular, how they form over time. The aim of this paper is to begin addressing these shortcomings. More specifically, its purpose is to create a dynamic typology of service client-provider relationships.

We contribute to the debate on service sourcing by responding to several recent calls for research: (1) Wynstra et al. (2006), Van der Walk (2007) and Selviaridis (2008) argue that service sourcing research should recognize that a vital aspect of the service sourcing process takes place during the production/delivery phase. We recognize this argument by adopting a longitudinal approach spanning the entire purchasing process. (2) Among others, Nordin et al. (2006) argue that comparative research is important to overcome the relative theoretical immaturity of the service sourcing field. We respond to this call by contrasting public and private outsourcing. (3) In a review of service sourcing studies, Nordin et al. (2006) note that extant research suffers from a lack of theoretical grounding. We address this criticism by adopting the concept *relational attitude* as a way to create a relationship typology relevant to the context of service sourcing. (4) Nordin et al. (2006) also note an imbalance in regard to the types of services in focus in extant research; while IT and logistics outsourcing have received most of the attention, other services remain largely unexplored. To respond to this shortcoming, we focus on the sourcing of facilities management (FM) services.

### FM services

Facilities management is “*the integration of processes within an organization to maintain and develop the agreed services which support and improve the effectiveness of its primary activities*” European Committee for Standardization (CEN, 2006). Although the relative importance of FM varies greatly between industries, in many firms FM budgets constitute up to 30-40 % of total spend (Amaratunga, Baldry and Sarshar, 2000), and impacts the performance of organizations in many ways, e.g. regarding control of resources, service delivery, and supply chain management (Amaratunga and Baldry, 2002).

FM can cover a wide range of services, often divided into “hard services” and “soft services”. Hard services include asset and estate management, e.g. maintaining air conditioning systems. Soft services, on the other hand, include services like security, reception, cleaning and monitoring the performance of contractors such as builders and electricians. FM-contracts may also include support services that ensure availability and smooth operation for the buying party. The FM-business is increasingly characterized by the provision of integrated services, i.e. the bundling of several services needed to operate functions, as industrial buyers look for operational reliability involving minimum effort to allow them to focus on their own core activities (Varcoe, 2000). With increasingly complex integrated service solutions, service providers seek to grow either through acquisitions or by establishing strategic alliances to expand their scope of service delivery.

### Operational partnerships in FM

Depending on business, FM services vary quite considerably in business impact, complexity and risk. In some cases, FM services may even be vital to core business processes (Price, 2004). To many firms, however, outsourced FM services tend to be less critical (cf. Bröchner, 2004). Services of lower importance to core business processes are typically regarded as suitable for more transactional relationships, while services of high importance are viewed suitable for a deeper, relational approach (Axelsson and Wynstra, 2002).

Formatted: Tabs: 17,2 cm,  
Right + Not at 8 cm + 16 cm

Formatted: Font: (Default)  
Arial, 8 pt

Formatted: Left: 1,9 cm,  
Right: 1,9 cm, Top: 1,9 cm,  
Bottom: 1,9 cm, Width: 21  
cm, Height: 29,7 cm

Nonetheless, most FM contracts are based on a partnering approach since service clients often prefer complex integrated FM solutions (Atkin and Brooks, 2000). FM services are also often characterized by single sourcing contracts, something that is typically associated with strategic relationships (e.g. Gadde and Snehota, 2000; Jonsson, 2004), this can be explained by the fact that the FM service provider takes a functional responsibility over a longer period of time (cf. Jonsson, 2004).

During the last few decades, forms of cooperation that combine aspects of the traditional market and hierarchy (Coase, 1937; Williamson, 1975) have been frequently discussed in academia (e.g., Thorelli, 1986; Webster, 1992). Such intermediate governance structures are usually referred to as hybrids and take different shapes, of which partnering is one (Webster, 1992). There is an extensive body of literature on partnering (e.g., Mohr and Spekman, 1994; Vlosky and Wilson, 1997; Tuten and Urban, 2001), but few researchers have conceptualized and classified different degrees of partnering. Mentzer, Soonhong, Zacharia (2000) differentiate between operational and strategic partnering, where an *operational partner* is viewed as a close association intended to improve short term efficiency and effectiveness, without the need for sharing strategic information. Cousins (2002) offers an equivalent concept to operational partnering, namely *tactical collaboration*. Drawing on Mentzer, Soonhong, Zacharia (2000), Ventovuori and Lehtonen (2006) develop a classification of relationship types in an FM services context, identifying *arm's length*, *operational partnering* and *strategic partnering relationships*.

According to Ventovuori and Lehtonen (2006) operational partnering is a type of relationship used in more complex FM contexts where there is a need for a more collaborative approach as opposed to utilizing an arm's length approach for single orders of simpler services. Such contexts include bundling of services or the outsourcing of more strategic services where both higher uncertainty and dependency contribute to a greater need for control. Accordingly, operational partnering has been found to be frequently used in situations where the strategic importance is limited as well as for buying more specialized and/or technically demanding FM services.

## Relational Attitude

Studies on relational exchanges have been found these to be heterogeneous and equivocal in nature (Wilson, 1995). For example, mature business relationships may vary in relational orientation over time (Pillai and Sharma, 2003). Similarly, studies on operational partnerships indicate that they may vary in orientation, partly dictated by the nature of the service and its perceived importance to the service client.

Callaghan et al. (1995) argue that the relational orientation adopted at a certain point in time depends on the *relational attitude* of one or both parties. The term relational attitude refers to the proneness to spend time and resources on a relationship (cf. de Ruyter and Wetzels, 2000). The relational attitude is not static, however. Rather it may change over time, largely depending on *developments* in the relationship at a managerial level. In the same sense as the exchange orientation may vary over time in terms of being more transactional or more relational due to dynamic contexts (Pillai and Sharma, 2003), we assume that an exchange party's relational attitude can be more or less deliberately tuned into different modes of collaborative intent depending on variable contexts affecting either party's objectives during the course of the relationship. Consequently, in the same way that it is difficult to create dichotomies of relationships (e.g. Webster Jr., 1992), we argue that operational partnering approaches should be viewed along a continuum ranging between more relational and more distant forms.

According to Callaghan et al. (1995) relational attitude is affected by four dimensions: trust, bonding, reciprocity and empathy. *Trust* is an essential component of relational attitude (Wilson, 1995) and develops when the counterpart is found to be honest, fair, willing to reduce the other party's uncertainty and acts in a timely manner. Furthermore, trust is important in improving communication in terms of degree and informality and increases mutual commitment, thus creating a cooperative climate with less conflict (Morgan and Hunt, 1994). *Bonding* is similar to Morgan and Hunt's (1994) commitment variable and is the dimension of a business relationship which results in the parties acting in a unified manner towards agreed goals (Callaghan et al., 1995). Partners tend to end up in relationships where there is a more or less even distribution of outcomes (de Ruyter and Wetzels, 2000). *Reciprocity* is the dimension of a relationship addressing the tendency of either party to provide favors or make allowances for the other in return for similar favors or allowances to be received at a later date. Finally, *empathy* refers to the ability of the parties to take into account the perspective of the other party, i.e. to understand one another's needs. Thus, the Callaghan et al. (1995) framework was applied for its perceived usefulness in evaluating and illustrating different modes of collaborative intent over time and subsequently as a helpful tool in identifying the dimensions which could be assigned to ideal types of operational partnering. The remainder of this paper is devoted to the development of

a dynamic typology of operational relationships. First, the method of an empirical enquiry into the phenomenon is discussed, followed by the presentation and analysis of that study. Finally some conclusions are presented and limitations are addressed.

## Method

The research presented here represents two case studies of operational FM partnership processes, which were followed in real time for about one-and-a-half years. For this type of exploratory and longitudinal approach (Pettigrew, 1985), Gummesson (2000) and Bryman (2002) argue that observations and interviews are suitable methods of data collection. Participant observation has advantages when contextual sensitivity is sought and is better at revealing tacit knowledge and unexpected behavior, while interviews are better at explaining certain types of emotions and underlying causes for some actions. Therefore, besides formally planned interviews that were recorded and transcribed, numerous informal meetings and discussions with both service client and provider representatives contributed to an understanding of the events and processes involved in the two relationships. To cover early stages of the purchasing processes, retrospective interviews and the study of documents such as contracts and requests for quotations were also carried out. Meetings and observations were documented by detailed note taking.

The *private* case was followed from September 2006 to January 2008, but the timeframe of study includes the complete purchasing process from the initial tendering process in the fall of 2003. Participant observation was carried out on 20 occasions, ten of which involving client provider interaction, and ten of which involving internal development meetings as the client. The duration of the observations was typically (in 15 cases) one working day. Eight formal, semi-structured interviews of 90-120 minutes were performed, six with the client and two with the service provider. In addition, documents such as the contract, the RFQ, reports and strategic documents have been studied.

The *public* case was followed from August 2006 to January 2008, while the total time frame starts with the tendering process during 2005. Ten participant observations and eight semi-structured interviews of 90-120 minutes were carried out, of which five were with the client's representatives and three with the service provider. All participant observations involved both client and provider representatives. Eight of these were 4-5 hour contract meetings at a strategic level attended by the management team. The remaining two observations included a two-day contract conference where strategic, tactical and operational managers participated, and a four-hour tactical level meeting. As in the private case, extensive complementary studies of various documents were conducted.

During the course of the research the buyers' relational attitudes were qualitatively assessed utilizing the four subcategories trust, bonding, reciprocity and empathy. A holistic approach considering all sources of input was used and at the end of the data collection phase a time scheme for each case was developed (see figures 1 and 2) to illustrate variations in relational attitudes. The assessment the relational attitude was done approximately every three months and regularly discussed with both buyer and service provider representatives in each case. The graphs in figures 1 and 2 are not the result of exact measures and should be viewed as a means to illustrate variations in relational attitudes over time.

## Two cases of managing integrated FM contracts

This paper compares two cases of managing the outsourcing of integrated FM solutions with regard to differences in relational attitudes adopted by the clients over time. Here, the focus lies on the delivery phase, i.e. activities taking place after signing the contract.

The following two cases are examples of direct single sourcing deals (Jonsson, 2004) running for a period of five years, which implies that they should be viewed as strategic partnerships according to Ventovuori and Lehtonen (2006). However, neither of these relationships is viewed as strategic by the client companies, nor are they managed as arm's length relationships. Rather, these client-provider relationships show closest resemblance to operational partnering (Mentzer, Soonhong, Zacharia, 2000; Ventovuori and Lehtonen, 2006), since both involve complex bundled FM contracts. However, although being operational partnerships with many similarities, the relational attitude of the clients differ due to marked differences in earlier FM-outsourcing experiences and formal requirements of the tendering process.

### The Private case

In the private case, PrivBuy was looking for a partner to overtake a service company providing FM as well as Human Resources (HR) services in 16 different service areas. The foundation for the tendering was a broadly formulated specification and specific Service Level Agreements were to be formulated by the help of the winning service provider. A main underlying cause for initiating an outsourcing process was the problem of accomplishing a businesslike culture when interacting with an internal organization. Thus, except for improved cost effectiveness and scale economies, management hoped to achieve increased focus on development of existing service delivery processes, access to appropriate competencies and a general development of the buying organization.

The supplier evaluation process included two potential suppliers who had both approached the client offering their services for about two years prior to the outsourcing decision. While one service provider offered a standardized model for the delivery of services the other was regarded as more willing to adjust to the particular demands of the client. The former alternative was chosen since it was characterized by a more flexible and outspoken partner approach in which development efforts were to be mutually evaluated in dialogue. This appeared to fit better with the client's relative immaturity in buying services and a culture with largely independent business units from top down. In addition, the chosen partner had better experience with regards to "softer" services such as salary, health care and security services.

The first year (2004) was characterized by a gradual establishment of the ordering organization and routines at PrivBuy and service delivery processes at QualServ. The change of employer from PrivBuy to QualServ for 180 employees in January 2004 was followed by a year where new organizational structures and routines were gradually established. In many ways it was also a shift or new mix of company cultures. An important part of this initial process was to find and establish the delivery processes for each service and therefore work in the first six months was focused on establishing Service Level Agreements (SLA)<sup>1</sup>. Administrative routines were evaluated together with QualServ and joint decisions were made whether to alter or establish entirely new ones. For example, there was a basic need to formalize the purchasing process with regards to services in PrivBuy's organization. This was a challenging task since there were no established invoicing routines in the sense that internal organizations invoiced each other. Instead this was solved as estimated amounts in the form of accounting transactions sorted out on a managerial level. Consequently, no one at PrivBuy could give an accurate and detailed picture of the service needs internally, since no one really reflected on the consequences or costs of "hiring" the internal service company, or for bypassing them and purchase services from external providers in cases where the internal services were unsatisfactory.

During the second year focus was on developing the partnership, e.g. three partnership development days were held. As a result of these activities the services were gradually reorganized into new service areas and a discussion to reorganize the buying organization into two core areas FM (real estate and workplace services) and HR services was initiated. Representatives of both parties agreed that the first two years were characterized by a very nice and open positively growing partnership climate. Of course there were adjustment problems but these were always solved in a constructive and rewarding manner: "...no one expected a trouble free journey..." (Controller). Thus, the two first years were characterized by mutual adaptation and cooperation and a strong relational attitude from both parties.

The intention for 2006 was to develop the partnership into a fully functional purchasing orientation where PrivBuy finally was to let go of control at all levels in the organization and focus on proactively managing the contract. However, at the end of 2005 and the beginning of 2006 it was obvious for PrivBuy that something happened at QualServ. In a short period of time the two top managers with responsibility for the PrivBuy contract resigned. Soon PrivBuy sensed a change in attitude on a managerial level while the partnering relations remained more or less unchanged on a more operative level, i.e. for each service area. For example, the information exchange at the managerial level worsened remarkably when QualServ suddenly outsourced salary services to a third party. According to PrivBuy's HR-manager this caused unnecessary unrest and uncertainty which could have been avoided with a more open climate.

At about the same time ServInc started to make claims for additional payments due to additional savings of 20 percent which ServInc meant was thanks to their accomplishments. PrivBuy, on the other hand, meant that the growth in demand for internal services after the outsourcing could explain why the additional savings appeared greater than they actually were. However, PrivBuy did not rule out that some of the savings were thanks to improved processes but to motivate any additional payments, QualServ would have to present sound facts. In June 2006 the pricing negotiations turned into outright conflict when QualServ managers started making statements in the press about their accomplishments. PrivBuy initiated a crisis meeting where PrivBuy

<sup>1</sup> A Service Level Agreements is a method of specifying or defining the contents of services or as in this case a service area (Hiles, 1993). The service delivery is then evaluated based on the contents of the SLA and possible deviations good or bad lay the foundation for alterations of the SLA which is often renegotiated on a regular basis (usually annually).

declared that conflicts were expected to be handled within the partnership and not in public. In August a new round of negotiations took place, further emphasizing the relationally harmful status quo – unless QualServ could present some solid facts there would be no extra payments.

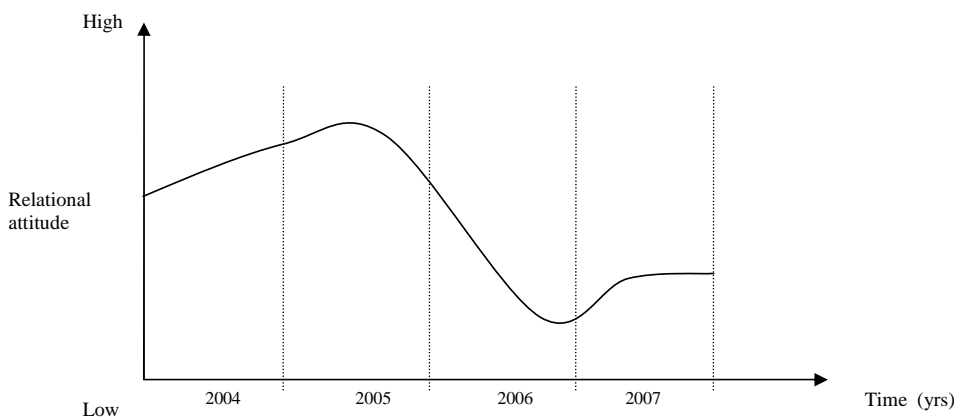
During the fall and winter of 2006, the uncertainty in the relation peaked when sales rumors regarding QualServ were added to the already strained relation. PrivBuy even discussed the option of terminating the contract in advance due to these uncertainties. After several attempts a compromise was eventually agreed upon regarding indexed price adjustments for 2006. The main disagreement of how to interpret the contracted pricing model remained unsolved and it was agreed that further discussions had to be better in line with the contents of the existing contract. In December QualServ was bought by a financially strong risk consortium with the aim of further developing the focus on FM services. This fit well with the separation process of FM and HR services earlier initiated and the atmosphere of relationship improved. While QualServ enthusiastically proposed further development projects, PrivBuy was quite content that the worst turbulence had ended. From PrivBuy's point of view 2006 was largely seen as a lost year with regard to partnership development and the transition towards a fully functional contract with greater freedom for QualServ to act was never realized.

2007 was to become a period mainly where PrivBuy directed its focus on internal FM development rather than partnership development efforts. For example, only a fraction of the total floor space of PrivBuy's buildings is included in the deal with QualServ and the efficiency improvement potential for a standardized FM-concept were found to be considerable. Already during 2006 PrivBuy had utilized cancelled partner development days to initiate an internal development process towards formulating a focused FM-strategy and vision to be thoroughly prepared for the upcoming purchasing of FM-services for 2009-2014. An expert FM-consultant firm was contacted already in January and an extensive FM-development project without the participation of QualServ was run from May 2007 to January 2008. In parallel with the above, established routines in the QualServ-partnership were upheld, and FM development projects were supported as long as they could contribute to PrivBuy's new focus, also provided they were in line with the FM-standardization ambitions. As a result of the earlier initiated change towards separating FM and HR-services all third party contracts with QualServ as middleman were signed directly with those parties actually performing these services.

Analysis

Inspired by Pillai and Sharma (2003) the below figure is an attempt to illustrate the mode of the client's relational attitude in the relationship over time. The relational attitude is assumed to reflect the client's change in relational preference over the course of time. Relational preference has been found to be affected by antecedents such as industry structure, decision-making culture, decision making-structure, tolerance for risk and the nature of purchase (Sheth and Shah, 2003).

Figure 2: PrivBuy's relational attitude in the operational partnerships over time



Since PrivBuy's intent was joint development, the relational attitude was high from the start. During the tendering process a belief in QualServ's abilities evolved within PrivBuy. The two first years of the contract were characterized by growing relations and mutually high relational attitude. Representatives of both parties describe the gradual development of trust towards an open and constructive partnership climate during an intense phase of mutual organizational development. Strong bonds were built on managerial level.

The subsequent changes in management at QualServ in the fall of 2005 became a turning point for the relationship. The atmosphere on management level became strained and the focus on mutual development was replaced by a financially focused and more distant relationship approach initiated by QualServ as interpreted by PrivBuy. It was obvious that top management at QualServ was not content with the distribution of outcomes. A prolonged disagreement on how contractual payment terms should be interpreted into reasonable financial compensations for QualServ meant that mutual development efforts eventually was halted in the fall of 2006. At this time sales rumors started to appear which further emphasized PrivBuy's uncertainties regarding QualServ. During this processes deterioration in all four relational attitude dimensions were indicated in both interviews and observations.

Eventually, the financial disagreements were solved in a compromise solution and a new owner of QualServ was announced which meant a boost to QualServ which proposed several development programs for PrivBuy during 2007. Although PrivBuy felt relieved and relations improved after a period of conflict and uncertainty, PrivBuy's trust in QualServ never recovered to the levels expressed during the first two years of the contract. Therefore PrivBuy limited joint development efforts and focused on an internal FM-development project, including the formulation of an FM-vision and strategy, eventually announcing the cancellation of the contract according to plan, preparing for a new and more formalized tender during the last year of the contract.

## The Public case

Originally, FM related services were first outsourced by GovBuy between 2000 and 2005. One of the main lessons from the evaluation of this first outsourcing period was that the dialogue with the service provider had to become prompter and more critical. Scorecards had to be introduced.

During 2005, the second contract period (2006-2010) was put out to tender in a formalized manner in accordance with the Public Law of Procurement. An RFQ including in total 19 well specified Service Level Agreements grouped into 15 major service areas served as the foundation of the tendering process. In addition, added orders were an element of the contract including for example yearly plant revisions. Five potential partners were selected for further negotiations which were later narrowed down to two, including the existing provider. The final decision was, however, in favor of a new provider (ServInc), since they were believed to have better capabilities to develop the service deliveries. GovBuy, largely busy investing large amounts of time and resources in its core processes for the five years to come, put high hopes on its well-developed RFQ and clearly communicated its desire to have a "distant" partnership where ServInc was expected to fulfill functional responsibilities including development efforts for the service areas and the transfer of 109 workers as independently as possible. The need for a problem-free solution was GovBuy's main mantra.

The transition period from the old provider to ServInc proved more difficult than expected when the old provider refused to communicate with its competitor and meant that all communication had to involve GovBuy. Eventually this dispute was settled, but during the process valuable time and information was lost, which meant more work for both GovBuy and ServInc. Another problem was the worsened employment terms for employees involved. During the first period of outsourcing, employees had kept the same benefits as they had when employed by GovBuy. ServInc, however, decided to renegotiate union agreements in accordance with existing service industry standards, which was a change for the worse for employees and as a result ServInc had to spend much time and resources on negotiating with the Labor Unions involved during the first year. For example, ServInc's organization was not finalized until April. After a stormy spring, union negotiations were still in progress but halted due to the need to focus on the upcoming summer maintenance period of the plant.

At a management meeting in September 2006, to which ServInc's top management had been invited, GovBuy harshly communicated the need for ServInc to make assessments and make decisions in a more independent manner. GovBuy's organization was adjusted for the contracted agreement and had let go of the tasks ServInc was expected to perform and GovBuy perceived that they had to support ServInc to an extent that was not satisfactory. Operatively, GovBuy performed well in most areas but in terms of agreed

developments, change management efforts and improvements very little had happened in terms of creating a problem-free solution for GovBuy as agreed. GovBuy questioned the lack of support from ServInc's central competence centers and a management report including key figures of the developments of the overall contract and each service area had not yet been realized. ServInc, on the other hand, reported adjustment problems, partly due to the difficult transfer of employees. It was more difficult than expected to create an entrepreneurial spirit, to make people more flexible and interested in working in different areas where the need was most immediate. Due to the above ServInc's central management initiated a restart project and promised additional resources to develop its organization in several areas such as the implementation of a business process system and the hiring of a new local manager.

In December 2006 the parties jointly reflected on the first year together. The overall assessment of both parties was that communication had to be improved. For example, ServInc criticized that service needs in GovBuy's organization were communicated in an uncoordinated manner from virtually all levels of the organization which made it impossible for ServInc to provide successful feedback, and as a result undesired distrust affected relations badly on an operative level. In addition, GovBuy criticized ServInc for not providing feedback on agreed areas of improvements since September. GovBuy meant that they could have helped more if they had received information about perceived deficiencies. In terms of development, GovBuy viewed 2006 as a lost year since all focus had been directed on getting every service area fully operational.

In February 2007 ServInc hired a new manager. In contrast to the former manager, she encouraged tactical and operational level managers to work more independently and to avoid consulting the strategic level of management on a daily basis. In accordance with this, she avoided attending meetings at tactical and operational level and instead allocated time to meet strategic level representatives from GovBuy providing them with information and feedback on a regular basis. This probably contributed to the improved atmosphere observed during 2007.

In March, GovBuy presented the conclusions of an audit report which pointed at four main shortcomings with regards to the contract: unclear organization, a management system not fully operational, underdeveloped SLAs, incomplete integration according to GovBuy's instructions. A re-audit was to take place in the fall. This put further pressure on ServInc which presented a report in April on what measures had been in the restart project. Although not yet fully implemented, it largely dealt with the deficiencies presented in the audit report. During the spring, ServInc continued working to meet requirements as specified in the audit and the organization grew to 129 employees. Furthermore, problems of poor communication and attendance by GovBuy representatives at SLA meetings on operational level were identified.

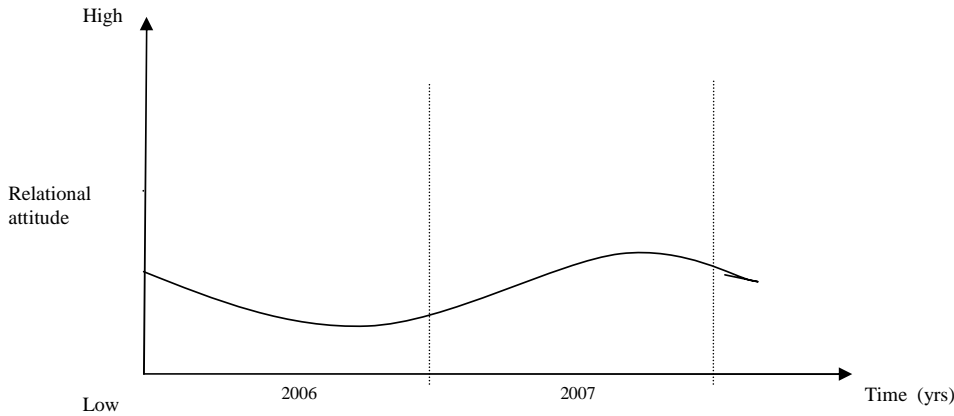
After providing GovBuy with satisfactory additional services during the most extensive summer maintenance period ever performed at the plant, ServInc and GovBuy jointly arranged a two day conference at the end of September 2007 with the aim of creating better communication and understanding between the parties. All representatives of management groups on tactical and operational level met to discuss how communication between parties could be improved. This initiative was highly appreciated and it was clear that perceptions of the importance of operational meetings were highly varied. While some service areas held operational meetings on a monthly basis as intended, other service areas met only once or twice a year and there were no preset agendas regarding what should be discussed. Further, the decision pyramid (strategic, tactical and operational levels) was poorly communicated by management on both sides and many participants either had not heard or understood what types of decisions and responsibilities were to be performed at each level. Generally, parties on both sides communicated difficulties in understanding each other's needs and the joint potential for improvement was recognized.

At the managerial level, ServInc was yet again put under pressure during the fall and winter of 2007. Although ServInc showed signs of continuous improvement—e.g. its business system was finally approved in the re-audit—as well as mutual communication, GovBuy kept putting pressure on ServInc, at least that is how it was interpreted by ServInc. In a follow-up of the set-up recommendations for the outsourcing period 2006-2010 these were found to be met at a rate of 70 percent, the main deviation being a development project of a particular service area which had not been undertaken. It was clear that ServInc had hoped for a better evaluation and when GovBuy announced a new follow-up in January 2008, particularly aimed at scrutinizing financial goals, the contents of invoices, and the rate and content of added orders to the main contract, ServInc's management felt strained. GovBuy's purchasing manager, on the other hand, meant that these kinds of follow ups were primarily for internal purposes compared to a supplier audit, and therefore the provider/supplier need not be fully informed of its purpose.

### *Analysis*

A prompter and more critical dialogue to achieve a problem-free functional contract solution was GovBuy's goal when changing providers for the second five-year period of FM outsourcing. During the formal tendering process much effort was put into declaring the need for a partner with the ability to independently and proactively provide solutions with a minimum of involvement from GovBuy. Therefore, the relational preference was quite low from the start and the need for a more distant relational attitude was communicated.

Figure 1: GovBuy's relational attitude in the operational partnerships over time



The first year was a disappointment in terms of development of the service areas, largely due to problems related to the overtaking of employees experienced by the provider. After ServInc had added more resources to the contract and hired a new manager, GovBuy's satisfaction grew and client-supplier interaction and dialogue improved during 2007. ServInc's improvement efforts increased GovBuy's trust in ServInc's abilities and greater bonding was observed as a result of ServInc's new manager. Adjusting to supplier audit remarks and showing continuous improvement nurturing better relations with GovBuy was a positive boost for the relationship. Gradually, GovBuy's proneness to help in terms of allowing more time to improve communication at all levels indicated a more positive relational attitude during the three first quarters of 2007.

Referring to the above it was tough for ServInc to receive the results of yet another evaluation from GovBuy in the late fall of 2007 indicating only 70 percent goal fulfillment with regard to GovBuy's expectations. From ServInc's point of view it was clear that GovBuy's could have shown greater empathy and understanding. GovBuy, on the other hand, referring to newly discovered indications of consistently receiving too large invoices for added orders announced their intention to perform a financial evaluation. The worries expressed by both GovBuy and ServInc regarding each other's intentions indicated that the relational attitude was again lowering.

**Conclusions**

Although FM services constitute an important share of annual spend of the client firms in this study, FM services are not among the top cost centers. On the other hand, similar to the findings of Fearon and Bales (1995) in both cases FM is among the most important business service categories in terms of volume, which means FM is viewed as an activity with great savings potential. According to existing relational classifications both cases are examples of operational partnering orientations (Mentzer, Soonhong, Zacharia, 2000; Ventovuori and Lehtonen, 2006). However, their classifications do not capture the dynamics of the management of our studied relationships. Rather, in the research reported here, we have tried to illustrate the variability of relational attitude over time. We have discussed how relational attitude is related to the conditions underlying a client's motives for adopting a particular orientation with its suppliers. Our cases show that operational partnering may assume quite different cooperative modes during the course of an outsourcing process.

Based on the findings that operational partnerships may vary considerably in terms of the client's relational attitude we propose a typology consisting of Evolutionary Operational Partnering (EOP) and Routine

Operational Partnering (ROP). The typology was developed based on the different expectations on interaction as expressed by GovBuy and PrivBuy in the provider selection phase and as communicated in contracts. The dimensions of interaction were gradually identified when comparing cases. The typology should be viewed as dynamic, i.e. it represents the endpoints of a continuum, along which relationships may be characterized differently at different points in time (see Table 1).

Table 1. Evolutionary and Routine Operational Partnering as Endpoints of a Continuum.

<i>Dimensions of interaction</i>	<b>Evolutionary Partnering (EOP)</b>	<b>Operational Partnering (ROP)</b>
Communication	Frequent. Premature interfaces. Risk for information overload as well as information scarcity	Focused and well developed communicational interfaces.
Contract	Broadly formulated. Economic goals based on an estimated baseline jointly agreed upon. Difficult to allocate historic costs to specific service areas.	Specific formulations. Economic goals based on earlier outsourcing experiences.
Buying organization	Jointly developed with FM-provider.	Already established. May be revised and adjusted in case of new provider.
Service Level Agreements	Broadly formulated. Developed jointly with service provider.	Specifically formulated. Revisions and further development during the course of the contract.
Routines	Not in place. Needs to be developed and implemented.	Largely in place due to prior outsourcing experience. Smooth implementation expected.
Performance monitoring	Less formal. Qualitative. Word-of-mouth. Oral reports and meeting records. Buyer less demanding in demanding regular written reports. No formal audit processes.	Formal. Quantitative. Written quarterly management reports expected by the buyer, including quality measures for each SLA, financial status, scorecards, planned and executed changes, etc. Regular supplier audits and re-audits.
Adaptation/Customization	Buyer more prone to demand customized services. Risk for lock-in effects.	Buyer more prone to demand standardized services. Keep it simple.
FM-strategy and vision	Not formulated. An "idea" vaguely communicated in client's organization	Formulated but not necessarily communicated in client's organization.
Client's relational attitude	High. Needs help in developing its service buying organization. Prepared to invest time and resources to achieve future savings.	Low. Expects services to be delivered at required standards as independently as possible by the service provider, neither at better nor worse qualities than expected requiring minimum client effort.

By the help of our typology purchasing managers should be able to identify what characteristics to expect depending on approach chosen, an idea of how much resources need to be spent depending on the desired type of operational partnership. Practitioners in both researched cases referred to their different relationships as "partnerships" without clear distinctions. While the concept of operational partnering usually connotes a relational orientation lacking strategic content, the EOP and ROP concepts, however, illustrate that the relational content can be quite different depending on the context surrounding an FM outsourcing venture. Thus, the typology could serve as a useful tool for practitioners when deciding on a suitable operational partnering approach and also to communicate what this means in terms of expected degree of buyer-supplier interaction. It should be pointed out, however, that the EOP and ROP are stereotypical endpoints between which the status of a operational partnership is likely to vary in dynamic contexts. In short, EOP is characterized by more frequent interaction and although development efforts are expected to be lead by the service provider the buyer is prepared to take an active part in joint development efforts towards better services deliveries. ROP, on the other hand, is characterized by less frequent interaction according to pre-established interfaces and routines. The provider is expected to deliver at predefined standards requiring a minimum of buyer involvement in terms of time and resources.

An important limitation of this research must be recognized. The vast amount of data has been reduced to describe main events, and we cannot claim to present a complete picture of the processes involved. Further, the extent to which the model may be transferred to other contexts is questionable. Therefore, future research should examine its validity for other services and industry contexts, e.g. by conducting further case studies. Furthermore, a survey testing the applicability of the typology should be performed.

## References

- Amaratunga, D., Baldry, D., Sarshar, M., (2000), Assessment of facilities management – what next? *Facilities*, Vol 18, No 1/2, pp 66-75.
- Axelsson, B. and Wynstra, F. (2002), *Buying Business Services*, John Wiley & Sons
- Bröchner, J., Olsson, H., and Sinik, D. (2004), Serviced offices: Capabilities for FM coordination, *Facilities*, Vol. 22, No. 3-4, pp. 74-78
- Callaghan, M.B., McPhail, J., and Yau, O. H. M. (1995), *Dimensions of a Relationship Marketing Orientation – An Empirical Exposition*, in World Marketing Congress, Ken Grant and Ian Walker, Eds. Melbourne Australia: Academy of marketing Science. VII-II, 1059-66
- Coase, R (1937), The nature of the firm., In *Economica*, Vol 4 No. 16, Nov.
- Cousins, P.D. (2002), A conceptual model for managing long-term inter-organisational relationships, *European Journal of Purchasing & Supply Management* 8, 71-82
- CEN (2006), *Facility Management – Part 1: Terms and definitions*, SS-EN 15221-2:2006
- De Ruyter, K., Wetzels, M., (2000), The Marketing-Finance Interface: A Relational Exchange Perspective, *Journal of Business Research*, 50, pp 209-215
- Dyer, J.H., Cho, D.S., and Chu, W. (1998), Strategic supplier segmentation: The next “best practice” in supply chain management, *California Management Review*, Vol. 40, No. 2, pp. 57-77
- Ellram, L.M., Tate, W.L., and Billington, C. (2004), Understanding and managing the services supply chain, *Journal of Supply Chain Management*, Vol. 40, No 4, pp. 17-32.
- Fearon, H.E. and Bales, W.A. (1995), *Purchasing of nontraditional goods and services*, Tempe: Center for Advanced Purchasing Studies
- Fitzsimmons, J.A., Noh, J., Thies, E. (1998), Purchasing business services, *Journal of Business & industrial Marketing*, Vol. 13, No. 4/5, pp.370-380.
- Gadde, L-E. and Snehota, I. (2000), Making the most of supplier relationships, *Industrial Marketing Management*, Vol. 29, No. 4, pp. 305-316.
- Gummesson, E. (2000), *Qualitative Methods in Management Research*, Sage
- Hiles, A. (1993), *Service Level Agreements: Managing Cost and Quality in Service Relationships*, Chapman & Hall, London
- Håkansson, H. and Snehota, I. (1995), *Developing relationships in business networks*, London: Routledge
- Jackson, R.W., Neidell, L.A., and Lunsford, D.A. (1995), An empirical investigation of the differences in goods and services as perceived by organizational buyers, *Industrial Marketing Management*, Vol. 24, No. 2, pp. 99-108
- Jonsson, S. (2005), Strategic sourcing in the age of e-business : prerequisites in manufacturing industries. Vol. 1, Dissertation, Linköping University.
- Mentzer, J.T., Min, S., and Zacharia, Z.G. (2000), The nature of interfirm partnering in supply chain management, *Journal of Retailing*, Vol. 76, No.4, pp.549-568.
- Mohr, J., and Spekman, R. (1994), Characteristics of partnership success: Partnership attributes, communication behavior, and conflict resolution techniques, *Strategic Management Journal*, Vol. 15, No. 2, pp. 135-152.
- Morgan, R.M. and Hunt, S.D., (1994), The Commitment-Trust Theory of Relationship Marketing, *Journal of Marketing*, Vol 58, pp. 20-38.
- Murray, J.Y., Kotabe, M. (1999), "Sourcing strategies of US service companies: a modified transaction-cost analysis", *Strategic Management Journal*, Vol. 20 pp.791-809.
- Nordin, F., Agndal, H., Lindberg, N., (2006), The Sourcing of Business Services - An Overview of Empirical Research, Conference paper at the 15th Annual IPSERA conference 2006.
- Pettigrew, A.M., (1985). *The Awakening Giant: Continuity and Change in ICI* , Basil Blackwell, Oxford.
- Pillai, K.G., and Sharma, A. (2003), "Mature Relationships: Why Does Relational Orientation Turn into Transactional Orientation?", *Industrial Marketing Management*, 32, 8, 643-651.
- Price, I. (2004), Business critical FM, *Facilities*, Vol. 22, pp. 353-358.
- Selviaridis, K. 2008. *The Process of Service Definition in Third Party Logistics Relationships*. PhD- thesis. School of Management. Lancaster University.
- Smeltzer, L.R. and Ogden, J.A. (2002), Purchasing professionals' perceived differences between purchasing materials and purchasing services, *Journal of Supply Chain Management*, Vol 38, No. 1, pp. 54-70.
- Thorelli, H.B. (1986), Networks: Between markets and hierarchies, *Strategic Management Journal*, Vol. 7, No. 1, pp. 37-51.

- Tuten, T.L., and Urban, D.J. (2001), An expanded model of business-to-business partnership formation and success, *Industrial Marketing Management*, Vol. 30., pp. 149-164.
- Van der Walk, W. (2007). Buyer-Seller Interaction Patterns During Ongoing Service Exchange. Erasmus Research Institute of Management. RSM Erasmus University, Rotterdam.
- Varcoe, B. (2000), "Implications for facility management of the changing business climate", *Facilities*, Vol 18 Nos 10-12, pp 383-91.
- Ventovuori, T., and Lehtonen, T. (2006), Alternative models for the management of FM services – an empirical investigation, *Journal of Corporate Real Estate*, Vol 8., No. 2., pp. 73-90.
- Webster, F.E. Jr. (1992), The changing role of marketing in the corporation, *Journal of Marketing*, Vol. 56, No. 4, pp. 1-17.
- Williamson, O.E. (1975), *Markets and hierarchies: Analysis and antitrust implications*, New York: Free Press.
- Wilson, E.J., and Vlosky, R.P. (1997), Partnering Relationship Success: Building Theory from Case Study Research, *Journal of Business Research*, Vol. 39., pp. 59-70.
- Wynstra, F., Axelsson, B. & Van der Walk, W. 2006. An application-based classification to understand buyer supplier interaction in business services. *International Journal of Service Industry Management*, Vol 17, No 5. pp. 474-96.