

Outsourcing 'in control'

*Outsourcing within Rabobank Centraal Twente;
Facility Services*

- Summary -



Rabobank

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Summary

The summary of the master report is structured as follows; it starts with a brief general introduction of Rabobank Centraal Twente, whereupon the problem identification with the related research approach will be discussed. After this, the main concepts coming from the theory will be explained. Subsequently, the current situation and the future situation of the department Facility Services will be described. The practical research, in the form of case studies at other organizations, will be defined afterwards. The management summary ends with conclusions and recommendations for Rabobank Centraal Twente.

Introduction Rabobank Centraal Twente

Rabobank is a Dutch bank (financial service institution) that consists of 147 independent local cooperative banks. Rabobank Centraal Twente is one of these independent local cooperative banks and consists of five establishments, namely in Delden, Goor, Borne, and two establishments in Hengelo (ov). The head office is located in Hengelo. Rabobank Centraal Twente is known as an undertaking bank that offers a complete service package for private individuals and companies. In February 2010 there are working in total 268 employees within the organization that represents 224 full time equivalents (FTE).

Rabobank Centraal Twente is organized in a so-called 'management model'. This means that the board, existing of a statutory director-president, a statutory director of Commerce and a statutory director of Business Management, is responsible to the council of members. The board of directors is together responsible for the whole policy of the bank. The committee of commissioners is the institution that monitors the pursued policy.

Problem identification

At the moment, the year 2009/2010, organizations are operating in very dynamic environments. This means that financial institutions have to struggle with very small profit margins. To adapt on this situation organizations have to operate in a more efficient way; cost saving is more and more a main theme in the policy of organizations to stay a key member in the market.

To anticipate on these developments Rabobank Nederland has developed a vision; vision Rabobank 2010. With respect to the department Facility Services this vision means, in brief, that more and more services will be outsourced to external suppliers. The goal of outsourcing facility services it to achieve efficient business processes, by which the management attention can be focused more on the primary process.

At this, it is important that Rabobank Centraal Twente can control and manage the relations with the suppliers to keep the quality and price of the services on the right level. The related problem definition in this research is formulated as follows:

“In which way the department Support has to deal with outsourcing to control and manage the relationships with external suppliers in a structural way?”

The central objective of this report is to identify possibilities to control and manage the relationships with the external suppliers in a structured way.

Beside this practical cause, there is also a scientific reason for this research. In the field of outsourcing, the most examined question is the do-or-buy decision (in the production industry also named the make-or-buy decision). In our opinion, in comparison with the decision issue, the central theme in this research is under exposed. By means of this research, as well based on scientific literature as practical examination, we want to give contribution to the existing literature.

Research approach

The information and data in this report are collected in different ways. First, the current existing literature with relation to outsourcing is explored with the help of the research data bases Scopus and Web of Science. To map out the current situation of Rabobank Centraal Twente, in particular the department Facility Services, we have studied several policy documents and plans of Rabobank Centraal Twente and Rabobank Nederland. Beside this, we have spoken to the responsible persons of the operations that are taking place within the department Facility Services, namely the Director Business management, Manager Administrative Services, Manager Facility Services, Senior employee Facility Services and a Business Controller.

The practical research consists of expert interviews with employees of different organizations (case studies) who are responsible for the operations in the field of facility services. These organizations are Rabobank Vaart en Vechtsstreek, University of Twente, Akzo Nobel, a hospital in the Netherlands, and the municipality of Enschede. The goal of these case studies is to gather insight in the operations of these organizations with relation to the central theme of the research. To compare the findings of these case studies, with each other and the theory, it is possible to identify which aspects are valuable for the organization Rabobank Centraal Twente.

Theoretical framework

The central theme in this research is outsourcing. Although the literature gives several definitions, in this research we follow the definition of Langfield-Smith and Smith (2003):

- *Outsourcing is the contracting of any service or activity to a third party*

In the theory there are two main reasons to outsource a service or activity, namely cost savings and the willingness to get a better focus on the core activity of the organization. On the contrary, outsourcing can also take along some risks. The theory distinguishes four types of risks; performance risks, financial risks, strategic risks, and psychosocial risks.

With respect to the central objective of this research it is important to limit these risks as much as possible; to achieve outsourcing ‘in control’.

First, it is essential to mention that the Plan-Do-Check-Act (PDCA) cycle is a regularly used management tool within Rabobank Centraal Twente. The quality circle is developed by Deming and is also known as the Deming wheel (Figure 1). This tool is used to keep (and develop) the different processes within the organization on the right and expected quality level (continuous improvement).

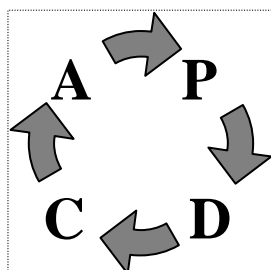


Figure 1. The Plan-Do-Check-Act cycle

The different stages of outsourcing can be connected with the distinct phases from the PDCA cycle and are presented in the Table 1:

Phase of the PDCA cycle	Related activity of the outsourcing process
Plan	Strategic policy of the organization, Formulating objectives of the organization with respect to outsourcing, analyzing the risks of outsourcing
Do	Do-or-buy decision, selection of the supplier, Compose the contract
Check	Management of the relationship; monitoring, checking indicators SLA, supply of information, communication, relational governance
Act	Correction; penalizing, reward, changing the contract

Table 1. The PDCA cycle related to outsourcing

As mentioned before, it is important to control and manage the relationship with the supplier. Therefore, the check phase is an important one. From the literature, it becomes clear that a *formal contract*, *relational governance* (by which trust is an important factor), *communication*, and *the supply of facility management information* are influential elements for a successful Check phase and so a controllable and manageable relation with the supplier. This can be presented in the following conceptual research model (Figure 2):

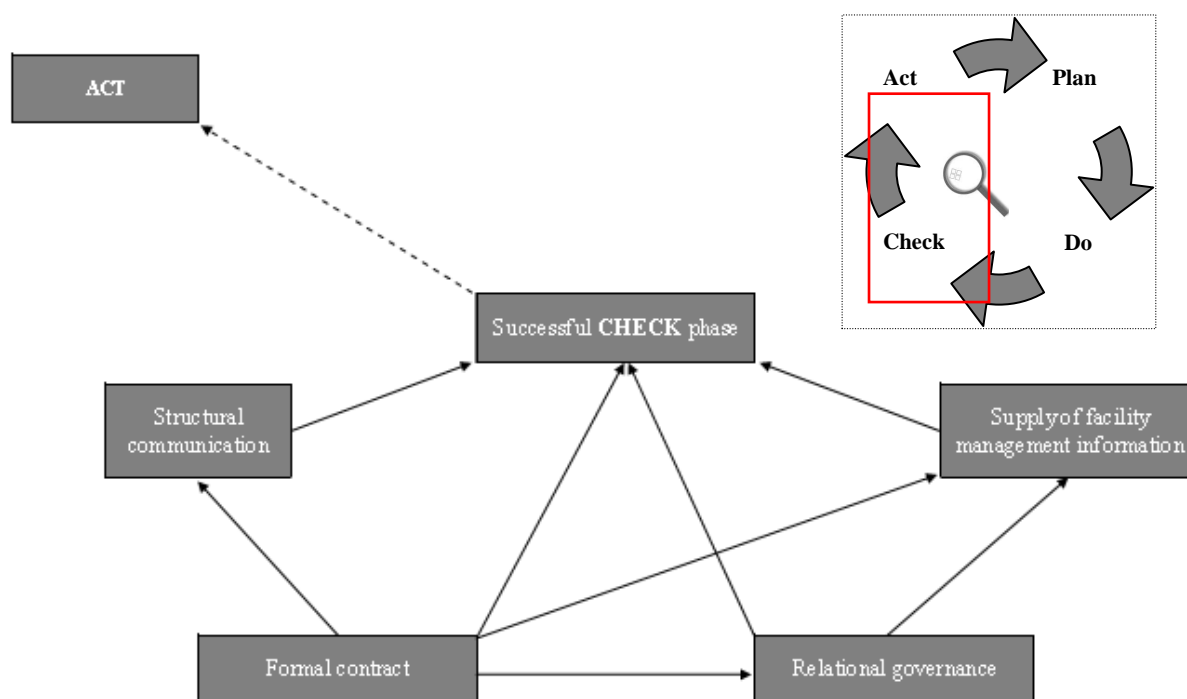


Figure 2. The conceptual research model

A related concept to these outsourcing stages is Business Intelligence. Business Intelligence is a collection of strategic business information with the help of report tools and data mining. To perform the *Check* phase in the right way it is necessary that the responsible employee obtain the right (quantity) information to judge the performances of the supplier. In conclusion, the concept of Business Intelligence can be coupled to the element *supply of facility management information*.

The most important findings coming from the theory can be enumerated per element of the conceptual research model:

- *Formal contracts*
 - It is necessary to formulate the relevant services in a clearly way
 - Edit clearly formulated objectives (service level); in the form of parameters/metrics
 - Include conditions about (quality) checks, mediation, and maintenance
- *Relational governance*
 - The development of a trust basis with the supplier helps to control the freedom of the supplier in relation with the way of performing the services.
 - The fact that the outsourcing organization can presume that the delivered services and information (report) can be labeled as reliable.
- *Supply of facility management information*
 - The use and/or development of a Business Intelligence process/system, so that the outsourcing organization can be supplied with (management)information in a relative simple way
 - It is important that the outsourcing organization obtains the necessary information, for example in the form of reports, to manage the relationship in an effective way.

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- *Structural communication*
 - A communication plan included with fixed communication structures.
 - A division in consultation on a strategic, tactical and operational level.

The current situation of the department Facility Services

Rabobank Centraal Twente consists of a board of three directors, namely the statutory director chairman, the statutory director Commerce, and the statutory director Business Management. Each director has the responsibility of a directorate with different business processes.

The directorate Business Management consists of four departments; Credit Risk Management, Control, Administrative Services, and Facility Services.

The core business of the department Facility Services is to relieve colleagues as much as possible in the field of facility services. At this, the aim of Rabobank Centraal Twente is to deliver the facility services with the agreed quality and a responsible price. In short, the department has to ensure for a well work environment. The activities are taking place without customer contact, so we can call the activities as back office activities.

From November 2009, the department uses the software application Planon Managed Services (Planon). This can be seen as the Business Intelligence system within the department Facility Services and is also known as a Facility Management Information System (FMIS). The system is currently used as a tool for the execution of, the insight in, and the control on operational activities. So, at the moment Planon is mainly applied on an operational level. However, the system is also suitable for information on a tactical level.

Facility Services and Outsourcing

As described, the different issues concerning outsourcing can be connected to the distinct phases of the PDCA cycle.

The activities related to the *Plan* and *Do* phase occur in a structured and right way. However, with respect to the contract, Rabobank Centraal Twente enters a contract often in a way that is common in the sector of the supplier. With other words, Rabobank Centraal Twente does not make demands regarding the contract.

Interviews with responsible employees (Director Business Management, Manager Administrative Services, Manager Facility Services) show that with respect to the *Check* phase there are some points for improvement. In the current situation, the department Facility Services manages the relations with suppliers mainly based on complaints (a so-called ‘beep system’). This management style can be classified as passive. Only in case of problems or faults, there will be given attention to solve the relevant problem. Trust (relational governance) is in practice a well-used control mechanism; this means that the performances of the suppliers are not monitored in a proactive way.

The conceptual research model shows that the supply of information is an important and necessary element to control the relations with the suppliers. In the current situation, the Facility Management Information System, Planon, is only used on an operational level. However, this software system has the possibility to provide the organization information on a higher (tactical) level. In addition, Rabobank Centraal Twente does not demand reports in a permanent way.

Vision Rabobank 2010; specific for the department Facility Services

As stated at the *problem identification* Rabobank Nederland (a project group; Stuurgroep Rabobank 2010) has developed a vision for the next coming years; Vision Rabobank 2010.

This section will describe this vision in more detail. By means of Vision Rabobank 2010, Rabobank Nederland (and so Rabobank Centraal Twente) wants to anticipate on the changes and developments that are related with the dynamic environment in which financial institutions are operating. The umbrella objective is to serve the customer optimal on a qualitative way by a right ratio of price to quality.

With respect to the department Facility Services, the main intention is to develop the current management system toward a Total Facility Management (TFM) system. This kind of management system can be seen as an ultimate form of outsourcing. With other words, the management, the delivery of facilities and the financial risks are taking over by a third party (the supplier). Through this development, there will be a strict distinction between the core business (selling of financial services) en the secondary processes. This ensures that the management attention to the secondary, supporting processes is minimized as much as possible.

A direct consequence is that the department Facility Services has to move to a more directing role instead of a performing role. This means that the outsourcing organization has to supervise and partly coordinate the outsourcing services and activities. Supervising signifies checking on the accomplishment of contracts, the costs and the delivered performances. This indicates that the *Check* phase from the PDCA cycle will be more and more significant.

The vision of Rabobank Centraal Twente is in line with the vision of Rabobank Nederland. The main themes within Rabobank Centraal Twente for the near future are a further professionalization with a high quality and, if possible, further outsourcing.

Within Rabobank Centraal Twente outsourcing is not an objective itself. The organization views outsourcing as a means to an end. In the first instance, the organization wants to operate the coming three years in the same way. However, if there are possibilities to improve the quality the organization will take this opportunity. After this period, the organization wants to develop oneself more and more to the Total Facility Management system. The final consequence of these points is a decrease of the amount FTE's and so an improvement of the efficiency.

Practical research

The expert interviews can be described as semi-structured interviews. With the help of a questionnaire, the respondents are interviewed. This questionnaire is based on the conceptual research model, so the questions are based for a large part on the elements that are important for the Check phase; *formal contract, relational governance, communication, and the supply of facility management information*. Beside these elements, factors related to the Do phase are also integrated in the case study, because these factors have also influence on a controllable and manageable relation with the supplier.

The findings of the different case studies are shown in the appendix in the form of a table. However, a comparison of the findings makes it possible to summarize the most important results:

- Relational governance (trust) and the formal contract are significant control mechanisms and can be seen as complements of each other.
- The communication between the outsourcing organization and the supplier has to take place in a structural way; on a strategic, tactical, and operational level. The communication has to occur via a fixed intermediary.
- Benchmarking can give the organization relevant information about the current performances (as well on cost as quality) in comparison with the market.
- Information services in the form of reports are essential to correct the supplier in a proactive way.
- The length of the contract can ensure a moment for revision and evaluation. Beside this, it can affect the trust basis (for possible further collaboration) between the outsourcing organization and the supplier.

Conclusions and recommendations

With the help of the findings/conclusions from the theoretical framework and the practical research, it is possible to determine which actions Rabobank Centraal Twente has to undertake to realize a situation where the relationships with the suppliers are controlled and managed in a structural way:

- *Make demands on the contract*
When Rabobank Centraal Twente has the intention to enter a contract, the organization should make certain (standard) demands on the contract. This means concrete that Rabobank Centraal Twente has to conclude a contract for a fixed period of time, has to include a confidentiality clause and communication plan in the contract, and has to demand provision supply of information coming from the supplier.
- *Implement vendor rating in the organization*
To map the performances of the suppliers Rabobank Centraal Twente should judge the suppliers in the meantime (proactive) in a structured way on the basis of criteria (these could have different weighting factors) that are determined before (see Appendix B). This delivers important (management)information.
- *Optimization of the Facility Management Information System; Planon*
Regardless information on an operational level it is also possible to extract information from Planon on a tactical level. Therefore, it is necessary to optimize this Facility Management Information System. The first step is to apply the module *Contracts*, by which information about the content of the contracts can be digitized. At this, it is also possible to update data about the performances of the suppliers in the system. In this way, Rabobank Centraal Twente enlarges the Business Intelligence.

To perform the different contract actions (performing the vendor rating, communication has to take place, termination/extension of the contract) structural it is recommendable to apply the signaling function. In this way, the responsible employees will be remembered to actually execute the contract actions.

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- *Perform benchmarks with other local Rabobanks*
The preceding recommendations are mainly related with the quality of the performances of the suppliers. However, it is also essential to have insight in the costs (price) of the services. It is therefore advisable to compare the facility costs on a yearly basis with other local Rabobanks. In this way, it is possible to see if the suppliers offer their services against market costs.

 - *Test the customer experience on a yearly basis.*
Next to the fact that it is important for the organization that the facility services are supplied on the expected quality level, it is also significant to test the opinion of the end-user; the employees of Rabobank Centraal Twente. Through a survey, it is possible to test the wishes and opinion of the end-user about the current facility services. It is essential to feedback the results to the suppliers, so that the supplier, if required, can make corrections.


Appendix A

Organisation	Relational Governance	Formal contract	Supply of information	Structural communication	Success factors	Monitoring (cleaning)
<i>Rabobank Vaarten Vechtstreek</i>	Trust is the basis and so a success factor for a sustainable relationship	Task-oriented contract; length of contract differs per service (cleaning a five-year contract)	No structural reporting; Prequest as FMIS	Differs per service; divided in tactical and operational communication; Cleaning monthly; Sigma: bimonthly	Trust, agreement, flexibility, think along with the organization	Biannual check by RW and the supplier; 'beep system' (complaints)
<i>Universiteit Twente</i>	Trust important; results from previous cooperation; information will be checked double	Tight conditions/parameters --> result-oriented contract; length of contract determined by European tendering	Quarterly report; Planon as FMIS; benchmarking with other universities	Divided in strategic, tactical and operational communication	The 'click' / the operational feeling with the supplier; communication	6 x a year by an extern bureau; 'beep system'
<i>Akzo Nobel Hengelo</i>	Trust as the basis for a sustainable cooperation	Tight conditions --> result-oriented contract; length of contract is 1 year with the option for another year	Quarterly report KPI's; complaints will be put in the system by one person	Divided in strategic, tactical and operational communication	Trust	Frequency (quarterly, biannual, annual) of the checks (teamwork supplier and outsourcing organisation) depending from the sort space; 'beep system'
<i>Hospital in the Netherlands</i>	The supplier has to get freedom and space (trust) to operate	Task-oriented contract	Starting with (quarterly) reporting; Planon as FMIS; Benchmarking with other hospitals	Divided in strategic, tactical and operational communication; a fixed intermediary communication level; overlap on tactical and operational level	The ways of communication, the intent of cooperation, principles have to be clear	Check performed by the supplier (6 times a year + daily check) and extern bureau (4 times a year) 'beep system'
<i>The municipality of Enschede</i>	Mutual respect and notion; good (social) intercourse	Task-oriented contract; length of contract determined by European tendering.	No structural reporting; depending from the FMIS; benchmarking with other municipalities	Divided in tactical/operational (fixed intermediary) and strategic (fixed intermediary)	Communication, and mutual respect and notion, the (social) intercourse with the supplier, fulfilment of agreements	Annual check by extern bureau; check by supplier, daily check by responsible supplier; 'beep system'

Appendix B

Supplier Assessment

Information supplier	
Name:	Veldhuis Schoonmaak
Service	Cleaning
Contact person supplier:	-
Date of assessment	-
Assesor(s)	-
Length of contract	Indefinitely, per 01-09-2005
Code of contract	In accordance with the code in Planon



Assessment criteria

Weight factor (0-4)	Assessment (1-5)	Final judgement
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General criteria			
Corporate Social Responsibility			0
Communication has taken place in the right way (Quarterly)reports are delivered			0
Total			0

Price			
Rate is in accordance with the conditions in the contract			0
Meerprijs komt overeen met verrichte werkzaamheden en tarief			0
Goede betalingscondities			0
Total			0

Service			
Timeliness of the delivered service			0
Timeliness and the way of charging			0
Reactive- and recovery time in the case of deficiency (after sales service)			0
Total			0

Quality / monitoring			
Check external			0
<i>Fulfilling the frequency (to specific)</i>			0
<i>Score vitico method (lower of 6.0)</i>			0
Check Veldhuis Schoonmaak			0
<i>Fulfilling the frequency (2 x per month)</i>			0
<i>Related reports are delivered</i>			0
Check Rabobank Centraal Twente (performed internally)			0
Total			0

Actions for improvement			
Previous agreements are fulfilled			0
Total			0

Finalgrade (%)	
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