Getting creative

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Thomas Mann reports on a pilot scheme that could help innovation in facilities management

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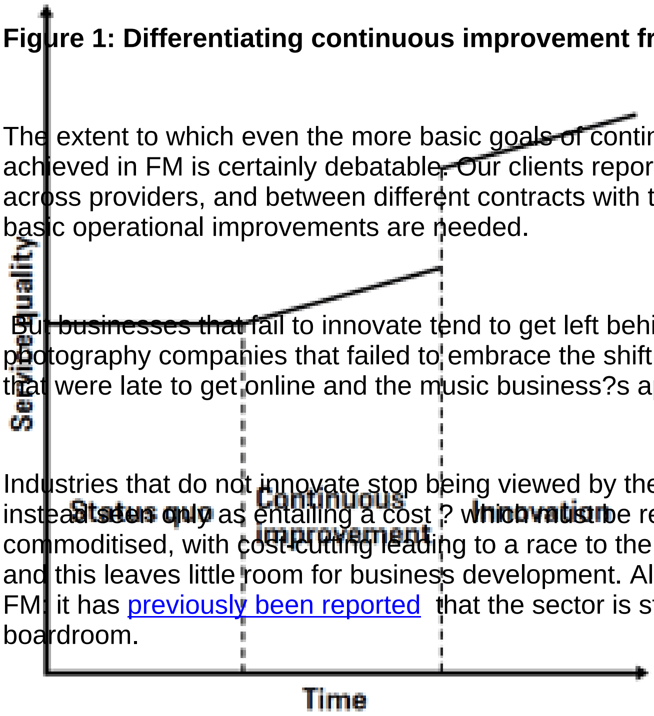
The majority of organisations still see facilities management (FM) as a simple business cost, and the industry does little to dissuade them of that view. Our clients in both the public and private sectors are either resigned to this or desperate to see a stagnant service leap forwards, reducing costs at the same time as improving service quality. But can clients help providers to help themselves? An interesting new trial in the railway industry points to a possible approach.

Finding the time

Innovation ? developing new ideas that improve quality and create value ? is certainly fashionable. This process is distinct from conventional 'continuous improvement', which aims only to eliminate waste and inefficiency from existing processes. Figure 1 shows the differences.

Figure 1: Differentiating continuous improvement from innovation



The extent to which even the more basic goals of continuous improvement have been achieved in FM is certainly debatable. Our clients report extremely uneven service quality across providers, and between different contracts with the same provider. This suggests that basic operational improvements are needed.

But businesses that fail to innovate tend to get left behind. Examples spring to mind of photography companies that failed to embrace the shift to digital technology, supermarkets that were late to get online and the music business?s apathy towards online streaming.

Industries that do not innovate stop being viewed by their clients as adding value and are instead seen only as entailing a cost ? which must be reduced. These industries have become commoditised, with cost-cutting leading to a race to the bottom. Their margins are destroyed, and this leaves little room for business development. All of these issues are well rehearsed in FM: it has previously been reported that the sector is struggling to be seen as strategic in the boardroom.

Continuous improvement is no longer sufficient. To increase its value to clients, FM needs to position itself as a strategic partner ? not only in terms of reducing the cost of its own service, but in increasing service quality and benefits for the client.

It may be that innovative business models or technologies are what is needed to transform the existing paradigm.

Railing against stagnation

This pursuit of cheaper service alongside rather than at the expense of better service is an objective with which the UK railway industry has struggled. Barriers to innovation are systemic in UK rail, and have been highlighted in industry studies such as 2011?s Realising the potential of GB rail , also referred to as the McNulty report.

The report identifies the following barriers to innovation.

- Misaligned incentives and business drivers for the many parties involved in the rail industry lead to fragmentation. Different planning and budgetary cycles for train operators, Network Rail and the government hinder connected thinking and prevent effective cooperation.
- Franchise periods are considered too short for the benefits of innovative approaches to enable a return on investment, so operators often fail to invest throughout the term of a franchise.
- Supply chains, staff and trade unions also find themselves operating in a culture of contradictory incentives and a complex legal framework, reducing their engagement as a result of fatigue and risk-aversion.

These challenges are all recognisable to those working in FM. Financial disincentives to innovation are often contractually anchored. For example, fixed-price contracts, short contracts and inappropriate transfer of risk all discourage suppliers from developing new ideas. A lack of resources directed by clients and suppliers towards innovation is also usually noted as a primary barrier ? no people, no time and no budget.

The Department for Transport is therefore trialling an approach to overcome these various barriers, the Innovation in Franchising Funding Scheme , which is being tested on 3 new rail franchises: Virgin Trains East Coast, TransPennine Express, and Northern Rail. Their respective franchise agreements mandate that, for 3 years, the train operator will allocate 1% of annual turnover to fund trials of innovative technologies or processes.

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The money is placed into an account by the operator at the start of the year, and it must then prepare business cases for innovation projects to access those funds. An industry innovation body provides governance, defining what qualifies as innovation, and determines the funding allocations. Operators are encouraged to partner and innovate to enable improvements across the whole railway, not just measures that will directly benefit themselves. Money that is not spent in the trial period will be lost by the operator. The trial will create an estimated ?50m innovation fund from 2016 to 2020.

Public-sector procurement bodies could choose to implement similar measures for FM. In the private sector, this process would have to be led by the client. New FM contracts could mandate that contractors create a fund to trial innovative ideas.

The preparation of a business case is a key stage in this process, so the client can ensure that the contractor innovates in an acceptable way. Given that the funds will already have been accounted as a cost, with no guarantee that they might lead to any direct benefit, there is all the more incentive for the contractor to work with the client to test innovative solutions to business challenges.

An approach worth considering?

The trial of innovation in rail franchising will indicate whether this approach works or barriers remain in the way of innovation. We will have to wait until 2020 for a full review.

You may think: 'Nice idea, but let?s get basic service provision up to a consistent level before we look at innovation. Let?s not run before we can walk!' But what if this is as good as walking gets? What if we need to invent some roller skates?

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Further information

This feature is taken from the RICS *Property journal* (September/October 2016)