SERVICE PROVISION TRENDS OF FACILITY MANAGEMENT IN NORTHERN EUROPE

Antti Tuomela  Jukka Puhto
SERVICE PROVISION TRENDS OF FACILITY MANAGEMENT IN NORTHERN EUROPE

Antti Tuomela  Jukka Puhto
FOREWORD

The research paper is part of a larger research project called “Contracts of Facility and Property Management Services in Finland” taking place at Helsinki University of Technology in the Laboratory of Construction Economics and Management. The main objective of the larger research project is to develop Finnish management service purchasing methods and contractual usage.

The management team of the project, Contracts of Facility and Property Management Services in Finland, is composed of:

Tiina Tanninen-Ahonen, Tekes
Tapani Väljä, Sponda Oyj (Chairman)
Hannu Soikkeli, YIT Rapido Kiinteistöpalvelut Oy
Jorma Äikää, SOK Kiinteistötoiminnot
Jukka Tammisto, Nordea Pankki Suomi Oyj
Kari Sundqvist, ISS Suomi Oy
Matti Malmberg, ABB Oy
Mikko Salla, Nokia Oyj
Professor Jouko Kankainen, Helsinki University of Technology

Contracts of Facility and Property Management Services in Finland – research project is part of the Rembrand –technology program of Tekes (the National Technology Agency). The Rembrand - Real Estate Management technology programme will promote the Finnish property and construction sector by focusing on the services it provides.

The research paper strives to convey some of the information which has been asked from abroad. The report describes the quantitute and some of the distinctions of the Finnish facility management market. Added to the general description of real estate sector the experiences, opinions, requirements and expectations of the Finnish facility management services are being characterised. The common trends of organisations and the current market for management services are being reviewed on the basis of semi-constructed interviews done for the Contracts of Facility and Property Management Services in Finland -project.

In Espoo December 2001

Antti Tuomela
TABLE OF CONTENTS

FOREWORD ....................................................................................................................... 3

TABLE OF CONTENTS ........................................................................................................ 4

ABBREVIATIONS ................................................................................................................. 6

1 INTRODUCTION ............................................................................................................... 7

2 OBJECTIVES .................................................................................................................. 8

3 CHANGING FACILITY MANAGEMENT ENVIRONMENT .............................................. 13

4 TRENDS AND ORGANIZATIONS ACCORDING TO THE THEME INTERVIEWS ......... 47

5 SERVICE PRODUCTS ...................................................................................................... 29

6 OUTSOURCING ............................................................................................................... 21

7 MANAGEMENT CONTRACTS ......................................................................................... 36

8 OBJECTIVES ................................................................................................................ 8

9 AIM OF THE STUDY ....................................................................................................... 8

10 METHODS OF THE STUDY ........................................................................................ 8

11 RESTRICTIONS ............................................................................................................. 8

12 INTERVIEWS ................................................................................................................ 9

13 Planning ....................................................................................................................... 9

14 Participated interviewees and organizations................................................................. 9

15 Implementation ............................................................................................................ 11

16 Reliability of the results .............................................................................................. 12

17 THE OUTLINE OF THE THESIS STUDY ................................................................... 12

18 OUTSOURCING ........................................................................................................... 21

19 Extensions of outsourcing .......................................................................................... 21

20 History of Outsourcing in Scandinavia ...................................................................... 22

21 The benefits of outsourcing ....................................................................................... 24

22 Outsourced activities in the Northern Europe .............................................................. 25

23 SERVICE PRODUCTS ................................................................................................... 29

24 Types of service provisions ....................................................................................... 30

25 Managing agent ........................................................................................................... 31

26 Managing contractor ................................................................................................. 32

27 Total facilities management ....................................................................................... 32

28 The use of different service provision models ........................................................... 35

29 MANAGEMENT CONTRACTS ...................................................................................... 36

30 Tendering and specifications ..................................................................................... 37

31 Duties and execution ................................................................................................. 38

32 Quality definitions .................................................................................................... 39

33 Goals and performance indicators .......................................................................... 42

34 Management fees ..................................................................................................... 44

35 Contract lengths ....................................................................................................... 45

36 OUTSOURCING TRENDS ............................................................................................ 56

37 General observations ............................................................................................... 56

38 THE HISTORIES OF PURCHASING MANAGEMENT SERVICES ................................. 47

39 MANAGEMENT ACTIVITIES ON THE BASIS OF THE INTERVIEWS ......................... 47

40 Hierarchy of three real estate management viewpoints ............................................. 47

41 Facility Management ................................................................................................. 48

42 ORGANIZATIONAL TRENDS IN NORTHERN EUROPE ........................................ 49

43 Real Estate Investment Organizations ....................................................................... 49

44 Corporate Real Estate Units ..................................................................................... 52

45 OUTSOURCING TRENDS ............................................................................................ 56

46 General observations ............................................................................................... 56
4.4.2 Balancing between outsourcing and “insourcing” ............................................................57
4.4.3 The benefits and deficiencies of outsourcing ...............................................................58
4.4.4 Future outsourcing trends in the Northern Europe ........................................................58

4.5 SERVICE PACKAGES IN NORTHERN EUROPE .............................................................................61
4.5.1 Demand for service packages.............................................................................................61
4.5.2 Service provision models according to the interviewees ....................................................62
4.5.3 Finding a perfect model......................................................................................................67
4.5.4 Local distinctions for the different service provisions........................................................68

4.6 MANAGEMENT CONTRACTS .....................................................................................................69
4.6.1 Importance of partnering....................................................................................................69
4.6.2 Tendering............................................................................................................................70
4.6.3 Duties....................................................................................................................................71
4.6.4 Quality definitions...............................................................................................................73
4.6.5 Goals and performance measurements................................................................................74
4.6.6 Management fees..............................................................................................................75
4.6.7 Contract lengths.................................................................................................................76

5 CONCLUSIONS ....................................................................................................................................77
5.1 TRENDS IN THE NORTHERN EUROPE.........................................................................................77
5.2 OUTSOURCING TRENDS ............................................................................................................78
5.3 SERVICE PACKAGE TRENDS ......................................................................................................80
5.4 MANAGEMENT CONTRACTS .....................................................................................................81
5.5 THE EVOLUTION OF FACILITY MANAGEMENT IN NORTHERN EUROPE.......................................83

REFERENCES .......................................................................................................................................85

APPENDICES ........................................................................................................................................90

APPENDICES
Appendix 1: Skanska-Ericsson Outsourcing News Release
Appendix 2: Skandia-JonesLangLaSalle Outsourcing deal
Appendix 3: Skanska Exporting Facilities Management
Appendix 4: Functions Under Members Management (BIFM)
Appendix 5: In-house vs. Contract Functions (BIFM)
Appendix 6: Outsourced activities in Sweden
Appendix 7: Questionnaire
Appendix 8: Semi-constructed Interviews
### ABBREVIATIONS

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Full Form</th>
</tr>
</thead>
<tbody>
<tr>
<td>AM</td>
<td>Asset Management</td>
</tr>
<tr>
<td>BIFM</td>
<td>British Institute of Facilities Management</td>
</tr>
<tr>
<td>CFM</td>
<td>Center for Facilities Management</td>
</tr>
<tr>
<td>CIOB</td>
<td>Chartered Institute of Building</td>
</tr>
<tr>
<td>CRE</td>
<td>Corporate Real Estate</td>
</tr>
<tr>
<td>CREM</td>
<td>Corporate Real Estate Management</td>
</tr>
<tr>
<td>DAREM</td>
<td>Danish Real Estate Management Association</td>
</tr>
<tr>
<td>EuroFM</td>
<td>European Facility Management Association</td>
</tr>
<tr>
<td>FIFMA</td>
<td>Finnish Chapter of International Facility Management Association</td>
</tr>
<tr>
<td>FM</td>
<td>Facility Management</td>
</tr>
<tr>
<td>FREF</td>
<td>Finnish Real Estate Federation</td>
</tr>
<tr>
<td>HUT</td>
<td>Helsinki University of Technology</td>
</tr>
<tr>
<td>IFMA</td>
<td>International Facility Management Association</td>
</tr>
<tr>
<td>IT</td>
<td>Information Technology</td>
</tr>
<tr>
<td>KPI</td>
<td>Key Performance Indicator</td>
</tr>
<tr>
<td>PACE</td>
<td>Property Advisers to the Civil Estate</td>
</tr>
<tr>
<td>PM</td>
<td>Property Management</td>
</tr>
<tr>
<td>PR</td>
<td>Public Relations</td>
</tr>
<tr>
<td>RE</td>
<td>Real Estate</td>
</tr>
<tr>
<td>REM</td>
<td>Real Estate Management</td>
</tr>
<tr>
<td>RFP</td>
<td>Request for Proposal</td>
</tr>
<tr>
<td>SLA</td>
<td>Service Level Agreement</td>
</tr>
<tr>
<td>TFM</td>
<td>Total Facilities Management</td>
</tr>
<tr>
<td>TUPE</td>
<td>Transfer of Undertaking (Protection of Employment) Regulations 1981</td>
</tr>
<tr>
<td>VAT</td>
<td>Value Added Tax</td>
</tr>
</tbody>
</table>
1 INTRODUCTION

The management methods of modern facilities are comparatively recent in many parts of Northern Europe. The British facility and property management services have its history but in Scandinavia the novel methods of real estate management have been thought professionally for only some time.

The global boom of mergers and alliances has created new needs to study the local practical dissimilarities and distinctions. In order to cope in the new business environment, to reach supranational success and make unanimous management decisions, the minor contributors have to be known.

The real estate management business is changing rapidly. The British and North American companies are merging all over the globe and recently especially in the different sections of Northern Europe. Global interaction is increasing and business knowledge is moving over.
2 OBJECTIVES

2.1 Aim of the study
The aim of the thesis is to find out the general distinctions and used service provision models in Northern Europe. The goals for the thesis are to clarify:

- the different real estate management cultures in the target countries and to make general conclusions and define the existing real estate organizations
- the used organization models in Scandinavia and in the UK
- the existing and future trends in the Scandinavian real estate management business
- the used service packages in the different target countries
- the used management contract models in the different target countries
- the different purchasing methods of management services in each target country.

2.2 Methods of the study
The methods of the study were a literature review and a semi-constructed interview survey. These methods were used on the basis of local information for each country.

The theoretical survey was made on the basis of literature, theories about management structures and business concepts. Because of the shortage of Scandinavian facility management literature, the survey mainly focused on British and American literature. The interview survey was based on questionnaire development meetings with project teams. In the six group sessions all research parties developed the questionnaire so that the outcome would have had become as integrated as possible. The actual interviews were made as personal interviews in each target country except for two telephone interviews with Swedish interviewees.

2.3 Restrictions
This study deals mainly with the changing facility management environment of Scandinavia added with Finland, Scandinavia, and how the western real estate management trends, in this study the British, are influencing the countries. The Scandinavian, countries are dealt mostly from the Finnish point of view.

In most cases the Scandinavian countries are dealt as one concept; Denmark, Finland, Norway and Sweden, in order to simplify the entity and general distinctions. Northern Europe concept in the thesis contains the fore mentioned Scandinavian countries and the UK.

The research deals mainly with the facility management and its general trends of service provision. At the same time some general issues from American culture are being added to explain the background of facility management. Also other points of view of real estate management, property and asset management, are being dealt with explaining the local trends and distinctions.
2.4 Interviews

2.4.1 Planning

The intention of the research was to identify two very different factual entities. The project was started by TAC Group which aimed to study very different things from the thesis point of view. In the beginning the two projects had very similar goals and result needs from the fields of outsourcing and organizational structures.

While the planning phase proceeded, the TAC project moved further away towards operational level management and technology. On the other hand, the facility and property management contracts project received more contract-related details.

In the end, the goals and the handled issues of the two projects were very dissimilar. The main focus of the TAC project was the technical management issues and the thesis project focused to the service provision and management contracts of FM. The integrating process of two very different questionnaires to one entity turned out to be very problematic. The questionnaire can be seen as Appendix 7.

As an addition to the questionnaire for personal interviews, a preliminary questionnaire was made to ease the efforts of the interviewees. The primary aim with preliminary enquiry was to collect the data that was expected to be hard to recollect, mainly quantitative information like costs per square meters etc.

2.4.2 Participated interviewees and organizations

The interviews were done as personal and telephone interviews during the summer of 2000. The interviewed people and organizations were selected for the mutual purposes of the thesis and the “TAC After Sales Market Research 2000” -projects. The primary target groups for the interviews were local real estate executives, management service providers and specialized consultants from the field of facility management.

A total of 43 interviewees were interviewed in each target country. The following number of interviews was allocated to the following target countries. The countries are presented in a chronological order:

- Finland 10 interviews
- Norway 10 interviews
- UK 7 interviews
- Sweden 10 interviews
- Denmark 6 interviews.

After the planning phase, the primary target group of TAC was the Scandinavian operation managers. The interviewees were mostly existing TAC customers and people who were noticed in a way or another by the local TAC managers.
The management contracts – project’s primary target group was the management and strategic level executives and different specialists from the field of facility and property management contracts. Because of the overrun need in gratification of two projects, the interviewees were selected for the mutual purposes for the both projects. The aim was to get interviewees from as wide range as possible. The optimal subject was considered to be a person or a group of persons who had broad experiences from both technical and management areas.

The problem turned out to be the fair contacts in the local markets. The local TAC After Sales contacts were used as much as possible. As expected the contacts were bound to the operation managers and other technically oriented people. In the worst cases the contacts for the thesis project were mainly found from the Internet and by talking to receptionists.

The interviewee line-up (Appendix 8) turned out to be very different between the target countries. From the extremely technical Norway to a very management organization-oriented UK, the assembly was very colorful. The interviewees were from different kinds of organizations and from different activity levels of real estate management. Even though the target selection’s point of departure was the management and strategic level interviewees the end result was very different – sixteen operational level managers (Figure 1).

![Figure 1. The organization types represented by the interviewees](image)

From the thesis’ point of view, the only people with expertise in the field of management contracts were mostly from management organizations – management service providers. In order to get an objective view from the facilities management service provision, so that both client and supplier sides are to be interviewed, the research gives comparatively one-sided results from the supplier point of view.

But despite the biased results, the management organizations were the most likely ones to have experiences and discernment of the local management markets. The primary goal was to analyze the local management markets and service supply.
2.4.3 Implementation

The implementation of the TAC project and the thesis study were integrated into a one ensemble by using the same questionnaire and interviews for both projects. In theory the questionnaire contained two separate questionnaires but in practice it was dealt as one.

The interviewees were primarily approached with e-mails, with the preliminary questionnaires attached. The hit-ratio of answers was expected (about 20%). The rest was reached by telephone calls. The interviewee list in the beginning was very different from the final one. Because of the summer holiday season or the short notice, about half of the originally planned and contacted interviewees were not able to set the appointments.

The implementation stage started in the end of May 2000 from Finland. The very first interviews were supposed to test the questionnaire made with the project group of TAC. The fact that the one and same questionnaire was suitable for all the different kinds of organizations was quickly discovered.

Because of HUT’s late participation on the project, the Finnish interviews 5-16 of June 2000 were overlooked on behalf of the thesis project’s goals. Because of the background information and co-researches in Finland, only one interviewee was interviewed on the management contract issues.

Even though the interviewees were selected with an eye to both projects, some problems did occur on the road. In order to cover all the questions the arranged 1-1½ hour long appointments were not long enough. Rough judgment was used to cover the areas on which the interviewees were thought to have the most expertise.

The interviews that had two persons from one organization at the same time were relatively easy, but they did not quite serve the purpose. In these two cases, the foremen lead the interviews and the associates mostly listened. The associates mostly agreed with the foremen’s opinions so therefore the answers were counted as two in the statistical presentations.

Added to the linguistic problems some cultural problems were experienced. The local traditions, in Scandinavia, have formed super-ordinate concepts in some handled areas. For example the facility and property management are being dealt as one in some cultures. In Finland it is called “Real Estate Management” (kiinteistöjohtaminen) which in the UK has a slightly different meaning. The local terms and industry distinctions should have been studied a bit better.

The implementation revealed that the questionnaires should have been drafted with more research experience. The questions in the main questionnaire should have been more specific. For example outsourcing was dealt and understood as one phenomenon containing out-tasking and partnering outsourcing as well.

The framing of the questions should have been very different between the interviewees. For example while asking about the demand for service packages, the operational level managers of corporate and owner organizations had to justify their present occupations. Obviously none of them answered that service providers should manage the services instead of them. In outsourcing cases, the operational level managers are rarely asked their opinion about the deals and the justification of the whole process.
2.4.4 Reliability of the results

The statistically presented results are not completely valid. The interviewee-shot does not represent any specific group working in the industry. Therefore the statistical results are merely trend setting by nature. Despite the varying shot the presented results are suppose to agree with general comments of the interviewees.

Even when the results are trend setting by nature, only charts and numbers do not plot the handled issues. In most of the cases companies do not usually use only one listed model. Instead they use lots of different models and combinations of them, which are very hard to display either graphically or in a general text from. Companies that have to manage millions of square meters in thousands of locations cannot point out one way of doing operational level management and purchasing services.

The semi-constructed interview results focused mainly on the general assumptions by the 44 interviewees and the “newsworthy” statements and discoveries. Most of the presented issues were drawn as a conclusion of the interviews.

2.5 The outline of the thesis study

The structure of the thesis consists of five chapters (Figure 2). The first chapter “Introduction” identifies the background, research interests and project stakeholders of the study. Chapter 2 defines aims, methodology, the reliability of the results and implementation of the project. Chapter 3 creates a theoretical framework for the study on the basis of a literature review and existing information of general information, outsourcing, service packages and management contracts. Chapter 4 forms the empirical part of the thesis. Total of 43 semi-constructed interviews are being compared to the theoretical literature review. Conclusions of both literature review (Chapter 3) and semi-constructed interviews are represented in Chapter 5.

Figure 2. Overview and contents of the thesis
3 CHANGING FACILITY MANAGEMENT ENVIRONMENT

3.1 Historical background

A certain kind of real estate management (REM) can be traced far back in history. The very first form of real estate management, corporate real estate management (CREM), was formed in the beginning of 1900’s within the early industrial organizations. Ever since then the REM has been under tremendous development and deformation. From the original mandatory maintenance it has evolved to various forms of apparent businesses. During the last twenty years, concepts like “Real Estate Investing” and “Outsourcing” have changed the original set up of REM to different activity entities. (Krumm 2000.)

While international interaction is accelerating, the American and British real estate service providers are increasingly entering the less developed management environments. The local environments of Scandinavia are under the influence of increasing expertise and “high value” real estate management and consultation from expanding international western management and consultant organizations. The high value real estate services, in many cases boardroom consulting of some kind, are repercussion of western accounting consulting in Scandinavia. (D´Arcy 2000.)

The most recent stages of internationalization have increasingly brought US and UK firms into contact through various forms of partnership or strategic alliance, designed to ensure global representation. This inevitably introduces a mix of professional cultures and management practices which have to be resolved if the relationship is to work. (D´Arcy 2000.)

The internationalization stage of real estate management businesses, including facility management, is very strong at the moment. Big mergers and strategic alliances are changing the once locally developed business more globally homogenous. The REM is starting to have similar activities all over Northern Europe and the world.

3.2 Three viewpoints of real estate management

The modern form of real estate management can be seen from three different viewpoints which are called asset management (AM), property management (PM) and facilities management (FM) (Figure 3). In asset management the owner and investor concentrate on the profitability of business, in property management the technical manager concentrates on the building and its equipment, whilst the occupant of a workplace is interested in the space and services supporting her/his work or company’s production. Similarly the object of interest is different: capital, building or space and service. (Leväinen 1997a, p. 505; Leväinen 1997b, p. 44.)
Asset management issues contain the buying, selling and portfolio management of the real estate entity. It deals with issues as when, where and why to sell, buy and develop buildings, whole real estates or groups of real estates in order to achieve the financial goals set by the owner. The target of a well carried out asset management is to create real estate profits. Real estate profits are created in three different ways: buying extremely well, operating a property to maximize annual income, and selling at the right time (Kateley & Lachman 1986).

Lapides and Frank (1991) define asset management as the general process of managing all aspects of real estate assets, including acquisition and disposition, devising management strategies, management of building and real estate operations, financial management and all aspects of accounting and reporting on real estate held.

Property Management is the general description for overseeing and executing the day-to-day tasks required for real estate assets to function properly. These tasks may include administrative management in forms of collections, record keeping, reporting, marketing management in forms of marketing strategy, tenant selection, rent schedules; and physical management in forms of maintenance, rehabilitation and renovation. (Lapides & Frank 1991.)

Facility management is the general function of coordinating the needs of people, equipment, and operational activities into the physical workplace. When performed by an in-house corporate organization, this usually refers to performing those activities dealing with the acquisition and disposition, physical upkeep, record keeping, and reporting tasks for corporate-owned real estate. (Lapides & Frank 1991.)

The different activities are being defined a bit differently in different literature. The definitions depend on the local culture, organization interests and people’s personal interests. In spite of the controversial differences in definitions, the conclusive meanings are becoming more integral through the heavy internationalizing. But still there are some local Scandinavian distinctions in all activities that should be taken to account in order to fully understand present trends of FM service provision.
3.2.1 Asset Management in Scandinavia

The real estate investment companies, which were first publicly listed in the 1970s in Sweden, started to deal with real estates as a reliable form of investment. Construction companies started dealing with real estates as investment instruments in the beginning, but ever since, other investor organizations, pension funds etc, have been participating the real estate investment market as well. The Swedish real estate investment companies have been working as examples for the Finnish and Norwegian companies that were established in the 80’s. (Kaleva 1998, p. 14.)

Asset management, the strategic management form for real estate investing, has been for some time considered as the most strategic and high value form of real estate management. It has been the most important subject and a field of expertise of British and American boardroom consultation, and it has therefore been the first source of imported real estate knowledge.

In general, asset management has developed tremendously during the last years. Portfolio and asset management has migrated to Scandinavia on a very similar path to the facility management (Figure 6). The modern asset management is influencing most of the Scandinavian organizations already but it still has big growing potential in it.

The real estate investment companies have been growing their substantial role as investors during the last few years. As one of the most launching forces, the Scandinavian banks that differentiated their real estate funds to separate listed companies, can be considered. Along with the private funds and real estate investment companies, the public assets have been publicly quoted in many Scandinavian countries. (Kaleva 1998, p. 14.)

Lately the western investors have started to invest in Scandinavian property, mostly in Sweden and Denmark. Despite the short history of Scandinavian asset management, some companies, such as Catella, have been able to export its asset-property management knowledge abroad. The Scandinavian real estate professionals have been able to build asset management expertise of their own.

Scandinavian asset management, as well as property and facility management, is going through a big change. From the original start-point of owning the buildings, many modern corporations are lessening the real estate load of the balance sheets by doing “sale and lease back” deals with different Real Estate Funds and investors. In most cases the Real Estate Investment companies and pension funds buy property from companies and lease it back to them. During the last few years the Scandinavian property has increasingly endorsed different kinds of real estate investors, which has also changed the ways of property and facility management.

3.2.2 Background of Scandinavian Property Management

The actual history of the Scandinavian real estate management goes back a long way in the form of property management. It is expressly property management that is the closest to the original corporate real estate management and the Scandinavian owner-based service provision model.

The property management, as a noticeable activity, has its different traditions in different countries. It is difficult to point out the origin of property management in the separate areas, since there has always been some kind of demand and supply for it.
The forming of the professional form of property management can be estimated to have begun in the 1970s when construction companies started to manage their buildings in order to maintain the needed physical conditions and to collect the rent. These companies were housing and joint stock property companies. (Pelkonen 1999.)

In Finland the housing and joint stock property companies are limited liability for companies that serve the purpose of owning and administrating one or more buildings. Each share represents the premises owned by the shareholder. The building and the premises, possessed by the shareholders, have to be owned and possessed by the housing or joint stock property company. (FREF 1998, pp. 11-12.)

The housing and joint stock property companies’ highest decision-making body is the shareholders’ meeting (Figure 4). The shareholders’ meeting elects the board of the company and the auditors (FREF 1998, p. 14). The board appoints a superintendent to manage the company. The board sees to the management of the company and the proper organization of operations. If the company has a superintendent, he or she shall see to the day-to-day management of the company according to regulations, instructions and orders issued by the board (Housing Companies Act 1991).

![Figure 4. Institution of a housing company (FREF 1998, p. 15)](image)

The Scandinavian property management has its biggest influences and distinctions from the housing and join-stock property companies’ management and superintendent tasks fixed by the legislation. The property has been, and still is, managed with the earlier presented institutions. According to the Finnish property management activities, the superintendent’s list of tasks include the following (FREF 1998, pp. 43-49):

1. Administrative tasks
   - meetings: call together board meetings, shareholders’ meetings and other meetings
   - contractual issues: renting, insurance and subcontracting
   - supervising and observing the laws
   - employment relationships of the company
   - compulsory registrations
2. Economical tasks
   – financial planning
   – accounting

3. Technical tasks
   – organizing and monitoring services
   – organizing and monitoring maintenance
   – project management and renovation planning.

The same, in 1970s born, property management culture still has its affect on the modern real estate management in Scandinavia. It can be considered as the foundation of all the other forms of real estate business (asset and facility). In many cases, the property management has still been considered as the only form of real estate and building management in Scandinavia. The legislative responsibility of the superintendent as a managing director has its affect on the modern organizations and decision-making.

In general, the property management issues are the traditional management and control issues, the task entity of a Scandinavian property manager many times include altered tasks from different sectors of real estate management activities. The Scandinavian PM contains different tasks of owner-based real estate management such as administration, investment, renting and maintenance (Figure 5).

Figure 5. Property Management organization (Puhto 2000)

3.2.3 General trends in Facility Management

Facility management originally entered Europe in mid 1980s from the USA. From its first landing into the UK and the Western Europe, it has slowly entered Scandinavia through the Netherlands (Figure 6). On its way, many of the American concepts have gone through a big change while merging to existing local property management cultures. The original purpose to support core businesses with creating the best possible working environment has always been the original goal, but the ways to create it has been a matter of local conditions and traditions.
The fact that FM has only been dealt as a studied science in Scandinavia for less than ten years (Leväinen 2000a) puts limitations into the process of defining local cultures and differences. The word Facility Management still has a very general meaning among different interest groups.

The biggest trendsetters for the Scandinavian FM business have been the British and the American FM cultures. Even though they both have had the same background and purposes, they have branched to two different cultures or schools of thought.

The first school of thought is the American facility management. In the USA the FM is focused on workplace efficiency and management of the facilities. Comparing to the British approach, the Americans FM pays more attention to the technical issues and installations. The main target is the physical workplace. (Leväinen 2000b.)

Alike all over, the FM has various definitions. Probably the biggest, an American based FM organization, International Facility Management Association, defines FM as following:

| Definition: The practice or coordinating the physical workplace with the people and work of the organization; integrates the principles of business administration, architecture, and the behavioural and engineering sciences (IFMA, 2000). |

The second school of thought, the British FM, focuses on the integrated services, health and productivity, improvement of the work environment and employees. (Leväinen 2000b.)
The British employee based approach pays relatively less attention to the technology. The most attention is paid to the core business and employee support. Keith Alexander (1996, p. 1) from the Centre for Facilities Management defines FM as following:

> Definition: Facilities Management – “the process by which an organisation delivers and sustains support services in a quality environment to meet strategic needs. (Alexander 1996, p. 1)

As in the rest of the world, the Scandinavian FM has various definitions and forms depending on the organization and target country. This has threatened the credibility and development of the whole business in general. Especially the Scandinavian management and service companies use their own definitions of FM in marketing and promoting their services in local markets. The traditional property management tasks are very often included into FM services and the British and American defined meanings of FM have totally been passed-by.

In some cases, FM is understood in Scandinavia as a user-based management that can contain all the facility services and tasks from the strategic to the operational level. The main connection to support the core businesses is understood, but it does not have as settled a meaning as in the UK or the USA.

The Scandinavian FM organizations deal with very similar issues as the property management organizations. The primary difference is the user-based approach to the management. The Scandinavian FM contains different tasks of services, investment, management and maintenance (Figure 7).

![Figure 7. Facility Management organization (Puhto 2000)](image)

The Scandinavian FM is growing rapidly. It has also reached different industrial companies as well as the public sector. More and more companies are supplying different FM services. Companies that are in anyway related to facilities or the services are coming to the market. These organizations are the technical installation, construction, building service, IT-companies, specialized FM service providers and real estate companies (Figure 8).
The Scandinavia FM is at the moment going through a process of formation and defining itself. The goal of supporting core businesses exists but the knowledge of customers on the demand-side, and the lack of general rules and policy has a lot of improvement to do. The development of IT, increasing employee focus and international competition, expand the FM markets in Northern Europe. And the progress towards the unanimous definition of FM is assuredly positive.

The Scandinavian have existing associations, some individual and subdivisions of the IFMA and EuroFM, which have defined FM from their member point of view. In most cases the FM is defined more broadly than in the UK or the USA. Swedish Kjell Svensson (1998, p. 9) from Kungliga Tekniska Högskolan defines FM as following (Svensson 1998, p. 9):

> Activity: "The continuous management of
> Object: the workplace and operating environment of
> Client: the organization at all levels
> Aim: with the purpose of providing user
> satisfaction and value for money".

Pertti Vanhanen, A Chairman of the Finnish Chapter of International Facility Management Association defines FM as following:

> “Facility Management – A Process where organization produces, maintains and develops real estate and supportive services for the strategic needs of core-businesses.”
> (Vanhanen 2000.)

Even though FM is relatively new in the Scandinavian region, many Scandinavian companies have high expectations from the future FM business (see Skanska’s press release in Appendix 3). As a successful example, Swedish construction company Skanska has increased its market share of FM in Sweden very rapidly. Skanska, alike many other construction company based FM providers, offer advantages for FM from its core business. The construction businesses offer a new “life-cycle-based” FM aspect to the market, which has been a success at least in Sweden.
3.3 Outsourcing

3.3.1 Extensions of outsourcing

One of the modern “keys to successful business” is the efficient use of resources. In most cases this means core business focusing and getting rid of non-core-business related in-house services which real estates and service personnel very highly represent. Modern vogue words like “outsourcing” and “core-business-orientation” have brought new extensions to real estate management.

Outsourcing is not new. It is a natural result of specialization and the decision as to whether an organization should ‘make or buy’ to ensure the supply of goods or services necessary for a firm’s operation. The make or buy decision is influenced by two factors: the ability of the market to supply according to the demand conditions of the purchaser and the level of control that the agency requires over the supply and production of the goods. The outcome of the make or buy is not necessarily a simple bipolar distribution. Increasingly, the term implies longer-term arrangements such as networks, partnering, strategic alliances and joint ventures rather than simple market transactions. (Moran & Taylor 1997.)

The term outsourcing is used very broadly in different situations. The term has different meanings depending on the outsourcing type. Different literature deals with outsourcing very generally. On a more specific look, outsourcing can be divided in three categories depending on the type of business relationship. In terms of operational level services outsourcing, or out-tasking, Scandinavian organizations are relatively experienced, but in outsourcing the management activities Scandinavian organizations are just beginning to learn the principals. Historically the management activities have been kept in-house.

Out-tasking is the oldest form of outsourcing. In out-tasking an outside service provider is hired to provide the service. Out-tasking does not involve transfer of personnel and the whole business unit. Similarly a word contracting-out is used for out-tasking a certain function.

Pure outsourcing is generally understood as a situation where the whole or a part of the business unit is transferred to an outside organization. The outside organization takes the responsibility of the human resources and financial issues of the outsourced units. The original owner then takes the role of a customer and starts to manage the old personnel with a contract. In reality, the original organization continues, at least in some ways, but the responsibility of the completed work is the responsibility of the service provider.

Partnering is alliance between the client and the service provider and the cooperation aims to long contracts and equivalent hierarchy between the parties. The partnering gives more power to the service provider and is built on the basis of mutual trust.
The American International Facility Management Association defines outsourcing and the related issues as following (IFMA 2000):

- **Out-tasking**: A word coined to further define the area to be tasked to an outsource provider.

- **Contracting-out**: A process by which a user employs a separate organization (a supplier), under a contract, to perform a function, which could, alternatively, have been performed by in house staff (Barrett 1996, p. 124).

- **Outsourcing**: Refers to a full transfer of the facility management functions to an outside firm. The corporation then manages the outsourcing contract rather than the entire facility management function.

- **Partnering**: Refers to the working relationship between owner, designer and contractor. Also can be used to identify the relationship between owner and the supplier of a specific good or service. It provides the opportunity to institute longer contracts with the supplier instead of working on an annual basis.

### 3.3.2 History of Outsourcing in Scandinavia

Outsourcing has been, and will be awhile, a very speculated and controversial subject. Despite the relevant nature of outsourcing, it has been around from the beginning of organized property management – at least in some ways. The traditional functions that have been most often outsourced or out-tasked include housekeeping, janitorial, architectural design, food service, security and building maintenance (Hounsell 1998). Even though Scandinavians are considered to be ten years behind from common western trends, the outsourcing development has had a pattern of its own.

A general graphic presentation of the Scandinavian outsourcing (Larkas 2000) development was presented in the Seminar of Real Estate Business on June 8th 2000 in Helsinki.

It shows how outsourcing of FM/PM organizations has changed during the past decades by covering both the partnership and subcontracts in it. The model starts from the owner-user based organizations of the 1970s (Figure 9) where all of the management and services are being delivered by the organization itself.
In the 1980s and 1990s the owners started to outsource the services that were not important to their core businesses. In most of the cases they were the traditional ones: cleaning, outdoor maintenance, housekeeping, janitorial, architectural design, food service, security and building maintenance etc (Figure 10).

The latest model in the 2000 (Figure 11) shows how many companies have outsourced most of the real estate related services. Also the overall FM has been outsourced in many British organizations and modern and core-business focused Scandinavian companies.
The model (Figure 11) also shows how a growing number of owners are selling their real estate assets to outside investors. This kind of “sale and lease-back” model is becoming especially popular with organizations that want to activate all or part of their assets to their core businesses. Organizations are putting their real estate portfolios into a priority order where the less important premises are been unloaded off the balance sheet.

*Figure 11. Outsourcing in the 2000 (Larkas 2000)*

When the model presents the present-day-situation, it is impossible generalize the model. It is problematic to identify the ideal organizations that are exercising the last model. Most of the Scandinavian pioneer companies are only exercising some of the functions.

The ownership separation processes are very big issues at the moment. Several Scandinavian companies have established their business strategies for minimal binding of resources, which means minimal property owning and minimal personnel outside the core business functions. As a remarkable example, Ericsson sold their property mass to a big Swedish insurance company Skandia (Appendix 2). At the same time Ericsson outsourced its staff of six hundred to Skanska (Appendix 1), a Swedish FM organization subsidiary of Skanska Construction Ltd.

### 3.3.3 The benefits of outsourcing

The outsourcing as a business phenomenon has not only influenced the property related activities in the corporate environment. Along the traditional services like cleaning and outdoor maintenance, high value activities such as advertising and legal advisory have been traditionally outsourced. The understood advantages of outsourcing have been similar all over the world.
Through a series of studies conducted since 1991 (including surveys of over 1,200 companies), ongoing work with its members, and ongoing reviews of other major studies, The Outsourcing Institute has developed a clear understanding of the reasons companies outsource and the potential benefits to be gained (Office Life Canada 1997):

1. improve company focus
2. access to world-class capabilities
3. accelerate reengineering benefits
4. share risks
5. free resources for other purposes
6. make capital funds available
7. cash infusion
8. reduce and control operating costs
9. resources not available internally
10. function difficult to manage or out of control.

In general, the argument for outsourcing is based on the perception that there’s going to be less cost. Sometimes there is also a perception that quality will be better. But outsourcing should always be evaluated on an individual department or program basis. If you find that it would cost you more to do something inside than it would to take it outside, then you need to figure out why it’s higher in your specific situation. Another common reason institutions look to outsourcing is that the department is just not being managed well. Outsourcing is an easy way to address the problem of poor managers. Institutions tend to do that rather than attacking the real problem. (Cesari 1998.)

The reasons for outsourcing are most commonly the strategic decisions of core business focusing. The gained benefits and deficiencies, as well as what activities are being outsourced, are mostly case-related and determined by the original starting point and organizational structure and efficiency.

### 3.3.4 Outsourced activities in the Northern Europe

As in the rest of the world, Scandinavian organizations use outsourcing to increase internal efficiency. The core-business knowledge is the main target of all activities and company interest. Also the Nordic companies have realized this.

Most of the Scandinavian outsourced activities are the traditional ones: cleaning, outdoor maintenance, housekeeping, janitorial, architectural design, food service, security and building maintenance. The management level outsourcing is fairly new in Scandinavia. In most of the cases the Scandinavian organizations handle the asset and property functions themselves. Also the services related to the office premises are traditionally taken care by the tenants.

The historical development shows that trend is changing considerably. As earlier mentioned, the FM trends have become from the USA and UK and noticeably they have reached the “higher value” services as well. The outsourcing issues have several value-related theories around them and one of the suitable ones for this study was presented by Joroff (et al. 1993, p. 49) in the Strategic Management of the Fifth Resource: Corporate Real Estate.

According to Joroff (et al. 1993, p. 50) from the real estate management point of view the management activities in the property market can be divided to two categories, extern and intern, based on core business liability (Figure 12).
Figure 12. Division CREM-activities (Joroff et al. 1993, p. 50)

The higher value activities are mostly considered the strategic ones closest to Asset and Property Management. According to Éamonn D´Arcy (2000) globalization is the highest with these highly strategic services. Along with the other knowledge intensive professional business services, the real estate services have spread from the UK and the USA to all continents.

The strategic asset and property management have tasks that have been outsourced for quite some time, or never professionally delivered in-house. Within the services as benchmarking, location analysis, market research and transactions, the Scandinavians have used extern companies as most of the companies in the UK and the USA (Figure 13). But the housing strategy, investment strategy, cost control and portfolio management have traditionally kept within the intern organs. (Krumm 2000.)

Figure 13. Strategy of High Value Services in CRE (Krumm 2000)
But the trend from this corporate real estate management model has changed on the basis of the single cases as Ericsson-Skandia-JonesLangLaSalle (Appendix 2). In this case Ericsson sold and outsourced its asset management first and then leased back its property from Skandia (Appendix 2), which had outsourced its property management to JonesLangLaSalle. These kinds of contracts inevitably change the structure of the intern high value activities. The Ericsson-Skandia-JonesLangLaSalle deal indicates that very big things are happening or about to happen in the service provision of high value property management services.

Added to Ericsson’s asset management outsourcing, it also outsourced its FM to a Swedish construction company based facility service company, Skanska Facilities Management (Appendix 1). Apparently Ericsson’s strategy was to outsource all property related resources.

Unlike the rare cases of Scandinavian high value service outsourcing, the lower value service outsourcing has its history and therefore enough data for further analysis. Even though the Scandinavian associations are not doing as large-scale annual surveys of outsourcing as the British associations, the information can be roughly compared.

The 1999 British Institute of Facility Management (BIFM 1999) Members Survey shows how the management (Appendix 4) and service delivery (Appendix 5) are structured in the UK. The results of the survey are based on the answers of 665 FM professionals in the UK.

The listed management functions under members control present what functions the BIFM members have managed in 1997 and in 1999 (Appendix 4). The results imply of what management elements the British facility managers work consists.

In case there was information from the Scandinavian management structure for comparison to Appendix 6 the outcome could be very different. Traditionally, in most rental agreements, the Scandinavian owner organizations cover the most of the maintenance issues with its in-house property managers. Even though there are numerous exceptions, for the time being there are not too many facility managers running the maintenance, at least not as the most crucial management task. In Scandinavia the most probable task division has been that the owners have done the management of maintenance and other technically related issues and the tenants have managed the business supportive facility services like reception and communication.

The total range of the FM tasks in the UK is relatively wider than in Scandinavia. The same activities have always existed in Scandinavia but they have been separated to different parties. Despite the traditions, a growing trend in Scandinavia is the centralization of FM activities to one party.

Despite the undeveloped Scandinavian FM culture, the local top organizations have recognized the core business orientation and effective use of resources. The Scandinavian organizations probably outsource as much as British.

The same study by the British Institute of Facility Management (BIFM) informs of the British outsourcing structure (Appendix 5). The Figure shows how the BIFM members have organized their service delivery – the balance between the in-house and contracted services.
Traditionally the Scandinavian property management related outsourcing has been focused on general management and sectors as cleaning, outdoor maintenance, housekeeping, janitorial, architectural design, food service, security and building maintenance. These activities have been outsourced for quite some time.

In the study “Facilities management internal or external? - A study of the market and the customers interest and needs” (Dreifaldt & Carlsson 2000) made in Royal Institute of Technology of Sweden a total of 34 Swedish organizations were interviewed with a survey.

The outcome of the survey (Dreifaldt & Carlsson 2000, p. 41) showed the structure of the outsourced facility service activities in Sweden (Appendix 6). When comparing these results to the contract figures from the BIFM (1999) Members´ Survey –99 (Appendix 5), the outcome looks very similar (Figure 14), taking the very trend setting comparison and sources into account. The UK results are in reality slightly bigger since “both” (in-house and outsourced) replies from Appendix 5 were not taken into account. And the Swedish shot of 34 queries is not comparable to the 665 queries of the BIFM.

The outsourcing levels with the different activities are relatively similar. In both, in Sweden and the UK, the cleaning was the most outsourced activity with the 88 % in Sweden and 72 % in the UK. The least outsourced activities were by the queries the reception, postal work environment accounting and invoicing services. (Dreifaldt & Carlsson 2000, p. 41; BIFM 1999, p. 13.)

The biggest differences in outsourcing were in some particular service areas. The British outsourced the catering over twice as much (71%) than the Swedish organizations (32%). The British were more active outsourcers with the furnishing, equipment maintenance and internal location services. Then on the other hand the Swedish were more active outsourcers with the message and transport services (82 %) while the British outsourced it with the amount of 37%. The other service areas the Swedish dominated with its outsourcing were the cleaning, telephone exchange, security, data support and stationary. (Dreifaldt & Carlsson 2000, p. 41; BIFM 1999, p. 13.)

On a very general level it can be stated that the Swedish outsource more than the British with 11 % of all presented services included. But since the BIFM survey (Appendix 5) shows that many of the companies deliver both in-house and contracted services, the total amount of outsourcing is approximately the same. And the trend setting nature of the presentation does not deliver adequately specific conclusions, other than trend setting.
3.4 Service products

3.4.1 Traditional Corporate Model

The Scandinavian organizations still mostly have existing own FM/PM units that do the overall management. Even though the corporate real estate units have traditionally relied on in-house organizations, the real estate investment organizations have relied to very similar set-up.

As seen, outsourcing is as common in Scandinavia as in the UK. The biggest cultural differences are due to the management level tasks and the issues that are considered to be either property or FM.
In these organizations outsourcing has been considered more as an operations-level activity for some time. The traditional corporation model (Figure 15) is the foundation for all different service provision models, where the FM unit works directly under corporate management. The corporation keeps the most important services in-house (own service unit) but has outsourced the most of the services to different service-providers.

Figure 15. Traditional Corporate Management Model

3.4.2 Types of service provisions

The traditional model of organizing FM and PM is still the most common model but the composition is changing. As mentioned before the current western trends are forcing towards different ways to manage the services. According to British literature, there are three types of FM services. There are essentially three main types of service: managing agent, managing contractor and total facilities management. They range from the use of an external organizations or individuals who manage the client organization’s own employees, through the appointment of a contractor to manage some or all service providers, to an arrangement where all facilities are managed by an external entity offering a single point of responsibility. (Atkin & Brooks 2000, p. 102.)

These three different FM service provision models are starting to establish their roles in British literature and everyday life. In Scandinavia the FM still has some problems within the definitions of different FM suppliers and service provision.

It is important to understand the many ways in which a facilities management company can be defined. In some sectors of the market, the buildings companies occupy or the type of business they conduct still narrowly define FM. There are a number of contracting options that range from encompassing all services and one contractor or single services amongst many suppliers. FM company is a company delivering and providing a wide range services either directly or by sub-contracting, where the emphasis is primarily on management ability. (Alexander et al. 2000, p. 8.)
3.4.3 Managing agent

In the managing agent model the arrangement is adopted when the organization has determined that it wishes to retain its own employees, but does not have the skill or expertise with which to manage them efficiently and effectively. By bringing in an external organization to manage the facilities (Figure 16), the organization is essentially appointing a client representative - managing agent. (Atkin & Brooks 2000, p. 103.)

Figure 16. Managing agent (modified from Atkin & Brooks 2000, p. 103)

The managing agent approach offers considerable flexibility for the client organization to find and then hold on to the combination of contracts that suits it best. In this approach there are no obstacles when some services are part in-house and part outsourced. The managing agent role attracts especial significance since the client organization would be using the agent to contribute expertise and exercise judgement when deciding between in-house and outsourced service provision. (Atkin & Brooks 2000, p. 103.)

The managing agent model can offer a fairly new perspective to the old-fashioned Scandinavian FM. Besides the expertise in making decisions between in-house and outsourced services, it can offer a neutral perspective, advantages for problematic quality monitoring and to ease the laborious continuous in-house benchmarking.

A very adaptable management services to managing agent integer are different kinds of helpdesk, financial planning and reporting, purchasing, space planning, project management, performance measurement and review services. Because of the nature of the provided services, the managing agents are considered to be very detached to the financial interests. This assures managing agents’ neutrality and advisory role within situations where the others may be disqualified.
3.4.4 Managing contractor

In the managing contractor arrangement there is one contract between the client organization and the appointed contractor (Figure 17). Subcontractors will be under contract to the managing contractor and will not have a contractual relationship with the client organization. This means that organizations have a single point of contact with the contractor on all matters pertaining to service provision. (Atkin & Brooks 2000, p. 110.)

![Diagram of Managing Contractor](image)

*Figure 17. Managing contractor (modified from Atkin & Brooks 2000, p. 103)*

In this model the managing contractor plays the central role of FM. Clients usually rely on to the managing contractors judgement in decision-making and give them option to choose the contractors. In many cases this enables that the clients can concentrate on the core business and therefore have no need to use any resources to FM or PM. According to the literature, managing contractors can get performance-based fees and use open-book accounting, where the client can monitor the spent money and evaluate the done work as well as the subcontracted services.

3.4.5 Total facilities management

Organizations are also able to give the full responsibility for managing their facilities to a single organization for a fixed price (Atkin & Brooks 2000, p. 112). In this model one FM service company delivers all of the needed management and services (Figure 18).
The Total Facility Management model offers an advantage for one organization to manage and run all facility services. It is considered to cause less transactions and costs compared to the multi-level contractor models.

According to the done interviews it is expected that total facilities management include service delivery from a single service provider. In the UK there are some companies that are capable of delivering most of the services that are usually understood to be under FM. The Scandinavian real estate service companies are still for the time being focused on few service areas. There are not too many companies that can deliver all the services listed in the earlier shown Figure 14. “Outsourced facility services in the UK and Sweden”. In Scandinavia the “full service models” delivered by the big real estate service providers are more close to the multiple service delivery than the ideal full service concept.

The total FM models are also largely used in the outsourcing deals where corporations are transferring lots of staff. The total FM model is a very practical choice for companies if they are outsourcing all resources and transferring both managers and service staff.

### 3.4.6 The use of different service provision models

The different service provision models are very competitive but used sometimes for different situations. They are all management services but placed slightly differently in the FM Framework according to the Centre for Facilities management (Alexander 2000, p. 8).

The Figure 19. provides a framework for the British FM industry, which separates companies according to their propensity to provide a single or multiple services and whether they deliver and manage the facilities services. (Alexander et al. 2000, p. 8.)
The companies concerned with the “Single Service Contracting”, concentrate on the delivery of one type such as cleaning, refrigeration maintenance of lightning for example. When companies draw together a variety of types of service to provide a range of service delivery this is called a “Packaged Service”, or multiple service. For example a security company may offer manned guarding, burglar alarm systems and electric entry. (Alexander et al. 2000, p. 8.)

Management Agents provide a management-only service for their clients. Where a management agent is appointed by a client, they will tend to contract directly those companies delivering facilities. (Alexander et al. 2000, p. 8.)

With Management Contracting, companies will provide a balance of both delivery and management and tend to focus on a small number of service types. In these cases, client organizations tend to deal with a number of management contractors and retain overall management control. (Alexander et al. 2000, p. 8.)

Total Facilities Management (TFM) companies may deliver and manage a wide range of services either directly or by sub-contract. They offer their clients a comprehensive service with their primary emphasis being their management ability. In such cases the client relinquishes the hands-of management of facilities. (Alexander et al. 2000, p. 8.)

**Figure 19. Framework for the UK FM industry (Alexander et al. 2000, p. 8)**

The British FM service provision market is presumably slightly ahead of Scandinavia. According to the literature British have been buying different FM services for quite some time and according to the history of FM, the Scandinavian are not as experienced management service purchasers as the British.

According to the UK Facilities Management Market –99 review done by the Centre for Facility Management (Alexander et al. 2000), the British FM market is divided on the basis of the number of delivered services (Figure 20). The number of Total Facilities Management contracts has increased to over a half of all contracts. At the same time the number of the multiple and single services has been reduced. The service provision structure has changed tremendously during 1996-1998 in the UK.
According to the “Swedish Facilities management internal or external?” study by Dreifaldt & Carlsson (2000), the Swedish buy services mostly through single service (71%) and multiple service (27%) provisions (Figure 21). The number of the Total Facilities Management contracts is only 2 percent and the number of the managing agents and contractors were according to the study 0 %.

According to this comparison the Swedish and Scandinavian Facilities Management market is relatively undeveloped. Most of the Swedish companies are still doing single service contracts and only less than a third (27 %) of the companies are purchasing multiple services. For the time being the number of the total FM service contracts is very small (2 %). According to this study, in 34 interviewed organizations there were neither managing contractor nor managing agent contracts. (Carlsson & Dreifaldt 2000, p. 43.)
Comparing the Swedish situation in 2000 the market looks very different from the British situation in 1998 (Figure 22). In terms of the service packages, the current situation of the Scandinavian service provision in 2000 resembles the British situation of over five years ago.

![Figure 22. The relative comparison of the bought service packages](image)

Swedish, as all Scandinavian, organizations have very strong existing in-house management units that buy single services from different service providers. But alike the British changes in contracting during the last few years, the Scandinavians are starting to buy the different services in multiple or total FM packages.

### 3.5 Management contracts

The management contract cultures between the studied countries followed the earlier shown pattern of the FM in Europe. The British had the most and only contract models in the FM and the Danish had a property management formula for the generally understood real estate management. From the other countries any common models could not be found.

A management agreement or contract is a formal and binding document that establishes the manager’s legal authority over the operation of the property. The manager is usually an agent for the owner, serving as the owner’s fiduciary or trustee of the owner’s funds and assets associated with the property. (Kyle et al. 1999, p. 54.)

A well-drafted management agreement is essential in establishing and maintaining a good relationship between the management firm and the property owner. The agreement states each party’s responsibilities and authority and it guarantees certain protections to one party from the other. A well-drafted and well-negotiated agreement should eliminate, or at least minimize, most misunderstandings between the parties. A poorly drafted agreement on the other hand may lead to disputes between the management firm and the property owner, raising questions of trust, undermining the confidence of the parties in each other and creating an uncomfortable relationship for both parties. (Keituri & Äijälä 2000.)
An agreement establishes the relationship between the owner and the management service provider for a fixed period, defines the manager’s authority and compensation for services provided, outlines some procedures, specifies limits of the manager’s authority and actions, and states financial and other obligations of the property owner. The contents of a management agreement generally include (Kyle et al. 1999, p. 54):

- full names and identification of the property owner and property manager
- description of the property
- term of the agreement
- responsibilities the manager (financial activities, reports to the owner, general management issues)
- obligations of the owner (insurance, operating and reserve funds, liability, legal and regulatory compliance)
- compensation for management services.

According to Danish Association of Real Estate Managers’ “General Conditions for Administration of Real Estate 1998 (ABA 98)”, the contents have to include at least the following (DAREM 1998, p. 6):

- identification of administrator, customer and the property
- the size of the administrative contributions for periodical assignments and with which interval the assignment is to be solved
- which kind fee is valid for the agreement and on which basis the fee is estimated
- which scale and on which basis of fee the administrator has to solve extraordinary assignment of administration and the conditions for the work of administrator, concerning assignments, which are not included into the agreement.

There have been few general studies of the distinctions between the Scandinavian contracts and the American and British. But since the management culture is relatively young, the Scandinavian comparable issues are mostly the ones that are not included into the Scandinavian agreements and which issues are recently being introduced in the UK. The biggest differences of the North European management contracts are due to local legislation, which have their inevitable affects to the management contracts (Keituri & Äijälä 2000).

3.5.1 Tendering and specifications

The demand and supply for the management contracts are relatively new in the Scandinavian markets. Because of the fairly new management service provision a standardized practice for invitations or supply of tenders has not developed. The only form of purchasing real estate services has been, without exception, the operational level subcontracting.

A very problematic field in the management agreements, and with service agreements in general, has been the consensus of the service quality between the client and the supplier. The sparse culture of Scandinavian management service provision has not built a common policy for request for proposals (RFP), excluding some general guidelines in Denmark.
In the UK some culture around the management service RFP’s has evolved. Naturally the clients and suppliers use methods of their own, but according to the more experienced contract drafters from the USA, some of the following issues should be taken to consideration into the RFP-process.

The RFP should describe the sorts of results the client would like from the outsourcing firm and asks them to identify how they’d get there. Creating an effective RFP can make it easier to identify which provider truly will work best. Some guidelines (Kroll 1999):

1. *Create the RFP in-house.* While service firms sometimes offer to draw up the RFP, their doing so presents an obvious conflict of interest. Even more importantly, handing off this part of the process will keep you from critically analyzing your building and operations, so that you can pick the best partner.

2. *Include the right people when you’re developing the RFP.* To help prevent surprises later on, make sure that everyone who reasonably should have a say in the proposal is in on the development of it.

3. *Draw up precise descriptions of the results you want, rather than just the actions involved.* “Focus on output, not just inputs”. That means defining performance so that it can be measured.

4. *Make sure you the proposals are comparable.* You want to know that different proposals include similar assumptions, rather than focusing on the fact that one is charging $20 per hour, and another $21. For example, if one firm includes the cost of cleaning supplies or insurance in its proposal, while another leaves out those costs, you’ll be hamstrung in trying to make an accurate comparison.

5. *Make sure the RFP includes a discussion of how you will monitor the performance of the service provider.* You need to make sure the work is being done to the level you specify, or work can fall through the cracks. For example, will you use weekly or monthly written reports, and supplement those with regular face-to-face meetings?

6. *Use the reward, rather than the sanctions.* It’s an age-old question: whether to include penalties for not performing, or incentives for exceeding performance standards. Most facilities experts say that it’s best to lean to the side of incentives.

Compared to the operational level facilities service contracts, the management service provider election needs larger scale thinking. Since most of the management service contracts aim for partnership, the decisions should not only be made on the basis of common service RFP’s.

### 3.5.2 Duties and execution

The duties of a management agreement can be listed or agreed upon in various ways. The most common way of defining the services is the “process-orientation” where the duties are being listed in the agreement on the basis of the different management tasks or management executions.
According to the Danish Association of Real Estate Manager’s property management formula the execution of administration can be offered in one of the following ways (DAREM 1998, p. 8):

1. Process-orientation
   Administrator makes in accordance to the agreement the assignments, which are included into the agreement. The customer pays all running costs concerning the property. The agreement between the Administrator and his customer indicates which process the administration includes.

2. Result-orientation
   The running of property is looked after by the free judgement of the administrator. All running costs on the property are paid within a regular agreed amount or with a regular agreed running result. The agreement between administrator and his customer shows which result is included in the administration.

3. Regular extra assignments
   As a part of the normal administration the Administrator carries out assignments such as administration changes in ownership, which are being paid next to the ordinary fee of administration.

4. Single assignments
   Administrator makes a certain defined assignment. Single assignments can be made with or without the Administrator’s taken care of the daily administration of the property.

5. Related assignments
   Administrator can take care of other assignments for the customer, such as investments etc., as single assignment or regular agreement in connection to the agreement of administration.

The results are usually described with service level agreements and specifications. In order to agree in what way the management work is carried out, the contracts have to also contain elements that characterize the quality aspects of the work – quality definitions.

3.5.3 Quality definitions

The quality of the management work is being increasingly presented by different service level agreements and specifications in the UK. Service specifications and service level agreements (SLA’s) are tools for managing the quality, performance and value of service produced (Atkin & Brooks 2000, p. 74). The specifications and SLA’s are formal documents in the contracts that set out the customer’s expectations of the quality, performance and value of services as clearly as possible.

A service specification is a document that quantifies the minimum service levels that are acceptable if the customer’s requirements are to be met. It provides a benchmark against which the level of services delivered to the customer can be assessed. (Atkin & Brooks 2000, p. 74.)
The specification is an extremely important document in any facilities management contract. It will usually set out the client’s requirements in relation to services to be performed, quality standards to be met and all pertinent information that the facilities management contractor will require in order to perform the services in accordance with the contract. (Hanson 2000.)

The contractors look at the specifications when calculating their tenders. A well-drafted specification, containing all of the needed information, ensures the adequate pricing of the service provision in the proposals.

There are two different approaches to describing in the specification how the any performance standards are to be met: input and output. The input sets out in detail the exact services to be performed in a prescriptive fashion. (Hanson 2000) The input specification explains how the works should be executed.

The output specification is performance-oriented document that states what is to be provided, instead of how (input specification) (Hanson 2000). The output specification does not list the duties as the input model does. With the output specification the client gives the contractor the liberty to carry out the duties with their own proceeding manners.

The production of the service specification is a prerequisite in the negotiation and drafting of SLA’s. Specifications should set out the needed information for the SLA’s of the internal standards (corporate policies), external standards (legislation), service procedures and technical standards and quality and performance targets. The specification contains these under different sections (Table 1). (Atkin & Brooks 2000, p. 78.)

Table 1. Contents of an example service specification (Atkin & Brooks 2000, p. 78)

<table>
<thead>
<tr>
<th>Section</th>
<th>Contents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Part 1: Terminology</td>
<td>1.1 Definition of Terms Used</td>
</tr>
<tr>
<td>Part 2: Areas/items/services</td>
<td>2.1 Scope of Areas/items/services covered by specification</td>
</tr>
<tr>
<td>Part 3: External standards</td>
<td>3.1 Statutory requirements</td>
</tr>
<tr>
<td></td>
<td>3.2 Manufacturers’ recommendations</td>
</tr>
<tr>
<td></td>
<td>3.3 Industry-accepted best practices</td>
</tr>
<tr>
<td>Part 4: Internal standards</td>
<td>4.1 Corporate/department requirements</td>
</tr>
<tr>
<td></td>
<td>4.2 Previously accepted standards</td>
</tr>
<tr>
<td>Part 5: Categorization of areas/items/services</td>
<td>5.1 Detailed procedures for each category</td>
</tr>
<tr>
<td></td>
<td>5.2 Frequency of procedures for each category</td>
</tr>
</tbody>
</table>

A service level agreement (SLA) is commitment by the service provider (in-house or outsourced) to the customer to deliver an agreed level of service. It should specify rewards and penalties, yet retaining flexibility so that the customer’s changing requirements can be taken into account should circumstances change. (Atkin & Brooks 2000, p. 74.)
An SLA is a statement of intentions existing between the service provider and the customer – the recipient of the service – setting out a specified level of service. The agreement is formalized by producing a document that describes the following (Atkin & Brooks 2000, p. 79):

− name of each party
− roles and responsibilities of each party
− scope of services that are to be provided
− quality and performance related targets
− time-related targets
− prices and rates
− resources required
− change procedures.

These descriptions are usually divided to different sections in the British service level agreements (Table 2). The contents of a well-drafted SLA cover all contents of a management agreement in very thorough fashion.

Table 2. Contents of an example SLA (in total facilities management) (Atkin & Brooks 2000, p. 80)

<table>
<thead>
<tr>
<th>Section</th>
<th>Contents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Part 1: Agreement details</td>
<td>1.1 Name of parties to the agreement</td>
</tr>
<tr>
<td></td>
<td>1.2 Date agreement signed</td>
</tr>
<tr>
<td></td>
<td>1.3 Effective date of agreement</td>
</tr>
<tr>
<td></td>
<td>1.4 Period of agreement</td>
</tr>
<tr>
<td>Part 2: Scope of services – the service specification</td>
<td>2.1 Management of maintenance of buildings, plants and equipment, external landscaping</td>
</tr>
<tr>
<td></td>
<td>2.2 Management of minor building works</td>
</tr>
<tr>
<td></td>
<td>2.3 Management of accommodation services</td>
</tr>
<tr>
<td></td>
<td>2.4 Management of utilities and telecommunications</td>
</tr>
<tr>
<td>Part 3: Delivery times, fees</td>
<td>3.1 Service priority categories and times</td>
</tr>
<tr>
<td></td>
<td>3.2 Fees and payments</td>
</tr>
<tr>
<td>Part 4: Performance</td>
<td>4.1 Submission of performance reports</td>
</tr>
<tr>
<td></td>
<td>4.2 Performance measures</td>
</tr>
<tr>
<td>Part 5: Customer/service provider interface</td>
<td>5.1 Communication</td>
</tr>
<tr>
<td></td>
<td>5.2 Incentives and penalties</td>
</tr>
<tr>
<td></td>
<td>5.3 Customer’s rating and feedback</td>
</tr>
<tr>
<td></td>
<td>5.4 Procedures for revising SLA</td>
</tr>
</tbody>
</table>

The contents of service level agreements and specifications alter between different contracts. In many cases the quality is being presented, instead of all-inclusive service level agreement, with key performance indicators representing the occasional priorities of each customer and property unit.
The most challenging parts of the service level agreement are the different targets for the quality and performance. Contract creators have to evaluate the crucial factors that express the most realistic quality of the delivered service. Regardless of the key performance indicators all quality aspects of service delivery cannot be covered. Some of the important quality-related aspects are not to be expressed in distinctive numbers.

The customer’s view of the quality of a service or product is based on tangible and intangible factors. Tangible factors are those that can be measured, such as time taken to deliver an item, the charge made and the level of operational performance. Intangible factors include those that are more difficult to measure, for example, the utility of the item to the customer etc. The difficulty of quantifying some factors should not preclude measurement as they can be as important as those that are easily measured. (Atkin & Brooks 2000, p. 83.)

3.5.4 Goals and performance indicators

In determining the criteria for measuring the performance of a service level agreement, organizations should consider those factors that are critical to success. Critical success factors are those actions that must be performed well in order for the goals or objectives established by an organization to be met satisfactorily. (Atkin & Brooks 2000, p. 82.)

Key performance indicators can be measures of productivity. They can represent abortive work, backlog (neglected work) and ability to perform tasks concurrently. These kinds of measures of performance in productivity would include (Atkin & Brooks 2000, p. 82):

- percentage of total work completed at a given time
- percentage of activities planned against unplanned
- percentage of total hours by customer type
- breakdowns against planned preventive maintenance hours.

In addition to the mutual understanding of the most crucial performance indicators the policy of key performance indicators create a substantial basis for the continuous improvement and larger scale benchmarking. With the help of the KPI’s both contract parties, the owner and the manager, can follow the changes and trends of the most service-indicative issues within the managed property and facilities.

The performance management system should be simple to understand and operate. It should not be too time consuming to operate and manage. In general it should be based on assessment of performance against service levels specified. In practice the contractor should base the performance management system on self-assessment with the client carrying out periodic checks. A good performance management system requires a simple numeric scoring system. The system should have an ability to set different standards for individual areas. The incorporation of both hard (was it delivered?) and soft (appearance of staff, helpfulness etc) criteria will give the most realistic picture of the services. A well performing system needs a spirit of partnership between service provider and client. (Hanson & Osborne 2000.)
With the performance measurement the contractual key performance indicators should explain the whole entity of management work, including also factors from outside productivity. One agreement should only contain few key indicators per service perspective. A good tool for the performance measuring is the “balance scorecard” method where the indicators explain the management quality from financial, customer, internal and learning perspectives (Figure 23). With the outcome of the balance scorecard method the figures describe the management quality evenly from all needed perspectives.

Figure 23. Balance Scorecard (Kaplan & Norton 1992, p. 74)

According to Varcoe (1993, pp. 301-307) the three key performance criteria for Facilities Management are considered to be cost, quality and delivery. In order to follow the balance score card principle the number of the explanatory indicators should be as small as possible. On the other hand Varcoe (1998, pp. 6-8) states that the number of performance indicators should be minimized, by suggesting that it is usually sufficient to have five or six well-defined business objectives, each with four to six key facilities performance indicators.

Generally the performance Management system should be designed to be (Hanson & Osborne 2000):

− informative – it will provide information that will be valuable to decision makers
− result orientated – principally focused on outcomes and outputs
− relevant – it will only focus on appropriate significant factors indicators of performance
− reliable and unambiguous – it will ensure that data used is accurate and consistent
− accessible – it will be regularly communicated to the appropriate audience
− flexible – it will provide a framework under which business needs, such as premises requirements or organisational, can be targeted on a short or long term basis
− incentive based – it will reward accordingly on the basis of performance.

There are some designed models and tools to serve the key performance setting and management. Some literature states that common sense is the best way to set the indicators.

Principal consultant of Dalkia Workplace Services, Peter Osborne (Hanson & Osborne 2000) states that the best rule for the service level setting and key performance indicators is the KISS –rule (keep it simple stupid).
On the other hand there have been some noteworthy research done on the KPI’s. According to the “The Creation of a Management-by-Variance Tool for Facilities Management Performance Assessment” study by Dr. John Hinks (1999) the performance dimensions are divided into eight categories: business benefit, equipment, space, environment, change, maintenance/service, consultancy and general.

3.5.5 Management fees

A management agreement has to inform how the management fee is calculated and regulated during the contract time. The fee structures and policies of the facility and property management contracts vary a lot. The most used fee model has traditionally been the fixed fee. But nowadays the different variable fees are also becoming increasingly common.

The division of different fee types can be done in many ways. Because of the growing number of performance-based fees the division is becoming more complex. One way to divide the different fee types is the following:

1. Fixed fee
   The fixed fees represent the “lump sum payments” and regular fees for the management period. The fixed fee covers the agreed contributions and services.

2. Fee based on costs
   The cost basis for the management fee corresponds to the agreed costs for the maintenance and services of the property. The client usually pays for the costs and the manager gets a fee (usually 10-15%) of the total costs.

3. Fee based on unity
   The manager gets a fee for the agreed contributions per a certain property or managed unit.

4. Fee based on time
   The manager gets a fee for the agreed contributions per a certain time unit (usually per hour).

5. Fee based on turnover or net rent
   The manager gets a fee of agreed percentages of the total turnover (sales) or net rent (letting). The usual fee-frequency is 1-4% of the turnover or 1-5 % of the net rent.

6. Performance based and incentive fees
   Fees based on the performance is a group where the management work is based on the revenues of the managed property. The fee is based on the incentives of the done managing. In property management the managers can have a percentage fee based on the property revenue on month basis. The manager shares the profit with the client usually with a 30-50% share.

In facility and property management contracts the fee structures differentiate quite a lot in Finland and the British and North American. Typically the fee structures in Finland are more on a fixed fee basis and not depending on the results and added value gained for the client. (Keituri & Äijälä 2000.)
3.5.6 Contract lengths

The Scandinavian management contracts have been mainly ongoing, short term on a 3-12 months notice. But the changing trend is improving noticeably towards partnership-type contracts. (Keituri & Äijälä 2000.)

According to the UK Facilities Management Market 99 survey (Alexander et al. 1999, p. 13) the contract lengths are getting longer, 3-5 years and more than 5 years, but also shorter since the number of the less than 2 years contracts are increasing (Figure 24).

![Figure 24. Duration of FM Contracts Awarded (Alexander et al. 1999, p. 13)](image)

While the partnership type of cooperation is becoming more common the contract lengths are becoming more fixed and longer. An increasing amount of Scandinavian companies understand the importance of mutual trust in the partnership contracts and their duration.

Conclusion

According to a “Internationalizing Real Estate Business” project-work in March 2000 in Finland (Keituri & Äijälä 2000) some of the main distinctions in the management contracts were found to be the duties, goal settings, management fees, quality definitions, responsibilities and liabilities, and contract lengths (Table 3).

**Table 3. Main distinctions in the FM/PM contracts in Finland (Keituri & Äijälä 2000)**

<table>
<thead>
<tr>
<th></th>
<th>Finland</th>
</tr>
</thead>
<tbody>
<tr>
<td>Duties</td>
<td>Task lists quite general</td>
</tr>
<tr>
<td>Quality definitions</td>
<td>General</td>
</tr>
<tr>
<td>Goal setting, measurements</td>
<td>Very rarely done, improving</td>
</tr>
<tr>
<td>Management fees</td>
<td>Mainly fixed fees</td>
</tr>
<tr>
<td>Contract lengths</td>
<td>Mainly ongoing, short term 3-12 months notice, improving towards partnership type contracts, 3-5 years</td>
</tr>
</tbody>
</table>
The FM contract issues are very much speculated in the British and American literature, articles and opinion polls. According to their experience, approximately 10 years of working with FM outsourcing, there has been lots of information about the possible contractual pitfalls in the practice. The following example represents an American opinion of some legal issues that should at least be taken into consideration when outsourcing a management service.

According to Richard Raysman (1996), partner at Brown, Raysman & Millstein, a law firm in New York City, effective outsourcing agreements should protect the contractee (outsourcing company) against severe risks that could adversely impact operations. An outsourcing agreement should contain the following issues:

1. definition of the relationship, goals, and objectives of both parties
2. services to be provided
3. terms of agreement
4. personnel (including restrictions on hiring other party's personnel)
5. use of customer facilities
6. customer-owned and customer-leased equipment
7. data processing services and sharing of computer resources
8. vendor intellectual property
9. third-party services
10. customer projects ongoing at execution
11. management of projects and other services
12. customer responsibilities
13. confidentiality obligations
14. customer data
15. procedures to change scope of services or include additional services
16. performance goals and initiatives
17. conversion services (moving from customer's procedures to vendor's)
18. training
19. liability issues
20. dispute resolution
21. assignment of vendor-customer agreement and independent contractor status
22. insurance requirements
23. taxes and audit issues
24. disaster recovery/emergency backup; and last, but never least
25. fee structure.
4 TRENDS AND ORGANIZATIONS ACCORDING TO THE THEME INTERVIEWS

4.1 The histories of purchasing management services

Historically the real estate owners have managed the real estate services themselves in the Scandinavia. Unlike in the British culture, where the landlords have a minimal responsibility, the Scandinavian owners (landlords) have had traditionally the responsibility of organizing the maintenance for the tenants. While in the British culture the tenants have a long history of buying the different management services from management organizations, in the Scandinavia the management has been divided evenly to the owners and tenants.

Despite Scandinavian history the rental structure and management responsibilities are changing. Scandinavian building owners collect different kinds of rents. The traditional gross rent is not the only grounds for payment. Instead of the owners’ responsibility for the investment risks and management provision, the local markets seem to have more investors collecting the capital rent and more need for third party management.

The professional formation, management structures and service concepts are in a process of change. The North European management market is focusing. The traditionally understood real estate management is dividing into different activity entities and more activities are being looked at more professionally.

4.2 Management Activities on the Basis of the Interviews

4.2.1 Hierarchy of three real estate management viewpoints

Besides the earlier shown management viewpoint division to the facility, property and asset management the real estate management activities can be addressed to different levels of a hierarchy pyramid. The interviewees had many opinions of the importance of each activity but as a conclusion of the added values of different activities, the management activities had a certain hierarchy.

Real estate management activities can be addressed by the different levels of the hierarchy pyramid (Figure 25). real estate asset management, which was considered the most strategic of the three duties shown earlier, has been placed on top of the pyramid. The top management of the real estate investment or corporate management has traditionally performed asset management.

Property management deals mostly with the administrative issues, which are located in the “Management and control level” (Figure 25). According to the interviews it was understood as property and financial supervision of the buildings and real estates. It was thought to contain day-to-day issues like collecting rents, maintaining the property and filling the vacancies.

Facility management is the process of producing, maintaining and developing the support services for the facilities users’ core businesses. Facilities management was mostly considered to deal with the operational issues of real estate management (Figure 25).
In addition to these three activities, combined activities have been developed as the mixture and on the basis of original ones. These activities usually refer to the boundaries of the original activities and sometimes have specifying terms in them. As a good example for these kinds of activities are “Technical Property Management” and “Technical Facilities Management”. These operational activities are very much the same thing but used by different people and in different situations (Figure 25). For example the developed terms like Technical FM have in many cases been created to promote different kinds of technical operational level management services.

**Figure 25. Real estate management activities in the hierarchy pyramid (Ransgart 2000)**

According to the interviewees many of the occupations might have different tasks from different levels of activities. Generally speaking it is impossible to draw a line where the responsibilities and activities of one manager begins and ends. In many cases one manager can work with different tasks from different hierarchy levels.

Furthermore from the Scandinavian point of view, the linguistic barriers make things even harder. For example in the Scandinavian real estate business many people work as the property or real estate managers (in Swedish fastighetchefer) whose tasks are very often related to property management. But the reality can differ a lot since the work tasks can include elements from all activity levels. The interviewees did not see the management activity division as black and white.

### 4.2.2 Facility Management

The FM term was understood very broadly in Northern Europe, as according to the literature. The North European FM market has many prospectors. Many operational level service providers are developing FM services along with the original services.

Many of the interviewees considered the current trend rather negative since the mixed supply has a tendency to confuse the customers. A few interviewees considered the mixed supply FM positive since there is different demand for the different FM organizations. It was mainly considered good that the “business support” thinking was increasing and the different kinds of management are becoming available for all kinds of customers.
According to some interviewees the North European FM is in a process of dividing into two categories, the operational level FM and the corporate advisory FM.

The operational FM represents the services that are supplied by the different service companies (single and multiple). The operational level FM was considered to mean the supervision of the provided services. According to the Scandinavian management contractor representatives the term facility service management would be a more explanatory term for the supervision of the services.

The other category of FM is the services that include the “higher value” activities related to facilities and their management. These services are mostly supportive services for the corporate real estate management (CREM) and involve different kinds of advisory-role services such as strategic planning and business support management. In an ideal situation the management provider participates in all activity levels (strategic, management and operational). With these services the management organizations aim for a long-term partnership and to achieve a consultancy role within the client organization.

Generally the FM definition is as much speculated and differently understood subject in Northern Europe. The facility management definition is used and comprehended very differently among various interest groups.

4.3 Organizational Trends in Northern Europe

4.3.1 Real Estate Investment Organizations

Every Scandinavian organization seems to be receptive to different changes at the moment. Most of the companies have had major changes during the last few years and many of the organizations are looking for a competitive advantage and cost efficiency by outsourcing in different ways (see section 3.2.4).

Generally the organizations and trends look very similar in all Scandinavian countries. If Scandinavian organizations are compared to the British organizations the differences in culture are not visible but the interval for some trends are predictable. The Scandinavian organizations are more or less structured on fundamentals of the traditional corporate model. The British and American organizations are quite far away from these relying at the time on the different service provision models shown earlier. But the Scandinavian organizations are rapidly changing their form towards them as well.

The principalities in all Scandinavian organizations are much alike. Most of the companies are currently looking for synergy advantages, flexibility possibilities and different cost-efficiency aspects on all levels of management activities and within all service areas.
A fine example of a modern and large Scandinavian organization is (Figure 26) the Finnish State Real Property Agency\(^1\), the biggest real estate owner of Finland, with its new organization that was reorganized in the beginning of the year 2000. This model features only some highly competent staff in the business support units, which are specialized to certain areas. This model is aiming for a matrix-type service model where customers only deal with the same customer service oriented staff with all issues. At the same time the specialized staff operates with certain recurring problems that need a high level of competence.

![Diagram of State Property Agency](image)

**Figure 26. State Property Agency (Valtion Kiinteistölaitos 2000)**

In the medium size Scandinavian real estate investment organizations, e.g. pension funds, the organization models can be divided into traditional functional groups. In many cases these organizations have outsourced many service areas. Almost without an exception the property managers carry out most of the manage duties of a certain building(s).

The organizations in different countries look very similar at first, but with an in-depth study to some service areas the differences stand out. Since a building management system provider originally launched the research project, the evaluated services were most conveniently the ones involving technical management and maintenance.

---

\(^1\) Finland’s State Real Property Agency represents the owner and the landlord, rented 3 682 000 m\(^2\) in 1999 in Finland
The actual work that the maintenance groups carry out varies considerably in different countries and especially between different organizations inside the countries. The four example-cases in (Figures 27, 28, 30 and 31) show how the same tasks can be organized in different ways depending on the outsourcing level and the general local cultural distinctions.

In the first case, the OBOS Forretningsbygg of Norway, (Figure 27) organizes its maintenance, and some other traditionally outsourced service areas, by having an in-house maintenance organization. This organization represents the stereotype of a traditional corporate model, even though OBOS Forretningsbygg is a real estate investment organization.

The maintenance organization has its own maintenance staff working under the supervision of an operation manager. The OBOS Forretningsbygg manages around 260,000 square meters mainly in the Oslo area.

![OBOS Forretningsbygg’s organization](Eriksen 2000)

The interviewed Norwegian organizations seemed to pay more attention to the quality aspects of the services rather than cost-efficiency. Despite the fact that the Norwegian organizations relied on the traditional organization models and therefore looked on the paper underdeveloped, the common problems that appeared in the interviews with some extreme outsourcers in other Scandinavian countries did not bother the Norwegians.
The second example, another Scandinavian organization, the management organization of a Finnish Pension Fund, Fennia, organizes its maintenance by having only one manager running technical maintenance of the real estate mass of 500 000 square meters (Figure 28). In Fennia, as in most of the cases in Finland and Sweden, the day-to-day technical maintenance and other services were managed and carried out by real estate service companies. In Finland, and some organizations in Sweden, it is not very common to have maintenance units with more than one or two of supervisory managers as in the Finnish case. Even though the model was considered very cost-efficient, a big problem was considered to be the diminished control of the services.

![Figure 28. Organization of a real estate unit of a Finnish Pension Fund (Piispa 2000)](image)

Obviously the job descriptions of the Finnish and Swedish property managers often include only supervision of the services. Their involvement level with the operational staff is relatively minimal compared to the Norwegian model. In Finland the local service companies are therefore mostly responsible for the tenant relations since the tenants complain directly to the service-provider-managers.

Some Finnish and Swedish owners were very upset with the way service providers were delivering the agreed services. In many cases the service companies were suffering from a service quality problem. The quality was poor because of the lack of staff and the incapability of delivering promises. According to the interviewed service providers the owners lack purchasing skills and pay too much attention to the prices in proposals.

4.3.2 Corporate Real Estate Units

As well as the investment organizations, the British corporate organizations do not rely on a certain model - neither do the Scandinavian countries - but the British structure is very mixed and not as easy to standardize as in the Scandinavian countries. However, the organizations are more homogenous in Scandinavia.
While the Finnish and Norwegian organizations seem to develop synergies from their owner based FM units, the British facility and property management units seem in numerous cases to look for the synergy advantages from outsourcing and management service provision.

But the outsourcing is aggressively converting the organizational composition in the Scandinavian corporate based facility and property management units. The change affects all companies.

The current time is very favorable to big outsourcing deals. The fore-mentioned Ericsson-Skandia-JonesLangLaSalle deal is a great example of the current Scandinavian property and FM market.

Many big Scandinavian corporate real estate units have been outsourced during the past year (2000). While the client companies are focusing on their core activities the real estate service companies are growing with dispatch.

As another example, the Finland’s biggest retail chain Kesko outsourced its real management services providing subsidiary to ABB Building Technologies Finland in August 2000. The original management organization, the subsidiary Kestra Real Estate Services ltd, worked with five local offices (Figure 29). Kestra's central office in Helsinki retained its governing bodies and specialized units: its managing director, administration, quality, environment and project personnel.

The outsourcing involved 30 old Kestra employees, operational level managers and in-house key personnel, which were rehired by the ABB Building Technologies Finland. The partnering type of contract between Kesko and ABB cover the maintenance and mostly hard FM services. With the partnering the companies aim for cost savings and more efficient maintenance (Kestra 2000). The other services, such as the soft FM services, have been organized, in a traditional Scandinavian manner, by the tenants.

---

2 Hard FM services cover the all technology related facility services. Soft FM services cover other, office work related, services such as cleaning, catering, reception, postal etc. services.
Resulting from the outsourcing process Kesko reorganized its old asset and property management company, Kiinteistökesko Oy, starting in the beginning of September 2000 (Figure 30). The new organization has four different sub-units working under managing director: administration, projects, asset management, facility management and corporate services. The organization operates as a responsible unit for the strategic, management and control activities of Kesko Ltd.

![Kiinteistökesko Oy organization](image)

**Figure 30. Kiinteistökesko Oy organization**

Even though Scandinavian companies have out-tasked certain services from the 1970s, the management of the services has traditionally been kept in-house. In management level outsourcing the British and American organizations are more advanced and experienced. Therefore it is not unusual for multiple service provider sub-contractors to sub-sub-contract certain functions. As earlier, the building management system overview works as an example for sub-sub-contracting level management outsourcing.

The last organization example, Barclays Capital’s Facility Management and Corporate Services business unit (Figure 31) at Canary Wharf in London can be considered as a large-scale British organization example. Foremost the Barclays engineering organization is not comparable to most of the Scandinavian organizations since it manages almost a million square meters with its headquarters, two buildings close together with a high sub-let level. (Macleod 2000.)
Even though the outsourcing can seem a bit complex, the technical management is well designed and functioning smoothly. The advantage the British organizations hold over the Scandinavians is a question of the quantity of square meters per building ground. This enables the several experts to work closely and communicate fluently.

By comparison, the Swedish and Danish management organizations were, on a quick look, very much intermediates of the extremes of Finland, Norway and the UK. Sweden was very much an intermediate of the in-housed Norway and outsourced Finland. Swedish companies had outsourced the technical maintenance and other services alike the Finns, but according to the interviews, the Swedish had a slightly better control over the service quality. In some cases the Swedish had trained or hired lower operational level managers for supervision and the quality monitoring.

The Danish are running the maintenance very similarly to the Norwegians, but had more outsourcing with the management level activities. The Danish standard organization would in general represent something of a mix between Norway and the UK. Many Danish real-estate-owner organizations also have a very good standard of having well-functioning management level partnership deals. On the basis of the few interviews in Denmark, the Danish seem to be a step ahead of the other Scandinavian countries in management level outsourcing.

Nowadays the service providers are given more liberty in management. The modern organizations have less in-house operational level managers and the corporate management units are becoming smaller. The service providers are getting more responsibility in management of the services while the in-house organizations shrink (Figure 32).
Generally all organizations in all the target countries are changing from the personnel management towards contract management. For this reason the corporate needs for internal management change. In the future the purchasing skills are becoming very important along with the expertise in business need mapping.

![Diagram](Image)

Figure 32. Change in the Corporate Real Estate Management (Krumm 2000)

### 4.4 Outsourcing trends

#### 4.4.1 General observations

The term outsourcing seems to be understood differently between the interviewees. Outsourcing was understood as both partnership contracting and subcontracting related out-tasking. While a majority of Scandinavian real estate professional most of the time talk about outsourcing as the old-fashioned subcontracting and out-tasking, the British talk about it more as partnership contracting. But as in the UK, in the most internationally active Scandinavian organizations outsourcing is increasingly understood as partnering and less as old-fashioned subcontracting.

The fact that outsourcing is understood differently has its affect to the general debate around the outsourcing related issues. In general outsourcing is increasingly understood as a positive partnering type of activity rather than an old way of getting rid of extra resources.

According to some management organization representatives both the clients and service providers have not had the needed experience to carry out the planned outsourcing benefits. In many cases the service companies have delivered neither the agreed service level nor the promised synergy advantages and the clients have been helpless without the in-house expertise.

Because of these bad experiences with the “outsourcing” term has gained a rather negative ring to it. In general, the failures in bad decision-making have created a belief that outsourcing decisions are about either saving money or maintain the in-house competence.
4.4.2 Balancing between outsourcing and “insourcing”

Many of the interviewees thought that outsourcing follows a cyclical pattern. Companies first outsource, in order to save costs, and then return functions back inhouse, in order to save the lost service quality. The cyclical pattern is balancing between the costs and quality.

The outsourcing was also considered to have affects in three dimensions: cost, performance and business need (Figure 33) by a couple of British interviewees. The outsourcing of FM functions is thought to balance between these three aspects.

![Figure 33. Three dimensions of outsourcing (Hayward 2000)](image)

When outsourcing came along in the 1970s the field was driven by the costs and was lacking the performance and business-need sectors. Facilities and the services were not very sophisticated. After focusing too much on the costs the field woke up and noticed the neglected performance and business-need factors. How to translate the standards of performance into the outsourcing contracts was not known.

Before the outsourcing, the existing in-house teams focused too strongly on performance factors and to the fact that the business-needs were not paid much attention. With the outsourcing contracts the business-needs were more easily reached by cutting too high performance standards and the excessive work.

Over the years, specifically the last 10-15 years, companies in the UK have been balancing the three factors without paying too much attention to costs with outsourcing, and by not paying too much attention to performance within the in-house teams. The balancing process has been based on the correct business-need focus. The guideline for outsourcing and insourcing has been the continuous business-need monitoring.

The level of outsourcing within each service area depends on the considered value the service provides to the core business function – in other words, the business-need of certain service is being analyzed. But according to the interviews, the business-needs have been lacking attention recently.
The interviewed operational level managers stated very clearly that Scandinavian organizations are suffering from a boom of imprudent outsourcing. Many of the local companies have done outsourcing decisions without further business-need or long term analyzing.

The interviewees thought that the outsourcing strategy should agree with the long-term business goals and strategies. Especially in the management level outsourcing it is necessary to ensure that the future efficiency benefits the companies require to survive are not being traded out.

About the need of “insourcing” some of the British interviewees stated that it might not be the perfect solution for better quality in terms of getting better service with the spent money. In the UK an attempt to reach the same quality is being made by building appropriate quality management tools such as service level agreements (SLA’s) and key performance indicators (KPI’s). The different performance measurements can be attached to the different indicators that are connected to the different business needs.

4.4.3 The benefits and deficiencies of outsourcing

A few interviewees stated that one of the biggest added values of outsourcing are the transferred personnel responsibilities. For example in case an employee gets sick the service provider must replace him and no added costs are going to appear. In case you were the employer, you would have to find a replacement and to pay for the extra work.

A big benefit was considered to be the ease of changing employees. In case an employee does not fulfill the agreed standards, it is easier to demand a change from the outsourced management rather than get personally involved with the problem.

Some management contractors saw outsourcing as a possibility to learn more and to move on with their careers. In many cases the in-house organizations do not offer same kind of advantages in volume as the big management organizations usually do.

The most usual deficiencies of outsourcing were the usual service quality problems, lost in-house expertise and the unmotivated and small-numbered service staff. The British interviewees had experiences from the management level outsourcing and stated that the implications of an outsourcing decision often do not become apparent until the second or third cycle of the outsourcing program. Therefore the visible benefits or deficiencies are not apparent in the beginning of the contracts. Many organizations might realize that they have lost the industry knowledge and ability to competently specify and manage the outsourced activities only after a couple of years of outsourcing.

4.4.4 Future outsourcing trends in the Northern Europe

In the past outsourcing may have been seen in defensive terms as a quick fix problem solver to facilitate change or manage a peak demand. The perspective is changing while outsourcing is considered to be more permanent.
As shown in section 3.2.3, the Scandinavians have been outsourcing the operational services as much as the British organizations. Nevertheless the British organizations are more experienced in the management service outsourcing. The British surveys have shown in the last few years that outsourcing is still increasing in the future. According to the Scandinavian interviewees the trend is similar (Figure 34). Added to the general statement of increase some of the interviewees pointed out that besides increasing the outsourcing is also changing its form. The aggressive increase of outsourcing was considered to affect only some special areas.

The general opinion was that outsourcing is in the future reaching the management activities and, according to some, even the strategic level tasks. Many stated that the general specializing and focusing on the real estate service business drove outsourcing. Some of the interviewees pointed out that major changes would be happening in the asset management level as companies are increasingly selling their property to investment companies.

A tenth of the interviewees stated that outsourcing would increase in only some organizations. According to the interviewees the most expertise was considered to forgather into the specialized management organizations and the number of small management units in small and mid-size organizations were to decrease. The Scandinavian property quantity was also considered to put its limitations to the highly professional in-house departments.

In spite of the big boom of outsourcing in Scandinavia, six interviewees stated that outsourcing was stabilizing. In many cases outsourcing was considered to follow a cyclical pattern that was reaching its top and in the future it would be returning back to the in-house teams. In some cases the outsourcing term was understood only as an operational level activity. A few of the interviewees had very personal and sensitive standpoints when it came to the outsourcing issues. In these cases the interviewees had extremely negative experiences from it or they felt outsourcing as a threat for their job.

![Figure 34. The future trend of outsourcing in the Northern Europe](image)

The interviewees were also asked which organization-types were most likely outsourcing their management in the future. Most of the interviewees refused or were not able to point out any organizations.
The most potential organizations were considered to be the pension funds and finance organizations. The Finnish and Swedish interviewees did most of these statements. Some interviewees stated that many smaller pension funds would even outsource all management activities, including asset management, in the future. The example of Swedish Skandia-JonesLangLaSalle (Appendix 2) indicated big changes in the Scandinavian outsourcing. Some interviewees saw lots of opportunities, instead of threats, in the internationalizing management business.

The communities were considered as relatively potential outsourcers and so were the IT companies by few interviewees. Some thought the e-commerce companies are going to be the major players of the future. Still some of the major companies are looking for long-term FM solutions for the future.

Some of the interviewees did not want to point out any particular organization types, just some general facility types or quantity-based qualifications.

According to the answers there are not considered to be any big cultural differences in the future outsourcers between the target countries. Most of the stated organization types spread out to all countries.

Added to the statistical presentation of the organization types some interviewees gave out general scenarios of the future in the facility and property management business. Most of them were not particularly addressed to Northern Europe, as many of them were more global issues and phenomena.

The Managing Director of WSP Facility Management and former Chairman of British Institute of FM Marilyn Standley (2000) said: “Companies are changing shape in the industry through the property partnering and with other partnering contracts in general. This way new sectors are to be founded in the FM business”.

The business is moving towards being less property-focused since more and more businesses are moving to the Internet (banking and shopping). The businesses that are driven by the people are the biggest outsourcers. In the commercial side, property and facilities cost can be second to the salaries. In the industrial sectors the costs mainly consist of raw materials. On the commercial side there is enough money to justify the outsourcing.

At the same time the property profile is changing since more companies need a smaller staff for some traditional areas. Some of the interviewees stated that companies are seeing property increasingly as overhead rather than an instrument of investment.

A great potential is in the companies that are growing fast. In many cases those companies do not have existing organizations for facilities management and services. This is particularly usual for IT-companies, which have to pay all of their attention to the core business.

A growing trend across the world is that big companies are outsourcing their staff and selling the property with rather quick moves. This must have its affect to FM as well as the PM and AM.

The answers for the most likely outsourcers were very different between the different interviewees – mostly between individuals not between different countries. The one conclusion was that the outsourcing is going to mix up the organizational picture a lot.
4.5 Service packages in Northern Europe

4.5.1 Demand for service packages

The Swedish organizations bought mostly single services rather than multiple and total facilities management. According to the Swedish study (Dreifaldt & Carlsson 2000, pp. 40-45) the strong existing facility and property management units still prefer to manage single contracts and to buy them separately.

The same issue was addressed a bit differently in the questionnaire (Appendix 8). The interviewees were asked whether they preferred to manage many contracts, just few or single contracts. The answers were very similar to the ones in the earlier shown Swedish study (Figure 21, on page 35).

As much as twenty-two of the interviewees considered many contracts as an optimal management position (Figure 35). Since the majority of the answered people were operational level managers, the independence from only one sub-contractor was well appreciated.

Many of the interviewees had an opinion about how both many and few contracts had their times and places. As much as fifteen of the interviewees stated that there exists a need for both.

The number of the contracts was considered to depend on the management competence and the resources at hand with each management unit. In the multiple and total facilities management cases the management role was considered more supervisory and in the single cases more active. The role of a manager and the contract number was considered to depend on issues like the facility type, strategic importance and how crowded with staff the managed facilities were.

Only five of the interviewees preferred to have only few or even total facilities management contract to manage (Figure 35). The justification for these answers were the small management resource-needs and the supervisory role of the management personnel.

According to the interviewed people the few contracts gave an opportunity to focus more on the property management rather than the more operatively understood technical property management. Noticeable was that four out of five of these people were Finnish. All of the interviewees worked on the management or strategic levels in organizations similar to the earlier shown Finnish model (Figure 28 on page 52), which explains the devotion for outsourcing. It is understandable that managers on the strategic level are more willing to outsource than the managers on the operational level.
4.5.2 Service provision models according to the interviewees

Even though most of the organizations still rely on their own FM units, the management service provisions exist and are growing fast in Northern Europe. The current British trends and the big outsourcing deals in the North European market imply that organizations will eventually rely more on these three different service provision models.

According to the interviews the different management services have traditionally been divided by the number of the delivered services. The management organizations have commonly been divided to the management organizations and service providers. The Scandinavian interviews indicate the situations and opinions about the British service provision models in the other studied markets.

Managing agents

For the time being the managing agents was a fairly unknown business concept in the interviewed Scandinavian organizations. But while the owners are still increasingly outsourcing and looking for different management solutions, the managing agents could become a very potential option for those who have existing and well functioning FM units with professional in-house staff.

For the current problem of measuring the overall quality of services, the managing agents offer modern solutions. The British managing agents have created different hi-tech tools, like Help-desks, which enable new possibilities for the problematic quality measuring.

In order to increase the management information the new technology enables a more efficient approach for monitoring and documenting service activities. As an example the FM helpdesk concept of WSP Facility Management (Figure 36) brings different elements and added value to a traditional corporate management with its new technology solutions. Managing agent’s help-desk other services can also provide different expertise to the client such as management information, end user services, and performance measuring (Standley 2000).
According to the interviewees the managing agents were considered to be an independent option for outsourced management. The agents can give various forms of support and consultation to their client organizations. Added to the help-desk services they usually give outside opinions of different management problems in all hierarchy levels.

The interviewed British managing agents had very sophisticated systems for service contractor bidding and performance measuring. The clients can use the agent’s help whenever necessary in special projects and other unusual situations.

None of the interviewed Scandinavian organizations had as sophisticated and as practical methods for performance measuring as the British help-desks – at least not for performance monitoring. The British have started the comprehensive performance measuring with different SLA´s and KPI’s, and from there extended it to the supportive technology to facilitate it.

Managing contractors

The big international deals such as IBM and Johnson Controls has originally brought the FM contractors to Scandinavia. The FM-business is growing rapidly in all North European countries while it still establishes more an important role in the UK as well.

The Scandinavian management contractors and agents have achieved the biggest market share in Denmark. The management contractors are also establishing a greater role elsewhere in the Scandinavian FM businesses.
The IT and other core business focused companies have been growing rapidly during the last years and this has created needs for an external management. In many cases the managing contractors have been the most substantial organizations for these needs. According to the interviewees in Finland and Sweden, the managing contractors have focused on the growing IT and e-commerce businesses.

Some of the new Scandinavian management contractors are trying to build an advisory type partnership with the core business focused organizations. Instead of just organizing the supportive services the managing contractors are supporting their clients with strategic consultation with the spatial and real estate issues.

Many interviewees, mostly representatives of management contractors, considered the model to be the most independent and cost-quality-effective of all three models. According to them the detached managers are the most neutral people to make the right calls in the day-to-day management.

According to many interviewees the managing contractor model was to be the most popular model in Northern Europe. Also the exclusive role and the financial detachment from the service organizations were considered to be the biggest advantages for the managing contractors.

Total facilities management

The recent outsourcing management deals, such as Skanska and Ericsson in Sweden (Appendix 1), indicate that the total FM provision has got more attention in Scandinavia. In Finland the big service companies, such as ABB and ISS, have also done big total facilities management contracts with big state-oriented companies, e.g. with the two biggest Finnish phone operators during the year 2000.

The primary reasons to outsource have usually been the different costs, but according to the interviewees the reasons for choosing big service companies, total facility managers, have mostly been employment political. This means that a very crucial element of the total FM contracts is the service staff transferring and their relocation to different service units.

Most of the Scandinavian “Total FM contractors” are still not delivering the whole scope of the FM services. But since the definition of total facilities management allows some sub-contracting, there are organizations practicing total facilities management in Scandinavia.

Most interviewees criticized the total facility management provider’s detachment. The management role and quality aspects were considered to suffer remarkably when a manager purchases the services from its own organization. The necessary hierarchy of management and services were considered to diminish in practice.

By letting all responsible and liberty elect services to the hands of one service provider, the client must have enormous confidence with the chosen service company. The total facilities management contracts were considered as a fairly easy solution to the clients, as was the managing contracting, but in practice it has been seen to produce unexpected problems. According to the experiences of the interviewees a situation where the same organization delivers the management and services does not add greater value to the day-to-day work because of the bad flow of information within the companies. Usually the different units have different people in charge and have their own profit responsibilities.
British experiences of the total facility management

The British management market was in a same kind of situation as the Scandinavians approximately five years ago. The concept of Total FM started in the UK by transferring the staff from big in-house organizations to service companies that were short on staff at the time. The concept was to disperse the staff inside the service company to different clients.

The idea of total facilities management used to be considered good in theory in the UK but in practice it did not work as expected. Both clients and service companies had high expectations from the total FM deals. Some of the British interviewees explained why the model did not work without problems in the practice.

The companies that were doing total FM contracts wanted positive results relatively fast. In some cases the British total facilities management companies had been too small to bring about the changes that the client needed in the beginning. Later on it is considered to require 5-7 years to achieve the expected impacts.

In reality the process of inheriting staff from client organizations caused some problems. Even though everything seemed good at first, in reality the staff had to be kept completely separate because of the confusing British TUPE regulations.

The initiative situation came when a FM service provider inherited the staff from the client A in the outsourcing deal. The ideal goal of the deals was to allocate some of client A’s redundant staff to the client E, who had a shortage of manpower (Figure 37).

In reality the TUPE regulations caused problems. The two main reasons for the problem, the isolation of the staff, were the following:

Reason 1: In case the staff from client A was to be transferred out, because of cancellation of an agreement or else, the client E has to have an identifiable business unit in order to fulfill the transfer. In reality identical organizations did not exist.

Reason 2: Service companies get financial protection from the client organizations in case the staff was to be laid off. In reality the clients ended up paying for the outsourcing problems. So the financial justifications of outsourcing did not quite materialize.

3 The TUPE (The Transfer of Undertakings (Protection of Employment) Regulations 1981), which regulates the transfer, undertaking and protection of employment, have had its effect on the Total Facility Management deals in the UK. Whenever commercial property or leases are sold or purchased (particularly shops, public houses, garden centres and factories) or property management and contracting out are an issue, care must be taken to establish whether there are any employees attached to the property who might transfer. (Jeffreys 2000)
In reality the TUPE regulations caused a situation where the management organizations were changed but the same operational staff remained working with the facilities. In some cases the British FM contractors and clients found themselves in situations where one FM contractor was changed to another after a couple of disappointing years in the contract period (Figure 38). The same staff A and B was inherited because of the TUPE law protection. In reality the only thing that was changed was the facilities management (from 1 to 2), even though in theory the total facilities management, including services, was changed.

The British TUPE example is fairly irrelevant in analysis of North European service provision trends. But on the other hand it gives an example for the power of local legislation and its affect to the service provision markets. According to many British interviewees the TUPE has given the managing contractor models a small advantage against the total FM models.

In the future the affect of the different legislation in Scandinavian countries is to be seen through possible court decisions in conflict situations concerning employment. In this report the possible legislative pitfalls are not dealt any further.
4.5.3 Finding a perfect model

According to the interviewee statements all models are justified and each have their time and place. Competition in selecting the best option, based on value for money, is a criterion applied to all situations. But the fact that each service provision model has its justifiable and positive qualities is inevitable.

The purposes for the service provision play very important roles in selecting the right the model for management services (Figure 39). The starting point of an in-house organization, client’s strategic demand and volume of outsourcing demand a defining of the nature of the needed management service model.

The managing agent suits well a situation where a client wants to improve the overall performance and quality control within the existing in-house organization. The supportive role a managing agent offers a substantial choice to improve the performance of an in-house organization without the negative affects of outsourcing.

According to the interviewed management contractors the managing contractor model can offer independent expertise for those clients who are determined to focus on to the core business activities. The managing contractors also enable smaller scale outsourcing of management personnel.

According to the interviews the Scandinavian values, employment and welfare, seem to play as big a role as the cost savings. The total facilities management model offers an exclusive opportunity for a client to transfer the employment responsibilities and excessive staff to an external service provider. In many cases the total facilities management model is the only politically correct model for big outsourcing deals.

**Figure 39. Purposes for the different service provision models**

- **MANAGING AGENT**
  - Support the in-house organization
  - Improve quality control

- **MANAGING CONTRACTOR**
  - Hiring an independent manager for a new building?
  - Outsource few managers?

- **TOTAL FACILITIES MANAGEMENT**
  - Outsourcing operational staff?
  - Coalition with one service provider?
4.5.4 Local distinctions for the different service provisions

According to the interviews each Scandinavian country has at least some distinctions with their management organizations and common policies affecting the management service provision. The differences are in many cases due to local legislation and traditions.

**Denmark**

The Danish facility and property management was, according to the interviews, the most advanced in the interviewed Scandinavia countries. The Danish property management has a significant history of its own. In Denmark, as in all studied cultures, the local language and traditions have created a local management culture. According to the Danish interviewees the Danish property management resembles more the American real estate management style rather than the British approach to property management.

Some interviewees made a rough estimate that the “administrators”, the Danish property management contractors, cover approximately 50 % of the Danish management markets. A big speciality in Danish property management is that the management companies do not pay value added tax as the only country in the European Union. The service providers who include any services besides management do have to pay the VAT. This explains the big market share of the management contractors.

**Finland**

The Finnish management service market is fairly new. The local organizations have been under heavy operational level outsourcing during the past years. Especially in corporate real estate, some big companies have outsourced management and services. The majority of outsourcing cases have been total facilities management deals with the biggest real estate service providers.

In Finland some organizations still have very much potential in the operational level outsourcing. But according to the interviewees the biggest news is to be heard from management level issues.

**Norway**

At least according to the interviews the Norwegian management market was the least developed. The Norwegian interviewees were mostly operational level managers but an impression was given that service quality was more important than imprudent cost savings.

The interviewed organizations had all existing in-house operational level management staff and in many cases service staff as well. The different management organization models were relatively unknown to most of the interviewees.

**Sweden**

On the basis of the interviews the Swedish management market was coming right behind the Danish. The Swedish management market as well as management level outsourcing has taken a giant leap during the past couple of years.
Many of those worldwide companies that have not come neither to Finland nor Norway have merged with Swedish companies. The starting of JonesLangLaSalle and all other attached news indicate that the Swedish management market is developing very fast. As a Scandinavian specialty, the Swedish real estate management companies like Catella have established a very substantial role in the North European management market.

According to the interviews the different kinds of service provision models are used in the different target countries as following (Table 4). The information is purely trend setting and based on general comments and observations in the conducted interviews.

### Table 4. Management organization models used in Scandinavia

<table>
<thead>
<tr>
<th>Country</th>
<th>Model</th>
<th>Traditional corp. model</th>
<th>Managing agent</th>
<th>Managing contractor</th>
<th>Total facilities management</th>
</tr>
</thead>
<tbody>
<tr>
<td>Denmark</td>
<td>many</td>
<td>rare</td>
<td>many</td>
<td>some</td>
<td>some</td>
</tr>
<tr>
<td>Finland</td>
<td>many</td>
<td>rare</td>
<td>some</td>
<td>some</td>
<td>some</td>
</tr>
<tr>
<td>Norway</td>
<td>many</td>
<td>rare</td>
<td>some</td>
<td>rare</td>
<td>some</td>
</tr>
<tr>
<td>Sweden</td>
<td>many</td>
<td>rare</td>
<td>some/ many</td>
<td>some</td>
<td>some</td>
</tr>
<tr>
<td>UK</td>
<td>some</td>
<td>many</td>
<td>many</td>
<td>many</td>
<td>many</td>
</tr>
</tbody>
</table>

**4.6 Management contracts**

**4.6.1 Importance of partnering**

The most important announcement the interviewees gave was the importance of partnership thinking when dealing with management services and the contracts. According to the interviewed British managers, who had experiences with the bad contracts and the negative consequences, the usual methods for operational services did not apply for the wanted results.

Some interviewees emphasized the importance of matching organizational cultures and personal chemistries. The issue was simply: “With whom would you like to share your management responsibilities?” Management contracts are not just for delivering operational services, it is about making the right decisions.

Both contract parties should be also patient with the partnering. Developing loyalty takes some time. All sides, client and management and the operational staff should be well motivated. From the output and money point of view, incentives are better than penalties.
When contracting the management services, facility executives must match their corporate organizational goals with the partners’ capabilities. Since the management services are considered to have higher value than ordinary facility services, the service providers should be looked at from a different point of view. Since the FM services are fairly new, the management contract cultures in different target countries are new as well. The only contract models for facilities management were found in the UK.

According to the interviews the Scandinavian knowledge of purchasing the management services are relatively improper. Local markets lack common contract models and methods for quality and performance monitoring are elementary. Regardless of the existing history of property management, the contract standardization of outsourced management is scattered. The only available Scandinavian standardization was in Denmark, where the Danish Property Management Association (DAREM 1998) has created common terms for the PM agreements.

4.6.2 Tendering

The Scandinavian organizations have not had much experience in bidding for management services. The most bidding experience has been gained from the operational level service purchasing.

With the operational level activities, the amount of supply has been far greater than with the amount of “high value” management services today. Therefore the traditional methods and contractual usage for the higher level services have not been sophisticated enough. The nature of the higher value services does not fit into the bidding process similar to quantitative out-tasked services. The management duties and the needed partnership need far more thorough preparation and communication.

Many interviewees emphasized that with management service the same principles of bidding do not serve the purpose. Management services require a higher degree of partnership thinking. The usual cost based thinking, where the price is the most dominant argument for service provider election, does not serve the purpose in the long run.

According to the British some management service providers calculate and bid very low with management services. After winning the management bidding, the service providers tend to make further conducing management decisions with the other services same organization provides. The management services were in some cases thought to be an access to collecting more money with the services. The same issue came up with the Scandinavian interviewees when total facilities management providers were criticized.

---

4 The British Contract Models were the:
   a) Property Advisers to the Civil Estate (PACE) GC/Works/10 Facilities Management Contract
   b) The Chartered Institute of Building Facilities Management Contract (CIOB)

5 The Danish property management model: General Conditions for Administration of Real Estate (ABA 98)
Some interviewees pointed out common facts that should be taken into consideration in tendering. While the cost structure of the management services are 70-80% wages the lowest price means the lowest wages. This means that the management service provider pays the manager poorly - who are not necessarily the most competent people in the market.

Almost all interviewees, who had experiences with the management level outsourcing, emphasized again the importance of partnering and mutual benefits of the collaboration. The interviewees pointed out some general issues that should be taken into consideration when picking the right firm for partnering.

Once the RFP is developed, the client should state as clearly as possible the expectations from the management services. The goals should be stated clearly and the methods to achieve them should be negotiated between the contributors. In the Scandinavian countries, at least at the moment, there are not many companies doing interactive evaluation. Getting to know each other is a key element in management service tendering.

All added values and innovative thinking of management work cannot be written on paper. While the history of the management services is relatively short, the unknown service providers might have some added value just for some clients. The clients might want to look at firms that have experience with buildings similar to ones that are managed. On the other hand, a company that’s interested in taking on a different type of building may also be more open to trying new ways of doing things. During the management process the service provider may come up with innovative systems or procedures that are better than what had been in place.

The clients should review the outsourcing company’s procedures and systems. This enables the decision of which service providers have practices that you think work best. One area that the clients might want to look at is, how the company tracks customer or tenant complaints. Do they have a process or culture for corrective actions and continuous learning?

The clients should meet with the people who will be working on your building. It’s not the president or the sales person who will be managing the day-to-day tasks. Look for the best site manager for your building. The experience of the site manager is more relevant than the experience of the company. The site manager is the one that makes the management calls, not the brand of the company. Make sure the site manager makes enough money in order to be motivated. In addition, you want to ask about the firm’s policies for hiring rank and file employees. You might not want end up with somebody totally different that you hired for the job.

Pay attention to the financial resources of the management service provider. Will they be able to do the job what they have been hired to do also over the long run? The financial stability is important when lot of trust and people are involved.

Compare corporate cultures. Picking an outsourcer or management partner is like getting married. You want to make sure that you can work comfortably on a same level with management organization. In order to reach to ultimate benefits, you have to trust the managers that they make the right calls.
Methods and tools for tendering

Compared to the Scandinavian colleagues the British management organizations have to deal with a bigger supply, which was shown in the methods the British organizations used. The British management companies have several methods for RFP processes.

An example method for bidding is used by a British managing agent, DTZ Debenham Tie Leung in London (Figure 40). The method was described only by word and therefore the presentation might lack some elements. The method contains three stages.

The first stage is “Pre-qualification” which focuses on selecting the right organizations for a certain business need from about twenty candidates. The stage goes through the basic information of all contractors. Issues as how the staff is managed, where the company is based and what kind of experience the company has for performance-based contracting are being compared. On the basis of the general issues the potential contractors are being selected by using a rating system to stage two – “Tender”.

The second stage, “Tender”, consists of further analysis of about six contractors. The tender stage is similar to the pre-qualification but only more precise. The contractors are been compared more thoroughly.

The last and third stage is “Tender Analysis”. In this stage the tenders are broken down into issues such as: methodology statement, policies, prices, general understanding of the business, the business approach, innovations and IT-solutions. Each issue is weighted by using business-need-based value coefficients and the calculation process concludes to the best contractor.

![Pre-qualification](20)

![Tender](6)

![Tender Analysis](1)

**Figure 40. Contractor selection method of DTZ Debenham Tie Leung (modified from Hayward 2000)**

4.6.3 Duties

The British have moved from extremely detailed, prescriptive and task oriented, management contracts to less complicated management contract models. These “output” based service descriptions enable the management and service organizations to change more easily.

Almost all British interviewees thought the businesses will change over the life of the management and service contracts should be accepted in the drafting process. Some of the British interviewees thought the American very detailed task lists, drafted by lawyers, do not adjust with the changing needs and organizations.
Compared to the American highly input driven task lists, the British contract policy is becoming very output driven. The defined specifications and milestone-benchmarks and performance indicators are expected move overtime and change off and on. A big challenge in the UK was considered to be the property leases and their structure with increasing workplace flexibility.

In Scandinavia both management and service contracts resemble the American input models. The interviewees stated that the duties are listed but they are not as detailed as in the United States. According to the Scandinavian interviewees the local legislation and good practice have ensured a decent standard with the services. Many property managers said that they have personal relationships to the supervisory managers in the service companies, and some even with the staff, which stabilizes conflicts between the parties. Many Scandinavian managers stated that in most cases oral agreements apply and you can count that the services are being delivered.

4.6.4 Quality definitions

According to the Scandinavian interviewees the quality definitions are quite rarely included into the contracts. General things as what services should be provided and how often they are to be delivered are being listed. Exact quality definitions, which imply how well the services should be conducted, are rarely included into the Scandinavian contracts.

Even though the Scandinavians have had a lot of faith in the service providers, the outsourcing has done what it most commonly does. Instead of the regular service staff, with which the service quality was personified, the situation has changed to where the responsibility and people behind the work are hard to find. Because of the cost efficiency of the low bidding one person has many domains to be covered. From the quality point of view, the services have taken a giant leap towards inferiority.

A lot work has been done e.g. in cleaning for standardization, description of services and adjusting service levels in Scandinavia. Most of the projects have been branch-specific and only dealing with certain service areas. The general property and the FM standardizing have though been without greater attention. But according to the interviews some projects have been started, or are about to be started, to improve the FM as well.

In Scandinavia the local good practices typically cover more than the laws applicable in the common-law system countries. This has a positive affect since it makes the basic contracts far easier to draft. The high level of standardization was considered to be axioms in the Scandinavian businesses. Unfortunately the great simplicity has its negative affects on the quality.

Also the quality issues are too often settled with oral agreements during the contract period. In general the Scandinavian service people were considered to be reliable and responsive of the complaints. But the high churn rate of the employees, especially with big service companies, was considered a big problem. The service staff changes and the oral agreements have not been trustworthy for a while.

---

6 The British are famous for their 25-30-year-long lease contracts.
Most of the Scandinavian interviewees stated that something has to be done with the service quality. A number of them had been familiarized with British output and performance–based thinking and said that it was the most convenient way to get there.

### 4.6.5 Goals and performance measurements

As said, some of the Scandinavian interviewees were familiar with the service level agreements and key performance indicators. A number of the Scandinavian interviewees stated that different performance measurements are becoming more common in the future but at the moment they are rarely used within the contracts.

According to some interviewees the British SLA’s and KPI’s are the only ways to improve the lost quality that is resulting from the heavy outsourcing and out-tasking. The importance of performance management methods was also recognised in the higher-value management services.

Some interviewees even stated that performance measuring is a way to separate good management from bad management. It is the only way to learn from the repeating problems. A common problem was considered to be the inactivity and the following culture change where both or one contract party would have to take extra time to work for the monitoring. Unlike in many contracts at the moment, all occurring problems would be recorded and reported to all contract parties. The openness and honesty was considered to be very vital for building long lasting partnerships and continuously improving organizations.

The British interviewees were the only ones with longer experiences with organized performance monitoring. A couple of Scandinavian organizations had done experimental projects with the performance monitoring and one had existing indicators and service level agreements in some of their contracts. On the basis of interviewee information the Danish were the only ones that have published key performance indicators in the form of a “key figures book”.

In general, the performance monitoring was very similar in practice as founded in the literature. The SLA’s control the approach that the contractor is asked to take. For instance in a case of a break down the contractor has to come and fix the problem within a certain time. The KPI’s tell when the contractor came, did they fix the problem at the first time? With the KPI’s the client can monitor the possible repetitions of the problems and other issues and compare them to the agreement and the stated service level agreements.

A lot of the FM issues were not considered to be about the specifics, but more about generalities. The clients should be looking at the level of service rather than recording events. The management and administration can be huge in case the input of work is monitored. It has been tried but is not worth it because of the money and bad work motivation of the managers.

Instead of the exhausting input monitoring the most important outputs can do the same. The modern help-desks enable the performance measuring in case the managers do not have time or tools for the unceasing performance measuring. The help-desks can help the clients with communicating the problems and give the needed performance reports. The contracts are linked to the performance and key performance standards.
The performance standards enable continuous improvement with the contracts and tell you whether you are getting service quality for your money. Some of the interviewees said that people generally have too big expectations from the performance-based management. Too many expect performance-based contractors to immediately lower the costs. In some cases it has happened but the true motivation for performance-based contracting should be the improvement of service quality. The other general assumption has been that performance monitoring makes the management easy-going. In order to monitor the real service level the manager should measure what is really important.

### 4.6.6 Management fees

According to the interviewees the Scandinavian management fees are very often fixed or net rent-based percentage fees. The Scandinavian fees of different agreements were hoped to be a little more experimental in general. Many of the management organization representatives stated that the property and facility management businesses were not as profitable as they have been in the UK.

In order to fix the common profitless, the fee trends would need more imagination. A way to make the business more profitable would be different performance-based incentives, which of course need indicators and service level agreements in order to be justified to both parties. Added to the profitability it would increase the motivation and commitment with the managed facilities from which the both parties would benefit from. According to the interviewees’ experiences personal incentives are good in order to improve the partnership spirit.

A couple of interviewees felt that the Scandinavian culture would resist the different incentives since the clients in many cases feel the possible savings and good management calls would be taken from their money. Some thought that the clients did not want to experience big surprises.

The American practice has shown that all parties can gain from incentive arrangements. For example in case a manager can make extra savings to the client, just because of the clever management, the cost savings will be divided between the client and the management organization.

According to some interviewees the incentives should be based on performance that has a value to the client. But since the FM can be very hardly measured the incentives can be based on behavioral issues – soft key performance indicators. Partnership-based thinking supports the practice that positive indicators should be recorded as well as the negative.

The management fee structures in different countries were very hard to identify in general. The different FM deals are global and the management fees are being negotiated along with the big outsourcing negotiations. These deals define common policies but on the other hand restrict local fee cultures. Despite the fact that some of the interviewees refused to give any misleading generalizations of the local fee structures, the following issues were mostly agreed upon.

---

7 In UK the facility management industry has divided the key performance indicators to soft and hard. The soft represent behavioral and other indicators which measured with difficulty. The hard ones represent e.g. easily measurable break-downs and other.
In the UK market, the actual net fee level is 2-3 % of the net rent and some are still bidding below the actual costs. Most organizations go for a relatively low margin on the fees and charge for all the extra work in the UK. With the low fees the clients tend to pick the cheapest contractors but in reality the margin will usually be paid with the extra charges.

According to the British interviewees the most common fees cannot be generalized. Each contract has its own payment basis, which is negotiated to serve each contract as well as possible. In some cases the British cost plus payment fees have two parts in them. Firstly the administration fee, which applies to the FM costs, and secondly a fee that relates to profits and risks.

The fixed fees per units were the most regular fee types used for subcontractors according to the Scandinavian interviewees. The percentage fees and premium fees are the most usual management contractor fees in the Danish facility management.

The Scandinavian management fee structure is becoming more variable – as it has in the UK. The different types of performance-based and incentive fees are moving the risks of management from clients to managers. The trend of moving from the rigid fixed fees to the incentives is motivating the managers to focus more on the quality and proficiency aspects of the management. The outcome can be good for both sides - more profitable to the managers and less risky to the clients.

4.6.7 Contract lengths

Alike the management fees, the contract lengths are very individual and case-related. According to the interviewees the contract lengths can vary from ongoing six months to five years. The given estimations of the local contract lengths were relatively conflicting in case distinctions or differences were to be made.

In all target countries the FM contract lengths were approximately from 2 to 5 years. The different service contracts were mainly ongoing from 6 months to a year.

It is impossible to set national limits for the contract lengths. But in order to set some trends, on the basis of the interviews it seems that people and organizations that have more experience of the management level outsourcing speak for longer contracts. The experiences speak in support of partnership and patience.

The partnership thinking has a visible affect on the contract lengths. Presently the Scandinavian contract parties have started to think of the contracts and their lengths in a more positive way. No longer the contracts are considered to be unconstrained, and the short contract lengths a way to get easily rid of the contractors.

To point out the North European trend for management contract lengths is very problematic. All of the few management contracts done in Scandinavia have been very subjective by nature and there is not much public information about them. The partnership contracting is relatively new in the traditional Scandinavian CRE-environment.
5 CONCLUSIONS

5.1 Trends in the Northern Europe

The aim of the study was to identify the service provision trends of FM in Northern Europe: Denmark, Finland, Norway, and Sweden and also in the UK. The evident results of the goals can be considered to be the following general conclusions.

The organizational structures of the Scandinavian corporate real estate units and different investment organizations vary more on an organizational basis rather than a country basis. Therefore the research did not reveal any essential distinctions between the different organizations in the different cultures. The principles of organizations in the target countries were similar, but the more specific structures in different types of organizations vary a lot.

According to the interviews the British had the most evolved culture in purchasing and outsourcing of FM services. The pattern of FM in Europe (Figure 6 on page 19) seems to follow the same path with all FM related issues - the organizational structures, service provision as well as the contract standardization (Figure 41).

*Figure 41. The pattern of FM related issues in the Northern Europe*

In the British culture tenants have a long history of buying different management services from specialized management organizations. The British management organizations are, in most cases, hired directly by the tenants to carry out all management of most services that come under the definition of FM. In Scandinavia the management of different services have traditionally been decentralized and case-related to both owners and tenants.

The definition of FM is a much-speculated and differently understood subject in the whole of Northern Europe. The term “FM” has been used for different purposes of marketing and has had very subjective approaches in all of the target countries.
Unlike in the UK, the typical Scandinavian markets have less “pure” FM providers, managing contractors, and agents compared to the other kind of managers. In many cases the Scandinavian management organizations deliver FM services along with the operational services and other businesses related to FM. For example many of the Scandinavian companies, construction, and service providers, deliver FM services along with the rest of the services.

At the moment the Scandinavian management markets are going through an experimental stage. While the FM service provision is increasing, in the future the FM-culture and definitions will probably become more uniform in the long run.

### 5.2 Outsourcing trends

Outsourcing is still increasing in all surveyed countries – even in the UK. This indicates that the outsourcing still has a lot of potential in the Scandinavian management markets. Therefore the local management-service-demand will rise and sustain in the future.

In the UK the outsourcing is increasingly understood as partnering, unlike in Scandinavia, where it still has a strong operational level meaning. In Scandinavia management level outsourcing is relatively new.

According to the interviews the outsourcing upswing is moving from the operational level towards the management level. Even though some organizations, like public companies, still have a lot of potential in the service level management, the management level outsourcing is considered to enclose the most potential.

While the outsourcing used to be exclusively an operational level issue, the modern organizations have new needs for external management on all hierarchy levels. Before the FM service providers were hired to be “taskmasters”, but nowadays they are increasingly becoming “strategic advisors”. At the same time the partnership-based thinking is expected to increase in Scandinavia.

As a conclusion, the role of the FM organizations is changing (Figure 42). The traditional unwritten rules about what should be done in-house and what with contracting are starting to expire.

---

**Figure 42. The changing role of FM providers**
Despite all evolution theories, the big strategic decisions, core business orientation and general changes within the industries change the FM business. And because of the changes and the corporate trends, the same issues found in the past are necessarily not valid in the future.

In some cases the big company strategy guidelines and changes in the resource policies can have an enormous affect on the outsourcing and the FM industry’s development in general. For example the outsourcing deals done by Ericsson and the Skandia-JonesLangLaSalle coalition (Appendix 2) and with Skanska Facilities Management (Appendix 1) endorse the quick moves of today’s industries and strategic decision-making.

Despite the general rules and opinions, the original situation with the in-house organization play the biggest role in how profitable the outsourcing turns out to be. The competence of the personnel and resources at hand are the things that count the most.

In general, all interviewed organizations in all target countries are about to change from the traditional personnel management more towards contract management. For this reason, the corporate needs for internal management are changing. The most relevant skills of future management units are most likely industry knowledge, business-need mapping, and purchasing skills (legal and negotiating). It is very case-related whether it is better to purchase the new skills from the outside or produce them internally.

Even though the business is filled with bad scenarios of outsourcing and losing in-house expertise, the modern partnership thinking can provide as good quality as before, and sometimes even better, in order to fulfill the business needs. On the basis of the mixed opinions of the interviewees, there is no answer to the question what is right – outsourcing or the in-house teams. More attention should be paid into finding the primary business needs and the right balance in outsourced activities.

In both, the future in-house organizations and the partnership thinking, the number of the contracted functions plays a significant role. The management units of the future must have enough skills to manage many contracts and different services. If there are only a few contracts, or even just one, a partnership with a few vendors will probably work out better than a usual contractual relationship. The both in-house teams and management service provision can be considered to be equally good.

According to the study all organizations should always have enough competence to manage, audit, and understand the facilities’ functions and the most crucial business needs. While the partnering is increasing and management service providers are becoming more integral to the client organizations, the FM expertise does not necessarily have to be produced internally.

In the outsourcing the organizations’ names are usually subject to the biggest changes. The outsourced people are usually the same as in the original in-house management teams. Whether it is cheaper to retain the people in-house and pay the wages and social contributions, or to pay extra for the sub-contracting chains, is a matter of corporate management judgement.
5.3 Service package trends

The British have the most evolved service provision culture. The Scandinavians: Danish, Finnish, Norwegian, and Swedish, have not had as much supply or demand for the management services.

In Great Britain the FM service producers are divided into three categories: managing agents, managing contractors, and total facilities managers. For the time being, the Scandinavian management markets do not have as clear division of the management suppliers.

The interviewed Scandinavian professionals had some experience, or at least were familiar, with the managing contractors and the total facilities management service provision. The managing agent model was considered to be a relatively new management service approach in Scandinavia.

Compared to the Scandinavians the British have a lot of experience from the management level outsourcing. According to the British experience the management service provision has special distinctions, which should be taken into consideration in the outsourcing.

The implications of an outsourcing decision often do not become apparent until the second or third cycle of the outsourcing program. Contributors have often too high and compelling expectations from the outsourcing deals and the planned results. A partnership-based management outsourcing requires long term planning and patience with the wanted results.

Also the local distinctions, for example legal, can have an enormous affect on the decision-making around outsourcing and the most suitable service provision models. For example the value added taxes can differ, like in Denmark where the clients did not pay it for their administration (property management). Also the British TUPE legislation had its negative affect to the relocation of the transferred staff. The surprises of the Finnish, Norwegian and Swedish laws keep the local service provision still waiting. As a conclusion it can be stated that the different models are very exposed to the local laws.

The ideal service provision models are very subjective by nature as well. When finding the perfect match for the service provision, the organizations have to analyze organization cultures and business needs and an optimal approval for the decision. It is very case-related whether a managing agent, contractor or total facilities management is the most suitable model. The starting point with the in-house resources and long term strategies should matter the most.

The reasons for choosing big service companies, total facility managers, have been mostly employment political. There is no right or wrong answer to what service provision approach is the best.
5.4 Management contracts

Because of the limited supply and demand of facility and property management services the Scandinavian countries did have neither standardized contractual usage nor contract models for the FM. The contracts in the Scandinavia are very case-related and diverse.

According to the research the only country that has proverbial models or formulas for FM contracts was the UK. The Danish Real Estate Management Association (DAREM 1998) has created a public formula for property management. The Danish version of the model contained information for the harmonization of EU-competition legislation, which also is a current demand for the management agreements within the EU countries.

One comparatively representative distinction of management contracts was the need for partnership thinking. Unlike the traditional real estate service contracts, the management services demand a different approach for bidding, purchasing and contractual cooperation.

The Scandinavian organizations did not have highly advanced methods for management service tendering. The only methods for highly advanced service bidding were found in the UK. While the outsourcing of FM functions move to higher-level functions, like strategic planning, the service providers need more strategic selection criteria. While the purchasing methods and tools will develop in the future, the more weight will eventually be put on the quality of services and compatibility of partners.

The British FM contracts are becoming increasingly “output-driven”. The contracts are decreasingly just long lists of duties. The specifications, service levels agreements and key performance indicators are increasingly used for the quality and performance bidding and contractual management. For the time being the Scandinavian contracts are still very “input-driven” with long lists of duties. As the only country in Scandinavia the Danish Facility Management Association has made a “Key Figures Book” of the key performance indicators of FM.

The goal settings and measurements are very rarely included into the Finnish and into Scandinavian agreements in general. Because of the fairly new management contract culture, the key performance indicators have not yet been included into many management contracts. A big part of the poor customer satisfaction in Scandinavia has become from the service quality problems. In general the Scandinavian management contracts lack goal settings and different methods for quality measurement and management.

Instead of the increasing lists of duties, the Scandinavian organizations should at least define some services with the outputs. The outputs might not solve all problems, but would help to gain back the lost quality of services - the consequence of earlier outsourcing.

---

8 The British Contract Models were the:
   a) Property Advisers to the Civil Estate (PACE) GC/Works/10 Facilities Management Contract
   b) The Chartered Institute of Building Facilities Management Contract (CIOB)

9 The Danish property management model: General Conditions for Administration of Real Estate (ABA 98)
Even though output thinking is found to be very handy in some situations, it might not solve everything. Most likely there will always be an existing need for inputs to define how services are delivered. On the other hand, with the outputs the contract parties will have a better consensus what has to be accomplished with the different services. Finding the right balance between the inputs and outputs, and a more standardized contractual usage, the mutual understanding between the contributors and better quality might be more easily found.

Therefore, according to the research, the biggest improvement areas and challenges in Scandinavian management agreement cultures are in the finding the right specifications, service level agreements, key performance indicators and measurement tools for better quality management.

In a management partnering, most essential is the consensus of mutual interests. Therefore management contracts need high attention to the co-operation during the life cycle of a contract (Figure 43). In a partnering contract, the management contractor should be increasingly active during the contract-cycle.

In the tendering process, the client plays the biggest role. The managing service provider should only actively deliver the requested information. Added to the traditional requests for proposals, the clients should add specifications for setting performance standards.

In order to have a satisfying contractual relationship, the contributors must be very open and clear what the expectations are and at which speed the changes are being delivered. Even though management service providers are vendors for the clients, they can add competence to different contract drafting processes as the goal-settings, with their experience. In order to set output definitions to the contracts, both parties should be involved in the contract drafting process.

In many cases management organization can bring unexpected added value and ideas to the strategic decision making and all other workplace related issues. Even though the clients have the final power to decide, the management service providers might have the best opinion and experience to decide on the way work should be carried out. The partnership should be based on the contractor’s self-assessment and effective performance reporting. The clients should only do periodic checks or auditing in order to verify the cursive co-operation.
Nowadays both contract parties, clients and management service providers, are starting to have a more positive approach to the agreements. The partnering is seen as a mutual opportunity to gain from the collaboration, which does not happen overnight. Mature thinking and a positive approach will probably lengthen the management contract periods in the future. Against occurring problems, the local legislation and other forms of legal protection cover the breaches of contracts, which enable the cancellation of an agreement if necessary. The current Scandinavian dubious approach for the long-term cooperation will diminish when the contributors will see the mutual opportunities in partnering.

5.5 The evolution of facility management in Northern Europe

A generic conclusion of the study is that many organizations in the different countries have followed, or will follow, a certain pattern from the core business thinking and outsourcing to quality recovery to partnering or returning to the in-house teams (Figure 44). The evolution model for FM service provision seems to affect all organizations, outsourcing and “insourcing” policies and management contracts within all North European countries.

**Figure 43. Involvement of the contributors during the contract-cycle**

**Figure 44. Evolution model for facility management service provision**
According to the interviews all countries had started from a certain trend phase that had lead to another. The pattern of phases seems to move by an inexact rule from west to east. The phase that the British organizations went through approximately five years ago, the Danish a few years ago and the Swedish a year ago, is about the phase that the Finnish organizations are going through at the moment. According to the results of the research each target country can be placed on a time-axis.

The first trend-phase for FM has been focusing on organizational core businesses. As an automatic solution, a boom of FM outsourcing has followed the in-house organizations. The cost savings have been evident, but a common drop of performance and quality has been directly proportional.

The lost performance and quality is discovered in the second trend-phase - the quality recovery. In the second trend-phase the organizations are trying to gain back the once lost performance and quality level. The organizations are starting to balance between the performance and costs with more focus on the actual business needs.

The solutions for the quality recovery have been bi-valued. Some organizations decide to return to in-house teams and some start to build more efficient co-operation with vendors by partnering. The process of finding a perfect match for partnering and balance for cost and quality will result in using different types of service provision models for different management needs.

The lost quality has brought new perspectives to the practice of FM. The quality problem has recently been corrected with performance management. New elements and tools, like service levels and performance indicators, have been increasingly included into the management contracts. Different incentives have been used to support the partnership-relations and to improve the lost managerial and operational commitment.

Despite the model, the changes in the modern FM business and increasing globalization change the local differences of the phases. The five-year-long gap between Finland and the UK will most evidently shorten. Multinational organizations will start to implement global space related strategies, which will affect all subsidiaries and local offices despite the location.

In the future it is likely that we see more industrial and corporate differences in FM rather than differences based on location or nationalities. Therefore it is only a matter of time when the most dedicated Scandinavian organizations, which are the most willing to run the FM the most professionally, will close the gap between the UK and rest of the North European countries.
REFERENCES

Alexander 1996

Alexander et al. 2000

Atkin 1999

Atkin & Brooks 2000

Barrett 1996

BIFM 1999

BIFM 2000

Carlsson & Dreifaldt 2000

Cesari 1998

D’Arcy 2000

DAREM 1998
General Conditions for Administration of Real Estate (ABA 98), The Danish Real Estate Management Association, Copenhagen 1998, 15 p.
Service Provision Trends of Facility Management in Northern Europe

Eriksen 2000  

FREF 1998  
Isännöitsijän käsikirja (Superintendent’s handbook), Kiinteistöliitto (Finnish Real Estate Federation), Kiinteistöalan Kustannus Oy-Rep Ltd. 1998, 1094 p.

Hanson 2000  

Hanson & Osborne 2000  

Hayward 2000  

Hinks 2000  

Housing Companies Act 1991  

IFMA 2000  
<URL:www.ifma.org>

Kaplan & Norton 1992  

Kaleva 1998  

Keituri & Äijälä 2000  
Keituri K. and Äijälä S. Facility and Property Management Contracts in Finland and USA - Some Distinctions – unpublished project work. Tallberg Management Ltd. 16.3.2000, Helsinki, Finland. 10 p.
Krumm 1999

Krumm P. Corporate Real Estate Management in Multinational Corporations – A Comparative Analysis of Dutch Corporations, Department of Real Estate and Project Management, Delft University of Technology 1999, 209 p.

Kyle et al. 1999


Jarlvi 2000

<URL:http://www.i-fm.net/>

Jeffreys 2000

<URL:http://www.workplacelaw.net>

Joroff et al. 1993


Kateley & Lachman 1986


Kestra 2000

Kestran organisaatio (Organization of Kestra), Kestra Real Estate Services Ltd.- web site, 19.10.2000.
<URL:http://www kestra fi>

Kroll 1999


Krumm 2000


Lapides & Frank 1991

Larkas 2000
Larkas E, Director of FM, Sonera Oy, Outsourcing: Case Sonera and ABB Finland. Presentation 8.6.2000 in Espoo, Koulutuskeskus Dipoli, Finland.

Leväinen 1997a

Leväinen 1997b

Leväinen 2000a

Leväinen 2000b

Macleod 2000

Moran & Taylor 1997

Office Life Canada 1997

Pelkonen 1999
Pelkonen H. Kiinteistöhallinnan historia - An internal presentation for VVO Housing Ltd. fall seminar in Helsinki 20.9.1999.

Piispa 2000
Piispa H. Property Manager, Kiinteistö Fennia Oy, Interview 6.6.2000 in Helsinki, Finland.

Puhto 2000

Ransgart 2000
**Raysman 1996**
<URL:http://www.fmlink.com/ProfResources/Magazines/article.cgi?Buildings:bld_op.htm>

**Skandia 2000**
Skandia and Jones Lang LaSalle to Form Joint Property Asset Management Company Serving the Nordic Region –Article, Skandia – web site, 17.10.2000.
<URL: http://www.skandia.se >

**Skanska 2000**
Skanska focuses on extended service offering; Plans to acquire Ericsson Real Estate & Services (REM) –Skanska website, 11.10.2000.
<URL:http://thehub.skanska.com/700_External/70002_Pressrelease.asp?EntryID=1555&LangID=1>

**Standley 2000**

**Svensson 1998**

**Tatum 1998**

**Valtion Kiinteistölaitos 2000**
<URL:http://www.kiinteistolaitos.fi/kiinteistolaitos/tanaan/default.htm>

**Vanhanen 2000**
<URL:http://www.fifma.org>

**Varcoe 1993**

**Varcoe 1998**
Varcoe P. Facilities as a Production Asset Facilities Management, April 1998, pp. 6-8.
APPENDICES

Appendix 1. Skansa-Ericsson Outsourcing News Release

Skansa focuses on extended service offering; Plans to acquire Ericsson Real Estate & Services (REM)

PRESS RELEASE, DECEMBER 17, 1999 109/99 (Skansa 2000)

Ericsson and Skansa today signed a Letter of Intent covering the acquisition by Skansa of the operations in Ericsson Real Estate & Services (REM). Ericsson intends to sign a long-term service agreement with Skansa. As a result, Skansa is intensifying its focus on facilities management and a broader range of services to customers.

For Ericsson, the transaction is part of the company’s focus on core operations and is part of its restructuring program.

REM has sales of about SEK 1,700 million, with about 600 employees. All REM personnel will be taken over by Skansa.

REM provides efficient workplaces through combining services, communications and security systems with traditional facilities management services. REM will be a part of Skansa’s Facilities Management Division, thereby enhancing its expertise.

The range of services provided by Facilities Management include handling the services needs not related to the customer’s core operations. This includes everything from building operations to responsibility for the infrastructure and security systems as well as personnel services, such as restaurants and exercise facilities. Contracts can also involve building maintenance and renovations.

Ericsson intends to sign a long-term service contract with Skansa. It is anticipated that the acquisition and service agreement can be signed in January 2000. At this time, the parties will disclose details about the financial terms.

"The acquisition is part of our strategy to broaden the range of services to our customers. Through working within the entire value chain, we can improve our service as well as possibilities to fully utilize our broad expertise," comments Per-Ingemar Persson, President of Skansa Sverige AB.

"As a result of this acquisition, we will become one of the leaders in Sweden in the market for facilities management. The new unit will form the core in an aggressive focus on continued expansion in service sector for companies and industry," says Per-Ingemar Persson.

Stockholm, December 17, 1999

SKANSA SVERIGE AB
Appendix 2: Skandia - Jones Lang LaSalle Outsourcing deal

Skandia and Jones Lang LaSalle to Form Joint Property Asset Management Company Serving the Nordic Region (Skandia 2000)

Skandia Fastighet, the real estate subsidiary of Skandia, Sweden's leading insurance company, and Jones Lang LaSalle, a leading international real estate services and investment management company, are to form a joint company for the asset management of real estate in the Nordic region. The new company will begin its activities early in January 2000.

Under an agreement signed by the two companies on 2nd September 1999, the new company, which will bear the Jones Lang LaSalle name, will take on responsibility for managing Skandia Life's investment property portfolio in the Nordic region (Sweden, Denmark, Norway and Finland) through a five year exclusive property asset management assignment. The present portfolio of some 250 properties has a market value of approximately SEK 20 billion (US$ 2.4 billion). The company will initially be owned 55% by Jones Lang LaSalle and 45% by Skandia Fastighet, and after three years Jones Lang LaSalle will have the right to acquire its entire share capital. A central objective of the new company will be to win additional asset management business throughout the Nordic region from other investors with property holdings in any or all of the four countries. The new company, based in Stockholm, will retain the property management personnel of Skandia Fastighet and will include specialists from Jones Lang LaSalle.

Based on a successful ten-year relationship, Skandia and Jones Lang LaSalle first announced their decision to explore the mutual benefits of establishing a joint asset management company in June this year, starting a due diligence process scheduled to be completed by 1st September. The signing of yesterday's agreement follows the successful, timely completion of this process and starts a transition period that will last the four months until the new company begins its operations. During this transition period, Skandia Fastighet will retain full responsibility for managing its assets and the two companies will finalise the remaining details of the new company, including its board members and managing director. There will also be full consultations with the Skandia Fastighet's staff and the appropriate regulatory authorities.

The new venture combines the proven local expertise of Skandia Fastighet's property management personnel with Jones Lang LaSalle's knowledge of international best practice in asset management. It is designed to maximise the performance of Skandia Life's portfolio and will enable Skandia Fastighet's fund management team to focus on investment strategy. For Jones Lang LaSalle it establishes a platform for expanding its asset management activities across the Nordic region, and in time for developing its full range of property services in the region.

Skandia Fastighet is a fully-owned subsidiary of the Swedish insurance company Försäkringsbolaget Skandia. Skandia's shares are quoted on the Stockholm, London, Frankfurt and Copenhagen stock exchanges.

Jones Lang LaSalle is a leading global real estate services and investment management company with operations in 34 countries on five continents. It is quoted on the New York Stock Exchange.
Appendix 3: Skanska Exporting Facilities Management

Is FM a natural extension of services for construction companies?
(Jarlvi 2000)

It has become increasingly common for construction companies to launch a facilities management arm, offering services which cover the entire building life cycle. Swedish construction company Skanska follows the trend despite FM being a comparatively new concept in Sweden. Skanska however says it believes facilities management is a natural complement to its service chain.

Skanska AB, established in Sweden in 1887, has grown world wide, now employing 80,000 people in over 60 countries. Its main markets, apart from its native Sweden, are the US, UK, Denmark, Finland, Norway, Poland, Czech Republic and Argentina.

With a turnover of over 100bn SEK (£70m), Skanska has shown continued growth in both sales and earnings and has expanded particularly rapidly in the US, where it is the fourth largest construction firm by turnover. Skansca’s services cover the whole life cycle, from concept to construction to maintenance.

A growing demand for FM

An increasing demand for FM services from Skanska customers prompted board member and managing director Claes Björk to investigate the possibilities of an FM arm two and a half years ago. He came to realise that the company had two options – it could either buy into already developed FM companies in the US or UK, or start up an FM division in Sweden, where the FM market was still relatively small.

Although the first option would have launched the company into an established market with other FM players, the latter would give Skanska the opportunity to create its own FM culture. After many meetings and discussions, Skanska decided that although it would be more difficult, it was going to launch the new business in Sweden as part of its Skanska Services division. As a result, Skanska FM was born in March this year.

Skanska Services, which also has two other separate arms, offering technology and IT services, was formed following the acquisition of the real estate and services (REM) unit of the telecommunications company Ericsson.

Skanska FM Marcom manager Håkan Persson

After establishing itself in Sweden, the FM unit plans to break into the global market in the following order: US, Norway and Denmark, Central Europe, Western Europe, Latin America and Asia. Skanska clearly has a well-thought out expansion plan. "The strategy is to grow in the home markets and then to move on to global markets with customers world wide" says Håkan Persson, Marcom manager, Skanska FM.

Ericsson Wireline Campus, Stockholm (also known as the ‘Pile of bricks’)

The new Skanska division has already proved successful and is currently providing FM services for 35,000 offices, maintaining 2m sq m, moving 17,000 offices a year and answering 25,000 phone calls a day. Its clients include Ericsson, Electrolux, chocolate manufacturer Marabou, Emerson Electric, Skanska Properties and Retail Parks among others.
**FM leaves time for core activities**

Skanska FM’s launch message is that clients will better be able to concentrate on their core activities by letting Skanska FM ‘take care of the rest’, giving clients increased service levels, effectiveness and flexibility.

The established FM unit already offers integrated services to both commercial and industrial buildings and offices covering a spectrum of maintenance, operations and internet services. More specific services include safety, catering, reception, switchboard, internal moves, cleaning, building maintenance, M&E, alarms, ventilation, internal transport, storage, web based control of energy usage and maintenance systems etc.

**Mats Jönsson, president of Skanska Services and FM**

By offering a wide range of services Skanska FM aims to takes on the whole responsibility for leading and developing projects and says that together with the client, a service platform for effective activities can be created. The 700 FM employees are essentially working from the company’s philosophy: "everyone will work with core activities" which presumably includes Skanska employees as well as clients.

Skanska’s biggest client, mobile phone manufacturer Ericsson, has a number of facilities in Sweden, all managed by Skanska FM. The 1.7bn SEK (£118m) contract, the biggest ever for Skanska FM, was won by the company earlier this year. "It is one of Europe’s largest contract wins," says Skanska Services and FM president Mats Jönsson.

**New markets**

Since the existing FM players in Sweden are small and the market limited, the new Skanska division has demanded a lot of hard work. "Ever since we started Skanska FM, we have put all our time and energy into keeping FM customers happy," said Persson. The company has not only had to market itself as an FM company but has also been forced to promote FM services in Sweden.

Jönsson believes the UK FM market is at least ten years in advance of the Swedish one and that the US market is even further ahead. The challenge of entering these markets motivates the FM arm however and with its own original culture it will take on its competitors.

The company launched its FM services in Finland last month where it will use IT technology to assemble information on the activities needed during the life cycle. This is one of the ways Skanska uses its construction knowledge to develop and improve further services.

In August this year, there were rumours that Skanska was preparing to bid for a UK construction company with an FM arm. A Skanska spokesperson confirmed the company does plan to expand to the UK in the near future, but would not give further details.

**Great expectations**

Although Jönsson recognises that the company has a number of competitors such as Dalkia, ABB, Johnson Controls, Ecur, Intec and ISS, he is very optimistic about Skanska FM’s growth potential. "FM will grow in Sweden and so will our FM arm", he said.
Persson, who also has great expectation for growth, says the group anticipates the FM arm’s 12 month turnover to be 2.5bn SEK (£174m). The last recorded turnover was 2m SEK (£139,000) – so there is a long way to go. However, Persson says growth will exhibit the ‘ketchup effect’, slow to start off and then
Appendix 6: Outsourced activities in Sweden
(modified from the information from (Carlsson & Dreifeldt 2000, pg. 44)
Appendix 7: Questionnaire

Organization
- How many people are working with different areas in FM unit?
- Do you do any property management?

Managed facilities
- What kind of facilities do you manage (commercial, residential, industrial)?
- Who are your biggest customers?
- How much facilities do you manage over all? Square meters?
- Where are the facilities mainly located?
- What is the age distribution of them? On what decade are they been built?
- Does the managed facilities have any noticeable special qualities from technical point of view? Good or bad? (Condition, flexibility etc?)

Outsourcing
- How common is FM/PM outsourcing in your country in general?
- What is your personal opinion of outsourcing in general? (benefits, deficiencies)
- Do think it is still going to grow, or stabilize, what´s the general trend?
- Who are the most likely organizations to outsource in future?

Contracts

Management contracts
- What kind of different contracts do have for FM, PM, services in your country?
- How common are the management or full-service contracts in your country (show the chart)?
- How are the following qualities described in the local management contracts?

1. Duties? What kind task list do you have?
2. Goal Settings, measurements?
   - Are they been agreed before the contract starts?
   - Is there a described starting point for later goals and their measurements?
   - Do you use balanced scorecard principles
   - Are there bonus salaries to responsible personnel?

3. Management fee types?

<table>
<thead>
<tr>
<th>Fee type</th>
<th>Target country</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed fee</td>
<td>PM</td>
<td>FM</td>
</tr>
<tr>
<td>Cost + fee</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Variable fee, X% net rent</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Incentive fees from results better than targeted</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Progressive incentive fees</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sales fees</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Letting fees</td>
<td></td>
<td></td>
</tr>
<tr>
<td>“Project by project fees”</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

4. Quality definitions?
   - Are property owner’s goals determined in the contracts/agreements?
   - How is the managers service level determined in the contracts?
   - How are they been followed?

5. Responsibilities and liabilities?
   - How/ how specific are they been stated in the contracts?

6. Contract lengths?
   - Are the contracts mainly ongoing? How long are the partnership type contracts?
How does the British legislation affect to the FM and PM contracts?

Comparison chart (to give examples from Finland and USA):

<table>
<thead>
<tr>
<th>Duty</th>
<th>Finland</th>
<th>Target country</th>
<th>USA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Duties</td>
<td>Task lists quite general</td>
<td></td>
<td>Very detailed task lists</td>
</tr>
<tr>
<td>Goal Settings, measurements</td>
<td>Very rarely done, improving</td>
<td></td>
<td>Both quality and cost/profit goals and measurements</td>
</tr>
<tr>
<td>Management fee</td>
<td>Mainly fixed fees</td>
<td></td>
<td>Different fee types</td>
</tr>
<tr>
<td>Quality definitions</td>
<td>General</td>
<td></td>
<td>Exact, “service level agreements”</td>
</tr>
<tr>
<td>Responsibilities and liabilities</td>
<td>Mainly covered by law and general contract terms, limited liabilities</td>
<td></td>
<td>Needs to be very thoroughly covered and limited in contracts</td>
</tr>
<tr>
<td>Contract lengths</td>
<td>Mainly ongoing, short term 3-12 months notice, improving noticeable in partnership type contracts, 3-5 years</td>
<td></td>
<td>Mainly ongoing (PM) short term 1-6 months notice, FM contracts more partnership type, long term</td>
</tr>
</tbody>
</table>

Service products

- Do your the local companies prefer to have lots of different contract partners or just few? Full services or own management etc.
- Are the big service companies more popular than the smaller companies?
- Are the contracts different with different sized companies? In what way?

Service provider election

- On what basis are the different service providers been picked? The price or the quality?
- Are there any common culture or systems for measuring the quality of bids?
- What kind of methods do you have for quality measuring in the bid process?
- How do you monitor that the contracts are been followed? Are there any quality monitoring methods or systems? How does the service companies report of the done work?

Lease agreements and maintenance

- What kind of different lease agreements do you have? Who covers the maintenance costs tenant or the owner? Which is more common?
  - Owner?
  - Tenant?
Appendix. 8 Theme-Centered Interviews

Hansen T.C.D, Managing Director, Danica Ejendomme, 23.8.2000 in Copenhagen, Denmark.
Kanervo J, Property Manager, Tallberg Facility Management Ltd, 6.6.2000 in Helsinki, Finland.
Keituri K, Managing Director, Tallberg Facility Management Ltd, 27.11.2000 in Espoo, Finland.
Keskinen S, Development Manager, JOT Automation Group, 6.7.2000, in Espoo, Finland.
Lindfors M, Property Manager, Varma-Sampo Oy, 12.6.2000 in Helsinki, Finland.
Lindquist J, Real Estate Broker/ Valuer, DTZ Egeskov & Lindquist, 22.8.2000 in Copenhagen, Denmark.
Line O, Director, NSB Real Estates, 22.6.2000 in Oslo, Norway.
Morberg T, Chief Engineer, Civil Aviation Administration, 19.6.2000 in Oslo, Norway.
Pelkonen H, Property Manager, VVO Asunnot Oy, 16.6.2000 in Helsinki, Finland.
Peltokorpi M, Managing Director, Matinkylän huolto Oy, 15.6.2000 in Espoo, Finland.
Piispa H, Property Manager, Kiinteistö Fennia Oy, 6.6.2000 in Helsinki, Finland.
Soikkeli A, District Manager, Engel Real Estate Services Ltd, 16.6.2000 in Helsinki, Finland.
Virta K, District Manager, ISS Building Technologies Ltd, 7.6.2000 in Helsinki, Finland.
OTHER REPORTS IN THIS SERIES OF THE CONSTRUCTION ECONOMICS AND MANAGEMENT AT HELSINKI UNIVERSITY OF TECHNOLOGY:

TKK-RTA-R202  Lehtonen, T., Tuomela, A., Puhto, J.,

TKK-RTA-R201  Ventovuori, T., Puhto, J.,

TKK-RTA-R200  Kilras, J.,

TKK-RTA-R199  Tuomela, A., Puhto, J.,

TKK-RTA-R198  Puhto, J., Tiainen, A.,

TKK-RTA-R197  Tuomela, A., Ventovuori, T., Puhto, J.,

TKK-RTA-R196  Heinimäki, S., Puhto, J.,

TKK-RTA-R195  Saari, A., Tuomela, S.,

TKK-RTA-R194  Vahterus, T., Saari, A.,

TKK-RTA-R193  Oyegoke, A.,
              Classification and features of construction management contracting systems - a case of the US, the UK and Finland, 2001.

TKK-RTA-R192  Saari, A., Mäkelä, J.,

TKK-RTA-R191  Oyegoke, A.,
              Building competence to manage contractual claims in international construction environment – the cases of Finnish constructors, 2000.

Research, working and discussion papers also available.
Texts in these series, obtained tel. +358 9 451 3743 or fax +358 9 451 3758.

ISBN 951-22-5876-5 (PDF)
ISSN 1456-9329