

# Performance Gains needed in Chinese State-Owned Hotels

Chinese state-owned hotels need to enhance their performance and market competitiveness, according to the SHTM's Dr Kam Hung and Professor Hanqin Qiu, along with co-researchers, in a recently published research article. Having conducted in-depth interviews with managers and other employees of state-owned hotels in Hangzhou, they identify little distinction between the ownership and management of the hotels, the lack of a profit motive, the absence of staff incentives and the inability to match private sector competitors as causes of concern. Yet stable workforces and entrenched locational advantages suggest that these hotels "have the potential to become profitable businesses", the researchers argue.

## State-Owned Hotel Sector

As the first market opened to foreigners after the introduction of the open door policy in 1978, China's hotel and tourism industry was once "considered a pioneer of economic reform", the researchers observe. They note how the industry expanded rapidly with the help of strong government support and a favourable business environment, to the extent that by 2009 there were 14,237 star-rated hotels in China. As the industry expanded, the proportion of state-owned hotels reduced from 59% in 2001 to 38% in 2009.

Yet a major problem in the industry, the researchers note, is that many of these state-owned hotels continue to experience low profit margins or losses and suffer from inefficiency in their operations. Although state ownership is recognised as a "major cause of such inefficiency", it seems that the Chinese government has no intention of privatising large-scale, state-owned enterprises. Given that the ownership of these hotels is unlikely to change, the researchers highlight that it is "important to identify and remedy the problems plaguing" them.

## In-Depth Interviews

To identify the challenges facing Chinese state-owned hotels and provide suggestions on how to resolve them, the researchers conducted interviews with hotel employees in Hangzhou, one of the "fastest growing second-tier cities in mainland China in terms of tourism development". By the end of 2007, there were 250

star-rated hotels in the city, with annual revenue of RMB793.2 million. Additionally, many well-known international hotel brands have a presence in Hangzhou, creating "fierce competition in the local market" and raising concerns about the "survival and effective management" of their state-owned counterparts.

Of the fifteen interviewees, three were general managers, two assistant general managers, four department managers and six non-managerial employees. They had worked in the industry for around 16 years on average, although the managers had considerably more experience than the non-managers, at 24 years versus 3 years.

During the interviews, the employees were asked to describe the "current conditions" of their hotels and identify the challenges they faced. In particular, they were prompted to discuss issues such as the hotel's operations, human resources and market positioning.

## Problems of Ownership and Management

The interviewees identified a number of problems arising from the lack of a clear distinction between the ownership and management of state-owned hotels. For instance, "constant intervention" by government officials results in "low efficiency, unprofitability and less of an ability to compete" with other hotels, the researchers report. Managers are not free to make their own decisions, and any decisions they do make are often subject to lengthy delays while awaiting approval.

Moreover, profit making is not regarded as an "important objective" for these hotels. Rather, the interviewees indicated that priority is given to providing hospitality services to government officials, which is in conflict with aims such as enhancing asset value and making a profit. The researchers argue that this priority has "become an operational burden" for the hotels, and "explains their underperformance" compared with privately owned hotels.

Not surprisingly, then, the interviewees all regarded international hotels as having "superior management systems" and "more experience" than state-owned hotels. Although the researchers note that some state-owned hotels have attempted to implement changes in their management systems, most such attempts have been

thwarted by various obstacles, the most important of which is their inability to “separate management from ownership”.

To overcome these difficulties, the researchers suggest that managers should be given “more power in the decision-making and implementation process”. If they are to remain state owned, the operation and management of these hotels should resemble those of privately owned hotels. It is also important to remove the social objectives of state-owned hotels, argue the researchers, because the need to provide hospitality to government officials makes it difficult to determine whether such losses are caused by “bad management” or because the hotels must “fulfil these social objectives”.

## Human Resources

Yet the interviewees noted several positive aspects of working in state-owned rather than privately owned hotels. The managers of state-owned hotels seem to be more loyal to their employers than those in the private sector, and the style of management is more “humanised”. Furthermore, while the tourism industry is renowned for its high staff turnover rates, this does not seem to be a problem among employees of state-owned hotels, who enjoy regular staff meetings, social activities and “abundant training and internal promotion opportunities”.

Nevertheless, the researchers note the lack of staff motivation in state-owned hotels, which provide job security but no incentives for employees to excel. If these hotels are to become profitable while in the hands of the state, the “iron rice bowl policy ought to be eliminated”, they argue. They also suggest that state-owned hotels should introduce “incentives and competitions” to enhance staff motivation. Indeed, the stability of the workforce provides “greater incentives to train workers”, which could result in “higher quality and more consistent levels of service”.

## Competition

Many of the interviewees noted that state-owned hotels have limited competitive power against other types of hotel, as they operate independently and lack the advantages of international hotel chains. The researchers thus suggest that management be shifted to the regional level, which would remove competition among local state-owned hotels and “elevate” their competitive power in the market.

They also suggest that these hotels have some advantages that could be further exploited in their marketing. One such advantage is the “premium geographical location” of many state-owned hotels. The researchers explain that state-owned hotels in Hangzhou were established before other types of hotel, and hence often “possess the best locations in the city”. As many such hotels also have a “rich history” in accommodating important political leaders, they could use this “celebrity effect” in their advertising to attract guests and increase profitability.

## Performance without Sacrifice

The researchers conclude that because privatisation “does not fit the political agenda of Chinese leaders”, state-owned hotels need to find ways to enhance their performance “without selling the major government assets”. Their focus on Hangzhou should be extended to other cities, they note, because state-owned hotels across China certainly have the potential to become profitable.

### Points to Note

- State-owned hotels still represent a large proportion of China’s hotel industry.
- They face a number of challenges to their operations and profitability.
- Greater separation of ownership and management is urgently needed.
- State-owned hotels could exploit their existing advantages to increase their competitiveness.

Hung, Kam, Zhang, Hanqin, Lam, ChiFung, Yang, Guoqiang, Pang, Daixin, Chen, Zhongwen, Li, Jing, Yang, Fuying, Yan, Linqun, Wang, Chenfei and Deng, Yuan (2014). “Managing State-Owned Hotels in China: The Challenges and Remedies”. *Journal of Hospitality and Marketing Management*, Vol. 22, No. 7, pp. 752-769.