OUTQUAL INSTRUMENT FOR MEASURING
EXPECTATION GAP OF OUTSOURCING SERVICE
QUALITY IN PROPERTY MAINTENANCE AND
MANAGEMENT

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DEDICATION

This thesis is dedicated to my father, mother, wife and twin daughters, for everything.
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My appreciation is expressed to all those who have helped me with this research. It is impossible to identify all those individuals who have made a contribution to this work but I would like to thank those who assisted with surveys and interviews giving freely of their time.

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ABSTRACT

Service quality expectation gap is a prominent issue in property maintenance and management (PMM) outsourcing sector. Numerous studies were conducted in examining outsourcing service quality from the perspective of clients, while very limited studies were looking at the perspective of service providers. In addition, no research was found that focus on PMM outsourcing service quality. Current problem of PMM outsourcing service quality expectations mismatch between service providers and clients has caused increasing clients’ dissatisfactions and may hinder the development of PMM outsourcing as a strategic sourcing method. This study aims to determine and analyse expectation gap on service quality between service providers and clients. Theory adopted for this study was based on agency theory. Such theory was being expanded to reflect the problems exist between outsourcing service providers and clients. The study employed two research methods: questionnaire survey and semi-structured interview. The findings of this study indicated that the expectations gap exists in PMM outsourcing service quality. The analyses of questionnaire surveys clearly reflected that the expectations gap between service providers and clients were minor. The analyses on the following semi-structured interviews similarly suggested that the expectations gap between both groups were relatively minor. However, the motivations behind both groups in their expectations towards PMM outsourcing service quality were considerably different due to the dissimilar responsibilities and risk acceptance level in PMM outsourcing.
ABSTRAK

Jurang jangkaan untuk kualiti servis adalah isu hangat dalam sektor penyumberan luar untuk penyelenggaraan dan pengurusan bangunan (PPB). Banyak kajian telah dijalankan untuk memeriksa kualiti servis dari perspektif klien, manakala hanya terdapat bilangan kajian yang terhad dari perspektif pembekal penyumberan luar. Di samping itu, tiada kajian yang didapati menumpu dalam kualiti servis untuk PPB. Isu atas perbezaan jangkaan kualiti servis PPB telah menyebabkan unduran kualiti servis dan peningkatan ketidakpuasan hati klien yang akan menjejaskan pembangunan untuk penyumberan luar PPB sebagai satu kaedah penyumberan yang strategik. Kajian ini bertujuan untuk menentu dan menganalisis jurang jangkaan atas kualiti servis antara pembekal penyumberan luar dan klien. Teori yang dirujuk dalam kajian ini adalah berdasarkan agency theory. Teori tersebut diperkembangkan untuk menunjuk masalah yang wujud antara pembekal penyumberan luar dan klien. Kajian ini menggunakan dua kaedah pengajian iaitu: soal selidik dan temubual. Keputusan kajian ini menunjukkan jurang jangkaan wujud dalam servis kualiti untuk penyumberan luar PPB. Analisis dari soal selidik menunjuk jurang jangkaan minimum antara pembekal penyumberan luar dan klien. Seterusnya, analisis dari temubual juga menunjukkan jurang jangkaan minimum antara dua kumpulan. Bagaimanapun, motivasi bagi kedua-dua kumpulan ini terhadap jangkaan atas kualiti servis penyumberan luar PPB adalah berbeza disebabkan oleh kelainan atas sifat tanggungjawab yang dipikul dan tahap penerimaan risiko dalam penyumberan luar PPB.
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<th>Full Form</th>
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<td>FM</td>
<td>Facilities management</td>
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<td>PMM</td>
<td>Property maintenance and management</td>
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<td>TCE</td>
<td>Transaction cost economies</td>
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<tr>
<td>Km</td>
<td>Kilometres</td>
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<tr>
<td>KLCC</td>
<td>Kuala Lumpur City Centre</td>
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<tr>
<td>KPI</td>
<td>Key performance indicator</td>
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<tr>
<td>SPSS</td>
<td>Statistical Package for Social Sciences</td>
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<td>IFMA</td>
<td>International Facility Management Association</td>
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<td>CGI</td>
<td>Global Competitiveness Index</td>
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<tr>
<td>SLA</td>
<td>Service level agreement</td>
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<tr>
<td>RFP</td>
<td>Request for proposal</td>
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<tr>
<td>FTE</td>
<td>Full time equivalent</td>
</tr>
<tr>
<td>ISO</td>
<td>The International Organisation for Standardisation</td>
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<tr>
<td>M&amp;E</td>
<td>Mechanical and electrical</td>
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<tr>
<td>UTHM</td>
<td>Universiti Tun Hussein Onn Malaysia</td>
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<td>Q-Q</td>
<td>Quantile-quantile</td>
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- Normal |
| G    | Q-Q plot for service quality criteria  
- Non-normal |
| H    | Vita |
CHAPTER 1

RESEARCH BACKGROUND, AIM AND OBJECTIVES

1.1 Introduction

PMM is the performing of routine actions which keep the element in working order (scheduled maintenance) or prevent trouble from arising (preventative maintenance) with the objective of retaining or restoring it in or to a state in which it can perform the required function (Booty, 2010). These actions include the combination of all technical and corresponding administrative, managerial and supervision actions. PMM also viewed as the function required in ensuring that the facility is operating safely and efficiently to maximise the life of equipment and reduce the risk of failure (Mudrak et al., 2004). The objectives of PMM are obvious and direct, however, clients’ expectations in PMM service quality are different if compared with service providers’ expectations towards the same. In most of the time, service quality expectations of clients are higher than the expectations of service providers, but the expectations of each group in PMM services outsourcing are not found after a wide literature search and no investigation done by any researcher in this topic is discovered. As argued by Wu et al. (2010), the research on property maintenance is underdeveloped. Such expectations gaps are generally realised by both service providers and clients but the extent of gaps are basically not being quantified. Both groups are lacking of initiative in taking the lead in finding out the service quality expectations of each.
Another issue is the lacking of reliable data in representing PMM outsourcing service quality expectations of both groups that can be used as reference in managing this contractual relationship. This problem is a result of the lack of service quality expectations analysis in PMM services outsourcing context. SERVQUAL is a well-known and widely used service quality model for the investigation of service quality in general and was developed by Parasuraman et al. (1985). However, a specific model that focuses on significant criteria for examining outsourcing service quality in PMM context is necessary for investigating the expectations. The next issue here is that from a wide literature search, there reveal no such specific model particularly develop for this purpose.

Rationally, clients tends to have higher demand in terms of service quality by paying lesser or reasonable cost. On the other hand, service providers expect to demand higher monetary reward while maintain the same work quality and meet only clients’ minimum expectations without considering their satisfactions. Service quality is defined as the judgement concerning overall excellence or superiority of services (Wan et al., 2010). Good quality of service will ensure the meeting of clients’ needs or expectations (Lewis and Mitchell 1990; Dotchin and Oakland, 1994; Asubonteng et al., 1996) which will largely contribute to clients’ satisfactions (Yi, 1990). Client’s satisfaction in turn defined as a judgement whether a particular product or service provided is able to achieve client’s requirement (Schneider and White, 2004). According to Wan et al. (2010), client satisfaction usually refers to external clients and satisfying them become the main criteria in ensuring the organisation success. However, service providers within PMM outsourcing are equally important in delivering service quality. Service providers are facing pressure, high demand and challenges by the clients group which in this context include landlords, tenants and property management consultants.
As a result, the expectations of service providers group and clients group are equally essential and crucial in achieving PMM outsourcing service quality. Since there is a difference in PMM outsourcing service quality expectations between service providers and clients, the remaining question is to what extend the expectation gaps vary from one group to another.

In a study carried out by Mary (2000) about outsourcing relationship success, outsourcing users must believe that the provider will meet or exceed the agreed upon service levels while providers must believe that they will be fairly rewarded for their efforts. Conflicts between the outsourcing user (principal) and the outsourcing provider (agent) arise as they attempt to fulfil their individual needs. Both parties fear the possible unprofitable side effects of an unsuccessful short-term relationship. Mary (ibid) proposed that the key success in outsourcing is to resolve the inherent conflicts by using principles from agency theory. As reflected in agency theory that describing the goal conflict and self-interest between principal and agent, similarly both service providers and clients in PMM services outsourcing possess dissimilar risk acceptance and tolerance extents, as well as expectations of each in this business deal. This is due to the differences of roles, responsibilities, priorities and concerns of both groups, as well as respective objectives in maximising own benefits from the business. Similarly, the relationship between service providers and clients in PMM services outsourcing is facing the same challenges and concerns, but from the wide literature search this has never being related or explained with this theory by any of the study or research for PMM outsourcing. Hence, agency theory was adopted as the base theory for this study due to the high relevance and the contribution it will bring to the body of knowledge by extending the theory to PMM services outsourcing context.
This thesis investigates issues that are relevant to expectations on service quality in PMM outsourcing. It examines the service quality expectations of both service providers and clients and subsequently to derive and analyse such expectations gap between both groups. The issue is significant as it concerns service quality expectations gap analysis which the result will be an important data or information for the utilisation or reference of each party and subsequently helps to strategically manage this outsourcing relationship and to further improve on the quality of service. The awareness and informed anticipation of both groups in PMM outsourcing service quality which is the important elements for improvement purpose requires investigation on respective expectations from this outsourcing deals.

1.2 Background study

Outsourcing has emerged within the facilities management (FM) sector longer than the entire concept of FM, though its earlier embodiment was very different from the comparatively sophisticated delivery in the 21st century (Usher, 2003). In recent years, especially, outsourcing practices have been constantly growing in popularity and diffusion, accomplishing the business trend of focusing on core business and customers (Roberto et al., 2011). The notion of outsourcing in PMM, one of the core functions in FM, is spreading albeit this trend is not homogeneous amongst organisations.

Outsourcing refers to the circumstances where an organisation contracts with another organisation for the provision of a service that could equally being provided by a person, unit or department within the organisation that requires the service (Best et al., 2003; Barret, 1995; Barret, 2000). In short, it is the use of external providers, multiple or single, for peripheral support services
(Brochner et. al., 2002). Nine out of ten new jobs created are in the service industry, making the service sector the fastest growing segment of the economy (Raed, 2006). PMM outsourcing is a type of service and in conjunction with this rapid growth, demand for PMM outsourcing service industry expertise are also increased and led to the need for PMM outsourcing knowledge and research. The current market competition and availability of expertise caused the demanding clients to have higher service quality expectations (ibid).

Outsource is a broad-spectrum term among the practitioner from the industry, but the expectations of outsourcing client were not always met and often experiencing dissatisfaction towards the services rendered by service provider. While the outsourcing clients can be somewhat demanding (Nuria, 2011), service providers in turn perceive that the performance delivered by them is up to the standard. The above situation surfaces as a repercussion in lacking of outsourcing service quality analysis. According to Wan et al. (2010), many studies have been conducted on service quality from the clients’ perspectives, but as for studies from the perspectives of service providers, only a few are available. As emphasised by Stershic (1990), understanding the service provider’s perspective is essential in managing client satisfaction through the understanding of client’s expectations and requirements. It is thus critical in finding evidence on the results of outsourcing service quality expectations gap as where the management of the client in this era often carefully mull over the cost and benefits of every discretionary investment dollar made (Bin Jiang and Amer Qureshi, 2006).
1.3 Problem statement

Outsourcing has emerged as one of the popular and widely adopted sourcing strategy in this globalised era (Willcocks, 2010). Though, the average quality of PMM services within many major businesses still left plenty of opportunities for improvement (Oliver, 2000). The outsourcing strategy in PMM has been an exciting place to be as it has been queried from now and then following client side challenges being constantly responded to by a great deal of demand and dissatisfaction of tenants. The issue here is that up to what extent the demand or expectations of clients towards outsourcing service quality.

In many PMM outsourcing contracts, the clients specify how the work is to be done and at a required frequency (Facilitiesnet, 2014), which may or may not be advantageous to the service providers in delivering the expected performance based on the limitation determined by clients. This may be due to the clients’ reluctance to accept risk of budget overrun or lack of trust and confidence on the outsourced service providers. Such situation will limit service providers in delivering their best practice (ibid). As mentioned by Wan et al. (2008), service providers attempt to satisfy their clients for the reason that they will continue to use their service. Nevertheless, this may not be materialised if illogic requirements is given by clients. Hence, outsourcing deals in PMM industry often turned sour because of a mismatch of expectations of the clients towards services offered by the outsourcing service providers (Duncan and Richard, 2004). Services quality rendered by service providers regularly criticised by outsourcing clients that it were not at par with their requirements and expectations (Hirschheim and Lacity, 1998; Hirschheim and Lacity, 2000). Atrocious impressions are depicted on clients towards the service quality of outsourcing strategy. This issue is furthermore
augmented through the lack of guideline implementation for PMM and also performance measurement of the same by Malaysian government (Natasha et al., 2008). Therefore, clients and service providers have no systematic guidelines to follow and no specific compliance to be adhered to in order to deliver the best possible service quality (ibid). Lauren (2013) also highlighted on the issue with lacking of guideline for PMM in Australia where the problems were also being experienced in capital cities with even the most polished-appearing professionals. The second issue is that to what extent the sensitivity of service providers towards the demand of clients and expectations of quality services for them in contrast with the findings from the first issue.

The identification of appropriate service standard is a key factor in determining the performance of service provider. The concept of an ‘acceptable standard’ is profoundly defined and discussed by numerous scholars, but this does not imply that there is any absolute standard that would be satisfactory for all tenants. It is easy to discuss high or low standards in the context of some vague and undefined concept of quality, but the problem is how these standards may be objectively defined and measured against (Wordsworth, 2001). This leads to the third issue on what is the mean of expectations for both service providers and clients in regards of service quality.

Service quality of outsourcing strategy in Malaysian PMM sector has yet to be investigated. Both service providers and clients are typically being short of keenness and intensity on quantifying the service quality and expectations of each. Many PMM service outsourcing problems can be traced a situation where two parties do not have common interest or objective (Facilitiesnet, 2004). Everyone is looking out for their own best interest in this dealing and
success is simply measured by how much compromise is accepted by each party (ibid). This is an important cause towards expectations mismatch between service providers and clients. Furthermore, the market is currently lacking of reliable information or data in this perspective as according to Zarita et al. (2009a), there were only 14 studies pertaining service quality has been carried out in Malaysia between 1997 and 2005, but none of them cover PMM services. As a developing country, besides the focus on economic development and growth of the country, improvement on PMM sector should also be prioritised as it will affect the values of properties. Malaysians need to be aware and to provide good service and upkeep of the properties in avoiding the consequence of having substandard properties (Syahrul and Emma, 2009). The lacking of data in turn gives rise to the fourth issue on what are the extents of service quality expectations gap between both groups.

With the above mentioned problems in service quality expectations mismatch between both groups which at the outset causing dissatisfaction and negative perception towards quality of services rendered, the problem also further amplified with the inherent contrasting objectives between service providers and clients in the PMM outsourcing. Both service providers and clients possess different risk acceptance level and different information on hand in regards of what constitute best practice in the discipline. The earlier problem in the aspect of service quality needs to be addressed by identifying relevant service quality criteria in PMM outsourcing in determining the expectations gap, while the latter problems are well reflected by agency problem in the agency theory. This has rationalised the contribution of this study through the adoption of new instrument of OUTQUAL in addressing service quality expectations on both groups with the notion of agency theory.
1.4 Research aim

In this research, the aim is to investigate and analyse the expectations gap in PMM outsourcing service quality. The expectations to be examined are between service providers and clients that are currently involve in PMM services outsourcing through OUTQUAL instrument based on notion of agency theory.

1.5 Research questions

Comprehending what outsourcing clients really anticipate and what is the minimum standard of service level in meeting clients’ expectations are becoming important issues (Hsieh and Yuan, 2010). Finding on the extent of gap between expectations of service providers and clients towards PMM outsourcing service quality is the main aim of this study. This gap needs to be investigated and analysed by measuring the anticipation of each in raising the awareness of both service providers and clients as well as to strategically strengthen itself for the future of the sector. These give rise to some practical thoughts towards forming several interesting research questions (RQ):

RQ 1. What are the service quality criteria of outsourcing in PMM?

RQ 2. What are the expectations of service providers and clients towards service quality in PMM outsourcing?

RQ 3. To what extent does the PMM outsourcing service quality expectations between both groups vary?
RQ 4. What are the common decisive factors expected by service providers and clients in determining PMM outsourcing service quality?

Following these questions and some other queries on other aspects, the investigation of expectations on outsourcing service quality can be carried on to derive the gap for analysis purpose.

1.6 Research objectives

There are three objectives to this research:

1. to identify the service quality criteria of outsourcing in PMM
2. to investigate the level of expectations of service providers and clients towards service quality in PMM outsourcing
3. to determine the gap between mean of expectations in terms of PMM outsourcing service quality derived from both service providers and clients

1.7 Significance of study

The finding from this research could offer benefits in the following ways:

Theoretical contribution:

i. provide proof in examining service quality of outsourcing strategy for Malaysian PMM industry
ii. provide understanding and awareness on the expectations of outsourcing service quality between service providers and clients
iii. contribute to the industry by revealing the expectation gaps of local PMM outsourcing service quality and expanding the platform for future research on the outsourcing strategy, local PMM behaviour and for the built environment context

iv. provide a base knowledge of service quality in outsourcing strategy which can be used as future and further references

v. analysis instrument of OUTQUAL proposed and used in the first phase of quantitative research in this study can be adopted by practitioners or researchers in investigating PMM outsourcing service quality expectations

Practical contribution:

i. improving the outsourcing services quality in Malaysian PMM context

ii. provide an insight on understanding the perspective of outsourcing practices in the PMM industry in Malaysia

iii. facilitate outsourcing service providers in understanding the importance of achieving or meeting clients’ satisfaction level

iv. generating consciousness between service providers and clients towards the needs and wants of each so that a better partnership and contractual relation can be established and shaped

v. the OUTQUAL instrument can be adopted as an approach by both service providers and clients in quantifying service quality gap of their outsourcing processes
1.8 Scope of study

This study will focus on the current practice of services outsourcing limited to the PMM sector only. The study will be carried out by using two dissimilar data collection methods: (i) survey questionnaires that will be distributed to respondents range from services providers and clients in terms of landlords, tenants or users and property management consultants and (ii) semi-structured interviews with selected respondents from both groups. Additionally, this study is only limited to those parties who are involved in PMM services outsourcing for office buildings with at least 20 storeys above ground and located within 15 kilometres (km) radius from Kuala Lumpur City Centre (KLCC). The motivation in selecting office building for this study is because the diversifying of peoples involved in carrying out business activities within the space. This study collectively report expectations of both service providers and clients of office buildings towards PMM outsourcing service quality which embrace of comprehensive findings. Scope of this study further limited to office buildings with at least 20 storeys above ground in city centre area or central business district due to the significant profile of both service providers and clients which potentially possess higher requirements towards service quality. This is the pioneer study in investigating service providers and clients’ expectations towards service quality in PMM outsourcing particularly for office buildings in the central business district of Kuala Lumpur.
1.9 Research methodology

The approach of study will comprise five stages:

Stage 1: Identify the objectives
The first stage involves the identification of background, objectives, significance and scope of study. The research focus is on the gap analysis on expectations of service quality in the outsourcing strategy of PMM context and to explore the differences of service providers and clients’ viewpoint towards service quality. The study will focus particularly on office buildings in the central business district in Kuala Lumpur area only.

Stage 2: Literature review
A comprehensive review of the relevant literature will be undertaken in order to grow a thorough understanding on PMM, outsourcing strategy, performance measurement, criteria for effectiveness outsourcing, service quality in the PMM sector and varying service quality models and frameworks. Secondary sources of data encompassing journals, books, published and unpublished research papers, publications and commercial data will be utilised in researching on the theoretical aspects of the subjects.

Stage 3: Quantitative research - Questionnaire survey
For the purpose of this study, a quantitative methodology was chosen as the first phase of study due to its relationship with the research objectives in addressing and quantifying the gap between expectations of service providers and clients in terms of PMM outsourcing service quality. A specific model or instrument which is named and known as OUTQUAL was customised and developed to meet the research objective in investigating the level of service quality expectations. The instrument was customised and drafted based on the
understanding and insight gain from relevant literature review and undergo pilot study prior to developing final questionnaire and use as the model specifically in assessing the expectations of outsourcing service quality in PMM. The purpose of piloting was to ensure that the questions will provide required data, clearly and easy to understand. Discussion with an expert on the questionnaire for validation purpose will be ensued before being distributed to targeted respondents from outsourcing service providers and clients group.

Structured final questionnaires were distributed to targeted groups of outsourcing service providers and clients to establish their expectations on service quality. Snowball sampling method was adopted as the service providers and clients within the identified sampling frame are considered ‘hard to reach’ population (Marpsat and Razafindratsima, 2010) due to the tight security control in each building. Questionnaire was distributed by hand to the first tier of respondents and to collect the feedback personally once the questionnaires are completed. At the same time, more questionnaires were distributed by hand to second tier respondents which are referred by the first tier respondents. The processes were repeated until the achievement of desired numbers of feedbacks. The results were then be measured and allowing comparisons between the two groups of involving parties in deriving the gap on expectations for analysis purpose.

Statistical analysis was carried out by using Statistical Package for Social Sciences (SPSS). Mean of expectations for both service providers and clients group were determined before being compared and analysed accordingly to obtain the gap.
Stage 4: Qualitative research - Semi-structured interview

Qualitative research by means of semi-structured interview being the dominant method to this research was followed as the second phase of study with the aim to further explore findings from the earlier quantitative study phase. Systematic sampling technique was adopted in selecting participants for semi-structured interview as to ensure the samples are representatives of the population. To interpret the result of semi-structured interviews, thematic analysis was adopted where researcher first transcribe the interview dialogue in ‘word template’. Subsequently, the data in ‘word template’ format were being organised, categorised and analysed to draw pattern.

In essence, this research will incorporate proven theories, coupled with the experience of both service providers and clients of the PMM services outsourcing. This will reveal the expectation level underlies with the outsourcing service quality in this context and triggers an awareness to the parties involved on the area(s) or weakness(es) to be improved from in future. Although the area of assessing expectations in service quality is not new in the other part of the world, but the constructs are still not well researched within the PMM function in Malaysia. This is where the abundance of areas which contributed to the emergence of the interest to carry out with this research topic.

1.10 Thesis structure

The research will be sectioned into six main chapters as summarised in the presentation of flow of the thesis in Figure 1.1 below:
All six chapters to this thesis discuss a specific aspect of this research. The remainder of this thesis is organised as follows:

![Diagram of thesis structure]

*Figure 1.1: Presentation of flow of the thesis*

Chapter two discusses on the literature review of outsourcing strategy in general and PMM outsourcing. Outsourcing performance measurement will
be examined to establish knowledge in the aspects of assessment, while criteria of effective outsourcing are also reviewed to provide insight in proposing a new instrument for PMM outsourcing service quality expectations assessment (OUTQUAL) that will be used in this study. This chapter also discusses on agency theory which is the base theory for this study and its relations and linkages with this study.

Chapter three discusses on the concept of quality and service. The distinctive features of service will also be discussed in this chapter. In addition, various service quality models developed by different researchers will be examined and critically reviewed for the purpose in aiding the development of specific model for the assessment of PMM outsourcing service quality. Both chapter two and three will meet the first objective of this research.

Chapter four outlines the research methodology for this study. It discusses the research methods adopted in this study, namely questionnaire surveys and semi-structured interviews for investigating and analysing PMM outsourcing service quality expectations of both service providers and clients. It also presents the process of data collection and analysis of data.

Chapter five presents the collected data and analysed results from questionnaire surveys cooperatively with tables and figures, as well as demographic analysis of the data for a clearer understanding on the background of the respondents. The quantified expectations of service providers and clients group towards PMM outsourcing service quality will be illustrated and the expectations gap between the two groups will also be ascertained and analysed. This chapter also presents the interview analysis for the second phase of research: semi-structured interview. It reports and analyses the in-depth findings of the study on service providers and clients’
common expectations on importance of PMM outsourcing service quality. This chapter will meet the second and third objectives of this research.

Chapter six will then provide several conclusions that can be drawn from this research. It presents the summary of the research findings in relation to the research questions. Contributions made by this study to the literature and practical contributions to PMM outsourcing industry are also discussed. Finally, it also includes the directions and recommendations for future research.

1.11 Summary

This chapter presents the synopsis of the research. The importance of achieving PMM outsourcing service quality is an opportunity to study the expectations of service providers and clients where the definition of good service quality based on the judgment of both parties can be measured and analysed. As the PMM sector in Malaysia is lacking of the relevant data in carrying out study on outsourcing service quality, the outcome of this research can contribute as evidence and useful data in carrying out any further study pertaining to this subject area so that an even better practice and service quality can be achieved.
CHAPTER 2

LITERATURE REVIEW: OUTSOURCING STRATEGY

2.1 Introduction

Chapter one provided a broad overview of the thesis. This chapter aims to review the literature from previous studies which are related to this study and provide an overall framework in understanding outsourcing strategy for PMM services. Apart from the fact that researcher is from Malaysia, there are two other factors for selecting Malaysia as a context of study.

In year 2006, the Malaysian government has allocated about 1 trillion ringgit towards PMM services (Ninth Malaysia Plan, 2006). This proves that PMM is one of the attention part where government has allotted with such substantial budget in this aspect. Being one of the most prevalent PMM services sourcing strategy, outsourcing plays an important part in determining the success or failure of the sector. As mentioned earlier, since nine years before year 2005 there were only 14 service quality studies have been carried out in Malaysia and none of it covers PMM services. Moreover, surprisingly to researcher’s knowledge from an extensive search of literature, no PMM outsourcing services quality research has been conducted to date though it has been a hot topic among the practitioners.
At the international level, the existing studies were conducted mostly in western countries where such findings or results may be inapplicable to relate to Malaysian circumstance without valid research. Expectations gap of service providers and clients in other countries cannot be treated as true for Malaysian context as well. This is due to the economic (Zaidi, 2007) and cultural risk (Lee, 2012) of one country can influence the expectations of service providers and clients towards service quality although the investigation is carried out based on the same quality assessing criteria. Thus, Malaysia provides an appropriate setting to explore the said gap.

This chapter is organised as follows. Subsequent to an introduction, section 2.2 discusses on the context of outsourcing strategy and follow by debates on outsourcing by various scholars in section 2.3. Motivation and divergence of outsourcing is highlighted in section 2.4. Section 2.5 discusses about PMM context. Section 2.6 contains the explanation and illustration of a generic framework model of PMM outsourcing. Outsourcing performance measurement will be explained in section 2.7. Subsequently, section 2.8 will explain and review the criteria of effectiveness to outsourcing and to compare the dissimilar perspectives of criteria. Section 2.9 of the chapter will then discuss on agency theory and the justification in adopting this theory as the base theory of this study, besides explaining on its linkages to PMM outsourcing context. The final section in turn provides the summary for this chapter.

2.2 Outsourcing strategy

Outsourcing of services has proliferated in different industries, and property services are generally contracted out (Field Fisher Waterhouse and Remit
Consulting, 2004). Outsourcing is always taken by various governments and organisations as a strategic choice to improve the cost and quality and hence to provide value for money services (Terence, 2008). According to the Department of Environment (1992) and Audit Commission (2005), value for money basically comprises two elements, which is cost efficiency and quality effectiveness. PMM outsourcing clients are not only looking at cost efficiency, but also on the effectiveness of quality in the services delivery. In the context of PMM outsourcing, there are a number of key stakeholders involved in the outsourcing process, including building owners or landlords, tenants and property management consultant which are categorised as clients group who receive the outsourcing services. On the other hand, PMM outsourcing service providers are those organisations that offer such PMM related services. Fundamentally, clients and service providers are both prioritising value for money in the PMM outsourcing service delivery.

In the review done by Lewis (1989), leadership is found to be the most critical factor affecting service quality in outsourcing. Terziovski and Dean (1998) agreed to this and they recognise true leadership to be the cornerstones of good service quality. In a study done by Terziovski and Dean (ibid) on outsourcing service providers’ organisations, they identified that both service quality and quality management as the common and main aspects in establishing key performance indicator. These aspects are generally driven by leaders in each organisation. According to Terence (2008), the assessment of leadership is a key selection criterion in procuring the services in part of the Hong Kong maintenance consultancies for PMM. Hence, leadership is one of the prime and determinant factors for PMM outsourcing service quality. Rizzo (1996) argues that it does not necessarily matter whether the outsourcing service providers’ organisations are large or small, most importantly is that the organisations should provide adequate,
2.3 Debates on outsourcing

There are various debates in the literature defining the term outsourcing (Gilley and Rasheed, 2000). The term outsourcing originates from the Anglo-Saxon language realm and is a contraction of the words *outside resource using* (Gero and Stefan, 2009). Outsourcing has emerged as one of the most recent management strategies to response to demands for more efficient ways to address organisational competitiveness (Bin Jiang and Amer, 2006). Lei and Hitt (1995) define outsourcing as reliance on external sources for manufacturing components and other value-adding activities. A few of the literature focus on international sourcing of components, sub-systems and completed products (Bettis et al., 1992; Feenstra and Hanson, 1996). Sharpe (1997) defined outsourcing as turning over of those activities outside the organisation’s chosen core competencies to a supplier or vendor. In addition, Perry (1997) professes outsourcing as employees from another firm carrying out tasks previously performed by one’s own employees. It was observed by Deavers (1997) that outsourcing is used to describe many different kinds of corporate action comprises all sub-contracting relationships between firms or all foreign production.

Gilley and Rasheed (2000) provide clarification for the definitional confusion by positioning outsourcing as procuring or acquiring something (i.e. products or services) that was either originally sourced internally (i.e. vertical disintegration) or could have been sourced internally notwithstanding the decision to go outside (i.e. make or buy). As pointed by Christine et al.
(2005), outsourcing consists of arrangements and concepts which have been termed: internal versus external sourcing (Scheuing, 1989); strategic make-or-outsource decisions (Virolainen, 1998); contracting out (Gustafsson, 1995); sub-contracting, purchasing, privatisation (Seidenstat, 1996); compulsory competitive tendering, market testing, liberalisation (Beaumont, 1991); and make or buy and focus (Knight and Harland, 2000).

Outsourcing is a popular sourcing strategy in this era, especially in this competitive business environment. The broadly presented definitions of outsourcing have been varied from what is concerned with the transfer of goods and services that have been carried out internally to an external provider (Domberger, 1998) in procuring the products or services from external sources of organisation (Lankford and Parsa, 1999). To illustrate the main features of outsourcing, the transaction involved normally consists of two parts; the transfer to a third party on the responsibility for the operation and management of part of an organisation, and the provision of services to the organisation by the service provider, usually for an agreed period of time (Raja and Kherun, 2010).

The practice of outsourcing is believed by many to be sustainable. Lankford and Parsa (1999) for instance publicised that a study has proved outsourcing operations as the trend of the future, and those organisations which already adopted outsourcing are satisfied with the result. Currently the outsourcing of selected organisational activities is a vital part of corporate strategy (Lee, 2012). Outsourcing of services has proliferated through different industries and property services are recurrently contracted out (Field Fisher Waterhouse and Remit Consulting, 2004). There exists a trend where organisations of outsourcing service providers commit a great deal of time and resources on customer satisfaction (Anand, 2008). Delivering superior service and
ensuring higher customer satisfaction have become strategic necessities for companies to survive in this competitive business environment (ibid). Realising the increased demand for outsourcing and negative ramifications caused by dissatisfied customers, service providers are increasingly making senior management accountable for ensuring high degree of outsourcing implementation effectiveness (Szymanski and Henard, 2001). The stakeholders are all looking for improvements in productive efficiency and quality to ensure the best value services through outsourcing (Audit Commission, 2005; Choi, 1999; Farnham and Horton, 1996; Price Waterhouse Coopers, 1999).

How does outsourcing save money for an organisation and how can an outsider execute a business function better than the internal employees? According to Bendor-Samuel (1998), the answer lie in the fact that outsourcing provides certain leverage that is not available to a company’s internal departments. The said leverage can have many dimensions: economies of scale, process expertise, access to capital, access to expensive technology and so on. The combination of these dimensions creates the cost savings inherent in outsourcing (Zhu et al., 2001). This is also agreed to be true by Lankford and Parsa (1999) where they profess that outsourcing can reduce costs, expand services and expertise, improve employee productivity and morale, and create a more positive corporate image by allowing the organisation to refocus their resources on their core business, purchase technologies from vendors that would be too expensive for them to produce internally, re-examine the organisations’ plans, make them more efficient and save time and money while improving efficiencies, and improve the plans’ service level to their employees by making the information more consistent and more available (Raja and Kherun, 2010). However, there is also evidence that shows outsourcing does not reduce costs as expected in some cases.
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Management perception – service quality expectation gap. Service quality specifications – service delivery gap. Service delivery – external communications to consumer’s gap. Expected service – perceived service gap. The third gap is the difference between service quality specification and the service actually delivered. This is of great importance to service where the delivery system relies heavily on people. It is extremely hard to ensure that quality specifications are when a service involves immediate performance and delivery in the presence of the client. This is the case in many service industries: for example, a medical practice is depending on all the administrative, clerical and medical staff performing their tasks according to certain standards. Service quality is a measure of how well the service level delivered matches customer expectations. Service quality is more difficult for the consumer to evaluate than goods quality. SERVQUAL: Instrument for measuring perceived service quality from the customer’s point of view.

Improving service quality requires measuring service quality, identifying gaps, and implementing measures to close those gaps. RATER (responsiveness, assurance, tangibles, empathy and reliability) provides a useful model for measuring service quality. The service quality gaps (management perception, quality specification, service delivery, marketing communication, and perceived service quality) provide a conceptual model for thinking about where the organization is falling short in meeting customer expectations. Improvements to service quality can be categorized into three groups, understandin