

## **Governmental Strategy to Galvanize the FM Industry: The Lifeblood of Eastern European Economies**

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### **Summary**

The penetration of the Hungarian economy by foreign economies is enormous. In the early 1990s, virtually the whole state-owned economy, with various industries and agriculture, went bankrupt, and some economic sectors disappeared completely. Huge structural changes then occurred: 20 years later, manufacturing plants based on foreign investments dominate.

Mainly in industry, but also in the services sectors, a dual economy has taken root: on the one hand, there are the high profitability and efficient enterprises of the multinational companies, on the other, there are the poor, low efficiency SMEs of Hungarian owners. Because there is virtually no hope of setting up mass production industries, the services sector is essential in the development of the local economy. Facilities management services are produced entirely by SMEs, and the FM industry delivers 7% of the GDP and employs 10% of the working-age population.

This paper and the presentation discuss the governmental project for the development of the Hungarian FM industry, its preliminary outcomes and the lessons learnt.

### **The Hungarian Facility Management Society**

The Hungarian Facility Management Society (HFMS) was founded in 2005, after much preparation, for the advancement of facilities management as a profession and business discipline in Hungary. It currently has 31 corporate and 8 individual members, including the Bank of Hungary, retail banks, insurance companies and the largest service providers.

HFMS is an active member of Global FM and Euro FM, actively supports the European standardization process in CEN TC 348 Facility Management, and delegates members to the Austrian ON-K 280 Facility Management standardization committee.

HFMS acts as an umbrella organization and aims to coordinate the activities of all FM related professional associations in Hungary. Our annual conference, HFMC (Hungarian Facility Management Congress), is a unique event in the FM industry in Hungary. This year, facilities management education is celebrating its 10<sup>th</sup> anniversary at the Budapest University of Technology Economics Institute of Continuing Engineering Education.

### **The dual economy**

The split in the Hungarian economy is a fact. As Fields writes, "Models assuming that the economy has only a single sector or that all employed workers earn the same amount seem hopelessly unrealistic today."<sup>[1]</sup>

The primary sector of the economy is dominated by multinational enterprises. This sector is constantly growing, despite crises and bubbles, which of course have a deep and immediate impact on outsourced production.

The secondary sector of the economy is locally owned. Research has shown that all facilities services are produced by this local economy, but there are some circumstances which make the situation somewhat unique:

- the wage and employment mechanisms in the secondary sector are distinct from those in the primary sector
- economic mobility between these two sectors is severely limited, hence workers in the secondary sector are essentially trapped there
- the secondary sector is marked by pervasive underemployment, because workers who could be trained for skilled jobs at no more than the usual cost are confined to unskilled jobs.

The high level of foreign investment led to high dependency and a radical separation between foreign and domestic firms. Foreign investments resulted in “cathedrals in the desert” or “ivory towers”. These are platform operations, production plants importing semi-finished parts to be assembled locally for export. The high degree of foreign direct investment left the domestic economy virtually untouched, thereby sustaining underdevelopment.

Unfortunately, in a segregated economy the radical separation of primary and secondary economy does not allow for positive influences across sectors. Foreign investments are overwhelmingly isolated and domestic firms are networked, which means that everything is decided by networking and in informal ways instead of following standards and professional guidelines, in spite of what is given or seems more promising. This presents a difficult problem.

The primary economy by its very nature tends towards cooperation, and organizations together try to obtain a bigger share of the growing economy. The secondary economy is dominated by fighting – for survival – and the most successful tactic is confrontation, not cooperation. We need to break out of this situation, which could affect the lives of many future generations. But how can we do it and which are the most promising options?

The facilities management industry is the lifeblood of the Eastern European economies. Countries like Hungary lack locally owned production industries and have been hit very hard by the global economic slowdown. One of the ways of escaping this and the above situation is to develop the service industries, perhaps the most important of these being the FM industry.

## Vision

**The Hungarian FM industry should play a leading role in facilities management theory and practice in Eastern Europe, providing advanced methods and best practices for the Region.**

## Challenges

In the EU we face many challenges: the diversity of culture and languages, different countries at different stages of development, poverty, and huge social differences even within small countries, all of which result in increasing social tensions. Unfortunately, these social and cultural tensions are accompanied by a geographical and economic divide – Europe I and Europe II – and as recent developments show, this divide has a big impact on stability.

In those economies, the primary economy employs about 20% of the working age population, and often produces 90–95% of the export and 70–80% of the GDP on average. The rest is delivered by 80% of the population, i.e. by the second economy.

The role of FM services is crucial to the GDP, delivers around 20–22% of the contribution of the second economy and 7% in total<sup>[1][2]</sup>. In 2008, Hungary's GDP was €94,797 million and the contribution of the FM industry was estimated to be 7% (i.e. €6,636 million).

Local economies face other big challenges. One of them is the knowledge crisis: approximately 35% of people of working age are casual workers with outdated skills. The FM industry often employs less well-educated people, and in Eastern European countries, developing this industry can help to galvanize society as a whole.

## Working with government

Some governments tend to work exclusively with numbers: financial indicator trends, GDP, fluctuation of the national currency, aggregated statistical data, etc. and the main factor – knowledge and culture – which in the long term can influence financial and other statistical trends, remains outside of any considerations.

When we began to prepare for our initial step towards cooperation with the Hungarian government in 2006, we asked the following questions:

- Why is the strategy necessary? Is it, in fact, necessary?
- How can it help us break out of the situation and can it help our whole economy?
- There are bound to be pitfalls, but which are the most dangerous?
- Will there be any quick wins?
- Do we know our SWOTs?
- Do frameworks already exist or will we have to reinvent the wheel (again)?
- Do we have or can we elaborate vehicles for implementation, controlling and monitoring?

To our surprise, we found that there were many already elaborated strategies. Unfortunately, these varied in quality, but it was nevertheless promising that we had found a well-elaborated strategic framework that we could use as a starting point.

Two questions arose immediately:

- Can they think outside the box?
- Can we convince them?

The Hungarian government published a Strategy for the Development of Small and Medium-sized Enterprises in 2007 and this strategy has recently been reviewed. From the outset, it was clear that a strategy for the development of the FM industry must be closely related to SME strategy but must also differ significantly from it: the strategy of the FM industry should include both sides of the market, not just the provider side, which is relatively easy to mobilize, but also the demand side, which is a more difficult prospect.

Our strategy also rests on other documents: SME Development Framework, In Tune with Business Programme, Mid-term Science, Technology and Innovation Policy Strategy, Mid-term External Economy Strategy for Hungary.

There are four main factor groups (pillars) determining the state of SMEs, which served as a basis for the strategy of the FM industry:

- Regulatory environment
- Financing
- Knowledge (entrepreneurial skills, human resources)
- Development of entrepreneurial infrastructure.

## Adopt and adapt

We knew that we did not have to reinvent the wheel, and our research provided three different types of role model. It was also clear that we could not adopt any of them as they were, due to cultural differences and differences in the economic structure.

### *Type 1: Role Model 1-1*

- Core Competencies for Federal Facilities Asset Management, 2005–2020
- Investing in America: A Comprehensive Approach to Rebuilding America's Infrastructure

(Process adapted.)

### *Role Model 1-2*

- Australia: Action Agenda 2006–2008

(Idea adopted.)

### *Type 2: Role Model 2*

- UK – British Institute of Facilities Management

(Using a knowledge base and ways of communicating adapted.)

### *Type 3: Role Model 3*

- Global Facilities Management Association

(Strategic ways of thinking and communication framework adapted.)

## **Framework of strategy for development of the Hungarian FM industry**

The framework of the strategy was partly given; we were required to fill it with specific and industry related content. In the current stage of development, the main points of the strategy are:

- Introduction: terms and definitions
  - Defining the problem
  - Approach, the state of the FM industry, international outlook
  - Forces affecting the government and the industry
  - Legal and policy environment
  - Conclusions
- Vision
- SWOT analysis
- Strategic framework
- Aims and vehicles
- Financial plan
- Implementation and monitoring
- Connection to other strategies

The purpose of the strategy is to establish a formal service industry, support stakeholders in developing businesses, and provide them with industry consciousness, gravitas and dignity.

Each of these points and the related objectives are in the area of intervention – supportive regulatory environment, enlargement of financial resources, development of entrepreneurial knowledge and infrastructure – and serve the core objective of the strategy, which is the improvement of the economic performance of small and medium-sized enterprises. When setting the objectives, it was necessary to observe that the economic development of Hungary can only take place within a healthy structure if there is palpable improvement in the performance of the whole spectrum of small and medium-sized enterprises and not only in the facilities management service industry.

The horizontal goals of the FM industry strategy support the overall goals of the SME strategy: expanding employment, improving productivity, integration into the global economy and more efficient inter-company cooperation.

## SWOT analysis

The first step towards any strategy is to assess the as-is situation. This can usually be done by means of a SWOT analysis. The strategy identified many SWOT elements, the most important of which are:

<b>Strengths</b>	<b>Weaknesses</b>
<ul style="list-style-type: none"><li>• Intent of government and industry, good international relationships</li><li>• Significant part of GDP (7%) and employment (10%)</li></ul>	<ul style="list-style-type: none"><li>• Lack of proper information flow between stakeholders, lack of research</li><li>• Not recognized as business discipline</li><li>• Lack of statistical data, market intelligence, professional rules and qualification</li></ul>
<b>Opportunities</b>	<b>Threats</b>
<ul style="list-style-type: none"><li>• Strategic cooperation with government</li><li>• Strong market influence of governmental sector</li><li>• Foster consciousness</li><li>• Job creation, positive influence on labour market</li><li>• Support sustainable development</li><li>• Knowledge transfer to EE countries</li></ul>	<ul style="list-style-type: none"><li>• State of EE countries uncertain</li><li>• Size and quality of governmental facilities</li><li>• Illegal employment (30–40%)</li><li>• Fluctuation of forint, new financial threats, bubbles</li><li>• Downward tendency of quality–price spiral</li><li>• Fierce competition among service providers</li></ul>

## Current situation

The strategy in its current form is a first public draft and in Hungarian only. It has not yet been approved by the government and has not been discussed with other ministries and governmental organizations. Hungary will have parliamentary elections on 11<sup>th</sup> April 2010, and we do not expect there to be any decisions or public debates before then. We are using this transition period to make the draft strategy more widely known by organizing roundtable discussions and trying to convince potential decision makers of its importance, or at least of its existence, and of the possible role this industry might play in future development.

## Lessons learnt

- Facilities management is very often not considered to be a business discipline and is often confused with the provision of single services, like building maintenance and tenant management.
- Short-term political goals dominate: strategic considerations are not always welcome if they do not produce immediate quick wins, so quick wins are a must.
- Discussions with the project group about the market and the FM industry lasted more than a year, but the group still does not understand the nature of a service industry, which shows the need for more research and effective communication.

## Main pitfalls

- The facilities management industry and the real estate industry are not the same; this appears hard to understand.
- There are no reliable statistical data available and the NACE Code does not include the facilities management industry. The FM industry, with the exception of some services, is therefore also missing from the national statistical codes.
- Cooperative and confrontational economies: a national strategy should include plans and actions for supporting the whole industry, both the primary (cooperative) economy and the secondary, local (confrontational) economy.

## Quick wins

- Knowledge: harvest and share. Knowledge sharing and education must go hand in hand
- Alliances with other professional associations
- Communicate!

## Closing thoughts

A strategy for the development of a whole industry can have an effect that reaches far beyond the directly approached companies and population. Many other facts must be taken into consideration if we want to have a long-term impact and a real chance of success.

Questions still to be answered:

- Does the East–West divide matter? How and why (not)?
- Is the cultural diversity in the EU a challenge or a danger?
- Are our organizations mature enough to meet the challenges? (*Not sure.*)
- Are FM services an important cultural link? (*Yes, I think they are.*)
- Could a successful governmental strategy in a single country impact on the EU as a whole?

## Footnotes, References

1. *Dual Economy*, G.S. Fields, Cornell University, <http://digitalcommons.ilr.cornell.edu/workingpapers/17>
2. *National Strategy for the Development of the Hungarian Facilities Management Industry*, unpublished draft, Ministry for National Development and Economy, Hungary
3. *FM Market Size in Europe*, Sven A. Teichmann, European FM Insight, [www.eurofm.org](http://www.eurofm.org)
4. *Strategy for the Development of Small and Medium-sized Enterprises 2007–2013*, Ministry for National Development and Economy, Hungary, <http://nfgm.gov.hu/en>