

## **Transforming the Contract : an FM That can generate value**

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The current forms of contractualisation within FM put weight on reference to Service Level Agreements (SLAs) and on their KPIs. These tools prescribe and configure the services involved by using deadlines and frequencies, making it possible to value the services by using more or less standard hourly unit costs. Designed to set a price and to facilitate control, via indicators and penalties, these tools focus the agreement, like guidance mechanisms, on the compliant performance of technically defined services. This raises a problem: the sense of the service activity itself – *Why clean? Why smile?* – becomes forgotten. The quality of impact and the purpose of the service relationship – its effects for the beneficiary – become obliterated behind *How? or How much?*, as quantified in terms of frequency, working hours and costs, the whole reduced to sqm ratios.

### **Knowledge changes sides**

Reducing services to the prescription of technically defined services is based on the assumption that principals are able to define their real needs, their legitimate expectations and those of their beneficiaries within sites that are always specific. Experience shows that this capacity is not effective. On the contrary, efficiency tends to decrease as outsourcing increases and with the increasing complexity of the demands for well-being, regulation and extension of the scope of FM (environment, corporate social responsibility, property management, etc). As a result, contracts become irreducibly incomplete, further aggravated by the trend toward standardisation, smoothing out of site specificities, failure to take into account the challenges or opportunities of each location . . .

Whilst the balance of power favours the Client through regular contract renewals, the principal is at the same time increasingly dependent on the expertise of the service providers and the quality of their skills. As these contracts have become usual tools, service providers are no better able than principals to set out or characterise the purpose of the contracts in terms of added value produced for the principal.

### **Only global and unit costs focus attention**

**In this absence of agreement on added value and on how to allocate it to productivity gains, negotiations and contracts focus only upon costs *a priori*. Within FM, these costs are overwhelmingly associated with employee salaries.** When FM providers find themselves challenged for a job, they are led to make abnormally low offers. Over the life of the contract, the adjustment variables they have available, as well as quality, come into conflict, putting employment and working conditions (including qualification) of their staff in danger.

Conversely, the dependence of client principals and their financial stakes reinforce their demand for control. The difficulty of these controls and their costs in turn feed their mistrust. To guarantee their own interest upstream, principals are then tempted to resort to the balance of power and to reduce costs. Distrust is thus durably established and fed by contracts between principals and service providers.

### **Contracts that interfere with work**

These mechanisms affect the FM work. Quality and cooperation issues between technicians and "users" are covered up and thereby accorded no value. The intelligence involved in the work, the commitment of technicians, the relevance of daily trade-offs on what is best, etc, are not recognised by the Key Performance Indicators and other tools set out in the contracts.

Beyond the tensions arising from working conditions that are never easy (unsocial schedules, physical hardship, isolation, etc.), this lack of recognition creates major management difficulties for the level of productivity expected. The work itself and its useful impact are invisible or even denied. Employees are reduced to being technical service agents in accordance with contract clauses that are incomplete, imprecise and not always relevant. Facility managers experience real difficulty in building loyalty, investing in skills, obtaining satisfactory site presence and commitment to quality on the part of their employees.

### **Innovate within the legal field and within management**

Designed to implement prior agreement and to enforce capacity for control, FM contracts can be improved within the two areas of law that effectively concern them: commercial law and labour law.

For FM within commercial law, the quality of relationships and associated trust, of which the contract is in principle the pledge and expression, are a strategic intangible asset. Principals are not the competitors of their service providers. Too often, contracts contribute to a deterioration in the quality of relationship between the two actors, whose common interest is to cooperate. Practices and tools that are generally valid for the exchange of property rights on tangible goods, are restricted by elaborating a system for the production of services, as in the case of FM. For the purchase of material goods, transactions that are made to the detriment of reasonable profit for the supplier in no way alter the characteristics, qualities, volumes or uses of the goods delivered. What is "lost" by one is "won" by the other, at least as long as competition exists.

This mechanism is a dead end for the service logic of FM : everyone ends up losing. Not only does the mechanism put the supplier at risk, it does not allow the result from consent to outlay to be obtained. After several cycles of decline, the service provider becomes forced over time to restore, or at least to preserve, his margins. He skimps on quality and, in the end, can be led to mistreat staff. The customer is not fooled. Betrayed in this situation, his mistrust is reinforced and without knowing how to recognize both the economic value and the value-in-use of the output of these services, mistrust becomes the driver of these contracts.

The requirement to reduce costs from one contract to another, to ever more controls, leads to so-called "progress" clauses that aim to capture, in advance, any gains in productivity that may occur over time!

One fundamental reason is that these contracts are not really service contracts, let alone results-based service contracts. They are often contracts for "temporary provision of labour " priced simply on a cost basis. The SLAs, KPIs, controls, penalties or periodic renegotiations all tend to pollute relations and sterilise the search for gains in productivity. They leave no room for the intangible investments that are necessary on each side, particularly in terms of skills and management. They fail to regulate the sharing of additional added value when it arises. **However, innovations in service and in productivity can only be co-produced within a relationship of exchange. Each type of innovation requires cooperation.** Symptomatic of the issue, we even know of cases where "compliance" and strict application of competition rules have been used to justify denying to service providers the necessary level of exchange and information during periods of Request for Information and Tender.

#### **Taking into account the service-dimension in the field of law**

Within the field of labour law, these contracts represent a damaging, indeed even counterproductive lock on the work itself. By being prescriptive within the technical and measurable parameters of the services required, clauses ignore the service dimension, the commitment of staff, their capacity for intelligence and innovation. Within FM work in particular, due to a relation of subordination on the wage front, managing and organising work are caught up in a contradiction. The principal has to avoid interfering in the subordinate relationship between FM staff and FM employer. In principle, this opens the risk of wage bargaining crime and forcing an undesired wage relationship. But it is the relevance, quality and demonstrable added value of the services concerned that provide a legal basis for the legitimate use of subcontracting. These depend on the intensity and quality of daily relations between the permanent employees in the workspaces and the FM staff who work there.

**The challenge therefore resides in the capacity of contractual instruments to establish cooperation between staff and principals. It is on this condition that opening the negotiation space for gains in service innovation and service productivity can occur. It is essential to move from cost agreements to value-added commitments.** We know the difficulties of measuring these, and a research initiative is being pursued at CRDIA to address the issue. Beyond that, it will always involve quality in managerial leadership and in customer relations. It will also be essential to change the conditions and formalities of contractual relations with the principals (decision-makers, buyers, etc.). If the contract cannot achieve everything, it must at least cease being an institutional and formal barrier to trust and cooperation.

**Toward agreements that consent to expenditure, in return for consent to commitment** Contract terms and conditions are sources of law. It is a question of understanding, via an effort of research, how to move from formalising a process of purchasing technically defined services, to one of agreeing the acceptance of expenditure in return for a contribution to the performance of the Principal and to the utility of an emerging sector, Facilities Management.

It is by this means that FM as an activity could be perceived, not as a costly but necessary commodity, but rather as an **amenity to the workspace as a productive business resource.**

TEXT BOX

Experiment !

At the *Consortium for Research on Facility Management* CRDIA, a prototype research experiment is being carried out. Under the direction of Luc Monteil (Bolloré Logistics) and Thierry Cadiot (HSBC), this involves developing innovative contract forms that will contribute to improving the productivity of Facility Management. Services.

For more information on this initiative, contact CRDIA : <https://crdia.org/> .