



**Externalisation as a source of innovative asset management :
The case of the transfer of the UK Department of Social Security estate to the private sector**

Client Driving Innovation 26th October 2004



1/ INTRODUCTION
Outsourcing : a growing tendency

- Technological changes and the introduction of new information technologies.
- Pressures on organisations to reduce total operating costs.
- Pressures to focus on the core business.

Client Driving Innovation 26th October 2004



1/ INTRODUCTION
Outsourcing : a growing tendency

Outsourcing concerns

- ◆ Repetitive tasks but also activities such as R&D,
- ◆ Private companies but also public administrations.

⇒ Example : The UK Department of Social Security.

Client Driving Innovation 26th October 2004



2/ THEORITICAL FRAMEWORK

Transaction cost economics

- Four principal dimensions of transactions :
 1. Asset specificity,
 2. Uncertainty,
 3. Frequency of transactions,
 4. Ease of measurement.
- Two behavioural assumptions :
 1. Bounded rationality,
 2. Opportunism.

Client Driving Innovation 26th October 2004

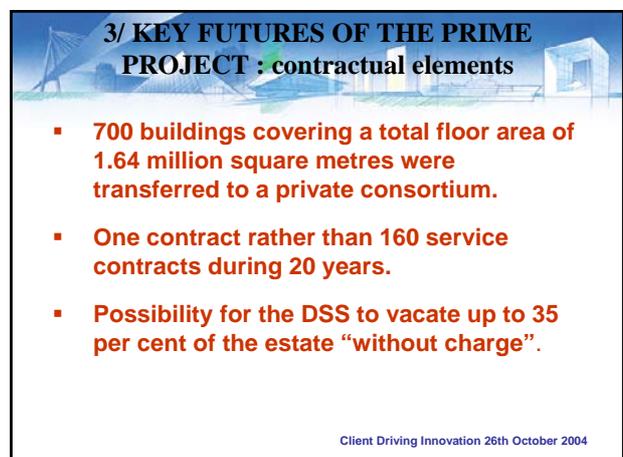


2/ THEORITICAL FRAMEWORK

Aim of this framework

- To explain the contractual arrangements at work between the DSS and its partners.
- To examine weather the transfer of the estate leads to innovative asset management and to the delivery of better services to the clients.

Client Driving Innovation 26th October 2004



3/ KEY FUTURES OF THE PRIME PROJECT : contractual elements

- 700 buildings covering a total floor area of 1.64 million square metres were transferred to a private consortium.
- One contract rather than 160 service contracts during 20 years.
- Possibility for the DSS to vacate up to 35 per cent of the estate “without charge”.

Client Driving Innovation 26th October 2004

3/ KEY FUTURES OF THE PRIME PROJECT : innovative aspects

- First transfer of a Government department estate ever realised in the UK.
- Consortium members never worked together before PRIME.
- Innovative arrangements between the consortium and its service providers.
- Flexibility of the estate management.

Client Driving Innovation 26th October 2004

4/ THE CONTRACTUAL ARRANGEMENTS AND TRANSACTION COSTS ECONOMICS : Uncertainty

Several elements reduce the uncertainty

1. Long procurement process.
2. Remeasurement of the buildings and new evaluation of the assets after the selection of the preferred bidder.
3. The 13 facilities management services were not sensitive functions.
4. Information disclosure in the contract to preserve the stability of the agreement.

Client Driving Innovation 26th October 2004

4/ THE CONTRACTUAL ARRANGEMENTS AND TRANSACTION COSTS ECONOMICS : Asset specificity

- Most physical assets could be easily redeployed.
- Specific investments were made possible because of the 20 years contract.

Examples :

1. Creation of a database and a call centre.
2. Training staff in technical and customer service issues.

Client Driving Innovation 26th October 2004

4/ THE CONTRACTUAL ARRANGEMENTS AND TRANSACTION COSTS ECONOMICS : Measurement

- A Performance Measurement System with 54 Key Performance Indicators.
- The information system provides service performance statistics.
- Several audit procedures.
- The consortium benchmarks its sub-contractors.

Client Driving Innovation 26th October 2004

5/ THE QUALITY OF THE SERVICE DELIVERED TO THE CLIENT

- Each partner develops its own core competencies.
- Better refurbishment and maintenance of the estate.
- Specific investment for a better service.
- **But** difficulties to define the output and to measure the quality of the service.

Client Driving Innovation 26th October 2004

6/ CONCLUSION

- A detailed contract to "enforce" the trust between partners and to limit opportunism.
- A successful project so far but a similar externalisation has recently failed.

Client Driving Innovation 26th October 2004