



## MITIGATING OUTSOURCING RISK FOR INTEGRATED PROJECT MANAGEMENT

Just like individuals, companies make decisions whether to buy or rent. They evaluate whether to build new, refurbish old, or occupy existing facilities. Offices, factories, and data centers need to be constructed, repaired, and maintained - and decisions to build or refurbish lead to substantial investments.

Maintenance and repair is a constant process regardless of property age. Global enterprises face additional challenges due to a wide variety of local laws, taxes, zoning requirements, and other regulations. Delivering consistent real estate experiences in a global environment is difficult.

Most companies use experts to optimize return on real estate investments. A growing practice involves using Integrated Project Management Services. Integrators approach real estate opportunities in a strategic manner that aligns with the client's vision and goals.

Integrated service providers can provide a host of services including:

- Construction management
- Property development
- Enterprise facilities management
- Tenant improvement
- Health and safety
- Sustainability and environmental services
- Property acquisition and disposition

Real estate experts perform the services above better and faster than non-experts. However, as with any outsourced offering, there are certain risks that need to be closely managed.

For one, financial risks exist. The goal is to always achieve optimal return-on-investment for services offered by third parties. Providers spend valuable and limited resources on behalf of clients. In return, companies expect those expenses to be necessary and appropriate. Sub-optimal expenditures reduce earnings.

Health and reputational risks are also real. The most important aspects of any project are the safety and well-being of all involved. No one wants to create environmental damage, jeopardize public health, or have a project in the news for the wrong reasons.

Additionally, high profile projects may require wide public support and can face unexpected opposition.

## USING CONTRACTS TO MANAGE RISKS

Companies manage the above risks using contracts. Contracts allocate compensation and responsibilities in a manner valuable to all parties. Contracts also include procedures to ensure compliance.

However, even the best contracts cannot anticipate every real estate risk. There are too many dynamics in business, politics, and the environment. For instance:

- How do you plan for infrequent events like hurricanes or earthquakes?
- What are appropriate measures to protect people and property during periods of civil unrest?
- How do mergers or acquisitions affect existing business relationships?
- What is the right response to fraud, or allegations of unethical activity?
- How do changes in strategy affect prior real estate decisions?

There are multiple ways to answer to the questions above. For most companies, it is a process that moves one step sideways for every two steps forward. When problems arise, companies find solutions and business continues.

There are competitive advantages to establishing transparency and earning trust with integrated service providers. Strong relationships built on a foundation of trust facilitate collaboration and creative problem-solving.

## OPTIMIZING VALUE FOR ALL PARTIES

Building trust isn't always easy, and transparency needs to be mutual. There needs to be value for all parties. Most importantly, there needs to be accountability.

The following suggestions illustrate how transparency and accountability add value.

Integrated service providers need the following:

- Clarity to the client's short-term and long-term budget expectations.
- Understanding of the level of service expected.
- Knowledge of the client's strategic vision and how real estate will contribute to long term goals.
- Alignment of incentives – particularly with respect to fees, cost savings, and SLAs.
- Trust that issues or areas of uncertainty can be self-reported and addressed in a fair manner.
- Timely payment of valid invoices and reasonable fees for service.
- Clear direction for approval processes and documentation requirements.

Clients need the following:

- Effective measurement of service level delivery against commitments.
- Accurate and timely financial reporting, including invoices and budget reconciliations.
- Unrestricted access to books and records.
- Evidence of compliance with agreed fees and service level commitments.
- Consistent use of operational playbooks and fully documented processes.
- Transparency around use of subcontractors and bid processes, including any use of related parties.
- Open communication when contract ambiguity exists.
- Timely, truthful disclosure when service or compliance issues arise.

### **A DEFENSE-IN-DEPTH APPROACH TO MITIGATE RISK**

There are high stakes involved for all sides. However, no individual is responsible for the entire relationship. Financial and operational changes happen across the enterprise. Despite best efforts, information or context isn't shared with appropriate stakeholders. These information gaps lead to misalignment and potential control failures.

Companies should make internal controls around compliance a high priority. Since information gaps are difficult to prevent, most companies use a defense-in-depth to ensure compliance.

The notion of a defense-in-depth simply means that controls are strategically redundant. Interconnected systems of preventative and detective controls are less prone to failure.

Effective frameworks may include system controls, administrative controls, and quarterly business reviews. A sound control framework will also enhance operational excellence.

### **INDEPENDENT CONTRACT AUDITS: A FINAL LAYER OF DEFENSE**

As a final layer of defense, many companies engage independent contract auditors to assess compliance. Outside auditors are unencumbered by relationship dynamics or operational responsibilities.

Third party auditors can perform periodic, in-depth compliance reviews to enhance transparency. They can also help to verify that all stakeholders understand contractual responsibilities, and meet corresponding obligations.

Independent audits can uncover financial or operational challenges that were overlooked by both parties. That exposure is an opportunity to resolve those challenges proactively and collaboratively, rather than in a crisis.

An astute auditor will present facts without attempting to assign responsibility. They will obtain feedback and explanation from all stakeholders. Comprehensive reporting helps each party to understand the other's perspective and find a solution that works for everyone.

Most importantly, independent contract reviews promote transparency, which leads to an enhanced level of trust and stronger relationships. This forms a solid foundation for operational excellence, financial strength, and long-term partnerships.

The risks and opportunities associated with real estate are only growing. Management teams that address these risks most effectively will maximize shareholder value and contribute to strategic goals.

*To learn more about how to realize financial savings while developing greater transparency, accountability, and trust with integrated service providers and other key suppliers, click [here](#) for more insights from SC&H Group's Contract Compliance Audit team.*

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