



SFMI LEADERS FORUM

Procurement of Sustainable FM

April 2020

On April 2nd 2020 the SFMI conducted the first SFMI Leaders Forum - A group of leading and influential real estate professionals discussing the sustainability challenges of FM. The forum consists of both leading sustainable FM providers and global corporations that manage property portfolios from differing sectors with a key focus on reducing their impact of the real estate.

The discussion drew on the experiences, challenges and solutions that these experienced professionals have in integrating sustainability into the procurement of Facilities Management.

The SFMI is a product of Acclaro Advisory
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Introduction: Is FM on the Brink of a Grand shift?

The collapse of Carillion in 2018 and financial difficulties of many other organisations highlighted significant issues with the business model of the FM industry. Excessive transfer of risk and an overwhelming focus on immediate cost returns rather than longer term value and sustainability were key factors.

Whilst there have been many efforts to integrate sustainability into facilities management and procurement for a long time, there has been little change at scale. Government reviews in the 1990s identified the need for best value creation through direct dialogue and transfer of knowledge between organisations and supply chains. Subsequently, guidance and standards produced by bodies like ISO, CIPS, RICS, IWFM and others like the SFMI have identified challenges, benchmarks and roadmaps for how organisations can work with their supply chain to bring about positive changes. However, in the years leading to the Carillion collapse (and beyond) these forward thinking approaches have been curtailed by what has been described as aggressive approach to risk transfer, particularly by public sector bodies with an operational cost-cutting agenda.

Ongoing challenges prevail around:

- the model of sustainable facilities management and delivery.
- the roles of the client; and
- responding to the risks and opportunities that have been presented.

The relationship between client and FM provider is still perceived differently by both actors with cultural differences in perspectives. However, the SFMI Leaders have indicated that there are glimmers of change to the narrative, hastened by the concurrence of climate change and the global health pandemic. Change is now accelerating as agile remote working patterns increase and excess building assets become superfluous space. FM has shown many strengths in the pandemic, not least witnessed by the rapid response in the installation of the new Nightingale hospitals around the country, or the continued frontline working that they have shown through the health crisis.

Within the discussion, the SFMI Leaders Forum reviewed the current model of sustainable FM and delivery they then explored four key questions around the role of the client, what is needed to implement a culture change to integrate sustainability across client organisations, procurement and suppliers, as well as changing the culture of FM?

1. Broad Experiences in Sustainable Procurement

The discussion started by looking at the model of sustainable FM together with the practices that take place, while reviewing the challenges around integrating sustainability into procurement. These are summarised around three key areas:

Cost pressure Prevails over integrating Sustainability in Procurement

There is a dominating trend towards driving cost savings on contracts instead of assessing the value that FM providers may be offering. Client operational budgets are tight and there is limited scope to integrate sustainability value-added opportunities into the process. The sustainability maturity of a client will often determine the extent of how a client integrates longer-term sustainability credentials into the procurement of the service.

However, sustainability is increasingly being included in tenders, with the relative weighting low but improving. Whilst sustainability is an increasing driver for procurement teams who are engaged, it's not enough to change behaviours of all bid teams around the country. Despite this, some FM providers opt to initiate and integrate sustainability offerings across their tender responses, even when unspecified by clients as it can serve to be a differentiator from the competition. In this way, two bids are provided over the term of the contract – a compliant bid and an alternative solution allowing the client to make an informed decision about how to progress.

Despite the continued focus on cost, there are some changes coming from clients in how they perceive sustainable procurement. Those clients that have embedded sustainability are starting to add certain terminology and certain ways of thinking into tenders, which signify a longer-term focus. For example - avoiding fines or provide future proofing or business resilience. There are also some recent changes in terms of what FM providers consider to be sustainability for procurement and this goes beyond lifecycle of assets.

FM providers can show sustainability added value as often their response to tenders will involve wider teams beyond procurement. Wider engagement across the business helps to deliver cross-functional responses better able to understand the risks and provide coherent solutions. This can be a challenging journey especially if there are variations in maturity between the FM provider and suppliers. Suppliers have however come to the forefront with innovation, such as on the zero-carbon journey.

Budget Fragmentation in FM Delivery

The separate budget arrangements for FM between operational and capital budgets often influences the balance of when to make decisions. The controlled nature of the operational budget is often the focus of reduced costs together with capital spend being utilised to further offset operational costs. Together these form a disincentive for driving longer term continued investment resulting in further short-term thinking. FM providers are able to influence some long-term capital changes and investment decisions regarding assets where the user experience and local requirements can help to optimise the assets being purchased.

Sustainability is often not at the forefront when making investment decisions. A cheaper plant that cost more to run in the long term are often chosen in preference to a more efficient but expensive alternative. The separate client budgets are important to clients in industry but a challenge for FM providers to work with as they are often disparate and linked to the perception of the value of

procurement. However, this is a critical issue to overcome if the net zero targets are to be achieved with investment necessary and managed over time between the FM and client teams.

The value of the integrated and holistic approach

Beneficial changes are emerging with some client owner occupiers beginning to see the full value of their procurement in the long-term. Owner-operators often have a better understanding of the value implemented within their facility and may have already made a longer-term commitment to it including drivers on issues such as social value and lifecycle.

However, incorporating a holistic sustainability perspective into FM can produce discontinuous requirements. Changes in clients' year-on-year priorities driven by populist issues can lead to varying annual sustainability and communications priorities of both clients and FM providers. Short term versus long term thinking of clients produces different requirements, which can be exacerbated where a synergistic mismatch occurs between FM providers, their supply chain or other clients.

2. Challenges to Changing the Culture of Procurement

SFMI leaders moved on to explore some of the challenges which have prevented the mainstream adoption of a sustainable procurement culture.

Clients Ambition

It is helpful to clients and FM providers alike if clients set and incorporate sustainability into the procurement parameters for FM. This can filter through to tenders and ultimately to mobilisation and implementation. In the case of clients which have mapped out their sustainable procurement journeys with a commensurate corporate culture, this can produce clear, comprehensive and even transformational FM partnerships helped by the client ownership of sustainability at the highest level.

However, it is frequently reported that clients do not specify sustainable procurement requirements so FM providers can choose to initiate these in tender responses, though this means it is more challenging for them to bring to implementation. Clients with a long established trusting FM partnerships culture may not stipulate precise sustainability requirements, leaving FM providers to initiate options, and step up to influence them and fill a vacuum. In this scenario there can be a challenge to changing the culture of procurement in a client if there are significant differences between client's procurement philosophy and the FM providers approach. In addition, the FM role has been long undervalued perhaps because of the prevailing model of segregating client and FM roles in the outsourcing model which typically leads to FM providers having a lack of advisory influence with clients.

High risk transfer to the Private FM Sector

In FM contractual terms, longer-term capital investment is limited in part because FM companies are not confident about receiving a return on investment (ROI) over a contract duration of a 3-5 year term. What would help FM providers would be if contractual clauses and terms allowed capital investment to move between different FM companies if the incumbent FM provider is unsuccessful in winning the next stage of a contract.

There are financial instruments that can be employed which can also help change the culture of procurement and one potential mechanism is the broader energy service company (ESCO)

arrangement. This can allow for the transferability of funding and debt from one party to another as a contract moves on.

Clients and FM providers alike note that a key challenge to changing culture is their differing perspectives. Clients view the outsourcing FM model as a loan for a service (rather than a purchase of a piece of equipment) and not as a risk transfer. Consequently, clients automatically downgrade the process and role of the FM provider. For the FM provider the risk transferred can be unrealistic and excessive. The ownership of the responsibility is fragmented with the client retaining ownership of the assets and capital funds and associated decisions, and a FM provider having a comparatively short time period for contract implementation.

3. Can the Culture of Business help make a change?

The discussion moved on to the opportunities in FM and how clients and FM providers can help drive positive changes towards sustainable procurement.

Governance from top drives Sustainability Business culture change

On the client side if sustainability is going to form part of tenders it needs to be a key part of the culture of a business. As a core part of a business culture in this way, sustainability can also be integrated throughout all operations where it involves doing the right thing. For example, paying suppliers the right wages in a country.

Leadership from the top is critical to inspire and enable innovation and new ways of thinking, which is desperately needed in the FM sector. Sustainability should be integrated through a business, even through contracts and driven down to other suppliers.

Clients can set out Higher Ambition and drive Quality standards

There is a shift in the culture of business and willingness to do right thing in procurement with clients requesting additional quality standards to engender trust in the deliverables. There have been more requests for ISO20400 providing a culture change opportunity to be recognised by clients. Where clients are not requesting these standards, the FM providers are taking a lead and adhering to standards for sustainability integration e.g. ISO20400 as a way of differentiation. FM providers note that there has been a shift with certification.

Integrating Sustainability ROI into business culture

Public sector clients and some leading corporate clients can understand key sustainability issues such as circular economy and carbon reduction. These issues can have a high profile in the tender process which will have an influence on the ROI and long-term vision. It does require a shift in culture and perception and clients are starting to realise this. FM can be a driving force and it was recognised that they have the power to push its supply chains on innovation, then present to clients and push further up the line.

4. The role of FM in the process of the culture change

Finally, the SFMI leaders shared their views and ideas around opportunities for the FM sector to drive long-term culture changes towards implementing sustainable procurement.

Perception of FM needs to change

Clients and FM providers alike call for a perception change of FM which will help with the process of changing the culture. Changes are needed with the external and internal perception of the facilities management sector. FM needs recognition through representation at the senior level as the overarching strategic driver of the space, involved in setting the budgets.

Long-term driven sustainability cultures require working in partnership with FM providers to manage assets for the long-term as changes in the operating context unfold. From a client perspective, there are benefits to having valued FM partners at the centre of decision making as the overarching strategic driver of their building space and assets. The benefits from this culture change approach have been the collaborative advice and guidance shared on capital investment, such as the prioritisation needs for asset replacement. FM is positioned in a more pivotal role in the business in informing the agenda across a spectrum of initiatives from refurbishment to the use of workspace to make working more efficient and more agile. This positions FM in a leadership role and not as a responder which is critical in this process leading to involvement in other activities from agenda setting, financial governance, setting procurement standards and providing more strategic and advisory services moving forward.

Repositioning FM to leverage strengths

The role of FM in business culture change will involve workspace and the way that the office works will change. People have demonstrated that homeworking is feasible for part of the time, so less office space is needed. Determining how the workplace can be made more efficient to meet agile working needs is a strategic activity which can only be beneficial from a sustainability viewpoint.

The role of FM with its multiple touchpoints and client knowledge can be expanded to use its unique opportunity to get closer to different parts of the client via a continual improvement process to feed into the capital process and back via a feedback loop. FM is in a pivotal position to bring about culture change and drive sustainable procurement into the heart of an organisation. Its span is broad across clients from senior management and procurement team to its own FM organisation and across FM providers, subcontractors and other suppliers. Integrated and aligned service offerings can be identified which not only enable customers to get maximum benefit more than the sum of the parts but in addition customers become more engaged in the process. Top tier clients understand their significant savings, from financial savings to carbon and energy savings because everything is streamlined.

Boosting Confidence and Trust in FM: Providing Assurance against Targets

FM can help the process of culture change by having clear targets, measures and success criteria that make sustainable procurement measurable.

Ambition helps FM frame the longer term around sustainability and tackling the wider impacts of sustainability such as ethical procurement. The focus on Modern Slavery, for example, following legislation is a big game changer and it puts clients and FM providers on a level playing field. FM providers should keep up with the debate and identify client priorities, map these and align with FM's own priorities. FM providers note that targets enable people to ask questions to influence change in a business across the sustainability agenda from environmental management or social value.

Assurance can be around marginal changes as FM providers need a reality check through the services being provided as what FM providers can influence might be limited on sustainability. FM providers can assure clients on some specific areas of focus where a lot of procurers have paralysis by analysis as there are many opportunities and providers and clients need trusted partners.

FM providers can potentially assure even the most simple or basic of products or services as part of their role to build relationships of trust, longevity and credibility. Sustainable procurement can be demonstrated but it is more difficult to measure and this is an opportunity to introduce a tool to support businesses with this need. FM providers need to keep working closely together with clients and other stakeholders and could even assure how to process, certify, and keep working together. The Supply Chain Sustainability School and the SFMI have an important role to play.

Culture change also requires a balance between the measured and soft approach with the education piece also being important. This involves driving change internally by being challenging and forming a role of critical friend. It also enables getting cultural and behavioural change to the front line which adds more shared value whilst also enhancing public perception.

Conclusion: Emergence of an Exciting Repositioning of FM

Whilst it was recognised that profound change has been slow in coming in FM sustainable procurement, SFMI leaders acknowledged changes emerging which offer exciting opportunities for the future evolution of sustainable procurement and FM.

A fundamental culture change and shift of attitude towards FM partners appears to be emerging. FM providers are already being approached by clients to provide carbon focused sustainability advisory services and to help them set out net-zero carbon targets and plans. Clients note that this overcomes prior challenges to FM provision by integrating budgets and producing a broader and deeper penetration of shared partnership working, aligning priorities and enhancing shared value creation.

Measurement will be key. SFMI Leaders call for sustainability professionals to be beacons of assurance to provide enhanced FM measurement around sustainability quality assurance on all aspects of sustainability, such as sustainable procurement providing a meaningful and accurate demonstration of social value. In an era of reshaping and cost-cutting accelerated by the concurrence of amalgamated risk exposures from systemic risks of global climate change, digitalisation, health pandemics, a long-term focus on sustainability will be vital for driving decision making based on quality as well as cost. Ultimately, the FM sector will then be able to demonstrate its contribution to meeting the global UN Sustainable Development Goals (SDGs) and net zero targets.

Background to the SFMI Leaders Forum

The SFMI Leaders Forum comprises experienced sustainability leaders from both client and facilities management perspectives of the industry, to provide a rounded two-way discussion on delivering sustainability embedded within FM.

We would like to thank sincerely SFMI leaders for the 2020 webinar which forms the basis of this paper, these are:

1. BAM FM - Reid Cunningham
2. Bouygues-ES – Dave Farebrother
3. Churchill Services – Daniela Eigner
4. ENGIE – Candice Guerreiro
5. Mitie – Jason Roberts
6. RBS - Allan Wickham
7. Skanska – Laura Mayhew-Manchon
8. Vinci – Victoria Hughes
9. Waitrose – Andrew Smith
10. National Procurement Framework representative
11. Interview 21/4/02 Metals and mining industry – Bill Jones

The Sustainable Facilities Management Index (SFMI)

The Sustainable Facilities Management Index (SFMI) is the only assessment which rigorously benchmarks and validates FM companies on their demonstrable commitment to sustainability across environmental, social and governance criteria.

More information about the SFMI can be found here - <https://www.acclaro-advisory.com/sfmi/>