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Article information:

To cite this document: John D. Gilleard, Pan Yiquan, (1999), "Challenge and opportunity: facility management in Shanghai", Facilities, Vol. 17 Iss: 3 pp. 105 - 111

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<http://dx.doi.org/10.1108/02632779910256443>

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Challenge and opportunity: facility management in Shanghai

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Keywords

Facilities management, Property management

Abstract

China is currently the fastest growing economy in the world. This paper discusses the current state of property management in Shanghai and reviews the challenges and opportunities for facility management in this city. In particular, it focuses on the embryonic role of FM resulting from the changes that are taking place in attitudes, both at the corporate and government level. It considers issues arising from personal observation of, and visits to, companies in Shanghai, and discussions with professionals in the property management sector in China. It describes typical property management provision in Shanghai and the growth in the importance of training for property management as part of the growing recognition of the significance of facility management in China. However, it concludes that until the property management industry fully matures it is unlikely that facility management will be widely practised for some time.

Background

The Peoples Republic of China (PRC) is geographically the world's third largest country and the largest by population. China's population in 1995 was 1,211 million. By the year 2000 the population is forecast to be 1,269 million increasing to 1,371 million by the year 2010. China is currently changing from a command economy to a market-based one and from a rural, agricultural society to an industrial, urban one. Since 1978 economic reforms have advanced China's integration with the world economy. China is currently the fastest growing economy in the world. Official statistics indicate that per capita GDP grew 8 per cent a year (in real terms) between 1978-1995. The 1998 GDP forecast is also 8 per cent, although the current Asian economic crisis may impact the final figure.

China's economic growth has been driven by four factors (World Bank, 1997):

- (1) A high savings rate, which has supported vigorous rates of investment and capital accumulation.
- (2) Structural change, which has been both a cause and an effect for growth, e.g. the shift in agriculture's share of GDP from 71 per cent in 1978 to about 50 per cent in 1995.
- (3) Pragmatic and incremental reforms resulting in a move from a planned economy in 1978 to post-1993 a "socialist market economy with Chinese characteristics".
- (4) Economic conditions, e.g. the "advantages of backwardness" whereby poor countries grow more quickly than rich ones.

Shanghai, China's largest city, has been designated the future financial centre for the People's Republic of China (PRC). Foreign investors typically see Shanghai as a base for expansion into one of China's fastest-growing regions, the Yangtze Delta. Shanghai's economy has grown by an average 12.9 per cent per annum over the period 1991-97. Known colloquially as "dragon head", the city is characterised in the famous waterfront street the Bund. Here former government offices are undergoing renovation as corporate headquarters for foreign and local companies (Plate 1). Nearby, in the Puxi district, hotels, offices, apartments and shopping centres tower over former Buddhist temples and low rise residential quarters. To the east, across



the Huangpo River, lies Pudong, a commercial and banking sector which has in recent years attracted almost US\$20 billion of foreign investment (Plate 2). However, "Shanghai's emerging property market is already some way into its first major cyclical downturn due to the large oversupply of property expected to 2000. The (Shanghai's) Mayor recently announced a moratorium on further land sales and construction approvals to restrict the excess supply" (Jones Lang Wootton, 1998). It is these circumstances that form the background to the emergence of facility management in Shanghai.

Objectives

This paper therefore seeks to explore the current state of property management in Shanghai, as this city is at the forefront of property development changes in mainland China. (Beijing being the capital of government and much further removed from free enterprise tendencies, despite the loosening of communist ideology, is in a more controlled and less turbulent position.)

In particular, analysis focuses on the embryonic role of facility management (FM) resulting from the changes that are taking place in attitudes, both at the corporate and government level. The purpose of the review is to highlight potential implications that

could impact the expansion of FM understanding and services in China.

Data collection

Most details presented in this paper are the result of personal observation of, and visits to, companies in Shanghai. Additional insight has also been gained by one-to-one discussions with property developers and academics interested in the discipline, and by working closely within the discipline in the Hong Kong Special Administrative Region (HKSAR) and China. One of the authors has established Asia's first MSc programme in FM and Gilleard (1994; 1998a; 1998b) has first hand knowledge of FM in Hong Kong. Here the discipline has grown significantly in the last few years – certainly considerable more than in China proper. The other author, Pan Yiqun has researched property development in Shanghai. Both have been in unique positions to observe the current growth and tentative emergence of facility management as a professional discipline within the region.

Nevertheless the role of FM in China still lags behind Europe and the USA both in impact and import. In Shanghai, FM is a relatively new idea but awareness is emerging. In June 1998, a meeting was held between academics and practitioners within the discipline from Hong Kong, Europe and Shanghai.



The pertinence of the questions and comments from mainland professionals and academics indicated a heightening appreciation to the issues of FM; their contributions have been synthesised within this paper.

Property management in Shanghai

Pre-1949 there was less than 30 high-rise buildings in Shanghai. (High-rise > ten storeys.) By the beginning of 1999 it is estimated that > 2,000 properties in Shanghai will be classified as high-rise. These buildings are managed by Shanghai’s embryonic property management sector. During the 1990s approximately 2,000 property companies registered in Shanghai. Many of these companies (approximately 600) are owned by “local governments” with the other 1,400 divided between limited (approximately 650), public (non-listed) (approximately 320), or listed public companies (85), and the remainder between Shanghai, Hong Kong or foreign co-operatives, as shown in Table I (Pan, 1998). Many of these property management companies share common development

characteristics, i.e. “late starting, fast development and high quality” (Yue, 1997). However, vacancy rates for prime Grade “A” office space are currently 40 per cent in the Puxi district and 70 per cent in the Pudong district.

Shanghai’s property management companies typically provide security and janitorial services as well as simple operations and maintenance. Their work has traditionally been blue-collar intensive with limited training available for operatives. In addition, most companies manage a limited range and number of properties related to their core employer. Hence, with the drive towards more complex and sophisticated built assets an alignment within the property management sector has come about. For example, among Shanghai’s property management companies approximately 300 are members of the Shanghai Property Management Association (SPMA). The SPMA was founded in 1994 to organise training and technical workshops for its members. Many of these 300 companies have either been established by joint venture (local government and overseas partners) or directly from key sectors in the industry.

Table I Shanghai property management companies

Nature of company	State owned	Collective ownership	Private	Listed	Limited	Joint venture	Overseas
Total	634	330	11	91	911	147	37

Examples of the latter are the Jinjiang, Huating, Xinya, and Hengsham and Donghu companies with their hotel industry background. It is from these companies that Shanghai's fledgling outsourcing providers are beginning to emerge.

To date the majority of property management functions are dependent on an administrative unit such as a housing management office or a capital construction department for their work. But joint venture property management companies are also active in Shanghai, such as in the JinMao Building (Plate 3), a joint venture between the China Shanghai Foreign Trade Center Co. Ltd and Hong Kong's First Pacific Davies Group (FPD). In this case FPD provides technical backup for security, engineering, landscaping and cleaning. Another company, the Shanghai Yinghai Sanxing Property Management company – a joint Sino-Japanese venture – has adopted the operating standards and procedures established by the Japanese Building Maintenance Association. In this way Japanese "know-how" and expertise are linked to local experience to provide property management services to a range of office buildings, banks and commercial centres.

Plate 3 The JinMao Building, scheduled for completion in 1999



Intervention and training

The Chinese Government recognises that the management of complex and modern properties requires specialist skills. They also understand that a unified approach to property management is essential. Hence, from 1 January 1999, the Ministry of Construction has mandated that the position of "property manager" should be formally established. It has been recognised that training for property management personnel is a new development in China, "requiring great difficulty and heavy responsibility on behalf of a province, self-administrative zones and government departments" (Ministry of Construction, 1996). In order to achieve this, rules and regulations concerning the necessary skills of a property manager have been set. (Prior to this date the term "property manager" could be used by anyone irrespective of his or her skill base.) Thereafter all property managers will need to be formally trained and in possession of a "certificate of competency" for the post. Training for the certificate is based on a combination of in-house training and attendance at educational establishments. In addition, the Ministry also aims to establish a unified fee structure for property management in order to foster the growth and development of property owners' committees for public residential buildings, as well as to establish property maintenance standards.

The Ministry of Construction has identified the core knowledge required by property management personnel as:

- A basic knowledge of building structures, building facilities, and gardening (grounds).
- An understanding of real estate development, operation and management.
- A knowledge of company, contract, taxation and civil law.
- A knowledge of computer applications in property management.
- Familiarisation with life safety management.
- An awareness of national and local property management policy in terms of practice and implementation.
- A working knowledge of organisational theory, operation and management.

In order to acquire these skills it is anticipated that as well as attending in-post training each property manager would need to receive formal training by attending seven essential

training courses. Three of these would be assessed by formal examinations, Table II.

The aim of this formal training is to ensure a basic competency in property management skills among professionals charged with maintaining and operating modern buildings. It is anticipated that not only will the property manager be in a better position to deal with routine management issues after training, but also possess a wider ability for decision making in areas such as public relations, negotiation and other more complex business concerns.

Facility management

In China the term facility management when translated typically includes the characters for property management. As yet the distinction between the disciplines is not totally appreciated, although changes are beginning to take place. Whereas property management services are usually restricted to the common areas of a building such as the building's fabric and envelope, grounds and gardens, lift lobbies and vestibules, as well as common services such as cleaning and security, FM is also concerned with the management of the tenant space. FM may be said to radiate both inwards and outwards from the workplace of the building occupants. Hence a focus on property management reduces the scope to primarily the built asset whereas FM is more user-oriented. However, in Asia the terms property management and facility management are still being debated. "Certainly there is a distinction between facility management as it is practised in North America and Europe, and the Asian model of property management. (Property Management) is centred on management of the common areas of a building ... such services may or may not extend beyond the front door of the tenant" (Longworth, 1997). The current debate is

also exacerbated by Eastern cultural traditions of paying more attention to tangible assets – property and equipment, rather than people (Gilleard, 1998b).

Chinese property managers have historically taken on the role of "housekeeper", responsible only to the owner. Consequently, successful property management simply relates to the timely collection of rents and an ability to minimise tenant complaints. The idea of managing the property for the benefit of tenants has been missing. In general, building owners appear unwilling to invest in new services and equipment that only benefit the tenant. For example, office tenants typically share the cost of energy consumption on a *pro rata* space occupancy basis. Therefore, owners only indirectly benefit from introducing energy efficiency into their development projects. When interviewed one property manager equated energy efficiency with "not using energy" and as a result turned off elevators during on-peak electricity periods. In another instance a property manager set the summer temperature at 27°C before the AC kicked-in. In other words owners and their property managers still believe there is little to be gained from applying IT in the management of their properties.

Hence integrated building management systems (IBMS) are rarely used or, if adopted, rarely applied in a rigorous manner. Short lease terms – typically two to three years – exacerbate this situation, as does restricting landlord repairs to common areas, with all other repairs normally being undertaken by the tenant. However, the recently established undergraduate degree in facility engineering at Shanghai's Tongji University will hopefully begin to change these kinds of entrenched attitudes. In addition, other continuing professional development programmes focussing on strategic developments in FM may also be offered in

Table II Training plan for property management personnel

Title	Contact hour	Remark
1 Basic concepts of property management	80	Examination
2 Law related to property management	30	Examination
3 Building construction and design	30	
4 Building facilities	30	
5 Real estate development and operation	30	Examination
6 Real estate policy	30	
7 Computer applications	30	

the near future in Shanghai, jointly by Tongji University and the Hong Kong Polytechnic University.

Implications

Emerging trends are starting to encourage real estate and facility management professionals to “monitor their performance, question existing operations and promote changes without specific directives from their senior management” (Adams, 1996). But more needs to be done if the property manager is not to be overwhelmed by the growing demands of tenants for improved services and facilities to meet expectations of an increasingly global and sophisticated tenant market. The overall picture is considerably brighter than just a year ago however. Understanding of the benefits of providing services that respond to the tenants as well as the building is definitely growing in China.

This trend for continual company improvement in its managerial services is echoed in the demand by individuals for more focused training, and the support for this by professional associations. And although formal training of FM professionals in mainland China is at an early stage, training links with overseas groups are moving ahead very quickly. The main consideration is how to ensure that expertise is disseminated in a suitable form that is culturally acceptable within an Asian context. As yet cultural sensitivity is not really an issue that has impacted the spread of FM ideas to China.

Nevertheless, the adoption of a FM perspective among Shanghai property managers will better service the increasing number of mergers and consolidation taking place in the property management sector there. But this has another aspect. A demanding global business community not only wants but needs the kind of customer service found in the West. For without this, owners run the risk of losing tenants in an ever growing competitive market place, and tenants risk losing business if the daily functioning of their offices does not match their demands for a more effective (and responsive) workplace.

Conclusion

Mindful of the need to please and retain customers, client organisations are

increasingly calling on the facility manager to conduct customer satisfaction surveys, to determine suitable performance measurement criteria for facility manager surveys, and to examine global best practices. In China there is now an emerging recognition that no matter how good an organisation’s property portfolio, people are the key to quality FM. This issue is an important one where the underlying culture mitigates against those who do not form part of one’s immediate group. Hopefully it will gradually encourage property managers to change their mindset from being focussed on built assets towards those who occupy their buildings.

In Shanghai embryonic developments are beginning to take place. Property management service providers are now recognising the benefits that could be gained by continuously offering training programmes and refresher courses to their employees. The emerging trend for demanding continuous upgrading of company services is also echoed in the demand of individuals for more focussed FM training. One result of this is the recent introduction of the four year undergraduate facility engineering degree at Tongji University and the proposed collaborative FM CPD programme between Tongji University and the Hong Kong Polytechnic University.

Nevertheless FM in Mainland China is still in an early learning cycle. In Hong Kong FM is at a much more advanced stage, albeit somewhat behind Europe and the USA. However, there are many experienced FM professionals within the HKSAR, and an increasing awareness of the discipline evidenced by the success of the graduate programme at the PolyU. China will inevitably begin to draw upon this skill base in the development of its own FM industry. Indeed, there are businesses already offering FM services from Hong Kong to clients in the mainland.

The practice of FM has a global dimension and this is starting to impact on the way property owners and managers now undertake the servicing of their buildings in China. The increasing presence of many overseas companies operating in China will also be influential. However, until the property management industry fully matures it is unlikely that facility management will be widely practised for some time.

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