

Trust and Contract in Facilities Management

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ISBN 91-974371-3-1

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TRYCK: CHALMERS REPRO
Göteborg, SWEDEN 2007

ABSTRACT

Both public authorities and private companies increasingly outsource facilities management services to external suppliers. A new service industry with its own culture and contracting practices is developing. This study discusses factors that influence trust and relationship culture in the Swedish FM sector. A multilevel perspective is taken, so that processes on institutional and market levels are discussed in relation to contract principles and management as well as interpersonal relations. The study is based on a review of FM literature and interviews with leading clients, consultants and service providers. The findings are analysed using general theories on sources of trust and the relationship between trust and contract. A general background on the development of FM is included, and the empirical section outlines views on trends, market structure, contract models, procurement, contract relationships and management, differences between clients, etc. The discussion focuses more specifically on trust issues. It is concluded that while industry level efforts to develop standard contract and create trust in contracting out FM services have been successful, contracting practice is slower to harmonize because of the influx of first time clients. Although there does not seem to be a straightforward relation between contract design and relationship quality, it was found that detailed service specifications and active monitoring may support both learning and trust since they entail mutual understanding and focused discussions. Less extensive contracts may, paradoxically, result in less innovation because of lower client and supplier engagement. This risk is higher when FM services are perceived as support services compared to when they are seen as strategic service relations. Further, it is concluded that since relational trust develops between client employees and supplier employees who interact closely, services need different kinds of management depending on the interaction patterns they entail. Typically, low level interaction relations such as technical property services may need a focus on fostering trust, while soft services call for formalization and distance.

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ACKNOWLEDGEMENTS

The author would like to thank the interviewees for generously sharing their experiences and Formas, the Swedish Research Council for Environment, Agricultural Sciences and Spatial Planning, for funding. I am also grateful to Josefin Sporrang for assistance in taking notes and transcribing interviews, and to Jan Bröchner for feedback on analysis.

Göteborg 27 June 2007

Anna Kedefors

1. INTRODUCTION

Both public authorities and private companies outsource their facilities management services to external suppliers. One background to this development is that corporate real estate management has undergone important changes in many companies in the recent decades (Bon, Gibson and Luck, 2003). Increased globalization and competition has led to a more strategic management approach to all business areas, often resulting in centralized management of various support functions. Both manufacturing companies and real estate companies increasingly prefer to buy facilities management (FM) services from external contractors. In the UK, over 50% of non-core services are considered to be outsourced, and the market growing with 10% annually (Davis, 2004). In the Nordic countries, perhaps 25% of the volume of facilities management services is outsourced (Jensen, 2006; Capgemini, 2005). Which services are outsourced vary, as well as the organization form chosen. In some cases all, or the main part, of the FM-related services are bought from external suppliers, while in other cases it is individual services. Some clients prefer to relate to a single FM integrator, who then often subcontracts part of the work, while other clients retain the integrator role, procuring several separate contractors for various services. Further, although European companies still own their property to a greater extent than US companies do (Laposa and Charlton, 2001), top management attention frequently leads to corporate real estate being sold to external independent investors such as insurance companies and banks. This implies that new relations emerge, where roles are separated in different legal entities without ownership links and are related to each other by explicit and formal contracts.

There are different categories of FM services: strategic asset management, financial and administrative property management, building operations and maintenance, and business services (reception, catering, mail distribution, copier services, workplace relocation). Other related activities concern workspace planning, construction project management, as well as business services closer to core business but with a weaker relation to physical structures (HR, finance, purchasing, IT). Thus, FM is a complex area, and a number of market segments are brought together by facilities management activities (McLennan, 2004). Although FM is not a new range of services in terms of their contents, outsourcing them is often new. Practices, regulations and competences develop on several levels – market/industry, organizations and individuals – in parallel and interrelated learning processes. The aim of this paper is to gain an increased understanding of how relationship governance develops in this complex setting and of the interaction between processes on different levels. More specifically, the research question concerns processes of development of trust and constructive collaboration in FM relations.

In the following sections, the international background to the increased role of outsourcing is discussed more in detail, and the Swedish and Nordic situation is outlined. Research on FM contracts is summarized, followed by an overview of the general research on trust in relationship to contract. Then, findings from an interview study in the Swedish FM sector are summarized and discussed in relation to the theoretical framework.

2. CHANGES IN CORPORATE REAL ESTATE MANAGEMENT

Before the 1970s, there were no corporate real estate management (CRE) functions in large US companies (Page and Valenziano, 2000). Real estate decisions were typically made by business unit managers or facilities staff, and businesses primarily operated in owned buildings constructed to their specifications. When corporations grew, specialised real estate management functions were established. These CRE functions were generally placed at headquarters, and while being competent in real estate management they typically did not have close contact with the core business. Consequently, CRE functions were frequently perceived by the business units as overstuffed bureaucracies with a lack of customer focus. When market values of real estate rapidly increased in the 1980s, dealing with real estate became a business opportunity in itself, frequently leading to tendency to assign lower priority to the needs of core business as well as to the running costs of the built facilities (O'Mara, 1999). The reaction to this development was a movement towards decentralisation, where overheads were reduced and the business units increasingly were run as separate companies. Real estate management was again embedded in the business unit, fostering greater trust and motivation to perform (Page and Valenziano, 2000). However, this brought new problems with duplication of functions and weaker adherence to company-wide standards. When the recession then came in the early 1990s, alongside with increasing globalisation, there was less tolerance for local level bureaucracy and bespoke systems, giving rise to a trend to re-centralize decisions and routines again.

According to O'Mara (1999), decision making in the late 1980s and early 1990s represented a 'minimize-cost mindset', in which facilities were viewed mainly as cost generators. The focus was on cutting costs by reduction of space or by outsourcing of building services to contractors. However, since minimizing FM costs in the short run may lead to higher indirect costs or impede longer-term competitive advantage for the core business, O'Mara formulates the need for a 'strategic mindset', emphasizing that real estate and facilities management decisions should be closely related to the general company strategy. Along the same lines, Page and Valenziano (2000) describe a trend, beginning in the mid 1990s, towards a more strategic role of corporate real estate management. They point out that the new models are or were to some extent made possible

by the emergence of new (information) technology, notably common platforms that facilitate rapid exchange of information. Still, authors on corporate real estate management continue to complain that property management is poorly connected to business strategy (Glagola, 1999, 2001; McNamara, 2002). However, the importance of FM competencies to a core business will vary between type of competence as well as type of business (Price, 2004). Facilities management is more strategic in businesses that “trade through their space” (McLennan, 2004), such as theatres, retail, restaurants and hotels, where the impact of facilities on customer preferences and, thereby, on profits, is direct. In the case of office related space and services the impact is indirect. Related to this struggle to find an appropriate role is a concern in the FM area that people outside the discipline have no clear understanding of what FM stands for. Further, due to different backgrounds, mind-sets and cultures, there can be considerable confusion and lack of consensus also among the various actors within the area (Green and Price, 2000).

The picture that emerges is that in many organizations, the FM or real estate management function does not have a strong strategic role, and that much attention still being focused on cutting short term costs. Nutt (2004) argues that, in the UK, the focus on “best value” and “excellence” in public discourse has inflated expectations for service improvement and lower costs far beyond what is realistic to achieve.

3. OUTSOURCING

The trend to buy services from external, specialized facilities service providers became more pronounced in the 1990s. In the case of many large companies, this implies that in-house corporate real estate and facilities management units are outsourced to an external service provider, which takes over the personnel. Sometimes, new companies are created from large CRE units, which are then operating as independent agents on the market and competing for new contracts. Outsourcing is frequently seen as a sign of corporate capability and efficiency, and CRE departments have often some pressure from their companies to outsource. Echoing the mainstream literature on outsourcing of services, Glagola (2001) mentions three main sources of cost reductions and other economic effects associated with outsourcing (see also Farncombe and Waller, 2005 and Usher, 2004):

- that outside providers have a lower cost structure;
- that transfer of assets such as facilities, equipment and vehicles to a service provider results in cash payment that can be used to develop the core business;
- a reduced need to invest in non-core business functions.

Outsourcing can also be an opportunity to change relationships to core business and have the CRE manager evolving from a manager of day-to-day functions to a participant in the strategic development of the business (Adkison, 1999; McNamara, 2002; Glagola, 2001), something which is difficult as long as a large proportion of CRE staff is engaged in performing time consuming routine tasks. Technology is said to be both an enabler and a driver of outsourcing: new information technology and FM databases obviously make it easier to manage facilities at a distance, to specify contracts and to monitor performance, but these new tools are also expensive when training and other costs of implementation are taken into account (Glagola, 2001). As an external provider can spread investment costs and training costs across many customers, this becomes an additional reason for outsourcing.

Especially when contracts with a number of separate FM suppliers are preferred to total service providers, the organization of FM services often becomes more complex than with in-house arrangements, and therefore less transparent to the serviced core-business units. Another aspect that adds complexity is if company facilities are sold to external investors. Some FM services will typically be contracted or supplied by the user, while the owner is responsible for at least some of the technical property management functions.

4. THE SWEDISH SITUATION: A BACKGROUND

Although there is little systematic information publicly available on how corporate real estate management has developed in a Swedish context, facilities management and property ownership functions in many companies and public organisations have clearly undergone important changes, in this mirroring the international trend. In several cases, independent or semi-independent subsidiaries have been created for property ownership and management. Some of these have been spun off as separate companies. In a Nordic survey of 29 large companies (not including pure real estate owners) and 7 suppliers, Capgemini (2005) found a clear trend towards centralization, where FM functions were organized according to one of three strategies: as a centralized in-house service unit (41%), as a profit center serving both internal and external customers (15%), or by outsourcing both operations and management (38%). Outsourcing had increased in the companies surveyed, and was expected to increase further in the coming years. The respondents reported that the perceived significance of FM to core business had grown, and that management had become more strategic. However, it was also pointed out that this may reflect a period of outsourcing or restructuring efforts; these large initiatives require high levels of management attention because they affect many employees.

Although most single service suppliers are small and local companies, there is a trend that the supplier market is being consolidated, so that large international service providers acquire the local Swedish firms. Service providers tend to grow by buying other firms rather than by winning new contracts. Today, there are few medium-sized supplier companies, while the large service suppliers often partly consist of outsourced FM functions of large Swedish industry firms, property owners or public entities. Competition in the field of FM has increased in recent years and many service providers suffer from poor profitability. This has put more pressure also on internal FM units, which are challenged by benchmarking with other companies (Capgemini, 2005). However, for integrated FM there is some concern among buyers that competition is too low (Capgemini, 2005; Jensen et al, 2006).

In the public sector, outsourcing of operations and maintenance of hospitals, public building and grounds, as well as other infrastructure systems has increased significantly. According to Sundsvik (2006), the general opinion in the industry is that 20% of the Swedish local authorities have procured technical property management services from external providers, resulting in a total of 100 contracts of this type. From a study comprising information from 33 of these contracts, Sundsvik (2006) concludes that there are considerable differences between different contracts, depending on type of service, client ambitions and competence, and local conditions (market, etc). However, nearly all respondents are relatively satisfied with contract performance, although they acknowledge that this is an evolving practice and that there is still much room for improvements. None of the clients planned to insource any of the work outsourced, and there was a belief that outsourcing would increase.

FM outsourcing in the Nordic countries can be seen as lagging in an international comparison, and the market for FM services has not increased as predicted some five years ago. In the study by Capgemini (2005) Sweden was considered to be the Nordic country where the FM market is the most developed, but this position seems less clear in a report from the Nordic Facilities Management Network (2006). Probably, the discrepancy is partly due to the difficulty to map this complex area where definitions vary both within and between countries. Also, it is misleading to think that countries can just be assigned evolutionary positions on a time scale. Factors such as facility scale and physical distances must be taken into consideration (Bröchner et al., 2002). Low population density and considerable distances within the country both contribute to higher reliance on in-house resources. Jensen et al (2006) further argue that in international comparison the Nordic FM market depends more strongly on public clients. Other regional characteristics mentioned are that building related issues tend to be more important due to the colder climate, that cultural aspects such as trust in institutions as well as in employees are favourable to flexibility and new technology, and that high

wages and employment costs create strong financial motivation to improve efficiency in all service activities.

Another significant development worth mentioning is that there has been a great increase in foreign property investment in Sweden in the last couple of years. Since 2003, activity in the Swedish real estate market has been exceptionally high and continuously rising. In 2005, property for SEK 123 billion was sold, almost three times the value of 1999. Also, the proportion of foreign investors has increased, averaging around 50% of the property bought during 2003-2005 (www.newsec.se). In 2006, Sweden was on place three in Europe in the volume of foreign property investments. This has consequences for the Swedish FM market. Foreign property owners usually lack internal FM units and they are more used to dealing with external service providers than the Swedish owners. Moreover, a geographically distant owner requires facility management contractors who can assume greater responsibility and take on a more independent management responsibility in relation to tenants, in some cases on a nation-wide basis.

5. FM CONTRACTS

A complete FM contract comprises several documents, specifying responsibilities, key performance indicators, compensation principles and management routines as well as descriptions of the premises and organizations served. The scope and level of detail vary considerably between cases, and the contract in a complex FM delivery can be very extensive in terms of information included. Buyer-seller relationships in most industries vary in level of trust and collaboration. Arms' length, or transactional, relationships are characterized by unambiguous quality specifications, and price is the main criterion for supplier selection. This route is often used for simple products and services, where there are many alternative suppliers. When exchange is more complex and the parties become dependent, partnership sourcing, or relational contracting, is more common. In this kind of contract, initial price is less important, since services and volumes are expected to change, and more attention is paid to supplier competence and cultural fit. In FM, there are both transactional relations and partnerships. Often, relations become closer as contracting experience increases. Thus, a general company policy of outsourcing of services might be the start rather than the result of a more strategic and customer oriented role for the in-house FM function. This calls for more flexible contractual solutions.

Service specifications and service level agreements

A key feature in most FM contracts is a Service Level Agreement (SLA), where the quality and volume of the work contracted is described. In-house FM services are often poorly documented, and it is generally emphasized that the first step in change effort aiming at restructuring and

perhaps outsourcing an FM department is to map and reassess existing service levels (Barret and Baldry, 2003; Pratt, 2003; Davis, 2004; Capgemini, 2005), a process that often results in changes in types, levels and volumes of service. If the FM department is kept in-house, SLAs will structure the FM services delivered and provide a basis for performance appraisal and benchmarking with other core businesses or external suppliers (Atkin and Brooks, 2000, Amarantunga and Baldry, 2002 a; b). When SLAs are used to procure external service providers, they facilitate comparison between bidders and reduce misunderstandings as to quality levels between the client and the service provider, apart from their role to define responsibilities in the legal contract. Thus, SLAs are seen as central tools for FM, whether outsourced or not. It is often assumed that the SLA is developed by the client, but in practice it is often the larger service providers that supply the SLAs, the reason being that clients lack contracting experience and competence. Recently, a European standard identifying the aspects to be included in an SLA was issued.

The concept of Service Level Agreement, however, is very wide, and there is considerable variation in how easily different FM services may be specified and measured. There are two main specification principles: input or process specification and output or performance specification. Process specifications are generally seen as characteristic of arms' length, transactional relationships, and are considered to have the disadvantages that significant resources are required upfront, that innovation may be limited and that relations may become adversarial (Davis, 2004). Performance specifications are often seen as preferable (Atkin and Brooks, 2000), although they are not automatically related to a more collaborative and innovative contracting environment (Price, 2002). Development and flexibility is more likely in a partnership sourcing model, where an open book approach with shared savings is used. Often, there is an agreed profit margin and thus less conflict between the parties. Davis (2004) maintains that also in this type of partnership approach, service levels should be described and a pricing document prepared. Still, discussions may arise when cost-saving initiatives require capital investment.

Monitoring is closely connected to specification, and Key Performance Indicators are developed to measure efficiency and enhance performance. These may be based on inspections, data generated by IT systems or customer satisfaction surveys. Especially in the latter case, inspiration is sought in general service management research, emphasizing importance of exceeding customer expectations (Bandy, 2003). Noteworthy is that partnership contracts are considered to require higher costs for management and auditing than contracts based on process specifications (Davis, 2004). Benchmarking within or between organizations is often considered essential for development, but has also been criticised for fostering a prescriptive and standardized approach (Young, 2004).

Swedish standard contracts

Sweden has a long tradition of standard contracts, established by specific bodies consisting of representatives of different parties. In the construction sector, a number of interrelated standard forms of contracts, linked to standard specifications, have gained an almost total acceptance. These documents can be said to form institutions that reduce information costs by standardising roles as well as output (Kadefors, 1995). In the early 1990s, most Swedish service contracts in the FM area concerned property management. As the contracting parties generally came from construction and the services were building-related, standard contracts for construction work were used. These were poorly adapted to specifying and regulating service delivery, and without systematic specification clients found it hard to compare bids and even to know what services they had actually procured. Therefore, important public clients initiated the development a system of standard agreements specific for property management, building on a collection of existing contractual elements from various companies and services. The first parts of this Aff system were issued in 1995, and in 1997 a formal committee was established to administer system changes and updates. Today the Aff committee includes more than 30 organizations representing all types of clients as well as consultants, industry organizations and service providers in the field (see www.aff.se). In 2004 similar documents pertaining to soft facilities management services (business-related services) were developed. The original Aff system was based on process (or “frequency”, in the Swedish terminology) specifications, but in 2006 documents to support performance requirements were added.

The Aff system is a set of documents aiming at regulating responsibilities and structuring information related to FM contracts. The system includes the following parts:

General documents:

- General conditions of contracts
- Definitions
- Procurement conditions: suggestions for texts describing the procurement process, including requirements for bid contents and evaluation principles
- Specific regulations: guidelines for how to adapt the general conditions to a particular contract

Documents which exist for both property management and business services:

- Descriptions: texts and advice for developing service level agreements
- Schedule of interfaces: checklist to determine which tasks are included in the fixed price and which should be priced separately
- Object description: templates for providing bidders with detailed information on the property (quantitative data on buildings, systems, etc, and their status) and/or the business served.

The Aff system may be combined with the recent European SLA standard (EN 15222), so that Aff service specifications are brought into this structure (www.nordicfm.org).

So far the Aff standards have not gained a standing comparable to the standard contracts for construction, and there is a wide variety in how Swedish FM contracts are procured and managed. However, in his investigation of public contracts for technical property management, Sundsvik (2006) found that the Aff system was used in nearly all contracts studied.

6. RESEARCH ON FM CONTRACTS AND RELATIONSHIPS

Most international research in FM focuses on the role of the corporate real estate function or on outsourcing decisions and processes, while research on the relationship to service providers is scarcer. As already mentioned, there is a general concern that core businesses assign too little importance to FM, perceiving it as low margin delivery work and a candidate for cost-cutting. Price-focused procurement and fierce competition result are considered to result in contracts where suppliers try to cut corners and shirk on quality to cover their costs.

In a Swedish context, Sundsvik (2006) investigated specification style and contract management in public contracts with a rather narrow scope. Most of these were fixed price. Only one of 33 contracts used a partnership approach. Performance requirements were preferred, and more common than process requirements, but combinations were frequent. Most respondents said that relations were collaborative, although some clients complained that contractors were very quick to find causes to demand extra payments. One conclusion was that most contracts and clients lacked in system and discipline, especially concerning start up procedures and performance appraisal.

Theoretically elaborated studies of FM relationships have been carried out by Finnish researchers, who have analysed these contracts in relation to the literature on buyer-seller relationships in other industries. There has been a trend for Finnish companies to abandon transactional relations in favour of wider service packages and partnering approaches, and Lehtonen and Salonen (2006) found that relationships in FM formally had many characteristics in common with both traditional arms' length relationships and with partnerships. For example, although there were learning and development objectives, choice of partner was generally based on price and there was no sharing of benefits and risks. Further, contrary to partnerships in other sectors, no relation was found between closeness in collaboration and contract duration. Salonen (2004) noted that FM partnerships differ from other alliances in that they are relatively simple

and that there is no need to share sensitive core-business related information or to make partner specific investments. Also, alliances are established to benefit from economies of scale, not to promote joint learning. As a result, relationships do not entail strong dependencies and commitment tends to be low. FM services are standardized and there are many alternative suppliers. A change of FM partner will thus not influence business strategy, and FM partnerships are seen as intrinsically more operational than strategic (Lehtonen and Salonen, 2006). However, many relationships are close with high levels of trust and commitment, and Lehtonen and Salonen (2006) argue that this is because services are delivered on the premises of clients. They also found that operational level contacts were considered important, as well as the relations between front line staff and end-users. Top management support was seen as crucial in the initial set-up but not during the contract period.

In another Finnish study, interviews were carried out with three clients and their suppliers, investigating their experiences of both dissolved and ongoing relationships (Lehtonen, 2006). The dissolved relationships were characterised by poor communication, and lack of mutual understanding led to dissatisfaction among end-users, whose expectations were not fulfilled. Also, deficient service level agreements led to unclear responsibilities. Another problem was that restricted and inflexible contracts and lack of incentives resulted in low developmental activities, and that more substantial changes in the client organization led to relationship dissolution. The perceived success factors were found to be largely similar to those in strategic partnerships in other industries: problem-solving attitudes, a collaborative culture, mutually agreed goals, open and systematic information-sharing, etc. Although well defined SLAs and authority systems were considered important, performance measurement was not well developed. Lehtonen (2006) concludes that there are many benefits of collaborative relations also in cases when suppliers are not strategic. First, in more complex and uncertain contracts trust is essential, since services and service levels cannot be specified in detail. Further, price competition leads to decline in quality also in non-strategic purchases, which also favors collaborative approaches. For the service provider a partnership has the advantage to provide a better margin and steady cash-flow.

Innovation does not seem to be considered a high priority in FM. Salonen (2004) reported that development activity tended to be low and that the communication between client and service provider was poor in Finnish FM. In the study by Lehtonen (2006), however, development activities occurred and were seen as signs of commitment. In a study of two in-house organizations and two FM contracts, Mudrak et al. (2005) found that the organizations studied had developed processes for innovation management and performance assessments, but that innovation tended to be incremental. This was explained by the day-to-day nature of FM

decision-making and the fast changing demands and needs of the client organizations. In more than 20 Nordic relations in the FM sector, Jensen et al (2006) found much development activity, but only two explicit innovations.

7. TRUST IN BUSINESS RELATIONS

Although collaborative action may be induced by coercion, mutual trust is generally seen as beneficial to more complex exchange relationships. In countries where people in general tend to trust each other it is easier to establish successful exchange relations, which has a positive influence on the economic growth of these countries (Fukuyama, 1996; Zak and Knack, 2001). Similarly, adversarial relations in construction have been blamed for much of the inefficiency and lack of innovation in this industry (Latham, 1994; Egan, 1998). Thus, if we wish to understand the factors that influence the performance of FM relationships, an analysis of the dominant modes of trust production in this context is an important starting point.

Trust and production of trust

In the past decade or two, a vast amount of research on trust and inter-organizational collaboration has been carried out within various disciplines and empirical contexts. This growing trust literature clearly demonstrates that there are different forms of trust, linked with different processes of trust production. For the purpose of this paper, a basic distinction may be made between 1) ex post trust, arising in a relationship involving direct interaction between individuals and organizations and 2) ex ante trust, which is present before any actual exchange takes place. The most important basis of ex post trust is personal relationships between interacting individuals. Trust with this origin has been labeled “relational trust” (Rousseau et al 1998), “trust in the strong sense” (Nooteboom, 2002), “process-based trust” (Zucker 1986), “identifications-based trust” (Lewicki and Bunker, 1996) and “affect-based trust” (McAllister, 1995). It implies that tacit mutual understandings and feelings of personal attachment will arise and influence behaviour. Interaction between individuals is at the heart of trust development processes, although emerging first-hand knowledge of company-specific features such as routines, culture and systems also belong to this trust category. As observed by Marchington and Vincent (2004), much research on inter-organizational collaboration has treated organizations as homogeneous and cohesive agents, ignoring that many boundary spanning agents at different organizational levels may be involved in an exchange, often with various skills, preferences and motivations. Thus, relations that are arms’ length on the top level may be collaborative on the operational level. If the terms of exchange are perceived as unfair, for example, decisions made on the operational level can to work towards restoring perceived fairness,

primarily by measures that are hard for supervisors to detect, such as lower quality or delayed delivery (Kadefors, 1995; Friedberg and Neuville, 1999).

Turning to *ex ante* trust, two sub-categories can be identified: trust which is related to a specific relationship or exchange partner, and generalized trust. The first type may be based on company reputation and other information about previous performance, certified company systems (ISO 9000, etc) or information about the competence of individuals employed by the company (education, working experience and professional accreditation).

Generalized trust, on the other hand, is produced by formal and informal institutions on the level of society in general or a specific industry (Zucker, 1986). Arrighetti et al (1997) refer to the “contractual environment”, meaning the “broad normative framework of laws, customs and assumptions within which inter-firm relations are embedded”, including prevailing notions of what constitutes ethical behaviour in business relations. A stable and predictable contracting environment is thought to support collaborative interaction. The trustor’s belief in the ability of the legal system to justly punish contract breaches influence his or her perceptions of the risks involved in contracting. Social norms and general business climate will influence both trust and how the parties will actually behave in the relationship. For example, a market in which information on trustworthiness is transparent, and where a reputation for trustworthiness will benefit actors, will be favourable to collaborative relations. Further, as mentioned above, perceptions of individual and organizational competences are partly founded on trust in the education system and other institutions. Specific examples of trust-producing institutions are education systems, norming bodies, trade and professional associations, notions of craftsmanship, established practice and stereotypes associated with various professions or companies. In addition, trust is influenced by general cultural stereotypes pertaining to sex, age, accent, ethnicity, clothing style, etc.

It may be concluded that the development of trust and collaboration in a specific relationship is dependent on actions and traits of the contracting parties, but that all exchanges are embedded in an institutional environment that influences the behaviour and culture of exchange partners (including their propensity to trust) and more specifically how transactions tend to be organized. This environment may differ between nations and industries, and also with transaction complexity (Arrighetti et al, 1997; Marchington and Vincent, 2004). Thus, to understand how relationships evolve in an industry, it is important to recognize processes on several levels, from patterns of interaction on the level of individuals and companies to the role of trade associations, professional cultures and law.

Trust, contract and communication

In the 1960s, Macaulay (1963) suggested that formal contracts play a marginal role in governing business exchange, and that informal sanction generally was preferred to legal action. Since, research on management of inter-organizational collaboration has tended to downplay the role of the formal contract (Argyres et al., 2006). More recently, a debate has arisen on the relationship between trust and contract: do trust and contracts act as substitutes or complements (see Poppo and Zenger, 2002). If trust and contracts are substitutes, less trust implies more extensive contracts where obligations, monitoring and sanctions for breach of contract are specified in detail. When the parties trust each other, there is no need for such contractual safeguards, since behaviour will be governed by mutual understanding and informal obligations and sanctions. Then, the norms that shape interaction are produced as the relationship evolves, and not stated in a contract drafted at an early stage. In this perspective, contracts may also be seen as detrimental to trust. Trust has often been observed to be governed by rules of reciprocity: shown trust is rewarded by trustworthiness while distrust induces opportunism (Berg et al., 1995). Thus, to the extent that contracts and monitoring are perceived as indications of distrust, they might induce cooperation based on self-interest but fail to support the development of trust-based co-operation (Malhotra and Murnighan, 2002).

However, it may also be argued that trust and contract act as complements. This implies that close, collaborative business relations may be reinforced rather than threatened by a detailed contract. In their study of IT outsourcing relationships, Poppo and Zenger (2002) largely found support for their hypothesis that well-specified contracts may promote more cooperative, long-term, trusting exchange relationships. Arrighetti et al. (1997) studied strategic and explicit long-term business relations in Britain, Germany and Italy, and found that these tended to be formalized. However, the empirical evidence on the relationship between trust and contract is mixed, and several researchers have concluded that the relationship context is decisive. Based on a study of partnerships in technological innovation, Klein Woolthuis et al (2004) suggested that contracts may function as substitutes or complements depending on the intentions with which contracts are drawn up and used. Other studies of IT outsourcing have emphasised the role of the contracting process itself in fostering trust (Barthelemy, 2003; Blomqvist et al., 2005). As mentioned above, monitoring and detailed specifications are generally considered to have negative effects on behaviour and to counteract goals of learning. However such formalization may play an important role in facilitating joint sensemaking in interorganizational relationships (Vlaar et al., 2006). Formalization focuses participants' attention and forces them to articulate and reflect on relationship aspects, which reduces the risk for misunderstandings and also give the parties a better general understanding of the task at hand. Thus, that some types of contracts tend to be more

extensive may reflect a learning process, where the parties encounter difficulties and agree on how they should be handled (Argyres et al., 2007). The main difference from relational governance, thus, seems to be that mutual expectations are codified.

Albeit from an intra-organizational perspective, Madhok (2006) more explicitly addresses the interplay between the need to monitor employee performance (incentive problems) and needs to coordinate and facilitate knowledge flows within the organization (coordination problems). Thus, we could assume that formalization in some cases could be chosen primarily for reasons of knowledge management and coordination, and to a lesser extent as incentive control. However, concerns to mitigate opportunism easily overtake the more strategically important knowledge management activities.

Standard contracts

In many industries, standard contracts are used in a large proportion of transactions. One advantage of such contracts is that they reduce the resources and time spent in drafting and negotiating. For company-specific standard contracts, Argyres and Mayer (2004) state that these codify knowledge and make it possible to delegate certain aspects of contract drafting to managers and engineers. Standard contracts further signal legitimacy and objectivity (Vlaar, 2005), since they are generally developed by firms and other organizations with a solid reputation and accepted by all parties involved. Thus, standards promote stability and offset asymmetries of power between contracting parties, thereby facilitating trust and cooperative behavior (Arrighetti et al., 1997). Standard contracts may also reduce ambiguity and the risk that the parties develop equivocal interpretations of the contract (Vlaar, 2005).

However, standard contracts may also have disadvantages. Irrelevant clauses may cause conflict and delay negotiations, and it is complicated and costly to deviate from the standard (Arrighetti et al., 1997). Further, standard contracts do not capture aspects that might be important in a specific context (Vlaar, 2005). Thus, contracting situations need to be similar for standard contracts to be efficient. Vlaar (2005) further argues that a serious disadvantage of standard contracts is that they lead to "mindlessness". Instead of developing mutual expectations in a process of drafting a bespoke contract, parties use a standard contract which they may not even read. Thereby, the general comprehension of the complexity and risks of the exchange is impeded.

Specific questions

Research on interorganizational relationships in FM in combination with research on trust and contracts suggests the following more specific research questions:

- Which are the important trust problems in FM relations? How are they influenced by factors on an institutional level?
- How does specification style (performance requirements/process requirements) influence relationship style (transactional/partnership)? Does performance monitoring produce distrust and work-to-rule behaviour, or does it provoke communication and joint learning? What is the role of formalization?

8. RESEARCH DESIGN

To acquire an overview of the area, initial explorative interviews were performed with three consultants, two user representatives, one client representative and one representative of a service provider. To combine depth and generality, a semi-structured interview study was chosen. Another choice was to focus mainly but not exclusively on service providers and consultants, since both these categories of suppliers are involved in many relationships in parallel and also often have an international outlook. Thus, they should be better equipped than most clients to reflect on differences and trends. An interview guideline was developed, and interviews were then carried out with three client representatives, three consultants, and eight representatives of service providers. The interviewees were mostly higher level managers (FM manager, marketing manager, managing director). For three of the service provider companies, interviews were carried out also with contract managers more directly involved on an operational level. Thus, the service providers interviewed represented five companies. These companies differed in terms of the types and scope of services they provide as well as size. All client companies had experience from extensive outsourcing initiatives, and two of them had chosen total FM contracts. The interviews were carried out at the respondents' offices and lasted between two and three hours.

The areas covered in the interviews were (with some variations, depending on respondent category):

- general questions about the respondent's role and background, as well as the competence, strategy and historical development of the organization
- views on trends, market characteristics and important areas of development
- views on clients (procurement practices, competence, differences between clients)
- views on suppliers (performance, competence, differences between suppliers)
- role of consultants

- contracts and contract management (duration, pricing, use of Aff, specification, monitoring, communication, flexibility)
- relational aspects (trust, risks, conflicts, trust-building strategies)
- development and innovation (sources of development, incentives, impact of technology, FM in relation to core business strategy)
- other issues (energy saving, space planning)

9. INTERVIEW RESULTS

In this section, the interviews with decision-makers in FM are summarized. It should be kept in mind that the statements are the subjective views of the respondents even if, for reasons of readability, they are sometimes presented as facts.

Trends

The service providers distinguish between different types of customers. “Mature” customers are businesses who have an explicit strategy for how to manage their support services, which most often results in outsourcing of large contracts for a wide range of services and/or sites. Many of these companies are multi-national, and their drivers for outsourcing are considered to be a combination of costs and flexibility. The general view is that support services have received increased attention from top management following from greater pressure to reduce costs. Contracts increasingly tend to encompass multiple sites on a regional, national or global basis. In the public sector the development has been slower, although several interviewees saw a trend that also public clients start to bundle services and sites. Many more clients now have experience from contracting out FM services, and some are procuring for the second or third time. However, several interviewees also mentioned cases where clients had taken back (“insourced”) FM services when their experiences from outsourcing had not been satisfactory.

As mentioned before, the trend has been for service provider companies to grow by buying other supplier firms rather than by being awarded new contracts. Many interviewees stated that increased performance contracting, multi-site agreements and more complex contracts favour the large, international companies. The number of possible contractors would be significantly reduced for contracts covering wider geographical areas. The still existing Swedish companies are smaller, more specialised and act on a local or regional market. The demand for this kind of more limited service packages, however, seems to be growing faster than for the larger contracts, and one of the technical property management-oriented companies has been on a national list of fast-growing companies for several years.

The large bulk of FM contracts still concern single or a few related services. Although many of those interviewed represented large

companies, their undertakings ranged from yearly contract values of less than SEK 1M to those of several hundreds of millions. In the last ten years, the price of property-related services has been drastically reduced, according to two interviewees by half. This reduction was not seen as connected to lower quality, but rather to better adjustment of service levels to needs, higher competence of staff and economies of scale.

Foreign property owners

There has been a significant increase in foreign ownership of Swedish property in recent years. This trend may benefit service providers, since these owners do not have in-house facilities management units. However, foreign owners often have a short-term, financial perspective and mainly buy building related services, which is why some of the interviewed service providers do not see them as really important customers. Still, other foreign owners have longer perspectives and sometimes introduce contract models where more risk is transferred to the contractor, for example that service providers guarantee running and maintenance costs over perhaps 15 years. This is seen as challenging but favourable by the larger service providers.

One problem that was mentioned in relation to foreign clients was that in Sweden, property owners have wider responsibilities than in many other countries. Leases are shorter and it is the owner and not the tenant who is responsible for maintenance, fulfilling government inspection requirements, etc. This creates problems for the property management contractors and complicates the development of sustainable business practice in asset management:

“I think that it is important that they understand what we do, so that they don’t think that it is like buying property management in Germany, the UK or the US. We have to explain this, and we are not always successful in doing that. First and foremost, they don’t understand why we want so much money. They think that it’s only about collecting rents, and then we have to tell them how much work is included in the price. But many suppliers don’t do that and instead try to win contracts by submitting a low bid; they simply don’t charge enough to cover their costs and then can’t afford taking care of the building. Which means that the industry gets a bad reputation, that the suppliers don’t earn any money and the owners are dissatisfied.”

The same difficulties were seen to apply to service contracts: *“Foreign companies often have contracts that are not adapted to the Swedish context. Sometimes the contractor is required to assume risks that are not proportional to the contract volume or price. So working with international companies also has drawbacks.”*

Thus, with foreign owners, the risks for misunderstandings were felt to be higher.

Combining and integrating competences in FM

The supplier companies have specific core competences but join with other companies by subcontracting or partnering to fulfill the needs of different clients. Some are specialised in “hard”, technical services, and some in “soft” business services. Their competences range from only a few technical services to offering almost all FM service with in-house personnel. There are several ways of reasoning concerning the cost and benefits of in-house competence and bundling. One of the companies said that their strategy was to have in-house competence for all FM services, the argument being that this gave better possibilities for integrating and finding synergies between different services, making the most of their personnel. To increase credibility in providing integrated FM services, they had recently incorporated also technical competence. The view that an FM integrator has to have in-house competence was supported by another supplier: *“The integrator has to be better than the client, I would never buy from a company who buys 50% from subcontractors. To buy it all from one supplier is a different matter.”*

A representative of a company which has all the competences from asset management to property management in-house says that it is precisely the daily contact with the buildings and the tenants which provides the knowledge that allows them to make a profit, both for themselves and their customers. Their competence is to know what buildings to keep, buy and sell, as well as to find those level of maintenance and tenant service that deliver the highest returns.

Other respondents were more favourable towards the possibility to perform well as an integrator. Another FM integrator company, for example, preferred to be more specialized: *“Our core competence is technical facilities management, and we prefer to buy soft services from companies who are specialised in those areas. Partly, it’s about credibility: it can seem a bit strange to say that we can do the cleaning, but we can also take care of your technical control systems.”*

One of the client representatives had a different view, and thought that it could be more difficult for providers to integrate in-house functions than to integrate subcontractors:

“I’m not entirely attracted by total solutions; a technical contractor who works with a partner can be just as good. We want a service partner who is excellent at coordination and integration and has good systems and tools, if they have it all in-house is not important. People tend to exaggerate the value of having all competences in-house. For example, a service provider may be more reluctant to move a person who does perform well if it is an in-house employee.”

According to this FM manager, the problem was rather that service providers are poor at integrating different functions, whether these are in-house or subcontracted. For another client, who had carried out an outsourcing process several years ago, it had been important to have a

total, multi-service supplier, since they wanted all of their former personnel to be employed by the same company. A third client said that they wanted to be involved in the choice of subcontractors, since all personnel were important. According to the service providers, the involvement in subcontractor choice differed between clients.

Other client worries regarding integration had to do with the competence profiles of management personnel:

"I'm willing to pay for management and synergies, but I would probably not like to have a technician in the reception just because that's what suits the supplier."

And, conversely:

"One of our suppliers wants to broaden their competence so that they can undertake total contracts. That might be a good thing, there is some overlap today. But I don't know if I want a cleaning supervisor in charge of building operations, I don't think that the staff would like that."

Clearly, there is a matching between categories of client companies and service providers, so that the large service providers which operate as FM integrators prefer to work directly with the international, "mature" clients, a role which providers of single services are not equipped for. However, most FM integrators do not exclusively work on total FM contracts but also act as providers of single services. There seem to be several reasons for this: existing long-term relations; that integrated FM contracts are few compared to the demand for single services; that a single service contract with a client inexperienced in outsourcing may subsequently lead to additional sales and, finally, the impact on perceived efficiency. That a provider of multiple services is able to win contracts for each service separately is seen as important in order to reassure customers of bundled services that the price of the total package is competitive. For similar reasons, service providers may choose to subcontract work also within areas where they have competence in-house. One of the contract managers interviewed was responsible for a contract where all services were procured separately, and the FM integrator was not granted the subcontracts. Thus, there can be a conflict of loyalty for the contract manager of the FM integrator.

The larger service providers frequently work as both buyers and subcontractors in relation to their competitors. They may also form partnerships with firms having other competence profiles, where partners may alternate as integrators and subcontractors depending on the service mix desired in the individual contract. How contractors join for the purpose of gaining the larger contracts seems to be a delicate matter, related to issues of ownership and branding. For example, a partnership tends to dissolve if the partner is bought by a competitor, and this limits the possibilities for firms to make longer term mutual commitments. Also, a firm may choose to operate under one name when they act as single

service providers and subcontractors, and another when they assume an integrator role.

It is clear that considerations of how to inspire trust in competence and efficiency guide suppliers in their choice of strategy, although there are different views of how such trust best is attained. Some FM integrators primarily emphasize value and others pursue low cost strategies in parallel to value adding strategies. Having competences in-house is often, but not always, seen as an advantage by clients.

Outsourcing aspects

In the interviews, outsourcing processes were primarily dealt with as a background to supplier strategies. A major obstacle to outsourcing, mentioned by several interviewees, was that decisions concerning how to handle support services were not made at strategic company levels. Lower level managers tended to be negative to outsourcing, since their own jobs would be affected. According to the interviewees, client employees generally did not have bad experiences from outsourcing processes. The larger service providers interviewed seldom had problems in finding work for personnel that they took over from a client in an outsourcing process, since they have many other contracts. However, a smaller supplier specialised in property management found requirements to take over personnel to be a problem, since their opportunities to transfer them to other contracts was limited. Obviously, this problem is more important in areas which are less densely populated, and where distances between sites are long. Further, the interviewees reported that different suppliers have different policies for adapting salaries and fringe benefits of outsourced staff to the FM industry standard, although the general opinion was that most companies avoided such conflicts. The suppliers' view was that in the end, the impact on the work situation of former client employees was often favourable. That both clients and employees could find benefits was seen as one reason why acceptance of outsourcing had increased in recent years.

Contract models

Many of the clients in the FM area are international firms which tend to have their own models or develop contracts that are largely relationship-specific. International service providers also have company-specific models, as do consultants who aid clients in writing bid documents. The general view was that the Aff system is used by the majority of the public clients, but much less commonly among private clients. However, this varies between services, so that the property management part is widely used also by Swedish private sector clients, while the business services part is less common. Firms may also use the Aff as a basis of service description, but stick to their own "General conditions".

The perception of the service providers with an international outlook was that the Aff system is internationally unique and advanced. A standard was considered to facilitate sustainable industry development. One reason mentioned was that the risk is reduced that contractors bid low in anticipation of change orders in areas poorly defined in the bid documents: *"I am very satisfied with Aff, it allows us to concentrate on finding solutions that benefit the client rather than on being smart in our bids"*. Also, Aff was perceived as more logically structured than many client-specific contracts used by foreign firms.

The main criticism concerned the rigidity and complexity of the system. One consultant found Aff inflexible and difficult to understand and avoided using it, but still thought that the system would gain in influence because of the need for a clear structure and terminology. There was also some concern that the focus in Aff on service specification is difficult to combine with goals of continuous improvement. Further, the Aff system requires that the client specifies what the contractor is supposed to do, and some interviewees found it awkward that the client should be more knowledgeable than the service provider. Other aspects which were considered weak in the Aff system concerned communication and integration. One client specifically missed a clear definition and specification of integrator functions. In his study of public contracts for technical property management, Sundsvik (2006) found that the communication routines stated in Aff were seldom followed in practice.

Process or performance specification?

The original Aff system is based on detailed descriptions of the service performed, for example specifying how often equipment should be checked, rooms cleaned or dustbins emptied. One problem, then, is that depending on variations in weather or utilization these frequencies might often be inadequate. Thus, models specifically adapted to performance requirements have been developed, and this option is now included also in the Aff system.

According to one of the clients interviewed, they use performance contracts partly because this is preferred by suppliers. The suppliers interviewed, however, did not see only advantages with output specifications, and state several reasons why this principle is complicated to apply in practice. First, if the contractor is going to be responsible for performance, this requires that the status of the buildings served and other basic conditions are assessed and described more systematically. Thus, one concern was that performance requirements entail increased administration and measurement, mainly to the benefit of consultants providing inspection services. Also Sundsvik (2006) stated that the lack of established standards for status inspections was a major problem. Further, several interviewees pointed at the increased risk of bid dumping and the difficulties of comparing bids.

Several interviewees also argued that the need for detailed specification remains, since the client and the contractor need to establish a common understanding of how the performance requirements are to be interpreted. Thus, also in contracts where requirements are few and general (e. g. “nice and clean”), contractors need to present more detailed information on what they intend to do to fulfill performance requirements. The original Aff may then be used as a basis for descriptions of work processes and division of responsibility.

For less complex contracts, the contractor will often convert a performance requirement to frequency descriptions and develop work schedules in order to calculate a bid. If a building operations and grounds maintenance contractor is not located on site, a large part of the work is to visit the site and check the status of the premises. According to a provider of such services, performance requirements mainly complicate planning and scheduling in such cases. Further, one contractor argued that if the utilization of the premises is changed so that more service is required, it is easier to agree on the financial consequences if there is a mutual agreement of frequencies originally included.

The interviewees in this study bring up more problems in relation to performance specification than the respondents in Sundsvik’s (2006) study do, who tend to emphasize that process specification does not make use of the contractors’ knowledge, commitment and experience, as well as the administration needed for small invoices. However, these respondents refer exclusively to public contracts, which are more rigid and cannot easily be changed during the process. Also, both status descriptions and performance monitoring were found to be areas in need of improvement, pointing at a risk that performance contracts are not managed the way they should be.

Procurement and criteria

Competitive tendering is the rule in the public sector, but was perceived as an important route to gain a contract also in the private sector, although the process would be more open and less formal. Pure negotiation, only involving one supplier, would occur primarily when outsourcing in-house FM functions and in cases when an existing service provider takes over one more task. The general view of suppliers was that price is very important as a selection criterion, and that also in cases where price had a fairly low formal weighting the client often chose to appoint the bidder with the lowest price. According to one interviewee, the prices offered would not differ much between the more experienced service providers, while new actors could diverge more. The fixed price of a contract, however, generally accounts for only a part of the total volume of services actually delivered. Also in well defined contracts in the public sector, 30-50% of the total sales may come from services which are paid for on a

cost-plus or unit price basis. In the private sector, an initial agreement can grow significantly as new services are added. This means that a supplier may submit a low bid for the basic agreement and anticipate that this will entail more profitable additional sales.

All of the clients interviewed said that they had assigned much importance to competence and quality as criteria when procuring their contractors. Another aspect concerned the information included in the bid documents as a basis for the contractors to estimate the resources needed for the contract. One client had initiated discussions with potential suppliers to decide the optimal level of information, and said that the number of pages then had been reduced from 5000 pages to 700-1000. Another client did not want the information to be very detailed, since this would communicate to the contractors that they did not have to take initiatives: *“We don’t want a service provider who asks us about details. We could see that some of the bidders had such tendencies. But this is a big contract and there is going to be a lot of give and take. We don’t like to tell them what they should do; we want them to develop the service so that we can learn from that.”* Thus, the ability to cope with incomplete specifications in this case became one of the competences evaluated.

Contract duration and termination

An issue where the interviewees’ opinions diverged somewhat regarded optimal contract duration. Three years was perceived as a typical contract period. However, contracts often include a prolongation option, for example 3+1, 2+2, 5+1 years. One respondent saw a trend that contract periods become longer, in the public sector up to six years. Sundsvik (2006) reports contract durations (including prolongation options) of between 4 and 13 years. One view was that the first outsourcing period requires a longer contract period, perhaps five years, since the contractor takes over staff and has to change the organization to increase efficiency. Another supplier maintained that all contracts should last at least five years, because it is difficult both to make any improvements and to obtain low prices from suppliers of coffee machines etc if the contract is only for three years.

In the private sector it is not unusual that contracts are renewed without an explicit procurement process, but there can also be an explicit agreement that the relation will last for 10-15 years if the client is satisfied. When clients outsource their in-house functions, they often keep the same supplier for many years. This was perceived as a big problem by one of the consultants, who remarked that many client contract managers develop a loyalty towards the existing supplier, and that this prevents them from undertaking a formal procurement process. Another consultant said that if the terms of a contract turn out to be too bad for the existing supplier, the client often chooses to renegotiate the contractual terms: *“As a service provider you get kicked out if you don’t seem interested in the client, otherwise they will*

try to solve the problem". This was confirmed by a service provider: *"If a contract is unprofitable, we cancel it when it expires. In all big contracts we've had, this has resulted in renegotiation and a continued relationship."* Also in cases where the client thinks that the costs are too high, there tends to be a renewed negotiation rather than a break in the relationship. On the other hand, a service provider said that changing suppliers is a matter of experience, so that it is easier the second time when the employees know what to expect. Nearly all interviewed service providers regularly bid for contracts, and although their hit rate is higher in contracts that they already have, they do not refrain from bidding if they know that the client has an existing relationship with another contractor.

A possibility is to include a running termination option of six months or one year, perhaps without any other duration agreements. One supplier perceived such contracts as very unfavourable to the contractor, while another argued that this kind of arrangements would mainly favour the professional and serious suppliers since the possibilities for contractors to win contracts by making far-reaching promises which they do not fulfil then is limited. Also, this could be a competitive advantage for larger suppliers who have many contracts and may spread risks.

Further, it may happen that the building is sold during the contract period. Most building operations contracts in the private sector allow the new owner to terminate the relation, although, according to the suppliers, owners who do not have an in-house FM organization or an existing relation with a supplier most often keep a service provider who knows the building.

Communication, monitoring and reporting

Concerning monitoring of contractual performance, the general opinion of both clients and contractors was that this area has previously not received enough attention but is currently developing as contracting experience increases. The principles were most developed for cleaning services, where competition is fierce and there is an accepted standard for performance measurements. There was also a view that the reasons for monitoring have changed. Before, data were mainly collected by consultants as a basis for benchmarking between their clients. Today, the focus is more on how measurement data can improve performance within the contract.

Hard data (statistics for energy consumption, system interruptions, complaints, phone calls answered, volumes of post, etc) and inspections were important bases of performance assessments, but contract meetings were seen as the key monitoring mechanism. In most relations meetings are held at several levels in the organization, but frequencies vary between relations. Monthly or bi-weekly meetings were common on an operational level, while contract manager meetings took place every three months or twice a year. There could also be meetings on a strategic level, between top

management on both sides. Several interviewees said that it was common that communication and monitoring was frequent in the beginning of a relationship as well as when a renegotiation was approaching, but that activities tended to be less intense during the contract period. Communication routines are generally defined in the contract, and some clients also include agendas for different meetings in the bid documents. The general view was that contract management is becoming more formalized, so that meetings as well as inspections and measurements are planned and documented. It is considered crucial that those involved on both sides have a common understanding of the contract and activities. Thus, contracts increasingly include rules for how to start up a relationship, and sometimes this is done by a two day workshop which also serves a teambuilding purpose. Further, rules for how to transfer knowledge and responsibilities when there is a shift of suppliers are given more attention. Several interviewees gave examples of cases where the retiring supplier had caused significant trouble by refusing to cooperate, but their general impression was that these situations today are handled more professionally.

IT based systems were seen as useful tools to increase transparency in contracts, regarding costs as well as decisions and processes. Technology could solve many communication problems, such as keeping track of reports of defects and making it possible for those affected to follow what had been done about the problem. As an example, possibilities to send codes by SMS made it easier for users to notify the service provider about defective equipment in conference rooms and other common areas, problems which otherwise are less likely to be reported. There are also bar-code based systems to track when the personnel of service providers had carried out certain inspections and actions. Thereby, suppliers could present evidence when a client suspected that the contract requirements had not been fulfilled. This could be very efficient to promote trust in technical property management contracts which are too small to support a site based organization.

Thus, the suppliers' attitudes towards monitoring were generally approving. Client-induced measurements were seen helpful to them in their efforts to increase efficiency and service quality in their own work as well as their subcontractors'. A service provider with experience from clients with very high demands regarding measurement said that their competence and performance had significantly improved as a result. The drawback was that this requires systems that are costly to maintain, and relatively few clients request the high levels of professionalism thus acquired. According to the service providers, formal monitoring routines and ambitions vary widely between clients, and sometimes also between different sites of the same client. Requirements for measurement data were increasing, but clients as well as suppliers said that many clients routinely require much data that is never actually analysed. Thus, there was a

perceived need for development of more efficient reporting and monitoring systems.

Increased formalization was also seen to have consequences for the competence profiles of supplier managers, who now need administrative skills in addition to technical competence and customer orientation. This could, however, be solved by providing them with administrative support. Another difficulty is that service volumes may change significantly as a consequence of changes in the client organizations, and then many performance targets become irrelevant. The substantial lay-offs in the IT sector after the millennium boom were mentioned by several interviewees.

Customer satisfaction surveys

Customer satisfaction questionnaires were widely employed, especially for the soft services such as reception and catering. However, the suppliers said that some clients were reluctant to bother their employees or tenants with questionnaires, and preferred more informal audits based on face-to-face discussions. The interviewees also pointed at various risks in interpreting questionnaire results. Clients are complex organizations, and the quality of communication between the client's contract management function and the employees or tenants varies. Especially when a firm is outsourcing FM services for the first time, the aim often is to reduce costs and the service level performed by the external provider might be quite different from what the users are used to receive from the in-house function. Thus, some service providers take great care to communicate to client employees or tenants what service levels should be expected. Here, web-based solutions were considered valuable, especially in high-tech companies where people are used to this type of communication. Still, it was found to be difficult to get this information through to end-users:

"You send a questionnaire once a year and ask them if they are satisfied with the services, but they don't know what is written in the contract. Many services are poorly defined, and you may ask 'Are you satisfied with the reception?' But if you try to break it down further, it becomes too complicated. There are no simple, user-friendly Service Level Agreements."

Another aspect that may impact on customer satisfaction is if there are private relations between users and service provider staff, and according to one client sites in smaller towns tended to receive higher ratings than the more anonymous settings. Further, one supplier maintained that the familiarity of the supplier brand may also influence customer satisfaction, so that after a change of supplier users tended to give lower ratings to an unknown firm, even when the same people worked with the contract and service levels were unchanged. Despite all these concerns, questionnaires were still considered valuable since they gave input for making improvements. Also, the views of active but perhaps not so representative end-users could be checked against the total volume of questionnaire responses. Questionnaires, as well as other means of end-user

involvement, could further help contractors to show client contract management functions that a demand for change came from the customers and not from the service provider.

Public and private sector clients

Although the international private sector companies were perceived as the most advanced and mature clients, many public clients were mentioned by suppliers as being among the best. One view was that on average, the two groups were equivalent in competence. However, public clients are by definition national or local, which limits the volume of their service contracts. Still, several suppliers say that public sector clients often choose to tender smaller service packages than they could do: *“The public sector wants to be so fair! Instead of procuring one big contract, they divide it into several small packages, which is really not very efficient. They lose opportunities for synergies and flexibility. A private company would choose the most efficient alternative”* This agrees with the findings of Sundsvik (2006), where the public clients report that they prefer to keep part of the technical property management in-house, tender geographically limited packages, and design contracts that are attractive also to the local suppliers.

Also political pressure was mentioned as an influential factor: *“There are, in our view, too strong purchasing organizations in the local authorities. These are convinced that everything gets cheaper if each part is tendered individually, and they don't consider the total costs.”*

Another opinion held by the suppliers was that public sector clients tend to be more stable and conventional, which could have both positive and negative effects:

“The public sector tends to make well founded decisions; they are less affected by short term financial considerations. There is a credibility and stability, which the private sector sometimes does not have. A five year contract is a five year contract. On the other hand, the private sector is more dynamic”

Drawbacks of the public sector culture were claimed to be that the time required to ensure organizational support delayed decisions, and also that less authority was delegated to the service providers, thereby harming service quality. As an example, a service provider said that in the private sector they were authorized to take actions up to a cost of SEK 10,000 in case of a technical failure, while in the public sector all costs over SEK 2-3,000 would have to be formally approved by the client in advance.

Incentives for innovation

The terms of payment vary much between contracts. To accommodate for changes, there are often combinations of fixed prices, unit prices and cost-plus payments. Fixed price principles are more prevalent in limited service packages, and in the study by Sundsvik (2006), nearly 80% of the public contracts were pure fixed price. In total FM contracts, cost-plus

arrangements, perhaps with a guaranteed maximum price, are more common. Payment principles can also be based partly on building area and partly on the number of work desks served.

Specific incentives to encourage innovation and improvements are included in some contracts. Fees in asset management contracts are related to the profit delivered to the property owner, and incentives are then designed to align the interests of service provider employees with those of the owner. In all types of contracts, there may be agreements that costs should be reduced by a certain percentage each year. It is common that ideas for improvements come up during the contract period, as the service provider becomes familiar with the property and the business served. In such cases, gains are often shared between the customer and the supplier. However, it is also common that an investment is required to reduce costs, and this may lead to discussion about how these costs should be divided between the parties. One of the clients interviewed had put up an investment fund in the contract, which the contractor could use after approval from the client.

Incentives to reduce energy consumption had been used with varying success. According to one of the clients, incentives were tricky to implement in practice, at least for complex buildings, since technical changes are made continuously. Thus, it can be hard to estimate the service provider's contribution to savings or increases in consumption. Instead, contractors can be required to account for what they have done to increase energy efficiency and rewarded accordingly. Nevertheless, there are several examples of agreements that transfer more risk to the suppliers, such as contracts where the supplier inspects the building systems and guarantees the total running cost over a longer period of time. To be able to assume more risk, the service providers need to have several contracts of this type, which benefits larger contractors: *"You can't have just one such contract. If one lift breaks down, it can cost you half a million crowns. If you have 20 contracts, the risk is reduced."*

Public procurement regulations limit the possibilities to make more substantial changes in the contract contents, and although relations with public clients could be collaborative, the legal rules were perceived as an obstacle to develop a true partnership relation based on a mutual commitment to improvement. Formal public partnership contracts are very rare, and Sundsvik (2006) found only one contract of this type.

Industry level trust

There are different opinions among those interviewed about the level of trust and conflict in FM relations in general. Several interviewees had a background in construction and found the FM industry as harmonious in comparison. None of them knew of disputes that had been resolved in courts, a fact which they attributed to the long term relationships in FM.

However, some still maintain that the industry has a bad reputation and that clients in general are dissatisfied because they do not receive the service quality they have expected. The price focus in competitive tendering of smaller service packages was perceived as a big problem, both by consultants and suppliers, leading to profit levels of no more than 1 to 5%. One contractor said that *“The bidding documents are often fuzzy and to be honest a supplier who includes everything that is written there will not get many contracts. The client is not prepared to pay that much. On the other hand, if it is obvious that they have forgotten something, we include it. It’s much about give and take.”* There was also a view that the suppliers themselves perhaps focused too much on price and did not make use of the opportunities to score higher on the other contract award criteria. One interviewee involved in asset management said that they seldom participated in open procurement contests: *“We want to earn money, and often the winning bid is way too low. The supplier who gets the contract will not be able to deliver a service that will allow the property owner to make a profit. You’ve got the wrong focus if you see yourself as a cost. We don’t want to be involved in that.”... “Say that we would receive a higher fee, then we could give this customer a lot more time. And the spin-off from that could be ten times higher”.*

Another service provider reflected upon the cultural differences between countries in how contracts are managed: *“In Scandinavia, contracts are generally very detailed, but if the client has forgotten to include something we think that it is natural that we shall do it. While in Italy, for example, if you have signed a contract, they can say ‘This contract, when was it signed? Two months ago, but a lot has happened in two months... The contract is more of a letter of intent’. And in the UK, what’s not written in the contract is not included. If the client has forgotten, it will be an extra cost. While in Sweden, it wouldn’t. And the client thinks in the same way. If the supplier has missed something, clients exploit the opportunity in many countries. In Sweden, both parties agree that it is not reasonable and find a solution. So the cultural differences are bigger than you think, also between the Nordic countries”*

According to the interviewees, the trust problems in the FM sector do not pertain to individual relations as much as to clients’ trust in the value of outsourcing and in the suppliers’ capability to deliver the services to the client’s satisfaction. Client perceptions of supplier capacity were seen as central in outsourcing decisions: *“The clients are not distrusting, they are afraid of losing control. When they outsource a competence, the organization loses this competence, and this is perhaps more about self-confidence than confidence in suppliers. It can influence the scope of the contract, a client could achieve a higher efficiency by contracting out more, but they dare not take one more step. In my experience, it has a lot to do with confidence in supplier capacity”.*

Thus, a less rapid growth was considered more sustainable:

“... it has become more accepted to buy support services from external suppliers, which is closely related to the development in supplier capacity. This is probably how this kind

of service market grows. When so much depends on cooperation and partnerships, growth is very incremental.”

“If there had been an explosion, as many people said there would be, the suppliers would not have been able to maintain quality, and this would have harmed the whole industry.”

The Aff system was seen as a key factor in industry development: *“Many advances which seemed utopian in 1995 have now become reality. Before, only the private property owners and the housing cooperatives bought support services. It all started when the Aff standard agreement was issued, there was a need for a tool to support procurement processes.”*

Industry level associations can be another source of legitimacy and trust. IFMA, the International Facilities Management Association, has a Swedish chapter. The Swedish FM industry sustains a number of annual conferences and a few trade magazines. Here, experiences from FM contracts and related advice are communicated, and surveys of contracting practice and experiences are other sources of information. The views on these associations and events are mixed; the interviewees acknowledge their importance, but especially suppliers wished that more clients would participate. The number of larger service providers is low, and they all know each other well and watch each other closely. A complaint was that although everybody knows much about what’s going on in different companies and contracts, suppliers still try to be secret about it, a behaviour that does not support development. Still, respondents reported that there was much imitation in the industry, and that if someone came up with something new, it would not be long before this was taken up by others. Bidding documents of public clients are very easy to get access to and copy, and also contractor bids may sometimes be obtained from public agencies. Recent examples of imitation in this area were improvements in bid layout, including also photos, and reports in the form of yearbooks. Another activity mentioned was that it has become increasingly common the last five years that both consultants and clients contact the suppliers before starting a procurement process, or requests their opinions on the bidding documents, to ensure mutual understanding and an appropriate risk structure.

Consultants were seen as valuable market actors, since they have many clients and are perceived as more objective than service providers. However, there was no consensus as to whether it was clients, service providers or consultants that were the main drivers of development. The issue of professionalization is promoted by IFMA, advocating certification of facilities managers. This question was not explicitly addressed in the interviews, nor was it spontaneously mentioned by any of the interviewees.

Contract level trust and conflicts

When it comes to the interviewees' own experiences of particular relations, they report that conflicts tend to be few and easy to resolve. The service providers say that ability to build relations with clients is becoming increasingly important, and that this affects their recruitment and management training. Service mentality and customer focus is increasingly seen as more important than technical competence, also in the more technically oriented firms. Several interviewees maintain that persons with a more general competence profile often do a better job as contract managers than those with a long construction experience, both on the service provider side and in a client function. Women are increasingly found in these positions, a trend that is appreciated.

In the context of an FM contract, the respondents believe that dissatisfaction with service quality is the main cause of conflicts. Clients tend to be particularly disappointed when the service provider seems to show a low commitment to the relationship. A consultant remarked that there was a difference between services: *"For building operations, it is generally the client function – often the owner of the building – who is dissatisfied. When it comes to soft services, it is usually the end users."* A supplier contract manager said that the most problematic services were those where people tended to have different opinions, such as cleaning and catering. Again, it was emphasized that the contents of a new contract have to be communicated to both end users and service provider staff, especially if the service level is changed.

When a service provider demands compensation for extra costs, this is perceived to cause conflicts mainly if the supplier has difficulties in explaining the costs. According to the service providers, this is seldom a problem in soft or integrated services, where the service provider is located at the client's premises. Then, the client employees get to know the service provider personnel and also can see the actions taken. Discussions may however arise when it is not clear who is responsible, for example when equipment or building components break down or are damaged. Further, when a service is added or withdrawn from a multi-service contract, the financial consequences can be difficult both to estimate and to justify. Also, reception services were mentioned as hard to specify and monitor: *"What is included in reception services? It is easy to specify on a basic level: answering phones etc. But how much administration and copying? When does it become a project? What about helping the sales department to call up customers? In this area there are often different opinions and the reception gets to do secretary work. And how do you measure if someone is nice?"*

When the contractor is not co-located with the client, conflicts seem to be more common. Here, questions can arise as to whether the service provider has actually delivered the service as specified in the contract, or doubt can be cast on the level of repair costs. However, according to the service providers many conflicts can be prevented by systematic

communication and by informing the client about upcoming costs in advance.

In building operations and maintenance contracts, a difficult area was how to define and regulate responsibilities concerning planned maintenance vs. unplanned repairs. To avoid a great number of small invoices and to motivate contractors to take better care of the systems, there is often an excess clause so that repairs below a certain cost (SEK 5,000 – 15,000) are to be included in the fixed price. The respondents have different opinions about this, and in large contracts for professional clients it is perceived as being mainly a matter of predictability. Some years ago suppliers had no statistics to base their estimates on, but this problem has diminished as experience has accumulated. However, there can be problems since the need for repair work is dependent on the level of planned maintenance, which is the client's responsibility. Thus, an opportunistic client can choose not to replace a system and let the contractor pay for all the small failures. This area is also identified by Sundsvik (2006) as a difficult one, especially if damage due to vandalism is to be included.

Another problematic area concerns relations to other parties. In many cases, the building owner establishes contracts with service providers in building operations and maintenance, while other service providers are contracted by the occupier. The collaboration and division of responsibility between these parties is considered difficult by several respondents.

10. DISCUSSION

As stated earlier, there are various types of trust, associated with specific bases and development processes. Notably, generalized trust is produced on a society level, and interacts with formal contracts and direct interpersonal contacts in shaping a specific exchange relationship. This discussion section deals, in turn, with industry level aspects, contract and knowledge management aspects on relationship management, and how patterns of interaction tend to influence contracting needs.

Industry level trust

Trust takes different forms and has different roles in an existing relationship (ex post) compared to before this relationship has been established (ex ante). When asked about trust problems the interviewees mainly emphasize the ex ante context. A key issue was if potential clients feel confident in shifting from in-house to outsourced FM service provision. Such confidence is influenced by trust in suppliers as a collective rather than by trust in a specific supplier, and experiences of client staff in other organizations that have gone through an outsourcing process play an important role. Industry seminars and trade magazines provide areas for communicating such experiences, and also allow

suppliers to influence perceptions of them as trustworthy and competent. Thus, professional associations and industry networks play a vital role in promoting ex ante trust.

The development of the Aff system of standards was highlighted by most interviewees. Most common was to refer to its role as a tool to facilitate service procurement, but the participation of important clients in the Aff committee should also increase the perceived legitimacy of the practice of contracting out. A standard contract signals objectivity and stability (Vlaar, 2005), which should be especially important in an area such as FM contracting, which is both complex and new to many of those involved.

Among factors that counteract trust in outsourcing, respondents mention the turbulence in the FM industry. That companies buy and sell FM units affects the competence structure and brands of the firms immediately involved, and such re-structuring demands resources. However, since a partner can quickly turn into a competitor it also impacts on the general possibilities for FM suppliers to establish credible partnerships. A concentration into fewer and larger companies, in itself, has a mixed impact on generalised trust. On the one hand, trust in perceived financial credibility and competence should increase for a larger company, but on the other hand consolidation also results in reduced competition, which is seen as a trust problem by some potential clients. Further, as noted by several respondents, the growth of outsourcing should not be too rapid. Suppliers must be able to absorb new employees, educate them and socialize them into a service provider role in order to produce satisfied customers that are willing to share their experiences.

Interestingly, the respondents hold varying views on the pros and cons of service providers delivering most services with their own staff. Some customers believe that in-house competences provide for a closer relationship between disciplines, while others see a risk that the integrator's loyalty towards the in-house functions may overtake the loyalty to the customer, resulting in, for example, higher prices or in that employees who are not doing a good job are not replaced. To the first type of customer, it seems counter-productive that service providers subcontract services that they have in-house, while the second type of customer would prefer subcontracting. Some service providers organize to be attractive to all types of customers, while others avoid price-focused procurement. A value-orientated strategy reduces the number of potential customers, but grants profits and opportunities for professional development in the contracts obtained. A serve-all strategy may allow service providers to make contact with first-time buyers and then little by little earn their trust and transform the relationship towards increased collaboration. Thus, the differences in competence mixes and strategies between and within suppliers can be explained partly by an adaptation to the trust preferences of different customers. However, a complex supplier

market should hinder the development of industry level trust, which partly depends on perceptions of transparency and stability.

Specifications and contracting

Clearly, both formal contracts and relationship characteristics vary much. Some relationships are close and collaborative, while others are more arms' length. However, adversarial relations seem to be rare; a bad relationship is more about poor management and low commitment. Exchanges can start as transactional single service contracts and successively transform to wider and closer relationships. Further, there does not seem to be a straightforward relation between levels of trust and collaboration and the form of contract. Closely specified contracts procured by competitive tendering can support also fairly collaborative relations. In less extensive and complex contracts, process/input specifications are prevalent, although there was a trend towards performance specification. The respondents identified several disadvantages in specifying agreements in terms of processes:

- Process specification demands too detailed knowledge and too much resource upfront from the client. Some respondents find it wrong that clients should have this competence, while others think that the client has to have it.
- All minor changes entail administration of extra payments, and these negotiations may lead to conflicts and distrust.
- Suppliers may become reliant on client instructions and less prone to take own initiatives. Overall performance and quality may be overlooked, and process specification can result in a lack of a wider innovation and improvement focus.

These arguments in much echo the criticism put forward in the FM literature and the general preference that many authors (e. g. Atkin and Brooke, 2000; Davis, 2004) express for output/performance requirements and partnerships. Still, judging from the interview responses, performance specification does not seem to be perceived as an uncomplicated solution to the contracting problems in FM. Reasons mentioned are:

- Detailed process specifications form the basis for gaining a mutual understanding of what is included in a contract. This is important to set expectations right, especially when service levels are changed as a result of an outsourcing process.
- It is easier to agree about changes in the contract and their financial consequences when there is a mutual understanding of the prevailing agreement. Thus, it is not evident that process specification always limits flexibility.
- Client-induced monitoring acts as a help for suppliers to maintain quality in their own and their subcontractors' service delivery. Monitoring is also seen as a protection against distrust rather than

as a threat by suppliers. However, monitoring is more resource-consuming for performance requirements, since these often require status descriptions and input from consultants.

- Especially in procurement of smaller service packages, for which competition is high, clear specifications may support sound competition and assure that the selected contractor is able to fulfill the contractual obligations. With performance contracts, the difficulties to monitor performance lead to greater risks that suppliers with unrealistically low bids are awarded contracts.
- Performance contracting is seen as more risky and administratively demanding, so that smaller contractors refrain from bidding and competition is reduced.

The conventional view of specification and monitoring activities is that these belong to the control system, with a primary goal to mitigate opportunism by defining terms of exchange and assessing if obligations have been fulfilled. However, many such activities can also be seen as parts of a system for knowledge management, or learning (Madhok, 2006). Formalization may have important implications also for communication, in terms of channels, frequencies and contents (Vlaar et al., 2006).

As indicated by the respondents' statements, process specifications may have advantages from a knowledge management perspective. They provide for clear and mutual expectations, since they require communication upfront and are relatively easy to monitor. Performance specifications, if they are not thoroughly processed, imply a risk that the parties enter into a contract with different expectations of what the agreed service levels stand for in terms of activities and frequencies. Although monitoring of performance levels should be a better input to discussions, there is a risk that clients are tempted to economize on these activities, a tendency that was evident in Sundsvik's (2006) study. Further, if status inspections are carried out by consultants there are no joint learning benefits to the interacting parties.

That a relationship entails both communication needs and needs to control performance becomes evident in partnership contracts. Here, a formal contract based on more general performance requirements is often complemented with more detailed process specifications, which are not part of the formal contractual control system. In these relations, the Swedish Aff system may be used to direct attention to aspects that are important to consider and force parties to discuss and agree on service levels and divisions of responsibility. Opportunism is mitigated partly by reputation effects and partly by performance measurements. These deliver data on agreed key performance indicators which may be used for benchmarking and tied to compensation schemes. It is evident from the supplier interviews that such performance measurements are not perceived

as controlling but seen as important parts of the knowledge management system. The conclusion is that performance contracts allow for flexibility and learning, but that this requires that measures to create a mutual understanding and feedback systems are put in place.

Contracting and interaction

Another aspect which influences contracting needs is the interaction between the supplier and buyer during the service delivery. As mentioned by Lehtonen and Salonen (2006), the fact that the service provider is located on the premises of the client is important in shaping the relationship. Human beings in direct contact will establish some kind of relationship, and a service process that requires close interaction between employees on both sides will be influenced by interpersonal trust (or distrust), loyalties and dependencies.

In many FM services, there is direct contact not only between the contract managers of the parties, but also between the service provider personnel and the end users (often the employees of the business served). With time, the service provider often comes to know more about the needs and problems of the end users than the client's contract manager does. These relationships produce opportunities for influence. For example, the service provider and the end users may join forces in convincing the client to make changes to the contract, such as increasing service levels or incorporating new services. Also, end users may persuade the service provider to do more than what is actually included in the contract. A supplier is dependent on good communication and relations with end users to deliver high quality services and obtain favourable results in customer satisfaction questionnaires. Thus, when there is a daily and direct interaction with end users, as in the case of many soft services, detailed service specifications are needed to communicate to the users what services they should expect. Moreover, it is often more in the interest of service providers than clients that such specifications are established. In technical property management, on the other hand, there is less interaction with end users. The main contact is between the client's property management function and the service provider, who are more familiar with the contents of the contract. Needs for formalized specification on a detailed level should then be lower, providing that mutual understanding has been established. However, these contacts may be less frequent and more related to contract management, and it is not evident that relational trust develops. Therefore, processes of specification and monitoring can be needed to grant that communication enabling individuals to form relationships and prevent distrust takes place. In both cases, however, monitoring data may demonstrate performance to higher levels of management. Such information also serves as valuable input to discussions, and allow suppliers to respond to goals of improvement.

11. CONCLUSIONS

Facilities management is a complex field and industry level institutions as well as markets are in rapid development. While industry level efforts to develop standard contracts and create trust in contracting out FM services have been successful, contracting practice is slower to harmonize because of the influx of first time clients.

Overall, the findings have supported the view that inter-organizational relationships are influenced by factors on an industry level as well as by the formal contract, contracting processes and interaction patterns in the specific relationship. A contracting culture depends not only on formal contracts but also on the informal interaction that arises spontaneously as a result of the service characteristics. Some relations may need fostering of trust, while others are better helped by more formal control and a bit of distance. Needs for specification, communication and monitoring should be analysed with respect to both goals of control and goals of knowledge transfer and learning. This complexity should be a challenge to FM integrators.

Compared to core services, formalization can be the more important to attract client interest in FM services and other services which are not perceived as strategic. Then, specifications and especially monitoring during the contract generate tangible and accessible information that can provide a starting point for discussion about contractual performance and improvement. Less extensive contracts may, paradoxically, result in less innovation because of lower client and supplier engagement. Thus, many FM contracts are examples of cases where elaborated contracts and monitoring will support both the development of trust and learning.

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