



## Service Management Dilemma: Dependencies on Intermediary Fields between Goods and Services

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### ABSTRACT

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Frequently, issues of uncertainties and its dynamics are related to outsourcing in the domain of facilities management (FM) as well as the various activities of the core business. The concept of core business has frequently been discussed in the last decades when companies in the service sector have grown in significance. Service management has been accepted as a research discipline where “intangible service” is regarded as an opposite to “tangible goods”.

Rented spaces, for instance, can be regarded as a service if it is exchangeable with other spaces with the aim to optimize the users’ satisfaction. The boundaries are in fact indistinct between (1) core business vs. support activities on one side and (2) between pure service (intangibility) and physical artifacts (tangibility) on the other side. This article discusses the relevance of conceptualizing intermediary fields of the factors mentioned above (Factor (1) and Factor (2)) and discusses the interdependence of the factors, which is conceptualized in a model. It is argued that increased knowledge and attention to the discussed intermediary field would contribute to a larger understanding of outsourcing topics in FM and Service management.

### 1. Introduction

The reality cannot always be described in “Black” or “White” as opposite factors; intermediary “Grey” zones occur in fact in many managerial models. Among facilities for managers today, it is frequently argued whether an organization should simply be described in terms of core and support business respectively.

As Prahalad and Hamel (1990) presented the concept of the core business, it has been of major interest in the analysis of companies. The core business often stands as a dual contrast and some kind of opposite to the activity of supporting a business. The factors of support activities and core activities are also connected to the theories of transaction cost economies where Williamson (1975) and Coase (1937) describe the dynamics of the two factors as an explanation of the existence of firms. The dynamics of choosing an in-house function or to outsource this function to an external provider is the main topic of Facilities Management. However, in recent years the strict diversion of activities into core or support business has been criticized (Axelsson, 1998). Outsourcing

decisions of companies and organizations often tend to be described in terms of insufficient results.

The act of outsourcing implies a risk of irreversibility, especially when a certain time has elapsed. Activities classified as support services sometimes glide into core business and vice versa. Often it has been observed that what is assigned to support business has played a leading and central role in the itinerary of the company. A common example is that the property and location of the company have contributed to open new doors for generic products and services of the core business. This paper should be regarded as a research article that puts the strict diversion of the two concepts' core business and supports business into question and argues for the relevance of intermediary fields; it tries to give premeditation to the intermediary fields of core vs. support business and service and goods. The everyday activities of facilities managers have their natural realms within intermediary fields. The roles of intermediary fields are not new. Williamson (2008) expresses this as follows:

"Governance structures are described as syndromes of attributes that differ in discrete structural ways. Markets and hierarchies are the polar modes to which hybrid (long-term) contracting is an intermediate mode."

The challenge seems to achieve reversibility of outsourcing as a theme for research as well as standards among practitioners.

## 2. Goods and Services

The emergence of the service industry in recent decades has motivated managers and scientist to define what is the features of a service. Goods can be interpreted as opposite to service whereby features that define goods and services have been classified and distinguished. Table 1 presents the features of Goods and Services according to Normann (1983).

**Table 1:** Comparison of Goods and Services (Normann (1983))

Goods	Services
Material	Nonmaterialistic
Tangible	Intangible
Transferable ownership	Nontransferable
Displaceable	Production and consumption occurs in the same place
Storable	Nontransportable
Distribution	Direct contact client and company often necessary
Transportable	Client participant of the service.
Indirect contact possible between Company and client.	

Additionally, in a philosophic-logic essay on sustainability, Dettwiler (2014) discussed a comprehensive understanding on human relations to activities and artifacts, and developed the classifications above by addressing the element of *Goods* to the idea to "what we *have*" and the element of *Service* to "what we *do*". Indeed, it might be appropriate to regard the topic as a dualistic phenomenon; or even similar to the Einstein's formula of relativity; namely that matter and energy are somehow the same.

It is evident that the description in Table 1 of the Goods and Services is contradictory; for example, Why could not Services between Company and Client be possible? This, in fact, is the main task of doing an acquisition for a company. Axelsson (1998) highlights that most products have their intermediary position between pure services and pure goods. For example, cars and mobile phones are, even if they are tangible, highly linked to services.

In leasehold contracts, it is a matter of who the client for new office settings is; in buildings, the activities of the users are matched to various extents with a physical surrounding that includes various services. It is often required in long-term contracts that interiors must be removed or replaced to original

status; sometimes new tenants accept however the settings of former tenants who have left the premises.

Dettwiler (2008b) put foci on boundaries of the firm that are fluctuating according to the business cycles and accessibility of external resources. All events of the studied variables appear only to a limited extent affect total space use. Similar values during of spatial changes due to acquisition or outsourcing during up and downturns of GDP argue for the relevance of equilibrium that is as a definition the boundaries of a firm. The findings argue for a deepened thought on the dynamic relations that set the boundaries of firms, where the size and the core can exhibit various shapes. We have two apparent situations of low respective high growth of GDP. If growth firms decide to effectuate the outsourcing of core business, or, acquire sale firms alternatively; What implication does it then give to office spaces, given the fact that GDP is an independent background factor? Space change occurs "stepwise" because the physical boundaries a fixed through walls and location; the perfect match would thus be impossible to attain between organizational needs and the physical assets. This might as well be translated to the fact that spaces have various owners and user in the course of time. The fluctuations of the boundaries can be associated with decisions of renting or acquiring spaces.

## 3. Core Activities and Support Services

Tay and Ooi (2001) collected the various definitions of FM where it could be seen that common denominators were "buildings", "coordination" and "workplace". FM was aimed to support a core business. The current definition of FM in the EU Standardization EN 15221-6 has omitted the term core business for a more politically correct term "primary activities". Some decades ago FM was more related to real estates, which are also omitted in the current definition of FM of EU.

During the recent decades, the emergence and growth of the tertiary sector have resulted in specialized firms that support companies and organizations of services that are neither core business nor activity. Efficiency gains are stated if firms and organization have the possibility to concentrate their particular skills on their main tasks (core business or activities) and letting "the rest" (non-core services) be managed by other units that are specialized to provide appropriate services to support the core. An example of the problem could be that a medical doctor at a hospital should not have main responsibilities (as it was some decades ago) of deciding the space design of a hospital but rather be transferred to a specialized FM or CREM unit and thus separating core and support activities. The notion of FM is often related with decisions to outsource FM-units that have been within the realms of the organization and acquire it from the market for cost and efficiency reasons. The opposite occurs sometimes; when "insourcing" is considered most favorable, an FM unit is incorporated in the company or organization. The word "Insourcing" has gained a larger acceptance in Germany with the meaning of an opposite action to "outsourcing" (Gondring, 2009), (Table 2).

Prahalad and Hamel (1990) claim that the core competencies will be enhanced through a strategic work of knowledge management whereas the physical assets will deteriorate. This is true, however in an FM context when considering spaces as a service delivered it is a wrong conclusion to regard spaces as an element that does not support the evolution of core business. As we learn in FM it should enhance the core business, sometimes under the sign of Corporate Real Estate Management, Workplace management, and other managerial disciplines as well. Omitting the criteria of an employment or profession, FM can be regarded as an attitude amongst CEO of growth firms (Dettwiler, 2008a) rather than an established profession because, as the example above of medical doctors at hospitals where the same individual is involved in both core and support business activities.

**Table 2:** Pro and Cons in Outsourcing (Gondring, 2009)

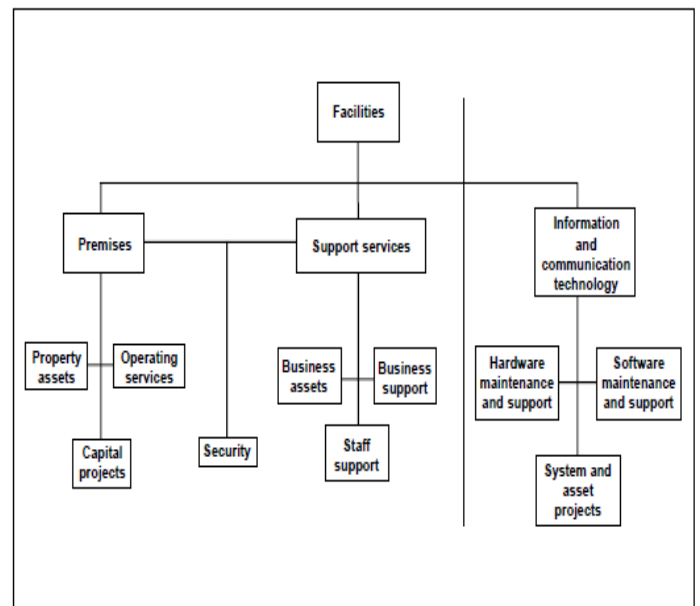
Pro Outsourcing	Contra Outsourcing
Concentration to Core Business	Security Risk, the leak of sensible Data
Enhanced efficiency,	The danger of possible financial instability of the supplier, hidden costs
Effectiveness, Flexibility	The transaction cost of Control of Contract
Improved liquidity	Work legislation and Policies might be violated, less staff care
Access special Competences	Responsibility for not employee staff
Access to new technology	Employees Less influence on Staff of Supplying firm
Continuity of Supply	The risk when switching employees
Better adaptability to branch-specific changes	Loss of Knowledge
Simplified organization	Higher performance (above contract) agreement cannot be guaranteed
Transparency of Costs	

Exterior forces like fluctuations due to business cycles or access to market shares influence also the decision to locate on single or multiple sites (Dettwiler, 2008). During favorable times of market, the propensity to hire new office spaces tend to be higher than during recessions; which dominate through bounds to old leasehold contracts from previous “boom” period. It was further shown that the fluctuations of business cycles were a background factor for entire or partial relocation.

FM is related to coordination and processes like SCM, Supply Chain Management. Williamson (1989) refers core features to human, technology, and process and collects under the concept of Transaction Cost Economy, TCE. In later writings links between SCM and TCE were made; Williamson (2008) defends the research theme and relevance of TCE; the paradigm of make-or-buy decisions is the theorem associated to TCE whereas SCM as

a contrast has a larger multidisciplinary area like FM. The dynamics of TCE is related to factors like friction and inertia which can be related to customer loyalty which is an element of avoiding changes of outsourcing contracts.

Outsourcing is an event that occurs both in supporting firms as well a major topic in the core management of firms; as above the relevance of pro and cons of outsourcing exhibit relevance ubiquitous in a firm structure. Alliances are entered in contracts of cooperation and partnering to attain stipulated goals. The goals are a product of definition of needs; whereby an approach of studying the real needs becomes a necessity. Dettwiler (2011) highlights the problem that the definition of needs frequently often has a non-rational origin.



**Figure 1:** The relationship between Premises, Services and IT according to Williams (2001)

Figure 1 suggests that ICT and thus Knowledge Management (KM) functions as well as a linkage between premises (tangible) and services (intangible). The recent development of the FM industry has put FM into the foreground where the approach of highlighting the contrast between core business and support business has been criticized. For example, when a company acquires its premises, the role of FM transfers to a CREM perspective.

The studies of growth firms have revealed that ownership or leasehold relations are primary decisions at the realms of top management of the core business and not FM subordinates Dettwiler (2008b). Here it can be motivated as well to discuss intermediary stages between core and support services. Penrose (1959) discerns the managerial service (of the leadership) as a quality to enable growth of firms: this quality today occasionally is delivered as support in incubators and thus a market feature.

#### 4. Outsourcing Dilemmas

"...many companies learned that unexpected complexity, lack of flexibility among outsource providers, and other unforeseen problems added costs as well as friction, ultimately translating into higher total costs than anticipated. One-quarter of the outsourced transactions were brought back in-house." (Williamson, 2008).

Pro and Cons of outsourcing are often described when dealing with outsourcing dilemmas (Table 2 below). However, other critical points can be highlighted concerning outsourcing. The word insourcing is not always used as a logic opposite to outsourcing. In managerial websites, insourcing is frequently used when an activity has always in fact been kept in-house. The rationale of the TCE is in fact to describe the dynamics between markets and hierarchies (in-house) where a strict truth is impossible to find. Williamson (2008) uses the concept of hybrid contracting an establishment of the intermediary field; styles of mediating Hybrid Contracting: (1) Muscular (the buyer is much larger than the smaller supplier), (2) Benign and (3) Credible. The two latter factors relate to Human Behaviour like trust and distrust.

"The muscular approach to the outsourcing of goods and services for which investments in specific assets are made is myopic and inefficient. Real or imaginary power is nonetheless a myopic trap for those who believe that unused power is a waste — which applies to that subset of large manufacturers who lack the foresight to outsource in a more informed and restrained[...]way." (Williamson, 2008)

**Table 3:** Pearson-correlation from a Swedish survey

	1.	2.	3.	4.	5.	6.	7.	8.	9.	10.	11.	12.
1. Rented office space Boom	1											
2. Rented office space Recession	.882**	1										
3. Business cycle effect Boom	.123*	.099	1									
4. Business cycle effect Recess.	.172**	.131*	.934**	1								
5. Oral agreements Boom	-.035	-.008	.225**	.222**	1							
6. Oral agreements Recession	.002	.005	.240**	.237**	.958**	1						
7. Contracts flexible Boom	.056	.092	.157*	.175**	.424**	.428**	1					
8. Contracts flexible Recession	.106	.122	.173**	.202**	.410**	.427**	.936**	1				
9. Long provider search Boom	.102	.043	.112	.127*	.161**	.154*	.127*	.155*	1			
10 Long provider search Recess.	.090	.043	.100	.153**	.191**	.178**	.105	.153*	.903**	1		
11. Office reloc moves Boom	.176**	.173**	.125*	.121*	-.004	-.001	.012	.028	.115*	.079	1	
12. Office reloc moves Recession	.166**	.111*	.081	.141*	-.011	.009	-.046	-.018	.018	.043	.464*	1

\*\*Correlation is significant at the 0.01 level (2-tailed).

\*Correlation is significant at the 0.05 level (2-tailed).

The reasoning above (Williamson, 1979; 2008) implies that accurate information has significance in the decision making of outsourcing. Knowledge Management and prediction capabilities become a prerequisite for creating a base of creating more appropriate contracts.

Outsourcing and KM has a strong interdependence; also in a historical sense in the public sector where changes in KM affects the performance of FM services and Outsourcing contracts

(Bröchner, 2003). Outsourcing features are today varying between countries depending on factors like population density, HR policy and the character of industry (Bröchner et al., 2002) whereby it can be assumed that ICT and knowledge management will play a significant role in the future of establishing contracts. A significant problem with contracts is the difficulty in formulating every detail whereby consensus and oral agreement between involved individuals play the non-formal part of a contractual relation. Kadefors (2004) highlights inefficiencies in contractual relations due to inefficient communication and distrust (or "credibility" above (Williamson, 2008)) with a recommendation of new settings in a collaboration that guarantees creative teamwork between parties (e.g., partnering).

Decision makers in outsourcing can easily be related to principal-agent theory, which means that they might not take the full responsibility for their decisions; they are possibly blinded by short-term profit interests. The agent, in this case, is the outsourced supplying firm that in the course of time that might be set into another scenario than that of the time when contractual relations were founded.

Intermediary fields are motivated; individual loyalty to firms does not last forever. Staff can transfer between in-house and supplier organizations by changing employers. The intermediary field is the turbulent environment with rapid changes and unforeseen events. It is the field of the notion of dynamics itself.

#### 5. Inspiration from Empirical Data

The empirical material of this survey (elaborated at Service Management, Chalmers University of Technology) is assembled from an existing database, the Gaselle list, provided by Soliditet, owned by Bonniers Affärsinformation. The main criterion for a Swedish firm to be listed is that it has reported a minimum rate of turnover growth during the preceding four years. Incidentally, the number of firms that fulfill the criteria of the Gaselle list has decreased over the last five years. The present survey is based on the Gaselle list of 2003 containing 967 listed firms. The database includes annual company turnover, number of employees and changes (measured in % during a four-year period) in employee numbers and turnover. Ten variables (representing the period 2001 to 2003) are used for analysis in this paper. After a second reminder, the responses were 387 (40%). 58 firms (10%) of the non-respondents (580 firms) were randomly selected for additional telephone interviews during February and March 2005. Almost all, 57 (98.3% of the non-respondents sample), answered orally five control questions selected from the original questionnaire. T-test and Wilcoxon signed t-test indicate that generalization of the whole population is reasonable.

It is reasonable to apply data from growth firms in studies on TCE an FM because both issues are related to the problematic of coordination; which since long is regarded as a limitation of firm size (Coase (1937), Williamson (1986) and a major occupation for facilities managers (Tay and Ooi, 2001).

The study illustrates the dynamics of a field in-between two ideal states; a recession and a boom. Since the reality is oscillating between these extremes, the natural stages are in fact the intermediary field. Within the states of boom and recession, firms decrease and increment their activities as well as the consumption of space use and FM services.

The correlation matrix reveals that the propensity to rent offices among growth firm is well correlated with the effects of business cycles. A lag effect seems to be apparent because the correlation is higher of the propensity to enter leasehold agreements during booms but are probably enclosed to a contractual situation of the leasehold when recessional time prevail (0.172\*\* compared to 0.123\* and 0.131\*). This assumption is as well reinforced by the observed propensity to relocate offices and acquiring properties (enter leasehold contracts) in transitions between booms and recessions. The uncertainty of markets provokes as well preference for intermediary solutions with optimization of reversibility in contractual agreements; oral agreements correlated to the flexibility of contracts (0.424\*\*, 0.428\*\*) are apparently significant issues due to the fluctuations of business cycles; lag effects argue possibly for the need of reversibility in contracts. The construction of e.g. Sale-and-Lease-back is a product of reversibility and an intermediary state.

Transaction cost economics, TCE, can be related to the variables of the survey committing (1) oral FM-agreements (instead of written), (2) to close flexible FM-contracts and (3) search a long time for an FM-provider. The correlation matrix reveals interdependence between the three variables and a fairly strong correlation to the effect of variation of GDP (Gross Domestic Product), which is in the survey associated to fluctuations of business cycles.

The survey suggests that continuous change and dynamics is the dominating scenario of companies (in this case defined growth firms) and their relation to FM. The stability of static factors becomes less relevant in favor of dynamics.

## 6. A Model of Intermediary Fields

The reasoning above concerning the two topics (1) goods and services and (2) core and support argues for intermediary fields. The dynamics due to fluctuations in business cycles (GDP) argues itself for the avoidance of static definition of the features. The two factors can be assumed as being interdependent. The concept of Williams (2001) supports the idea of a physical and non-tangible classification. Physical artifacts are neither a product of core management nor a product of FM-department. For that reason, a model of Table 4 is proposed with interweaved patterns between the two topics.

The challenge for actors in the intermediary field is to attain an appropriate decision at the appropriate time after having evaluated what the real needs are (Dettwiler, 2011). It might be the crucial factor that Outsourcing should not (or never) be a reversible event.

When a certain time has elapsed after such an event, it is even more difficult to return to insourcing.

An example is to match the artifacts of workplaces to accurate ITC-settings and associable services. Another example of being in an intermediary stage was a CEO of my Swedish survey that adjusted different parts of the core business with partial ownership, leasehold and leaseback agreements.

Possibly should it be motivated that future outsourcing events should be considered in the very early phases of the briefing of projects? Dettwiler (2011) remarks the opportunity of Reversibility in decisions that must be made; The factors (1) Image, (2) Function, (3) Reactiveness and (4) Proactiveness should be considered as an aid to clarify thoughts before and during the very early stages of the briefing process. Enabling the extraction of the “real needs” would improve efficiency, and above all, avoid expensive erroneous decisions in future briefing processes. Due to the interdisciplinary and coordinating skills of Facilities Managers, they will have an opportunity to take on the professional role of identifying the real needs before a change occurs, and to play a key role in the pre-briefing and briefing stages of a construction project. Such an approach must more efficiently use Knowledge Management where ICT can support the accurateness of information. Since the 1980s DSS, Decision Support Systems, has continuously been developed, real-time information and complex patterns can be more easily be analyzed and detected, which could find a role in partnering situations.

Contracts are categorized as recurrent or occasional, highly depending on information flow (Williamson, 1979). Changes in outsourcing contract would in the future exhibit more recurrent features rather than occasional, which would lower the transaction cost through standardization measures and transparency approaches within knowledge management and ICT.

**Table 4:** A conceptual model of intermediary fields

	Core Activities	Intermediary Activities	Support Activities
Intangibility, Services	Business within the tertiary sector	Maintenance of machinery that produces core products	Facilities Services
Intermediary Service and Physical objects	Service and goods combined e.g. Transport with the packaging of the core product. Marketing material.	Hybrid Contracts, PPPs Reversibility The role of a facilities manager on Strategic level supported by KM e.g. Sustainable Refurbishment	Service with a direct physical connection: e.g. Interface ICT: Monitoring building information (BIM) Maintenance, construction, and repair
Tangibility Physical objects	Manufacturing of goods (with non-apparent follow up service)	The factory as a symbol for the produced goods Reuse of Building Materials, (e.g. walls)	Buildings and Infrastructure

## 7. Conclusive Discussion

This paper has proposed the inclusion of ICT as a knowledge management tool for creating outsourcing contracts with optimized outcomes for stakeholders and parties.

The significance of paying heed to intermediary fields would render liberty to the stakeholders of markets to establish new creative solutions and new contract philosophy. In a resource-saving and sustainability perspective, it would be appropriate to consider the utility of re-using building material that satisfies various physical settings of offices.

It is often said the parties in PPPs should attain a win-win situation in an ideal contractual constellation. Asymmetric information flow creates, however, various strengths between parties as Williamson (2008) suggests. Knowledge management that contributes to more accurateness of the future with transparency would cater to more sustainable contractual solutions of outsourcing. Adjustments of outsourcing contracts in vigor should not be exempt but rather a routine where reversibility should as well be the optimal solution for the stakeholders.

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