

INDUSTRIAL REORGANIZATION & GROUP MANAGEMENT OF STATE-OWNED HOTELS

国有饭店产业重组与集团化管理

(英文版)

Written by Dai Bin (戴斌 著)

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

Translated by Zhang Wei, Kang Rui, Han Ge (张巍 康蕊 韩鸽 译)

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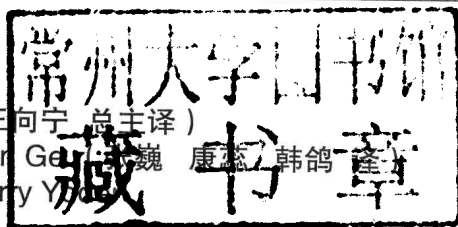
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Preface

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

❧ Preliminary Remarks ❧

Shakespeare said in *Hamlet* “the time is out of joint.”

The current state of affairs is in flux. Old ideals, ethics, and orders collapse rapidly and new habits, norms and systems have not yet been established. Everything has lost its familiar support, the world is in painful uncertainty, and the future is unknown. . .

Similar to the situation and grievance in Shakespeare's period, in recent times the massive Chinese state-owned hotel industry has lost its direction and entered a period of indecision. State-owned assets gradually withdrew from the industry while foreign-funded hotels, swept along with the tide of globalization, aggressively entered the market. How to reform the tens of thousands of state-owned hotels, propel them into the market and withdraw the state-owned assets in an orderly way, and how to create local Chinese hotel brands considering the gamut of foreign brands, has undoubtedly become the historic responsibility of Chinese hotel operators and the future of the Chinese hotel industry.

In this era of change, it is surely a path without clear direction, but every previous pioneer, who was full of passion and vision, dreamt of becoming a new giant in their industry. Although their starting points and courses were different, they chose the same goal: through industry restructuring, to create a new type of group and establish a structure capable of participating in international competition. Therefore, Dr. Dai's new book, *Industrial Reorganization & Group Management of State-Owned Hotels*, is very timely with its comprehensive research, thorough information, practical and thoughtful

analysis, and innovative thinking. It will be an extremely valuable reference and guide for operations in our endeavors.

The select leaders who began the restructuring process boldly faced the challenges introduced by the first ten international hotel groups that had already entered China, and seized the initiative. From two-star budget hotels to super-luxury platinum five-star hotels, the international brands have almost saturated the entire Chinese hotel market. In product management, sales networks, capital operation, human resource development and many other aspects, these international groups exerted great pressure on state-owned hotels, surpassing them in terms of their occupancy rates, average room rates, and gross operating profits. Before improving product quality and operating efficiency, the state-owned hotels should give priority to defining property rights, developing a blueprint for reorganization, establishing and coordinating brand names, and reforming old systems—a series of difficult prerequisites that make reform very difficult and unpredictable.

China's state-owned hotels should survive and must develop. In the future, the tourism market in China and around the world will become a dominant force. By 2020, annual worldwide international tourist consumption will reach 2 trillion US dollars, and daily consumption 5 billion US dollars. By then China will be the foremost tourism destination. If the state-owned hotels can form an actual internationally-competitive group, establish their own brands, and take a share in this huge market, it will undoubtedly be an indication of the industry's future. But government officials, investors and professional managers must go beyond this pinnacle of progress; it is their historic obligation.

A giant of theory must stand up before a giant in industry. Dr. Dai, the writer of this book, is one of the most active and influential authorities on theory in Chinese contemporary tourism enterprise management and economic research. In recent years, his academic research has had significant value in the promotion of the government's policies and enterprise reform. As we

discover the ambitious scope and detailed commentary in this book, it is entirely possible to predict that when China becomes a tourism giant and Chinese hotel groups and brands become internationally dominant, we will reread this pivotal work and recognize its impact in the development of the Chinese hotel industry as epoch-making.

Lü Haiyan

President of the China Tourism and Hotel Industry Association

Director and Senior Vice President, Jin Jiang International Group

Chairman of the Board and General Manager, Jin Jiang Northern Company

19th August, 2005

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Chapter 1 Introduction

Section I Background and Significance of the Research

I. Principal Concepts

1. Hotel

The basic meaning of a hotel is a facility which provides accommodations for tour groups and travelers. This meaning, through different time periods, in various geographical locations, and because of different internal functions and management, led to a variety of names for “hotel”. In Chinese history, there were “inns”, “relay stations”, “official buildings”, “guest houses”, “hotels”, “taverns”, “feudal lord halls”, “everywhere buildings”, “welcome guest houses”, etc.^① In the national standard (GB/T14308-2003), the concept “traveling hotel” is defined this way: “According to different customs, it could be called a hotel, motel, guesthouse, resort, club, building, center, etc.”^② Even in English speaking countries, in addition to the general word “hotel”, there are inns, taverns, guest houses, resorts, motels, youth hostels, tourist hotels, and airport hotels, etc. A hotel in the modern sense is a corporation which provides a lodging facility, and services such as dining, entertainment and business affairs for the consumers (mainly tourists) in one or several connected buildings.^③ In this book, “hotel” refers to a broad concept which includes commercial travel accommodations, state-owned hotels without commercial goals, large-scale reception organizations like Diaoyutai, and motels and guest houses. According to

① 王人兴:《中国旅游史话》,北京:中国旅游出版社,1984:130~140

② 中华人民共和国国家标准《旅行社饭店星级的划分与评定(GB/T14308-2003)》。北京:中国标准出版社,2003

③ 戴斌:《现代饭店集团研究》。北京:中国致公出版社,1989:7



statistics from the National Tourism Administration, by the end of 2002 China had 287, 500 accommodations and tour reception organizations, including 8880 star-rated hotels. ①

2. State-Owned Hotel

The reference to the state-owned hotel is mainly from the perspective of property rights. In this sense, either a commercial institution handling the tourism market or a reception organization for the government, any facility owned by the country is called a state-owned hotel. In order to clearly delineate this, we will call hotels with state-owned assets on holding status (including direct and indirect holding) “state-owned hotels”, while hotels with shareholding status will be excluded from discussion as they are in the domain of private capital hotels. In this book, the term state-owned hotels refers specifically to corporations whose investors are national and regional governments and which are operated in the form of sole proprietorship or holding (including relative holdings).

3. Hotel Group

Foreign scholars usually refer to “hotel chain” or “hotel company” to distinguish a “hotel group” from an independent hotel. In this book, “hotel group” refers to interrelated corporate groups whose core is hotel corporation, whose principal component is the hotel product and whose activities are restricted by systems such as property transactions, integration of capital, management model output, manager dispatch, marketing network, etc.

4. Industry Reorganization

Industry reorganization can also be called corporation reorganization and be explained by transaction cost theory (Coase, 1995), property theory, also known as residual right theory (Sandford J Grossman and Oliver D. Hart, 1986), management center theory (Michael Di Cookie, 1999), and competitive advantage theory (M. Porter), etc. The term “state-owned hotel industry reorganization” specifically refers to, without changing the state-owned nature of the hotel assets, reorganization and restructuring of hotels belonging to state government departments in charge of hotel assets for commercial aims such as strengthening state-owned hotel market competitiveness, increasing the value of state assets, etc. Theoretically speaking, the extent of state-owned hotel reorganization is smaller than state-owned hotel transition and

① 国家标准《旅游饭店星级的划分及评定》3.1.3 款之定义。



transformation. The former is limited to investment and strategic management problems, such as goals, components, methods of reorganization, headquarters management models and group development strategies, etc. The latter is related to the possibility of changing the nature of state-owned hotel assets and operations of independent state-owned hotels in the micro-environment.

II . Background and Practical Significance

For a long time, hotels in China played a supporting role. In the early days of the PRC there were hotels for administrative and business reception, internal staff training, convalescence, and with the development of the tourism market, for accommodations and dining for tourists. In the eyes of investors and the public, they seemed like indispensable but unappealing groups of agencies. After the mid-1990s, especially since 2003, the situation has changed. Whether operators of state-owned assets or owners of foreign and private capital, whether traditional tourism companies or enterprises in civil aviation, railways, energy, or the food industry, these groups all embraced hotels and developed important strategic plans for promoting the Chinese hotel industry as a whole to gradually transform from supporting institutions to an operational industry cluster. During this period, state-owned hotel industry reorganization and grouping development has played a crucial role.

In the year 2004 on April 17th, the most influential administrative merger was that of the Beijing Tourism Group, Xin Yansha Holding (Group) Co. , Ltd. with Quanjude Ltd. , which had been operated by the Beijing National Capital Committee. This merger increased the assets and the business volume of the Beijing tourism group to 15 billion and 10 billion RMB respectively, and brought a new opportunity for the integration of assets of the state-owned hotels under the Beijing tourism group. In November, the vice-director of the National Tourism Administration, Zhang Rungang, was appointed vice-president of the Beijing Tourism Group, as well as the president of Jianguo Hotel Management Corporation which includes hotel chains like Jianguo International, Kay Hotels, Hualong, Shindom Hotels, etc. This event showed that hotels in Beijing were seeking to be more closely integrated under the guidance of a unified strategic plan. Meanwhile, the Beijing Tourism Group increased investments to “Ru Jia”, a promising budget hotel chain in relative holdings and aspired to acquire other budget hotels, showing its confidence in this new industry and its desire to expand influence in the

hotel industry through budget hotels. Since 2003, along with Xinya, Jin Jiang focused more attention on the hotel industry as its major business. In the year 2004, the Jin Jiang International Hotel Management Corporation had more than 130 hotels scattered in over 20 provinces and cities, and the total number of its rooms was the third largest in the Asian hotel industry. Led by the Guangzhou provincial government, more than 20 hotels including the Huayuan Hotel and the China Grand Hotel were combined to form the Ling Nan International Corporation Group on March 29th, 2005. This showed that the industry reorganization and re-grouping of state-owned hotels in southern China should not be overlooked in the structural changes in the Chinese hotel industry. This influence was amplified by the addition of other groups: the Yuehai Hotel Group of Guangdong province, Shanxi Tourism Ltd. of Shanxi province, the Tianjin Tourism Group of Tianjin, the Huangshan Tourism Group of Huangshan city, the Jinling Hotel Group of Jiangsu province, Huatian International of Hunan province and the Henan Tourism Group of Henan province; the era of hotel industry centralization initiated by regional governments had arrived.

Reorganization practices regarding hotel assets belonging to large enterprise groups of the central government, were accomplished according to the request “separate the major from the minor, and strengthen the major” from the State Council National Capital Committee. Corporations supervised by the SCNCC integrated the scattered hotel assets in succession. The China Aviation Group founded the Tourism Business Ltd., the Dongfang Aviation Group founded their own hotel group, the Daqing Petroleum Administration Bureau established the Daqing Petroleum Development Group, and central corporations with tourism as their major business, such as Hong Kong China Travel International Ltd., the China Travel Service Group, and the Huaqiao City Group, highlighted their leading status in the hotel industry by combining assets and forming special companies. In addition, central corporations like COFCO, China Poly Group Corporation, and the Hua Run Group reorganized their own hotel assets in an effort to make the hotel business their major focus, seeking greater development, more independent operation and wider impact in the tourism market.

Regardless of how we judge the intentions and goals of the state-owned hotel industry reorganization and group operation, it is evident that there are more and more government state-owned hotel groups leading reorganization in the industry. Not only is this a fact, but it has practical significance for the China hotel industry framework and the tourism market. We can agree or disagree with it, but we cannot ignore it. Therefore