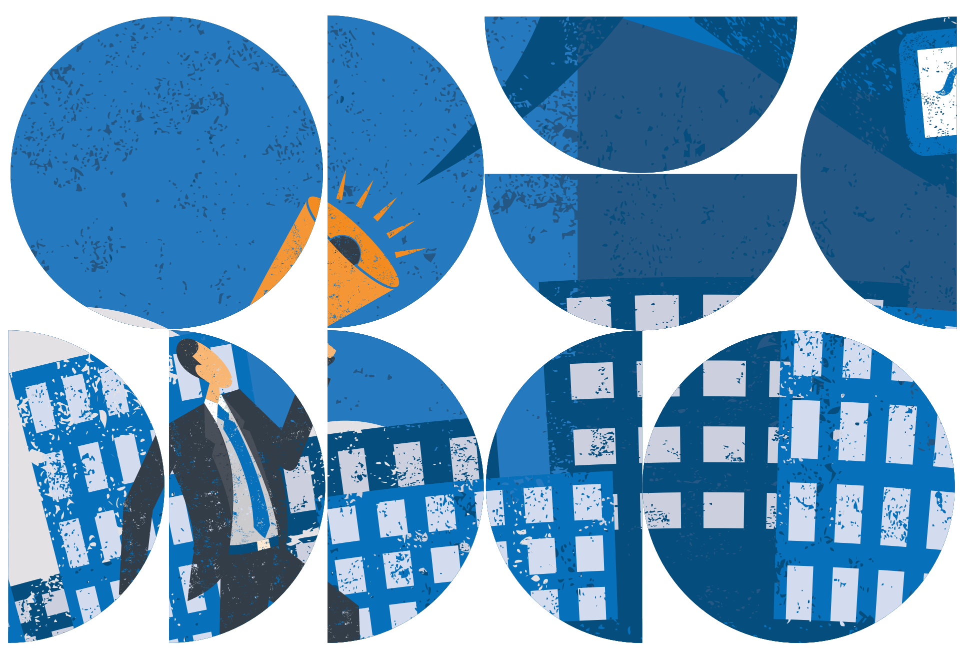
Optimizing Outsourcing Arrangements in Facilities

Considerations for Improving Outsourcing Decisions, Crafting Contracts, and Optimizing Vendor Relationships

Facilities Forum



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The State of Facilities Outsourcing

The Current State of Outsourcing Facilities Services

Outsourcing to Alleviate Growing Pressures on Facilities

Contracted services are not a new strategy for higher education institutions. In fact, most institutions have contracted or outsourced some task or function within their Facilities division. However, in the past, senior leaders focused outsourcing arrangements on only a handful of areas (such as custodial services, auxiliaries, and highly specialized tasks).

Today, higher education leaders increasingly view outsourcing arrangements as a potentially effective solution to the growing pressures facing their Facilities departments. Four major pressures and the possible benefits that outsourcing provides are detailed below.

Growing Facilities Pressures Alleviated Through Outsourcing

Pressure on Facilities	**Potential Benefits from Outsourcing**
Tightening Budgets Most campuses face resource constraints due to uncertain state funding and unpredictable tuition revenue.	Outsourcing holds cost saving potential for institutions with expensive fringe benefits; it also locks in the cost of providing that service.
Limited Workforce With an aging workforce and dwindling skilled labor supply, leaders struggle to hire and retain qualified staff.	Hiring, onboarding, and firing staff is the responsibility of the third-party vendor. Such arrangements can also provide access to workers with hard-to-source skills.
Complex Technology Facilities tasks are increasingly complex and technology-dependent (e.g., building automation systems), which can overwhelm current staff.	Vendors ensure qualified technicians are available to manage complicated systems. The institution further gains from the innovation and specialized knowledge of the vendor.
Compliance Concerns Government regulations and safety requirements continue to grow, increasing Facilities' liabilities.	Outsourcing offloads some risks and responsibilities to a third party. This also allows the institution to focus its resources on mission-critical activities.

Source: Facilities Forum interviews and analysis.

Historically, senior leaders in higher education have approached outsourcing primarily as a cost-cutting strategy. Specifically, for many institutions, outsourcing has helped alleviate budget pressures brought on by dwindling enrollments and/or declining state support. The University of Alaska Fairbanks, for instance, outsourced 75% of its custodial services in 2003 as part of a general cost savings exercise. However, in 2011 the institution outsourced the remaining 25% of its custodial services during an enrollment decline, saving an additional average of $900K per year.

Nevertheless, institutions are increasingly turning to outsourcing to accomplish other goals like improving service levels or redistributing staffing resources. For example, one institution outsourced the maintenance and care of its athletic fields to free in-house staff for other campus priorities.

Moreover, institutions have realized the potential for outsourcing to advance strategic goals—even if it comes at a higher price tag. Providence College in Rhode Island, for instance, outsourced its custodial services even though the contract was more expensive than current in-house work. However, the vendor drastically improved the campus' aesthetic appeal as measured by prospective and current student surveys, which helped Providence achieve its goals of increased enrollment and higher retention rates.

Range of Outsourcing Options in Higher Education

Contracted and outsourced arrangements take on many forms, reflecting the strengths and needs of both institutions and vendors. Arrangements range from hiring a small vendor to remove snow or maintain elevators to entrusting the entire operations of Facilities to a third party. While these options share a common purpose of delegating work to another party, they diverge heavily in their execution. There are four major contracting arrangements available to higher education institutions:

- Out-Tasking
- Auxiliary Outsourcing
- Functional Outsourcing
- Integrated Facilities Management

The table on the following page outlines in further detail each arrangement.

Source: Providence College, Providence, RI; University of Alaska Fairbanks, Fairbanks, AK; Facilities Forum interviews and analysis.

A Spectrum of Facilities Contracting Options

Type	Definition	Frequency	Examples
Out-Tasking	Engaging third-party vendor to perform a particular task within Facilities	Very common; more than 90% of institutions have out-tasked at least one function	Elevator maintenance, snow removal, window washing, garbage collection
Auxiliary Outsourcing	Contracting with third-party vendor to manage auxiliary units overseen by Facilities	Common; nearly 60% of institutions have outsourced bookstores and more than 70% have outsourced dining services	Dining services, campus bookstore
Functional Outsourcing	Contracting out responsibility of a discrete function or multiple functions to a third party	Variable; while nearly 28% of institutions outsource custodial services, only 3% outsource operations and maintenance	Custodial services, grounds and landscaping
Integrated Facilities Management	Contracting the entire operational and managerial activities of the institution’s Facilities division to a third-party vendor	Uncommon; only a few institutions have pursued this option to date	Single-service provider managing maintenance, grounds, custodial, and procurement for a campus

Higher education institutions have varying levels of experience with each of these four options. For example, most institutions have a significant amount of experience with out-tasking and outsourcing auxiliary services. By comparison, while integrated facilities management shares some characteristics with functional outsourcing, it requires that institutions extensively evaluate an array of strategic factors. This brief focuses on outsourcing one or multiple Facilities responsibilities through functional outsourcing.

Source: Inside Higher Education, “2011 Inside Higher Ed Survey of College & University Business Officers,” 2011, https://www.insidehighered.com/sites/default/server_files/files/insidehigheredcfosurveyfinal7-5-11.pdf; SchoolDude, “2016 Facilities Survey,” https://www.schooldude.com/community/discover/blogs/staffing-data-revealed-from-2016-facilities-budget-staffing-and-operations-survey; Facilities Forum interviews and analysis.

Higher Ed and Private Sector Differ in Outsourcing Horizons

While Facilities outsourcing has long been a viable strategy for the private sector, budget pressure in higher education has made outsourcing an increasingly compelling option for senior campus leaders. Though 63% of private sector firms have outsourced all Facilities services, only about 20% of higher education institutions have outsourced one or more Facilities functions. Therefore, some campus leaders have sought to apply lessons learned from the private sector.

However, there are a number of key distinctions between higher education and the private sector. For example, profit maximization—which can easily be tied to financial goals—drives private sector objectives. In contrast, higher education institutions' focus on non-financial objectives such as student success is challenging to tie to vendor performance. Other differences between the private sector and higher education are described below.

Distinctions Between Private Sector and Higher Education

	Private Sector	Higher Education
Mission	Goal of maximizing firm profits complements the profit motivations of third-party vendors.	Mission to educate and serve can create skepticism of and tension with for-profit third-party vendors.
Impact of Facilities on Achieving Mission	Facilities is a baseline service; while functional space is necessary for work to be accomplished, Facilities services are net-neutral to business aims.	Facilities has direct value improvements for institutional goals such as enrollment, student success, and research achievements.
Intensity of Facilities Use	Clear distinctions between working and non-working hours, as well as divisions between customer and employee spaces.	Many buildings are open 24/7, and nearly all space in some way impacts student or faculty customers.

Source: KPMG, "2015 Global Real Estate and Facilities Management Outsourcing Pulse Survey," http://www.kpmg-institutes.com/content/dam/kpmg/sharedservicesoutsourcinginstitute/pdf/2016/refm-2015-pulse-report.pdf; University Business, "The Outs and Ins of Facility Management," https://www.universitybusiness.com/article/outs-and-ins-facility-management; Facilities Forum interviews and analysis.

Outsourcing Not Always a Good Outcome

While promising, pursuing more extensive outsourcing relationships is a new and challenging exercise for most institutions. Institutions face three main challenges when considering outsourcing arrangements:

- **Selecting the right functions to outsource:** Facilities oversees a variety of functions and responsibilities, some of which cannot or should not be outsourced. Institutions need to carefully evaluate possible outsourcing opportunities to ensure that some benefits (such as financial savings) are not outweighed by other costs like a reduction in response time to customer calls.
- **Aligning institutional and vendor expectations in the contract:** Developing an outsourcing contract is a long and arduous process. However, without a strong contract, institutions frequently find themselves frustrated by misunderstandings, procurement issues, and dissatisfactory outcomes.
- **Ensure mutually beneficial relationship throughout life of contract:** Once established, institutions must consistently monitor and reinforce an outsourcing arrangement on campus. Many institutions struggle to ensure vendor results meet contract expectations and communicate with vendor representatives to resolve disagreements.

Executive Framework for Better Outsourcing

To help leaders better navigate Facilities outsourcing, this publication offers three sets of resources to successfully evaluate and implement an outsourced arrangement. While many considerations included in this brief have relevance for all Facilities contracting decisions, this research specifically explores whether and how to outsource a single Facilities function or sub-function.

1 | **Improve the Outsourcing Decision Analysis**

2 | **Strengthen the Outsourcing Arrangement by Avoiding Unanticipated Mistakes**

3 | **Implement Oversight Processes to Manage Vendor Relationship**

The first section provides guidance on evaluating the benefits of outsourcing a particular function or sub-function. The second section explores mistakes to avoid when developing an outsourcing contract. Finally, the third section explores processes and strategies to effectively manage a relationship with a vendor and achieve desired results.

Source: Facilities Forum interviews and analysis.

Improve the Outsourcing Decision Analysis

SECTION 1

- Consideration 1: Comprehensive Value for Money Analysis
- Consideration 2: Complexity of the Function
- Consideration 3: Value of Incremental Improvement to Service Levels
- Consideration 4: Expected Frequency of the Activity
- Consideration 5: Staffing Burden on Human Resources
- Consideration 6: Strategic Value of the Function to Goals

Many Considerations to Guide Outsourcing Decision

As institutions recognize that outsourcing holds greater promises, some senior Facilities officers have become overwhelmed by the numerous factors involved in the decision to outsource. Moreover, many senior Facilities officers have found themselves in unsatisfactory relationships with a vendor, instilling skepticism about future arrangements. For example, some institutions do not realize the anticipated savings or service levels from outsourcing. Others find desired cost savings come with unexpected reductions in response times to customer calls, leading to dissatisfied campus stakeholders. These shortcomings have led some institutions to question their initial decision to outsource.

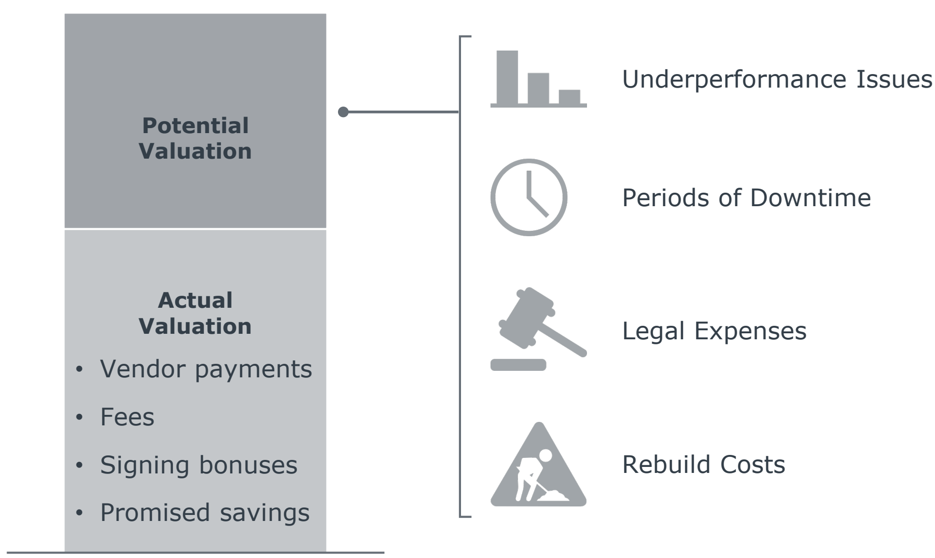
For a step-by-step evaluation tool, please see the Facilities Outsourcing Decision Matrix on page 23 of this brief.

To avoid these pitfalls, this section details six considerations for improving outsourcing decisions through a more complete analysis. For institutions evaluating potential outsourcing arrangements, note that the opportunity does not need to meet every consideration outlined here. Instead, most arrangements will spike on three or four of the considerations.

Consideration 1: Comprehensive Value for Money Analysis

The first consideration is to perform a comprehensive Value for Money (VfM) analysis. Many institutions consider the potential cost savings of outsourcing a function, but this often represents only a partial analysis. A comprehensive VfM analysis involves evaluating actual valuations and potential valuations.

Breakdown of the Total Valuation of Outsourcing



Actual valuations are the guaranteed financial costs or savings of an outsourcing arrangement. These might include upfront and ongoing payments to the vendor, administrative and legal fees, contract management and quality assurance costs, and signing bonuses.

Institutions frequently include anticipated costs in their upfront analysis but may not fully forecast these costs over the life of the contract. For example, institutions may write off capital improvements made by the service provider in the short term. However, a long-term assessment of the maintenance and renewal costs of those improvements may change the equation.

Source: Facilities Forum interviews and analysis.

Beyond actual valuations, institutions must also consider **potential valuations**. Potential valuations encompass all financial gains or losses that may be incurred during the life of the contract but can neither be guaranteed nor fully eliminated. These valuations vary both in the magnitude of their impact as well as the likelihood of their occurrence in any given arrangement, which can make them challenging to quantify. While these valuations are occasionally positive (such as unexpected savings), institutions must take into account the four potential costs below.

Four Potential Costs to Outsourcing

Potential Cost Type	Description	Magnitude of Cost[1]	Likelihood of Occurrence[2]
Underperformance	Costs the institution incurs if the vendor does not perform to the service level expected. Includes the resources needed to respond to an increase in customer complaints (e.g., bringing in additional contract staff to meet service gaps).	Low	High
Downtime	Costs associated with the non-performance of tasks during a gap in service, such as during an extended period of renegotiation or dispute. Includes the quantifiable costs of hiring temporary workers should the vendor fail to provide enough contractors, as well as harder-to-measure losses such as diminished curb appeal if campus lawns are not maintained.	Medium	Medium
Legal Fees	Expense of legal services if the institution faces a dispute or decides to make an early exit from the contract.	High	Low
Rebuilding Expenses	Cost required to recreate a function should a previous vendor fail. Rebuild costs may involve building a function from scratch, hiring and onboarding all new staff, or repurchasing equipment and supplies.	High	Low

1) Rated on a scale of low (<25% of contract value), medium (25-50% of contract value), or high (>50% of contract value).
2) Rated on a scale of low (<5%), medium (5-15%), or high (>15%).

Source: Facilities Forum interviews and analysis.

High "Rebuild" Costs Limit Facilities Agility

Of all the potential valuations, rebuild costs tend to be the highest. In fact, high rebuild costs can lock institutions into outsourcing arrangements even if a senior facilities officer finds opportunities for improvement through alternative vendors or in-house structures. There are five reasons rebuild costs make alternative arrangements challenging to pursue:

- **Spending political capital:** Campus stakeholders may push back against changes to an arrangement if they have developed relationships with contracted staff. This is particularly prevalent in customer-facing functions, such as custodial or dining services, where stakeholders frequently see and interact with staff.
- **Repaying initial investments**: Many contracts stipulate that institutions must repay a vendor for unamortized capital investments if an arrangement ends early, such as capital renewal projects or technological improvements. Institutions may lack the necessary cash on hand to pay these very high costs.
- **Repurchasing assets**: Institutions may need to purchase assets required to perform the previously outsourced function, which are often sold in bulk to the vendor as part of the contract.
- **Rehiring staff:** Institutions will need to rehire and onboard all staff involved in the previously outsourced function.
- **Reacquiring labor costs:** Institutions will take on responsibility for expenses indirectly related to managing employees, such as workers' compensation and disability insurance, that previously fell under the vendor's bottom line.
- **Undercutting new vendors:** The initial investment required to establish operations may allow the current vendor to underbid any new competition. This can prevent institutions from seeking an arrangement with a new partner for improved quality or service, especially at institutions that must accept the lowest bid.

Can You Ever Go Back?

"It's challenging for me to imagine a scenario in which I could bring my custodial services back in house without accruing large financial and political costs. Not to mention the fact that I probably can't afford my employees anymore."

Chief Business Officer
Private Research Institution

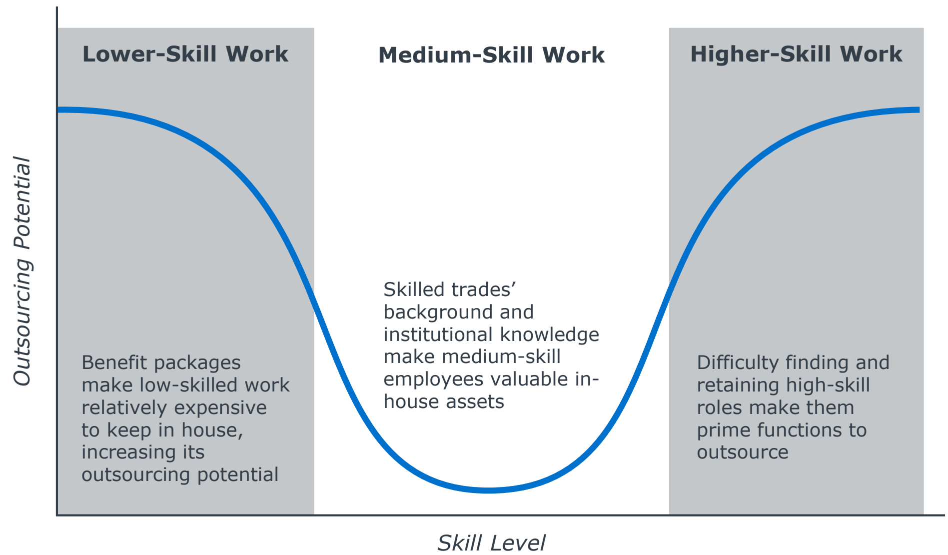
Source: Facilities Forum interviews and analysis.

Strengthen the Outsourcing Decision Analysis

Consideration 2: Complexity of the Function

The second consideration to determine the viability of outsourcing a function is to evaluate the function’s complexity. The graphic below maps various Facilities functions on a spectrum of low to high complexity. The most promising opportunities for outsourcing fall on either end of the spectrum.

Outsourcing Spectrum Based on Skill Requirement of Task



For example, functions with large amounts of low-complexity tasks, such as custodial services, have strong outsourcing potential. Expensive benefit packages—at rates as high as 40% beyond salary—make up a disproportionate share of costs for largely transactional work. Therefore, outsourcing low-complexity work can reduce Facilities costs with little impact on the quality of work performed.

On the opposite end of the spectrum, functions with large amounts of high-complexity tasks, such HVAC maintenance, frequently have extensive technical and legal requirements. These tasks require individuals with unique skillsets, specialized knowledge, and extensive experience who can be challenging to source, offer a competitive salary, and retain. High-complexity work is therefore also a good candidate for outsourcing.

Source: Facilities Forum interviews and analysis.

Maintaining Middle-Complexity Functions in House

In general, functions that fall in the middle of the spectrum have typically been the least promising outsourcing opportunities for four reasons. First, these functions employ skilled tradespeople (such as mechanics or electricians) with flexible skillsets that can be deployed against many different assets and systems across campus. Second, these employees are often very tenured and possess a great deal of institutional knowledge that Facilities departments do not want to lose, such as knowing which circuit breaker to check first for problems. Third, there are more candidates with medium-skill backgrounds in the market than those with higher-skilled expertise. Finally, these roles have lower turnover than their lower-skill equivalents.

However, as higher education campuses become more technology-dependent and the systems overseen by Facilities evolve in complexity, tasks that previously required moderate skill increasingly require more training or experience to complete. For example, software-based building automation systems and equipment-monitoring sensors may increase the level of technological and data literacy required by maintenance workers. Therefore, some institutions are exploring new opportunities to outsource traditionally in-house functions, particularly for recently built or renovated spaces.

Consideration 3: Value of Incremental Improvement to Service Levels

The third consideration to determine the benefit of outsourcing is to pinpoint the value of incremental improvement to a function's performance level. Institutions must evaluate the service level they require from the function, as well as how outsourcing might impact its performance.

There are two main reasons outsourcing may lead to improvements in service levels.

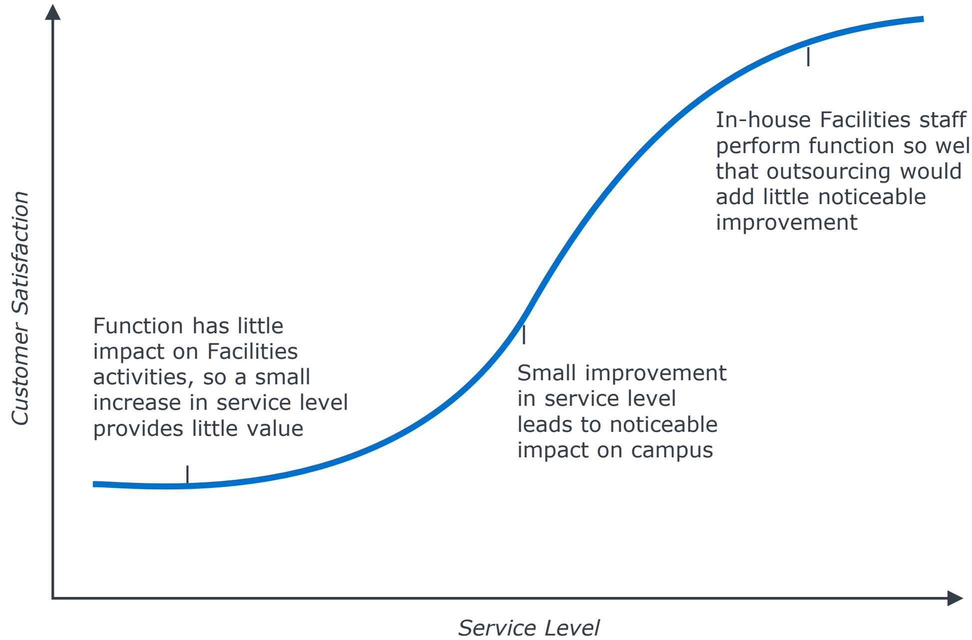
- **Experience and innovation:** Vendors often possess extensive experience with particular functions that equips them with more expertise than in-house staff currently possess, allowing them to provide higher service levels and more efficiently. Additionally, the business model for vendors encourages innovation and technological investment. Outsourcing can therefore bring improved techniques to campus before they become mainstream elsewhere.
- **Speed of improvement:** A new vendor approaches the work with a clean slate and typically makes significant changes in a short period of time. This can allow for more rapid improvements in service levels than incremental improvements done in house.

One institution that successfully leveraged vendor expertise for improved service is Leno College.[1] They outsourced their warehouse to improve the function quickly instead of over a long period of time. Within a year the institution saw significant increases in the warehouse service levels as measured by response time. This simultaneously provided additional benefits for Facilities functions that utilize the warehouse, including fewer duplicate parts ordered.

1) Pseudonym.

Source: Facilities Forum interviews and analysis.

Variation in Customer Satisfaction with Increase in Service Levels



In short, as the graph above shows, for isolated functions or ones that Facilities already performs well, improvements in service level through outsourcing may have little impact on campus customer satisfaction. Functions where service level improvements increase customer satisfaction at higher rates—or alternatively, where decreases in service level have little impact on customer satisfaction—represent significant opportunities to outsource.

As well, outsourcing does not always improve service levels. There are two main reasons why outsourcing may instead decrease the observed service levels of a function.

- **Misaligned expectations**: Institutions and vendors may not agree on service level definitions and results. This may result in the vendor failing to meet institutional expectations.
- **Lack of responsiveness:** Outsourced staff may not respond to problematic or sensitive situations as rapidly as in-house teams, typically because outsourced staff have to go through more levels of communication and may not recognize which problems should take priority. This may result in decreased customer satisfaction and perception of service.

For more information on aligning vendor and institutional expectations, see page 34 of this brief.

For more information about maintaining customer satisfaction during outsourcing arrangement, see page 43 of this brief.

1) Pseudonym.

Source: Facilities Forum interviews and analysis.

Consideration 4: Expected Frequency of the Activity

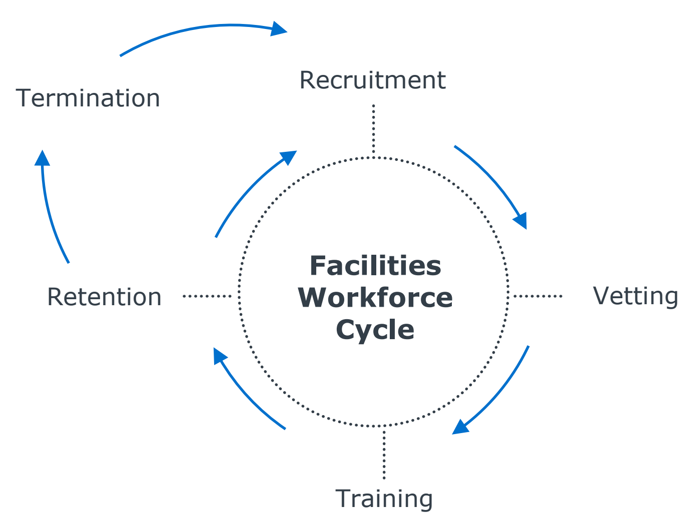
The fourth consideration is to evaluate the expected frequency of the function's activity. Frequency is already a major factor in the decision to out-task seasonal (e.g., leaf blowing), infrequent (e.g., window cleaning), and unpredictable work (e.g., snow plowing). Likewise, whole functions or sub-functions that are only occasionally or unpredictably performed may be good candidates for outsourcing.

Activity frequency of some functions may differ from campus to campus. One example of this is project management. Institutions with large campuses or large amounts of capital projects may regularly use project management staff. However, many institutions need extensive project management teams only for the occasional large construction or renovation project. Outsourcing project management would be more promising for the latter type of institution rather than the former. Therefore, institutions should evaluate how frequently they anticipate functional demand when deciding whether to outsource it.

Consideration 5: Staffing Burden on Human Resources

The fifth consideration is to determine the intensity of a function's demand on human resources (either within the Facilities department or as a central service). While all functions require HR support, certain roles, such as those with high turnover rates, demand more from human resources and are often good outsourcing candidates. There are five HR tasks that outsourcing can eliminate or reduce.

HR Support Required Throughout the Employee Lifecycle



Source: Facilities Forum interviews and analysis.

HR Problems That Outsourcing Helps Reduce

Recruitment

In tight labor markets, HR may have trouble attracting highly skilled candidates or filling roles with high vacancy rates. Outsourcing shifts the burden of sourcing and hiring onto the vendor.

Vetting

HR divisions incur transactional work for each employee hired, including checking criminal records, right-to-work statues, and references. In functions where turnover rates are high—such as custodial services, where annual turnover rates can reach 70%—these continual screening needs can create a significant burden on HR.

Training

Onboarding and training new staff for positions can overwhelm HR resources, especially with highly technical roles or functions with significant turnover.

Retention

Positions with high rates of absenteeism or turnover focus HR's attention on policing attendance records and hiring replacement employees.

Termination

In-house removal processes are often time- and resource-intensive, especially in unionized environments. Termination protocols may require large amounts of paperwork, extensive verification activities, and representation from multiple divisions. For outsourced functions, institutions can lean on the vendor to fire employees—and remove problematic staff expediently.

Consideration 6: Strategic Value of the Function to Goals

The final consideration is to match the strategic value of a function to institutional goals. All Facilities functions contribute directly or indirectly to the achievement of institutional strategic objectives, such as increasing retention or improving campus satisfaction. When determining whether to outsource a function, institutions should first identify the strategic goals the function impacts. Then, leaders should map how each outsourcing option improves or detracts from the goals. The following table provides three examples of institutions connecting outsourcing options to strategic goals.

Source: Facilities Forum interviews and analysis.

Outsourcing Decisions Based on Institutional Strategic Goals

Strategic Goal	Potential Function	Evaluation	Decision
Increase Enrollment	Grounds and landscaping	Facing increased competition from nearby colleges, institution recognizes that the visual appeal of campus could be the difference between a prospective student enrolling or not.	**Outsource.** To increase curb appeal, institution hires an experienced grounds and landscaping vendor.
Improve Student Success	Custodial services	In the midst of a broader evaluation of custodial services, institution considers whether to include residence halls in its new contract. Given the more personal nature of residence halls, the senior Facilities officer recognizes that students often develop meaningful relations with these visible employees.	**Hybrid Approach.** Institution decides to outsource custodial services for all education and general buildings but maintain residence hall custodial staff in house.
Reduce Deferred Maintenance	Operations and maintenance	Institution considers the cost of keeping operations and maintenance in-house versus outsourcing. While the costs are comparable, Facilities leaders worry that vendors will not fully appreciate the importance of preventive maintenance to address deferred maintenance.	**Keep in House.** Institution retains control of operations and maintenance, enabling it to dedicate more resources to preventive maintenance.

Source: Facilities Forum interviews and analysis.

Surface Possible Impact on Institutional Operations

Beyond evaluating strategic importance, institutions must also evaluate the impact on campus operations if outsourced work is done poorly. Some functions, like the bookstore, have minimal operational impact. Others, like maintenance, have a high operational impact. The graphic below outlines the four potential states of an outsourced function. Functions that are both strategically important and have a high operational impact are the least promising functions to outsource.

Matrix of Strategic and Operational Importance of Outsourced Functions

High Value, Low Impact	**High Value, High Impact**
"Even though **unclean floors** won't keep students from class, they might keep new students from coming to campus."	"**Maintenance** is at the core of everything I do, and I have a mandate to reduce deferred maintenance."
"I don't have many running concerns about the campus **bookstore**, so I let someone else manage it."	"Our central **utility plant** will never draw students, but if the lights go out, no one will be learning."
Low Value, Low Impact	**Low Value, High Impact**

However, functions where the two factors diverge require careful consideration. For example, institutions that place a high value on leveraging campus appeal to attract students may keep the custodial function in house or outsource it to a high-quality but expensive vendor. On the other hand, because custodial services often has a low operational impact, institutions that see more value in investing in other functions may feel comfortable outsourcing custodial services to the lowest bidder.

A similar scenario may play out with functions that have low strategic value but high operational importance. For example, though utilities may never rise to the level of an institutional strategic objective, the function's impact on operations is so high that it typically requires extensive senior leadership conversations before outsourcing.

Source: Facilities Forum interviews and analysis.

Inverting the Equation

Considerations for Bringing a Function Back in House

While the bulk of senior leaders' attention should be spent evaluating the viability of outsourcing arrangements, the same exercise can be useful to determine whether to bring an outsourced function back in house. One institution that went through this exercise is Southern Methodist University (SMU). In 2011, SMU outsourced all major Facilities services, including grounds, custodial, operations, maintenance, and management, to a single vendor.

In early 2017, despite year-over-year contract amendments, senior leaders at SMU realized that a new structure for Facilities management would yield more efficient operations and better advance strategic goals. In particular, they recognized that returning management of Facilities to their Office of Planning and Management would compliment the institution's long-range strategy of enhancing campus services at no additional cost to their budget.

Following this decision, SMU opted to evaluate each function separately to determine whether to keep it outsourced or return it in house.

Southern Methodist University's Review of Outsourced Functions

Function	Decision Point	Outcome
Facilities Maintenance	Desire to align Facilities Trades resources with institution-wide priorities	Senior leaders decide to have Facilities Maintenance in house so they could directly orient its work
Custodial Services	Analysis yields that almost all vendors offer same level of service	Senior leaders opt for lowest-qualified vendor
Grounds and Landscaping	Places high value on campus appeal to attract and retain students	Senior leaders accept a slightly greater cost for an experienced contractor
Plant Operations	Desire to utilize highly qualified provider in lieu of in-house staff	Senior leaders opt to outsource to provider with proven expertise

For more information on determining the viability of outsourcing a function, please see the "Facilities Outsourcing Decision Worksheet" on page 23. Leaders can also use this tool to reserve-engineer whether to bring an outsourced function in house.

SMU ultimately landed on a hybrid model. First, they decide to keep facilities maintenance in house so they could direct resources to the highest institutional priorities with the most visible impact, including preventive maintenance. Next, weighing the complexity and HR burdens of custodial services, SMU determined that outsourcing custodial work to the lowest-qualified provider would provide reasonable service to the campus. However, when evaluating their grounds and landscaping services, the importance of campus appeal to student retention led to a slightly higher cost vendor that offered higher service and quality levels.

Source: Southern Methodist University, Dallas, TX; Facilities Forum interviews analysis.

Facilities Outsourcing Decision Worksheet

This tool guides senior leaders through the first step of a more comprehensive evaluation process to determine the viability of outsourcing a function or sub-function. To use this tool effectively, leaders must possess a basic understanding of the scope, responsibilities, costs, and activity of the function or sub-function in question.

Directions: Score each of the 10 qualitative criteria based on the level of agreement with the statement, either zero (disagree), one (somewhat agree), or two (strongly agree). After scoring each criterion, record the answers on the scoring sheet on page 24 and follow the directions to calculate a total weighted score. The final score corresponds to the function's or sub-function's outsourcing viability.

Criteria	Assessment	Agreement Score	Relevance to Outsourcing
Actual Valuation	The known savings from outsourcing this function (e.g., cost savings, signing bonuses) are anticipated to be larger than the known costs of the arrangement (e.g., vendor fees, administrative costs).		Outsourcing is often treated as a cost-savings opportunity, but not all arrangements will actually create savings. Institutions must evaluate whether the initial and ongoing costs of the contract outweigh the eventual gains.
Potential Valuation	The risks of failure for outsourcing this function (e.g., underperformance, rebuilding the function from scratch) are low.		Outsourcing generates some risk that the vendor will underperform or fail in the enactment of the function. This can lead to expensive legal fees and rebuilding costs for the institution.
Amount of Transactional Work[1]	The majority of the function's responsibilities are low-skill, low-complexity tasks.		The impact of transactional work is often lower than the amount institutions must pay employees to perform it. Vendors, with economies of scales and easier access to talent, can often perform these tasks more cost effectively.
Complexity of Work[1]	The majority of the function's responsibilities are high-skill, highly complex tasks.		High-skill tasks sometimes fall outside the capacity of in-house technicians, require extensive training, and/or involve widespread compliance tracking. Vendors who specialize in these functions frequently can stay abreast of changes and upskill workers more efficiently than in-house teams.

Agreement Score Scale		
Disagree = 0	**Somewhat Agree = 1**	**Strongly Agree = 2**

1) As these criteria are inversely proportional to each other, they should obtain reciprocal scores (i.e., rating one as a "2" would naturally lead to rating the other a "0").

Source: Facilities Forum interviews and analysis.

Facilities Outsourcing Decision Worksheet

Criteria	Assessment	Agreement Score	Relevance to Outsourcing
Improvement in Customer Satisfaction	An improvement in the service levels of the function will increase customer satisfaction by an appreciable amount.		Vendors frequently drive performance improvements due to their specialization and ability to start with a clean slate. However, performance improvement does not always lead to increased customer satisfaction. Therefore, the greater the improvement to customer satisfaction, the more likely an outsourcing arrangement is viable.
Frequency of Activity	The function occurs on an infrequent, seasonal, or irregular basis.		Institutions should assess whether having full-time staff responsibility for the function matches the frequency at which their services are rendered on campus.
Human Resource Requirements	The workforce responsible for the function has high vacancy, turnover, absenteeism, and/or termination rates.		Institutions should assess whether outsourcing the function would offload responsibility for hiring, vetting, retaining, and firing staff that can be troublesome for the institution's HR division to manage.
Strategic Value	The function's performance is unrelated to institutional priorities (e.g., reducing deferred maintenance, increasing student enrollment).		Institutions should determine whether the function directly connects to an institutional priority, such as improving retention or reducing deferred maintenance. (While some institutions will still decide to outsource these strategically important functions, this decision requires deeper evaluation of the capacity of vendors in the area to perform the function more reliably and at a higher quality than in-house staff.)
Operational Impact	The function's performance has little impact on the performance of other Facilities functions and/or institutional divisions (e.g., operations and maintenance, faculty instruction).		Institutions that outsource a function must trust the chosen vendor to perform the function's work. Institutions may have concerns about handing over responsibility for functions that significantly impact multiple Facilities functions or campus customers.
Vendor Proximity	Multiple potential vendors for this function exist and work in the surrounding area.		A larger number of potential vendors for a function ensures competitive bidding and service provider options.

Agreement Score Scale		
Disagree = 0	**Somewhat Agree = 1**	**Strongly Agree = 2**

Source: Facilities Forum interviews and analysis.

Facilities Outsourcing Decision Worksheet

Calculating a Total Outsourcing Viability Score

This section provides a final weighted score highlighting the potential value of outsourcing an evaluated function or sub-function.

After scoring each criterion, record the answers in the **Score** column below. Each criterion is weighted according to its importance in determining outsourcing viability. For each criterion, multiply the score by the criterion weight to calculate a weighted score. Finally, add the weighted scores in the last column of the table to calculate a total weighted score. The total weighted score corresponds to the level of outsourcing viability: high, medium, or low.

Criteria	Score	Weight	Weighted Score
Actual Valuation		3	
Potential Valuation		3	
Amount of Transactional Work		2	
Complexity of Work		2	
Improvement in Customer Satisfaction		2	
Frequency of Activity		2	
Human Resource Requirements		2	
Strategic Value		2	
Operational Impact		1	
Vendor Proximity		1	
Total Weighted Score			

Total Weighted Score	Outsourcing Viability
0 to 12 points	**Low**
13 to 27 points	**Medium**
28 to 40 points	**High**

Evaluate the Viability of Bringing a Function in House

While the Facilities Outsourcing Decision Worksheet is designed primarily for Facilities leaders determining the potential value of outsourcing a function or sub-function, this tool can alternatively be used to evaluate the viability of bringing an outsourced function in house. Calculate the individual criteria scores for the function based on the performance of the current service provider. After calculating the total weighted score, the in-house viability is the opposite of the outsourcing viability. For example, a function scoring between 0 and 12 points would have a “low” score for outsourcing but a “high” score for bringing it in house.

Source: Facilities Forum interviews and analysis.

Strengthen the Outsourcing Arrangement by Avoiding Unanticipated Mistakes

SECTION 2

- Mistake 1: Giving Up Strategic and Managerial Control
- Mistake 2: Leaving Expectations and Responsibilities Vague
- Mistake 3: Focusing on Operations (Instead of Results)
- Mistake 4: Misaligning Institutional and Vendor Goals
- Mistake 5: Committing to Unnecessarily Long Time Frames

Process for Developing an Outsourcing Arrangement

Once an institution has decided to outsource a function, the next stage is to choose a vendor and establish a contract to govern the relationship. This requires that institutions articulate their expectations from a vendor, including criteria that inform the RFP,[1] vendor selection, and contract negotiation process. This process is outlined below.

Major Steps Involved in the Outsourcing Timeline

- **Assemble a committee:** Institution forms committee to manage search; this committee usually includes representatives from Facilities, procurement, and the business office, as well as representatives from impacted units
- **Solicit bids:** Committee defines terms of RFP, solicits bids, and receives vendor proposals for possible arrangements
- **Vet vendor proposals:** Institution reviews proposals from potential service providers, interviews promising candidates, and selects one based on agreed upon criteria
- **Negotiate a contract**: Committee negotiates with selected vendor to specify details of the contract

Implement Arrangement

While every step is critical, most institutions have significant experience in the early steps of creating committees and developing RFPs from regularly engaging in contracting (e.g., out-tasking). By comparison, vetting the vendor and contract negotiation often demand the most time and energy from Facilities leaders and therefore pose the most pitfalls. This section first explores strategies to evaluate service providers. It then surfaces five common mistakes when creating an outsourcing contract, and offers ways institutions have successfully mitigated negative impacts on their arrangements.

1) Request for proposal.

Source: Facilities Forum interviews and analysis.

Characteristics of Successful Outsourcing Vendors

Beyond obvious factors like cost and service levels, institutions with long histories of outsourcing point to four key characteristics leaders should look for in a service provider:

- Higher education experience (or experience in similarly sized private companies)
- Proven success on campuses with similar characteristics (e.g., size, population, location)
- Deep bench of managerial staff to allow for rapid replacement and succession
- Clear processes for communicating with both Facilities leaders and the wider campus community

Institutions should verify that service providers meet these criteria during the selection process. To demonstrate their expertise, vendors typically provide case studies showcasing their performance at other organizations. However, institutions should take steps to independently evaluate and verify a vendor's capacity. The table below outlines five methods to fully evaluate potential partners.

Methods to Evaluate and Verify Vendor Capacity and Expertise

Method	Description	Questions to Ask
Contact Institutions Included in Vendor Case Studies	Reach out to Facilities leaders from profiled institutions. This allows institutions to verify the information provided by the vendor and uncover any details the case study may have left out.	• What wasn't highlighted in the case study? • Would you consider your relationship with this vendor successful? Why? • [*If the vendor is still present*] Have things changed in your vendor relationship since the case study was compiled?
Walk the Vendor on Campus	Lead vendor representatives around campus and observe their reactions and responses to various campus spaces. This allows leaders to gauge the communication and problem-solving capacities of the vendor.	• What issues or challenges do you foresee? • What changes would you make to current operations? • How would you communicate with stakeholders on campus?
Visit Other Campuses	Experience first-hand the work done by the vendor on another campus. This allows leaders to verify the vendor's higher education experience and past success at other campuses.	• Are you still working with the vendor? Why or why not? • Can you show me areas of campus the vendor serviced, as well as areas they did not? • Can I speak to stakeholders who were involved with the outsourcing arrangement?

Continued on following page.

Source: Facilities Forum interviews and analysis.

Methods to Evaluate and Verify Vendor Capacity and Expertise (cont.)

Method	Description	Questions to Ask
Request Organizational Charts and Process Maps	Use the vendor's personnel and business structures to evaluate their flexibility and efficiency. These documents can help pinpoint possible candidates to fill openings and handle emergencies, as well as the protocols they use to respond to crises and address concerns. Reviewing these materials allows the institution to analyze vendor capacity to bring qualified staff to campus, fill openings quickly, and follow an established succession plan for leadership.	• Is there a direct reporting relationship between the on-campus supervisor and the vendor's leadership team? • How many supervisors and executives does the service provider have that could fill in for my campus? • What are the processes for making improvements, requesting evaluations, or arranging meetings with the vendor?
Interview Potential Contract Supervisors	Require that the supervisor the vendor would deploy on campus be included in interviews. This allows the institution to vet their main point of contact and hear firsthand how the supervisor might resolve challenges and problems. Pepperdine University found this step so important that they opted to nix potential partners who could not pinpoint the campus supervisor prior to a contract being finalized.	• What is your background and experience with campuses like this one? • How would you resolve the backlog of work orders the institution faces? • How have you improved service levels and customer satisfaction at other institutions?

Creating a Viable Outsourcing Contract

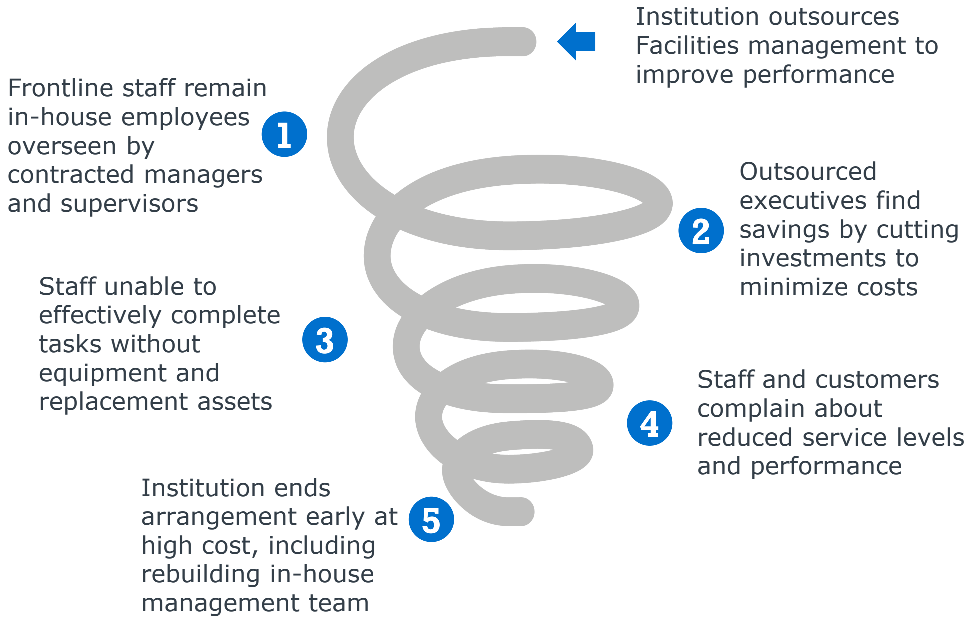
Once the institution has selected a partner, the next milestone is to craft a contract that establishes service levels and governs the relationship. Senior Facilities officers with significant outsourcing experience report that negotiations typically take more time than anticipated, sometimes over a year. However, it is critical to spend time and resources on this process, as a poorly defined contract can undermine an outsourcing arrangement and make it nearly impossible to repair. In particular, there are five mistakes to avoid when negotiating the contract.

Source: Pepperdine University, Malibu, CA; Facilities Forum interviews and analysis.

Mistake 1: Giving Up Strategic and Managerial Control

The first mistake institutions make is to give up strategic and managerial control of a function. Senior leaders have many responsibilities on their plate, and outsourcing is a common means to offload some of that work. However, some institutions have taken this opportunity to selectively offload task management rather than task completion—to detrimental effect. The graphic below details one such situation.

Devolution of Colbert University's Outsourcing Arrangement



In the mid-1990s, Colbert University[1] outsourced its Facilities management leadership but kept all frontline staff in house. Leaders hoped to improve performance through external expertise and management. However, outsourced managers instead worked to maximize profit by minimizing costs—namely, neglecting to invest in equipment or replacement vehicles. The lack of updated assets prevented Facilities workers from completing tasks efficiently and to desired service levels. The institution eventually had to go through the costly and time-intensive process of preemptively ending their contract and rebuilding their management team in house.

Impossible to Off-Load Responsibility

"I can outsource the completion of certain tasks, but as the head of Facilities Management, I am still ultimately responsible for ensuring that work actually happens. No matter who does it, I'll be accountable to the board about whether and how outsourced work is advancing institutional goals like recruitment."

Vice President, Facilities Management
REGIONAL PUBLIC UNIVERSITY

1) Pseudonym.

Source: Facilities Forum interviews and analysis.

To avoid this mistake, institutions should focus their contract on absorbing transactional, day-to-day tasks. As outsourcing a function only offloads the completion of specific work (and never the responsibility for ensuring the work is done), arrangements are most effective when the institution retains its ability to set function vision and goals, prioritize tasks and campus spaces, and evaluate the function’s performance based on institutional objectives.

Mistake 2: Leaving Expectations and Responsibilities Vague

The second mistake institutions make is leaving expectations and responsibilities vague. This typically arises when parties have not established clear performance requirements in the contract negotiation process. As a result, the institution assumes the vendor will perform certain tasks or provide their own materials and supplies—regardless of the actual contract specifications. Concurrently, the service provider may assume that the institution maintains responsibility over every task not explicitly included in the contract. This can lead to miscommunication and frustration, ultimately reducing the effectiveness of the arrangement.

To build a strong contract, institutions must detail at length the expected responsibilities first in the RFP and then negotiate roles and responsibilities with the selected vendor. Some examples include:

- Tasks that fall within each activity type
- Expectations for timeliness and responsiveness
- Main point of contact for the institution with the vendor
- Limits to expenses the institution is willing to pay
- Unexpected or one-off needs for additional vendor support
- Identification of service levels required on campus

Setting Clear Expectations for Service Levels

The Facilities Director at Pepperdine University found that the institution and vendors had different understandings of what service levels entailed, which could lead to misaligned expectations. To resolve this, Pepperdine’s RFP included in-depth descriptions, references to APPA levels, a detailed bid walk of actual spaces (acknowledging challenging campus terrain), and an opportunity for clarification questions. This ensured potential vendors were on the same page. These discussions also led to a proposed plan to photograph "well-maintained" and "not well-maintained" spaces to differentiate between the two conditions.

Source: Pepperdine University, Malibu, CA; Facilities Forum interviews and analysis.

Mistake 3: Focusing on Operations (Instead of Results)

The third mistake institutions make is focusing on operational details (such as staffing numbers, equipment used, and work frequency) rather than measurable results. While this focus on operations typically arises from a desire to ensure work is performed correctly, micromanaging the logistics of the contract may actually be detrimental to the institution for three reasons:

- It prevents the institution from benefiting from any expertise and innovation the vendor brings into the function.
- It places unnecessary hurdles for vendors trying to operate in the most efficient and cost-effective manner possible.
- It opens the door for disputes about which party is responsible for certain operational, logistical, or procurement activities not clearly outlined within the contract.

Results to Articulate in the Contract	What to Leave to Your Vendor
• Service levels achieved • Cost savings achieved • Customer satisfaction rates • Quality assurance evaluations	• Materials and processes used to complete the work • Number of staff involved • Procurement and distribution of supplies • Frequencies of particular tasks

One institution that faced this challenge was Stewart College.[1] The institution established a food services outsourcing contract. One clause in the contract required the institution—not the vendor—to provide equipment and supplies. Because the service provider did not have to replace their own assets, they had no incentive to maintain the equipment or clean the supplies already provided. As a result, Facilities was forced to constantly resupply the service-provider at much higher costs than anticipated.

This concept is explored in greater detail in the next section, "Implement Oversight Processes to Manage a Vendor Relationship." See page 37 for more details.

Instead, institutions should focus on crafting a contract that articulates measurable results, such as desired service levels. Institutions should include metrics and KPIs in the contract that both enable them to monitor performance and, where possible, link a small portion of the contract value to achieving performance goals. There is a wide array of metrics that institutions can use to track performance:

- Number of campus complaints
- Results from customer satisfaction surveys
- Number of concerns raised at weekly meetings
- Number of emergencies and outages
- Number of reactive calls from institutional actors
- Function-specific production rates, such as amount of square footage covered per employee

1) Pseudonym.

Source: Facilities Forum interviews and analysis.

One institution that has done this particularly well is Chapman University. Their custodial contract holds the vendor responsible for managing the cost of their own supplies, but it does not specify how many employees are assigned to individual jobs. Instead, the contract places the responsibility for obtaining equipment, supplying staff, and performing the work on the service provider. By focusing on results, Chapman has leveraged its vendor's expertise to achieve the institution's desired custodial service levels.

Mistake 4: Misaligning Institutional and Vendor Goals

The fourth mistake institutions make is misaligning the goals of both parties. A major source of tension arises when institutions view a contract as the minimum work the vendor will provide. By comparison, vendors typically understand contract criteria as the required amount and quality of work to be performed. This tension can lead to frustrations on both sides. By clearly connecting service provider goals with institutional desires in the contract, senior leaders can improve outsourced arrangement efficacy.

While not always obvious, senior Facilities officers can find opportunities to align institutional and vendor goals by focusing on the links between outsourced functions and campus needs. For example, Kimmel University[1] realized their service provider was not prioritizing preventive maintenance on their O&M teams. After exploring the problem, the senior Facilities officer realized that the vendor did not appreciate the scale of the deferred maintenance problem at the institution. More importantly, the vendor did not understand the importance of preventive maintenance to reducing the institution's capital renewal backlogs. Senior leaders intervened, pressing the provider to achieve PM completion targets that led to a consistent reduction in deferred maintenance needs.

There are two ways institutions can better align institutional and vendor goals.

Approach 1: Vest the Vendor in the Success of the Institution

First, institutions should explore vesting opportunities. While fixed payment service level agreements (where an institution pays a predetermined fee for services provided) remain the norm in higher education, more institutions have begun to explore gainsharing arrangements, where both parties share in the savings the vendor achieves. As vendors retain a sizable portion of the surplus, they are incented to find cost savings and better steward resources. In fact, many potential vendors also work in private sector industries, where performance contracts are common. At the same time, because a portion of savings comes to the institution, a gainsharing arrangement may improve senior leader attitudes towards outsourcing, making it an easier sell.

Alternatively, some institutions use financial penalties to incentivize better performance. For example, St. John's University in Jamaica, New York, has a clause in their custodial contract that stipulates financial penalties if the vendor fails to meet pre-established KPI scores for cleanliness and maintenance (e.g., scores below 85% cleanliness for two months in a row).

1) Pseudonym.

Source: Chapman University, Orange, CA; St. John's University, Jamaica, NY; Facilities Forum interviews and analysis.

Approach 2: Connect Contracted Staff to the Campus Community

Second, institutions can provide avenues for the vendor to become part of the campus community. By helping the vendor understand how they impact the institution's mission and values, institutions help embed the service providers in campus. Institutions can reinforce a cohesive culture in a variety of ways:

- Include contracted staff in appropriate meetings, such as town halls and all-hands meetings
- Incorporate institution's colors into vendor uniforms or include vendor logo on campus-issued uniforms
- Solicit feedback and host listening sessions for contracted employees
- Link contracted and in-house staff together for professional development and mentorship when work responsibilities align

Mistake 5: Committing to Unnecessarily Long Time Frames

The final mistake institutions make is committing to unnecessarily long contract time frames. Long-term contracts frequently offer upfront financial benefits; however, these contracts can lock institutions into problematic or unsatisfactory arrangements without recourse to renegotiate.

For instance, one institution outsourced central plant management for a 25-year term. While this arrangement was initially financially beneficial, as the institution neared the end of the contract, leaders realized they could save $2 million a year operating the central plant themselves. This was due to lack of infrastructure investment by the vendor and the challenges of maintaining complex medical and research equipment. Because their contract lacked opt-outs and did not specify hand-back conditions, the institution was forced to wait for the contract to expire before investing again.

Lessons Learned from Long-Term Naval Contract

"When I was in the Navy, I inherited a thirty-year contract for the creation and management of a cogeneration plant on base. To meet the Federal Energy Regulatory Commission's requirements for a qualifying facility a certain percentage of the energy consumed by the plant had to go to valid thermal load in the form of steam. It was anticipated that demand for steam would grow. However, after the end of the cold war and conversion of the fleet to petroleum-based power this assumption proved incredibly inaccurate. Laden with twenty years on the contract, valid thermal loads such as building heat and hot water were sought, but were inadequate to meet demand. Eventually, leaks in the system stopped being repaired as line loss was considered a valid thermal load. Ultimately Congress had to approve a conversion to a decentralized system which reduced energy consumption on base and had an attractive financial payback period."

Alex Kohnen, Executive Director of Facilities Management
Arizona State University

Most Facilities leaders agree that institutions should negotiate contracts for no more than five years, with one-year options to extend or exit. As well, experienced Facilities executives recommend allowing new vendors a window of 3-6 months to implement their processes and get the right people onto campus.

Source: Arizona State University, Tempe, AZ; Facilities Forum interviews and analysis.

Implement Oversight Processes to Manage Vendor Relationship

SECTION 3

- Component 1: Scope an Empowered Contract Manager Role
- Component 2: Implement a Robust Quality Assurance Process
- Component 3: Keep Communication Channels Open Through Frequent Interactions

Value of Relationship Management Processes

While a well-structured contract lays the foundation for an effective working relationship between the institution and vendor, a truly successful partnership requires management on a monthly, weekly, and daily basis. Most institutions employ a contract manager to oversee daily vendor management, but this alone is not sufficient to ensure the relationship proceeds well. The graphic below illustrates how, even with a contract manager in place, one institution experienced turmoil with their custodial services vendor and went through three vendors in as many years.

Going Nowhere Fast
Oliver University[1] Continually Changes Vendors Due to Managerial Challenges

First Year

Institution uncovers theft ring among contracted staff, leading to vendor switch

Second Year

Next vendor has low service levels and poor responsiveness, especially with executive-level offices

Third Year

Institution frustrated by perceived vendor understaffing and poor access coordination, leading to termination

Institution now seeking new service partner, but concerned pattern will repeat

This institution encountered very real issues with their vendors and contract staff, including theft and poor responsiveness. However, after switching vendors multiple times without improvement, Facilities leaders eventually diagnosed that unclear management, a lack of verification mechanisms, and poor communication with vendors were among the root causes. The institution felt the contract articulated clear expectations, but by not reinforcing those expectations and verifying vendor performance on a regular basis, the relationships were doomed to fail.

There are three components to fruitfully managing a vendor relationship, detailed across the following pages.

1. **Scope an Empowered Contract Manager Role**
2. **Implement a Robust Quality Assurance Process**
3. **Keep Communication Channels Open Through Frequent Interactions**

1) Pseudonym.

Source: Facilities Forum interviews and analysis.

Component 1: Scope an Empowered Contract Manager Role

The first component for managing the outsourcing relationship is to hire a contract manager (CM) to enforce the terms of the arrangement. As the main point of contact between an institution and a vendor, CMs are an essential component of a successful outsourcing contract. This role ensures vendors fulfill contract criteria with minimal disruption to campus activity and works with vendors to improve processes and resolve complications.

While most institutions employ contract managers, the employees hired into these roles often lack the perspective or authority necessary to succeed. For example, a regional public university discovered that its CM had negotiated a $30,000 addendum to their custodial contract for a high-traffic student lounge—service that had already been guaranteed and covered in the initial contract. Removing this unnecessary addendum tied up the procurement, business, and legal offices for weeks.

To avoid these pitfalls, this section offers insights on hiring and scoping the contract manager role.

Scoping the Contract Manager Role

The contract manager role must have a clear scope of responsibility to allow efficient oversight of the contract. Institutions with successful contract managers point to three essential components to the role: a high level of authority, clear expectations, and a non-financial focus.

Authority: *Ensure the role has sufficient power to make decisions and settle conflicts*

- Designate the role as a manager- or director-level position to ensure the CM has the authority to engage the vendor on equal footing
- Scope the role to focus exclusively on the contract to prevent administrative duties related to the vendor from falling to others, as well as to ensure the CM has the capacity to focus on the contract details
- Communicate to the vendor that the CM is the main point of contact for all questions and concerns; the CM can loop in other leaders as needed

Expectations: *Detail the role's responsibilities over the contract details and campus communication*

- Designate the role as the foremost expert on the contract, including knowledge of details regarding work requirements, service level targets, and exceptions to any general arrangements
- Hold the role responsible for day-to-day communication regarding the arrangement, including soliciting feedback, responding to concerns, and handling disputes
- Establish monthly check-ins between the CM and institutional stakeholders to gauge performance and address shortcomings

Source: Facilities Forum interviews and analysis.

Non-financial Focus: *Prevent "muddied waters" stemming from conflicts of interest*

- Focus the role on the management of the contract's performance, rather than financial concerns
- Entrust financial aspects of the contract to the institution's business unit, which has expertise in reviewing financial transactions, negotiating costs, and tracking savings
- Narrow the hiring pool to candidates with strong performance management backgrounds who can concentrate on day-to-day administration

Qualifications of a Successful Candidate

Once the role has been appropriately scoped, the next step is to hire a qualified candidate. There are a number of crucial qualifications institutions should look for when hiring this position, an example of which is shown below. Note that potential candidates do not need to meet every criterion for consideration. Instead, hiring managers and Facilities leaders can use this guidance as a starting place for candidate interviews.

For other interview questions, please see the Contract Manager Interview Guide on page 46 of this brief.

Experience	
Questions to Ask	
• Have you managed a contract before? What arrangement did it cover? How did it perform? • Have you worked with institutions of our size or context before? How about vendors of a similar background as the ones we use? What did you learn from those experiences? • What's the most important lesson you have learned about overseeing an agreement?	
Positive Answers	*Red Flags*
• Connects past successes with possible future work • Recognizes differences while seeing potential parallels • Displays awareness of the challenges of working with contracts	• Sees all contracts and arrangements as similar • Unable to speak about contracts or arrangements with confidence or specificity

Source: Facilities Forum interviews and analysis.

Component 2: Implement a Robust Quality Assurance Process

The second component for managing the outsourcing relationship is to implement a quality assurance (QA) process. QA is the practice by which an institution independently evaluates the vendor's performance against the contract criteria. While reactions and complaints from campus customers often bring the most egregious or extensive issues to the forefront, regular QA surfaces more subtle patterns. QA also allows Facilities to intervene earlier to improve vendor performance. This prevents underperformance issues from becoming vendor habits and allows Facilities to resolve concerns before campus stakeholders become frustrated (or notice the issue at all).

QA can take a variety of forms but generally possesses a few common characteristics. First, most institutions accomplish QA by employing inspectors either in house or contracted through a third party. Next, these inspectors regularly evaluate the vendor's work. The duration between audits depends on the function, the size of the QA staff pool, and the relationship with the service provider, but frequently fall between weekly to monthly audits per function and/or space. Finally, these evaluations can incorporate a variety of information sources, including analyses of quantitative metrics (e.g., work orders completed, square footage cleaned, complaints resolved, etc.), qualitative observations or comments from impacted parties, and compliance completion checks.

Despite the principled focus of quality assurance, some institutions have found that some QA processes unintentionally promote biased, inaccurate, or unusable evaluations. Three recommendations to avoid common pitfalls and create meaningful QA structures are detailed on the following page.

Source: Facilities Forum interviews and analysis.

Solutions for Common Quality Assurance Pitfalls

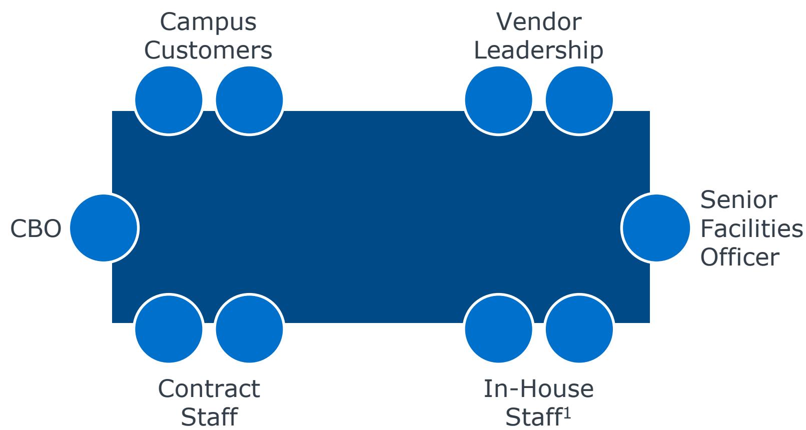
Recommendation	Pitfall to Avoid	Solutions	Case Study
Enforce established performance criteria through quality assurance	Allowing vendor to report their own performance against expectations reduces accountability	• Use customer satisfaction survey results to gauge performance • Hire in-house QA employees • Contract with independent third-party inspectors • Negotiate gainsharing arrangements in the contract that enshrine performance incentives dependent on the institution's results	The **University of Houston** employs QA inspectors with a technical background in the function they monitor. This ensures the QA team can compare performance against standards for that function without being dependent on the vendor's explanation.
Streamline the inspection process to use valuable time strategically	Overextending QA teams causes performance issues to slip through the cracks, preventing observable issues from being resolved in advance	• Craft standardized checklists of inspection criteria to speed up evaluations • Institute system of random building audits with current QA staff • Increase QA staffing levels to a set number per building	**Florida State University** employs two full-time employees to perform QA for custodial services. Each employee evaluates two buildings per day using a checklist of criteria, and has qualitative conversations with building occupants. This prevents QA inspectors from having to rush through the space to achieve untenable targets.
Share inspection data across Facilities stakeholders	Exchanging information infrequently leaves valuable data on the shelf, preventing intervention and improvements	• Make QA templates for each building that highlight key findings and data summaries for each audit • Establish performance benchmarks that identify outlier reviews requiring closer inspection • Create a Facilities dashboard that alerts Facilities leaders when QA metrics fall below acceptable performance • Lock-in regular meetings between Facilities executives and QA representatives to review evaluation summaries	The **University of Alaska Fairbanks** contracts with a third-party to provide quarterly scores on building cleanliness. This information, combined with scoring by UAF custodial inspectors, comprises a quarterly average score of campus cleanliness which is shared with the custodial vendor. A review of the quarterly custodial QA data showed that while the average cleaning level on campus met the contract's standards, there were outlier buildings far below the cleanliness goals. The Facilities contract manager then worked with the custodial service provider to improve minimal levels of cleanliness alongside average evaluations. When custodial service performance did not fully achieve the new goals, the institution also implemented random daily inspections with potential vendor fines for underperformance to help complement the effort.

Source: Florida State University, Tallahassee, FL; University of Alaska Fairbanks, Fairbanks, AK; University of Houston, Houston, TX; Facilities Forum interviews and analysis.

Component 3: Keep Communication Channels Open Through Frequent Interactions

The final component for managing the outsourcing relationship is to maintain transparent lines of communication between the various stakeholders involved in the arrangement.

Stakeholders Involved in an Outsourcing Arrangement



While communication is essential for success during the development of an outsourcing arrangement, it becomes particularly important once the vendor begins work on campus. Poor communication between the vendor and Facilities leaders may lead to misunderstandings about performance or obstacles to improvement. At the same time, a lack of communication with campus customers may lead to dissatisfaction and frustration that ultimately stymies the arrangement.

At a minimum, institutions must ensure they communicate with the vendor regularly, as detailed below.

Weekly or monthly check-ins: The contract manager and vendor representative(s) meet on a weekly or monthly basis to review current performance and resolve inquires or concerns. These check-ins should be based around a standardized agenda, including a review of performance metrics, a discussion of upcoming requirements, and an open forum for issues to be aired and addressed. For example, at Pepperdine University, the custodial services supervisor who oversees their outsourced night work meets weekly with the in-house daytime custodial supervisor to create a consistent communication channel.

Use Communication to Expand Facilities Databases

An added benefit of regular check-ins is the opportunity for Facilities to obtain work order records and asset condition data from the vendor. Capturing this documentation throughout the relationship avoids the risk of the institution losing historic data during vendor transitions.

1) In mixed arrangements where contracted staff make up only a portion of the function's workforce, or where in-house staff regularly work alongside contractors.

Source: Pepperdine University, Malibu, CA; Facilities Forum interviews and analysis.

Quarterly or annual business reviews: The contract manager, vendor representative(s), and senior Facilities leadership meet quarterly or annually to review performance metrics and prepare for the renewal or rebidding process. Recommended agenda items for these reviews include:

- A timeline of vendor accomplishments, projects, and investments
- Photographic "before" and "after" evidence
- Employee safety audit
- CMMS[1] statistics of work orders completed and preventive maintenance completion rate
- Goals and challenges for the coming year

While these channels pave the way for open communication between the institution and vendor, they are not sufficient for ensuring customer satisfaction. There are two challenges in communicating with customers, outlined below. Each challenge has a specific solution to ensure customers receive the information they need.

Problem: Customer-Facilities communication. Campus customers are frequently skeptical of outsourcing arrangements. Negative perceptions can arise out of concerns about service-level changes or a desire to protect the jobs of current employees and may lead to protests, public condemnations, or union resistance.

Solution: Stakeholder town halls. Institutions implement town halls that allow campus customers—including students, faculty, and in-house staff—to voice concerns. These town halls should occur monthly during the lead-up to a new outsourcing arrangement, at least once a term during the first year of a contract, and at least once a year thereafter. Regularly occurring town halls will showcase Facilities' desire to obtain feedback and provide opportunities for stakeholders to identify areas for improvement efforts.

Problem: Customer-Vendor communication. Campus customers lack means to contact the vendor to clarify service or determine the status of requested work.

Solution: Regular communication updates. Facilities uses their in-house email, website, social media, and other forms of communication to relay status and work completion updates from vendor to customer. This may look different on each campus based on Facilities' established communication channels.

For more information on crafting data-driven customer surveys, see our briefing *Get the Most Out of Facilities Customer Satisfaction Surveys*, available on eab.com.

1) Computerized maintenance management system.

Source: Facilities Forum interviews and analysis.

Use Social Media to Disseminate Outsourcing's Successes

As communication becomes increasingly digital, Facilities leaders should seek opportunities to use social media to build campus support and share outsourcing value stories. Some examples include:

- Retweet or share posts from the vendor's social media platforms
- Include contracted employees in staff profiles and online customer impact stories
- Encourage customers to voice concerns over private messages to Facilities and/or the vendor through direct social media channels or by scanning QR codes posted in high-trafficked areas
- Focus public announcements about outsourced functions on improvements to campus life and speed of achievement rather than financial results or technical service levels achieved

Source: Facilities Forum interviews and analysis.

Contract Manager Interview Guide

The following pages provide guidance on interviewing potential contract managers based on eight important characteristics. Each characteristic section includes sample questions to ask, as well as possible answers that either confirms the candidate's possession of the characteristic, or should raise concerns about their qualifications.

Directions: Prior to interviewing candidates, Facilities leaders should decide which characteristics they would like to prioritize in a contract manager. They should then share the information from each chosen characteristic with the selection team.

Experience

Questions to Ask

- Have you managed a contract before? What arrangement did it cover? How did it perform?
- Have you worked with institutions of our size or context before? How about vendors of a similar background as the ones we use? What did you learn from those experiences?
- What's the most important lesson you have learned about overseeing an agreement?

Positive Answers	*Red Flags*
• Connects past successes with possible future work • Recognizes differences while seeing potential parallels • Displays awareness of the challenges of working with contracts	• Sees all contracts and arrangements as similar • unable to speak about contracts or arrangements with confidence or specificity

Expertise

Questions to Ask

- Have you ever worked at a higher education institution? What stood out to you as different than other places you have worked?
- What would you pinpoint as the differences between the private sector and higher education? How would those differences impact a contract?
- What is your background in the functions covered by the arrangements you would manage? Have you done work in that function or managed people who performed those tasks?

Positive Answers	*Red Flags*
• Elaborates on distinguishing aspects of higher education institutions • Associates strongly with mission and staff camaraderie • Speaks confidently about work overseen under various functions	• unable to distinguish differences between higher education and private sector • Cannot describe the tasks or responsibilities that fall under a respective function

Source: Facilities Forum interviews and analysis.

Contract Manager Interview Guide (cont.)

Communication

Questions to Ask

- Give me an example of something complicated that you have had to explain to others. What were the results?
- Sometimes we are misunderstood by other people. Has this ever happened to you? How did you respond and what were the results? What did you do to prevent this from happening again?
- Describe a time when you communicated some unpleasant feelings to your supervisor. What happened?
- Tell me about a specific experience of yours that illustrates your ability to influence another person verbally. Feel free to use an example that involves changing an attitude, selling a product/idea, or being persuasive.
- Has there ever been a time when your listening skills really paid off, maybe a time when other people missed the key idea in what was being expressed? Tell me about it.

Positive Answers	*Red Flags*
• Able to communicate complex ideas to team members • Has good verbal skills and ability to influence listeners • Uses skills such as reflection, restatement, and paraphrasing • Values humor • Disagrees with authority when appropriate	• Uses slang or poor grammar • Does not have any questions during or at the conclusion of the interview • Offers short answers with little explanation • Mumbles or offers incomplete answers • Frequently misunderstands the point of questions

Customer Service

Questions to Ask

- Think of a time when you had to deal with an unhappy customer. Describe the situation and how you handled it.
- Have you ever had to make a change in your approach to accommodate the needs of a customer? What happened?
- Have you ever run into an angry customer who wanted you to do something that you did not have the authority to approve? How did you handle it?
- Tell me about a time when you went above and beyond normal expectations to improve a client’s or partner’s experience.

Positive Answers	*Red Flags*
• Can empathize with customer needs • Recognizes importance of service excellence • Can show evidence of restraint under a difficult situation • Has a mature problem-solving attitude	• Complains about customers • Adheres blindly to established procedures • Does not often volunteer assistance

Source: Facilities Forum interviews and analysis.

Contract Manager Interview Guide (cont.)

Leadership	
Questions to Ask	
• Describe the most striking example of staff conflict or dissent you have experienced. How did you handle it? • Describe how you have involved staff in performance improvement initiatives and other decisions pertinent to their work. • Give me an example of how you established goals, responsibilities, and accountabilities for others. • Tell me about a past experience developing and building a leadership team. • What has been your experience in dealing with poor performance of employees? Give me an example. • Have you ever had to implement an unpopular decision? What steps did you take? What was the outcome?	
Positive Answers	*Red Flags*
• Naturally assumes a leadership role • Solicits input from others, both superiors and subordinates • Appropriately manages expectations for self and others • Proactively seeks problems and solutions	• Speaks poorly of subordinates • Communicates reasoning poorly • Unable to describe making a conclusive decision

Problem Solving	
Questions to Ask	
• Have you ever had a time when your supervisor was away from the workplace and you had to complete a project or make a decision independently? Tell me about what happened. • Tell me about a time when you thought it was necessary to alter procedure. What was the situation and how did you handle it? • We have all had projects or situations that have not worked out as they should have. Tell me about a time when this happened to you. How did you handle it? • Walk me through the last big decision you had to make. What happened? • Have you ever been in a situation that seemed to go "wrong" from the beginning? What did you do and what were the results?	
Positive Answers	*Red Flags*
• Able to take action based on available information • Exhibits maturity, ability to learn, and emotional control • Makes good decisions even under stress	• Paralyzed in stressful situations • Procrastinates about decision-making • Relies heavily on input of others • Does not incorporate all available information into decision-making process

Source: Facilities Forum interviews and analysis.

Contract Manager Interview Guide (cont.)

Conflict Resolution	
Questions to Ask	
• Tell me about the last argument you had with a coworker. What was it about? • Describe a situation when someone put you in the middle of on ongoing argument. What did you do? • Tell me about a time when you disagreed with a decision by your boss or other administrators. Why did you disagree? What did you do about it?	
Positive Answers	*Red Flags*
• Reasons through multiple viewpoints • Listens to concerns from all sides • Works to improve situation	• Blames others for personal difficulties • Consistently takes sides • Appears passive aggressive

Attitude	
Questions to Ask	
• Can you give an example of a time when you have received negative feedback about your job performance or academic performance and your reaction? • What frustrates you most about your current position? Can you give an example of how you have dealt with this frustration in the past? • When was the last time you made a big mistake? What did you do? • Have you ever taken a substantial risk that has failed? What was it? What did you learn? • Have you ever had any experience turning a problem into a success? Tell me about it.	
Positive Answers	*Red Flags*
• Accepts criticism well • Takes accountability for actions • Tries to rectify unpleasant situations • Is generally positive and upbeat about work situations	• Overly defensive in response to criticism • Unable to offer rational justification for actions • Blames failures on others

Source: Facilities Forum interviews and analysis.

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