

# **Improving Quality from Outsourcing in Real Estate**

**CHAN KH, Hong Kong, China**

**Key words:** Outsourcing, customer satisfaction, services quality, restructuring, competitiveness.

## **SUMMARY**

Outsourcing is commonly found in public and private sector in most economies today. The common reasons of both sectors to execute outsourcing are related to restructuring, technology change, increasing competitiveness, benchmarking results, and cost reduction. Indeed, outsourcing has an array of advantages and disadvantages.

When the original Public Rental Housing (PRH) tenants purchase their living flat under the Tenants Purchase Scheme (TPS), they become the owner of the flat. Upon becoming owners, they would expect higher performance in Estate Management and Maintenance Services (EMMS), yet it matters whether Customer Services Quality (CSQ) would be significantly affected due to outsourcing.

This research aims to study whether the CSQ in EMMS will be continuously improved after outsourcing to Non-government Property Management Companies (NPMC) through quantitative approach by sending structured questionnaires to the owners/occupants of a designated TPS estate. The data solicited will be analysed statistically, with the aid of graphical charts for better presentation to readers.

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## Introduction

Hong Kong Housing Authority (HKHA, 2015) implements the strategy of Great Private Sector Involvement (GPSI) in their Estate Management and Maintenance Services (EMMS) with three objectives. Firstly, it should smoothly transfer staff from public sector to private sector. Secondly, it should achieve cost-effectiveness. Thirdly, the work performance should be improved. This outsourcing strategy applies to Public Rental Housing (PRH) estates and Tenants Purchase Scheme (TPS) estates. Moreover, HKHA extends to consider staff interest in outsourcing, and both cost-effectiveness and performance standards of EMMS should be improved.

To gauge effectiveness of outsourcing, Customer Service Quality (CSQ) must be measured and benchmarked. For a long time, CSQ is used only in the positive sense, meaning good customer service that is prompt, efficient, pleasant and helpful. In today's economy, this term can be modified by an adjective, i.e. good or bad CSQ. The service quality consists of two components: reliability of service and the way interaction with customers influence perception of an entire organization (Oflaç, Sullivan, and Baltacioglu, 2012). In fact, CSQ is important to many businesses because it has influence on company profits and its future development. In addition, Customer Service Management (CSM) is a management system that plans, implements, evaluates and controls the customer service strategy. It assists to

maintain or improve the quality of services in order to generate profits of organizations.

Outsourcing is not a new idea. Hartmann and De Grahl (2011) mentions that outsourcing really means finding new service providers and new ways to secure the delivery of raw materials, goods, components and services that use the service providers' knowledge, experience and creativity which the client is lacking. Some organizations in Bedford, U.K. have been outsourcing their security service since 1930; whereby the trend is outsourcing the jobs from peripheral ones to more integral ones. For instance, organizations are used to outsource more fundamental non-core services like catering facilities; now outsourcing more high-ended services like Information Technology Department, Research & Development Department etc. In fact, the choice of outsourcing activities depends on the entities of organization and its definition of those core competencies which should remain within their full control.

Benchmarking means that organization compares its performance of in-house activities with similar activities within other organizations to locate its strength or weakness. When weakness are identified, organizations will consider whether resources can be added to increases efficiency or the activity should be outsourced for better efficiency or cost reduction.

Turning to local situation, the housing supply is limited whilst the living standard/environment of general HK people appear below average; even worse when massive refugees surge into Hong Kong from mainland China in the 1950's. As population increases, squatter huts become denser.

While HKHA (2015) targets to make long-term improvements in living standard/environment of low-income families; the Resettlement Department offers immediate solutions for crises arisen from squatting. Although the new department has changed its Chinese name from (屋宇建設委員會) to (香港房屋委員會), its English name remains unchanged as Hong Kong Housing Authority (HKHA). HKHA is a statutory body established in 1973 under the Housing Ordinance, and determine to implement government's overall housing policy and public housing programs. Besides, it plans, constructs and manages public housing, interim housing estates, transit centers, flatted factories and ancillary commercial and non-domestic facilities like shopping centers, market stalls and car park. Furthermore, it assists the government to execute housing related projects, such as clearing land, preventing squatting and executing improvement works in squatter areas.

In 1964, the government introduces a new housing policy. It merges the Resettlement Department with the former HKHA into the present HKHA in 1973. After that, large-scale PRHE are constructed by government directly. The minimum standard of the future housing construction plan mentions that flats should be self-contained that completed with an independent kitchen, bathroom and balcony. As the accommodation standard of public housing has been improving by offering more advanced facilities, the responsibility of HKHA in EMMS has been increasing simultaneously.

Global economic crisis is a crucial reason leading to outsourcing EMMS. Like other countries, Hong Kong economy suffers a recession period after the Asian financial crisis in 1998. Many private organizations and public sectors commence cost-cutting by outsourcing

their in-house works. HKHA has to consider the strategies and methods in cost-cutting, initially by outsourcing their EMMS in a progressive manner, which commences in 2000.

This illustrates the relationship between home ownership policy and outsourcing policy. While more flats are sold to tenants, these new housing owners might choose their EMMS providers from NPMC instead of engaging HKHA, which are costly. The strategy of GPSI in HKHA's EMMS has three objectives. Firstly, it achieves the staff interest. Secondly, it improves the cost-effectiveness of EMMS. Thirdly, it enhances the performance standard of EMMS. Their respective details are illustrated below.

### ***Staff Interest***

The Phased Service Transfer Program (PSTP), Management Buy Out Option (MBOO) and Voluntary Departure Scheme (VDS) are launched to achieve staff interest.

#### **a. Phased Service Transfer Program (PSTP)**

It outsources initially the EMMS of no fewer than 75,000 PRH units from existing stocks and new construction units. The outsourcing contracts require successful bidder to hire at least 20% of existing HKHA staff. The Initial Program and Proposal on Future Pace shows that EMMS for 79,000 existing PRH units and 66,000 newly constructed PRH units are outsourced to NPMCs who hire more HKHA staff (793 in total) than required.

#### **b. Management Buy Out Option (MBOO)**

MBOO is a program to achieve the staff interest also, which encourages the HKHA staff to set up their own NPMC after they leave HKHA. While their management companies are set up, they are eligible to bid the EMMS of respective PRHE. At least 51% shares of the MBOO companies should be held by ex-staff of HKHA, with not less than 50% managerial staff and 30% supporting staff must be ex-HKHA staff. 6 MBOO companies are awarded the services contract from HKHA in 2001; where 5 out of 6 obtain EMMS and one obtains cleaning service contract. This option provides 320 job opportunities for ex-HKHA staff. The MBOO companies hire more ex-HKHA staff than the contract requirements.

c. Voluntary Departure Scheme (VDS)

VDS encourages the current HKHA staff to quit their current jobs to move to NPMC within a 3 years option period, where these staff are eligible for additional bonus of 3 months' salary. HKHA staff will receive the addition bonus when they complete two year services in a NPMC. It helps decrease the NPMC staff turnover, and reduce HKHA staff overhead drastically.

## II. Cost-effectiveness

Cost-effectiveness is one of the main objectives of the strategy. HKHA reveals that the tender bids for the property services contracts outsourced in the initial phase of the program has shown a gross saving of about 20% as compared with relevant in-house estate operation costs. The gross saving is \$92 per flat on average in terms of the monthly cost.

Outsourcing EMMS has streamlined the supporting functions in HKHA headquarter and regional offices, where 3300 posts and 700 general/contract posts have been deleted. The VDS plans use huge funds to encourage staff to quit their current jobs, it finally brings \$295M savings in cost. The estimated saving increases from \$216M in year 2 to \$4,815M in year 10 as shown below (Table 1).

	<b>Year 1 to 2</b>	<b>Year 3</b>	<b>Year 4</b>	<b>Year 5</b>	<b>Year 10 Aggregate</b>
Est. Saving	\$438M	\$596M	\$759M	\$774M	\$6,679M
Est. VDS Outlay	(\$733M)	(\$380M)	(\$406M)	(\$94M)	(\$1,864M)
Est. Net Saving	(\$295M)	\$216M	\$353M	\$680M	\$4,815M

**Table 1 Estimated savings**

**III. Improvement of Performance Standard**

Besides achieving staff interest and cost-effectiveness, the improvement of services performance standard is crucial. HKHA improves the performance standard of EMMS in 2 ways. For the PRHE, HKHA staff play the monitoring roles for the outsourced PRH units progressively. The controlling strategy consists of conducting internal audit against main performance indicator, interviewing with the Estate Management Advisory Committees (EMAC) and tenants under random sampling. For the TPS estates, HKHA will be the estate manager for a term of 24 months. The duration is following the completion of the first assignment deed, or until the Owners Corporation (OC) is formed, whichever is earlier. Transfer EMMS program also applies to TPS estates. When the OC has employed their own

NPMC, HKHA will transfer its management services to that company. HKHA conducts a survey to study the initial result of transferring EMMS (Table 2).

Maintenance-related Service Provided	PRH				TPS			
	Year 1	Year 2	Year 3	Year 4	Year 1	Year 2	Year 3	Year 4
Very Satisfied/satisfied	29.60%	33.60%	36.30%	38.70%	13.90%	20.30%	21.60%	26.00%
Moderate	36.00%	32.40%	33.90%	32.60%	36.10%	40.30%	40.70%	37.30%
Dissatisfied/very dissatisfied	34.40%	34.00%	29.80%	28.70%	50.00%	39.40%	37.70%	36.70%

**Table 2 Maintenance-related service provided**

The customer satisfaction levels increase from Year 1 to 4, both in PRHE and TPS estates. On the other hand, the customer dissatisfaction levels are decreasing. It implies that the performance standards of HKHA’s EMMS are improving too.

**Literature Review**

The first advantage of outsourcing is the ability to focus on core business. When the ancillary works are outsourced, the original company may concentrate its resources on core businesses. The second advantage is cost saving and efficiency improvement. The original companies may save cost on overhead, administration, and human resources and so forth. In addition, the original company may concentrate its financial resources on core businesses instead on the ancillary work, thereby improve its efficiency eventually. Obtaining greater financial flexibility through reduction on overhead cost is the third advantage. When the

original company reduces its overhead cost through outsourcing, it may replace the saving cost to other investment. Operational flexibility and control through contractual relationships are the fourth advantage. When the in-house peripheral works are outsourced, the original company may reallocate its resource to the other necessary items or project. Moreover, the original company may control the quality of the outsourced works by appropriate contract management. Enterprises may carry out better management skill for peripheral activities. When the ancillary works are outsourced, the original company may reallocate its staff. It increases the flexibility of staff deployment eventually (Sinha, Michèle, Ding and Wu, 2011).

Reichheld (2006) contends that customer satisfaction is linked to profitability. High levels of customer satisfaction's levels lead to increase profits. Customer satisfaction levels are more important than downsizing and reducing cost to maximize profits. He states that today's economy has forced many businesses to focus on the spreadsheet. The most expedient solution seems to be downsizing and cutting costs to make a business more profitable. By focusing on the customers, one is really concentrating on serving and satisfying the customer's needs. Customer satisfaction creates customer retention, which in turn means profitability. Reichheld clearly illustrates the relationship between company profits and customer satisfaction levels in CSM. In fact, he opines that meeting customer's expectation is the minimum requirement for a successful customer satisfaction strategy, and surprising expectation is the key to customer satisfaction. Most adults enjoy the unexpected and search for novelty, excitement and immediate gratification. Surprise is one way to exceed customer expectation.

Inconsistent services damage customer's expectation can lead customer to have bad feeling. Inconsistent service is perceived by customers as worse than overall poor service (Voss, Parasuraman and Grewal, 1998). Market research is one method to identify customer's perception and expectation. Telephone interview can help solicit customers' suggestions for goods/services improvements, which embrace the followings:

- Ask what customers think of current offerings;
- Solicit comments and suggestion for improvements;
- Collect demographic information and data on buying behavior;
- Use a format that identifies expectations met and the importance of products or services;
- Offer sufficient incentives to improve the response rate and enhance the accuracy of findings;
- Be distributed in a systematic, random fashion (e.g. every third customer; each customer wearing blue; the fifth person appearing on each page of a customer list);
- Be analyzed along with other forms of customer feedback.

Gil, Berenguer, Taulet and Velázquez (2005) also suggests that company should reinvent and rejuvenate its human resources programs to achieve better customer satisfaction. For customer satisfaction efforts to succeed, the organization must reinvent & rejuvenate its human resource programs through internal partnership, communication with employees, and self-monitoring.

## **Research Methodology**

HA develops the XYZ Estate in 1988 and announces the TPS in 1997. This TPS scheme is

to enable financially-sound residents to own their premises, to keep the public housing units mobile, and achieve 70% home ownership by 2007. Some 27,000 flats in six estates are offered for sale, where XYZ Estate is one of them.

HA marks the successful implementation of EMMS transfer program in TPS, and XYA Estate is a beginning. Initially, HKHA finds that the satisfaction levels of the households towards EMMS in PRHE are higher than TPS estates. This may be attributable to a higher expectation on TPS households following a change of their status from tenants to owners. XYZ Estate is one of the former PRH estates; and its EMMS are outsourced to private sector in 2001 under the strategy of PSI. Hence, XYZ Estate residents experience the difference of EMMS provided by HKHA and NPMC; which is a valid case to investigate the change of customer service satisfaction due to such outsourcing.

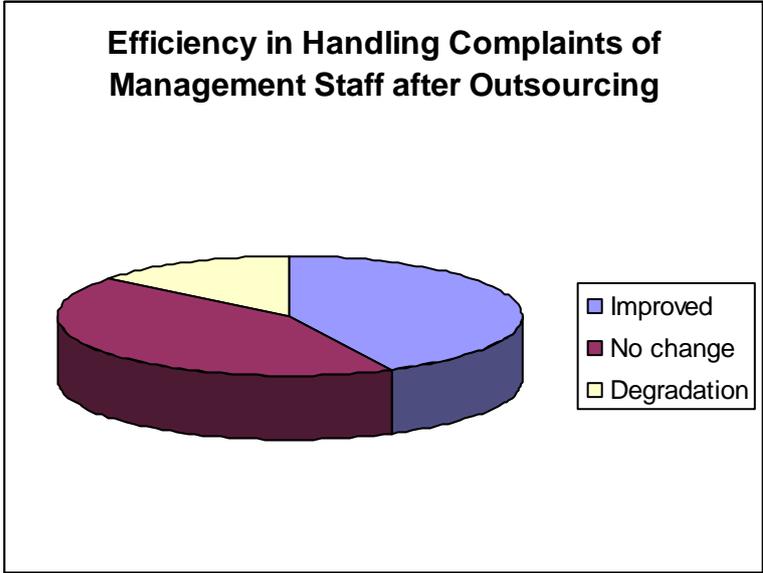
Through the questionnaire survey to the residents of a case XYZ Estate (under TPS), we try to identify whether the customer service quality can be improved continuously by NPMC – a services providers on EMMS. Conlon et al. (2012) states that a sample of individuals is communicated to generalize the characteristics of that population from which they are drawn. Besides picking up respondents randomly from the occupant list, questionnaire is distributed to OC and Mutual Acid Committee (MAC) members, whose feedback can be more representative and trustworthy.

The questionnaire is divided into two parts, i.e. before outsourcing and after outsourcing. Each part is split into two sections, i.e. General Management Service and Maintenance Service. Data regarding the appearance, working performance, attitude and communication

skill of administration staff is collected under General Management Service. Data regarding daily maintenance services is collected under Maintenance Service, which targets on maintenance staff's appearance, attitude, and performance. There are 5 grades for each question - excellent, good, satisfactory, unsatisfactory and very unsatisfactory. Questions of General Management Service and Maintenance Service at times before and after outsourcing are exactly the same.

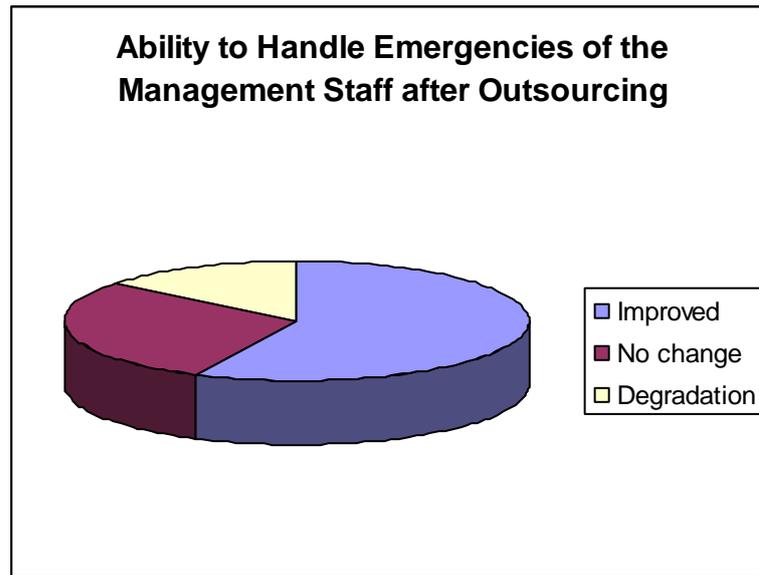
**Findings and Analysis**

210 out of 400 distributed questionnaires are received, where 110 questionnaires are completed by the members of OC and MAC. Statistical analysis reveals that respondents do not recognize any major differences between the service quality provided before outsourcing and after outsourcing in most questions, as shown below.



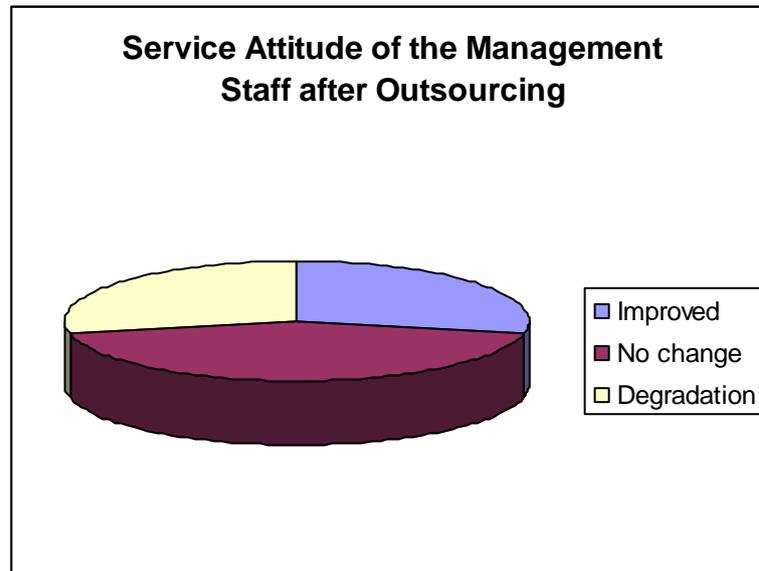
Improved: 42.90%, No change: 42.90% & Degradation: 14.20%

**Figure 1 Efficiency in handling complaints after outsourcing**



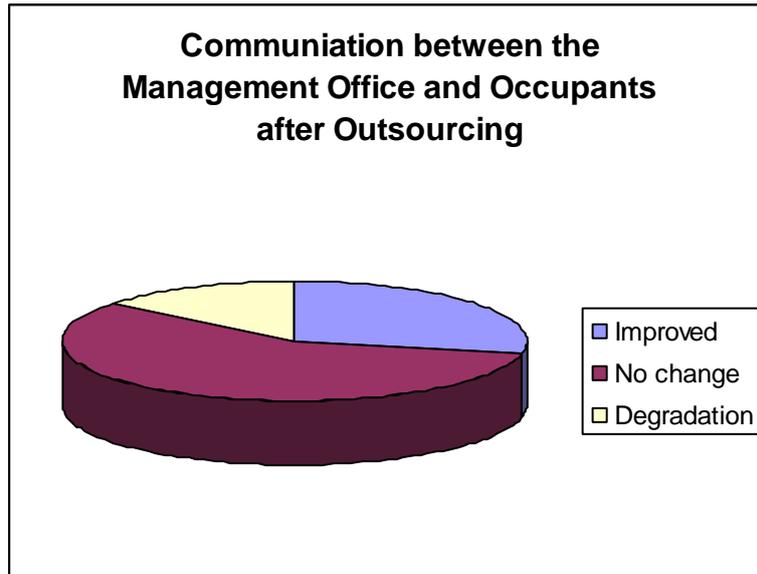
Improved: 57.20%, No change: 28.60% & Degradation: 14.20%

**Figure 2 Ability to handle emergencies after outsourcing**



Improved: 28.60%, No change: 42.80% & Degradation: 28.60%

**Figure 3 Service attitude after outsourcing**



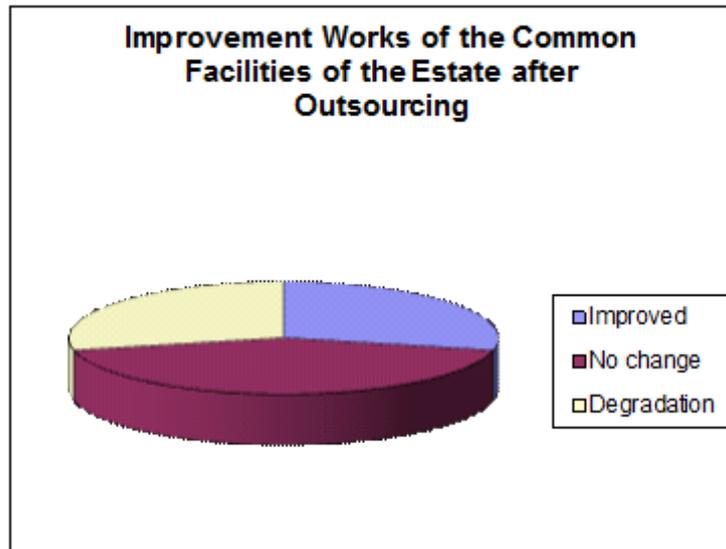
Improved: 28.60%, No change: 57.20% & Degradation: 14.20%

**Figure 4 Communication between mgt. office & occupants after outsourcing**



Improved: 42.80% and No change: 57.20%

**Figure 5 Repair & maintenance of common facilities after outsourcing**



Improved: 28.60%, No change: 42.80% & Degradation: 28.60%

**Figure 6 Improvement works of common facilities after outsourcing**

From Figure 1, it reveals that the efficiency in handling complaints after outsourcing is 42.9% improved though having 14.2% degradation, yet the net improvement can be perceived as 28.7%. From Figure 2, it reveals that the ability to handle emergencies after outsourcing is 57.2% improved though having 14.2% degradation, yet the net improvement can be perceived as 43%. From Figure 3, it reveals that the service attitude after outsourcing is 28.6% improved though having 28.6% degradation, yet the net improvement can be perceived as 0%. From Figure 4, it reveals that the communication between mgt. office & occupants after outsourcing is 28.6% improved though having 14.2% degradation, yet the net improvement can be perceived as 14.4%. From Figure 5, it reveals that the repair & maintenance of common facilities after outsourcing is 42.8% improved with no degradation, so the net improvement can be perceived as 42.8%. From Figure 6, it reveals that the improvement works of common facilities after outsourcing is 28.6% improved though having 28.6% degradation, so the net improvement can be perceived as 0%. Collectively, Figures 1, 2, 4,

and 5 demonstrate net 14.4% to 43% improvements, whilst Figure 3 and 6 demonstrates net zero improvements.

In summary, the NPMC can sustain the service level/quality similar to that of HKHA, with some improvements whilst in some areas, there could be further improvements as demonstrated Figures 1 to 6 (some degradation range from 14.2% to 28.6%, especially significant for Figures 3 and 6).

According to the collected data, most respondents opine that they are satisfied on the General Management Service and Maintenance Service either prior or after outsourcing. Most have given either “Good” or “Satisfactory” on grading both services. They feel good or satisfactory on the staff’s appearance/uniform/service attitude, utilities maintenance etc. There is no great change on customer satisfaction levels before and after outsourcing. Nevertheless, different customer satisfaction levels between prior and after outsourcing are identified in questions 2, 3, 4, 5, 14 and 15.

The data shows that the customer satisfaction levels have differences before and after outsourcing. It implies that the NPMC provides similar service quality with that of HKHA’s. Besides, four out of six listed results show that the service quality is improved; whilst the rest two listed results reveal that half respondents opine degradation.

## **Conclusion and recommendation**

Respondents are primarily satisfied with the services quality provided by HKHA (prior to

outsourcing) and the NPMC (after outsourcing). Hence, outsourcing EMMS by HKHA could be considered as successful from perspective of customer satisfaction levels. The success of maintaining service quality also implies success in implementation of outsourcing EMMS, which consists of selecting an appropriate NPMC, drawing up a valid contract, testing and monitoring the contract services. This outsourcing project is reckoned as successful too from perspective of NPMC, who gains reasonable profits through offering quality services to customers. This is a win-win-win situation, with proven initiatives from HKHA, and to continue outsourcing to offer more business opportunities to NPMC.

The above findings echo Lacity and Willcocks (2014) that drivers behind the outsourcing process include business process re-engineering, restructuring, benchmarking, partnership and the whole process of leaner management. Furthermore this study can be extended to measure the effectiveness of leaner management. Many enterprises tend to outsource more in-house activities to other service providers. More government outsourcing may render more existing government servants lose their jobs, yet more effective use of public revenue may result. It may as well to strike a fair balance for every parties' benefits in the long run.

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