Organizational Models for Non-Core Processes Management: A Classification Framework

Alberto F. De Toni¹, Andrea Fornasier² and Fabio Nonino³,*

¹ University of Udine, Department of Electrical, Management and Mechanical Engineering, Udine, Italy
² Industrial Association of Pordenone, Pordenone, Italy
³ Sapienza University of Rome, Department of Computer, Control, and Management Engineering “Antonio Ruberti”, Rome, Italy
* Corresponding author E-mail: fabio.nonino@uniroma1.it

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Abstract This study investigates the impact of different organizational models for the management of non-core processes in the facility management (FM) industry and seeks to suggest which is the best in terms of strategic and operative advantages and disadvantages.

A literature analysis of the empirical evidence as to business process outsourcing and, in particular, as to the practices of the FM business sector has been carried out. The analysis has allowed us to identify a total of 11 organizational models that are a consequence of five different strategic approaches. A comprehensive classification framework of the strategies and organizational models on the basis of two dimensions is proposed: the organizational role of a non-core processes manager (called a ‘facility manager’) and the typology of non-core process/service providers.

The framework enables the identification and the explanation of the main advantages and disadvantages of each strategy and to highlight how a company should coherently choose an organizational model on the basis of (a) the specialization/complexity of the non-core processes, (b) the focus on core processes, (c) its inclination towards know-how outsourcing, and (d) the desired level of autonomy in the management of non-core processes.

Keywords Organizational Models, Non-Core Processes management, Outsourcing

1. Introduction

In the past, organizations managed the majority - or even the totality - of internal non-core processes using their own personnel and resources. The design, planning and management of all non-core support processes necessary for the effective and efficient execution of the company’s core activities is named facility management (FM) [1-3]. Non-core internal processes include, for instance, maintenance and technical assistance as well as courier service, mail distribution, industrial transportation, etc.
Nevertheless, in recent decades the trend has changed. Organizations tend to concentrate their resources in the core business. According to the outsourcing paradigm, many innovative organizations decide to outsource not only part of R&D [4], manufacturing, logistics and non-core activities, but also non-core support processes. The outsourcing and management of critical or non-critical processes to specialized companies is called business process outsourcing (BPO) [5]. BPO is viewed by companies as a cost-effective way to gain competitive advantage and focus organizational resources on strategic activities [6]. Consequently, organizations increasingly frequently outsource non-core support processes to external service providers and the so-called ‘facility management companies’ so as to obtain specific know-how.

In the literature, no substantial theoretical frameworks are available for identifying the organizational models and strategies to be adopted for non-core service management. Therefore, this study aims at bridging this gap.

The first part of the paper deals with the different strategies adopted by companies in non-core process management highlighted in an analysis of the empirical evidence within the literature. Subsequently, 11 different organizational models for non-core process management are reported. In the third section, the organizational models are classified in a framework which allows the linking of them with non-core service management strategies. Finally, the main advantages and disadvantages of each organizational model are explained with the aim of suggesting how to identify the more coherent with companies’ strategies.

2. Strategies for non-core process management

Facility management deals with the optimization of non-core support processes/services management through vertical integration or process outsourcing, depending upon the strategy adopted by the company [7].

Vertical integration and outsourcing are the extremes of a range of potential business configurations. Vertically integrated companies have direct control over both core and non-core service provision for enhancing processes and product quality [8]. The reasons for this organizational configuration are to be found in the need for keeping under control the uncertainty affecting the relationship - both formal and informal - with suppliers [9]. Indeed, companies have two major motives in using outsourcing: i.e., increased efficiency and cost reduction. Such benefits can be obtained through the optimization of activities and the “lean” management of internal resources.

In the literature, the variables adopted to depict the non-core support processes/service management models refer to facility management organizations (FMOs) [1, 3, 10, 11]. The FMOs’ classification by Kaya [12] envisages the introduction of new organizational models beside those already available in the literature [13-16], introducing a forth organizational model which considers the occupancy profile. Bernard alone [17] tries to identify some practical approaches to facility management through the analysis of facility procurement options. Nevertheless, no substantial theoretical frameworks are available to identify or to link the strategies with the organizational models to be adopted for non-core processes/service management.

The management of non-core processes can be kept within the company through the use of internal resources. In particular, large enterprises have a facility management division. This functional division is usually administrated by a so-called facility manager who is in charge of managing and coordinating the execution of all non-core internal operations. The facility manager can be:

- A manager of the organization;
- A consultant.

When a facility manager belongs to the organization, an in house management strategy is adopted while the engagement of a consultant refers to managing agent strategy [1]. Increasingly, small and large companies alike outsource to companies which are specialized in facility management and can, therefore, ensure the efficient provision of the required non-core processes/services. As a result, these companies shift from vertical integration to the outsourcing of non-core services. Outsourcing can refer to only a few processes or else to many of them, and it can involve one or more service suppliers.

In the literature, different typologies of providers related to service outsourcing can be identified. Services can either be provided to the client organization by the so-called general contractor - namely, the company or the temporary joint enterprises which win the tender - or by sub-contractors. In the latter case, the facility management service provider acts as a manager, integrator and coordinator of the sub-contractor network. As a result, service providers can belong to two different typologies, according to the level of service diversification or integration:

- Specialized providers, who focus on a single process/service. The customer needs to turn to diversified providers to obtain the required services;
- Integrated providers, who supply different processes/services in an integrated manner through specialized provision business units [18].

When a company decides to outsource and manage different specialized providers, they adopt a direct outsourcing strategy. Turning to diversified providers has two major advantages: (1) supply risks are distributed among different individuals and (2) the suppliers’
bargaining power is reduced. By way of contrast, outsourcing to integrated suppliers is called a managing contractor strategy, which means relying on a sole interface for contacts and control procedures over operations. Moreover, integrated suppliers can better respond to customers’ needs by virtue of their larger dimension.

Another difference between facility management providers is their specialization in a certain field of expertise. In particular, three typologies of providers can be identified, namely partial, sectorial and large facility management operators. Partial operators’ experience is limited to some specific activities. They operate within a small organizational structure and their offers are basically operative. Sectorial operators have a deep knowledge of their business field and a large number of resources. Finally, large facility management operators provide the customer with an extremely wide range of coordinated and integrated services. Partial operators are engaged with a company in direct outsourcing while sectorial operators in managing a contractor strategy. When a company outsources all support for non-core processes/services to a large facility management operator, it adopts an integrated facility management strategy.

3. Organizational models for non-core process management

Since the objective of our research has been to propose a classification framework of the various strategies and organizational models, the method we have used has involved a literature analysis of the organizational models for FM proposed by the prior research and supported by empirical evidence. They were identified through an analysis of the literature on service management, business process outsourcing and, in particular, the practices adopted in the FM business sector. Consequently, each organizational model is corroborated by the empirical data referring to the FM market. Organizational models for non-core process management can be grouped according to their related strategies. Eleven organizational models are put forward. In the figures given hereafter, the following symbols are used:

3.1 Organizational models for the in-house Management strategy

Organizational model I (Figure 2 – organizational model I) refers to the situation in which functional units are able to provide non-core processes without the help of a facility manager in a “classic” functional structure [19]. A typical example of this model is when the cleaning activities in the manufacturing unit are assigned to single operators. When the organization has their own employees dedicated to non-core processes, a coordinator is usually envisaged within the organization - the so-called ‘facility manager’. This situation is typical of small-medium enterprises (SMEs) and the facility manager does not simply deal with the management of non-core activities (see Figure 2 – organizational model II). Organizational models I and II are extremely common among SMEs. In other cases, to be sure about the correct management of non-core supporting processes, a special business unit (see Figure 2 – organizational model III) is created within the company to perform such activities [20]. The business unit is administrated by a facility manager who has the authority to manage and coordinate the unit. Rabobank and ING Bank adopted this organizational model [21]. In addition, the National Park Service [22] owns a business unit in charge of facility management activities. Each of these three organizational models is characterized by an internal non-core service management and their underlying strategy is that of in-house management.

3.2 Organizational model for the management by an agent strategy

If the company does not prove to have the necessary abilities or know-how to manage and coordinate non-core processes autonomously and in an efficient and effective manner, it can choose to appoint an external consultant who can perform facility management activities (see Figure 3 – organizational model IV). The resulting organizational model is associated with the so-called managing by the agent strategy. As a matter of fact, this strategy envisages the presence of a managing agent [1, 2] who is employed by the company with a medium- or long-term agreement and acts as a consultant. Indeed, the managing agent supports the company in the management and monitoring of non-core process supply units. For instance, Morson International [23] and Atkins [24] are two consulting firms who provide their customers with management services through an agent.

3.3 Organizational models for the direct outsourcing strategy

As non-core services become more and more specialized and complex, the customer may decide to contract-out to non-core service suppliers [20] in a non-integrated outsourcing. Companies or temporary joint enterprises are all potential suppliers. Non-core service outsourcing leads to both a reduction in the company’s internal
resources engaged, an increase in the internal organizational flexibility and more control over the costs for each single service. If the facility manager is absent or - alternatively - if she/he is a customer’s employee (organizational models V and VI), the relevant strategy is that of direct outsourcing [25]. For instance, organizational model V shows that the customer may turn to three different specialized service providers. The highly diversified providers offer a sole typology of services to one or more customers’ business units. For instance, the Trieste Medical Service Authority adopts this organizational model [26]. The company is not supported by an internal facility manager and has, therefore, outsourced to different providers cleaning, catering and maintenance services.

Figure 2. Organizational models for in-house management strategies

Alternatively, the company may employ a facility manager who would be in charge of the coordination and management of suppliers [1,2]. The organizational model for this configuration is organizational model VI (see Figure 3). For instance, the Hewlett-Packard Company adopts model VI, according to which facility operations and maintenance are outsourced but internally managed by a facility manager [27]. The Alcatel Italia Company is also representative of this organizational model: the company has an internal facility manager but it outsources the management of records, mail, maintenance and logistics [28].

Figure 3. Organizational model for management by agent strategy

Figure 4. Organizational models for the direct outsourcing strategy
3.4 Organizational models for the management by a contractor strategy

The observations made for model IV (see Figure 3) also relate to model VII. According to the configuration depicted by model VII (see Figure 5), service provider coordination may be assigned to an external consultant. The relevant strategy is that of the managing contractor [2]. For instance, this kind of service is provided by the consulting firm Gordian Group [29].

The facility manager may be also employed by the contractor’s company. Model VIII (see Figure 5) is representative of this configuration and is often adopted by facility management service providers, such as the Italian Consorzio Nazionale Servizi, Coopservice, Ocè Business Service Italia and REAG Real Estate Advisory Group [30]. The non-core service management strategy related to the two organizational models is the management by a contractor strategy, since the role played by the facility manager within these models was defined as contract manager [2].

Figure 5. Organizational models for managing contractor strategy

3.5 Organizational models for the integrated facility management strategy

The last organizational models might be grouped within a single strategy for non-core service management, called ‘integrated facility management’ or ‘total facilities management’ [2]. Integrated facility management refers to the situation in which the customer company assigns service management to companies which are able to provide services in a coordinated, integrated and autonomous manner [1, 2, 16]. Non-core integrated outsourcing providers follow the models hereafter (IX, X and XI, see Figure 6) proposed in the literature [1, 2, 31].

In particular, model IX envisages an internal facility manager who works for the customer and acts as an interface between the customer and the service provider’s facility manager. According to this model, the service provider manager plays the role of an account manager as well and is, therefore, in charge of the external relations to the customer.

Figure 6. Organizational models for the integrated facility management strategy
This is an intermediate position: the account manager is partly a sales manager dealing with customer agreements and partly a technician (project manager) in charge of project execution. Model X envisages an outsourced facility manager who does not work for the customer or for the non-core service provider. Finally, according to model XI, the service provider is fully in charge of the management and coordination of non-core services. The last three organizational models might alternatively be adopted by the most popular facility management companies, such as Cofatec Servizi, Elyo Italia, ENI Servizi, Gemmo, Ingest Facility, Johnson Controls, Manutencoop Facility Management, Nazca and Pirelli & C. Real Estate Facility Management, all of which operate in Italy [30].

4. A classification framework for organizational models and strategies

As highlighted above, different business strategies are paired up with different organizational models. In the literature, no substantial theoretical frameworks are available to identify the organizational models and strategies to be adopted for non-core service management. The variables that can characterize an organizational model are manifold. We selected two dimensions which allow a comprehensive classification of organizational models by characterizing, respectively, the “structure” (the roles, responsibilities and relationships among functions) [32] and the strategic choice of managing/outourcing non-core processes [33]: (1) the typology of non-core service provider and (2) the organizational role of the facility manager.

Service providers can be:

- Internal workers (e.g., when machine operators perform cleaning or maintenance during their working time);
- The organization’s functional division, a specialized unit for the delivery of one or more non-core services (e.g., cleaning, building and plant maintenance);
- A single-multi service company specialized in the provision of non-core services. Providers are diversified and can be companies, temporary joint enterprises, etc.;
- An integrated facility management company: it provides a variety of non-core services in an integrated and coordinated way.

The second dimension refers to the presence of the facility manager and her/his organizational role. It is possible to identify four different conditions:

- Absence: nobody is in charge of non-core service management and coordination;
- Internal organization manager: the facility manager is an employee;
- Consultant (temporarily employed by the customer organization): the facility manager is a freelancer with a temporary contract who manages and coordinates non-core service provision;
- Manager of the service provider: the facility manager is an employee of the facility management company.

The two variables allow building of a classification framework (see figure 7) in which 16 different organizational models might be identified, among which only 11 are actually implemented in non-core processes management. As a matter of fact, and in the literature, no representative example of the organizational models (see the crossed boxes hereafter) is given. Within the framework, the five non-core process management strategies indicated above have each been identified. The same strategy in non-core process management can lead to different organizational models with different managerial and operational structures.

Hereafter, the different organizational models are compared and their major advantages and disadvantages are discussed.

The in-house management strategy envisages the use of internal resources to carry out activities and coordinate and manage human resources. Model I is adopted when non-core services are not too specialized and interventions are not too frequent while the organization “self-organizes” [34] non-core processes. As frequency, complexity, activity specialization or the need for special equipment grow, the organizational model shows some limits, which are basically due to the lack of service coordination. Models II and III aim at organizing and improving resource coordination by enhancing the efficacy and effectiveness of facility activities. The authority over business units derives from the hierarchical nature of the organizational structure. The internal facility manager holds a top management position, which gives him/her the authority to settle potential disputes among business units, just as in the “strong matrix” organizational structure for project management.

The management by an agent strategy allows the receiving of unbiased and professional advice on the activities carried out by business units and envisages the opportunity to outsource some activities. As a result, the client company has the opportunity to choose between internal provision and service outsourcing [1]. According to model IV - which is adopted for this strategy - non-core processes are carried out by the company staff. If compared to model II, model IV enables the boosting of service quality; however, it leads to higher expenses, as it envisages the presence of an outsourced consultant [35]. Models II and IV present a basic difference in the company-facility manager relationship.
According to organizational models IV and III - i.e., management by an agent and in-house management, respectively - the facility manager is in charge of coordinating the different business units’ activities. By sharing tools and company equipment among different functional units, efficiency can be enhanced. There is a direct relationship between the solution’s success and the outsourced consultant’s expertise and authority. The company runs the risk of lose his/her organizational expertise in the field of non-core service management, although she/he keeps her/his operational resources within the business units.

Regarding the direct outsourcing strategy, organizational models V and VI envisage the management and subsequent coordination of a large number of providers. Like the in-house management strategy, with model VI the customer might employ a facility manager to coordinate outsourced providers and optimize management. The facility manager acts as a single interface between the company and service providers, thus promoting exchanges between these actors.

The managing contractor strategy is implemented in models VII and VIII, in which the company usually turns to both non-core service providers and an outsourced facility manager. According to this strategy, the facility manager (management by a contractor) autonomously selects and manages the single non-core service providers - i.e., sub-contractor (service providers) - thus allowing the customer company to concentrate his/her resources on his/her core business. Both models imply that contracts are signed by the customer company and the facility manager selected for service management and coordination. The facility manager also signs agreements with different sub-contractors, who do not themselves need to contact the customer as they have a sole interface: the facility manager himself.

The integrated facility management strategy outsources all support for non-core processes/services to large facility management companies. In model IX, the double role played by the facility manager on the one hand leads to higher expenses while on the other hand it enables the customer company to retain its expertise and know-how [36].

![Figure 7. Non-core processes management strategies and organizational models](https://www.intechopen.com)

This is a relevant factor for a company which needs to renegotiate supply contracts at regular intervals. Turning to outsourced non-core service providers for both the operational and coordination of management processes/services (models X and XI) might be critical for a company which risks losing its ability to evaluate costs, intervention times and quality standards in relation to facility management services over the medium- or long-term. As a result, if the company needs to modify plans or send a reminder, it will turn to the service provider’s account manager.
According to Atkin and Brooks [2], organizational model XI’s transaction costs [37] are the cheapest among all the models. This is due to the lack of sub-contractors, which leads to a lower number of levels in the facility management network and, therefore, to a streamlining of management. However, it is worth stressing that the lack of trustworthy professionals controlled by the customer in non-core service management (as in models X and XI, facility managers are either employees or freelancers) exposes the customer to the previously mentioned risks, just like management contractor strategies.

5. Conclusions

The paper presents a comprehensive classification of the organizational models for non-core service management. The existing classifications available in the literature were inadequate for strategic research purposes. This paper identifies and describes all of the potential business strategies for non-core activity management. In particular, the following strategies are outlined:

- In-house management;
- Management by an agent;
- Direct outsourcing;
- Managing contractor;
- Integrated facility management.

Each strategy is paired up with the organizational models which can be adopted by a company. 11 models were identified and validated through empirical research. Afterwards, they were classified in a framework, according to the following variables:

- The typology of non-core service providers;
- The facility manager’s organizational role.

The proposed classification framework ensures an accurate positioning of the organizational models and allows the comparison of their strategic and operative advantages and disadvantages. It also allows the identification of the organizational model which best suits the company’s strategy. As a matter of fact, the framework suggests that the strategy and the consequent organizational models should be chosen on the basis of (a) the specialization/complexity of the non-core processes, (b) the focus on core processes, (c) its inclination to know-how outsourcing, and (d) the desired level of autonomy in relation to the non-core process management.

Finally, it is worth saying that more than one organizational model can be developed by a company. The company might, therefore, entrust a single functional unit to perform a non-core activity, outsource a complex service to a qualified company and, finally, outsource to an integrated facility management company the remaining processes/services. The choice of the relevant organizational model is made on the basis of the complexity of the service or group of non-core processes/services, the company’s focus on its core processes and its inclination towards outsourcing. Therefore, the choice should be made not on the “best organizational model” but rather on the model which best suits the company’s business context and strategy.

The conceptual nature of the research based on the literature analysis and supported by a limited number of empirical studies are the major limitations present here. Nevertheless, this study may serve as a starting point for future research. In particular, two future directions of research might be: (1) the generalization and validation of the classification framework and (2) the identification of which organizational model for non-core process management is the most effective for the achievement of companies’ strategic objectives. These two results can be achieved by performing a survey of a large set of companies belonging to different business contexts.

6. References


