

TRANSFORMATION AND REFORMATION

OF CHINA'S STATE-OWNED HOTELS

中国国有饭店的转型与变革研究

(英文版)

Written by Dai Bin (戴斌 著)

Translator-in-Chief: Wang Xiangning (王向宁 总主译)

Translated by Shu Juping, Xu Mingyu, Bai Zhijing (束菊萍 徐明宇 摆志靖 译)

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Preface

International Tourism Cooperation Needs More Academic Exchanges Between China and Other Nations

—The Preface to China Tourism Academic Collection

In 1979 China started the policy of reform and opening-up. During these thirty years of development, the tourism industry has gained valuable experiences in all phases of modernization, industrialization and marketization. However, in the early years, the real focus of the policy was to earn hard currency from the inbound tourists. Today a new strategy has been initiated to develop the three main tourist markets—inbound, outbound and domestic markets. In the early stages, the tourism management organizations integrated the needs of both the government authorities and the private entrepreneurs. The current situation is that tourism associations and commercial enterprises cooperate under the supervision of the government authorities. In the early years, the tourism operations were labor intensive with management mainly based on experience. Today's industry is driven by business innovations and supported by modern technology and capital operation. China's tourism industry not only merges gradually into the nation's economic and social strategic development system, but also plays a leading role in international tourism community. In 2008, in spite of the impact of the worldwide financial crises, China achieved remarkable tourism records of 131 million inbound tourists, 45.84 million outbound tourists and 1.712 billion domestic tourists. Evidence reveals that China's tourism industry has now entered into a new phase

of development—mass-based tourism. This is undoubtedly the golden age for Chinese tourism, but it also presents old and new challenges. China has never been in such an urgent need to reinforce cooperations with other nations and regions, so that a nationwide sustainable development in tourism industry can be enhanced with more mature international experience, managerial expertise and technology. China's tourism industry has the capability as well as responsibility to make a more practical and effective contribution to the prosperity of the global tourism industry and distribute tourism's benefits to all.

China's tourism industry embraced the international community three decades ago with open arms. Likewise, its related academic research and higher education initially began by studying methods used in developed countries, but it was also closely related to the real practice. In the early 1980s, China's tourism study was after the western methods in almost all aspects such as basic concepts, academic framework, university level course books, training programs, faculty teams, and managerial staff. Until now, the research paradigm, evaluation system, and values orientation in the Chinese tourism academic were all based on the western academic system. Tourism in China has developed quickly, especially during the mid-1990s when domestic tourism was booming. Rapid growth in Chinese outbound tourism started early in the 21st century and was coupled with the government promotion of higher education and scientific research institutions. A group of tourism scholars with both indigenous consciousness and modern academic norms attempted to establish a tourism academic system with both Chinese characteristics and an international perspective. Beijing International Studies University (BISU) is one of the typical academic institutions established under this axiom.

Beijing International Studies University was founded in 1964 and has become fully committed to the business of tourism since 1981 when the National Tourism Administration of China became its governing body. BISU has also become China's leading academic center for higher education in tourism and tourism academic research. This is not only because it has a large number

of institutions including the School of Tourism Management, the Academy of Tourism Development, the Tourism Education Press, the Academic Journal (Tourism Edition), the travel agencies and the Beijing Hospitality Institute—the first independent college of hospitality in China, but also because of the many reputable and influential academic elites it attracts. For years, BISU has played a leading role in the areas of student enrollment, both undergraduate and postgraduate, academic theses, monograph and textbook publications and applied research achievements for both government authorities and private enterprises. These achievements symbolize BISU's ideology which emphasizes International Perspectives, Indigenous Consciousness, Problem-Solving Orientation and Academic Norms. It is the development of an energetic national tourism industry that provides higher education and academic institution, including BISU, a valuable foundation of theoretical research. Meanwhile, it is the best time ever for China to develop international communication and cooperation for the purposes of tourism academic research. It is acknowledged that the Chinese tourism market has been vital to the global economy during the past 30 years; equally, tourism academic research from China should also make a great contribution to the prosperity and development of the international tourism arena.

China's academic research in the field of tourism has achieved tremendous success in both the tourism industry and in the higher education of tourism. Nonetheless, due to the differences in research topics and methods, as well as the language barrier, a full understanding of the reality is yet to enlighten the mainstream of the international academic organizations. With that in mind, the Beijing Educational Committee has launched a visionary program to support Beijing International Studies University's efforts to promote China's tourism academic achievements internationally and to expedite the process of international academic communications. Therefore, the academic committee of the Beijing Tourism Development and Research Base has selected the academic outcomes that represent the academic works of the theoretical

construction and applied research reports. The selected works highlight the different research methods and comprehensively reveal the typicality of the research group and the diversity of the research methods. English translation of the first set of achievements is presided over by Professor Wang Xiangning and her team of ten experts and scholars from both China and overseas who have both language advantages and tourism knowledge.

It is our hope that this project will introduce Chinese tourism scholars' research achievements to the tourism scholars in other countries. We also expect to follow up with more frequent and larger scale academic exchange between the Chinese tourism scholars and the international experts. More academic exchanges and cooperation between China and other nations will promote further communication and strategic collaboration in the tourism industry.

Dai Bin

Professor, PhD

Vice President of China Tourism Academy

6th July, 2009

❧ Foreword (I) ❧

Professor Dai Bin is one of my students and one of the best friends. Therefore, when he finished his latest book *Transformation and Reform of China's State-owned Hotels*, and asked me to preface it, I accepted it with pleasure.

I first got acquainted with Professor Dai Bin in the autumn of 1996, when I was teaching at Nankai University. He had just started his master's degree at the school of tourism. His solid theoretical knowledge, sensitive academic thought, hardworking spirit and humble attitude attracted my attention immediately. Especially, it was his active participation in my class on *A Comparative Study of Travel Services Management and the Management of Tourism Advertisement and Promotion* that impressed me a lot. I recall that it was his participation that made the other students in that session more active. After graduation from Nankai, Professor Dai Bin went back to teach at Anhui University of Finance and Economics. Because of his excellent work, the school made an exception and promoted him to associated professor very quickly. In the winter of 2000, Dai moved his family north to Beijing, and joined the faculty of Beijing International Studies University. Since then we have become colleagues.

After graduation from Nankai, Professor Dai Bin has been working actively in tourism academic research. He wrote and published a large number of profound articles of original value. Professor Dai Bin has become an outstanding figure in new generation of the tourism academics. In my view, it is the demand for academic support for the rapid development of China's tourism industry that is the background for his quick success. The generous support and help from his predecessors is another reason for his success which also shows the academic atmosphere and excellent team spirit of China's tourism academic circle. What's more, the diligence and dedication, sometimes even his craziness about tourism has undoubtedly laid foundation for his success. I feel quite proud of my student and my friend having achieved such great results!

Professor Dai Bin started his study on state-owned hotels beginning with

his master's thesis *Modern Hotel Groups*. After that he has systematically researched and studied the formation, development, operation and function, restrictions for development, innovations and prospect of China's state-owned hotels in a series of projects such as *Tourism Industry Development Plan of Shenzhen Special Economic Zone Development Group*(1998), *the Transformation and Development Strategy of the Shandong Dongying Hotel*(2000), *Strategic Union of Chinese Airlines Hotels* (2001), and *the Reorganization and Development of the Hotel Industry of Beijing Capital International Airport Group* (2002), etc. Based on the related theories of modern institutional economics, organizational behavior and organizational development along with state-owned enterprise reform and international hospitality management, he has tried to answer the following questions: Why did state-owned institutions choose to enter into such a competitive industry? What are the reasons that lead to low efficiency of State-owned hotels (SOHs) in market economy? What is the right model for China's SOHs to maximize the benefits of industrial innovations? What are the critical issues in the process of transformation and restructuring of SOHs? How to resolve related problems? The systematic answers to these questions are core contents of this book.

I am not going to make a judgment about this book because it might mislead the readers. But I believe Professor Dai Bin's profound academic knowledge, insight and sense of academic mission as a Chinese tourism scholar together with five-year hard work and study will make this book a great one for all tourism scholars and people who work in hospitality industry. For the judgment from these people after reading, it will be "The benevolent see benevolence and the wise see wisdom."

As his teacher and friend, I sincerely hope that Professor Dai Bin will continue to make great academic achievements in the future.

Dr. Du Jiang
President of Beijing International Studies University,
September 10, 2002

Foreword (II)

The imbalance between supply and demand of hotels, the low efficiency of the whole hospitality industry, the competition and pressure from transnational hotel brands, the investor change caused by separation of state-owned hotels from government administration and the assets transformation and management reorganization caused by some new regulations and laws are forcing china's hoteliers to face all these dramatic changes before they can enjoy the success caused by rapid development of hospitality industry and state-owned hotels to take a majority to shoulder the burden.

Although the structural and ownership factors do not affect the operation result directly, they do play a decisive role in whether the hotel can establish a management structure and operating mechanism in line with the modern enterprise system. All who are familiar with the hospitality industry understand the significance of optimization of the management structure and operating mechanism for today's state-owned hotels of China. Statistics shows that the number of hotels in process of transformation is so big that it not only affects the present and future of related hotels, but also affects the stability and development of the whole hospitality industry. From this point of view, Professor Dai Bin has chosen a good subject in the right time.

Three years ago, when I prepared my doctoral dissertation, Professor Dai Bin's book *Research on Modern Hotel Groups* impressed me a lot. Three years later, when I finished reading this book, I savored every word in his profound understanding and incisive analysis of the transformation and organization development of China's hotels. I can still feel Professor Dai Bin's persistent strict academic style and strong sense of commission. It looks like a method changing from theory to practice. Though, it has revealed the author's deep understanding of the hotel industry. The research on hotel is a new application subject. I think its value lies more in the empirical evidence than the theoretical value.

Thus, the depth and easy understanding of the study are equally important. The depth is the basis for easy understanding which is the result and a necessary condition for it to be applied into production. For the industry, the best theory is the one that can solve the actual problems.

“The high quality research does not necessarily mean a high quality result.” However, not everybody dares to write “essays that are not so academic” (quotation from Professor Dai Bin). Therefore, I appreciate his attempt and admire his courage.

In the new century, the Chinese hospitality industry which faces serious challenges can maintain a sustainable development depending on the environment to a large extent. These environmental factors include various aspects such as legislation, regulation system, human resource, growth and development of hotel derivative industry, etc. I hope scholars and theoretical workers can produce more practical books.

Dr. Zhang Rungang,
Vice Director, Department of Quality Standards and Management,
China National Tourism Administration,
September 5, 2002

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Chapter 1 Introduction

1. Research Background

1.1 Theoretical Innovation on Transformation and Organizational Development of China's SOHs

State-owned assets have taken an absolute majority share of the Chinese tourism hotels and relevant tourism accommodations industry. Since 1987, the proportion of the number of state-owned foreign tourist hotels and their number of room in all Chinese foreign tourist hotels showed a downward trend. In 1987, the proportion of the SOHs in all hotels was 80.05%, and they took up to 78.83% of all hotel rooms. In 2000, the number decreased down to 63.41% and 78.83% respectively. Nevertheless, the current number of the SOHs still comprises the majority part of Chinese foreign tourist hotels.

Judging from their operational performance, neither the number of entrepreneurs nor the productivity of SOHs, which comprise the majority of the whole hospitality industry, earns a corresponding share in terms of economic performance. Although the operating income of the SOHs is increasing every year, in some regional markets, the large SOH groups have even taken a relative monopolistic status such as the Beijing Capital Tourism Group with only 5% of the rooms in the whole city, took a 16% market share in 2001. The SOHs are still at a disadvantage if we evaluate from an operating efficiency index such as occupancy, total profit, and overall labor productivity. With the number of the hotels and the production capacity (the numbers of the rooms) increasing every year, the total profit of the SOHs has been declined since 1994. In 1997, the SOHs as a group lost money and what is more, the loss is increasing every year.

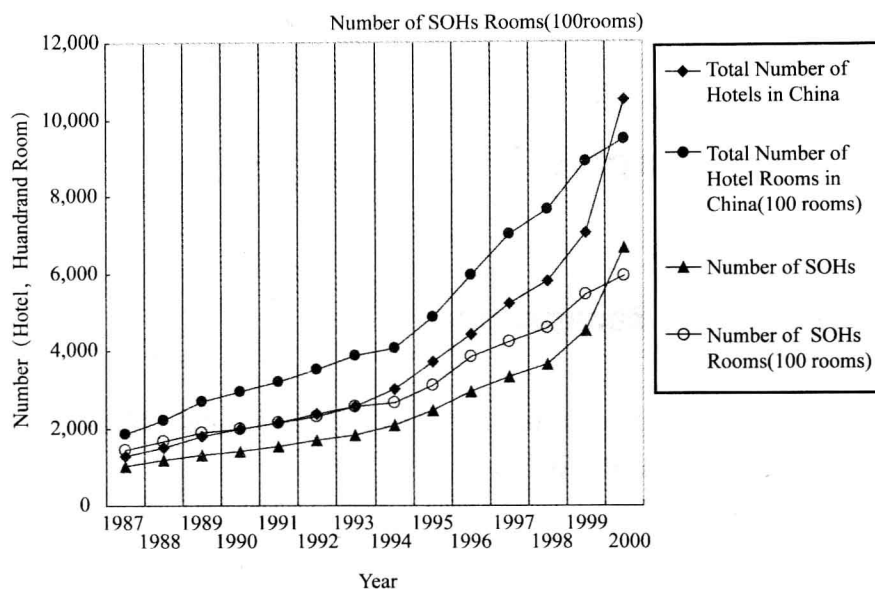


Figure 1-1 Proportion of State-owned Foreign Tourist Hotels and Their Room Numbers in the Whole Chinese Foreign Tourist Hotels (1987-2000)

Table 1-1 Operation Performance of SOHs(1991-2000)

Year	Occupancy of SOHs(10,000 RMB)	Operation Revenue of SOHs(10,000 RMB)	Total Profit of SOHs (10,000 RMB)	Total Staff Numbers	Overall Labor Productivity (10,000 RMB per Capita)	Profit Per Capita (10,000 RMB per Capita)
1991	63.47	930,663	94,900	NA	2.9	0.30
1992	66.99	1,251,916	140,214	374,011	3.35	0.55
1993	67.8	1,818,777	221,815	414,499	4.63	0.70
1994	61.93	2,431,308	216,751	439,763	5.53	0.75
1995	57.26	2,712,172	119,793	508,344	5.34	0.49
1996	54.56	3,440,738	81,162	550,746	6.25	0.47
1997	52.43	3,691,318	-59,407	594,075	6.21	0.20

Continued

Year	Occupancy of SOHs (10,000 RMB)	Operation Revenue of SOHs (10,000 RMB)	Total Profit of SOHs (10,000 RMB)	Total Staff Numbers	Overall Labor Productivity (10,000 RMB per Capita)	Profit Per Capita (10,000 RMB per Capita)
1998	50.46	3,638,661	-210,375	618,751	5.88	(0.06)
1999	51.45	3,743,793	-299,639	680,999	5.5	(0.16)
2000	54.34	4,650,009	NA	621,551	7.48	0.38
2001	55.13	3,169,800	NA	NA	NA	NA

* source: Analysis and calculation of data from *The Yearbook of China Tourism Statistic* of the past years. The data of 2001 is based on star rated hotels.

In comparison with the overall performance of the Chinese hotel industry, there is no big difference between the average occupancy of the SOHs and that of the overall industry. However, if we look at the increase in operating costs, we will find that the increase is not proportional to the increase in scale.

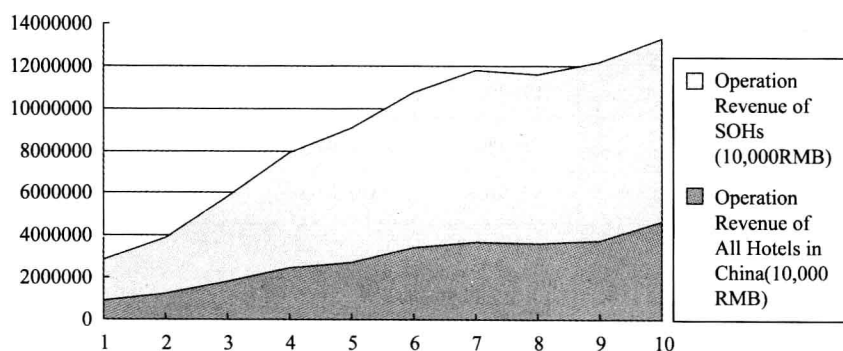


Figure 1-2 Comparison of Increase of the Operating Income between SOHs and Nation's Tourism Hotels (1987-2000)

The overall assets and capital operation of the SOHs is unsatisfactory. The micro-level business operation and the financial performance of the SOHs are also not so satisfying. Table 1-2 shows that large numbers of SOHs are becoming an increasing burden for their state-owned investors. Some have already affected the market operations and development strategies of core businesses of these investors.