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## **Characteristics of facility service industry and effects on buyer-supplier relationships**

**Anssi Salonen**

CEM Facility Services Research,  
Helsinki University of Technology,  
Department of Civil and Environmental Engineering,  
P.O. Box 9800, FI-02015 HUT, Finland  
anssi.salonen@hut.fi

***Abstract.** The aim of this article is to delineate the characteristics of facility services at three levels; and to analyse the uncertainty consequent to the characteristics and the different dimensions of related uncertainty. The most significant characteristics seem to be its simplicity and support service nature. This article identifies the suitable control mechanisms and presents a conceptual model for managing facility service relationships and related risks.*

***Keywords:** facility services, business relationships, characteristics, risk.*

### **1 Introduction**

Facility services have formed a separate service industry of their own. Considering all the development that has taken place in the business, the research undertaken concerning facility services has been scarce (Nutt 1999), particularly from the view of the buyer-supplier relationship management (see Jones 1995; Houston and Youngs 1996). Earlier studies in the field have been based on practical disciplines (Alexander 2003) and partly for that reason there is no established theoretical framework. The development of the field and the pulling together of earlier studies requires the formulation of a solid theoretical framework. This article aims to fulfil this gap and to present a theoretical framework for the field.

The goal of this theoretical article is to delineate the characteristics of facility services. The characteristics will be analysed on several levels. In the first section we will present the general characteristics of business relationships based on a literature review. In the next section we focus on the specific characteristics of facility services. These are partly based on observations made by the researcher during his studies. Being aware of the characteristics of facility services helps

companies to manage their relationships with service suppliers and clients. Additionally, this article will dissect the phenomenon of uncertainty consequent to its characteristics and the different dimensions. Uncertainty needs to be distinguished from the perceived risk. The perceived risks are the management's estimates of reality. Finally, this article will present different relationship control mechanisms and form a conceptual model for the management of FM relationships. The article will conclude by a presentation of the limitations of the study and the need for further research.

## **2 Characteristics of business relationships**

In this chapter we are going to identify the general characteristics of business relationships by reviewing general relationship management literature. This article focuses on long-term co-operative relationships, often called partnerships. The aim is to identify the characteristics of facility services business relationships. The idea of studying these characteristics is based on the use of a classification that allows us to put facility services into the broader context of business services that share one or more typical features and can therefore be learnt from (cf. Bröchner 2001). By studying external and internal factors, we may also be able to isolate the conditions under which specific events are more or less likely to occur (cf. Reuer *et al.* 2002).

The provision of non-core business services is generally, today, carried out by using external service providers. When a client and a supplier start to work together, a business relationship is formed between them. When companies deepen this relationship and abandon the discrete market exchange, a bespoke form of organizational relationship is crafted. The growing use of alliances leads to the need to learn how to manage these relationships efficiently and effectively. Bourguignon and associates (2004) note the impact of cultural differences on management. They further suggested that understanding the local ideological issues might be crucial for the effectiveness of management systems. How the firm should manage their inter-firm relationships may be affected by the differences in characteristics of the relationships (Leek *et al.* 2004). Since effective and efficient relationship governance depends on these characteristics it is important to identify the characteristics of the specific business relationships.

Usually, new business fads circulate around geographical areas and industries rapidly. If practices from other environments are to be adopted in the industry, it is important to understand exactly what they are; especially since much of what everyone "knows" about these other activities could be inaccurate (cf. McMillan 1990). One cannot simply transfer collaborative initiatives adopted in other industries. There is an appreciation that such a transfer would be unlikely to be successful. The differences in the structure of an industry in comparison to other industries needs to be factored into any relationship management proposal for supply chains within this industry. The need for different approaches to

relationship management within different industries is mistakenly believed to be due to the varying descriptive characteristics of each industry (Sanderson *et al.* 2003, p. 1027). While structuring a business relationship and a collaborative concept, one also needs to consider, in addition to environmental factors, the factors of task (for example complexity and demanding) and parties (for example relative bargaining power).

A business relationship can be defined as an economical exchange of property rights (i.e. transaction) that contains elements of the dyadic and business environments (Claro *et al.* 2003). When setting up a partnership, or once the business relationship has been established and the character of the relationship is determined, the relationship should be monitored to see if the original conditions for co-operation are still valid. The situation in which the company is in will be crucial for the procedure to be used when making an appropriate link between a company's suppliers and customers. In order to carry out monitoring, we have to analyse the contextual conditions at different analytical levels (Hollensen and Grünbaum 2003).

Ford and McDowell (1999) suggest that relationship actions have an effect on four analytical levels: namely, in the relationship, on the relationship, on the relationship portfolio and within the network. Thus decisions made in one relationship may have, in addition to intended and foreseen effects, wider effects, which may be unintended and unforeseen. Decisions and actions made elsewhere in the network may have an effect on a particular relationship. The analysis of these factors on other levels beyond the transaction seems inevitable – especially when considering partnership management.

Van der Meer-Kooistra and Vosselman (2000) claim that the characteristics of transaction, transaction parties and the transaction environment are all relevant to be considered in choosing the most suitable management control pattern. They also claim that being able to indicate which characteristics of these three elements have an influence, particularly the design and function of the interfirm relationship, improves our understanding of the changes in the co-operative process. Langfield-Smith and Smith (2003) used these same three elements in their study of outsourcing relationships. Bensaou and Venkatraman (1995) term affecting elements as task uncertainty, partnership uncertainty and environment uncertainty. Cannon and Perreault (1999) define conditions such as market and situational antecedents as factors affecting relationships. They list such conditions as: availability of alternatives, supply market dynamism, importance of supply and complexity of supply. Claro and associates (2003) suggest that the determinants affecting business relationships fall into three analytical levels; the transaction level, dyadic level and business environment level. These three levels seem to cover the characteristics comprehensively. In this article we will use these same three levels, but name them the environment level, partnership level and task level.

Hollensen and Grünbaum (2003) recognize that there are many different conditions, which are, of course, not equally important. They suggest that some of the most important contextual conditions for a relationship are: product complexity, switching costs, and balance of power. Cox and associates (2003) as well as Yan and Gray (1994) state the importance of power.

Claro and associates (2003) found that factors like transaction specific human resource investments, length of the business interaction and environmental instability do not affect relational governance.

**Table 1.** *Factors affecting business relationships.*

van der Meer-Kooistra and Vosselman 2000	Blumberg 2001	Ring and van de Ven 1992
Degree and type of asset specificity Frequency and reputation Length of transaction period Measurability of activities and output Uncertainty about future contingencies Degree of market risks Institutional environment (rules, systems and organisations) Information asymmetry Reputation Experience with co-operation in networks or with specific parties Risk attitude Bargaining power	External uncertainty Internal uncertainty Specific investments Volume of cooperation Past Future Exit network Voice network	Nature of exchange Terms of exchange Transaction specific invest. Temporal duration of trans. Status of parties Dispute resolution Contract law & governance structure
Cannon and Perreault 1999	Cox <i>et al.</i> 2003	Langfield-Smith, 1997
Availability of alternatives Market dynamism Importance of supply Complexity of supply	Transactional salience Transactional uncertainty Asset specificity Buyer-supplier power	Strategy
Claro <i>et al.</i> 2003	Dekker 2004	Parkhe 1993
Transaction level Exchange mode, TSI Dyadic level Long-term interaction, Trust Business environment level network intensity, environmental uncertainty	Inter-dependency Task uncertainty Asset specificity Environment uncertainty Frequency	Shadow of the future Frequency of interaction Behavioural transparency Pattern of Payoffs Number of Players
Speklé 2001	Langfield-Smith and Smith 2003	Bensaou and Venkatraman 1995
Asset specificity Transaction uncertainty including complexity frequency	Transaction Transaction environment Parties	Environmental uncertainty Partnership uncertainty Task uncertainty

### **3 Characteristics of facility services**

After identifying the general characteristics of business relationships we turn to dissect the specific characteristics of Finnish facility service relations. When studying the attributes of facility services and those characteristics that distinguish facility services as a unique service industry, the examination can be conducted through the three levels mentioned earlier. The broadest level consists of the business environment. In this study it is comprised of the Finnish facility service market. The definition of the business environment based on national borders seems to be suitable because the laws and institutional environment are country-specific. The second analytical level is comprised of the characteristics of tasks that are the foundation and *raison d'être* of the relationship. The characteristics of the facility services are analysed at the task level. The third level of the analysis consists of the actual relationship. This study focuses on the relationships between the client and the service provider. This dyadic level is comprised of the analysis of both relationships between companies and of the relationships between individuals or specific roles.

Some factors are best classified as external to the relationship itself, such as environmental uncertainty and the characteristics of the product/service being purchased (Cannon and Perreault 1999). These external factors can be extrapolated, generalised and applied to other situations. Factors of both the business environment and task levels, and part of the dyadic level factors, can usually be generalised. A part of the dyadic level characteristics are case-specific; care needs to be taken when generalising outside each particular case. Our findings of the characteristics of facility services are based on the data gathered from ongoing research reported in Salonen (2004) as well as the writer's earlier pilot study reported in Tuomela and Salonen (2004). The pilot study included four cases, where data was collected through 25 interviews. The ongoing single case study examines the triadic alliance between a mobile communication company and its two partners providing in concert outsourced real estate maintenance operations. Data was gathered through interviews as well as collecting observations obtained while following a project group at work during an eighteen-month period and attending other organisational gatherings. When analysing the characteristics of facility services in a real world environment, one needs to identify the case-specific factors and those factors that can be generalised. This is particularly important when observations are gathered from a single source or a small number of cases.

#### **3.1 Environment level factors of facility services**

At the environment level, one can find such factors as the degree of market risk, network intensity, and institutional environment. Environmental instability is derived from the environmental uncertainty that refers to the volatility and diversity of the market (Claro *et al.* 2003). While market volatility represents the rapid changes in the environment, which may catch firms by surprise, market

diversity represents the multiple sources of uncertainty in the environment.

From the general environment level characteristics of facility services it can be highlighted that the number of service providers in Finland is large and the technically very developed. We need to note that out of approximately 10,000 Finnish facility service companies, there are only few large companies who are able to provide a wide range of services. This is an important detail when focusing on co-operative partnership relationships between a client and suppliers. In this study we only deal with large and significant players in the Finnish facility service market. The small number of such participant organisations means that everybody knows each other, so the network intensity is high. This in turn has a direct effect on the participants' behaviour. The possibility of gaining a good partner reputation or the fear of losing it guides decisions and actions. The other effect (the partnership level effect) of high network intensity is that parties are usually acquainted with and have prior experience of working with each other. This in turn seems to lead to better alliance performance (Draulans *et al.* 2003; Kale *et al.* 2002).

From a technical perspective, facility services is a very developed business. Even though the facilities and related systems are becoming more complex, the services are still relatively simple. This will be discussed in more detail below when considering task level characteristics, but on the environmental level one can say that considerable technical development leads to a stable environment. Due to internationalisation, companies tend to look for service providers who are able to deliver a consistent level of service regardless of national boundaries (Bröchner 2001). This has resulted in a some international service companies emerging into the Finnish facility service market. This phenomenon is expected to continue and grow. These events will have an impact on the Finnish facility service market. Since it is not strongly regulated by the government, it is easy to enter the Finnish facility service market. However, the government affects facility services at the task level by imposing statutory equipment inspections. Looking at these environment level characteristics, the environmental uncertainty of the Finnish facility services market is low.

### **3.2 Task level factors of facility services**

Factors affecting the task level include the nature of exchange, transactional salience, volume, degree and type of asset specificity, measurability of activities and outcome, and task uncertainty. As a general task level characteristic, we should mention the fact that facility services are mostly intangible services, even though there is a degree of material included in some areas of service provision. Facility services are also quite simple, and for most clients they represent non-core support services. In contemplating a mix of support services such as cleaning, security, building, mechanical and electrical maintenance, it is easy to see the diversity of the tasks involved (Atkin and Brooks 2000). Facility services may include a large number of different services and there is no single definition for the term. The

differences between the facility services occur as a result of the duration of the service, the skills and expertise required and the importance of the service to the client and customer. Most of facility services are simple, but there may be some very challenging tasks as well. Accommodation services, such as cleaning, do not require high levels of expertise; on the contrary services like statutory equipment testing and the maintenance of major appliances do (Atkin and Brooks 2000).

Due to the simplicity of the service, organisations in the facility service market have no chance to gain a competitive advantage by standing out from the rest by technical differentiation. Consequently, facility service partnerships are mostly grounded on benefits gained through economies of scale and the offering of wide service packets. The wide service packets may be formed either by bundling different services together or by combining sites. The negative effect of forming wider service packets is that it reduces the number of potential service providers. This is due to facility service companies in Finland being small and only operating in local market places.

Because the nature of facility services is simple and labour-intensive, there is usually no need for partner-specific investments. The labour resource is easily moved from one client's site to another.

Dean and Kiu (2002, p. 405) found in their study that FM functions (building and grounds maintenance, cleaning, and security) are relatively unimportant to the success of client's business. The support service nature of facility services reduces the strategic importance of the service to the client. This leads to the client being relatively independent of the supplier and results in buyer dominant relationships. In this way the support service nature has an effect on the partnership level characteristics.

### ***3.3 Partnership level factors of facility services***

At the partnership level, factors that come into play are trust, information asymmetry, reputation, experience with co-operation in networks or with a specific party, risk attitude, and bargaining power or pattern of payoffs. Openness relates directly to information asymmetry: the greater the openness, the smaller the information asymmetry. Since many outsourcing decisions are not generated based on the benefits of accessing another firms' resources and efficiencies (Downey 1995), openness could be a general characteristic of facility services on the partnership level. Despite the close relationship, there is the possibility of open communication between the client and the service supplier because there is no need for the client to share sensitive core-business related information. There is also another distinction of typical alliances present in the literature. This is the type of knowledge shared between parties. Usually alliances are also used as a vehicle for learning. This is not the case with a facility services client – in FM supplier relationships, alliances are made in order for the parties to benefit from economies of scale.

Due to the fact that there are seldom partner-specific investments in facility services, the commitment of the parties tends to be low. An exception is human resources used in wide contract negotiations. During negotiations both parties usually need to invest resources, which are not easily usable in other cases. The sacrificed resources are not easily used, but gain alliance ability (Draulands *et al.* 2003), which is usually usable in other alliances. Alliance ability leads to greater performance. The engagement of resources adds to the parties' commitment to the relationship, along with the anticipation of future benefits.

Other general characteristics of facilities services on the partnership level are buyer dominance, novelty and obscurity of partnership model. According Cox and associates (2003, p. 543) power structures are the major factor in determining how surplus value is shared. Collaboration can be undertaken in different circumstances of power. However, the outcomes of collaboration will be very different. Yan and Gray (1994) found that the bargaining power of potential partners affects the structure of management control in a joint venture, which in turn affects the overall venture performance.

Collaboration can be adversarial (i.e. one side dominance), unilateral (Heide 1994) or non-adversarial (i.e. balanced or bilateral, Heide 1994). An example of adversarial collaboration would be a case in which the client is working with its suppliers to increase the surplus value being generated in its transactions and appropriating most of that value. There are examples in literature of adversarial buyer dominance relationships being successful (cf. Toyota case in Cox *et al.* 2003, p. 544). Collaboration can in fact be a double-edged sword. Although there is "security" in the relationship, there is potential for the powerful partner (usually the buyer) to show the strength of its muscles, squeezing the submissive partner (usually the supplier), to such an extent that this process becomes potentially harmful to both sides of the relationship. It may be argued that the abuse of power beyond a certain point may adversely affect the buying company itself. (McHugh *et al.* 2003) McMillan (1990) argue that a large firm that pushes undue risk onto its small subcontractors may be acting against its own interest.

Bargaining power has two context-based and seven resource-based components (Yan and Gray 1994, p. 1478). Context-based bargaining power includes the strategic importance of alliance (i.e. stakes) and the availability of alternatives for the potential partner. Resource-based bargaining power includes the resources and capabilities committed to by the partners in an alliance, such as: technology, management expertise, global service support, local knowledge, product distribution, material procurement, and equity.

According to the principal-agent theory bargaining asymmetry exists. The principal (client) is usually much larger and is therefore able to design the transaction and set the terms of the exchange. For the agent – usually the supplier – there are two important aspects, which may mitigate his bargaining weakness. One is his ability to reject a proposed contract. The other is the fact that knowledge is power, and the supplier, being a specialist in his field, is likely to



be more informed about the details of the buyers production capabilities than the buyer itself (McMillan 1990, p. 39).

Trust is mentioned as one of the attributes of partnering (Lehtonen 2004). In business relationships, trust appears as the belief that the partner will subdue the chasing of his own advantage in favour of mutual advantage. Ireland and associates (2002, p. 438) maintain that predictability, dependability and faith are the three key components of trust. Trust between partners smoothes and facilitates collaboration. According to the findings and theoretical reasoning of Cullen and associates (2000), higher levels of mutual trust and commitment lead to better performing alliances, both in terms of financial and non-financial aspects. Galli and Nardin (2003) state the critical role of trust in reducing the risks related to organizational decision-making. They claim that there are two main domains of trust: a rational and an emotional one (see also Cullen *et al.* 2000). The significance of these two is context-dependent. The context may be divided into simple, competence-driven and complex context. The dimensions of trust in simple and competence contexts are mainly linked with the rational dimension, whilst in complex contexts they are specifically linked to the emotional one. Based on these observations, the most significant dimension in the facility service context seems to be the rational dimension.

Trust is usually divided into three sub-constructs (Sako 1992), the contractual, competence and goodwill. The first sub-construct of trust, the contractual trust in that the partner will perform according to the contract, does not seem to be relevant in partnerships. The reason for this is that when the parties are writing a contract they propose that the both parties will adhere to the contract. The second sub-construct, trust in the partner's competence, does not seem to be significant, either, in those partnerships where the service is sourced on some other basis than just the price. This means that the most significant sub-construct of trust in the facility service context is trust in the partner's goodwill. Firms learn to trust each other over time. Trust needs to be engendered actively and continuously.

The experience (van der Meer-Kooistra and Vosselman 2002) or familiarity (Campbell 1985 in Ford 2000) of the specific parties, the costs and ways of doing business, particularly co-operation, seem to be important factors in predicting alliance success. Firms may be more effective at capability development when they develop mechanisms that are purposefully designed to accumulate, store, integrate, and diffuse relevant organizational knowledge acquired through individual and organizational experience (Kale *et al.* 2002). Such mechanisms could be evaluation methods, dedicated alliance functions and alliance training (Draulans *et al.* 2003). The findings of Reuer and associates (2002) underscore the importance of the differentiation of the type of knowledge that firms accumulate in their collaborative activities. Prior ties tend to facilitate the post-formation adaptation of alliances as a consequence of partner familiarity and the development of inter-organizational routines. The accumulation of experience in similar technological domains is more apt to assist during the structuring of

collaborative arrangements than in the post-formation period.

Novelty of partnership arrangements means that companies do not have experience of such contracts. The novelty of the partnership model also results in the market participants having a greater interest in partnering. The term partnering, like other fad business terms, is used in many contexts and to refer to various arrangements (Lehtonen 2004). But real and well-performing partnerships are scarce in the facility service environment.

The dominant characteristics of facility services are simplicity and the fact that they are perceived as support services. These characteristics have the strongest effect on facility service business relations.

**Table 2.** *General and Finnish Facility Services specific business relationships factors.*

<b>Business environment level</b>	<b>Dyadic level</b>	<b>Transactional level</b>
Uncertainty about future contingencies	Trust	Nature of exchange
Environment uncertainty	Information asymmetry	Transactional salience
Degree of market risks	Reputation	Frequency / Volume
Institutional environment (rules, systems and organisations)	Experience with co-operation in networks or with specific parties	Degree and type of asset specificity
Network intensity	Risk attitude	Length of transaction period
	Interdependency	Measurability of activities and output
	Bargaining power	Task uncertainty
<b>Facility Services Market</b>	<b>Facility Services Business Relationship</b>	<b>Facility Services Task</b>
Non-technical business	Buyer dominance	Non-core support service
Stable markets	Novelty of partnering	No partner-specific assets
Few actors – all familiar	Openness	Simplicity
Unregulated business	Good attitude to partnering	Easiness of measuring
		Labour intensive
	Number of partners	High wastage rate

#### **4 Consequences of facility services' characteristics**

The characteristics of facility services relationships tend to result in relatively low uncertainty. The uncertainty originating from the characteristics can be divided into uncertainty about behaviour and uncertainty about co-ordination (Salonen 2004). Low co-ordination uncertainty is a result of the small number of co-ordination problems that is due to a clear division of labour. Parties can relatively easy to share tasks and responsibilities. The co-ordination demands between client's business and facility services is small. The low behaviour uncertainty relates to few appropriation problems being caused by minor interdependency between partners. One partner is not too dependent of the other parties. When a party is not too dependent on another then it is not vulnerable to the other party's opportunistic behaviour. According to Wathne and Heide (2000) certain

conditions facilitate opportunism. Since opportunism is taking advantage of partner's vulnerability, we need to identify factors that lead to vulnerability. There are two main factors affecting vulnerability. The first is information asymmetry. This is when one participant has valuable private information, which gives it the opportunity to pursue opportunistic actions without being caught. The second is a lock-in condition, which is usually referred to as partner-specific assets. When a partner has committed partner-specific assets it has to tolerate opportunistic behaviour from the other in fear of losing its assets if it questions or raises concerns about opportunism. As discussed above, both information asymmetry and lock-in condition are not typical situations in facilities services. Based on this parties in facilities services business are not usually especially vulnerable.

In a single facility service provided through a short-term contract, the uncertainty is low because of the simplicity of the facility services provision. Due to the fact that facility services are considered support services, there is no dependency between companies. The emergence of control problems seems implausible in such conditions. Because of this there seems to be no reason to enter into closer relationships. However, as we turn to talk about the bundling of services or extending the length of contract, the situation changes. There is more uncertainty, and dependency and control problems are unavoidable. For that reason, there is also a motive to enter into a closer collaboration.

The reasons behind entering into close relationships affect the form of the intended relationship. Dependence and uncertainty are the key antecedent variables motivating the establishment of closer interfirm relationships (Heide 1994; Cannon and Perreault (1999, p. 444). According to Cousins (2002), when a company wants to manage co-ordination uncertainty it will form a tactical collaboration. However, when there is a great level of dependency between companies they may want to form a closer relationship such as a strategic collaboration.

Uncertainty may become concrete control problems. Control problems may be defined as items that cannot be covered by explicit and easily enforceable contract clauses. In their study of FM partnerships Lehtonen and associates (2004) found four typical problems stemming from uncertainty. These problems are the lack of development activity, poor communication between client and service provider, shortcomings in service management and service failures. The lack of development activity is a result of behavioural uncertainty stemming from dependency between partners. The last three problems identified are due to the co-ordination of uncertainty originating from integration.

## **5 The perceived risks**

While Chiles and McMackin (1996) argue that the difference between risk and uncertainty is important, they treated the term, risk, as the subjective possibility of loss as perceived by the decision-maker and uncertainty as exogenous

“disturbances”. Actually they are not talking about risk with objective probability but rather the management’s subjective estimation of a situation that has a ‘perceived risk’. In his doctoral dissertation Tolonen (2003, p. 46-50) used the definition based on Flanagan and Norman (1993) that the probability of risk may be defined statistically, while the probability of uncertainty cannot be defined objectively. This leads to uncertainty becoming a more or less unique event, which may be given only subjective probabilities. According to Arnold (1998), within risk and uncertain situations, the buyer knows all possible actions of the supplier in the future. In a risk situation, supply management has an idea about the probability of appearance and can decide whether or not such a risk is too high. Uncertainty in a closer sense means that the buying organization does not have a clear idea about this probability. Bounded rationality means that every possible future action of the supplier will be known to the buyer. According to Das and Teng (2001a) risk has been defined traditionally as outcome variances with known probability, while outcome variances with unknown probability have mostly been referred to as uncertainty. However, since in the area of strategy such probabilities are hardly known, risk tends to be broadly used for variances with unknown and as well as known probabilities. We will use the term risk for situations with either objective or unknown probability.

As managers may not know about the kinds of possible outcomes, it is very difficult for them to assign reasonable probabilities to possible outcomes (Das and Teng 1999). Das and Teng (2001b) point out that we need to note the critical difference between objective risk and perceived risk. Theorists tend to agree that it is the “perceived” environment that is most relevant to the process of making strategic decisions. Managerial perceptions are considered a key ingredient in strategic decision-making. Das and Teng (2001a) Compared to the traditional industrial organization economics approach to strategy formulation – which relies exclusively on the objective environment – the managerial perception view helps capture the essence of the decision process.

According to Lonsdale (1999) the two main perceived risks for clients in partnerships are an excessive dependency and outsourcing of “wrong” resources. For many organisations considering outsourcing, the greatest concern is that of a perceived loss of control (Atkin and Brooks 2000). Lehtonen and associates (2004) identified the three perceived risks occurring in FM relationships as the loss of market knowledge, getting into a rut and development of strong personal relationships.

The risk management process requires the examination of all aspects of risk facing a corporation, i.e. the relational risk and performance risk. This is important, as risk is particular to each organisation (Downey 1995). Because there is a wide range of possible sources of risk it is necessary for any organisation to develop its own tailored risk management system. The more generic versions might be used as a starting point, but these are unlikely to include the full scope of possible risks to every project/business, so they must be modified accordingly (Hillson 2003,

p. 89). This article aims to give a generic starting point by presenting a conceptual model for the management of FM relationships (Figure 1). The risk management methods available may take the form of financial risk transfer through insurance or contract, risk avoidance, self-insurance, or duplication of vulnerable functions and facilities (Downey 1995, p. 40).

## 6 Relationship management

The above discussion on the relevance of characteristics is empirically supported by Bensaou's (1999), findings. According to his study notes there are differences between the low and high performers component supply chains. His findings suggest that components having similar characteristics tend to be managed uniformly. Different control mechanisms have an impact on different risks or perceived risks. According to Gulati and Singh (1998) mechanisms like incentive systems and non-market pricing systems affect some of the agency features or appropriation concerns, while command structure and authority systems, standard operating systems, and dispute resolution procedures concern co-ordination capabilities. Control systems have been conceptualised and categorised in various ways: formal versus informal controls, behaviour versus outcome controls, mechanistic versus organic controls, bureaucratic versus clan controls. However these classifications are not distinct and there is some agreement that all organisational control systems consist of formal, explicitly designed controls, as well as the unwritten, informal and social controls that cannot be directly designed. Langfield-Smith and Smith (2003) A useful classification of control forms is the distinction between formal and informal control mechanisms (Smith *et al.* 1995). Formal control consists of contractual obligations and formal organisational mechanisms for co-operation. Informal control, also referred to as social control and relational governance, relates to informal cultures and systems influencing members, and is essentially based on mechanisms inducing self-regulation (Ouchi 1979). Outcome and behaviour that form formal control and social control are useful mechanisms for both managing appropriation concerns and co-ordinating interdependent tasks (Dekker 2004).

Contractual safeguards can curb opportunism (and thus reduce perceived risk) through two mechanisms. Firstly, they can change the pay-off structure by increasing the cost of self-interest activities. Secondly, contracts can reduce monitoring costs by increasing the transparency of relationships and clarifying the objects of monitoring (Lui and Ngo 2004).

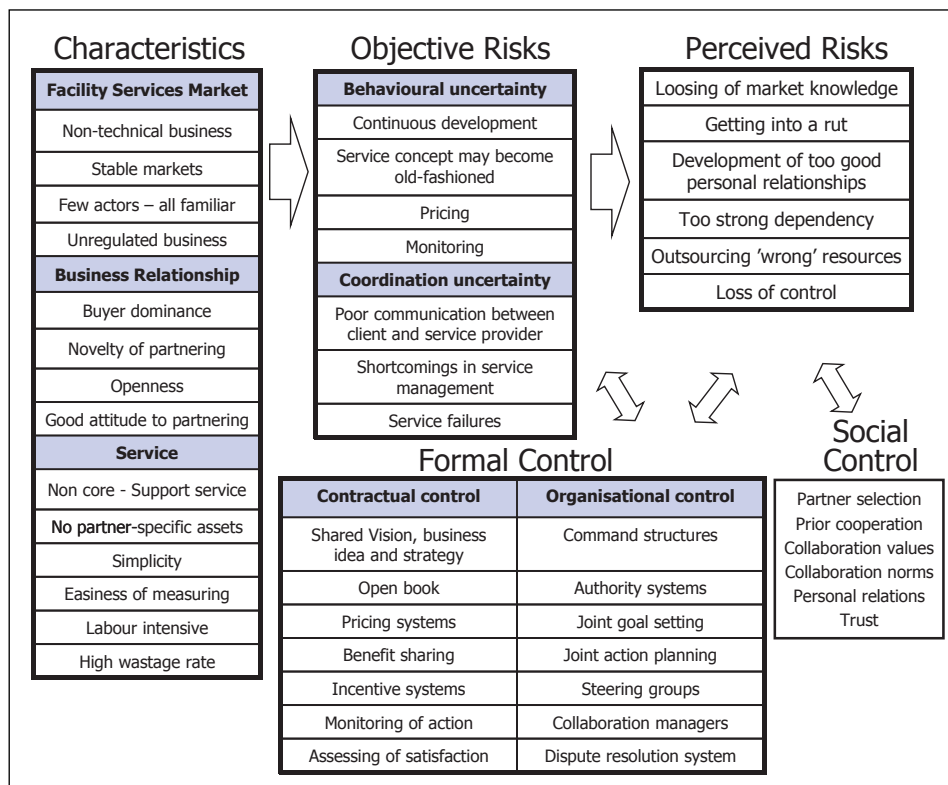
Dekker (2004, p. 5) as well as Gulati and Singh (1998) mention five important types of control mechanisms including such organizational elements as: command structure and authority systems, incentive systems, standard operating procedures, dispute resolution procedures and non-market pricing systems. With the help of contracts one can build hierarchies into relationships, which work like intra-firm hierarchy (Mitronen 2002, p. 41). Standardising methods and procedures

increases the predictability of outcome and thereby diminishes the related risk. Use of incentive systems helps to decrease risk by guiding the behaviour of firms and companies.

Prior and continuing as well as expected future interaction present social or informal control mechanisms. The prevailing norms shared by the actors also function as social mechanisms. Norms are assumptions of human behaviour. They draw the dividing line between allowed and prohibited behaviour (Mitronen 2002, p. 59). Social mechanisms are not official and companies cannot affect them directly. The effects of norms rely on reputational capital and the potential for long-term gains as the means for motivating compliance (Cannon *et al.* 2000, p. 184).

Trust appears regularly in literature as mechanisms to decrease perceived risk and enable parties to operate smoothly in concert. However trust does not affect the objective risk (Das and Teng 2001a; Tomkins 2001), so it cannot be considered as a proper control mechanism.

A summary of the characteristics on the three levels, the two types of risk, typical perceived risks and the distinct control mechanisms, we present the conceptual model for management of FM relationships (Figure 1).



*Figure 1. The conceptual model for management of FM relationships.*

## 7 Discussion and conclusions

This report described the development of the FM relationship management model. The aim of this conceptual model is to increase the visibility of risks that actors are exposed to when forming closer relationships and to help in the assessment of that risk and management of the relationship. While describing facility services, we have tried to find characteristics that are significant and could be generalized. To the question of what facility services are like, we were able to answer comprehensively with two characteristics. The two main characteristics of a facility service are simplicity and its nature as a support service. They seem to have the strongest effects on the business relationship between the service provider and the client. The different characteristics cause different types of objective risks and related perceived risks. Companies should analyse their own specific characteristics in order to manage their relationships effectively and efficiently.

*It is suggested that companies could apply the presented conceptual model as a starting point for the management their relationships.*

Due to the simplicity of facility services there are usually many alternative suppliers on the market. When a supplier is responsible for a service that can be provided easily by many others, such as cleaning, there may seem to be little need to bother about a relationship beyond a straightforward commercial arrangement (Atkin and Brooks 2000). This is simply because the wider the interface and the greater the interaction of the client organization with the supplier, the higher the indirect costs. There is no point in having a complex relationship process if the output is relatively simple (Cousins 2002). This is true if the client only considers the minimizing of costs. The minimization of costs is a limited perspective. If one only tries to minimize the costs of the support service then he may miss the potential benefits gained by a closer arrangement. Due to the customers' objectives, the parties may settle on a close relationship even in a simple support service. A partnership may even be the only way to get the desired service and meet complex requirements.

The support service nature of facility services affects the forming of business relationships in many ways. Even if closely related (Barrett and Baldry 2003) facility services are separate from the core business, the client does not have the risk of losing valuable and sensitive information to the partner. This distinguishes partnership arrangements in facility service businesses from the partnerships usually described in business literature. Generally, losing information related to potential competitive advantage is a significant risk and affects the actions of companies entering into partnerships. The complete or almost complete lack of this risk enables and eases the required openness in facility service business relationships. The sharing of information may relate to future needs, pricing mechanisms and costs. Parties working openly and sharing information have the chance to have an effective and efficient business relationship that benefits

all parties. Openness may facilitate trust forming between partners. This is sometimes called the positive spiral, where openness adds to trust and trust leads to greater openness.

### **8 Limitations and further research**

The implications of this study should be evaluated in the light of the following limitations. First, the division into "risk" and "perceived risk" is quite theoretical and it seems hard to differentiate these two in practice. Second, we suggested specific characteristics, risks, perceived risks and control mechanisms for facilities service relationships drawn from researcher's observations from five cases. Further research should examine whether or not there are some other characteristics. It should also examine the relevance of each character. Finally, the proposed model was targeted at Finnish facility services relationships and thus it reflected the market particularities. We encourage that further research on facility services relationships aim to analyse whether or not the proposed model also suitable for other markets. Thus, further research is encouraged to replicate the present study in other research settings.

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