

Thesis

SERVICE QUALITY OF LUXURY HOTELS IN CHINA



I hereby declare that this thesis is wholly the work of Maurits de Beer. Any other contributors or sources have either been referenced in the prescribed manner or are listed in the acknowledgements together with the nature and the scope of their contribution.

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Summary

Inspired by several articles about China's hotel industry and its issues in service, this thesis focuses on the service quality of the luxury hotels in China. As China's hotel industry has sustain a rapid development in a relatively short period, literature indicates that there are severe issues in providing service quality. However, this thesis focuses only on the current issues in service quality of luxury hotels in China. Therefore the goal of this thesis is 'to analyse and evaluate the service quality of luxury hotels in China, in relation to the rising demand in tourism, the upcoming hotel and hotel chain development in China and the current economic transition period, in order to identify issues concerning service quality and the service delivery process.' Thereby the following research questions are related to this goal:

- What is service quality and what is a service delivery process?
- How has the hotel industry in China developed over the recent years?
- In what way will the hotel industry in China develop?
- What are current issues in the luxury hotels concerning service quality?
- How will the rapid expansion of luxury hotels impact service quality?
- Which recommendations can be made to optimize service quality for luxury hotels?

This thesis is based on a literature research, a field research in several big cities in the People's Republic of China and a visit to the Annual PATA Conference in Macao. During the field research several managers of luxury hotels were interviewed. All interviews were performed as open-interviews. Furthermore, this thesis is based on the expertise and experience of both Chinese and western managers in China's hotel industry.

Providing service quality will be essential in order to survive in the competitive international environment, which the hotel industry in China has become today. This thesis first focuses on what the meaning of service quality is for the hotel industry. Then, this thesis will elaborate on China's hotel development since the open-door policy in 1978. China's relatively young hotel industry has developed rapidly since the open-door policy in 1978. Factors as ownership and government involvement were impacting the perceptions of service quality 20 years ago. In a later stage, the Chinese government stimulated hotel investment, which resulted in a boost in hotel development.

Despite the rapid development of hotels in China, some studies found that the standard and quality of services were still far below international standards (Tsang & Qu, 2000).

Furthermore this thesis will unfold the development of hotel chains in China. China's likely development will be in the form of hotel chain development. The development of hotel chains, both international as domestic, will not only provide accommodation to the future influx of visitors, but will also improve service standards significantly.

Where hotels in China offer a great "hardware" (hotel facilities, architecture) nowadays, the "software" (service, communications) is still facing several issues. However issues are not as negative as some literature does indicate. The issues in service which are playing a role at the moment are mostly errors during the service encounter. This means that something goes wrong in the interaction between guest and employee. Factors of failing during the service encounter are insufficient language knowledge, cultural differences between guest and employee and no esteem during the service encounter by the employee. The insufficient performance during the service encounter is a major challenge for the hotel management within the luxury hotels in China. In order to manage the service issues properly, hotel management is selecting their employees on a positive working attitude rather than on skills. By making use of special training programs in the hotels skills will be learned. Besides that, training in the English language is also of great importance to perform during a service encounter.

Furthermore, both international and indigenous hotels are suffering from severe labour issues. As a result of the growing competition in China's hotel industry, many hotels suffer from high turnover rates. Due to high-turnover and a lack of motivation of Chinese employees there is a severe lack of quality candidates on the labour market. This shortage creates pressure on the hotel and tourism schools in China. As Human Resources departments are searching for solutions to attract and retain quality candidates, the rapid hotel development continues.

The (future) rapid growth of China's hotel industry will create a certain chaos for hotels to maintain their service standards. However the providing of service quality will be a key to survive in the competitive environment the hotel industry in China has become today.

Preface

Service quality is a measure of how well a product is delivered. A service is perishable, a service is differentiating. Both statements are true, however in this matter cultural, political and economical aspects will play an important role in the service delivery process. A destination and its political and economic situation will define in a strong sense the delivery of service.

It was in the year 2004 that I discovered the phenomenon service. During my internship in the Bali Hyatt hotel (Republic of Indonesia, Bali), as a management trainee, I got fascinated by service. Working for an international hotel chain I had the chance to learn everything about service and service standards. An international hotel chain mostly has brand standards to maintain the quality of a product and more important to offer the same service in their hotels throughout the world. Soon this made me think; if there is an international hotel in Bali, service strongly depends on the hospitality of the Balinese and the political and economic situation of Bali, but on the other hand if this hotel would be in China or Japan would the service be that much different?

Besides cultural aspects, which are playing a role in the service delivery process, political and economical aspects are affecting hotel development. Policies are set by different hotel companies, which are resulting in offering maximize service. I believe it is interesting to compare service quality of different hotels, and thereby to compare service quality in different big cities as well.

During my placement I had build up a great affinity with Asia and especially top-luxury hotels in Asia, so for me it was clear that my thesis subject would be in that direction. As I believe in challenges I was looking for something interesting to discover. Reading all the articles of the immense growth of China hotels and the negative rumours about service, I knew I had found my challenge in the exciting People's Republic of China.

There are a few people I would like to thank for a variety of reasons. Firstly, I would like to thank my supervisor Theo de Haan. Without his knowledge, perceptiveness and keen sense for oversight this thesis still would be a jumble of random ideas. I would also like to thank Brad Kirk for inspiring my choice for the topic of this thesis. Finally, I would like to thank all interviewed managers who gave me more insight in this thesis topic.

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Thesis summary

Service Quality of Luxury Hotels in China

By: Maurits de Beer, March 2006

Inspired by several articles about China's hotel industry and its issues in service, this thesis focuses on the service quality of the luxury hotels in China. Therefore the goal of this thesis is 'to analyse and evaluate the service quality of luxury hotels in China, in relation to the rising demand in tourism, the upcoming hotel and hotel chain development in China and the current economic transition period, in order to identify issues concerning service quality and the service delivery process.'

This thesis is based on a literature research, a field research in several big cities in the People's Republic of China and a visit to the Annual PATA Conference in Macao. During the field research in China both Chinese and western managers were interviewed.

This thesis first focuses on what the meaning of service quality is for the hotel industry. Then, this thesis will elaborate on China's hotel development since the open-door policy in 1978. Followed by an overview of the future hotel chain development in China. After given a clear overview of China's hotel industry and business context this thesis then will focus on the current service issues, which are playing a role in luxury hotels nowadays. Furthermore what impacts the future 'booming' development will have on providing service quality will be discussed before going to the final conclusions and recommendations.

Given China's growth potential in tourism, there are still some service issues where China's luxury hotels are dealing with. The insufficient performance during the service encounter is a major challenge for the hotel management within the luxury hotels in China. In order to manage the service issues properly, hotel management should select their employees on a positive working attitude rather than on skills.

Furthermore, the difficulty of finding and retaining quality candidates for hotels is a severe issue, which will become bigger when hotel development will continue in a great pace. In order to retain employees, luxury hotels should change some of the traditional habits related to a company's culture in order to adapt to the China context. To motivate Chinese employees requires effective Human Resources management.

Chapter 1 - Introduction

§1.1 Context

There is a saying in China, ‘*hua zhong you hua*’ which means, ‘there is more than what is said’. This certainly applies to the complexities and nuances of China’s travel and tourism industry, which are the outcome of numerous unpredictable social, economic and political factors converging in a time of great change. The world’s most populous country only opened its doors to international tourism in 1978 and has grown its industry from its communist roots to become a major player in the global tourism arena.

§1.1.1 Growth of an Industry

‘When China will wake up, the world will shake up’ – Michael Hendler, Hotel Manager Shangri-La Bangkok, 2005.

The number of international travelers to China has risen steadily and rapidly over the last two decades (except for the dips in 1989, 1998 and 2003 because of the Tiananmen Square issue the Asian economic crisis and the outbreak of SARS, respectively). According to the China National Tourism Administration (CNTA), more than 91.6 million tourists visited China in 2003. Of that number, foreign arrivals totaled more than 11.4 million. In the last two years, China has become a bright spot in the otherwise gloomy global economy. With most economists predicting a steady PRC (People’s Republic of China) economy over the next years, international and domestic (business) travelers are expected to continue to flow to China and thereby each visitor needs a place to stay (CNTA, 2003).



(Map of the People’s Republic of China)

During the 1980s and 1990s, the Chinese government encouraged foreign investment in the hotel industry and allowed foreign-owned hotel companies to develop hotels that met international standards. By late 1997, the country had 2,724 star-rated hotels, including 57 five-star and 157 four-star hotels. By the year 2000, China boasts more than 7,358 hotels for overseas tourists, of which 129 are rated five-star and 441 are rated four-star (Tsang & Qu, 2000).

When China first opened its doors to international tourists in the late 1970s, the sudden influx of foreign visitors created a great demand on China's undeveloped lodging industry. Therefore hotel development was given priority between 1981 and 1985. The last 12 years enormous efforts were made to create a sufficient hotel construction and renovation. The Chinese government was confronted with a shortage of rooms, and therefore investment in hotels was heavily stimulated which resulted in an over-capacity of beds.

Despite of the over development of Chinese hotels, some studies found that the standard and quality of services were still far below international standards (Tsang & Qu, 2000). Literature includes problems as poor language ability and communication skills, a lack of property maintenance, unreliable reservations system and poor sanitation. At present, service standards improved significantly due to government stimulation and the introduction of service standards, however still service issues do occur. Thereby the hotel industry is also facing the problem of finding qualified employees to provide services that could meet the standards of the foreign tourists. Most service workers in China lack an understanding or appreciation of international service standards according to most literature. Because China was closed to the West for so long, its standards of living are different from western societies, and a discrepancy in expectation of service quality has existed long-time between foreign tourists and service workers. Also expressed the same opinion, in several articles, was that the concept of service was non-existent during the era that Mao Zedong ruled China. Many hotel employees had service attitude problems, which drew constant complaints from international tourists. Further, in an article of Zhang (1987), was pointed out the lack of education and training in tourism management as a reason for the poor service in the hotel industry in China.

§1.1.2 Booming development

At present day, the People's Republic of China is full of great "hardware" (hotel facilities); thereby the hotels are still developing more and more hotels throughout the country. U.S. and other Western hotel companies are expanding rapidly in China as the country emerges as an economic superpower and prepares for the 2008 Olympics. Working with local developers, brands as Marriott, Hyatt, Starwood, Shangri-La, Accor and Hilton are signing management-contracts, which makes the investment of the hotel companies low. By making low investments in hotel properties the international brands enjoy huge benefits (Van Walbeek, 2005). Rooms in upscale hotels in Beijing and Shanghai can fetch prices rivalling those found in large U.S. cities. Mid-price hotels, such as Holiday Inn are also proliferating. The main focus of many hotel chains is in China; many hotel chains are building more hotels in China than in any other foreign country. The reason behind this is quite simple; the number of inbound visitors to Mainland China rose 20 percent to 109 million in 2004, breaking the 100 million mark for the first time, according to the China National Tourism Administration (CNTA). Foreign business travel, in particular, is fuelling the boom as the country heavily attracts foreign investment. But not only inbound tourism is growing rapidly, also China's domestic travel is growing rapidly in the third largest country of the world. Especially the middle class is exercising greater purchasing power and citizens are freer than ever to travel (Yu, 2005).

§1.1.3 Issues in service

However despite all the hotel constructions, the "software" (services and communications) is still lacking behind the development on educational level. Literature indicates that the hotel industry is lacking behind in providing service quality according to international service standards. However, since the open-door policy in 1978 China has endured a transition period, where a centrally planned economy is making way for a free market economy. Yet, this change will take time and therefore hotel companies are dealing with several issues in providing service quality according to their service standards.

According to most literature the knowledge of English is still insufficient among Chinese hotel employees. This is resulting in several complaints by international guests. Literature shows that Chinese hotels often lack an understanding of international service. However, this thesis focuses on the luxury hotels in China. Whether mentioned service issues are also applicable for the four and five star segment this thesis will further point out.

Besides severe service issues hotel companies also have to deal with severe labour issues as literature indicates Whether these labour problems impact the total service quality of luxury hotels in China this thesis will further discuss.

This thesis will further analyse the issues in the service process in luxury hotels in China. Therefore the following goal is adjusted:

§1.2 Goal and Research Questions

Goal of this thesis is:

To analyse and evaluate the service quality of luxury hotels in China, in relation to the rising demand in tourism, the upcoming hotel and hotel chain development in China and the current economic transition period, in order to identify issues concerning service quality and the service delivery process.

The research questions:

- ❑ What is service quality and what is a service delivery process?
- ❑ How has the hotel industry in China developed over the recent years?
- ❑ In what way will the hotel industry in China develop?
- ❑ What are current issues in the luxury hotels concerning service quality?
- ❑ How will the rapid expansion of luxury hotels impact service quality?
- ❑ Which recommendations can be made to optimize service quality for luxury hotels?

§1.3 Methods of Research

The research in this thesis is based on the following information:

1 Literature study

The literature study has gained insight in service quality management and the hotel industry in China.

2 Annual PATA Conference Macau 2005

By attending the PATA Conference in Macau information about tourism policies and current issues in China's tourism were retrieved. By attending the special forum "windows on China" more insight was gained from the public sector's decision process.

3 In depth interviews

In-depth interviews have taken place between March 2005 and May 2005. These in-depth interviews were held in various hotels in big cities in China. Experts were interviewed, all with different backgrounds in the hotel industry in China.

§1.4 Thesis Structure

This thesis sub-chapter gives an overview of the thesis.

<i>Chapter 1.</i>	<i>Introduction</i>
<i>Chapter 2.</i>	<i>Service Quality</i>
<i>Chapter 3.</i>	<i>China's Hotel Industry Development since 1978</i>
<i>Chapter 4.</i>	<i>Hotel Chain Development in China</i>
<i>Chapter 5.</i>	<i>Issues in Service</i>
<i>Chapter 6.</i>	<i>China's booming hotel development vs. Service Quality</i>
<i>Chapter 7.</i>	<i>Conclusions and Recommendations</i>

§1.5 Evaluation

In this introductory chapter an outline of the thesis is given. While conducting any research one always experience that there are aspects which one cannot foresee, plan or calculate in advance. With no matter how much preparation, experience and motivation a start of a research can always be influenced by for example illness, corruption and lack of information. Because of not previewed elements the goal and some research questions have been re-formulated during the process.

During the field research several open interviews were held with hotel managers from different hotel chains. Managers interviewed were active in different departments in order to create a clear picture of service quality in all hotel departments. Thereby also Chinese managers were interviewed.

There is a certain limitation in this thesis that needs to be acknowledged. This thesis only identified managers' expectations and perceptions of hotel service quality in Beijing, Shanghai, Hong Kong and Shenzhen. Those four cities are well developed and modern compared with other cities in China. However, managers that were interviewed had a working background in other parts of China. Even so, the findings may be limited to these four cities and might not represent the hotel service quality in the whole country. On the other hand, attended was the Annual PATA Conference in Macao, where several stakeholders of different sectors openly discussed issues concerning China's tourism development and hotel industry.

Chapter 2 - Service Quality

§2.1 Introduction

We all have lobbies. We all have nice bathrooms. We all give away shampoo. What makes the difference is the perception of value.

As Jonathan Tisch, President and CEO of Loews Hotel once put it nicely, service is all about how well the guest perceives the value and quality. Thereby expectations and perceptions play an important role. A service is the winning element whereby a hotel can distinguishes itself from their competitors.

§2.2 Service Quality

Guests' perceptions of service quality vary widely according to Kandampully, Mok, Sparks (2001). Likewise, guests' perceived satisfaction with performed services also varies widely. Two different variables influence their perceptions: customer expectations and service standards or performance. The gap between expectations and service standards/ performance is the primary indicator of overall service quality.

Service quality is defined by the guests of a hotel. Their expectations of services will greatly influence their resulting level of satisfaction. One can say that guests with low expectations are easier to please than guests with high expectations. At the same time, an understanding of guests' expectations is critical for any hotel providing services towards any guest. As for the Chinese hospitality concerns, understanding of the expectations of the international and Chinese guests is crucial in order to provide a quality of service. According to Van Walbeek (2005), the understanding of the culture of international guests is crucial while performing in a service industry.

Service expectations can be measured within three levels; essential service, expected service, and optional service according to Kadampully, Mok, Sparks(2001). Essential services are those which are the essence of the hospitality service business. These services meet the fundamental requirements to continue operations. For example, check-in of guests, maintain reasonable business hours, inform guests of service details, and acknowledge complaints. Guests predict or expect these services will be performed.

Expected services are those which guests assume a hotel should offer in order to provide sufficient services. Expected services go beyond the essential services required for the hotel to stay in business. However, because of guests' expectations, such services need to be offered in order to keep up with the hotel's competitors. Expected services did increase over the years. Examples of expected services are operating hours, payment options, and reservation systems.

Other or additional services are considered optional or desired. Guests consider these services an added bonus that enhances the value of their visit. Optional services express the uniqueness of a hotel company and contribute to its competitive edge. In order to provide optional services in an optimal way it is of great importance that the hotel recognize the needs of its targeted guests.

For luxury hotels, in order to be competitive, it is of great importance to offer more additional services. By doing so, a hotel will create more satisfaction to a guest and thereby a hotel will be able to create brand awareness. For example, a hostel does not need to offer additional services in order to stay competitive, because it is not a guest expectation, simply such guests expect the essential services.

Parasuraman et al (1990) have identified the factors of quality which are crucial for consumers in order to judge quality;

1. Reliability and Responsiveness
2. Competence, Courtesy and Credibility
3. Security, Access and Communication
4. Understanding and Knowing the consumer/ guest
5. Tangibles

These five factors are covering all objectives of providing full service quality to guests. Therefore, important is that all five factors are operating and performing outstanding.

For international hotel brands (Marriott, Hyatt, Hilton, Starwood, etc) service quality is of tremendous importance but these brands also have priority to offer a continuity of service throughout all their hotels. Business travellers are frequently loyal to a hotel brand, thereby if

a guest has a great satisfaction in a business hotel in Tokyo, the guest will have high expectations if staying with the same brand in Shanghai. Therefore most hotel companies have introduced service standards which are applicable in every hotel they manage throughout the world. (Kandampully, Mok, Sparks, 2001). In China, brand standards for hotels were only introduced several years ago. By introducing brand standards in China, a benchmark of service quality was established in China's hotel industry (Ong, 2005).

§2.3 Service Standards

In order to provide guests with a continuity of service hotel companies established service standards or brand standards. It is important to set quality service standards in order to establish a target upon which the operation's teams can work towards. Over the years service standards changed as guests' expectations increased, and hotels responded to such changes. As mentioned before, service standards are the benchmark of service quality. Appropriate service standards highly depends on the mission of a hotel company. Setting quality service standards provides a sense of purpose and direction and establishes the extent of the standard that is required by an operation, organization or department. Whether standards are effective and successful depends on two basic factors; the service policies of the organization and the actual performance of the service procedures. Employees are of great importance when performing within the service standards. Employees contribute to the process whether service standards will result in perceived service quality by guests. Brands standards are just an overall vision of a hotel's service orientation and position. For example, global brand standards of Hilton counts over 250 pages and only the brand standards of the daily operations are 150 pages (Schadlou, 2005).

By introducing brand standards China's hospitality has improved service substantially. However, brand standards are only as good as the resultant performance. Although service policies may establish guidelines and performance standards, personnel may not perform adequately. Therefore training and repeating of service standards are of great importance. Many hotels emphasise on service quality by performing a daily training and briefing. Hotels like the Grand Hyatt Shanghai have three dedicated trainers for their rooms division only. A special divisional training is given one or two hours a day according to Ong (2005).

§2.4 Objectives of Service

Although it is difficult to measure the true impact of customer service, quality guest services has been cited as a means of improving a variety of aspects of a business. Hotel service distinguishes the following objectives;

- ❑ **Improve Guest Convenience:** many services contribute to the guest's sense of convenience, comfort, and well-being. E.g. accessible rest rooms, shuttle service, comfortable seating, excellent beds.
- ❑ **Enhance Service Provider's Image:** the number and quality of services offered establishes the image of the service provider. E.g. providing any imaginable service to guests.
- ❑ **Ensure Customer Security:** multiple services reinforce guests' sense of security. E.g. adequate lighting, security staff, medical facilities.
- ❑ **Generate Traffic:** satisfied guests will come more often and will recommend the hotel property to other potential guests.
- ❑ **Establish a Competitive Edge;** by providing full service to guests there is a better chance to satisfy guests and therefore create brand awareness and brand loyalty.

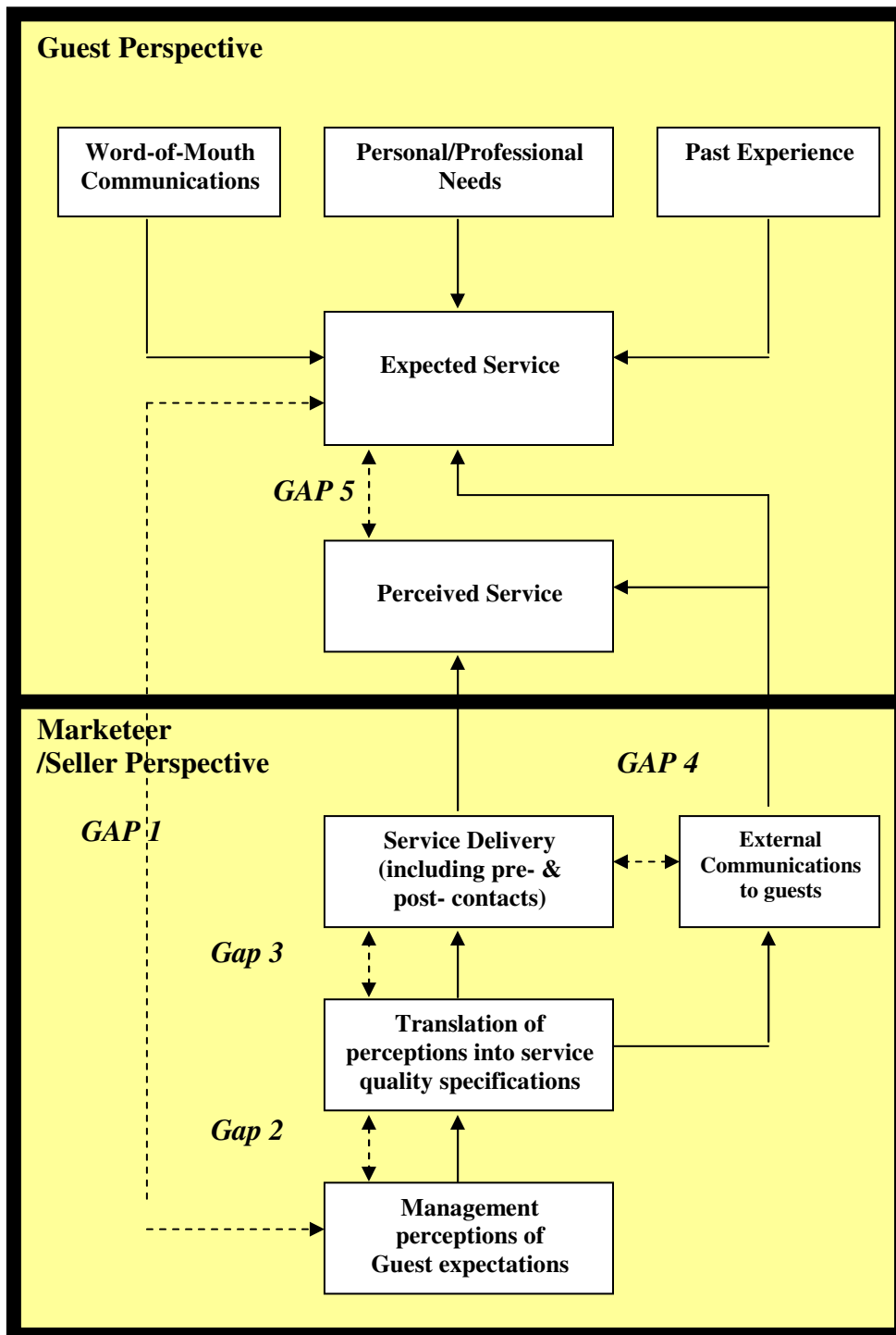
(Kandampully, Mok, Sparks, 2001)

All objectives are crucial aspects in order to provide excellent service, and more important to meet the expectations of the guests. Expectations towards quality service have risen the past years, therefore hotels are forced to expand their services towards the guests in order to stay competitive. However, it is not only the expectations of the guests but also the competitive environment itself that is creating high demands towards service nowadays.

§2.5 The Five Gap Model

Service quality is delivered when a hotel reaches a certain satisfaction among its guests, and thereby meet their expectations. In order to meet or even exceed the expectations of its guests the service delivery process is of essential importance for a hotel. Knowing what guests expect is the first and possibly the most critical step in delivering service quality. Stated simply, providing service that guests perceive as excellent requires that a hotel company know what customers expect. (Kotler, 1999)

A widely used model of service quality is known as the five-gap model (figure 1)



(Source: Kotler, 1996)

The model has five gaps, which are explained on the next page.

Gap 1: Consumer expectations versus management perception

Hospitality executives may fail to understand what consumers expect in a service and which features are needed to deliver high-quality service. When management does not understand what their guests want, a gap 1 exists according to the model. Managers always should be pro-active towards their guests' needs in order to adapt service to the always changing needs of their guests. So it is important for a manager to walk around their operations and talk with customers and thereby to encourage feedback. In order to get more precise feedback a hotel also often hold guest surveys.

Gap 2: Management perception versus service quality specifications

Gap 2 occurs when managers know what their customers want but are unable or unwilling to develop systems that will deliver it. Several reasons could be applicable; inadequate commitment to service quality, lack of perception of feasibility, inadequate service standards, and absence of goal setting. Some hotels look for short-term profits or generating quick market share and by doing so they are unwilling to invest in people or equipment. Many state-owned hotels in China are suffering from "Gap 2 errors", this will be explained later in chapter 3 and 4.

Gap 3: Service quality specifications versus service delivery

In a service encounter, gap 3 is one of the most crucial and most important ones. In Gap 3 service performance is the key indicator. Gap 3 occurs when management understands what needs to be delivered and appropriate specifications have been developed but employees are unable or unwilling to deliver the service. Gap 3 errors occur when a service encounter takes place. Gap 3 errors are mostly human service errors and not machine service errors. In China's hospitality industry Gap 3 errors often occur due to a difference in culture language between guest and employees. Understanding of international service and a display of pro-active behaviour are needed to avoid such a gap error. Furthermore, most service issues which do occur in China's hospitality industry are Gap 3 errors, this will be explained later in chapter 5.

Gap 4: Service delivery versus external communications

When hospitality management promises more in its external communications than it can deliver (operations) then Gap 4 occurs. Marketers must make sure that operations can deliver what they promise.

Gap 5: Expected service versus perceived service

Gap 5 represents the difference between expected quality and perceived quality. The expected quality is what the guest expects to receive from the hotel. The perceived service is what the guest perceives he received from the company. If the guest receives less than he expected, the guest is dissatisfied. (Kotler, 1999)

§2.6 Service Encounters

During the service delivery process expectations of the guest, and the understanding of the guest's expectations by the employee are of great importance. Referring back to the five gap model, when gap 3 errors occur this mostly means that during the service encounter something goes wrong in the interaction between guest and employee. By providing service, an employee needs to feel satisfied with his performance, thereby one needs to satisfy the immediate demands of the client. Besides the several needs of the guest, for example hiring particular facilities, exchanging currency, or even ordering a drink in the lobby, a guest also has the desire to be treated in a polite and appropriate manner (Kandampully, Mok, Sparks, 2001). The guest has to be treated in a hospitable way, which will contribute towards his satisfaction when checking-out.

According to Czepiel, Solomon, and Surprenant (1985), a number of key features distinguish service encounters from other social interactions;

- ❑ A service encounter has a narrow focus
- ❑ A service encounter is purposeful
- ❑ Roles are defined
- ❑ Providers are performing a job
- ❑ Often there is no prior acquaintance
- ❑ Task-related information predominates
- ❑ There may be temporary status differences

One can define a service encounter as a “moment of truth“. During the service encounter the employee has the opportunity to build trust, reinforce quality, build brand identity, and increase loyalty. According to Hyatt International, employees are the most important brand contact. By serving customers in a hospitable way and thereby establish their needs, an

employee shows that he is the personification of the hotel. Service encounters have a significant impact on participants. The interaction is an essential ingredient in the total quality perception of the guest and the employee. Successful encounters are positively correlated with employee motivation, performance, and job satisfaction. Not all employees have the temperament to work in a customer service capacity. It is important for the “health” of both the individual and the organization to select qualified employees. Hotels must manage the service encounter effectively for the benefit of guests and employees and for long-term organizational success according to Kandampully, Mok, Sparks (2001).

In China, most complaints or mistakes do occur during a service encounter. Reasons are lingual and cultural differences.

§2.7 Employee Commitment to Service

Quality service requires a commitment on several levels. Whether it is the manager making policy decision or an employee addressing guests’ concerns, service must be projected from a unified front. The only true means of providing seamless service is through a team approach, with management guiding and ensuring full implementation of the process.

Service providers must involve all of their staff in each department in an effort to provide quality service. Everyone in the organization should work together to the common goal of delivering quality service. The staff must fully comprehend the significance of providing quality service; they must truly understand and respect the essential roles that other departments play in the delivery of quality service. Recognition of the integration of departmental functions enables employees to see greater value in their own roles as component providers of quality service (Kandampully, Mok, Sparks, 2001). According to Zhang, Pine and Lam (2005) Chinese employees in hotels lack often a positive work motivation which results in a certain pressure on providing international standards of food and service. Furthermore this affects in a way customer satisfaction, because employees should also provide an unforgettable experience for every single guest entering the hotel.

Cultural empowerment is critical if the team approach is to function properly. Many Chinese managed hotels fail to empower their employees to be effective service providers. Characteristics such as being pro-active, hospitable, personality, and confidence are important to provide an active service. Management plays a vital role in the delivery of quality service.

The role of hotel management is to guide the whole organisation towards an achievement of quality service. Successful guidance and leadership are key values where managers set the stage of quality service. An important factor, which lies in the role of the hotel management, is the ability to hire, train, motivate, and reward service-orientated employees. Simply said, a key to quality service is hiring the right employees. In China, human resources departments of hotels find difficulties to attract and motivate quality candidates. This, will be elaborated in chapter 5.

§2.8 Service Recovery

While operating a hotel it is perceivable that complaints do occur. According to the Five Gap Model there are several causes and reasons which can result in a guest complaint. Therefore many hotel companies are pro-active in service recovery or complaint handling. Basically a complaint is a second chance for the hotel company. Service recovery can return the guest to a state of satisfaction that is higher. However, if the service recovery is not properly performed than a guest could be even more dissatisfied according to Van Walbeek (2005).

By dealing with complaints of guests one should know that a complaint could have several natures, according to Hyatt International. A complaint is mostly an emotional outburst and it is a problem that needs to be solved first in order to recover the service process. Because of the fact that a complaint is also an emotional outburst a hotel employee first should deal with the emotion of a guest. So first, one should make the guest forget his emotion and then one should handle the complaint.

There are three types of errors which will cause a complaint according to Hyatt International;

1. Human error, these types of complaints will occur when a service encounter takes place. During the service encounter the employee is not able to recognize or fulfill the needs and wants of a guest.
2. Guest error, these types of complaints will occur when a guest has misunderstood the hotel policy. For example, a guest wants to swim after eleven o'clock in the evening on a Sunday however the guest did not read that the pool was closed at ten on Sunday but open on Saturday till twelve o'clock.

3. System error, these types of complaints are a result of a system fault. Basically this means that a complaint occurs when, for example computer errors are causing trouble during check-in.

Whenever one of the above mentioned errors occur, the duty manager or employee should deal with the complaints of a guest. According to the brand standards of the Hyatt Corporation there are five key steps which should be taken in order to resolve a complaint properly.

The Hyatt's five key steps in service recovery;

1. Attention
2. Apologize
3. Acquire
4. Action
5. Aftermath

Step 1: Attention

The employee starts greeting the guest and identifies himself. Questions as "How May I Help You?" should be addressed to the guest, and thereby it is important to ask the guest the right questions and use of proper body language is important. To show the guest that you are listen actively one also should take notes to give the guest the feeling that you are willing to solve the problem.

Step 2: Apologize

Key points in apologizing to a guest is that one apologizes professionally. Furthermore one should show concern and empathize. Besides apologizing on should also thank the guest for his complaint, showing the guest that a complaint is appreciated and seen as a second chance to recover the broken chain of brand contact.

Step 3: Acquire

When one acquires it is important to take the guest aside if necessary, because of the fact that a complaint is an emotional outburst it is wise that not all other guests see that there is a problem. While acquiring one should establish the guests real needs, what is the purpose of

the complaint. So determine whether the guest wants recognition, an apology, a refund, or that the fault will be rectified.

Step 4: Action

After acquiring the complaint one should take action in order to resolve the complaint. Important is that one never should use the hotel policy as an excuse. Furthermore one have to let the guest make the choice how is complaint should be resolved. Thereby questions as: “how would it be if.....?” are important. Then one should agree on a course of action and after that the employee should inform his manager.

Step 5: Aftermath

During the aftermath one should follow up on the action promised or check that the action is carried out by other employees. Also one should consider what changes are possible in order to prevent a similar complaint in the future.

During a process of service recovery one should never question the fairness of a complaint. A guest who is complaining always is right. Thereby one also should not take the complaint personally and furthermore never make social judgments. (Brand Standards of Hyatt International, Service Recovery, 2004). Many other hotel companies make use of service recovery programs. Special developed training programs are important to make employees aware that service recovery is important to maintain quality.

According to Van Walbeek (2005), a key step in service recovery is to encourage customer input in the service recovery process in order to provide a sense of control and fairness - ‘on the spot’ customer feedback. In China, managers experience huge problems in service recovery according to Van Walbeek (2005). Chinese service employees see a complaint as a personal failing which makes them to ‘lose face’. To manage such a cultural issue is of crucial importance in the service recovery process in China.

§2.9 Service Quality as a Competitive Advantage

Service quality can be used as a competitive advantage. Firms have learned to create superior service levels that are not easily duplicated. The Ritz-Carlton Hotel Company is a good example. A basis for their service quality approach is their motto: “We are Ladies and Gentlemen serving Ladies and Gentlemen.” Such a statement indicates the expectation of their service delivery, which can be recognised easily by employees. Besides that, it is a clear benchmark of high expectations in service quality. However, to build a competitive advantage using service quality is not easy. Services are quite different from products, as they are not visible, tangible, and not storable. According to Wang (2005), Chinese people do not fully appreciate service, because they simply cannot visualize it. If one asks a Chinese which the best hotel is in the city, he will simply direct you to the biggest and most impressive hotel in the city (hardware). Service still is a performance, which one have to measure, it is not a physical item. In a service process a customer or guest is always involved, and services which are performed in the absence of a guest are not seen or valued. Further, since humans deliver services to other humans, automation can rarely be used. Therefore, staff training in service delivery becomes a high priority for hotels. Management needs to maintain a high level of awareness of service failures (Kandampully, Mok, Sparks, 2001).

§2.10 Conclusion

At the moment both the tourism and hospitality sector is experiencing a shift towards a service economy, which is enhanced by the following economic and social changes;

- ❑ The rapid internationalization and increasing specialization of services and the activities of multinational corporations
- ❑ The fast development of information technologies which are leading to greater operating flexibilities
- ❑ The hope that service industries will increase employment opportunities

This indicates that service will play an important role in the future developments in the hospitality industry. As the service industry is developing to a greater extent, Human Resources Departments of hotels are standing for important challenges. In terms of recruitment it is important to source quality candidates, who have a positive exposure and attitude. While providing service quality employees who have understanding of international service are indispensable. Furthermore, a hotel should retain its employees by all means.

Factors such as career opportunities, salary, bonuses, and flexible working hours are a key to retain employees in the hospitality industry.

In order to provide a continuity of service, training will be more important to emphasize on for luxury hotels in the world. Also from a management point of view, one should always look for ways, which will lead to the best approach in delivering service. Errors during the service encounter should be avoided by all means. In this matter, the management of a hotel should manage such errors.

In the People's Republic of China the transition towards a service industry is also noticeable. Due to modernization there is a surplus of labour in the agricultural sector. By making use of special training programs this surplus will be employable in the service industry according to Yao Yue-can (2005). At the moment there is a fierce competition between the hotels looking for quality candidates on the labour market. As more hotels are aiming for China there is a scarce of such employees. Because of the insufficient amount of quality employees, hotels rather select their candidates on a positive attitude then on basic service skills. Aspects, which are becoming more and more important in the service industry in China are: a friendly exposure and a good working attitude. Skills can be learned easily while working, but exposure and attitude are personal characteristics, which are hard to learn but are coming more important in the service industry.

The hospitality industry in China is still young and has changed during the years from an 'accommodation' sector towards a flourishing, modern hotel industry. However, still service is a point of attention among all the beautiful and luxury hotels which the People's Republic is rich. The next chapter will elaborate on the development China's hospitality sector has sustain from 1978.

Chapter 3 - China's Hotel Industry

§3.1 Introduction

Tourism made its introduction approximately around 1978 in the People's Republic of China, since then international and domestic tourism stimulated the growth of the hotel industry in China. From the beginning till today, China's hotel industry grew significantly from almost point zero to a level of 10,481, which was reached in 2000. This chapter will elaborate on the development of China's hotel industry since the open door policy was implemented in 1978. Some of the advantages and disadvantages held by local and foreign companies are identified, bearing in mind the peculiar business context that existed during China's transition from a politically dominated, centrally planned economy, toward a market economy (Zhang, Pine, Lam, 2005)

§3.2 Growth in Size of China's Hotel Industry

As shown in Table 1, China's hotel industry has grown from a base of only 137 hotels with 15,539 rooms in 1978 to a 2000 level of 10,481 hotels and 948,182 rooms. In that time China's number of hotels has grown at an annual average of 22.5 percent, with rooms and beds increasing annually by an average of 21.5 percent and 22.2 percent, respectively. Using 1978 as a base year, cumulative percentage growth has been enormous: hotels, 7,550 percent; rooms, 6,002 percent; and beds 5,938 percent (see Table 1). Despite such spectacular growth, China will need considerably more hotels to satisfy the future demand from increases in both international and domestic tourists.

Table 1. China's hotel statistics

Year	Hotels		Rooms		Beds	
	Total Number of Hotels	Annual Increase (%)	Number	Annual Increase (%)	Number	Annual Increase
1978	137	-	15,539	-	30,740	-
1988	1,496	16.6	220,165	19.2	478,321	19.4
1993	2,552	8.4	386,401	10.1	811,521	10.0
1998	5,782	11.2	764,797	8.9	1,524,224	8.0
2000	10,481	49.0	948,182	6.6	1,855,965	4.9
2001*	7,358*	-	816,260	-	1,533,053	-

Source: The Yearbook of China Tourism Statistics, 1979-2002, CNTA

*Starting in 2001, non star-rated hotels are not included in the statistics

§3.3 Major Stages in China's Hotel Industry Growth

Before 1978 accommodation facilities of international standard were few in number and poor in quality and could not satisfy the great demand of the sudden influx of overseas tourists to China after the open door policy was implemented (Yu, 1992).

In 1978 there were only 137 hotels with 15,539 rooms, ten years later the People's Republic counted 1,496 hotels with a total of 220,165 rooms. This period from 1978 to 1989 was the decennium of a dramatic change in China's hotel industry. At the very moment when China first opened up to international tourists the sudden influx of international tourists created a great demand on China's undeveloped hotels. These hotels were not applying service according to Western standards. The serious under capacity led to serious intervention of the Chinese government in order to increase the size of the hotel industry (Zhang, 1989). Two major measures were introduced by the tourist authority; the change of purpose of most guesthouses from being used for political or diplomatic reception to tourist industry use, and attracting investment for new hotel projects. As a result of the awareness of the under capacity further measures were taken by both government and the industry. Efforts were put into hotel construction and renovation in order to anticipate on the great demand of hotel beds by the increased number of tourists. In order to encourage foreign investors, to construct joint-venture hotels and to utilise collective capital for tourist hotels, an investment policy was introduced (Zhao, 1989). This policy stimulated both foreign and domestic investment in the hotel industry. Soon accommodation facilities increased towards the demand with help of the Chinese government and the hotel industry.

In the period from 1978 to 1986 a growth was realized, however a lack of international standard hotels was still being experienced. Realising this, the Chinese government invested RMB 6 billion in the hotel industry (about US\$1.25 billion at 1990 exchange rates) in the period 1986-1991. Not only this investment contributed to a considerable growth and improvement of the hotel industry, but also the restructuring of the hotel industry, the encouraging of external investment and allowing the entry of foreign hotel companies, resulted in a 1992 total of 2,354 hotels with 351,044 rooms (Pine, Zhang, and Qi, 2000).

In 1992 China widened its economic reform and open door policy, this resulted in more business activities and an increase of international tourists, which stimulated hotel investment in the Third Largest Country of the World. According to the CNTA, within a period of four years time (1993-1997) China's hotel capacity almost doubled to 5,201 hotels.

However, an increase in hotels and rooms does not automatically result in more tourists. In the years 1995 and 1996 occupancy rates went down to under 60%. In 1998 China's hotel industry suffered from its first loss (RMB 4.656 billion). Over-supply of rooms and the Asian economic crisis in 1997 were the main reasons. Despite the loss in 1998, hotel rooms still grew from 1998 to 1998 by 16.2%, but showed a slower growth the next year (6.6%), this resulted in a total of 10,481 hotels and 948,182 rooms by the year of 2000. This growth did not result in profit for the hotel industry, running an average occupancy of 55.9%. China's hotel industry showed severe losses in 1999 (RMB 5.364 billion) and in 2000 (RMB2.643 billion) according to the CNTA.

During the period 1979-1997 China established an average annual growth of 9.8%, aiming a vision to the future there will be an average annual growth of 7% to 2008, even with a calculated loss according to the State Statistics Bureau (1998). The economic development and new status as a member of the World Trade Organization (WTO) will contribute to the boost of hotel development.

By joining the WTO in 2001 China's hotel industry opened the door fully to foreign hotel companies, however in the beginning overseas involvement was still limited. It was China's own government control on hotels which was the slowing factor, despite the encouraged and supported overseas hotel involvement by the same government. At present day, almost every international hotel chain's main market focus is China (Annual PATA conference 2005, Macao, windows on China, Mr. Yao Yue-can).

§3.4 Hotel Categories in China

While the amount of hotels in China were developed quite quickly in a relatively short period of time, the quality of standards of most hotels remained poor. Service problems were often attributed to the wide variation of hotel facilities and services, the lack of uniform hotel operating standards, inexperienced workforce, inadequate and unreliable information for marketing and planning, and lack of coordination in hotel administration owing to the complicated bureaucratic and financial structure (Zhang, Pine, Lam, 2005)

In 1988 the China National Tourism Administration (CNTA) introduced a star rating system for hotels. The system was derived from international standards, and was aimed to provide clear differentiation of hotels and improve facilities and service. The star rating system contributed to an improvement in standards and professionalism in China's hotel industry. In 1993 the star rating system was adopted as a national standard. Further revision of the star rating system took place in 1998. Hereby, the rating of facilities, equipment, maintenance, cleaning, hygiene, service, quality, and guest satisfaction were included.

Table 2 and 3 show that by 2000 rating had been applied to 6,029 hotels (57.5% of all hotels and 62.7% of all rooms).

Table 2, Comparative statistics of China hotels by Star Rating, 2000

Star Rating	No. of hotels	No. of rooms	Total Revenue (RMB 0000)	% Occupancy
5 Star	117	45,208	1,290,881	65.04
4 Star	352	84,890	1,414,387	63.08
3 Star	1,899	231,244	2,160,024	58.65
2 Star	3,061	205,110	1,065,346	53.32
1 Star	600	28,226	106,428	46.96
0 Star*	4,452	353,507	2,585,588	52.99
Total	10,481	948,185	25,317,492	55.88**

Source: The Yearbook of China Tourism Statistics, 2001, pp.92-93, CNTA

*Probably indicated lowest quality hotels, but also ones not yet classified/rated

**Overall average occupancy/size

Table 3 Comparative statistics of China Hotels by Star Rating, 2000

Star Rating	% All Hotels	% All Rooms	% Total Revenue
5 Star	1.12	4.77	14.97
4 Star	3.36	8.95	16.40
3 Star	18.12	24.39	25.05
2 Star	29.21	21.63	12.36
1 Star	5.72	2.98	1.23
0 Star*	42.48	37.28	29.99
Total	100.00	100.00	100.00

Source: The Yearbook of China Tourism Statistics, 2001, pp. 92-93, CNTA

*Probably indicated the lowest quality hotels, but also ones not yet classified/rated

By the end of 2001, 7,358 hotels had been star rated (from one- to five star), and increase of 1,329, or 22.4 percent over the previous year. Rooms in star-rated hotels increased to 816,300, a rise of 221,500 rooms or 37,26 percent. Of this total number of hotels, 129 (1.57 percent) were five-star according to the CNTA's yearbook (2001).

Looking at table 3, the amount of five- and four-star properties is relatively small, only 1.12 percent and 3.36 percent, respectively. However, these properties are quite large within a China context, average size being 386 rooms for five-star hotels (4.77 percent of total rooms) and 241 for four-star hotels (8.95 percent of total rooms). Some large discrepancies are to be found while comparing percentages of totals of rooms and revenue. While having only 4.77% of all rooms, five-star hotels do make up a percentage of 14.97 of total revenues in the hotel industry. By offering exceptional services one can assume that five-star hotels are in the position to quote a higher room rate. Besides that, one can assume that five-star properties do attract more foreign visitors who are willing to pay for higher room rates and purchase other hotel services.

§3.5 Hotel Ownership in China

In 1978, a diversification and decentralisation policy of hotel investment was implemented by the Chinese government, this in order to ease China's hotel shortage after the open door policy. This new investment policy did accelerate hotel development significantly, however decentralization also did result in a wide variety of different types of hotel ownership. In the year 1999 several ownership types were listed;

- ❑ State-owned
- ❑ Collective owned
- ❑ Private
- ❑ Alliance
- ❑ Stock
- ❑ Foreign invested
- ❑ Hong Kong, Macao and Taiwan invested

By 2000, 'stock' was removed from the types of hotel ownership list in China, however four new ones were added; share holding cooperative, limited liability, limited liability shares, and others (CNTA, 2001). The complicated ownership resulting from decentralization led to a severe lack of coordination in decision making in hotel construction according to Pine and Qi (2004). For every type of hotel ownership, a different type of management is applied. Complexity of both ownership and management creates unique problems for expansion and growth.

State ownership is still the dominant mode, accounting for 63 percent of all hotels and rooms. According to Tisdell (1990), State ownership can cause many problems for chain affiliation, one of the main ones is the failure to separate hotel management and ownership and the lack of effective monitoring of state assets. Du and Dai (1998) analysed the behaviour of the state-owned hotels that restrict chain operation and found that:

- ❑ the non-commercial objectives of the state-owned hotels restrict their renovation; the owner or its representative worries about losing benefits during the course of chain operation;
- ❑ the pressure of the vested interest group, including employees, retired employees, etc.
- ❑ ineffective monitoring of hotel management companies after contracting hotels to the management party.

According to the CNTA (2000), state owned hotels have a great majority of 63.4 percent with another 12.2 percent is owned by collective shareholding cooperatives. Remarkable fact is that all of the other eight categories of ownership comprise no more than 4 percent each. In terms of rooms, state-owned and collective shareholding cooperatives hotels hold the majority, 62.6 percent and 8.4 percent respectively. However, despite their relatively small number of hotels (less than 8 percent), the two overseas-funded ownership categories, Hong Kong-, Macao-, Taiwan-funded and foreign funded, provide almost 14 percent of all rooms, indicating that these categories of hotels are usually bigger in size or capacity (CNTA, 2000).

Overseas-invested hotels have better performance than other hotels, as reflected in higher occupancy rates and higher annual average revenue per room of foreign-invested and Hong Kong/Macao/Taiwan-invested properties (Pine, 2002). This is generally because overseas-invested hotels are usually operated by multinational hotel corporations according to the rules of market economy and international business practice. Also service is perceived higher in these hotels. The majority of the luxury hotels is represented by foreign-invested and Hong Kong/Macao/Taiwan-invested properties.

Most state-owned hotels lack strategy in management; they pay more attention to the daily operation and management procedures, but neglect branding, corporate culture and innovation and, most importantly, the effective use of capital in the market. This, affects the aim in providing service quality. It will take time for state-owned hotels to grow and compete with international hotels. According to Bachran (2006) the change is progressing well, but it does not happen overnight.

With regard to occupancy levels, Hong Kong-, Macao-, Taiwan-funded hotels perform quite good. This is because these hotels do apply international standards and adapt business and management techniques. On the other hand, they are also better connected within China than foreign-funded hotels. Also an important aspect is that Hong Kong-, Macao-, Taiwan-funded hotels have a better understanding of the local environment, which is important in the China business context according to Zhang, Pine and Lam (2005).

According to Robert Wang (2005), Chinese hotels need to work together as a group in order to compete with the foreign invested and Hong Kong-, Macao-, Taiwan-funded hotels. At present, the Beijing Tourism Group (BTG) is such a company which is taking initiative in

order to establish a brand. By establishing a brand of Chinese quality hotels, Chinese hotels would be able to compete against international hotels. For improving quality and management of Chinese hotels, support of the Chinese government would be needed.

§3.6 Comparisons by Hotel Size

Table 4 indicates that most hotels in China have fewer than 100 rooms. Furthermore is shown that only 129 properties (1.2% of total) have more than 500 rooms, with another 309 (3.0%) having 300 to 499 rooms. The average size of hotels in the largest size category is about 1,863 rooms, which indicates that China has some very large properties.

Table 4 Comparison Statistics of China Hotels by Size, 2000

Hotel Size (No of Rooms)	No. of hotels	% all hotels	No. of Rooms	% all rooms	Total Revenue in US\$(0000)	% total revenue
500 or more	129	1.23	240,301	25.34	261,026	25.06
300-499	309	2.95	112,285	11.84	175,989	16.89
200-299	547	5.22	131,403	13.86	162,543	15.60
100-199	1,926	18.38	264,528	27.90	226,595	21.75
99 or fewer	7,570	72.23	199,668	21.06	215,567	20.69
Total	10,481	100.00	948,185	100.00	1,041,720	100.00

Source: The yearbook of China Tourism Statistics, 2001, pp. 92-93, CNTA

Making a comparison of size of hotels to revenue, the proportion of total revenue is generally quite similar to the proportion of total rooms. While large hotels are often five- or four-star properties they are able to quote higher room rates, because they offer an all-service product and guests expectations of service are higher. Thereby guests in a five- or four-star hotel are often international guests who are willing to pay more according to Pine and Qi (2004). But according to Wang (2005), Chinese guests are sometimes more wealthy than Western guests, China is experiencing a shift towards a mix of Chinese and international guests in the luxury hotels.

Bigger hotels are also clearly achieving the best occupancy rates. These observations relates to the fact that higher star-rated properties are bigger (see table 3) and these higher rated hotels tend to get better occupancies. Also Hong Kong-, Macao-, and Taiwan-funded are mostly bigger properties than average, and as shown in the previous section, this ownership category is achieving quite high occupancies.

While using REVPAR (revenue per available room) as a measure of a relative performance, Gu (2002) indicates that hotels having between 300 and 499 rooms achieve the best results relatively. Gu lists REVPAR (in US\$) as follows;

□ 500 rooms and more	<i>13.31</i>
□ 300-499 rooms	<i>19.21</i>
□ 200-299 rooms	<i>15.16</i>
□ 100-199 rooms	<i>10.50</i>
□ and 99 rooms or fewer	<i>13.23</i>

According to Wang (2005), Chinese people often perceives the biggest and most expensive hotel as the best, which means the biggest hotel sells the best. However, the biggest hotels are not the best performers; those in the 300-499 rooms size achieve the best results. These size properties are often Hong Kong-, Macao-, and Taiwan-funded hotels. On the other hand, a state of ownership or the number of rooms are not always the most convincing factors.

According to Ong (2005), the location of a hotel is also of significant importance to reach the highest REVPAR or yield. The Grand Hyatt Shanghai is a good example of a hotel where the location is important to reach a high yield revenue, the hotel lies centrally located on the Bund in Shanghai and is the highest hotel in the world counting over 86 floors!

§3.7 Key Influences on China's Hotel Industry Development

§3.7.1 Hotel Industry and Ownership Complexity

The growth of the number of hotels in China happened quite quickly, from 137 hotels in 1978 to over 10,000 only twenty-two years later. The development may be interpreted as a large amount, however while comparing with other countries it is small, indicating the potential growth in China's hotel industry. The People's Republic has complex modes of ownership and besides that the hotel industry is influenced by political scenarios unlike most other countries, who are operating in a market economy environment. This means that not only issues in ownership and management do occur, but also this means that hotels are not operated just for business purposes (Zhang, Pine, Lam, 2005).

§3.7.2 International and Domestic Guest Mix in Hotels

In China, there is greater separation between hotels for domestic use and hotels for international use while one compares this with other countries where a certain mix is to be found. This means that the type and quality of products and services available in the two

groups of hotels is different. However, this situation is slightly changing as the domestic market is getting more mature; Chinese people are becoming more and more sophisticated and 'into' travel according to Zhang, Pine and Lam (2005). Indeed, several hotels in key cities as Beijing and Shanghai may now apply half of their business to domestic guests. According to Wang (2005), there is also a major change in serving domestic guests, as the domestic guests were served differently from international guests twenty years ago, one can now speak of equal service delivery. While developing a new hotel or a hotel group, the near future will indicate whether hotel companies will exist in either or both of these distinct international and domestic markets (Zhang, Pine and Lam 2005).

§3.7.3 China's Political and Business Environment

China has a changing political system and variable business environment according to Zhang, Pine and Lam (2005). Big differences are to be found with hotels operating in Western countries and hotels operating in China. In China, where a centrally controlled economy has impacted many areas relating to hotels, owners are often bureaucrats rather than business people. Currently, it is easier for a foreign hotel company to establish itself nationwide, while it is very difficult for a successful Chinese company due to protectionist policies in target locations. However, nowadays these factors are changing by creating special economic zones as Shenzhén where the business environment is similar to Western market economies. According to Zhang, Pine and Lam (2005), such changes will be key factors in helping or hindering the growth of indigenous hotel companies' growth in relation to foreign companies.

Furthermore, business in China is also done through personal relationships and networks. After China's accession to the WTO foreign companies would be able to obtain full ownership after three years. But the need for local partners still would be high as a hotel relies on availability of local labour, reliable water and power supply, and so on. It is in these essential areas that using a local partner may pay high dividends.

§3.7.4 China's Economic Profile

At present, China does not have the same economic profile or infrastructure developments as North America or Europe, but such developments are just a matter of time according to Yao Yue-can (2005). This year only 40,000 kilometres of paved road is developed all over China, connecting the west with the east even better. China (hotels) should try to keep up with the development of overseas hotels otherwise these will dominate the market. Competition is

different for the Chinese companies against the overseas companies as professionalism, experience and resource advantages is unequally divided.

§3.8 Conclusion

Within twenty-seven year China has seen a spectacular progress in its hotel industry. Slowing factors of growth over the years were the different types of ownership and the complex political environment. In the near future, large increases in both foreign visitor arrivals and domestic tourism will require the industry to continue growing to satisfy future demand for rooms according to Zhang, Pine and Lam (2005). However, according to Kirk (2005), China should not only satisfy the future demand of rooms, but also they should make sure they can handle the enormous hotel development in terms of the supply of employees, and the maintenance of buildings and at the same time preserving international service standards.

While more and more foreign hotel chains are establishing themselves in China, indigenous hotel companies are making more progress. By initiating their own ideas and adapting marketing know-how from overseas hotel companies, indigenous hotel companies should be able to grow well once they can overcome the problems of local protectionism. An advantage for domestic operators is that they have a better knowledge of the internal workings of the Chinese political, regulatory, financial, and social systems, and a natural affinity toward local cultural norms and Chinese-base business practises. On the other hand, a disadvantage is that they do not have sufficient access to finance and they do not enjoy the internal and external advantages, which are applicable for foreign firms (Zhang, Pine, Lam, 2005).

According to Zhang, Pine and Lam (2005), co-operation and partnerships between local owners and foreign operators will be the most successful on the short- and medium term. With such a partnership foreign hotel company know-how is combined with knowledge of the local environment. In the future, domestic hotel companies will be more successful in the medium- to long-term, as they will adapting quite quickly to foreign hotel management knowledge and international service standards. According to Chang Chong (2005), indigenous hotels are nowadays already successful in both hotel management and international standards. The White Swan hotel in Guangzhou is a good example where Chinese management is performing excellent in terms of management and international service standards.

Chapter 4 - Hotel Chain Development in China

§4.1 Introduction

The hospitality sector is dominated by hotel chains nowadays. According to the World Tourism Organisation (2000), in 1998 there were about 15.4 million rooms in hotels and similar establishments throughout the world. In the same year, according to “HOTELS’ 325 (HOTELS Magazine, 1998) over 5 million rooms were controlled by just the top 300 hotel chains, and 2.7 million by the top ten alone. One could indicate that roughly one third of all hotel rooms in the world is linked to a hotel chain. Taking a look at China’s hotel chain development situation, only 16% of all hotel rooms are in hotels that have any sort of group affiliation according to Zhang, Pine, Lam (2005). Thus, one can assume that China’s future hotel industry will develop for a considerable part in the form of hotel chains, for both indigenous and international hotel companies.

This chapter will look at reasons why hotel chain operations are so dominant and continue to grow throughout the world, the main strategies adopted for chain development, and will give an overview of chain operations in the hotel industry. Elaborating the international situation, the chapter then identifies barriers to such development in China within four main areas: economic and political systems, hotel ownership management capability and resources and competition between local and foreign chains.

§4.2 Global Dominance of Chain Hotels

According to Li and Feng (1997), the amount of chain operated hotels in China is only 16%, with most of those hotels being rated as three-star and above. As estimated as before approximately a third of all hotels in the world is chain affiliated. While looking at the world situation, potential for extensive hotel chain development in China is enormous.

Chain operation is more beneficial than independent hotel operation in several aspects.

According to Zhang, Pine, Lam (2005), three of the main key competitive advantages over independent hotels are:

- ❑ Economies of Scale
- ❑ Transaction Cost
- ❑ Management and Technology Perspectives

§4.2.1 Economies of Scale

Economies of scale or scale effect, is perceived as the most desirable effect of chain operation. Increase in size of the firm can improve efficiency by reducing the capital costs per unit of a firm's capacity, operating costs per unit of output, non-manufacturing costs per unit of output, and by improving buyer power through central purchasing to reduce costs significantly.

§4.2.2 Transaction Cost

The "transaction cost theory" (Williamson, 1975) is another advantage for hotel chain development. Hereby hotels create the ability to develop reputations throughout the world and therefore stimulating repeat business. The "transaction cost theory" can be applied to the purchase of product when the purchaser is uncertain about the specific product to purchase due to lack of information. If a potential customer is aware of the standardized product, service, and quality control of a hotel chain, than the customer's uncertainty is reduced and necessary information is obtained before purchasing. Therefore the risk, which plays a role in the decision making process, is reduced and the potential guest will have more confidence in his purchase decision. The multiple locations of chain hotels allow the customer to determine the quality of a hotel before checking in, and this will stimulate also future purchasing. Branding of hotel chains could ensure a guest flow through worldwide brand-name recognition and reservation access. Examples are frequent guest programs, and reservation centres of hotel companies.

§4.2.3 Management and Technology Perspectives

Another effective tool of competition where hotel chain benefit from is technology. Especially the software and hardware are designed to maximize profit for hotels. Hotel chains have greater investments in technology to operate and enjoy the advantages of a centralized, computerized, advance reservation system (Dunning and McQueen, 1982).

As modern hierarchical organizations, hotel chains have more preferential management advantages. More operational skills and management expertise can be generated, for example, in advertising and cash management, by additional accounting and control information, from better generation and use of management expertise, in better marketing programs, the use of bulk purchasing programs and better technical advice and consultation and in the installation of operating standards and systems. Greater investment can be put into human resources

development to produce better staff training programs and to improve staff efficiencies. In addition, hotel chains have more power in marketing. They can better guarantee services from the trademark property, provide larger frequent guest programs, give familiar products or services, and create quality assurance, all of which can bring more business to a remote market (Yu, 1999). Moreover, hotel companies can achieve market stability through differentiation and lower the market risk through control from headquarters and the various hotel units (Zhang, Pine, Lam, 2005)

§4.2.4 Disadvantages of Hotel Chains

Hotel chains have several advantages over independent hotels, however some disadvantages of hotel chains are to be acknowledged. According to Watkins (1992), a hotel chain has difficulties to maintain a direct relationship to its properties, which may result in late anticipation on specific markets. Another disadvantage is investment separation; where hotel A needs a room renovation, hotel B gets a new SPA from the hotel chain investors while both hotels are operating in the same city. Many chains are also disadvantaged by the need to continuously seek new hotel properties to fuel their expansion, which is the only real way to keep increasing revenues and profits. Once profits have been maximized through cost efficiencies and increased sales in existing properties, the only way to further increase profits is by the addition of more hotels to the chain or group (Zhang, Pine, Lam, 2005)

§4.3 Hotel Chain Development Strategies

Hotel chains have clear competitive advantages over other business forms in the hotel industry. In order to stay ahead of rivals, hotel chains need to improve productivity, and never should lose an edge of their competitiveness. Thereby maintaining quality control is of great importance. According to Zhang, Pine, Lam (2005), there are four broad categories of objectives to be acknowledged by hotel chains; achieving operating efficiency; achieving uniqueness; managing risk; and learning. However, according to Van Walbeek (2005), Human Resources Management in order to maintain service standards is also an indispensable aspect of hotel chain development.

All these objectives combined are to be achieved by distinguishing in the following terms:

- ❑ Geographic expansion
- ❑ Branding
- ❑ Segmentation
- ❑ Product Market Position

§4.3.1 Geographic Expansion

Geographic expansion of the existing chains to other places is used by hotel companies to develop new markets, increase market share, and maintain profitable growth. Hotel chains with a broad geographic scope and operating a diverse range of brands should benefit from reduced variability of earnings compared with more focused operators. The term ‘do not put all your eggs in one basket’ is applicable for geographic expansion.

§4.3.2 Branding

Brand recognition and brand loyalty are important marketing strategies. Branding in target markets promotes standards and standardization of products associated with the brand name, and helps to streamline the exchange between buyers and sellers. More important, branding can assist hotel chains in achieving economies of scale.

§4.3.3 Segmentation

Hotel chains develop segmented products to face the increasingly competitive market environment, as standardization of the product for the market segmentation allows hotel chains to aggregate demand across a large number of locations. However, when segmenting the market, hotel chains need to regard the number of brands they have identified in their portfolios.

§4.3.4 Product Market Position

Distinct product market position is often defined by performance on low cost and differentiation on focus strategies, which means hotel chains need to enhance uniqueness or superior service quality. To develop such a strategy, focus should be placed on the range of markets served, number of brands in the portfolio, pattern of hotel demand, and geographic scope (Zhang, Pine, Lam, 2005).

As the above mentioned objectives are all from a ‘hardware’ point of view, according to Van Walbeek (2005) ‘software’ objectives are important in the total service picture. So, in order to create a competitive advantage hotel chains need to have an excellent human resources development program in order to select quality candidates. When having a successful human resources department a hotel will not only be able to provide service quality on the short-term but also on the long-term.

§4.4 Emergence of Hotel Chains

In the 20th century hotels started to develop as an important business to consumers. By combining lodging, food service, insurance, banking, and retail hotels won popularity among consumers. In the middle of the 20th century, the travel industry saw an absolute growth as a result of the development of the automobile. In the second part of the twentieth century this rapid expansion continued even more with several technological developments. A key in these developments was the jet aircraft which was used for commercial purposes in the 1960s. The growth of air travel was a stimulant for hotels to standardize their product and service at key destinations.

Growth was triggered between 1950 and 1970, where hotels were expanding their product to as much destinations as possible. Hotels recognized the potential benefits of expanding under single management with similar name, style, and size. The concept and practice of chain operation prevailed in the industry especially since the emergence of Hilton as the first modern hotel management company, and the franchising and national reservations network established by Holiday Inn (Zhang, Pine, Lam, 2005)

Between 1983 and 1989 the room supply of the world's top 200 hotel chains grew by 29 percent from 2.2 million to 2.8 million rooms according to Horsburgh (1991). While searching for more profit and more market share hotel chains were expanding aggressively, and more and more hotels were added to their inventory globally. The United States can be considered as a touchstone for the international hotel industry where hotel chains both developed in quantity and quality. According to *Hotels* (2001), 156 out of the 300 largest hotel chains are based in the United States. Tools of franchising and management contracting are used most efficiently by US hotels in order to expand geographically. This, and also mergers, acquisitions, and bankruptcies greatly influenced the US hotel chain market. With the aggressive expansion of hotel chains and their success, the independent hotels decreased in their market share in the United States.

§4.5 Internationalisation of Major Hotel Chains

While the hotel industry of the developed countries was reaching a certain saturation point, hotel chains were searching to spread their wings abroad, looking for internationalisation. Main goal behind this expansion was the search for new markets and growth in profit. By

expanding to other countries, many hotel chains were adopting a market penetration strategy bearing in mind that future profitability is driven by scale. By entering a large number of locations brands of hotel chains were growing considerable. Hence, the international market is dominated by hotel chains and led by several mega-chains such as: Cendant, Choice, Six Continents Hotels, Hilton, Marriott, Starwood, Accor, and Hyatt (Zhang, Pine, Lam, 2005). At present day, the international hotel companies have expanded outside the heavily consolidated North America and are looking for new emerging destinations especially in Asia.

The structure of the present world hotel industry is in favour of the giant multinational hotel chain, most of which originated in a few developed countries, especially the United States. Newly emerging markets are often quickly occupied by the big players, this means that indigenous hotels are facing difficulties in order to keep their head up. For example, in Tokyo, Japanese chains are trying to compete with foreign chains but are lacking in effective marketing instruments and sufficient market know-how. However all over the globe, the leading international hotel chains increased their share of host country markets to outperform chains of other nationalities, which put pressure on hotel companies in developing countries.

In China, such an expansion is likely to happen. Most of these companies derive a large portion of their revenues from management contracts and/or franchising. Thus only marginal revenue increases are to be made from performance enhancement of existing properties; the most significant way to increase revenue is to take on more properties. China is ripe for the targeting of such expansion, especially after its entry to the WTO in 2001 (Zhang, Pine, Lam, 2005).

§4.6 Barriers to Hotel Chain Development

§4.6.1 Paradox of a transitional economy

In order to create a better business environment, the Chinese government adopted an opening and reforming policy in 1978, this to transform progressively towards a market-oriented economy. This transition period stimulated hotel investment and changed the management of and in hotels significantly. However, at present day China's economic transition period still has not finished yet, and continues development as a mixed economy system, where market principles and the central planning system interact and conflict. Where China is trying to change its economic system, state-owned hotels are still obedient to the traditional administrative system. Ownership of state hotels is very complex, as they belong to different

governmental bodies and administrative departments. Issue of state-owned hotels is that they have difficulties to act as a commercial business. Despite the fact, that the Chinese government has merged some hotels, still problems do occur to break barriers of ownership and protectionism in order to generate market competitiveness.

Until recently, overseas involvement was still limited in China's hotel business, due to a severe government control. However, at the same time overseas involvement was encouraged and supported by the state, politically and financially. This contradiction was effectively removed by the China's entry to the World Trade Organization in 2001. As a result of the removal of government control the local industry is now exposed to extensive penetration by and competition from foreign companies. At present, China is losing the ability to control the activities of overseas companies within its own borders more and more (Pine and Qi, 2004).

§4.6.2 Government intervention

The Chinese hotel industry is heavily influenced by governmental officials, who are interfering with actual hotel management and operation. As a result of too much bureaucratic control over hotels issues as a waste of resources, low efficiency and a lack of innovative entrepreneurs do occur. As a result of these issues, the growth of hotels and hotel companies is limited. For example, a typical phenomenon in China is local protectionism, when the government of one region disallows hotel investment and commodities from other regions. As earlier discussed, this local protectionism heavily influences the growth possibilities of an indigenous hotel company. This phenomenon, makes it easier for foreign firms to establish a foreign brand-name with a national presence in China (Pine and Qi, 2004)

§4.6.3 Policy restriction and interest groups

Another issue for influencing hotel chain formation in China are policy restrictions and all the different interest groups. For example, the free flow of state-owned assets in the market is limited by the current regulations. State-owned hotels are difficult to incorporate into chains, because of the fact that different government agencies invested in those hotels all with different interests. For any existing international chain it is also complicated to handle such hotels. For example, the China Post and Telecom Tourism Group is a holding company created by the Ministry of Information Industry (MII) to manage all MII hotels. However, most of these MII hotels are owned in the name of local bureaux, and, during the course of re-organization, there are constant conflicts to shift these assets to the holding company. Various

government bodies control hotel assets, and even when a hotel is losing money, still those interest groups are not willing to give up the right of control where they are benefiting from. Reform of some basic disciplines of regulations is still needed to create a better business climate for hotel chain development in China according to Pine and Qi (2004).

§4.6.4 Lack of motivation and drive

Traditional firms are still lacking behind in vitality and sensitivity when it comes to changes in the competitive environment and market. Having problems in adopting new ideas and being conservative in ideology, traditional firms are still behind in internal management and decision-making mechanism according to Pine and Qi (2004). Hotels belonging to government departments are more likely to rely on the political administrative system rather than they adapt into the market mechanism. However, according to Chang Chong (2005) Chinese hotel groups do have the managerial capacity to compete with international chains, as there are excellent Chinese hotel groups and managers. Only the knowledge of the English language is still lacking behind international standards. As Pine and Qi (2004) are sketching quite negative issues concerning traditional firms adapting to international hotel management, this is already heavily changing for four or five star hotels performing in a group or chain in China.

According to Pine and Qi (2004), several indigenous firms find difficulties to compete freely in a normal business environment, because government officials do interfere without any business perspective (e.g. choice of suppliers). In the near future, China's transition period will slowly vanish as nowadays market economy approaches have been tolerated already for quite a few years but only recently has been encouraged heavily. Step by step, the administrative system of planned economy is breaking down, while the market mechanism is building up due to the foreign investment in the PRC.

§4.7 Hotel ownership

§4.7.1 Complexity and diversity of hotel ownership types

In China ownership of hotels is very complex, as a result of different types of ownership problems do occur in the negotiation and subsequent use of hotel-management or partnership agreements. As discussed in Chapter 3, after the diversification and decentralisation policy by the Chinese government hotel investment was stimulated greatly. However, by gaining a certain flow of investments different types of ownership were introduced at the same time. During the introduction of such a policy State departments, collectives, and private capital owners were all encouraged to invest in the hotel and travel industry. The needed acceleration of hotel development was realized, however the complicated ownership resulting from decentralization led to a severe lack of coordination in decision making in hotel construction (Tisdell and Wen, 1991).

§4.7.2 Dominance of the state-owned hotels

After 1978, the decentralization resulted in a variety of different types of hotel ownership, totalling nine different categories, i.e. state-owned, collective, private, alliance, share-holding co-operative, limited liability, limited liability shares, foreign-invested, and Hong Kong-, Macao-, and Taiwan-invested (CNTA, 2000, p. 92). As discussed in Chapter 3, the great majority (64 percent) of the hotels is state-owned (CNTA, 2000). However, state ownership brings several barriers towards chain affiliation, as leading one the failure to separate hotel management and ownership (Tisdell, 1990), and lack of effective monitoring state assets.

Du and Dai (1998) analysed the behaviour of the state-owned hotels that restrict chain operation and found that:

- ❑ the non-commercial objectives of the state-owned hotels restrict their renovation; the owner or its representative worries about losing benefits during the course of chain operation;
- ❑ the pressure of the vested interest group, including employees, retired employees, etc.
- ❑ ineffective monitoring of hotel management companies after contracting hotels to the management party.

In order to create a healthy climate for hotel chain development one can assume that a change in the ownership system is of inevitable interest.

§4.7.3 Comparison between different ownership types

Overseas-invested hotels are performing better than other hotels. This, concluded from higher occupancy rates and higher annual average revenue per room of foreign invested hotels over other hotels with different types of ownership. According to Pine (2002) the better performance of overseas hotels is a result of the implementation of the rules of free market economy and international business practice. However, another argument is that indigenous hotel companies are failing in expanding their brand to other countries because the Chinese government does not allow such international expansion of Chinese companies. Hence, the failing of creating brand awareness among both domestic and international guests.

According to Pine and Qi (2004) most state-owned hotels lack strategy in management; they pay more attention to the daily operation and management procedures, but neglect branding, corporate culture and innovation and, most importantly, the effective use of capital in the market.

§4.8 Hotel management capability and resources

§4.8.1 Managerial capacity

China's hotel industry is comparatively quite young, as most local chains are new players in the market. Great efforts are made by private sector and government to supply the (luxury) hotels with employees, which are capable of understanding international service and establishing needs of (international) guests. Providing satisfactory service is improving day by day, however still is lacking behind compared to international standards. Many standard international business practices are unknown or unfamiliar within China (EIU, 1989). For example, strategies and expertise, such as standardization, branding, frequent guest programs, and strategic alliances are just newly introduced concepts.

While international hotel chains are still finding their way into China, local hotel chains are still lacking behind on crucial areas according to Tsang & Qu (2000);

- ❑ Lack of marketing network and reservation system
- ❑ Lack of managerial expertise
- ❑ Problems of the capital market and loans
- ❑ Protectionism of local authorities

Previous mentioned aspects are of great importance while developing hotel chains in China. However, according to Van Walbeek (2005), nowadays the marketing network is quite successful in hotels in China. As the remaining three aspects are still impacting service quality, the marketing network and reservation system issues are already much better than eight years ago. While lacking in the other three crucial areas the emphasising on service standards is still falling short in indigenous hotels. However, according to Wang (2005), service issues are diminishing as English can be learnt on many ways nowadays. English is still considered as a key to keep up with international standards.

§4.8.2 Resources for Chinese hotel companies

Improvement of management skill and the service provided by hotel management companies are key factors for chain growth and expansion. Further market segmentation and establishment of a central reservation system are major concerns of China's lodging industry (Yu, 1992). According to Horsburgh (1991), a hotel company should use its resources to develop its assets, core competence, knowledge, and the ability to learn to create and sustain a critical competitive advantage for hotel development, such as superior knowledge of brand management, real estate development, operation of management contracts, and franchising. The lack of necessary resources (e.g. human resources, capital, management expertise) makes it difficult for Chinese hotel chains to create their organizational capability.

§4.9 Competition between foreign and local hotel chains

§4.9.1 Presence of foreign hotel companies

As globalisation is an obvious trend, most giant hotel chains have expanded to China, attracted by its rapid economic growth and tourism development potential. Already established hotel chains in China are, e.g. Hilton, Hyatt, Six Continents, Shangri-La, Marriott, Accor, Club Med, Days Inn and some mega-chains like Starwood and Cendant. More will follow, as many of nowadays' focus of hotels is aimed on the People's Republic. According to Ong (2005), the Hyatt Corporation is planning to develop 11 new Hyatt hotels in China. At the same time, Accor is planning to develop 30 new hotels in the Third Largest Country of the World (Deeson, 2005). Both Hyatt and Accor are large hotel chains, but as Hyatt is choosing for more quality hotel development, Accor has emphasized on a quantity development aiming also on the 2- and 3-star level. This, indicates that hotel companies are approaching market opportunities and China's economic growth differently. Most brands which are already present in China are in the higher category of hotels, mainly four-and five-star.

§4.9.2 Advantages for foreign companies

In China, the advantages of chain operation by international hotel management companies are significant. Once a hotel stops its contract with the chain, business is affected greatly. For example, Starwood's distribution channel generates 60 per cent of its hotels' revenues (Wang, 1998). China's hotel management companies are small in scale and unable to fulfil the potential advantages of chain operation. Most of the four- or five-star hotels are operated by international hotel chains, while local chains mostly operate three-star and below hotels (Shi, 1997). However, several Chinese hotel groups are trying to build up a brand in order to stay competitive. One example is the Beijing Tourism Group, which manages around 50 hotels in and outside Beijing. According to Chang Chong (2005), Chinese management and marketing capacities are improving day by day. For instance, the White Swan Guangzhou is also a 5-star property which falls under Chinese management which is performing well in the market.

Even so, still the most competitive advantages of multinational hotel corporations over local chains are economies of scale, management expertise and technology, especially networking by their distribution channels and centralized reservation systems, which can directly lead the overseas tourists to chain hotels. In addition, foreign hotel chains entered the Chinese market earlier and dominated the market, enjoying favourable policies set by the Chinese government.

Competition between multinational hotel corporations and indigenous hotels is not fair, as foreign-invested hotels enjoy more preferential policies and treatment than indigenous hotels in taxation, tariff, foreign exchange, pricing, human resources policies, etc. This is an important reason why many investors seek foreign partners for joint venture and hire a foreign hotel management company.

§4.10 Conclusion

As there are comparatively still few hotel chains or groups present in China, a logical way to advance China's hotel industry would be to develop such organisations. The development of hotel chains, both international as domestic, will not only provide accommodation to the future influx of visitors, but will also improve service standards significantly. However, before developing simply hotels care is needed to fully understand and appreciate the complete range of consequences and possibilities. Any policy for development of groups need to create the most appropriate formats within the China context, when indigenous hotels will simply copy models from overseas this probably will not work. This, because they have not the knowledge and capacity to extend the quality of a copied format or model. Before Chinese hotel companies start to operate fully in China, they should be aware of the fact that competition is fierce and that the business environment is, and will be even more, occupied by giant hotel companies. Not only emphasizing on hardware (hotel facilities) is needed, but also software (service, communication) will be a crucial factor in order to 'survive' in the future.

For international hotel companies it is important to appreciate the national and organizational differences in culture because they determine differences in behaviour and expectations of domestic travellers, hotel staff, and, especially, the large variety of owners. Understanding and appreciating such differences is crucial for any foreign company entering the China 'factory'. Besides that, challenges in human resources are there in order to optimise service up to international satisfaction.

After China's entry to the World Trade Organization the door is now fully opened to foreign hotel companies, and these hotel companies are looking to the very lucrative growth potential in China. Most of the giant hotel companies need to continue expanding to provide a meaningful increase of revenues and therefore China is a very obvious target for their necessary expansion.

Hoteliers within China are making great progress in adapting overseas hotel operating and business concepts, as well as initiating their own ideas. Local companies have learned a great deal by studying how foreign companies work within China. According to Pine (1992), this process of technology transfer started with attention to the physical facilities and service standards needed to match international hotel offerings. Attention was then given to the different management and business techniques used by foreign companies. Finally, local

companies are now adapting hotel facilities and business formats to the particular needs and advantages of the China environment. Local companies also benefit from having excellent knowledge of the internal workings of the Chinese political and social systems.

As China is moving with great speed towards their role as major destination for international travellers, and with its own internal growth of domestic travellers, future hotel (chain) development is inevitable. Large international hotel chains are already present in China, and more are planning to establish properties in the People's Republic. Chains as Marriott, Hyatt, Starwood, Shangri-La, Accor and Hilton are already planning heavy expansion. Some of these chains are planning to double the amount of hotels present in China for the coming 2 to 3 years.

While other chains are also pointing their sight on China, one can seriously speak of a booming hotel development in China, for the coming years. Billions are poured into the country's hotel chain development and the most beautiful hotels are getting build, but quantity is not yet quality. For example, in Shanghai 40 new offices and apartment buildings were established and 38 of those failed in safety measurements one year later according to Kirk (2005). This indicates the power of developing and building progress in China. Thus, hotels may be built relatively quick, but hotels also should be on the lookout to be pro-active in service. Problems will occur in service when more hotels will be established, as the labour market will lack in providing suitable employees. In the near future the understanding of international service and the knowledge of English will be key points whether China's hotel industry will develop not only in quantity but also in quality.

The next chapter will analyse the present issues, which are playing a role in the luxury hotel sector in China. Then, chapter 6 will further discuss the impacts the future development of hotel chains will have on the service quality in China's hotel industry.

Chapter 5 - Issues in Service

§5.1 Introduction

The period that China has opened up to the outside world is not long ago, yet the hotel industry was one of the earliest business sectors within the People's Republic. From 1978, a sudden influx of international visitors resulted in a steadily hotel development up till now. In 1982 the first foreign concepts of hotel management were imported into China when the Beijing Jianguo Hotel, the first joint-venture hotel to be managed by an overseas hotel management company, was established. Since then, the quality of service in Chinese hotels has gradually improved, particular those managed by expatriates. According to Wang (2005), service to both international and domestic guests is now equal, where 15 years ago international guests were still treated differently.

The Chinese government strongly supports the improvement of the country's hotel service as tourism, both foreign and domestic characterizes a booming development. For example, the Chinese government has implemented the "Hotel Star Rating" system and the "Golden Keys" concierge system. These are guidelines that hotels are required to follow to meet international standards in products and services. On the other hand, human resource management in terms of concepts, management skills and techniques, and various human resource functions in China are still below international standards.

This chapter will look at issues in hotel service in the luxury hotels in China. By analysing China's luxury hotel service this chapter will identify issues in the following areas: training & education, the English knowledge of hotel staff, high-turnover rates of staff; and the Chinese (service) culture.

§5.2 Training & Education

§5.2.1 Introduction

According to Van Walbeek (2005) the role of the people and technology are some of the most important features of the service delivery system. Both people and technology are important in providing service quality. Where technology cannot provide a 'warm' feeling in a guest's experience employees can. Therefore, the performance during a service encounter is important to provide the guest with a certain satisfaction. To emphasise on the performance during a service encounter training is an important feature to perfect service.

§5.2.2 Training

According to Yao Yue-can (2005), the government and the private sector should pay special attention to training and education of service, in general. If China wants to be world leader in both international arrivals and tourism receipts emphasising on service will be needed on both national and regional level. Given the growth opportunities and future hotel development, luxury hotels are emphasising on training in terms of service in order to meet the expectations of international and domestic guests.

According to Pech (2005), several large hotel chains work on service improvements by making use of daily training. Focus points are the daily operations and improvements in English. Goal of those trainings are to minimize complaints, working according brand standards, and to perform quality during the 'critical' service encounter. Especially in China the service encounter is a critical aspect in providing service quality. In terms of training, all hotel chains are approaching service issues differently while using training methods. For example, the Grand Hyatt Beijing has daily training for their employees which will take only 40 minutes, while Hilton Beijing is emphasising on training 2 or 3 hours a day. This, indicates that all kinds of hotels have different ideas and concepts in how to maximize service (Schadlou, Pech, 2005).

Special divisional training also takes place in several luxury hotels. According to Ong (2005), a training department is important to approach service in a pro-active manner. For example, in the Grand Hyatt Shanghai, 3 rooms division trainers are hired, which are only dealing with training in order to provide optimal service linked to its product. In daily briefings details are often discussed such as keeping eye contact with the guest etc. Advantage, which is still applicable for China, is that hotels are in the position to hire many employees to cover up

service issues. According to Liu (2005), accents are put on smiling, talking and problem recovery in order to improve guest experience. These aspects need emphasising while they are important to expose a friendly, service orientated attitude. When hiring new employees, hotel companies are looking special for people who have a basic English knowledge, a good attitude and great personality according to Pech (2005). Also a “can-do attitude” and a friendly exposure are important characteristics in a service sector nowadays (Schadlou, 2005). In a way, hotels are forced to recruit new employees in such a way, because there are insufficient graduates to fill the gap. Hotels find difficulties in hiring new employees which are service-orientated, speak sufficient English and who have a good understanding of international needs and wants. Reasons for such a short of suitable employees are high-turnover staff ratios in hotels, and a discrepancy in hotel development and graduates. However, the modernization of the agriculture will result in a surplus of labour, and therefore such an overabundance will be employable in tourism in the near future according to Yao Yue-can (2005). Even so, still training is needed for people who are used to work in the agriculture, as knowledge of English will not be high, let alone the understanding of international service in luxury hotels. According to Van Walbeek (2005) it is important to know the cultures of your customers when focussing on service quality, and therefore well-aimed training programs are important factors.

§5.2.3 Education

In table 5 the amount of institutes of higher education in tourism and secondary vocational schools is presented in Eastern, Western and Central China.

Table 5 Number of Tourism Schools and Colleges in 2001

	Institutes of Higher Education	Secondary Vocational School
Eastern China	135	473
Western China	76	243
Central China	102	125
Total	313	841

(Source: CNTA, 2002)

This table gives an impression of the total amount of tourism schools and colleges in China. According to several hotel managers the tourism schools still deliver insufficient quality candidates to the labour market. Therefore, looking for creative solutions to solve this issue is of essential importance when it comes to providing service quality.

Where daily training in the hotels is important to maintain and to improve service quality on the short-term, education will be crucial for service quality on the long-term. According to Wang (2005), tourism management universities are to be found all over China nowadays, with a main focus on international standards. Even so, still there are not enough graduates to fill the great demand of the industry according to Yao Yue-can (2005). As the quantity of hotels is increasing rapidly, hotels facing difficult times to find suitable candidates to maintain service standards. Many hotel chains in China co-operate with local schools and schools from other provinces. This, results in mixed results according to Schadlou and Pech (2005), as trainees from a certain province performing quite well, trainees from another province are performing insufficient. In order to succeed, a positive attitude, devotion, and a great exposure are key characteristics in China's hotel industry, and thereby a sufficient knowledge of English is needed. A hotel company with a whole different approach is Shangri-La, having its own academy just outside Beijing. Within the Shangri-La Group, the academy provides a platform for systematic training of its employees, the sharing of best practices, and the care for goodwill and companionship among its employees and properties across China. The academy strives to nurture a new breed of hospitality professionals with enhanced skills, flexible minds and strong service orientation, equipped to meet fast changing industry needs and adopt innovative approaches in tackling challenges at work. By establishing the academy in September 2004, the Shangri-La Group is dealing with the lack of graduates on the market in a creative way. During the courses of the academy emphasising will be on total quality management, culinary arts, hotel operations and service English. Whether the academy will be a success story the future will tell. However, according to several professionals in the Chinese hospitality industry the launch of such an academy is a great example for other hotel companies in dealing with the current issues of service.

§5.3 English Level

According to Wang (2005), the English level is improving with a great pace in China. English is getting more and more common in the PRC. On primary schools English is being taught to the youngsters, followed by high-school and then university. After China's entry to the WTO in 2001, people got aware that English will be needed in the future, but also the upcoming Olympic Games in 2008 will require an improvement of the English knowledge. In Beijing, a tourist cannot get into a taxi and just simply say where to go in English, even highlights as Tiananmen square are hard to find while communicating in English. Acknowledged has to be

that with the future Olympic Games the government is stimulating to learn English. At the moment there is appearing a English newspaper, advertisements are in English, even in kindergartens English is getting more common, and older people have the opportunity to learn English (Liu, 2005). However more training is needed for all people who are working in the service sector as China wants to be ready for the Olympic Games, therefore English will be crucial.

This makes no difference for hotel management, English is a key to maintain and to improve international service standards. According to Schadlou (2005), the urge of English is sometimes underestimated by the Chinese, as it is “their country which is developing into an economic superpower and not the western countries”. Even so, for hotel companies English is of crucial importance, because communication is important during the service encounter, hereby the employee can identify the needs and wants of an international guest. According to Wang (2005), people in the major cities are performing much better in English, because they are dealing longer with international visitors than the other cities. However, according to Pech (2005), hotels are finding more difficulties to find suitable employees in the bigger cities due to fierce competition. As the main focus of the hotel chains is to expand into the “second” bigger cities this problem will also occur in cities as Xian, Nanjing, and Guilin in the near future.

At the moment, the English level is “good enough” in the luxury hotels, this means that every employee can speak English in terms of their daily operation. For example, if one asks for some extra sugar for in the tea, the employee will serve you with a smile and the extra sugar will arrive one minute later. However, when one asks then what the best restaurants are in the surroundings of the hotel the employee will reply you with a shy voice that she does not understand exactly what you are asking for. Such an example does occur in many luxury hotels, as several departments are quite crucial for service. In the front office department of a hotel, English and knowledge for service is quite perfect. Critical departments in terms of knowledge of English are front-office, food & beverage and telephone operations, because it is in these departments where service encounters do occur frequently and therefore establishing needs and wants is important to provide service quality. Mostly, the duty managers are perfect in English, as they have to handle complicated issues or complaints. However, a restaurant captain only needs to understand what a guest wants to order. According to Korving (2005), Chinese people are hard workers and possess the ability to

study hard and are able to memorize well, however when newly graduates have to perform their English in practice they still need to adapt on the different accents, which guests are using having all kinds of different English speaking backgrounds.

§5.4 High-Turnover Staff

Facing the rapid development of the hotel industry and challenges in the new economic era, human resource managers in hotels have been confronted with a number of critical labour problems. These include the already discussed quality of current employees, and the lack of quality candidates in the labour market, but also high employee turnover and poor salaries compared to other industries (Zhang, Pine, Lam, 2005).

As a result of the growing competition in the hotel industry, many hotels suffer from high turnover rates. Especially in privately owned hotels, joint-venture hotels and enterprise hotels high-employee turnover has become a very serious problem. According to Kirk (2005) many hotels are failing to keep their quality employees, because they cannot afford to offer competitive salaries and not all hotels can provide a good learning environment or are able to offer sufficient career opportunities. According to Pech and Ong (2005), the best performing hotels in the market are often “victims of success”. For example, a restaurant captain will be promoted earlier as he will transfer to another hotel. Also, when a new hotel is about to open in the same city, employees from the best performing hotel in the market are often approached and contracted with a better salary. The high turnover staff rate is not only because other hotels are offering better salaries and better career opportunities, but also hotels suffer from the competition of other corporate businesses. According to Pech (2005), it frequently happens that the best English speaking staff is signed by a western company who needs a Chinese and English speaking employee. Having good English speaking staff brings the risk that employees getting tempted to work elsewhere for better salary and less working hours, especially when they transfer from hotel to corporate business. Advantages for the employee will be flexible working hours (9 till 5) and up to 4 (four) times higher salary for less working hours. Employees who are speaking sufficient English are easily attracted by such corporate business, as having a desk job from nine till five is far more interesting then cleaning tables, working on holidays, and dealing with drunk guests.

Hotels are trying to keep their quality employees, this results in increase in salary, special bonuses, and offering career opportunities (Korving, 2005). However, according to Schadlou

(2005) it is difficult to keep employees as Chinese people are often money focussed as the quality of life still is lacking behind compared with western countries. Hotel companies are looking due to the high turnover rates for employees whose passion is in the hotel industry. Thereby personality is of importance, it has to be their ambition to grow together with the hotel. Within a large hotel chain, Chinese employees do find the opportunity to develop their communication skills, English and industry knowledge. According to Zhang, Pine and Lam (2005) the hotel industry is still attractive for young people because of learning opportunities, benefits, and career growth. However, this attractiveness apply mostly for the international hotel chains, as indigenous hotels are facing severe difficulties in motivating their employees.

According to a survey of Liu (2002), reasons were identified for employee turnover, salary was revealed to be the most important factor, followed by training opportunities. Table 6 describes the factors behind turnover in hotels in China.

Table 6 Factors in Employee Turnover

Turnover Factors	Importance Ranking
Poor salaries	1
Lack of training and development opportunities	2
Poor working environment	3
Poor pay structure	4
Great work pressure	5
Bad organizational culture	6
Poor bonus and welfare	7
Lack of career prospects	8
Others	9

(Source: adapted from Liu, 2002)

These results may imply that salary is a far more important factor than any other in motivating employees in hotels in China. Interestingly, bonuses and employee welfare were not ranked high in terms of the degree of impact on turnovers. Hotel employees were not likely interested in a year-end bonus or any other benefits they might receive from their employers. This is most likely because, unlike foreign owned hotels, state-owned hotels, which is still the majority, do not often provide year-end bonuses.

In state-owned hotels, what can sustain the loyalty of employees and enhance their job satisfaction is the size of their monthly pay-check (Zhang, Pine, Lam, 2005). According to Koldowski (2005), Asian people are mainly interested in the so called 4 C's, which are: Car, Career, Condominium, and Club Membership. However, the factor "lack of career opportunities" was ranked low in leading to employee turnover. That is, employees were not much concerned about their career prospects in hotels. They appeared to perceive the hotel job they were working as a temporary situation. When they receive offers from a company in another industry, they will leave. According to Chang Chong (2005), the career track of tourism graduates is resulting mostly to a job as a tour-guide, as little interest is displayed for a career in the hospitality sector. However, this is changing, but still such issues do occur. Another factor, which was not included in the survey of Liu is 'status'. According to Van Walbeek (2005), status is one of the most important factors in turnover of staff in hotels in China. Not only a better salary is a reason for Chinese employees to leave but also a better job title. Surprisingly, appraisal for a good performance and help with personal problems was not included in Liu's research.

However, Chinese people believe that a hotel career will be short, and that the jobs require no skills but intensive physical stamina. Security is very important for potential candidates. Chinese people perceive that hotel managers will not hire anymore employees when they reach the age of forty. Such a concern is particularly significant when people in china have grown up under the "iron rice bowl" system, under which one's job is secured for a lifetime (Zhang, Pine, Lam, 2005).

Turnover of staff is higher in privately owned and joint-venture hotels than in the state-owned hotels.

§5.5 The Chinese Service Culture

According to Zhang, Pine and Lam (2005), a number of serious human resource problems do exist, including overstaffing, low productivity, low morale, and poor service attitudes. This does apply mostly for Chinese managed hotels, as luxury foreign-owned hotels are facing these issues in a less negative way. According to Ong (2005), China is about to face huge service challenges. Unlike Thai and Balinese people, the Chinese are not hospitable, which means it is not in their nature to serve and to smile. However, their mentality towards the service industry is changing positively. Due to the impacts of SARS there was a huge

mentality change towards service, in order to stay in business Chinese were forced to pay attention to service quality. When comparing China with its Special Administrative Region Hong Kong, the main difference is that Hong Kong does not have any natural resources. Where China can apply to great natural resources, Hong Kong is forced to invest more in their “people product”. This means that service is perceived better in quality while comparing this with the People Republic of China. The fact that China was closed so long for the west is also a reason why Hong Kong is still better in providing service quality. When comparing China to Singapore, Singaporeans are used to quickness and efficiency in service, as Chinese show difficulties in following up orders and taking initiative. According to Qu (2000), such mentality to service is a result of the fact that service was non-existent during the era that Mao Zedong ruled China.

According to Zhang, Pine and Lam (2005) another issue is that most parents at this moment are brought up in the 1950s and 1960s. During this period China was still dominated by a communist ideology where the idea that people are equal was strongly adapted in people’s minds. This group of parents may believe that serving people violates the principle of equality and they may discourage their children from joining the hotel industry.

However, according to Wang (2005), a shift is to be recognized in the mentality towards service of the Chinese. The current young generation has the chance to go abroad and follow an education in a western country, where they are forced to take initiative, give their opinion, and work together with people. More importantly, such students are forced to speak English and therefore become fluent speakers. Even so, according to Zhang, Pine and Lam (2005) Chinese youngsters who have enjoyed a good education are money driven. Looking at the expanding job market in China employment opportunities are numerous for well-educated Chinese. Besides that if a Chinese exchange student will return to China it is not likely that they are willing to work in the service operations in a hotel, because they expect higher positions and a rise in salary in a short time. According to Van Walbeek (2005) a strategy of Accor is to send its middle-management overseas for international experience, then later one those management will return to China to become a General Manager in one of the properties of Accor in China.

There are also regional differences concerning service mentality in China, according to Ong and Korving (2005), Shanghainese are not willing to work in the service industry. As

Shanghainese people are looking down on other Chinese, this is resulting in many complaints in hotels in Shanghai. Hotels in Shanghai are attracting most employees from outside Shanghai. Korving (2005), mentioned that Chinese people in “small” cities are more humble towards service than people in the big cities as Shanghai and Beijing. According to Schadlou (2005), trainees from other provinces than Beijing are performing with mixed results. Some trainees from Dalian were performing insufficient, where trainees from other provinces were performing well in both work and English. Not only mentality towards service is essential for hotels to provide service quality, also employee motivation is crucial. According to Kirk (2005) showing initiative is also a weak point as it comes to Chinese employees. An example is an inspection in a Marriott hotel where a Guest Service Officer(GSO) was showing him around. Then, when the GSO wanted to show him a restaurant she could not open the door, and assumed the restaurant was closed. Then, when Mr. Kirk tried to open the door the restaurant was indeed open, but the GSO made a mistake by pushing the door in stead of pulling. Such examples do occur every day several times in a five star property in China.

The term ‘losing face’ is, besides simple mistakes or insecurities by Chinese employees, an important cultural aspect to take into account. Culturally, face saving is important among Chinese people, yet a job serving people is considered a low status profession, and low status is similar to “no or little face” for Chinese people. In front of other people it makes them lose respect and self-esteem. Even in several large international hotels it is noticeable that the self-esteem towards international guests is low.

In terms of the culture of a destination, it has become important for many hotels to change some of the traditional habits related to a company’s culture in order to compete and provide quality service and customer satisfaction according to Van Walbeek (2005).

§5.6 Conclusion

According to Van Walbeek (2005) there are three aspects which are playing a role in the quality concept:

- Physical Quality
- Corporate Quality
- Interactive Quality

Physical quality is including tangible elements such as the restaurant food or the décor of the bar. Service issues in China's luxury hotels are not related to insufficient physical quality as investments are high in the "hardware" of hotels. Great properties are to be found in China offering the latest technology and trends in design. Then, corporate quality has everything to do with the image or profile of a hotel company. Also in this aspect analysed service issues do not occur, as most luxury hotels are part of international hotel chains, which have great brand awareness throughout the world. However, several indigenous hotels fall short in providing corporate quality as discussed in chapter 4.

Most service issues in the luxury hotels in China do occur in the 'interactive quality'. This is the aspect which need most points of attention by Human Resources Departments, because falling short in interactive quality means that most issues do occur during the involvement of the interaction between customers. The service encounter is where issues occur in providing service quality. Referring back to the Five Gap Model (Chapter 2), Gap 3 errors do occur during the service encounter. In Gap 3 service performance is the key indicator. Gap 3 occurs when management understands what needs to be delivered and appropriate specifications have been developed but employees are unable or unwilling to deliver the service (Kotler, 1996).

The insufficient performance during the service encounter is a challenge for the hotel management within the luxury hotels in China. "Managing the Gap 3" seems to be the challenge for hoteliers in China. However, besides the issues concerning the service encounter there are also severe labour problems in the Chinese hotels.

Hotels find difficulties to attract quality candidates to join their organization. According to several hotel managers young graduates from high schools and vocational training schools

find the hotel industry not appealing. In Shanghai and other nearby cities hotels tried to compete against one another to attract a pool of 300 fresh graduates. These were high-quality candidates, and so rare in the market that hotels had to compete to sign them for a contract deal (Zhang, Pine, Lam, 2005).

Obviously, human resources management is a difficult issue for hotels. Although there is an ample supply of labour in the market, the hotel industry is not appealing to quality candidates. High employee turnover has also revealed that even when quality candidates join hotels, they are not motivated to stay and are not committed to their jobs and organizations. Numerous books, research papers, journals and magazines discuss motivation, yet China has its own education system, culture, social norms, ideology, and human relation skills. In order to motivate Chinese people, all of these factors need to be included. To motivate Chinese employees it is of great importance to balance all factors into one Human Resources Policy.

The next chapter will focus on the rapid hotel development in China and thereby discuss the impact on service quality.

Chapter 6 - China's Booming Hotel Development vs. Service Quality

As discussed in the previous chapters, future hotel development in China will be booming for the coming years. Ever since the open-door policy, which was introduced in 1978, China has experienced extensive growth in international tourism. Recent statistics show that the total number of visitors to China in 2004 counted over 109,030,000 according to China's National Tourism Office (CNTO, 2004). However, exclusive from the visitors from Hong Kong, Macao and Taiwan, international arrivals were about 16,930,000, with a growth percentage over 2003 of 48.49% (CNTO, 2004). The total international tourism receipts in China in 2004 was US\$25.7 Billion, with a growth percentage over 2003 of 47.87%. At present, China is ranked 4th in the world for both receipts and arrivals according to the WTO (2005).

The growth trend for international tourism in China is likely to continue. The WTO has forecasted that by 2020 China would be ahead of the United States and France, which are the current top destinations, and will rank first in international tourists arrivals (WTO, 2005). According to Zhang Jilin, deputy director of the China National Tourism Administration's Planning, Development and Financial Department, China will be the top global tourist destination by 2017. The World Trade Organization had predicted that China will receive 137 million overnight inbound tourists in 2020, thus becoming world's largest tourist destination. These new figures from Zhang show China will reach that target three years earlier than expected. This indicates the enormous growth potential in tourism of China.

Even due to a global economic recession during the past few years, growth of international travel to China still increased. Rather, a favourable environment for future tourism development is foreseen due to the China's success in bidding for the 2008 Olympic Games, and her accession to the World Trade Organization in late 2001. The Olympic Games are expected to draw large numbers of tourists not only during the event, but before and after also. Meanwhile, China's entry to the WTO will not only bring direct investments in tourism, but also strengthen ties between China and other WTO members. The resulting increase in the number of international connections will also benefit tourism business in China. Clearly, the future is promising for both international tourism and future hotel development in China, but on the other hand as the pace of growth will occur in such a pace, negative impacts will occur in the near future.

Given the potential of tourism growth and opportunities which will occur, hotel chains are aiming massively on expansion to China. Much of the growth in China will be spurred by domestic travel partly linked to the mainland's massive road building scheme. According to Yao Yue-can (2005), the Chinese government expects highways to span 85,000 kilometres by the year 2020, up from 34,300 kilometres currently as part of a special plan to connect all cities with a population of over 200,000 people with highways. Such road building will be a huge driver of hotel demand. Another positive effect will be the increase in car tourism in China which will also boost the demand towards hotels.

Furthermore China's fast growing economy is the reason that the country is at the core of many hotel chains' development plans in the Asia-Pacific region at this very moment. To give an indication, several expansion plans of large hotel chains are displayed in table 4.

Table 4 Expansion Plans of Some Major Hotel Chains in China

Hotel Chain or Group	Future Expansion in China
Intercontinental Hotels Group	Planning to manage 125 hotels by the end of 2008
Starwood	Developing 16 hotels at the moment
Hyatt International Hotels & Resorts	11 new hotels planned to be developed by 2008
Hilton	Entrance of brands Conrad and Scandic in China
Shangri-La Hotels & Resorts	From 17 hotels to 32 hotels by 2007
Accor	Planning to add 30 hotels in the PRC
Best Western	Plans to manage 100 hotels by 2007

(Source: Ong, Deeson, Hendler, 2005)

Given the expansion plans of several large international hotel chains, one can assume that the different chains are approaching the given opportunities in the market all in a separate way. Expansion in a cautious sense, aggressively, aimed at top-luxury segment or more middle-class are the decisions which have to be made by the policy makers of all the hotel chains. Rapid development will not only take place in China's gateway cities of Shanghai and Beijing, but as well as in the secondary cities. Examples are, the Hilton Sanya and Hilton Xiamen, which will open in 2006 (Schadlou, 2005). Shangri-La, as a truly 5-star chain, is often pioneer in Chinese cities. Examples are the Shangri-La hotels in the modest cities as Beiha and Zhongshan.

According to Pech (2005), the booming development of hotels will not be beneficial for the service in the five star hotels. The development is more focussed on great and beautiful “hardware” and less on the software (service quality, communications). One of the issues of the fast development will be even more a lack of experienced staff, which is pro-active towards service and with a sufficient level of English. Pressure on universities will be higher and the demand for graduates from a hotel or tourism school will be even more immense. Such pressure will result in junior opening teams for luxury hotels according to Kirk and Korving (2005). This means that comparatively inexperienced managers have to deal with great responsibilities prior, during and after the opening of a five-star hotel. Aspects as management, marketing and advertising are crucial before and during the opening period of a hotel. Furthermore, crucial mistakes or errors during an opening period should be avoided. This, because an opening period is of great importance, because the way a hotel will enter the market must be successful.

Besides inexperienced opening teams the great pace development of luxury hotels will affect today’s issues to a greater negative extent. From an educational point of view, there will be a big discrepancy in needed and available graduates from tourism and hotel schools. Because of this hotels need to be creative in selecting new employees, which is basically a big challenge for the Human Resources Departments. Training seems to be the key in approaching the gap in the labour market. Looking for a suitable attitude before skills will be a (future) trend. Again HRD will be challenged in training methods to keep up with providing service quality. Next to that, the global change towards a service economy will put pressure on China’s service culture where expectations of guests will rise.

Furthermore, the level of English will be essential in understanding international guests in the hotels. Keeping an eye on the fast development of tourism and hotels the pace that Chinese students are learning English need to be increased.

Additionally, the Chinese service culture will be prepared towards a more international approach in providing service. However, it will take time to adapt where tourism and hotels will develop with great pace in the PRC.

Yet again, as a steadily development will continue luxury hotels will suffer even more from the difficulties to find quality candidates for their hotels. Turnover of staff will increase in most hotels and the need to retain quality candidates will be higher. The demand for quality candidates will be much higher, as many luxury hotels aim for expansion on China.

Eventually this will lead to more issues in the crucial service encounter as hotels can not staff quality candidates to do the job.

The next chapter will evaluate the service quality of luxury hotels in China by giving conclusions and recommendations. Furthermore, recommendations will be given on managing the current service issues and labour issues.

Chapter 7 - Conclusions and Recommendations

§7.1 Introduction

Based on the previous discussed chapters this chapter will further analyse and evaluate the service quality of luxury hotels in China. At present, there is a global moving towards a service economy due to internationalisation, development of technologies and employment possibilities in the global service sector. Thereby given the rapid growth of China's hotel industry, it is crucial that both international and indigenous luxury hotels in the country are able to provide service quality towards their guests.

Given China's growth potential in tourism, there will be a great demand for rooms in the future. However, China should not only satisfy the future demand of rooms, but also they should make sure they can handle the enormous hotel development in terms of the supply of employees, and the maintenance of buildings and at the same time preserving international standards.

§7.2 Service & Hotel Development

Providing service quality is essential in order to survive in the competitive international environment, which the hotel industry in China has become nowadays. Its young hotel industry has developed rapidly since the open-door policy in 1978. Factors as ownership and government involvement were affecting perceptions of service 20 years ago. In a later stage, the Chinese government stimulated hotel investment, which resulted in a boost in hotel development. Despite the rapid development of hotels in China, some studies found that the standard and quality of services were still far below international standards (Tsang & Qu, 2000). Problems included a lack of property management, poor sanitation, unreliable reservations systems and poor language abilities towards international guests. With the entrance of more international hotel chains into the country service quality gradually improved. In the luxury segment issues as poor sanitation and unreliable reservations systems are not playing a role anymore. At present, China's luxury hotel industry is full of great hotel facilities.

§7.3 Service Issues

Where hotels in China offer a great “hardware” (hotel facilities, architecture) nowadays, the “software” (service, communications) is still facing several issues. However issues are not as negative as some literature does indicate. The issues in service which are playing a role at the moment are mostly errors during the service encounter. Factors of failing during the service encounter are insufficient language knowledge, cultural differences between guest and employee and no esteem during the service encounter by the employee. The insufficient performance during the service encounter is a major challenge for the hotel management within the luxury hotels in China. “Managing the service encounter” seems to be the challenge for hoteliers in China in order to optimise service quality. Service encounters are the building blocks of quality hospitality service. Therefore, hotel managers in China should focus on the encounters that really make a difference to guests’ experiences and thus to the perception of quality.

An initial management task is to understand a service encounter by discerning and dealing with those attributes that are most important to guests. Hotel managers need to be capable to analyse every service encounter and thereby to determine what the needs of the guest are. Key for management is that employees express the service strategy of a hotel towards the guest during a service encounter. Challenge for hotel management will be to balance aspects as training, working attitude and needed skills into one service concept. Attitude will be the aspect where management need to focus on, everything else are the mechanics which can be taught. The attitude can be further enriched with solid Customer Service Training.

In F&B departments, it seems to be English which is an important factor during the service encounter performance. Since F&B is not technology driven communication and establishing needs during the service encounter is important for employees. Concerning English knowledge, in order to minimise complaints in F&B outlets, captains or restaurant managers need to speak several international languages in order to provide quality service. Therefore, hotels should focus in selecting and training their employees in a proper way. Many hotels already provide English lessons for their employees, but still employees are failing in just simply recommend good restaurants in the hotel’s environment in proper English. This means that not all employees employable in front-office can recognise the needs and wants of their guests. Therefore assistant-managers need to be very pro-active in establishing needs and wants of their guests because employees are failing to do this.

In most luxury hotels in China a good working attitude is becoming more and more important than skills. Serving a coffee and holding a tray can be easily learned, but having the right attitude and positive exposure is a bigger challenge for hotel management. Therefore hotel and tourism schools need to shift their focus more towards attitude. Being pro-active and showing a “can-do attitude” are key elements to optimise service quality. While hotel schools are still focussing on basic serving skills, the need for working attitude, pro-active behaviour and positive exposure will increase from the hotel side as hotel development will continue rapidly in the PRC. The need for Chinese employees who are trained to take initiative and not simply follow will increase as labour issues will develop in a more negative way due to the rapid hotel development.

All international hotel chains are aware of the importance of the service issues. Therefore they are trying to find solutions by taking all different kind of measures. Accor is sending its mid-level managers with potential overseas to gain experience and knowledge. To broaden the horizon of Chinese mid-level managers service encounter issues will minimise because there will be a better understanding of the customer’s culture. Besides that, Chinese managers with overseas experience can communicate better with their Chinese co-workers, which eventually will lead to an international approach in a China context. Example is James Li, as an events co-ordinator for Shangri-La Beijing he understands what both international and domestic guests are expecting in terms of service. This is very important in China, because domestic tourism will develop also substantially and therefore most luxury hotels will have a mix in domestic and international guests in the near future.

Another approach is the Shangri-La academy where young Chinese students learn the passion for the hotel industry by truly professionals. Creating such an academy Shangri-La also looks ahead to the (future) lack of quality candidates. Since the academy is managed by Shangri-la, the hotel chain is establishing their own pool of (quality) graduates and by doing so Shangri-la is also creating brand loyalty among their students. According to several hotel managers other large international hotel chains should follow this example of Shangri-La.

For indigenous hotel groups it may be important to tie-up with international hotel schools in Switzerland and other European countries. By establishing exchange programs high potential

and young employees can experience solid hotel training and furthermore the overseas experience will be beneficial for the understanding of international guests.

A suggestion concerning the cultural aspects of understanding the guest is to call upon diplomatic or other programs, which exist to prepare diplomats on assignment elsewhere. These programs highlight culture, accepted behaviour and pleasantries of a particular country or region and they can be incorporated by Human Resources into the China hospitality arena (Hendrie, 2006).

For service recovery concerned, training will be essential. To know that a guest complaint is not a “personal attack” will be important for Chinese employees to realise and to deal with. By making use of cross-cultural training hotels can manage the “lose face” issue in service recovery.

For luxury domestic hotel groups it is important to create a brand and introduce brand standards. Now many hotel groups are using individual names and different typefaces, but in the future these groups need to unify their individual names. Besides creating a brand, operational standards need to be established chain wide and up to international standards. The Jin Jiang International Hotel Management Company realises this, and is setting a positive example for domestic hotel groups.

The need for expatriates will be high for both domestic as international luxury hotels. However, hotels need to attract the right candidates for the right jobs. Departments which require front office know-how need to have priority. For opening teams expatriates will be needed in order to avoid junior opening teams with the eye on the rapid development. Furthermore, the language abilities of expatriates need to be high as they thereby can establish needs of more different guests. For domestic hotel groups the challenge is the change in management first. Indigenous hotels need to manage the cultural change which the progressive change from state-owned hotels towards a market-driven and competitive organisation is bringing along. By reforming management the first step towards providing service quality will be taken.

§7.4 Labour issues

The difficulty of finding quality candidates for hotels is a severe issue, which will become bigger when hotel development will continue in a great pace. Besides a lack of quality candidates, a high turn-over of staff is a problem hotels are dealing with. Not only losing capable employees to competitors but also employees leaving the hotel industry is an issue. It seems that finding quality candidates by the hotels is the first step towards providing service quality. Since the pool of quality candidates is not large, Human Resources Departments should select on attitude before skills. This means that, as mentioned before, aspects as motivation, personality, attitude and exposure are becoming more important than skills itself, because skills can be taught.

Luxury hotels in China need to put effort in selecting suitable candidates, with keeping their eyes on service standards. Upper-level managers need to have the opportunity to work in a good working environment, where training and development opportunities are present. As for mid-level managers concerned training and promotion opportunities are of importance to be offered by the hotels. As discussed earlier, training will be a key to maintain the set service standards, because this will increase an employee's capability and mobility. When employees become more competent, they will have more opportunities to be promoted within their hotel or other hotels. With promotion will come a pay raise, and pay raises are an important aspect for most hotel employees in China (Zhang, Pine, Lam, 2005).

When it comes to recruitment of new talent, hotels need to be creative to attract potential candidates to their doors. If hotels offering a minimum wage this will lead to a minimum of talent which is willing to take the job. However, a consideration hotels should make is to add up an additional amount on top of the average hourly rates. Then, the show of a high-volume of applicants will be bigger. This leads to an improvement of applicant talent, and by doing so hotels will make the pool of quality candidates bigger. The additional amount offered will be much less than what hotels are currently spending on turnover and training (Hendrie, 2006).

For domestic luxury hotel groups it will be important to create a brand. By doing so domestic hotels will be able to attract more capable employees because Chinese people are not only sensitive for bonuses and higher salary but also for status.

During the selection process of new employees, hotel managers should not only look at qualifications and experience but they also should hire for attitude and besides that they need to be aware of chemistry. A fit in the hotel's culture, is essential. Many new young applicants are new to the hotel industry, and basically have no idea what it takes. Hotel managers just should let the new applicants "observe" a busy dining room, some guest rooms being cleaned, a guest checking-in, or any other type of service environment. "Look before you leap" is essential according to Hendrie (2006). Next to that, their questions will demonstrate their interest and their appreciation for the job to be performed.

But still pay structure is an issue that requires serious attention from hotel managers. With an effective pay structure, a hotel should be able to attract potential candidates from the market. However to retain, motivate, and satisfy employees will be a huge challenge for Human Resources. Therefore it is important to develop a culture of learning and development, which will eventually be beneficial for the end-users of the hotel, which are the hotel guests.

To achieve such goals the pay structure should consist of three essential components: position based, performance-based, and skill based. The first component has everything to do with the position or job-title: the higher the post, the higher the salary. Then, the second and third are motivators. If employees are rewarded with pay raises or other incentives because of their possession of technical skills, they will become loyal to the hotel (Zhang, Pine, Lam, 2005). This, will be beneficial for the guests, because the more an employee is loyal to a hotel the more pro-active the employee will be in serving his guests. Historically, the pay structure was adapted from the "iron rice bowl" system, particularly in state-owned hotels. This structure simply cannot provide motivated and satisfied employees. Especially luxury indigenous hotels should quickly reform the structure of pay in order to attract, retain and train quality candidates.

However, modifying the pay structure is not just the solution. Money is just one component of value, and managers must offer the whole package: competitive compensation and a great working environment. A higher salary may keep employees on the job, but it is not a driver for motivation, nor will it produce any value for the company according to Hendrie (2006). In the luxury hotel industry a genuinely warm, caring, empathic workplace is a clear driver of the quality of the product.

In order to retain quality candidates, Human Resources should become effective in incentive management. Especially indigenous hotel companies are not familiar with incentive management. However, simply adding bonuses and increasing salary will not be enough. Management need to adapt also in the Chinese culture, because often there is a big difference in perception between employees and managers while looking at needs in a working environment. Managers often perceive that money, job security and promotion are most important factors in employee needs, while recognition and caring about the personal problems of employees are seen as least important. The opposite is true, what Chinese employees need most is a praise from the management and recognition of their good performance. Thereby, Chinese employees appreciate to receive help from managers in solving personal problems.

Such discrepancy of perception toward employee needs should be treated carefully by hotel management. In stead of using incentives to motivate and retain employees a simply “Well done Jack, you have done a very good job” may be more effective.

Chinese employees may become more loyal to a hotel when the hotel will help or contribute to the social security of their employees. However, this needs further extensive research before implementing in a Human Resources policy.

Further measure towards retaining quality candidates is to promote employees from within the organisation. This will help the hotels to build a long-term leadership, and besides that it will preserve the culture of an organisation. This creates commitment towards the brand of a hotel by the employees, which is important when it comes to service quality. Simply because devoted and loyal employees are enthusiastic towards guests and this stimulates the performance during the service encounter.

Furthermore, effective communication between management and employees is important to determine satisfaction among employees and to eliminate unnecessary doubts from the employees.. After contracting a new employee, Human Resources should implement feedback moments where management can determine whether progress is been made and whether the employee is thinking in the same terms as the company does.

§7.5 Final Conclusions

The goal of this thesis was to analyse and evaluate the service quality of luxury hotels in China, in relation to the rising demand in tourism, the upcoming hotel and hotel chain development in China and the current economic transition period, in order to identify issues concerning service quality and the service delivery process.

All of the question that arose from this goal have been answered throughout the previous chapters. The (future) rapid growth of China's hotel industry will create a certain chaos for hotels to maintain their service standards. However the providing of service quality will be a key to survive in the competitive environment the hotel industry in China has become today.

In terms of the Chinese culture, it may become important for many hotels to change some of the traditional habits related to a company's culture in order to compete in China and thereby to optimise service quality and customer satisfaction. As for luxury indigenous hotels concerned, the initiation of their own ideas, creating a brand and adapting marketing know-how from overseas hotel companies will make them able to provide quality service in the near future.

Guests' expectations and perceptions always will play an important role in providing service quality. Therefore all hotel companies should bear in mind that it is the guest who is determining service quality.

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Appendix A – Interviewed Managers

Interviewed managers during this thesis research

Interviewee	Job title	Organisation	Date & Place of interview
Chang, K	China Representative	PATA (Pacific Asia Travel Association)	18 April 2005, Macao
Hendler, M	Hotel Manager	Shangri-La hotel, Bangkok	21 March, Bangkok
Ong, D	Executive Assistant Manager of Rooms	Grand Hyatt Shanghai	7 May 2005, Shanghai
Kirk, B	General Manager	Holiday Inn Golden Mile, Hong Kong	20 April 2005, Hong Kong
Koldowski, J	Director Strategic Intelligence Centre	PATA (Pacific Asia Travel Association)	12 April 2005, Bangkok
Korving, E	Reservations Manager	Grand Hyatt Shanghai	10 May 2005, Shanghai
Liu, C	Front-Office Training Manager	The Great Wall Sheraton, Beijing	28 April 2005, Beijing
Li, J	Events co-ordinator	Shangri-La Hotel, Beijing	31 April 2005, Beijing
Pech, X	Executive Assistant F&B Manager	Grand Hyatt Beijing	29 April, 2005, Beijing
Schadlou, K	Front Desk Manager	Hilton Beijing	28 April 2005, Beijing
Schwering, J	Guest Relations Officer	Holiday Inn Donghua, Shenzhen	15 May 2005, Shanghai
Walbeek, van B	Managing Director	The Winning Edge, Bangkok	6 December 2005, Breda
Wang, R	Marketing Dept. Manager	BTG JianGuo	28 April 2005, Beijing

All interviews were performed as open-interviews

Appendix B - Ritz-Carlton's Service Approach

The special "service card" which The Ritz-Carlton is using for all their employees.

Furthermore, The Ritz-Carlton Basics which every employee should know by heart.

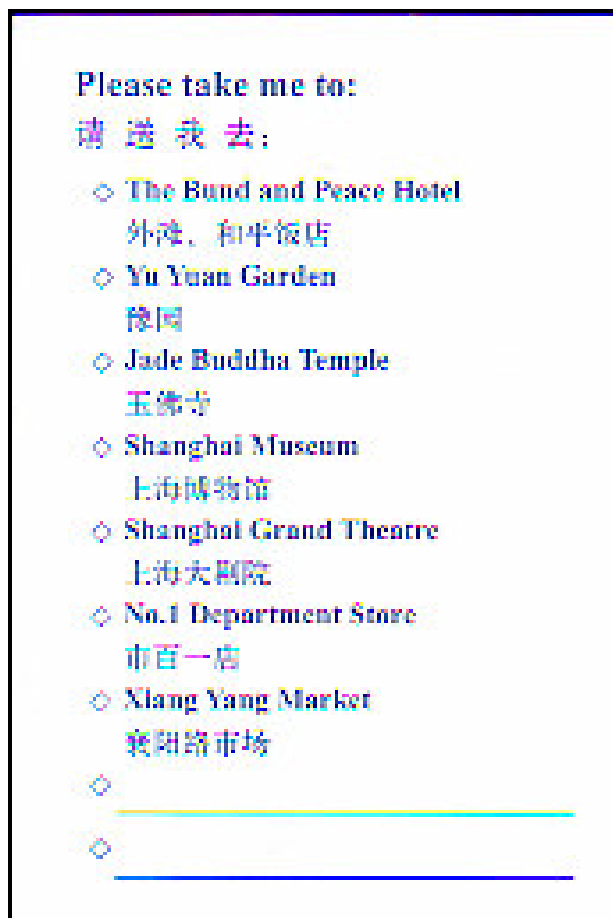


THE RITZ-CARLTON® BASICS

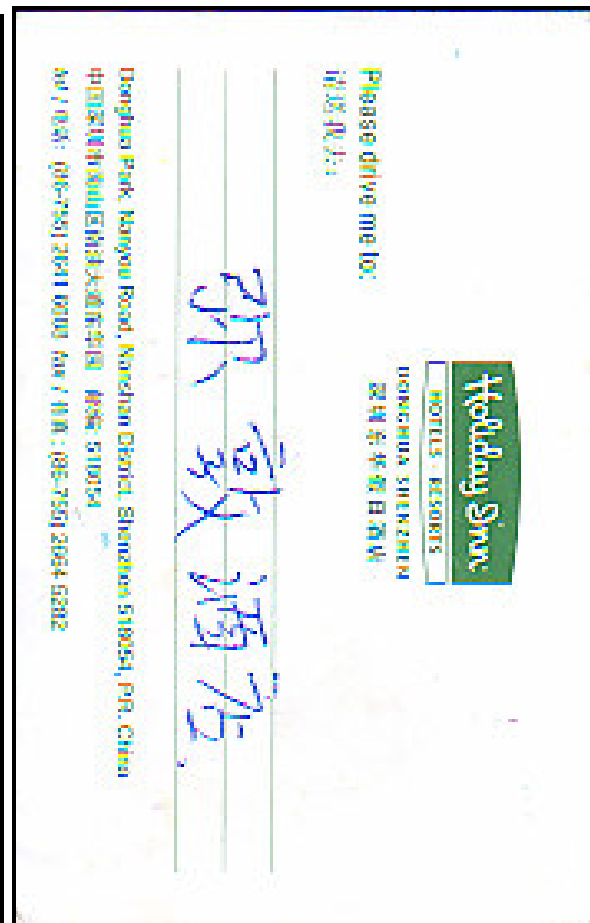
- 1 The Credo will be known, owned and energized by all employees.
- 2 Our motto is: "We are Ladies and Gentlemen serving Ladies and Gentlemen". Practice teamwork and "lateral service" to create a positive work environment.
- 3 The three steps of service shall be practiced by all employees.
- 4 All employees will successfully complete Training Certification to ensure they understand how to perform to The Ritz-Carlton standards in their position.
- 5 Each employee will understand their work area and Hotel goals as established in each strategic plan.
- 6 All employees will know the needs of their internal and external customers (guests and employees) so that we may deliver the products and services they expect. Use guest preference pads to record specific needs.
- 7 Each employee will continuously identify defects (Mr. BIV) throughout the Hotel.
- 8 Any employee who receives a customer complaint "owns" the complaint.
- 9 Instant guest pacification will be ensured by all. React quickly to correct the problem immediately. Follow-up with a telephone call within twenty minutes to verify the problem has been resolved to the customer's satisfaction. Do everything you possibly can to never lose a guest.
- 10 Guest incident action forms are used to record and communicate every incident of guest dissatisfaction. Every employee is empowered to resolve the problem and to prevent a repeat occurrence.
- 11 Uncompromising levels of cleanliness are the responsibility of every employee.
- 12 "Smile - We are on stage." Always maintain positive eye contact. Use the proper vocabulary with our guests. (Use words like - "Good Morning," "Certainly," "I'll be happy to" and "My pleasure").
- 13 Be an ambassador of your Hotel in and outside of the work place. Always talk positively. No negative comments.
- 14 Escort guests rather than pointing out directions to another area of the Hotel.
- 15 Be knowledgeable of Hotel information (hours of operation, etc.) to answer guest inquiries. Always recommend the Hotel's retail and food and beverage outlets prior to outside facilities.
- 16 Use proper telephone etiquette. Answer within three rings and with a "smile." When necessary, ask the caller, "May I place you on hold." Do not screen calls. Eliminate call transfers when possible.
- 17 Uniforms are to be immaculate; Wear proper and safe footwear (clean and polished), and your correct name tag. Take pride and care in your personal appearance (adhering to all grooming standards).
- 18 Ensure all employees know their roles during emergency situations and are aware of fire and life safety response processes.
- 19 Notify your supervisor immediately of hazards, injuries, equipment or assistance that you need. Practice energy conservation and proper maintenance and repair of Hotel property and equipment.
- 20 Protecting the assets of a Ritz-Carlton Hotel is the responsibility of every employee.

Appendix C – Service Cards

Pro-active managing the language problems in China: special cards for international guests to find their way in Shanghai (Hilton) and Shenzhen (Holiday Inn). These cards can be a real life-saver outside the hotel.



(Hilton Shanghai)



(Holiday Inn Donghua Shenzhen)

Appendix D China's country profile

China

Full country name:	People's Republic of China
Capital city:	Beijing
Population:	1,286,975,468 (July 2003, est.)
Climate:	Extremely diverse; tropical in the south to sub-arctic in the north
Language:	Mandarin and dialects
Total area:	9,596,960 square kilometres
People:	Han Chinese, 91.9%; Hui, Uygar, Tibetan, Mongol and other, 8.1%
Religion:	Officially atheist; presence of Buddhism, Taoism, Islam, Catholicism, Protestantism and others
Currency:	Yuan (RMB)
Total tourist arrivals	32,970,500 (2003) not including compatriot visitors from Hong Kong, Macao and Taiwan
Total international tourism receipts:	\$17.4 billion (2003)
GDP:	\$1.414 trillion (2003)
Inflation rate:	3.2% (2003)
Unemployment rate:	4.0% (2002)
Major airports:	Beijing, Guangzhou, Shanghai, Shenzhen and Chengdu. Total of 351 airports with paved runways. (2002)
Major ports and harbours:	Shanghai, Guangzhou, Qingdao and Tianjin

Appendix E – Foreign visitor arrivals by region, 1999-2003

Region	1999	2000	2001	2002	2003	% of total in 2003	% change 1999-2003
Asia	5,107,321	6,224,716	6,982,361	8,643,800	7,264,983	63.7	42.2
Europe	1,998,043	2,367,353	2,567,272	2,825,800	2,597,606	22.8	30.0
Americas	1,025,996	1,217,091	1,278,383	1,509,574	1,132,937	9.9	10.4
Oceania	243,774	282,378	310,207	353,683	300,113	2.6	23.1
Africa	52,101	65,658	73,263	98,525	104,226	0.9	100.0
Others	5,061	3,236	14,898	8,115	2,990	0.1	-40.9
<u>Total</u>	8,432,296	10,160,432	11,226,384	13,439,497	11,402,885	100	35.2

(Source: China National Tourism Administration)

Appendix F – Annual Visitor Arrivals, 1999-2003

Year	Total	Foreigners	Overseas Chinese	Hong Kong and Macau	Taiwan
1993	41,526,945	4,655,857	166,182	35,177,937	1,526,969
1994	43,684,456	5,182,060	115,245	36,996,936	1,390,215
1995	46,386,511	5,886,716	115,818	38,851,668	1,532,309
1996	51,127,516	6,744,334	154,601	42,494,684	1,733,897
1997	57,587,923	7,428,006	99,004	47,943,337	2,117,576
1998	63,478,401	7,107,747	120,704	54,075,348	2,174,602
1999	72,795,594	8,432,296	108,141	61,670,509	2,584,648
2000	83,443,881	10,160,432	75,487	70,099,319	3,108,643
2001	89,012,924	11,226,384	na	73,344,579	3,441,961
2002	97,908,252	13,439,497	na	80,808,190	3,660,565
2003	91,662,100	11,402,900	na	74,796,400	2,731,900

NOTE: Arrivals include same-day visitors and overnight visitors. Overseas Chinese refers to ethnic Chinese who live outside of China, Hong Kong, Macao or Taiwan.

(Source: CNTA)

Appendix G – Forecast of the World Top Ten Tourist Destination Countries in 2020

Nation (Area)	Tourists (1,000 people)	Proportion (%)	Increase 1995-2020 (%)
China	137,100	8.6	8.0
United States	102,400	6.4	3.5
France	93,300	5.8	1.8
Spain	71,000	4.4	2.4
Hong Kong/ China	59,300	3.7	7.3
Italy	52,900	3.3	2.2
Britain	52,800	3.3	3.0
Mexico	48,900	3.1	3.6
Union of Russia	47,100	2.9	6.7
Czechoslovakia	44,000	2.7	4.0
Total	708,800	44.2	-

(Source: Zhang, Pine and Zhang, 2000)

Appendix H – Hotel Companies in the Most Countries, 2001

Hotel Company	Number of Countries
Six Continents Hotels	98
Accor	84
Starwood Hotels and Resorts Worldwide	82
Best Western International	80
Hilton Group PLC	68
Mariott International	65
Carlson Hospitality Worldwide	64

Appendix I – Hotel Management Companies in China

Company Name	Headquarters
China Travel Service Hotel Management Company	Beijing
Hualong (International) Hotel Management Co. Ltd.	Beijing
Sheraton Oriental Hotel Management Company	Beijing
Liuhexing Hotel Management Company	Beijing
Jian Hui Hotel Management Co. Ltd.	Beijing
Xing Xi Hotel Management Company	Beijing
COSCO Hotel and Property Management Company	Beijing
Poly Property (hotel) Hotel Management Co. Ltd.	Beijing
Hong Kong CTS Hotel Management Company	Beijing
Everbright International Hotel Management Company	Beijing
Hua Mei Lun Hotel Management Company	Beijing
Jin Jiang Group Hotel Management Company	Shanghai
Hua Ting Group Hotel Management Company	Shanghai
Xin Ya (Group) Hotel Management Company	Shanghai
Heng Shan Group Hotel Management company	Shanghai
Yan Capital Tourist Hotel Management Company	Hebei
Triones Hotel Management Co. Ltd.	Liaoning
Tai Da Hotel Management Service Company	Dalian
Continental Hotel Management Company	Dalian
Fulihua Grand Hotel Management Company	Dalian
Jinlin (International) Hotel Management Company	Nanjing
Xuan Wu Hotel Management Company	Nanjing
Mandarin Hotel Management Company	Xiamen
Fu Hua Hotel Management Company	Shandong
Hai Tian Grand Hotel Management Company	Qingdao
Jian Han Hotel Management Company	Wuhan
Hua Tian Hotel Management Company	Changsha
White Swan Hotel Management Company	Guangzhou

Company Name	Headquarters
Oriental Hotel Management Company	Guangzhou
Pearl River Property and Hotel Management Company	Guangzhou
Yuan Yang Hotel Management Co. Ltd.	Guangzhou
Zhu Hai Hotel Management Company	Zhuhai
Golden Bay International Hotel Management Company	Shantou
Jia Yi Hotel Management Company	Guangzhou
Zhu Hai Resort Hotel Management Company	Guangzhou
Guang Xing Hotel Management Company	Guangzhou
Is Chuan Jin Jiang Hotel Management Company	Sichuan
Comfort Hotel Management Center	Yunnan

(Source: CNTA, 1998)