

Saimaa University of Applied Sciences
Business Administration, Lappeenranta
Double Degree Programme in International Business

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PERSPECTIVES OF FACILITY MANAGEMENT OUTSOURCING DEVELOPMENT IN RUSSIA

Thesis 2011

ABSTRACT

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The purpose of this Bachelor's thesis is to determine perspectives of the Facility Management outsourcing development in Russia.

The thesis includes identification of such business process as outsourcing, the determination of the meaning of Facility Management and creation of understanding about this business phenomenon. Other objectives of this thesis are allocation of the specificity of Facility Management outsourcing use in Russia nowadays and presentation of a model of Facility Management outsourcing market in Russia from the side of Finnish case companies. The research question that will be answered in this thesis is what are the perspectives of the Facility Management outsourcing development in Russia?

In the theoretical part of the thesis the following aspects: the nature of outsourcing, outsourcing phenomenon in Facility Management, the specificity of Facility Management market in Russia - are presented. The functions and types of outsourcing, as well as advantages and disadvantages of its usage; definitions and functions of Facility Management, the place of outsourcing in Facility Management and benefits and weaknesses of it; specificity of usage and provision Facility Management outsourcing in Russia are defined in the theoretical part of this thesis.

Empirical research for this thesis has form of a case-study and it is made in Finnish companies SRV and Onninen that are operating in the Russian market. The data were collected by interviewing. The results of the interview are presented in the empirical part of the thesis.

Perspectives of Facility Management outsourcing development in Russia were presented in the conclusion. As well here was the review of general findings and summary of the learned material.

Key words: Outsourcing, Facility Management, Facility Management market, Russia

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1 INTRODUCTION

1.1 Background of the study

Current market's condition dictates a new action plan for market players. Fierce competition, rapidly evolving technology - all require great resources and material costs. Thus, any company aims to increase its efficiency with the lowest cost. Nowadays, economic thought and the technological progress does not stand still, and every organization has an urgent need to keep up with the new ideas and technologies. With the emergence of such business - process like outsourcing became possible to give any kind of work, starting with the newest technologies and project management and ending with cleaning facilities, to outside organizations. Herewith the use of outside labor force turns out to organization more cost and time-effective. This innovative form of business organization – outsourcing – started to appear more often in the Russian practice in recent years.

Outsourcing describes the use of external resources to execute operational tasks (Weiner & Seuring 2009, according to Grover et al., 1994) In other words, it is transfer of various elements of work previously carried out within the company to another third party company. This process allows focusing on top and main functions of the company, adapting to new technologies, improving the reliability and market reputation and significantly reducing production costs.

One type of outsourcing that is in demand in the West, but has not widespread in Russia yet is Facility Management outsourcing. Facility Management covers all aspects of infrastructure management of real estate object and this is certainly a new trend for Russian business.

1.2 Objectives and limitations

The purpose of this thesis is to determine the perspectives of Facility Management outsourcing development in Russia. The empirical research for the thesis was carried out in Finnish companies that are operating in the Russian market.

In this thesis Facility Management will be considered in a context of commercial real-estate management. Therefore it will be presented as a whole complex of operations, functions and departments of maintaining and supporting the infrastructure of commercial real-estate object. Facility Management provides: (Colliers International Property Consultants 2011)

- Preservation, proper technical condition and continued serviceability of building structures and engineering systems
- Cost-effective operation of the building
- Safe and comfortable conditions for the owners, tenants and visitors of the object

More information about Facility Management will be presented in the Chapter 3.

The commercial real estate's market is not standing still in Russia. There is an increasing number of business centers that require efficient exploitation. A lot of foreign companies are starting to operate their business in Russia and they want to get quality services that will help to maintain their offices and another real estate objects as well.

In recent years there has been significant cooperation between Russian and Finnish companies. New projects of Finnish companies were implemented in Russia; a lot of investments to various sectors of Russian economy were made by Finnish companies. All the factors show that the bilateral ties between these countries are on the stage of intense development.

As a consequence more Finnish companies will enter to the perspective Russian market in near future, but even now there are a number of Finnish companies that have rich experience of operating in Russia. Most of these companies are using the outsourcing services in Facility Management and they can provide a model of Facility Management market in Russia based on their experience.

Therefore to investigate the specifics of the Facility Management outsourcing in Russian market, to understand in what kind of forms it can exist in Russia and what perspectives of development it has - is an important task to date. The empirical research for this thesis was made from the point of view of Finnish companies that operate in Russia and use Facility Management outsourcing. The research will give the evaluation of Facility Management market's condition in Russia from the side of Finnish companies.

To reach the goal of the thesis it is necessary to go through objectives:

1. Based on analysis of functions, benefits and weaknesses to give the international definition and image of outsourcing process
2. Based on analysis of various definitions and meanings of Facility Management to give the clear definition of Facility Management category and its function and investigate the place of outsourcing in Facility Management
3. Based on theoretical study to identify the specificity of outsourcing usage in Facility Management in Russia
4. Based on empirical research to determine the specific features and make the evaluation of the Facility Management market's condition in Russia
5. Make conclusions about the perspectives of development outsourcing in Facility Management in Russia

The theoretical part of the thesis is based on articles, theoretical surveys, researches and literature taken from the Internet and databases that are available in public. The data used in the thesis were taken from Russian and foreign sources as well. There no confidential information was included here.

In the thesis the meaning and types of outsourcing, the development of outsourcing in western countries and Russia, benefits and weaknesses of outsourcing as well as a decision making process in outsourcing will be regarded. The process of choosing outsourcing vendor will be considered here. All this will provide full picture of the outsourcing process.

Since the thesis is focused on the determination of the perspectives of the outsourcing development namely in Facility Management in Russia, also in theoretical part detailed information about the outsourcing process in Facility Management will be presented. It includes: the basic meanings and definitions of Facility Management, the determination of the place of outsourcing in Facility Management and also the benefits and weaknesses of this process. Other types of outsourcing will not be presented in details.

As it was already defined the place for the research is the Russian market. Therefore all the data were collected exactly about Russian Federation. The one important point of the study will be the identification of the specificity of using outsourcing in Facility Management in Russia nowadays. As a conclusion and as an answer to research question in the study the perspectives of Facility Management outsourcing development in Russia will be presented.

Finnish companies were used for the empirical research. The reason for that was to get the impartial evaluation of the condition of the Facility Management outsourcing market in Russia from companies that:

1. have valuable experience of using Facility Management outsourcing;
2. are successful in the use of it;
3. have Western(European) way of providing and using the particular service

Due to the research it will be possible to get the model of Facility Management outsourcing market in Russia from the side of the case companies. On the one hand, the presented model couldn't be universal for all foreign or even all Finnish companies in the Russian market, because it is based only on the experience of two Finnish companies that have technical specialization. On the other hand, this model will help to identify and determine possible ways of the development of Facility Management outsourcing market in Russia, give advices and make alternative plans of that development.

Finland is the closest European neighbor of Russia and a lot of Internet resources inform that this country has good experience of using outsourcing in Facility Management. Another factor to choose Finnish companies was that now there are a lot of Finnish companies operating in Russia, and some of them already have great experience of doing business there, therefore they can make realistic evaluation of Facility Management market in Russia and comparisons between European and Russian way of providing and using this service.

Finnish companies that were chosen for the empirical study operate in Saint-Petersburg, Russia. They are SRV and Onninen. These two companies were chosen because each of them has great experience in working in the Russian market – about 20 years. Therefore they understand the Russian economy and know the Russian business environment. From those companies it will be possible to get the clear picture of Russian market of Facility Management service and they could give the fair evaluation of the condition of the market.

1. 3 Research question

Facility Management has not widespread in Russia yet. This business line, in most cases occurs in the activities of Western companies. Nevertheless, despite the small prevalence, there are some opinions that cooperation with a Facility company promises considerable opportunities for the owners of large properties.

The research question that will be answered in this thesis is what are the perspectives of Facility Management outsourcing development in Russia?

To answer the research question the following sub questions should be answered:

- What does outsourcing mean and what it is in practice?
- What is Facility Management and what kind of services it includes?
- What is the specificity of usage of Facility Management outsourcing in Russia nowadays?
- How Finnish companies evaluate Russian market of Facility Management outsourcing?

As well the objectives of this thesis that were represented before will help to answer on the research question.

1.4 Theoretical framework

Theoretical part of the thesis will give the definitions of main key words, tell about the nature, advantages and disadvantages of outsourcing, and describe decision making process of choosing outsourcing service and a suitable subcontractor. The basic meanings and definitions of Facility Management and the place of outsourcing in it will be discussed. Theoretical part will be based on Russian and foreigners articles and literature from databases and Internet, such as an article by Weiner & Seuring (2009) "Performance measurement in business process outsourcing decisions" that gives a view on outsourcing in general.

Brown & Wilson (2005) and Power, Desouza and Bonifazi (2006) discuss the whole decision making process of outsourcing.

Duening & Click (2005) describe vendor selection process. Dumnaja & Cherimisin (2010) give theoretical information about outsourcing and outsourcing vendors. Alexander (1996), Teicholz (2001) and Nävy J. (2000) help with understanding the meaning and nature of Facility Management. Such Russian websites as www.business-magazine.ru, www.outsort.ru and www.os.pkrai.ru that consist of business articles' collections give a detailed picture of the Facility Management market's condition nowadays in Russia.

1. 5 Research methods

The first research method used for the thesis will be in a form of collection and processing the theoretical data. Printed and Internet sources such as business articles, surveys, interviews, researches in English and Russian languages were studied for this thesis.

The empirical research in the thesis is a case study method. According to Yin (2003), the case study is empiric research which explores modern occurrence in its actual context especially when limit between occurrence and context is not clearly visible. Eriksson and Koistinen (2005) define the context as follows: Those elements and operations, where the case is connected closely form context. The context is made up of historical background of the case or from wider environment. This wider area can compose from cultural environment, function environment or political situation in which target area the case is. Especially research strategy or approach is under consideration in this case study realization. Generally, case study is a multiform and iterative process, which does not necessarily proceed straightforward.

During the research, the researcher goes through many phases, which can be executed and presented in undefined order. These phases are (Leskinen 2010, according to Eriksson & Koistinen 2005):

- specification of research questions, analysis of research frame
- definition and selection of cases
- definition of used theoretical viewpoint and concept
- logic of dialogue definition between materials and research questions
- determination of analysis means and interpretation regulation and
- determination of reporting method.

The problem is defined in constructive studies. The solution is based on an empirical findings and relevant theoretical framework. The quality of research results is evaluated by studying the scope of applicability of the solution. The research approach provides that the constructed solution increases general knowledge and theory about the specific problem. (Leskinen 2010, according to Olkkonen 1993).

The case study is appropriate method of a research when need to examine the contemporary real-life situations and provide the basis for the application of ideas and extension of methods. (Leskinen 2010, according to Yin (2003)).

The case study method is also useful for testing whether scientific theories and models actually work in the real world. The case study provides more realistic responses than a purely statistical survey. (Experiment- Resources.com 2011).

The real existing phenomenon, Facility Management outsourcing is studied in this thesis and it would not be enough to study this process only from theoretical point of view. In this case it is useful to check and compare the theoretical data with the real - life factors. Therefore it was decided to use the case-study method in the thesis to reinforce the theories and theoretical findings and to collect more realistic and practical data.

The data were collected for the case study by interviewing. According to Fontana and Prokos (2007) the interviewing is one of the most common and powerful ways in which we try to understand our fellow humans. Interviewing includes a wide variety of forms and a multiplicity of uses. The most common form of the interviewing involves individual, face-to-face verbal interchange, but interviewing can also take the form of face-to-face group interchange, mailed or self-administered questionnaires, and telephone surveys.

It can be structured, semi-structured, or unstructured. Interviewing can be used for marketing research, political opinion polling, therapeutic reasons, or academic analysis. It can be used for the purpose of measurement, or its intent can be to better understand an individual or a group. The interview can be a one-time brief exchange, such as five minutes over the telephone, or it can take place over multiple lengthy sessions, at times spanning days or weeks, as in life history interviewing. (Fontana & Prokos 2007)

As it was defined earlier, the interviews for the thesis were made in two Finnish companies SRV and Onninen that operate in Saint-Petersburg, Russia. Each of the companies was asked with the similar 10 questions related to the topic of the research. As it was mentioned, there are different kinds and types of interviews and for SRV company the interview was conducted in form of face-to-face verbal interchange. This form of interviewing was chosen according to the wish of respondent, the administrative director of SRV in Saint-Petersburg. Onninen company chose another way of answering the questions and they were interviewed by e-mail. Chief engineer of Onninen company answered this interview.

1.6 Presentation of the case companies

SRV company

SRV is an innovative construction company that provides end-to-end solutions and assumes customer-focused responsibility for the development, construction and commercialization of projects. SRV operates in Finland in Helsinki Metropolitan Area, Turku, Tampere, Oulu, Jyväskylä, Lappeenranta, and Joensuu. SRV also operates in Russia and in the Baltic countries. The company's vision is built on four cornerstones. First, SRV is a pioneer in the construction business, breaking new ground with its SRV Approach. Second, the company is the leading builder of business premises in Finland, the Baltic countries and selected areas of Russia. The third cornerstone is being a pacesetter in customer-focused residential construction in Finland. The fourth is the outcome of the other three - SRV's growth and profitability outpace the industry average by a good margin. (SRV Group).

SRV Group had revenues of EUR 484, 8 million in 2010. During the financial year 2010, approximately 95 percent of SRV's net sales were generated in Finland, while Russia and the Baltic States accounted for about 5 percent. The company has approximately 794 employees. SRV company is running their business in Russia since 1990. Company specializes in Russia in the development and construction of high-quality shopping centers, commercial and multifunction premises, offices, hotels and various production and logistics facilities. In geographical terms, operations focus on Moscow and St. Petersburg. (SRV Group).

Onninen company

Onninen company provides comprehensive materials supply in the markets of Scandinavia and the Baltic rim to its customers, which include contractors, industry, energy plants, public organizations and distributors in the electrical and refrigeration business. Onninen belongs to the Onvest Group, which is a Finnish family-owned company. The Onninen Group's business structure is based on four divisions and Group-wide supporting functions. The divisions are Onninen Finland, Onninen Sweden, Onninen Norway, and Onninen Wholesale International, which is responsible for operations in the Baltic countries, Poland and Russia. The supporting functions are Logistics, ICT, Finance, HRD and Communications. Onninen has a total of 130 outlets. In its operations in Finland, Sweden, Norway, Poland, Russia, Estonia, Latvia and Lithuania, it provides roughly 2,500 jobs. In 2010 the Group's turnover was EUR 1,386.0 million, showing growth of 3.8% over the previous year. Company is operating in Russia since 1994. Onninen has 4 sites in Russia (at the end of 2010). Head office and distribution centers are in St. Petersburg. Customers of Onninen in Russia are installation companies, retail shops and industrial- and municipal organizations. (Onninen Group 2007).

More information about Russian operations of the case companies will be presented in the Chapter 5.

1.7 Structure of the study

The research environment and organization are presented in the beginning of the first chapter. Research question, objectives, limitations, methods, theoretical framework and presentation of the case companies are also introduced in this chapter. Chapter 2 presents theoretical aspects of the outsourcing such as definitions, functions, types, advantages and disadvantages of its usage. It covers the whole decision making process of outsourcing and process of choosing outsourcing vendors. In chapter 3 there are basic meanings, definitions and functions of Facility Management. As well the place of outsourcing in Facility Management and benefits and weaknesses of it are defined in this chapter.

The information about the specificity of usage and provision of Facility Management outsourcing in Russia are allocated in chapter 4. The overview of Russian businesses of case-companies is placed in chapter 5. Also the evaluation of Facility Management market's condition in Russia from the side of Finnish companies is presented in this chapter. Perspectives of Facility Management outsourcing development in Russia are identified in chapter 6. The review of general findings and summary of learned material are introduced in the same chapter.

2 THE NATURE OF OUTSOURCING

In recent years the practice of outsourcing became really widespread in the Western countries. The term "outsourcing" is borrowed from the English language and literally translates as the use of foreign resources. Table 2.1 presents the definitions of "outsourcing" term given by the Russian and foreign authors.

Source	The definition of "outsourcing" term
1. Mikhailov 2006, 12	The transfer of conventional and organically inherent functions of the subjects to third-party-companies
2. Rummyantseva 2006, 31 - 32.	Way to optimize the company through the transfer of non-core functions to outside specialized companies
3. Raizberg et al., 2005, 29	The transfer of traditional non-core functions of the organization to outside subcontractors, which are highly qualified third-party companies, with the rejection of its own business process, considering it as a way of co-operation
4. Kalendzhyan 2003, 270	The tool that allows effectively allocate the internal and external resources and funding to reach the goals and challenges facing by modern business in a conditions of dynamic insuperability
5. Mol 2007	Dependence on the external resources
6. Lonsdale & Cox 2005	The process of transferring the existing within the company functions to a third party company
To sum up, it can be concluded that outsourcing is an effective business model, which is the usage of external resources to achieve own goals.	

Table 2.1 The various definitions of term "outsourcing".

All the business processes can be the subject of outsourcing. In most cases non-core activities of the organization are often passed to outsourcing which also can be carried out by own forces (workflow, reporting, etc.). However, significant strategic functions of the company may also be subject of outsourcing, for example, the outsourcing of marketing services, training center company, etc.

2.1 The development of outsourcing in Western countries and Russia

In Europe the first outsourcing companies have started to appear in the second half of the 20th century, though on that time they were simply called private companies that provide certain types of services. The development of the economy dictates its own conditions, and the tasks that were easily implemented by enterprises yesterday - today can not be performed by using yesterday's methods. Therefore, in the 90th years of last century in Europe began the actively development of outsourcing services' market. To the market's arena entered such already giants of outsourcing as IBM, Top Coder, which gave the possibilities to the companies to reduce costs, with the receiving the high quality services, thereby reducing prices for the products and stay ahead of the competitors. (Business Process Outsourcing 2009).

It is also known that the impetus for the formation of the outsourcing services' market was the long competition between such car giants, as Ford and General Motors. In turn, the car companies in Japan from the 1970s began to win market from three U.S. car giants (General Motors, Ford and Chrysler) by transferring components' production to outsourcing. The condition of the American companies has stabilized after the creation of alliances with Japanese car companies, and again by a joint usage of outsourcing. (Bryce & Useem 2008).

Many experts believe that outsourcing has spread further because of the information technology development. Thus, the development of outsourcing is motivated by the aspiration of companies to use the latest achievements of scientific and technical progress to improve the quality, competitiveness and attractiveness of their products. At the same time modern technology and knowledge are concentrated in the hands of specialized companies. As a result, each party does what it does best. This leads to lower production costs by reducing expenses. Most businesses have already realized the undeniable benefits of outsourcing usage, and now more than 70% of European companies have moved to outsourcing service. Statistic shows that in the near future this figure will grow. According to the forecasts of European experts in 5-10 years' business market will represent itself plexus of business interactions of various medium-sized companies that provide services to each other. The time of large corporations, which may contain all its processes inside, is coming to the past. Already now many European corporations have transferred to the outsourcing service their non-core business processes. (Business Process Outsourcing 2009).

The origin of entrepreneurship in today's Russia was in very harsh conditions, when the methods of competition were threatening not only business but also the lives and health of its owners. Therefore the first task for the Russian business has become the task of economic and physical survival. Thus, the pioneers of outsourcing in Russia have become private security companies (PSC), which allowed hundreds of companies better and more professional protect their business than a few full-time security guards. The first private security firms started to operate in the early 90s, turning to be the quite large diversified companies specializing in the field of physical personal security, the commercial security and technical protection of objects. (Business journal 2009).

Gradually the business became more civilized, and the advertising was becoming increasingly important. Advertising specialists lacked, that has created fertile ground for the formation of specialized advertising agencies capable of carrying out complex projects. Acquisition costs of advertising agency were not less, and in many cases more than the work performance by their own department, but it was the only way to create high-quality advertising. Following the advertising agencies came the PR-agencies and research companies, and if the last ones were involved usually on a project basis, many advertising and PR-agencies performed a full range of functions of the relevant departments of their clients, effectively replacing these parts. (Business journal 2009).

In 1998 the boom of Runet started. Runet is a Russian segment of the Internet that led to the emergence not only of thousands of sites, but also a huge market of services for its creation, support and promotion. For two years the number of the sites in the domain “.ru” increased in 5 times, and the creation of a decent web-representation has become a necessity. Complex projects were carried out by efforts of the full-time programmers and specialized companies, but small orders for development of web-sites have provided to hundreds of students a comfortable youth, the best of whom later founded own web-design studio. (Business journal 2009).

At the beginning of the third millennium a Russian business has recovered from the 1998's default, many businesses have returned to Russia, and a new phase of interest in modern business - technology began. One such a technology was the rejection of non-core activities for the organization and focus on what the company can do better than anyone else. Relatively stable economic situation in Russia has contributed to the emergence of new services in the outsourcing market. The main of them were IT - outsourcing, HR and accounting outsourcing. (Business journal 2009).

The first proposed functions of IT - outsourcing on the market began the maintenance of the office equipment and system administration. Subsequently, this list was supplemented by IT - infrastructure outsourcing, application management and outsourcing of IT professionals. (Business journal 2009).

The transfer of technical maintenance and system administration to other third-party organizations made significant savings to companies with a small number of computers and users, but at the same time, created substantial risks of information security. This posed a serious threat to large companies, so they preferred to use their own staff. However, even large companies for whom IT is not a core function sometimes used IT outstaffing - provided by third party company's specialists with all required skills for either temporary or permanent employment. These specialists have worked on the client, but got a salary from the outsourcing company, which, in turn gave a bill to the client in 2-3 times amount more, but it assured the specialist replacement in case of illness or layoffs. (Business journal 2009).

Outsourcing of accounting department caused the greatest concern among owners and managers of Russian enterprises, but as more and more offices of foreign companies gave their accounts to outside organizations, some Russian companies have also made their choice in favor of outsourcing. The cost of accounting outsourcing was proportional to the number of processed documents, and therefore allowed many small companies to be without full-time accountant or release any of managers from this duty. (Business journal 2009).

2.2 The reasons for the company to choose outsourcing

To answer this question it should be referred to the well-known in economic theory – the economies of scale - the ratio between the change of the used resources volume and the change of the output. Usually, on the first stage of the company expansion operates the manufacturing economies of scale: there is a savings of mass production and unit costs are reduced. The scale of production can't be indefinitely exaggerated. (Dumnaya & Cheremisin 2010).

As the company is expanding more and more - the economies of scale begins to fade. And it may come to constant return - stage, when long-term average costs are stabilized, and from a certain point total costs begin to rise faster than the number of manufactured products. In this case the negative effect of the economies of scale or even diseconomies of scale comes. At the constant prices of resources the economies of scale determines the long term costs' dynamic. It can be traced using the long-term average costs' function - LATC (Figure 2.1). (Dumnaya & Cheremisin 2010).

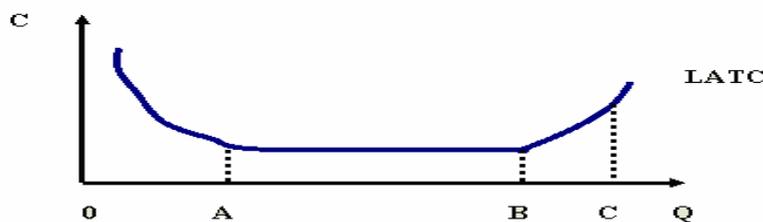


Figure 2.1 Function of long-term average costs - LATC.
(Dumnaya & Cheremisin 2010).

To expand the economies of scale, the company should choose the right way to do it. The choice can be made from the following options: 1) use the internal factors of the individual enterprise (factory), 2) vertical integration, 3) horizontal integration, 4) diversification, 5) outsourcing (subcontracting). Modern large enterprises run out of opportunities to get the economies of scale within a single company (factory). This refers to the well-known inside factors: specialization of the labor, equipment, management; use of the modern high-performance equipment -assembly lines, automated modules, etc. The main options for obtaining the economies of scale are - a vertically integrated company, a horizontally integrated company and diversified company. (Dumnaya & Cheremisin 2010).

For decades, large companies all around the world were developing in these ways. This process was called "internalization." It was based on various contracts, made inside one or between few companies. Internalization is the process of reducing or eliminating the negative externalities by making the external factors to be the internal ones. The internalization process makes a unique opportunity to maximally use the economies of scale effect, the economies of standardization and the effect from the multi-times production factors' use. However, there are risks of getting a negative scale effect by integration and diversification as well. First and foremost it is a known immobility of the companies' resources, especially in vertically integrated structures, in which there are particularly large fixed costs. The reason of that - they support the production capacity for the entire vertical chain. (Dumnaya & Cheremisin 2010).

It is possible to learn or retain the core activities inside the company and thus avoid the disadvantages of vertical integration, if choose a strategy of long-term partnerships with key suppliers and thus obtain access to their competencies. Previously, many companies have tried not to work with suppliers too closely and signed with them mostly short-term contracts. Although the company worked with the suppliers for long enough, the last ones were afraid that the cooperation may break up at any time. Usually at the contract signing price was the determining factor, and companies have tried to get the best terms of delivery in exchange for long-term cooperation. The threat to move to another supplier was a serious weapon, and to make the threat even stronger, the companies instead of long-term contracts were practicing the short-term contracts with numerous vendors, and by that creating the fierce competition among the last ones. Today there is almost universal rejection from this strategy in favor of long-term alliances and partnerships with a few high-performance suppliers. In place of short-term contracts, signed only due to low price, coming the long-standing partnerships. (Noskov 2007).

The choice is in favor of outsourcing in those cases, when the production processes of the "mother" enterprise require special technology or when it uses the specific production factors, such as special mechanisms or unskilled labor in the secondary labor market. With maintenance of all these approaches companies are constantly looking for new ways to avoid the negative affects the economies of scale. In modern conditions outsourcing provides such opportunities. With the help of outsourcing a company gains the ability to maintain and adjust the optimal size of business and flexibly responding to the market changes. Simultaneously, there is a process of externalization, which is an alternative way to reduce transaction costs compared to the internalization. Transaction costs are reduced not because of including them to the certain types of activity into the internal structure of the company, but by transferring some operations to independent firms. Thus, outsourcing – is the transferring the own transaction costs to the other subjects. (Dumnaya & Cheremisin 2010). The most common reasons for outsourcing are shown in Figure 2.2

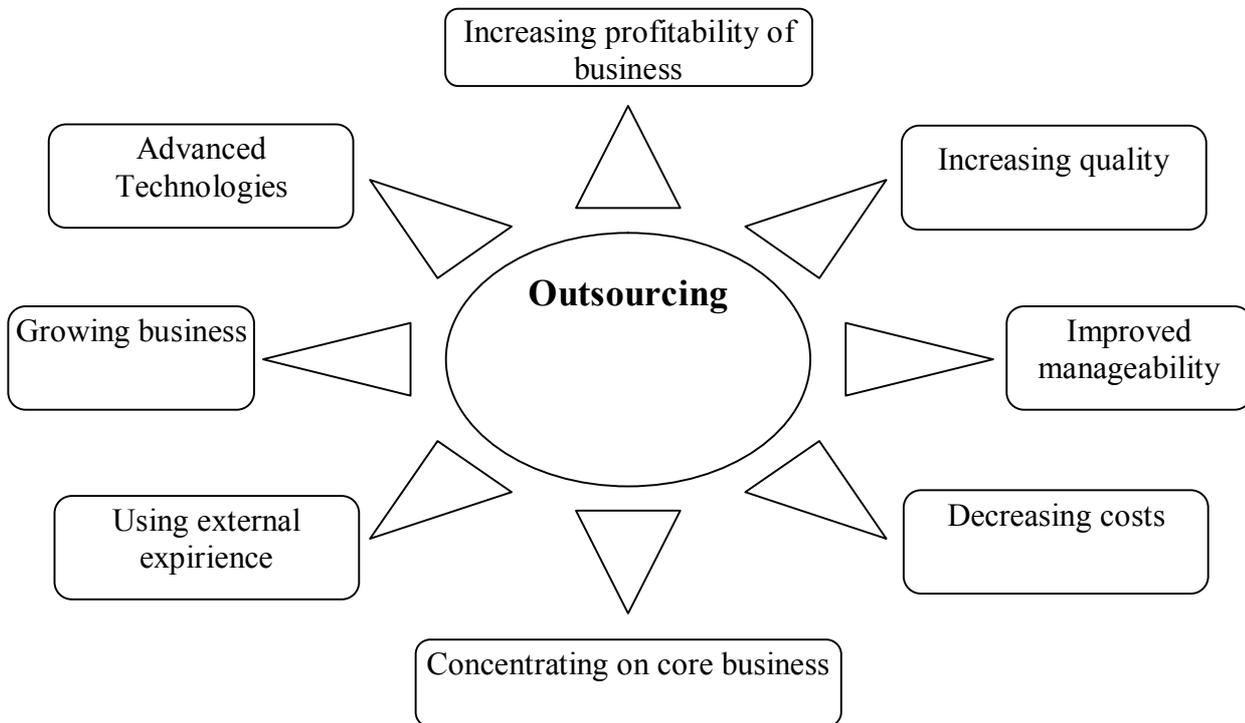


Figure2.2 The most common reasons for outsourcing. (Dumnaya & Cheremisin 2010).

2.3 What to outsource?

Outsourcing is a growing phenomenon, but it's something that we should realize is probably a plus for the economy in the long run. It's just a new way of doing international trade.

— Gregory Mankiw, chairman of the White House Council of Economic Advisors, 2004 Economic Report of the President. (Brown & Wilson 2005,1).

A set of functions that can be outsourced is different for each company and it is determined by the specificity of its activity. First of all, it is necessary to identify what processes, forming the strengths of the company, better to keep at home and further develop to increase competitiveness, and what can be done by third parties on a much higher level of quality. There are no special “receipts” but it’s recommended to outsource (Business Relations Management company 2008):

- First, the specific minor functions (for example advertising support)
- Second, the functions associated with implementation of one-time events (presentations, corporate identity development)
- Third, the functions that the company is unable to perform quality by itself (training)
- Fourth, the functions that party organizations can do with less costs (comprehensive services, affecting several areas of activity)

According to the statements of many outsourcing service providers almost any business functions can be transferred to outsourcing-vendor. In practice, the most common form of implementation of the outsourcing is the transfer of the following options (Dumnaya &Cheremisin 2010):

- accounting and tax calculation, payroll staff
- legal service
- HR management
- IT systems and database management
- marketing communications and public relations
- advertising services
- translation services

- project management from design to implementation
- issues of economic, informational, and physical security
- logistics management and supply chain
- some types or stages of production (assembly and testing)
- cleaning and maintenance
- transportation management, its maintenance and repair (aircrafts and ships, roads, railways).

2.4 Benefits of outsourcing

Before to go deeper to analyze what advantages outsourcing could bring to the company it's also important to mention the cases where outsourcing process is the most efficient one (Business Relations Management company 2008):

- The company makes a strategic decision to focus resources on core business
- The company has just started to operate, and yet can not afford to have its own staff
- The company is reducing staff, but a number of marketing functions is still needed
- The company is not satisfied with the level of service that internal services provide

This list can be continued with following cases. The company has a period of internal changes (restructuring, reorganization, the process of mergers and acquisitions) and therefore the transfer of the internal functions at this time is the most painless way to solve problems facing the organization. Business is growing up and the pressures on the individual functions are increasing in proportion with it, by using outsourcing there is no need to hire additional staff and equip jobs - the outsourcing partners could make any volume of work accurately and on time. (Dumnaja & Cheremishin 2010).

Large companies are often faced with the fact that the cost of non-core business processes is disproportionately high. The use of outsourcing in this case can give a tangible economic benefit. Outsourcing also gives company an opportunity to cut costs and significantly reduce the complexity and expenses of information systems operation and applications, to focus on core business processes of the company, not to waste sources that is focused on supporting. (Dumnaja & Cheremishin 2010).

What specific advantages does outsourcing have? Outsourcing can bring valuable and various advantages to the company. Here are only some of them (Business Relations Management company; Dumnaja & Cheremishin, 2010):

- Increasing profitability of company as outsourcing cuts expenses of maintaining business-processes
- Focusing on core activity
One of the benefits of outsourcing is that the organization will be free to concentrate on the core business. By outsourcing all non-core functions of the company, employees can be put to better use and the company will be able to see a huge growth in the core business. (Flatworld Solutions Pvt. 2011)
- Improvement in firm's cost efficiency by reducing the commitment to fixed-cost, full – time human resource expenses and other overhead costs.
- Employee compensation costs, office space expenses, and other costs associated with providing a work space or manufacturing setup are eliminated and free up resources for other purposes. (The Thriving Small Business 2011)
- The use of highly skilled professionals with extensive experience, the hiring of whom would be too expensive or not rational.
- Introduction of advanced technologies through specialized outsourcing company
- Increasing the competitiveness of the company, as outsourcing firm is better able to reinvest released resources in the growth of their core business

- No dependence on the disease or dismissal of employees
- Improved Customer Satisfaction

Outsourcing gives the accountability advantage to the company, which is using it. Outsourcing is predicated on the understanding—shared by business and vendor alike—that such arrangements require quality service in exchange for payment. "Paying for a business service creates the expectation of performance," wrote Kevin Grauman in CPA Journal. "Outsourcers are well aware that this accountability is both practical and legal, with fiscal implications. The same cannot be said for internally provided functions." (Encyclopedia of Small Business 2011).

Outsourcing is improving the quality of the products or services. Improved quality can be achieved by using vendors with more expertise and more specialized processes. An example of this would be contracting out a cleaning service. An outside service would have the resources for hiring, proper training and facility inspections that may not be available if the function were kept in-house. (The Thriving Small Business 2011).

Outsourcing is also increasing the efficiency of the company. The non-core business functions will be performed efficiently by outsourcing partner, while the core functions of the company can be efficiently carried out in-house. Thereby the managers of the company can achieve overall efficiency and see an increase in their profits. (Flatworld Solutions Pvt. Ltd.) As well outsourcing is providing great flexibility for the company in case of sudden changes in market conditions or consumer preferences: it is easier and cheaper to find new suppliers with the necessary capabilities and resources than to rebuild the internal management of the company, eliminating some power and resources and creating new ones. (Strickland III 2004).

One of the benefits of outsourcing is that company can save on every aspect of its business and increase the profits. By outsourcing, it is possible to save on time, effort, infrastructure and manpower. Since company doesn't have to invest in infrastructure, it can also save on making unnecessary fixed investments. Outsourcing removes the burden of changing or maintaining infrastructure. Company's managers can also save on capital expenditure. Outsourcing can also help to save on training costs, because due to this no need to invest in manpower. These savings will help bring about an increase in the company's revenue. The organization can also save on investing in expensive software and technologies. (Flatworld Solutions Pvt. 2011).

As a real process, outsourcing has not only good positive sides that can help to make the business of the company more profitable and get rid of some headache, unfortunately it has its minuses as well. Before deciding to outsource the company's business processes, it is necessary to keep in mind the disadvantages of outsourcing.

2.5 Weaknesses of outsourcing

Several activities require instant reaction to the failure of equipment, which makes it more appropriate to keep on hand a staff specialist. Unlike outsourcing vendor, staff specialist can be involved in a number of works which are not directly related to his professional activities, such as in one-off procedure staff specialist may replace the secretary who was away, take the purchase of equipment, make correspondence, and more other businesses. Outsourcing vendor, of course, makes only what is defined by the contract. The strategic aspect of outsourcing is often associated with a loss of jobs, as large companies in developed countries prefer to give time-consuming activities to outsourcing to other countries. (Open Systems 2011).

The lack of an employment contract between the direct employer and employee, and labor warranty makes the labor rights of workers more vulnerable. Also with outsourcing there are risks of damaging property's safety, security and leakage of confidential information, through the provision of unregulated access to documents, records and property of the company. As well outsourcing vendors have the lack of knowledge of national and local cultural features (for the derivation of call -centers abroad or in the province) and slight acquaintance with the psychology of company's customers. (Open Systems 2011).

At the same time, apart from the disadvantages, outsourcing carries with it some pitfalls (Open Systems 2011):

- the lack of standards and methodology entails the difficulty of measuring results and quality.
- possible reduction in productivity of own staff (the loss of motivation, evaluation of the changes as negative).

There are also a number of pitfalls for outsourcing vendors (Open Systems 2011):

- Outsourcing contract is usually for a long period, and this means that there is a risk of future costs and expenses
- Reorganization of service and business processes of the enterprise made by outsourcing vendor can encourage the leadership of a company - customer to complete the contract early and resubmit these functions to the internal departments, but in accordance with the new processes and changes.
- Change in the creditworthiness of the customer at the planned resources and unsalable unique product.

Transfer of some functions to outsourcing is not practical for large organizations, because it can lead to loss of privacy, to reduction of the speed of provision of the necessary information for the management of the organization. Leaking confidential information, in turn, can lead to loss of competitiveness of the company. As well the transfer of some functions to outsourcing can lead to loss of some kinds of activities that are providing the success for the company in the market. Moreover, transferring to outsourcing a big amount of functions company can increase its costs. It is important to notice that enormous usage of outsourcing can lead the company to be fully dependent on outside outsourcing vendors. The risk of losses is big because of poor quality of service. In addition, the company-outsourcer can become a bankrupt, consequently the contracting authority will have to find a new outsourcer and this is an additional moral and material costs. (BKR-Intercom-Audit 2007). The one of the biggest disadvantage of outsourcing is the lack of control over the activities of organizations or professionals who provide services.

The problem with a lack of communication also should be considered. It can be very frustrating for a consumer who is calling in with a customer service issue. When this individual can not understand the customer service representative they are speaking with, it just causes more frustration and does little to solve the problem. (ArticlesBase 2011).

2.6 Types of outsourcing

Outsourcing was originally considered as a tool for the optimization the company costs, used by the company's management to improve its efficiency. For this reason, the allocation of the outsourcing's types has traditionally occurred on the criteria of the types of processes passing to an outside contractor. Such a classification is the most convenient from a management point of view. (Open Systems 2011).

There are three approaches to this classification. In the first case transferred processes are classified according to the criteria of their relation to the core business of the company and are divided into major and supporting processes - thus there is the outsourcing of the core processes and outsourcing of the supporting processes. In the second case the classification is carried out on types of activity, which include the transmitted process. (Open Systems 2011).

Most often with this approach the following types of outsourcing are allocated. Outsourcing of the information technology (IT outsourcing). Currently, by the term "IT - outsourcing" is implied the transfer of the execution of any IT processes to outside companies. The IT processes include the design, implementation, maintenance and development of IT infrastructure. Manufacturing outsourcing - that exists when for the company is more profitable to attract outsourcer than to make whole production process on their own. Logistics Outsourcing - the acquisition of a service inventory management, transportation of goods, their storage and all related to these operations business processes from a third party company. (Open Systems 2011).

Staff Outsourcing (outstaffing). Quite often different companies have a need to recruit qualified personnel without legal registration. To solve this problem, companies turn to outsourcing vendors, which often are HR agency. There are three types of outstaffing - staff leasing, recruitment of the temporary staff and withdrawing personnel from the staff (outstaffing). In the first case there are such relations when HR agency makes an employment contract with the employee on his own behalf, then forwards it to work for more than 3 months. Temporary staff is selected for the short-term projects - from one day to 3 months. Usually this is the staff that is recruited for a period of illness or vacation of one from the staff, as well as administrators and staff at exhibitions, fairs and conferences. The withdrawal from the staff means that the HR agency chooses not new workers, but put already existing employees of the client - company to its staff, thus the client-company employees remain at the same workplace. (Open Systems 2011).

Accounting outsourcing – is one of the options for accounting at the company. In this case, a specialized company is using in order to ensure the accounting at the company and provide the necessary accountability and budget funds. Theoretically and practically, the accounting company can fully perform all the functions of accounting department. However, this does not exclude the possibility of building a fairly complex and flexible business processes with external companies and own employees to achieve maximum efficiency. Obviously, the above list of outsourcing types in this classification can be continued. Finally, with the third approach outsourcing is divided into the tasks outsourcing (when the one-time projects are passed to the execution and their implementation period is clearly defined) and business process outsourcing (in this case we are talking about long-term cooperation between enterprises, when the contractor on a regular basis performs some functions entrusted to him by a customer). (Ketler & Walstrom 2008).

These methods of classification have focus on the management component of the outsourcing, leaving aside its economic substance. To understand the economic aspect of outsourcing it should be considered neither as a transfer of processes to the third party companies, but as the use of external resources to perform the functions of the enterprise. With this approach the outsourcing can be classified on economic criteria –on the types of resource (inputs) needed to perform such functions. In this case, possible allocate the following types of outsourcing (Open Systems 2011):

1. The capital outsourcing, which may include the production outsourcing (when the company places the orders for the products manufacture under its brand from a third party company) and leasing (in this case the equipment owned by another company is using for the manufacturing).
1. The labor outsourcing that refers to the outstaffing.
2. The information outsourcing - in this case, the company - customer entrusts the data collection and processing, and in some cases - the decision development to a third-party company. As an example here is accounting outsourcing.

3. Outsourcing of the entrepreneurial skills - the company - customer uses the outside intellectual capital for its own economic activity. As an example here - franchising and licensing (these activities traditionally are not the outsourcing's types, however, with the definition that is given above, it is appropriate to consider them as special cases of outsourcing.) For example, with the franchising an independent entrepreneur (franchisee) outsources the brand management, under which it conducts its business activities.
4. Hybrid outsourcing - when the company - customer transfers the function that requires multiple types of resources to outsourcer: as an example - factoring, where the company- factor, on the one hand, provides the supplier with the financial resources (capital outsourcing), and on the other hand - company- factor is collecting and processing information about current and potential customers of the supplier to determine their ability to pay (outsourcing of information). Thus, the approach to outsourcing as the use of external resources allow not only to build a classification of outsourcing on their economic content, but also reveal the outsourcing nature of other forms of business activity.

2.7 Decision making process in outsourcing

What should be the guidelines in decision what functions to outsource and what to leave in the company? How to come to decision-making process and how to organize it? Every senior manager in every company all over the world is facing these questions. To answer them it is recommended to turn to the Pareto principle (20/80): 80% of the company's business processes generate only 20% of revenue. Another statement is also true: 20% of the organization's business processes consume 80% of its resources. Is the company's management satisfied with this situation and whether it is possible to change the situation? The obvious solution - get rid of unpromising and unprofitable business ways but non-core business processes to give to outsourcing. (Integrated Services Group 2008).

To make outsourcing process maximum profitable managers should follow some well organized plan that consists of steps or phases of outsourcing process. Such a plan should be necessary gone through. Brown & Wilson (2005) provide next plan or, another words, set of phases of outsourcing.

The phases illustrated in Figure 2.3 are part of any outsourcing process (Brown & Wilson 2005, 25):

1. Strategy phase. You define the objectives and scope of the outsourcing concept and determine the feasibility of outsourcing before making the decision to proceed. Also, you plan the total effort in terms of time, budget, and necessary resources.
2. Scope phase. You establish baselines and specify the service levels required of vendors. You clarify relationships between the function(s) to be outsourced and those functions that remain in house, to include proper interfaces. You develop the request for proposal (RFP); collect and analyze responses from vendors; and, finally, choose a vendor.
3. Negotiation phase. Negotiations proceed with the chosen vendor until a contract is drawn up and, ultimately, signed by both parties.
4. Implementation phase. This phase marks the transition from in-house provision of services to outsourcing.
5. Management phase. Throughout this phase, you manage the outsourcing relationship with the vendor. It includes the negotiation and implementation of any changes in the outsourcing relationship seen as necessary to ensure a successful outcome.
6. Completion or termination phase. At the end of the contract period, you make the decision either to negotiate another contract with the same vendor or to terminate that relationship and align with a new vendor; and the cycle begins again. Alternatively, a decision is made to bring the function back inside the organization.

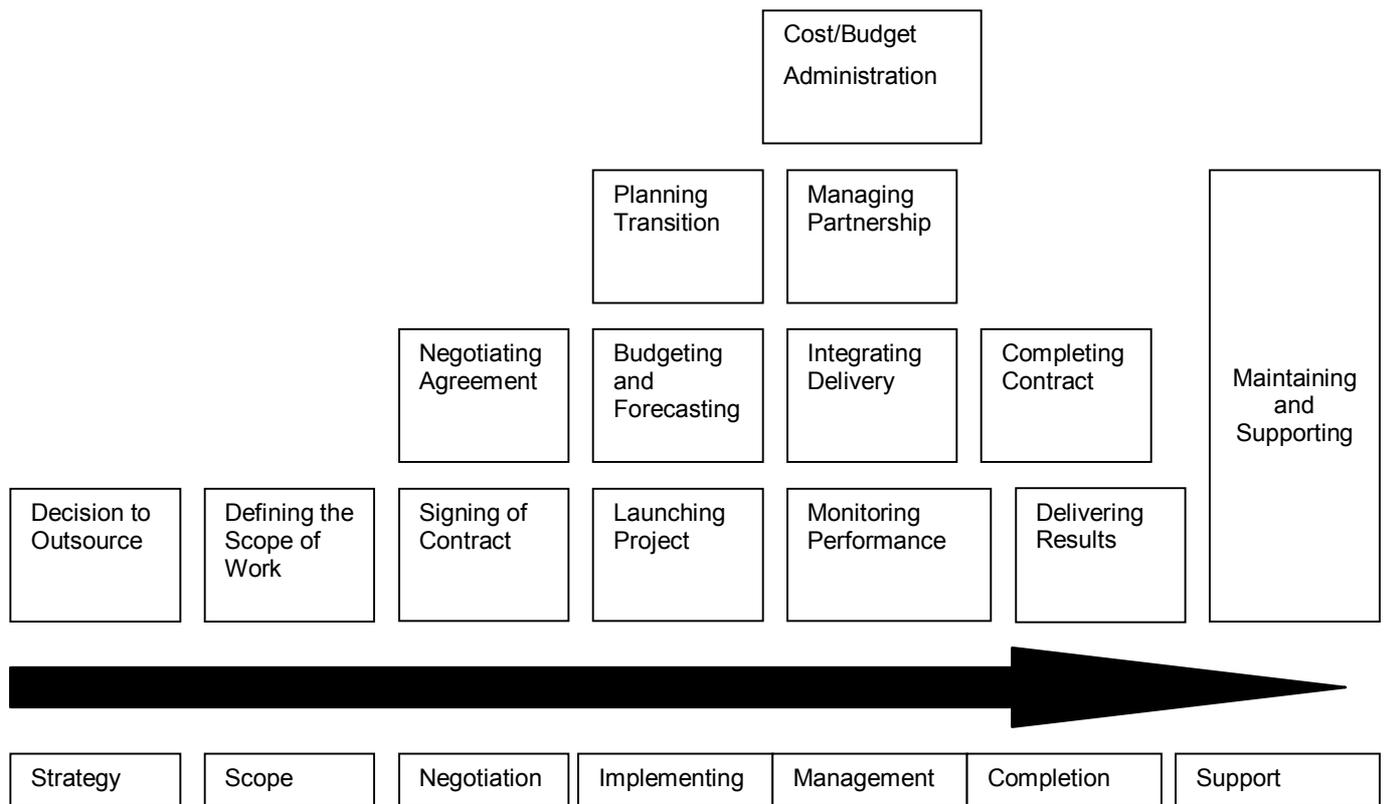


Figure 2.3 Black Book Model of Successful Outsourcing (Brown & Wilson 2005, 26).

As well Power et al., (2006) show outsourcing stages in next view: The outsourcing life cycle is made up of the following stages (see Figure 2.4): (1) strategic assessment; (2) needs analysis; (3) vendor assessment; (4) negotiation and contract management; (5) project initiation and transition; (6) relationship management; (7) continuance, modification or exit strategies. Each of the stages of outsourcing has sub-components and sub-processes that need attention. (Power et al., 2006, 32).

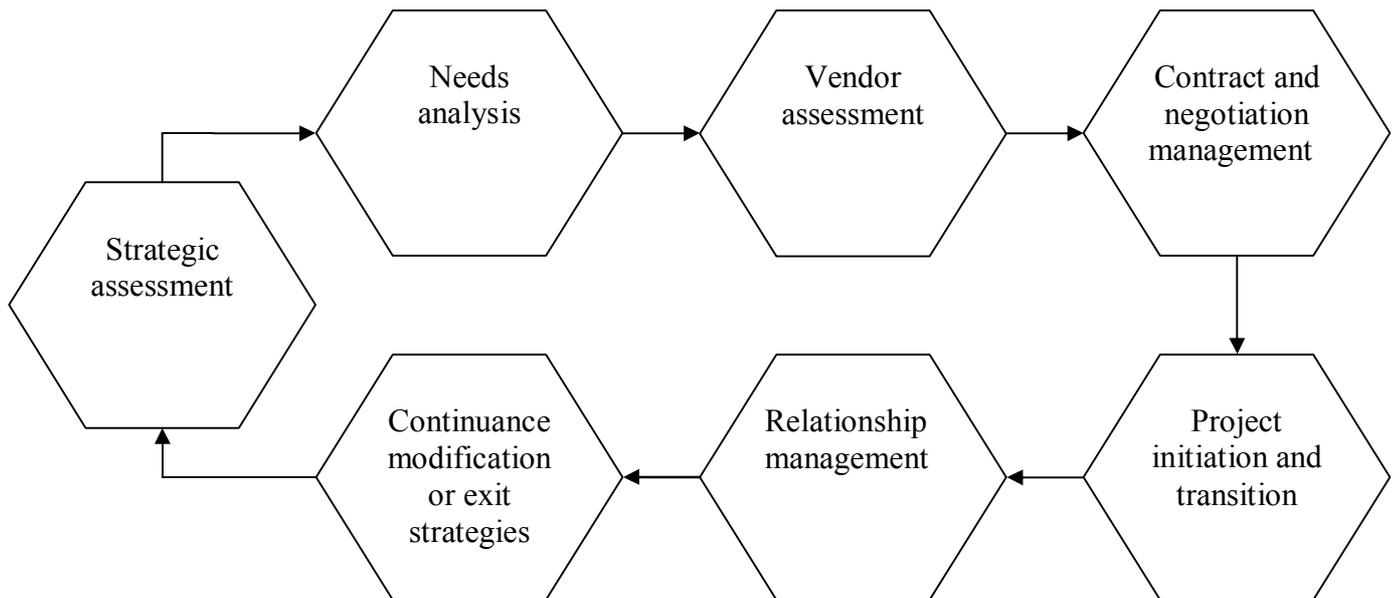


Figure 2.4 The outsourcing life cycle (Power et al., 2006, 32).

The strategic assessment is the focal activity in the first stage of the outsourcing process. During the strategic assessment stage, the organization makes a business case clearly identifying the intended benefits of employing outsourcing as a strategy. Doing this will require the organization to analyze its core competencies and identify areas that are suitable for outsourcing, put in place an executive team, and conduct operational, financial and risk assessments. Once a business case for outsourcing is presented and agreed upon, company is ready to get into the act of actually outsourcing. When you have completed the strategic assessment, there might be many possible candidate areas or projects within the company that you think are ripe for outsourcing. In the next step, you must pick your battles, so to speak. This would involve prioritizing your needs and defining, at an operational level, the one or more outsourcing projects that you would like to focus on. (Power et al., 2006, 33).

For each such project, the next stage is to conduct a thorough needs analysis. Needs analysis is akin to a strategic assessment made at the first stage, but it is more detailed and concentrated for the specific project. Here you are looking at what the peculiarities of the given project are and how you can best articulate the requirements, evaluate the requirements by mapping them to the broader business case prepared during the strategic assessment and prepare a proposal to articulate these needs to potential vendors. The third stage is one of soliciting, evaluating and choosing the vendor for your outsourcing needs. The vendor selection and contracting phase provides a structured framework to guide the organization through critical vendor selection and contracting activities. Once a vendor is chosen, the next steps are to engage in negotiations (and renegotiations) until an agreement is reached about the details of the outsourcing work. (Power et al., 2006, 33).

The stages of project initiation and transition are the most seminal stages of the outsourcing relationship – this is where ‘the rubber meets the road’. This is the stage where the client organization slowly starts to relinquish control of the work to the outsourcing vendor. The initial stages of the outsourcing relationship require diligent attention to deal with emergent issues and smooth out any problems that occur. After the initial stages, the outsourcing relationship should become routine enough for you to begin managing the day-to-day operations of the relationship, also called governance. The focus of this stage is to keep up to date with the outsourcing relationship. The salient activities in this stage include evaluation of the relationship, problem resolution, communications management, knowledge management and process management. While management of the relationship is a continuous process, occasionally the client organization may face events that require it to pause and evaluate the future of the relationship. (Power et al., 2006, 34).

Events could be items such as new strategic alliances, changes to the vendor's business or innovations in the marketplace. An organization must evaluate its current outsourcing contract to see if its best interest lies in continuing, modifying or exiting the relationship. Choosing any one of these alternatives will call for reconnecting to the first stage of the life cycle and reconducting a strategic assessment, to repeat the life cycle. (Power et al., 2006, 34).

Comparing these two approaches about stages of outsourcing process it can be concluded that in both models the first and the core element or level of the process is strategic analysis. Strategic analysis is about looking at what is happening inside and outside the organization now and in the future. It will lead to more clear and relevant goals, better quality decisions, and a more secure future as the company is better prepared for what will happen. The cost of not doing at least a small amount of strategic analysis means missed opportunities. If company doesn't do strategic analysis it risks of being left behind and missing opportunities for beneficiaries (NCVO Third Sector Foresight 2011).

Taking into consideration the value of strategic analysis it can be confirmed that it is really important for a company to make it before turning to outsourcing process. It will help to evaluate the condition of the company, the areas that should be turned to outsourcing and of course all the risks connected with this process. The next mutual element in outsourcing process in these two researches is scoping of the work. After the implementation of strategic analysis company should focus on one or more projects or departments which should be turned to outsourcing. Company needs to regard it and its problems more carefully and to identify what these departments really need: some restructuring just within the company or outsourcing. In some cases in this level also can happen the process of choosing outsourcing vendor.

The next important and mutual in both approaches element is negotiating phase. Here happen all the discussions between company and chosen vendor related to a further work. Next there is a mutual phase of the contract implementation. As well in both approaches there is a phase of management. It means that on this level happens the management and control of outsourcing process and vendors' work from the side of a company. That is a really valuable and important phase that should not be missed. Otherwise company will lose its managerial function and can become fully dependent on outsourcing vendor's company.

At the end of the outsourcing life cycle in both represented approaches there is the stage of completing contract. There can be two ways of finishing the deal, to continue the contract with the same vendor, or to finish this contract and find another outsourcing vendor. In any case the way of proceeding fully depends on the result that company got from this experience.

After the comparison these two outsourcing life cycles that were given in the earlier mentioned books can be concluded that all the listed stages above are the core and the main stages in every outsourcing process. To successfully implement outsourcing service any company should take into consideration these stages not to miss anything and take control into hands.

2.8 Choosing outsourcing vendor

It should be noticed that in outsourcing the risk of transferring the confidential company's information to third-party company plays a big role. It is very important when choosing a service provider not to focus only on "gray horses", but on large and long-run market companies. Their reputation is worth far more benefits that possible to get from disclosure of confidential client information. (Sobolev 2011).

The vendor identification and selection process has a life cycle of its own. It starts with scouring the Internet and other sources to identify potential vendors/partners, and continues through the stages of getting acquainted, evaluation, and selection. Although in some ways, this process is subjective - based in part on how well the buyer and vendor firms relate to one another- it can also be conducted systematically. (Duening & Click, 2005, 98).

The process of selecting an outsourcing vendor implies a complex multistage process to evaluate not only what the provider can do, but also the way it is done. First of all it is important to know that this process can and should take some time. Sometimes, this can be months. A well-organized vendor selection usually takes between 6 and 12 months and can ramp up the total cost of the project with approx. 1-10%. Costs associated with this phase include analysis and documentation of requirements; creation, distribution and evaluation of RFPs (Request for Proposals); negotiations of contracts; development of SLAs (service level agreements); pay of external players: consultants, lawyers etc. Therefore, the selection of vendor is not a process to be rushed. Companies should follow a well-established methodology that defines each step of the trip. After all, the final goal is to end up with the best service provider for delivering the desired outcome. (ArticlesBase 2011).

Further will be listed the most important main steps or stages the company should go through when choosing the outsourcing vendors to be successful in this process.

Step 1: Define objectives and goals. This is a basic step for all future outsourcing activities. It is necessary to describe the process, service or product that company wants to outsource. Also should be indicated what company wants to achieve by outsourcing. Another important thing company's management should do is to gather a core team to evaluate vendors and to participate in negotiations. The team should consist of individuals from various parts of the company, such as executives from affected business departments, legal staff and human resources responsible. (ArticlesBase 2011).

Step 2: Find out all the needed information about the vendor- Plan the RFI. The Request for Information (RFI) provides material for the first rounds of vendor evaluations. Organizations generally use the RFI to validate vendor's interests and to evaluate the business climate in the organization's industry. As opposite to a highly specific, formal Request for Proposal (RFP), the RFI encourages vendors to respond freely. It also spells out the business requirements defined by the core team, so the vendor understands what the company is trying to accomplish. (ArticlesBase 2011).

Step 3: The third step is to develop the Request for Proposal (RFP). Then to send it at least to three short-listed suppliers, evaluate the suppliers and select the best ones. The RFI and RFP are complementary. Information collected during the RFI process can prepare the solution-requirement section of the related RFP. On this step the company should have better understanding of project scope and requirements, as well as a list of qualified suppliers. The RFP outlines the engagement's requirements - relevant skill sets, language skills, intellectual property protection, infrastructure, and quality certifications - and gives to the prospective vendors the information necessary to prepare. (ArticlesBase 2011).

Step 4: Due diligence. After vendors have sent their RFP responses, the company begins the evaluation. Usually, vendors propose different strategies when they respond to an RFP. They may suggest a sole provider, co - sourcing, or multisourcing scenario where two or several vendors deliver the service to the company. According to the structure if the proposal meets the stated requirements, each vendor must undergo due diligence. Due diligence supports or invalidates the information the vendor supplied on processes, financials, experience and performance. It helps to determine what the provider can do right now, as opposed to what it might do if given the business. (ArticlesBase 2011).

There are several criteria for the company to evaluate the providers by. This will help to perform at least a preliminary analysis of whom company is dealing with (Kurat 2011):

1. Quality commitment: The vendor should be quality focused. The company should ask providers what measures they have for quality assurance and quality control.
2. Cost: Provider's price policy should enable customers to save money and still choose outsourcing as opposed to in-house development.
3. Additional resources and capabilities. The vendor should have resources and capabilities that are not available to the customer internally or with other providers. These days customers are smart and are looking for additional capabilities of a vendor at competing price. Smarter vendors can use it as advantage over competitors.
4. Prior work: The vendor should have experience of working with other organizations. The company should check provider's portfolio and If there are no testimonials available, the company should contact some of its clients and ask them what kind of experience did they have or still have with this vendor.
5. Contract terms: The terms of contract should offer flexibility to the client to modify the requirements or terminate the contract easily if required. The best development methodologies for fast and frequent changes are agile-based.
6. Confidentiality: How secure is the customer's data at the vendor site? The vendor should have well-defined security policies in place.

Step 5 (Optional): Test Project. Some companies can even conduct test projects to ensure a good fit between the company and the vendor. These tests allow companies to review the vendor's project management process for efficiency and effectiveness. Specifically, they look at whether project execution is completed within guidelines, whether deliverables are timely and whether the vendor has adhered to defined quality standards. Tests serve as a good method for companies to check and review the facts before making a final vendor decision. (ArticlesBase 2011).

Step 6: Creating the Outsourcing Vision. The company should have a clear vision of where it wants to end up in its outsourcing. If the company doesn't know the results it wants to achieve, it risks of being pulled in wrong direction – with price, relationships, or technologies. In many cases, both the company and the prospective outsourcer are only looking at costs as the primary decision criteria, although this might seem like an obvious and mutually beneficial path. But it is not necessarily the best path, especially if the selected provider can't deliver the needed service. (OutsourcingMonitor.EU 2011).

Step 7: Choose the Vendor. Eventually, the biggest step in the process of selection is picking a service provider to manage business processes and applications. Making the final decision means signing a contract that clearly defines the performance measures, team size, team members, pricing policies, business continuity plans and overall quality of work standards. Last, but not least, the company should remember that outsourcing is a long-term relationship, and choosing the right vendor is crucial to meet the company's technology, business and financial objectives. (ArticlesBase 2011).

If the company bases the decision on mentioned steps, it will eliminate the risks of engaging in a wrongly-selected affiliation that can not only fail to improve the business, but even do harm. (ArticlesBase 2011).

As well as a preparation of a good plan of outsourcing and plan of choosing outsourcing vendors it is very important to identify outsourcing needs of the company and general reasons of outsourcing before start making the real process. One of the main reasons why the company decides to outsource a particular work is because of inadequate resources within it. Sometimes situation arises when manpower cannot be diverted to an urgent work. One of the solutions to this situation is to increase manpower or to hire manpower for a short period of time. The risk factor is involved, as the company does not clearly know the performance record of hired manpower. If there is a commonly accepted performance record of a specialized company that is willing to take up the job then taking the responsibilities of newly hired manpower and shedding additional revenue on seems to be a bad idea. (Philippines Call Center 2011).

Such kind of situation normally results in outsourcing, to avoid bottlenecks in the parent company's performance. Inadequate knowledge and technology can be another reason why a company decides to outsource a work to some specialist firms, who can provide it. As it is clear, someone more skilled and someone who does the job on a day-to-day basis can complete a job with less time and money than someone new to the field. Reduced budgets and increased expenses in operational costs can result in a decision to outsource. There can be situations when carrying out a project results in a loss. This occurs when expensive tools have to be purchased or when new knowledge or technology has to be purchased to carry out a job. The easy solution to this problem will also be outsourcing the work to skilled small-scaled businesses, which can complete the job in lesser cost and time, eliminating the expenses of purchase of new tools or technology. The huge reduction in pay rates while outsourcing to countries like India where loads of technically sound resources are available for a reduced pay rate, is one of the best reasons to outsource.

(Philippines Call Center 2011)

3 OUTSOURCING PHENOMENON IN FACILITY MANAGEMENT

3.1 Basic meanings and definitions of Facility Management

The growth of the proposals on the commercial real - estate market and, consequently, the increase of the competition between business and shopping centers contribute to the increased demand for the professional Facility Management. The transfer of all non-core functions to the outsourcers gives to the owners of real estate not only protection against major risks, but also a number of significant benefits. However, despite all the advantages, the owners have been slow to pass the functions of their business on to the third party company. It is possible that the emergence in Russia of a new direction in the management of commercial real estate - Facility Management, which technologies allow to improve the profitability of the business, significantly reduce the internal costs for the maintaining and operating the building systems as well with high quality services - will help to solve this problem. This widespread notion in the West - Facility Management is still virtually unknown for the Russian audience. Etymology of the word "Facility" comes from the Latin "facilitas" that means comfortable, friendly. In modern management English word "facilities" has several meanings: conveniences, capabilities, equipment, and installations. (Custom company 2008).

Facility Management is a practical method, which provides analysis, documentation and optimization of all processes that occur in the buildings, structures and other facilities, taking into account the real jobs and the interests of the owner of the building. In this case it is not so much about short-term cost savings, but about making prerequisites in order to reduce them in the future (Litvin 2005). There are many definitions and interpretations of the term Facility Management. Their contents are only partially different from each other. Table 3.1 shows four the most known and better reflecting the essence definitions of Facility Management.

Source	The definition of " Facility Management " term
1. Nävy 2000	Facility Management is the practice of coordination the real jobs with people and with work of the organization. At the same time, Facility Management combines the fundamentals of the enterprise's economy, architecture, engineering and Human Resource management (the American approach).
	Facility Management is the whole strategic program for keeping in constant readiness all the systems and subsystems of the building and their correlation to the changing requirements (European approach).
	Facility Management is the consideration, analysis and optimization of all the significant processes around the building, or any other object, or work, held in the company, that do not relate to the main activities of the organization (German Union of the Facility Management).
	Facility Management is the set of works (services) for the optimal use of the industrial infrastructure of the object, based on a single strategy (Association of German Managers).
2. British Institute of Facilities Management 2011	Facilities Management is the integration of processes within an organization to maintain and develop the agreed services which support and improve the effectiveness of its primary activities.
3. Alexander 1996, 25	Facilities Management is the process by which an organization ensures that its buildings, systems and services support core operations and processes as well as contribute to achieving its strategic objectives in changing conditions.
Summarizing the presented above formulations it can be concluded that Facility Management is strategic concept aimed to the organization, management and efficient usage of all material resources within the real – estate property.	

Table 3.1 Definitions of the term Facility Management.

The components of Facility Management should be considered more detailed. The first significant aspect of Facility Management is that it's a whole, comprehensive examination and consideration of all material resources from different perspectives. If previously, for example, to solve the issues within the individual departments of the enterprise the information was used and was sufficient only within their own authority and competence, then now the focus is on the appropriate resource, which is regarded by all with different points of view. (Litvin 2005).

Figure 3.1, which presents the main directions of Facility Management, shows that it combines not only technical or economical problems, but practically coordinates them between each other. That is the most important.

The next aspect is the relation between the owner and the user of the building. Both of them have completely different points of view on their real estate property and expect different results. The owner (investor) sees it as an investment and keeps the focus on the expected rent. The user otherwise, expects better support of industrial processes in the building, good service, adequate quality, and most important - low costs. Hence it becomes clear why the life cycle is an important component of Facility Management. Facility Management takes into account every single phase of the material resource's life cycle. For example, if it is a building, then it is being considered from the moment of its conception, through design, construction, transfer to the user, operation, until its renovation or demolition. The third component of Facility Management it is clearness and clarity of all the processes within the enterprise. The purpose is the transparent enterprise that always has all the information about material resources and their use. (Litvin 2005).

The primary function of Facility Management is to manage and maintain an effective work of "building environment." The "building environment" in this case refers to buildings, constructions, all real estate property. (The Facility Management Association of Australia 2006).

The objectives of Facility Management include (Litvin, 2005):

- Savings in operation of the building. It can be achieved in two ways: reducing the costs of the resources consumed by the building, especially energy, and optimal placement of equipment and staff.
- Providing a comfortable performance of the business processes in the building, especially maintaining optimal environmental parameters indoor.
- Capacity of the building's sub-systems and services to prevent the emergence of extreme situations, and when they appear - to prevent or reduce to minimum material losses.

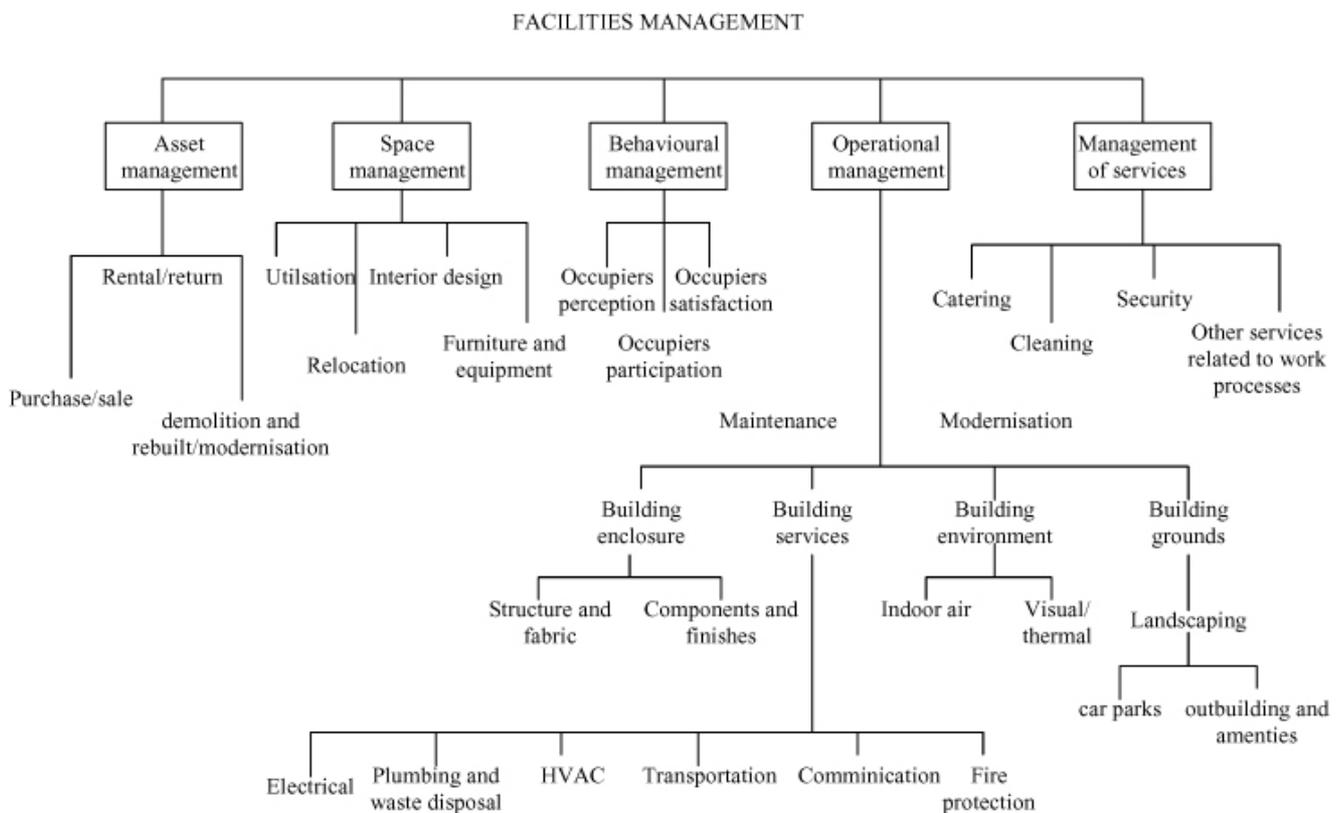


Figure 3.1 The content of Facility Management (Lindholm 2005, according to NordicFacility Management 2003)

Facility Management has not been widespread in Russia yet. This area of management, in most cases, is the predominant in activity of the Western companies. Nevertheless, despite of small prevalence, it is believed that the cooperation with the company that provides Facility Management services, promises a great opportunity for owners of large properties.

Facility Management provides (The Facility Management Association of Australia 2006):

- Safety, proper maintenance and, consequently, the long performance of the building structures and engineering systems of the object
- Cost - effective functioning of the building
- Safety and comfort for the owners, tenants and visitors of the object

The Facility Management industry is also responsible for (The Facility Management Association of Australia 2006):

- ensuring that services are delivered in a way that contributes to the productivity and profitability of those people who utilize a facility;
- reducing the impact of the use of facilities on the environment;
- minimizing operational life cycle costs of facilities;
- repair and maintenance, security and cleaning as well as more highly technical services required for the efficient operation of a facility.

The Facility Management sector is now large and complex, comprising a mix of in-house departments, specialist contractors, large multi-service companies, and delivering the full range of design, construction, finance and management. Estimates vary; market research suggests that, in the UK alone, the sector is worth between £40bn and £95bn per annum. The facilities management profession has come of age. Its practitioners require skill and knowledge. The sector definition continues to expand to include the management of an increasingly broad range of tangible assets, support services and people skills. (British Institute of Facilities Management 2011).

In recent years, a heightened awareness of the Facility Management sector has been evident, driven by a number of factors including (British Institute of Facilities Management 2011):

- Interest in outsourcing as a 'hot' management topic
- Heavy media coverage of PFI/PPP(Private Finance Initiative and Public Private Partnerships) initiatives
PPP / PFI is a form of procurement where the public sector procures services over a prescribed concession period (frequently 20 years or more) in a manner which leaves the risk of ownership and efficient operation of the project facilities with a private sector supplier (Willis Group 2011)
- Increasing attention being paid to the sector by the financial community

Facility Management is a vital strategic discipline because it 'translates' the high-level strategic change required by senior decision makers into day-to-day reality for people in their work or living space. Excellent facilities management can, amongst other things (British Institute of Facilities Management 2011):

- Deliver effective management of an organizations' assets
- Enhance the skills of people within the Facility Management sector and provide identifiable and meaningful career options
- Enable new working styles and processes – vital in this technology-driven age
- Enhance and project an organizations' identity and image
- Help the integration processes associated with change, post-merger or acquisition
- Deliver business continuity and workforce protection in an era of heightened security threats

Successful organizations in future will approach Facility Management as an integral part of their strategic plan. Those organizations that treat Facility Management as a 'commodity overhead' will be at a significant strategic disadvantage. (British Institute of Facilities Management 2011).

Nowadays in Russia, the department, established within the organization, is designed to optimize the infrastructural, administrative and economical components of the building are called Facility Management. An example of this type of management is a classical company, owning or renting facilities, which needs various services connected with the building and staff lives' maintaining. Within this company there is a structure that generates a package of solutions that allow corporation's workers to concentrate on their core business. In addition to the engineering of the building, this structure can control the resources that ensure uninterrupted operation of the corporation: department of the drivers, storekeepers, the security services. The Facility manager decides what services should be outsourced and what should not. (Talonov 2000).

3.2 Facility Management's function

Most real estate represents substantial investment for organizations and has to accommodate and support a range of activities, often taking into account competing needs. Within those activities is the owner or tenant organization's core business, for which an appropriate environment must be created in buildings that may not have been designed for the purposes for which they are now used. Yet, no matter how well focused an organization might be on its core business, it must not lose sight of the supporting services – its non-core business. Facility Management places the noncore business at the service of the core business in such a way as to protect an organization's capital investment in real estate and helps turn a cost item into one of added value. (Lindholm 2005, according to Atkin 2003).

Facility Management can therefore be summarized as creating the optimal environment for the organization's primary functions, taking an integrated view of the business infrastructure, and using this to deliver customer satisfaction and best value through support for and enhancement of the core business. We can develop this definition to describe Facility Management as something that will: (Lindholm 2005, according to Atkin 2003).

- deliver effective and responsive services
- enable changes in the use of space in the future

- sweat the assets, i.e. make them highly cost effective
- create competitive advantage for the organization's core business
- enhance the organization's culture and image.

In many organizations Facility Management function is new function that provides a connection between the core activities and the facility activities. The facility activities can also be named facility production. The position of Facility Management function in the organization is shown in figure 3.2. The core business gives to Facility Management function a budget to make it possible that the organization gets the facility services it wants. Facility Management function pays the producer(s) of the facility services for the provided services. Facility Management function can be fulfilled by a facility manager internally or by a facility manager of an external commercial Facility Management organization. (Lindholm 2005, according to Wagenberg & Jongenelen 2002).

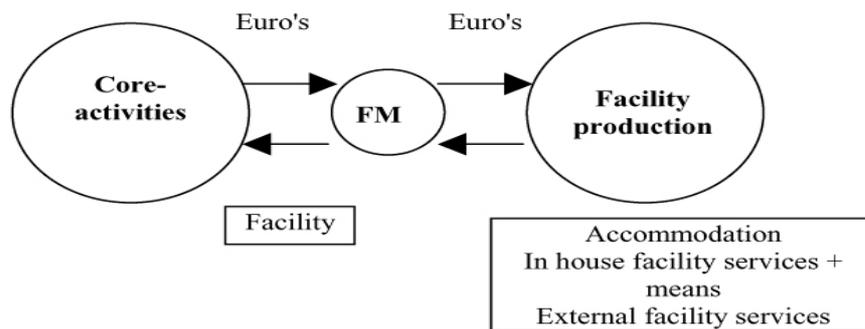


Figure 3.2 Position of the Facility Management - function (Lindholm 2005, according to Wagenberg & Jongenelen 2002).

3.3 The place of outsourcing in Facility Management

About five years ago, many managers, during the project's implementation process, had the question: to use or not to use the services of the third-party companies in a case of managing commercial real estate object? Nowadays this question does not arise. These managers have another problem, how to choose correctly an outsourcing-vendor for successful work? (Tswetkow 2011).

Each year, property owners make tenders for the companies specializing in the integrated management of real estate objects and choose the best option of the operation. (Tswetkow 2011).

Today the trend is that many services related to Facility Management, transferred to the outsourcing. In the international market there are companies that specialize in transportation logistics, cleaning, archiving, preservation, etc. However, now large companies want to get rid of the extra load in the form of Facility Management services and give them to outside companies, but the personnel who is in charge of Facility Management is staying in the company. The reason why Facility Management is given to the outsourcing is enormous costs that are hold by the owner, if he or she implementing these services him or herself. Facility Management companies can professionally optimize and significantly reduce these costs. (Tswetkow 2011).

The team of Facility managers is in charge of quite diversified tasks – starting from the technical support of the facility and ending with the conduction of relations with the tenants, issues of the financial flows' management, profit's maximization, and increase of the object's capitalization. To cope with these problems need correctly organize the management process. Therefore, how competitive is the management - company, how beneficial is to work with it, depends on the management technologies. (Cleaning Technologies company 2011).

The scheme of work with Facility Management company is simple and easy. The key point here is the coordinated work of all services as a whole complex and individual approach to each particular object. Outsourcing companies that specialize only on Facility Management solve the part of the tasks with the efforts of its own staff, technically complicated or seasonal jobs are given to subcontract. In practice, such companies are usually working to provide the interaction between company-customer and subcontractors, who perform the warranty service of different object's systems (ventilation, air conditioning), organize the work of cleaning services, suppliers of electricity, gas and water. (Cleaning Technologies company 2011).

The large management companies that are not Facility Management companies, in addition to its core aspects of the activities, can be engaged in some support services of the engineering systems, security, cleaning. In this case, part of the work is also performed by its own staff, some work is outsourced. To the ranks of Facility Management “players” often entering the companies, which started their business with one kind of activity (such as cleaning or catering services), gradually increasing the staff and management personnel and expanding its range of services. However, not every company that positions itself as a Facility Management company, it is in reality. (Cleaning Technologies company 2011).

3.4 Benefits and weaknesses of outsourcing in Facility Management

Before making a final decision about the transfer of Facility Management functions to outsourcing, all the positive and negative aspects of this process should be examined. The advantages of cooperation with the Facility company for the organization (Etalon Cleaning company 2011):

1. Focus on core business;
2. Possibility to fix costs with outside contracts (planning and budgeting implementation) for a long-term;
3. Costs' reduction;
4. Possibility to get the additional investments in technology and equipment;
5. Improvement of the company's ability of change and growth;
6. Warranties and responsibilities from a single contractor;
7. Increasing the quality and reliability of service;
8. Reduction of legal risks connected with the personnel;
9. Additional savings due to the large volume of tools and materials purchased by specialized company;
10. Preservation in good sanitary condition of the organization's property (increase turnaround time and life's service of engineering systems and equipment);
11. Preservation and improvement of the image of real estate object;
12. Preservation of the investment value of the property (the removal of the

risk of loss of yield of the object cause of repairs).

Here are presented only some benefits that a company can get by using the outsourcing service in Facility Management. This list may vary and may also be added, depending on what the client company wants to get, and accordingly, what services are, in turn, offered by the company - outsourcer. It should not be forgotten that outsourcing also generates the fundamental risks. More than half of which are structural, and therefore it is impossible to get rid of them completely. In the case of Facility Management outsourcing, the incorrect operation of the facility may create the following risks:

- accidents that threaten human lives and consequently, high costs for their removal
- accelerated physical obsolescence and premature aging of buildings and structures
- discrepancy of the Property Management System, which provided by company- outsourcer, in a competitive environment
- unprofessional operational, economical and rental policies

To reduce the possibility of such risks, both sides should jointly examine them before the contract signing. The project implementation plan, which lists all important actions, should become a result of the analysis. It should clearly indicate the nature and amount of needed resources identify all phases of the transfer of the functions and processes. This plan should also consider the potential and non-obvious requirements of the enterprise. (Krytik 2008).

Every element of the functions transferring, which seems to be «difficult», should be analyzed carefully. In this plan should be considered all the opportunities of stress relieving. The client organization should include in the contract the description of an «exit – strategy» from the outsourcing agreement. Such a strategy would give the opportunity for a company to return to its activities without loss. If the personnel, equipment and property are transferred to the company - outsourcer, the «exit – strategy» should allow to transfer them back or to make alternative arrangements. (Krytik 2008).

The risks and failures of the outsourcing is the objective reality, but no need to be scared by it. Just need to have a clear understanding of the possible scenarios. The quote from the book of Rob Aalders "IT outsourcing. Practical instruction" should be presented as an example. This quote the most accurately reflects the basic approach to outsourcing - deals making process:

"Both sides need to realize that private motives at the time of the contract signing can distort the final objectives and lead to opposite results. Client company focuses exclusively on the sum of the contract, while the service provider's team, often consisting of sales managers, thinks only about the increase in sales ... None of the parties will benefit from such an agreement ... Only if both sides show the restraint, the possibility of mismatch of the goals and actions will be kept to a minimum". (IBS company 2011).

4 THE SPECIFICITY OF FACILITY MANAGEMENT MARKET IN RUSSIA

Today Facility Management is slightly developed and only in large cities such as Moscow, St. Petersburg and Yekaterinburg. Among the outsourcing vendors with well-known names in Russian Facility Management market can be distinguished next ones - ISS, M + W Zander, Sodexo, Facilicom. Of course there are some others, but presented companies are the most popular in Russia and they are providing the integrated Facility Management. It means that they are not one-service companies; they offer a whole complex of Facility Management services.

The short description of Facility Management companies and their services will be presented in the thesis to show what types and what kinds of Facility Management services domestic, foreign and international companies can get in Russia. This picture can't be full now because it is based only on few but at the same time the biggest Facility Management companies in the Russian market, but nevertheless it reflects the specificity of the provision of Facility Management services in Russia. As well the clients of these facility management companies will be presented for identification the main users of this service in Russia. This fact also shows the specific features of Facility Management market in Russia.

ISS company

ISS company, one of the world's largest provider of services, was founded in Denmark as a private security company in 1901. ISS company entered to the Russian market in 2004 with the purchasing of Skanklin company, that specialized in providing professional cleaning services since 1997. Russia became the 43rd country where the company was presented at that time. ISS currently provides its services in 53 countries. (ISS company).

One of the special features of ISS in Russia is that all types of work are carried out by ISS staff. By minimizing the involvement of subcontractors and providing all services under a whole management, company ISS gives the opportunity to customers to reduce the maintenance costs of their facilities in comparison with the single services provided by different contractors. According to global development strategy, ISS in Russia offers a full range of services for real estate and infrastructure management. IFS (Integrated Facility Services) Management – is a comprehensive solution for real estate operation. It is optimizing the costs of the objects management due to the interaction with a single performer of all services. (ISS company).

The ISS company is offering following services in Russia (ISS company):

- Cleaning Services

Daily cleaning of the interior, territories, the implementation of single works; general cleaning after renovation and construction; garbage and snow cleaning, supply and replacement of cleaning coatings, pest control and vermin control; landscaping, lawn and trees maintenance; green cleaning

- Maintenance

Preparation and implementation of the outage schedule; current or planned repairing of the engineering systems; the organization of service support of the engineering equipment, emergency response; technical consulting

- Office's maintenance

The organization of the reception service, courier service, postal service administration; maintenance of meetings and negotiations, relocation; delivery of office supplies, drinking water, vending machines

- Catering service

- Security service

Nowadays ISS company in Russia mostly presented in the following segments of the real estate market (ISS company):

- Maintenance of the offices of major international banks and IT companies in Russia, as well as other offices of international companies
- Maintenance of the business centers class A, B +
- Maintenance of the largest modern industrial facilities

M + W Zander

M + W Zander is also a company in the Russian market, which business focuses exclusively on integrated management of commercial real estate. M + W Zander Holding AG is a joint stock company with 100% German capital. On the world market holding is represented by two units: M + W Zander Facility Engineering and M + W Zander Facility Management. Holding was formed in 1998 with the merger of two companies: Meissner + Wurst (Germany). The company manages more than 30 years, and currently serves the area of more than 10 million square meters around the world. Since 1997, M + W Zander has been operating in Russia. Started with management of 18 000 sq. m. and, later, earned the trust of major Western and Russian investors and companies, the company now serves more than 900 000 square meters of real estate.

(M+W Zander company).

On the Russian market, the company offers the following services to its clients (M+W Zander company):

- Maintenance of engineering systems is carried out with the goal to ensure safe and reliable operation of the building and comfortable working environment for employees. Technical management includes management of technical and engineering systems, eliminating possible defects, and scheduled preventive work.
- Infrastructure Management - is the implementation of internal and external cleaning of the object, the organization of security and many other services that are available on the request.

- Commercial management is a package of services for planning and cost control.
- Consulting services are provided at the design stage as well at the construction, and after building's operation stages.

The company's clients are: International Moscow Bank (Moscow, St. Petersburg), Commerzbank (Moscow), Citibank (Moscow, St. Petersburg). Also such a business - centers, as the Berlin House of tenants: Reuters, Alcatel, BBJ Consult AG (Moscow); Sankt Petersburg Haus Moskau with tenants: Bank St.-Petersburg, EADS, EvoBus, TSystems-CIS, Continental, Erbus (Moscow), Joint research and development center Yurd Centre (Moscow), Commerce and Business Center Novinsky Passage with tenants Shell, Globex Bank, Sakhalin Energy, Glencore, Merrill Lynch, Rothschild Bank, Rosinter Restaurants, TRC Planet (Krasnoyarsk), etc. (M+W Zander company).

Sodexo company

Sodexo company was founded in France in 1966 and today has more than 380 000 employees in 80 countries. Sodexo has been operating for more than 18 years in the Russian market, providing the integrated service solutions to more than 20 cities of Russia. The company's clients in Russia are the major Russian and international companies. (Sodexo company 2011).

Sodexo's service solutions include (Sodexo company 2011):

- The organization of corporate catering for different sectors of business and industry, educational and medical institutions, as well as remote objects
- Professional cleaning
- The technical operation of office and industrial enterprises, medical and educational institutions
- Full administrative support

FACILICOM company

The Russian group of companies FACILICOM was founded in 1994, and today is one of the leaders in such areas as real estate management and facility management. Professional real estate management from the group of companies FACILICOM is a whole range of services, which includes the following (Facilicom company):

- Commercial management. The service includes costs planning, control and accounting of expenditures.
- Supply. The company takes the responsibility to select suppliers and make the outsourcing contracts.
- Accounting of assets. The service consists of a permanent book - keeping, preparing financial statements; during construction works- project management, supervision of repairs, reconstruction, and monitoring the compliance of commitments.
- Maintenance of buildings. It includes start-up and operation of facilities, supervision and management of technical works and repairs. As well the provision of ventilation in the building, water supply, the production of minor repairs, maintenance of lifts and fire systems.
- Management of communication systems: access's control systems, service systems, emergency systems.
- Professional cleaning. General cleaning, daily maintenance cleaning, daily complex cleaning, chemical cleaning of upholstered furniture, carpets, window cleaning.
- Outstaffing. Infrastructure services, the temporary provision of personnel or the provision of non-core staff.

The clients of the Group FACILICOM are (Facilicom company):

- Anti-Crisis Center of Russian Ministry of Emergencies
- The Supreme Court of the Russian Federation
- The Embassy of France (Belarus)
- The Consulate Department of the Embassy of Germany (Belarus)
- The Central Bank of Russia
- Alpha Bank

- Bank "Russian Standard"
- VTB24
- Bank "Globex"
- Bank BSGV
- BIN-Bank
- Uni Credit bank and many other industrial, commercial, sports and entertainment properties.

In the other Russian cities, such as Yekaterinburg there are a really small number of organizations that professionally involved in integrated outsourcing process. Mostly the services of management companies that offered to market are affiliated to the developer, or single services like - cleaning, catering, wastes removal. For example, "Pure Light" (a representative office of the company Facicom in Yekaterinburg) deals only with cleaning.

Full development of the Russian market of commercial real estate management hampered by the lack of decent proposals from management companies, and as a consequence, the unwillingness of property owners to entrust to a third party companies issues related to professional care. No one wants to conduct experiments on its facility property that may cause negative effects. Despite this gradually the situation began to change, owners of the buildings come to understand the effectiveness of professional management companies. (Custom company 2008).

Nowadays many owners of commercial properties are ready to transfer the technical and infrastructural Facility Management to the professional management companies. However, the growth of the Russian Facility Management market is still held back. There are reasons for that: for example the lack of qualified Facility Management personnel. Another reason that can slow down the development of the Facility Management market is the feature of doing business in Russia: many Russian companies are not just concerned about their privacy, but they are not interested in any open information. Therefore sometimes it happens that, for example, accountancy is semi-legal. (Custom company 2008).

Finally, as a legacy from the Soviet period, there is a strong vertical integration of enterprises. Fear of changes of the management of such industrial groups often prevents them to transfer some certain functions to outside companies. In many cases, they are trying solve problems through the allocation of auxiliary units in subsidiaries, which carry an "internal" outsourcing of the certain functions within the group. However, the experience of developed countries shows that with such a strategy the company finally turns to outsourcing or its effectiveness are reduced because of the complexity of managing unwieldy structures. Therefore, it is expected that Russian companies in nearest future will more carefully consider the outsourcing process. (Custom company 2008).

5 EMPIRICAL STUDY ON THE EVALUATION OF FACILITY MANAGEMENT MARKET IN RUSSIA

The empirical research of the thesis has form of the case - study method. The method of data's collection is the interviewing. The placement for the research is two Finnish companies that are doing their international business in Russia. The empirical research will help to answer on the research question – what are the perspectives of the development of Facility Management market in Russia. For better understanding the relation of the case-companies to Russian market will be presented small overviews of their Russian activities.

5.1 The Russian businesses of case-companies

SRV company

SRV company is running their business in Russia since 1990. Company specializes in Russia in the development and construction of high-quality shopping centers, commercial and multifunction premises, offices, hotels and various production and logistics facilities. In geographical terms, operations focus on Moscow and St Petersburg. SRV is seeking substantial growth in the Russian market, where the company's strengths are the best concepts for premises and a transparent operating model. Maintaining stakeholder relations in Russia is a demanding task and the timeframe of construction is significantly longer than in Finland due to the difficult access to infrastructure and heavier bureaucracy. Company can succeed in this challenging business environment due to its customer - focused concepts and fully transparent operating model, which plays a major role in the overall quality of the construction and risk management. Construction that seeks to cater to the business requirements of customers is still in its infancy in Russia, and SRV can thus leverage its unique business expertise in different industries in its projects.

In Russia, SRV's operations are an open book and comply with local legislation without exceptions. Design and construction that adhere to western norms and the criteria of sustainable development in turn ensure that the end product always measures up to the quality requirements of international investors. (SRV Group).

The projects realized by SRV company in Russia (SRV Group):

- Park Inn Hotels in St. Petersburg

SRV implemented the renovation of the different premises of the Park Inn hotels Pribaltiyskaya and Pulkovskaya phase by phase on a basis of the project management contract.

- Office Building Etmia I in Moscow

The office building Etmia I is situated in the central area of Moscow at Schepkina Street 29. The development and construction of the office building was the first stage of the SRV's developer contracting project in cooperation with its local partner.

- Park Inn Yekaterinburg

The first Park Inn Hotel in Russia was opened in Yekaterinburg in March, 2006. SRV's subsidiary, SRV Russia Oy, was in charge of the development and implementation of the hotel project on a turnkey basis. SRV acquired the lot for the hotel site, arranged the financing for the building period, acted as project manager and was responsible for the construction of the hotel and the entire infrastructure.

- Extension of Lenexpo in St. Petersburg

SRV carried out the extension works of the largest exhibition centre in St. Petersburg - Lenexpo. The extension project included design and construction and was completed on a very tight schedule, from mid-January to May 2007. The total area of the extension was 4,100 m².

- New residential area "Little Finland" in Vyborg

SRV build four detached houses, two semi-detached houses, eight terraced houses and about 280 high-rise apartments in the idyllic seaside district of Papula in Vyborg, Russia.

- Logistics centers in Russia

SRV has a long experience in construction of logistics premises. Distribution centers and warehouses have been delivered in Russia for such companies as DHL, Coca-Cola, McDonalds, Onninen, MAP (M-Real), and others.

- Industrial projects in Russia

SRV has built in Russia and the Baltic countries over 30 plants for wood processing, paper, oil refinery; electronics, energy and food enterprises.

Onninen company

Onninen company provides comprehensive materials supply in the markets of Scandinavia, Russia and the Baltic rim to its customers, which include contractors, industry, energy plants, public organizations and distributors in the electrical business. Company is operating in Russia since 1994. Onninen has 4 sites in Russia (at the end of 2010). Head office and distribution centers are in St. Petersburg. Onninen Russia employed 198 persons at the end of 2010 (173 at the end of 2009). The company in Russia is led by Managing Director Kimmo Huttunen. Customers of Onninen in Russia are installation companies, retail shops and industrial- and municipal organizations. Project sales are specialized in project exports deliveries and electric material deliveries primarily to Russia and to other CIS countries. Project sales also offer planning, supervision of installation and services in getting acceptance for the plans in the countries. Heating plants ONHEAT (oil / gas) and ONBIO (biofuel) are specialties of the project sales. Project sales co-operates closely with sales groups of Russia. (Onninen Group 2007).

5.2 Evaluation of Facility Management market's condition in Russia from the side of Finnish companies.

In the interview for each of the companies were offered 10 similar questions. The answers to these questions, given by the companies, present the real aspects of using the outsourcing in the company's activity and show the specific features of the provision of Facility Management outsourcing in Russia. To make the interview's analyses to be more clear and understandable it will be presented in a form of single themes. The themes reflect the questions that were asked in the interview. It was decided to present the case of these two companies together, because both companies has technical specialization; companies have almost the same experience of operating in Russia in years and it happened so, that they are clients of each other. Therefore, by presenting their cases together in one, it was supposed that their answers could complete each other, and it would be possible to get the model of Facility Management market in Russia by the eyes of Finnish companies. The conclusions of the empirical research will be presented in the Chapter 6 of the thesis.

The interview's analyze starts with wide themes that will show the general picture of outsourcing usage in case companies and their understanding of this process. At the same time, the further interview will go; the themes will be more specific and more focused on Facility Management outsourcing.

The reasons for the company to choose outsourcing

Companies undertake outsourcing for a variety of reasons depending upon their visions and purposes of the task. While this may vary from company to company, the fruits of labor are visible among some of the leading enterprises world wide, where the outsourcing became a core component of day to day business strategies. (Flatworld Solutions Pvt. 2011).

From the interview it was found out that both case companies, SRV and Onninen, are using outsourcing for the implementation of particular tasks in various fields of their activities in Russia. According to SRV, there are two ways of managing the company: carrying out all the operational functions with own forces or using the outsourcing service. In the first case the company will have a lot of hidden costs, for example, when the company is buying new equipment the costs for maintaining and repairing this equipment should not be forgotten. The additional space for placing it and the huge paperwork with the hiring professional workers for a short term, as well as risks of employment of a new staff should be considered. When company is seeking new people to hire doesn't matter for some important or for non-core functions, anyway it should organize first an interview, then some training courses and so on. This all costs and takes time. Therefore for the implementation of non - core functions or for realization some one-time projects for a company absolutely unprofitable to hire new people and make some expensive long lasting training courses. Much easier and cost-efficient is to outstaff the personnel you need for any time you want. In this case company is paying only the price of this service and no more any additional costs or worries about the staff.

The situation is the same with the outsourcing of some departments like facility management or information technology department. Outsourcing company provides effective services, due to professional equipment and professional workers, with lower prices, as well it covers almost all the risks that can happen.

SRV company said that its strategy is economic efficiency and therefore company is trying to minimize all the possible operational costs. Company considers that with the outsourcing it is possible to do.

“ The strategy of choosing the outsourcing depends from the willingness of refuse to implement some functions with the company’s forces and how much you are ready to pay for it . “ - SRV’s administrative director 2011.

The functions transferred to the outsourcing

Before making an outsourcing decision, one of the most important analyses you need to conduct is determining your core competencies, i.e. what your company does well. Guiding principles say that you should retain the activities that are your organizations core competencies and outsource all the rest. You or your organization might not want to outsource all the rest, but you do need to identify where your strengths lie, since you don’t want core activities that directly affect your value proposition, cost advantage or product/service differentiation, to operate outside of your control. (Ashley 2008).

Onninen company is transferring to outsourcing mostly technical functions, such as: maintenance the vehicles, storage equipment, buildings and so on. Also the services connected with the usage of additional technical assets that is inefficiency to keep on the balance of the company, for instance: buses, taxis, construction equipment and so on. All these functions can be attributed to the Facility Management. The IT department of the company Onninen gives the third-party companies the functions connected with maintenance and modernization of its networks. Onninen is using the services of cleaning companies such as: outdoor washing of the building, snow removal and so on, as well as catering service, goods and mail delivery.

In its turn, SRV company is giving to outsourcing the Facility Management functions that includes the buildings and constructions maintenance, cleaning and delivery services, technical maintenance of the real estate objects, parking and security services, catering and some others. Also the IT department is transferred to outsourcing in SRV company.

The advantages outsourcing can bring to the organization

In outsourcing, the advantages outweigh the disadvantages; the pros of outsourcing have driven more organizations to step into it and experience the benefits that it has to offer. (Pactum Contract Management company) Among the many benefits of outsourcing, the primary advantage is saving money. The client can achieve maximum productivity with minimum cost. (Buzzle.com 2011).

“In my opinion the outsourcing is useful in following cases:

- *if the cost of the staff keeping and equipments’ maintenance is not efficient ;*
- *if for the implementation of particular tasks company needs a group of professional specialists that to keep inside the company is meaningless;*
- *if the company according to its policy considers it is unnecessary to be engaged in its non-core activities.”* - Chief engineer of Onninen company 2011.

SRV company considers that in ideal case outsourcing can bring such advantages to the company as:

- provision of better quality and cost - efficient service;
- allowance to focus on core business;
- increase of the profitability of the company cause of cutting some operational costs.

The risks that can occur from the usage of outsourcing

When all the risks of outsourcing are considered, one wonders how anyone ever makes the decision to use a third party. However, there is plenty of evidence that these deals are done frequently and are often satisfactory from both buyer’s and seller’s perspectives. (Axelrod 2004, 68).

In opinion of Onninen company with competent management of this process, outsourcing is not making any harm to the company. Otherwise such a system gives opportunity to use services of third-party companies that have highly-skilled specialists and various modern technologies, to solve different issues. As well it doesn’t allow to the company stuck on the same scheme of work.

"Outsourcing may cause the commercial risks in a case when this process does not cut the costs but otherwise increase them. Therefore it is always necessary to analyze the pros and cons of outsourcing of particular function in advance. Also the risks of outsourcing vendor can occur. For example, if outsourcer became a bankrupt surely it effects on its customer. The company just losing its service vendor and in some cases, depends of what kind of services turned to outsourcing, even the production line can be stopped because of it. The solution of this possible problem is just to have the vendors of the same services." - SRV's administrative director 2011.

Due to the interview it was identified that these case companies, Onninen and SRV are using Facility Management outsourcing. Therefore the following themes of the interview's analyze will be more scoped and include information exactly about Facility Management outsourcing.

The choice of Facility Management vendors. Russian or Western suppliers?

When you hire an outsourcing company, you are essentially choosing a partner for your business. The vendor should work in harmony with your business and have the same type of work ethic and dedication to success. (Main, 2011).

"So as this department of company Onninen is located in Russia, Saint-Petersburg, I suppose that the most interesting variant when the outsourcing company is Russian, but has the Western subcontractors and uses the Western modern technologies in its work. The reason for this is the ratio between quality and price. Because in reality, the Western companies - companies that have 100% Western capital and use the Western specialists – are very expensive in Russian market. But in turn, Russian companies don't have necessary skills and experience and that eventually effects on the quality of the offered services." - Chief engineer of Onninen company 2011.

SRV company chooses Facility Management outsourcing vendors through the tender. Therefore the nationality of the outsourcing company is not core factor of this choice. Mostly the big well-known Facility Management companies take part in this tender. The key factors that influence on the SRV company's decision to take this or that outsourcing vendor are: the work experience on the market, the price and quality of the services, balanced rates, professionalism.

After tender SRV gives test-object to the chosen service provider to check whether the outsourcing company really suits them. Then, if SRV agrees with the service provider and the scheme of its work, the outsourcing company gets the real object from SRV and starts to work with it. Nowadays SRV is using the services of Austrian Facility Management company M+W Zander.

The vital differences/comparisons between use and provision of Facility Management services in Russia and West.

Every country has its own culture and type of organization and leadership resulting in different levels of Facilities Management at different stages of development, which are most probably influenced by budget available. (Lindholm 2005).

According to Onninen company Western companies including Finnish ones use the outsourcing service to maximally narrow the field of their activity and focus on the core business. Russian companies turn some of their functions to this process mostly because of economical benefits.

SRV company gives quite pessimistic differences between provision of Facility Management services in Russia and Finland. In their point of view, among Russian Facility Management companies there are no professional providers of this service in Russian market. Such companies don't have professional modern equipment and software as well as systematic approach. Western companies in turn don't have flexibility and localization in Russian market.

The difficulties that company faced with getting qualified Facility Management service in Russia.

“The main difficulty is a usage of Western technologies and equipment that are not well - known in Russia even in such a city like Saint-Petersburg. Accordingly, there is no possibility for maintenance and repair of this expensive equipment.”- Chief engineer of Onninen company 2011.

SRV company in turn answered exactly the same way and added also that in Russia there are no professional specialists in Facility management.

The perspectives of the development of Facility Management market in Russia

This paragraph reflects the opinions of the case companies about nowadays Facility Management market's condition in Russia and its possible perspectives of development.

“Definitely there are perspectives of the development of Facility Management market in Russia. Because this market already now exists in some extent. But whether the quality of the services is not decent, whether the prices are quite high, the most of the Russian companies prefer to use own forces. The factor that can change this situation is a healthy competition between emerging Russian Facility Management companies. It will hold the prices for services among companies and will make Facility Management more available for a business. One more important point in this question is that Russian companies should learn to use Western technologies in Facility Management. It will improve the quality of the offered services and thereby will increase the demand for these services. In turn all of these factors will positively influence on the development of Facility Management market.” - Chief engineer of Onninen company 2011.

“For sure in Russia will be a demand for professional Facility Management outsourcing in coming years. Even now some Russian companies and most of the Western companies are using this service in Russian market. It means that there is a demand for it. With the development of commercial real – estate market in Russia will be a development for Facility Management market. These are two united components that can't exist separately. Already now possible to see how the commercial real – estate market in Russia is rapidly developing. It means that very soon will be the turn of Facility Management market. This is a very perspective field for development.” - SRV's administrative director 2011.

In the interview case-companies made a fair evaluation of conditions of Facility Management market in Russia nowadays, gave advice how to improve this situation and presented possible ways of the development of Facility Management outsourcing. The conclusions from the interview will be presented in the Chapter 6.

6 CONCLUSIONS

The purpose of this thesis was to determine the perspectives of Facility Management outsourcing development in Russia. The theoretical research was based on articles, theoretical surveys, researches and literature. Theoretical part of the thesis gave the definitions of the main key words like outsourcing and facility management, explained this terminology from the practical point of view, and created insight into outsourcing phenomena in Facility Management. As well in theoretical part was presented the picture of Facility Management market condition nowadays in Russia, were identified the main “players” of Russian Facility Management market and the main users of this service.

According to the theoretical study Facility Management is relatively developed only in the large cities of Russia like Moscow, Saint-Petersburg and Yekaterinburg. In the Russian market outsourcing companies that provide Integrated Facility Management are mostly Western. In its turn most of the local Facility Management companies are narrow specialized and provide only single services such as: cleaning, physical security, etc. The main clients of Facility Management companies in the domestic market are the Western companies, governmental institutions and departments, domestic medium-sized companies with a well-known names, domestic medium-sized companies that lease the working space in the business offices of class A +, A, B. Also in the theoretical study the factors, inhibiting the use of Facility Management outsourcing in Russia were identified. For small businesses they are high costs of the services of Facility Management companies; for industrial enterprises the complexity of changes in organizational structure, which is necessary for the transferring to outsourcing.

The empirical part of the thesis was made in a form of a case-study. It was decided to use exactly the case-study method in the thesis to reinforce the theories and theoretical findings and to collect more realistic and practical data. As well case study method gives more deep analyze of studying object in a real-life context.

In this thesis was studied the real-existing phenomenon Facility Management outsourcing and it would not be enough just to study this process from theoretical point of view. At the same time, case study has own minuses that also should be considered. Case study is a subjective method of empirical research and it does not give enough evidence to apply the results of the study to the general case.

For the empirical research it was decided to use Finnish companies that are operating in Russia. The reason why exactly Finnish companies were chosen was to get the impartial evaluation of the condition of the Facility Management outsourcing market in Russia from companies that have valuable experience of using this service, as well have Western(European) way of providing and using it. The process of data collection for case study was in form of interview. As it was defined earlier, the interview was made in two Finnish companies: SRV and Onninen. The case-study presented a model of Facility Management outsourcing market in Russia. As it was mentioned at the beginning of the thesis, it is necessary to understand that presented model can't be universal for all foreign or even all Finnish companies on the Russian market. The reason for that because the model is based only on experience of two Finnish companies that have technical specialization. But in this particular case the model helped to identify the possible perspectives of the Facility Management outsourcing development in Russia and define some factors that could improve this development.

As it was earlier mentioned in the thesis, the market of Facility Management services in Russia has only started to emerge. But despite the initial stage of its development, according to many experts, outsourcing in the Facility management can get a large spread in the Russian market in just a couple of years. The reason is the number of factors allocated by experts in the field of real estate operation.

Among these factors there is the emergence of a large number of Western companies in Russia, who several years ago thought that this market is a really risky area for business. Foreign companies are considering the presence of a professional management company with a good reputation as one of the defining arguments for commercial premises rental. Any company that enters into a new market tries to minimize all possible risks associated directly with the entering and the presence of a new market. Outsourcing of Facility Management functions is designed to reduce the risks and ensure effective, high-quality operation of the property. It allows the tenants to get rid of unnecessary minor work, and moreover, to save financial resources for the maintenance of this property.

There is another argument why having a professional Facility Management service provider in a rented real estate object is so important and so attractive to Western companies, developers and investors. Just because it is so usual in the West and they are so got used to this. Returning to the factors influencing the further development of outsourcing in Facility Management in Russia should be allocated the growth of a segment of commercial real estate. In urban areas the office complexes of "A", "B" classes and huge shopping centers, which are in need of professional operation started to emerge. As a result, taking into consideration the vector of the market development, experts believe that the owners will leave Facility Management services of their own companies and start to use the professional services. In the next year or two the demand for external managers may rise by 10%. Facility Management outsourcing market will also grow due to the fact that now there are more and more outsourcing companies that may not provide the full range of Facility Management services yet, but are offering to their customers highly specified services such as cleaning, physical security and etc.

The major metropolitan and foreign companies are opening their branches across Russia. Thus they are increasing the competition among Facility Management vendors and enhancing the raise of the quality of provided services. At the same time as the market is in infancy stage, especially in regions of Russia there is a large number of free unoccupied niches.

For companies that are providing Facility Management in the early stage it is advisable not only to compete with each other but also to cooperate and to share the experience and technologies. All of this will have beneficial influence on the development of the market of Facility Management services, bring it closer to the Western model, and help to attract new market participants, structure the relations with authorities and consumers, help to improve the legal environment of business and provided service.

The growth of Facility Management market in the Russian regions is held back by the availability of single projects from the facilities' owners. There are not much high-quality outsourcing companies leading its operations there but on the other hand, customers are beginning to understand why the real estate's managing company are needed. Nowadays in the regions of Russia the demand is planned so far only on single services of Facility Management, but it's also not bad start for the development process.

It is impossible not to notice the important fact that the modern Russian society is gradually coming to understand that facility management should be carried out by professional management companies. This is based not only on the wish of stability and smooth functioning of life support systems of facility, but also on the need of confidence in tomorrow's day and growth of welfare of property owners. Therefore, the Russian market of Facility Management services has excellent prospects for development. According to experts, by 2020, up to 70 percent of all property owners will use the professional services, and if there would be governmental regulations of the outsourcing process, this figure would reach 100 per cent mark. It should be noted that this will be a hard way, the transition of Russian business from the process of internalization to the process of externalization.

Based on Chapter 4 and Chapter 5 of the thesis the perspectives of Facility Management outsourcing development in Russia can be identified and presented here.

According to the research, Facility Management outsourcing market in Russia is in its infancy. Despite the initial stage of its development and according to many experts, outsourcing in the Facility Management can get a large spread in the Russian market in just a couple of years. The reason for that is the number of factors in the field of real estate operation. Among these factors can be allocated the emergence of a large number of Western companies in Russia, that several years ago thought that this market is a really risky area for business. Foreign companies are considering the presence of a professional management company with a good reputation as one of the defining arguments for commercial premises rental. Any company that enters into a new market tries to minimize all possible risks associated directly with the entering and the presence of a new market.

Outsourcing of Facility Management functions is designed to reduce the risks and ensure effective, high-quality operation of the property. It allows to the tenants to get rid of unnecessary minor work, and moreover, to save financial resources for the maintenance of this property. Therefore at least foreign companies already have a demand for this service in Russian market. Due to the increasing number of Western companies in Russian market this demand will also start to grow. But at the same time not only Western companies in Russian market have need for professional Facility Management, but also Russian companies that are renting working places or any kind of facilities in new business centers of "A", "B" classes that were built with Western technologies and started to appear in recent years. Facility Management outsourcing market could grow and develop also due to the emergence of a number of Facility Management outsourcing companies in Russia.

As it was already mentioned, most of Russian Facility Management companies have strong specialization of their activity, for example cleaning, catering or security and the Integrated Facility Management is offered only by a few Russian companies.

This factor doesn't allow Russian Facility Management companies to compete with Western ones and all of this negatively effect on the development of Facility Management market in Russia. Due to the still large number of free, unoccupied niches, for Russian companies that provide Facility Management services it is advisable not only to compete with each other, but also to cooperate, to learn from, and to share an experience and technologies. Introduction of new management's techniques and organizational culture's transformation will accelerate and simplify the process of transferring the Facility Management functions to outsourcing.

One more thing that could change the situation in Russian Facility Management market is that if Russian companies start to use Western subcontractors and the Western modern technologies in their work. It would absolutely increase the quality of the offered services but the price would not become so high like if it would be completely Western companies. Like it was noticed by case-companies, there is lack of professional specialists in the field of Facility Management in Russia. This factor also creates a big disadvantage for Russian companies in a comparison with Western ones.

The increase of the number of highly specialized staff in Facility Management will improve the quality of Russian Facility Management companies' services. This in turn will make them to be more competitive. The result can be achieved in the case if special training courses for engineers and financiers (Facility managers) would be arranged at the intersection of economic and technical disciplines. One more factor that could bring investment in the development of Facility Management market in Russia is a construction of new infrastructure facilities and the use of modern organizational methods of operation. That will simplify even more the work of Facility Management companies, and due to this, in some degree reduce the costs of payment for their services. In turn, this will reduce the price "barrier" of the use of Facility Management outsourcing for small businesses.

Taking into consideration all positive factors presented above and despite all negative ones it is hard not to notice that modern Russian society is gradually coming to understand that Facility Management should be carried out by professional managers. Russian business has a successful sample of implementation of professional Facility Management in the company's activity in front of their eyes. It is supposed, that in coming years Russia also will learn how to use it.

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APPENDICES

1(1)

Appendix 1 Questionnaire for the interview

- 1) Does the company use the services of outsourcing vendors in Russia? What were the reasons to use outsourcing in the company?
- 2) What functions are outsourced?
- 3) What are the benefits outsourcing could bring to the company?
- 4) What are the risks outsourcing could lead to?
- 5) If the company uses the outsourcing services in Facility Management, then what specific functions of it are outsourced?
- 6) Does company work mainly with foreign or Russian outsourcing vendors? Are there any noticeable differences between the provisions of the services?
- 7) Provide significant differences / similarities between the use / provision of outsourcing in the Facility Management in West and Russia.
- 8) What are the difficulties faced by Finnish company when receiving professional outsourcing service in the Facility Management in Russian market?
- 9) How Russia is far from the Western model in providing high quality outsourcing in the Facility Management?
- 10) Is development of the Facility Management outsourcing market in Russia in the near future expected or this still remains an unknown area?