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Roaring Dragon Hotel: problems adapting to the Chinese market economy

Stephen Grainger wrote this case solely to provide material for class discussion. The author does not intend to illustrate either effective or ineffective handling of a managerial situation. The author may have disguised certain names and other identifying information to protect confidentiality.

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From 1999 to 2017, the Roaring Dragon Hotel (RDH) experienced an evolution from being a fully state-owned hotel to becoming one of a portfolio of more than 20 hotels throughout China now owned by Xiang Tobacco. The organization’s success at adapting to the changes was applauded by the RDH board, managing director, senior staff, insiders, and stakeholders. However, there remained a feeling of insecurity and hesitation among employees and suppliers, reflecting friction between the old and new structures, processes, and relationships, and the uncertainties that increasingly had affected its employees throughout the modernization process. Five-star accommodation competition had increased by more than 500 per cent in Yunnan Province since 1999, with tourism becoming a significant part of the local economy. Investors were searching for opportunities to raise standards of service, and to produce goods and services more efficiently and effectively. Although the RDH’s rating had slipped, from the outside everything appeared to be working as expected.

Why, then, was there employee insecurity? Where did the problems lie, and why did employees still resist change? What changes would the board and stakeholders need to make in order to halt the decline of the famous old hotel and have it resume its place among Yunnan’s elite hotels? The RDH board would have to confront some significant challenges at its strategy meeting in June 2017 if the success of the hotel’s evolution under the market economy was to continue.

Privatizing and upgrading state-owned enterprise (SOE) performance had been a challenge for China ever since Deng Xiaopeng had assumed control in the late 1970s and introduced the Chinese market economy in the 1980s. In trying to facilitate this marketization, leaders encountered problems in introducing employee redundancy, facilitating improved practices, and trying to turn loss-making companies into profit-making companies. There had been both successes and failures over the past three decades in China in evolving companies from the relaxed culture of the former SOE to the market-driven culture of the modern privatized company. Fully privatizing organizations, listing and selling other organizations on the share market, and selling SOEs under joint venture conditions were strategies that all enjoyed mixed success.[[1]](#footnote-1)

Although the RDH technically appeared to be fully privatized, its status was complex, with government representatives remaining on the RDH board and the Xiang Tobacco conglomerate remaining partly government-owned. As in most Chinese organizational models, hidden agendas and relationships determined the strategy the RDH had followed in terms of who was in control and who would determine what changes had to be made. Since the start of the 21st century, the hotel had been significantly modernized through the completion of a new 5-star functions wing, the implementation of a redundancy program to increase productivity, the demolition of the existing Russian-built accommodation structure, and the evolution of modern human resources (HR) practices and operations—to see the hotel accorded 5-star status. However, problems remained; internally, food and beverage (F&B), HR, and recruitment and training were just some of the operational departments facing difficulties in the modernization process.

With the problems it was encountering in F&B and other closely-related departments, the RDH would have to determine how to turn the situation around.

RDH Food and Beverage Department, 1999–2017

At the start of the 21st century, the organizational culture of the RDH remained influenced by its practices and characteristics as an SOE. Since then, the hotel’s stakeholders had begun to take steps to modernize its work practices.

With a workforce of 675 in 1999, the hotel’s F&B was overstaffed—it had 70 chefs on the payroll, many of whom had spent all of their working lives as hotel employees.[[2]](#footnote-2) Altogether, 214 employees came under F&B, and management of them was relationship-based. Pay for F&B staff was low, and training opportunities were limited. A relaxed work culture meant a working day in the kitchen could see employees idly smoking or playing a card game. China’s modernization and the introduction of competition at that time meant changes had to be made. Significant downsizing—of 200 employees—between 1999 and 2007 limited new recruitment. The RDH structure encompassed seven layers of seniority, with many positions at the top held until retirement. Most positions were male-dominated, and a healthy sprinkling of family members from several families held positions. With a tall, inter-connected hierarchy, the RDH had a history that suggested change in the levels of command would not come easily.

In 1999, the F&B office was located on the ground floor of the four-storey, boxed-shaped hotel. By 2017, it had relocated to the first and fourth levels of the newly-constructed functions wing. Although the hotel’s facilities had improved from 3-star to 5-star, the quality of service and pressure to perform had not kept up. Despite senior management knowing about the new policies, they maintained old practices, paid scant attention to the RDH’s performance, and were largely more concerned about protecting the status quo. By 2017, some RDH leaders, including the managing director, having held their positions for more than 30 years, were even more resistant to change.

The contrast between the old and new styles of management was no more evident than in the way F&B operated the hotel’s two premium restaurants, the Western and the Chinese restaurant. To engender change and to incorporate more modern practices, HR recruited a young manager/chef for the Western restaurant. Chef Alec was one of a handful of RDH employees who had international hotelier experience; he had worked in Dubai, Shanghai, and Beijing. He soon found ways to improve service quality in his restaurant by introducing modern methods of restaurant operation, implementing higher standards and quality of cleanliness and sanitation, improving the discipline of the Western restaurant team, and creating an environment of opportunity for members of his team to learn and contribute to restaurant operations. Where possible, he was also recruiting younger, eager, and motivated staff. Within six months of these changes, the Western restaurant improved its bookings and customer base significantly, generating more restaurant income and boosting its reputation as an excellent environment to enjoy quality cuisine.

Despite the changes, Chef Alec was frustrated with senior RDH staff who did not appreciate nor support his efforts to modernize, which complemented the slow pace of change and lack of decision making at the hotel. As a professional chef, Alec knew he had many opportunities to move to another restaurant, as many new hotels were starting up in the vicinity. Responding to the frustration, in December 2014 Alec accepted a competitor’s attractive offer and left the RDH. Senior RDH management wished him well and were confident an internal appointment would consolidate the level of quality and business already established.

This was not to be, as within 12 weeks of Alec’s departure, bookings for the Western restaurant had dropped by 55 per cent, and lunchtime trade, an initiative begun by Alec, had slipped by 65 per cent. There was no clear direction forward among the existing staff, and the inefficient practices of former days re-emerged.

The senior manager of F&B, Xin Zhao, who was Alec’s replacement, was a long time F&B manager who had worked all his life at the RDH. With no formal training or experience working in hotels outside of Yunnan, Zhao had worked his way up at the RDH under the old SOE structure. He was not cognizant of modern practices of employee motivation, nor was he able to ensure that total quality management was maintained in the kitchen. He was consequently unable to reproduce in his staff the same quality of motivation, high standards of discipline, and high quality of service and food production. Some of the younger employees Alec had appointed became disheartened and confused by Zhao’s management style, which they saw as a move backward. Theft of kitchen supplies and cutlery were on the rise again, and employee morale took a downward spiral.

The income generated from buffet lunch and dinner sales under Alec’s management, built up over the previous two years, declined from ¥20,000[[3]](#footnote-3) (about US$3,200) per day in September 2016 to ¥4,500 (about US$750) per day just three months after Alec’s departure. Under Zhao’s management, the relationship between him and the restaurant staff was one where the staff felt their allegiance to Zhao was more important than the running of an efficient, effective, and quality F&B outlet.

The increasing number of customer complaints to F&B did not bother Zhao in any way, as he enjoyed significant *guanxi*[[4]](#footnote-4) with the head of F&B. Consequently, the complaints were never made public outside the department, nor did they come to the attention of the hotel’s managing director or the RDH board. Many of the senior managers, having worked together for more than 25 years, knew to control information to protect themselves. However, the prevalence of social media and online RDH feedback channels made the inevitable truths of the Western restaurant’s dismal performance known to the managing director, signalling the need to implement significant changes.

After the managing director saw the results for the Western restaurant produced under Alec’s and Zhao’s contrasting management styles, he called a lunch meeting with Alec to make him an attractive offer to return to the RDH. The offer included a generous pay increase from what Alec had been making prior to his departure. Nine months had elapsed since Alec’s departure, and his tenure at the rival hotel was unhappy, as he had to operate under a much tougher “non-Chinese” management style. Remembering the good team he had built at the RDH, Alec accepted the managing director’s generous offer on the proviso that he be given more control over decision making and support in changing F&B policy.

By late 2016, the Western restaurant resumed operation under Alec, heralding a return to modern methods and standards, and the resumption of a modern and profitable operation. In sharp contrast, the Chinese restaurant at the hotel had made little to no change, continuing under traditional SOE practice to generate a small loss or to break even. The two restaurants could not have been more different in management styles, despite their proximity to each other. In addition, communication between restaurant staff was kept to a bare minimum of pleasantries.

The long-time manager of the Chinese restaurant (commencing his tenure in 1996), Cheung, had strong guanxi with the senior manager of F&B, Wang. Wang was responsible for overseeing the management of both the modern Western restaurant (managed by Alec) and the Chinese restaurant that Cheung had managed for more than 20 years. Like Alec’s replacement Zhao, Cheung was a home-grown manager who had never had the opportunity for formal education and had learned his hotel skills under the old SOE environment. He also had no experience managing a restaurant outside of Yunnan Province. It was not that he did not want to change, but more that he knew no other way.

Cheung’s brother, who still maintained part ownership of the hotel, held a high position in the Yunnan provincial government. As a result, Cheung was able to use his guanxi connections with his brother and Wang to provide some job security and protection from any change. In the Chinese restaurant where old-world SOE practices remained, employees were primarily driven to make their manager happy, and the customers came second. In this environment, although staff would pay attention in the many staff meetings, they returned to their positions of implementing little to no change.

There was a distinct lack of teamwork, co-operation, and recognition between the two restaurants. For example, when Alec had to cater a large function in the RDH ballroom and requested the Chinese restaurant provide extra help, Cheung claimed he could not spare his staff as “they too were busy”—despite the restaurant having only a few customers at the time.

Cheung used an older, pre-modernization management style for getting things done. Like him, many of his staff enjoyed connections with the hotel’s management and board members, the tobacco company owners, and/or the government, ensuring their job security. Cheung could not be too demanding of his staff due to the powerful connections some of them had, and would have to face the repercussions of criticizing any of them. He had held his position since before the reforms began in 1999, further entrenching the old SOE culture under his management.

At the Western restaurant, something different was happening. Alec wanted his young, motivated employees to produce the exact same standards of service achieved at the hotels he had worked for in Beijing, Shanghai, and Dubai. He had included in his re-employment contract the stipulation that if he did not receive the go-ahead for the changes he wanted to implement, or was met with resistance from Wang, he had direct access to the hotel’s managing director.

Other Departments

Management of the hotel’s reception and its staff was also being done differently—by Mike Stenmark, an Australian with previous experience in international hotels in Singapore and Hong Kong. Stenmark knew how professional his staff needed to be to handle that important first contact between reception and arriving guests. In contrast to the older group of employees in F&B, all members of the front-of-house team were under 35 years of age, were multilingual, and had university degrees. Stenmark developed employee-of-the-month and team-of-the-month awards for the reception staff, displaying the winners’ photographs on the notice board of the front office and in the RDH Journal. Alec noted Stenmark’s employee initiative and intended to introduce the same in the Western restaurant.

Other Issues

On the horizon was another problem developing at the hotel. A new government decree stated that officials, managers, and employees could no longer host unnecessary banquets and pay for them using taxpayers’ money or government funds. As a result, the RDH’s usual clientele of government, Communist party, police, and military officials became very cautious about the number of celebrations they planned, funded, or attended. This resulted in a decrease in the number of banquets and government functions at the RDH and thus a reduction in income of 42 per cent in 2016.

For many years, government officials and senior managers of companies had enjoyed many government- or Communist party-funded banquets for themselves, their employees, and members of their *guanxiwang*[[5]](#footnote-5) at the RDH. From 2016 onward, these government banquets became less frequent. Although some senior officials initially tried to host such banquets regularly, avoiding the new policy was now almost impossible. The existence of mobile phones with cameras meant officials now had to be careful about what they were doing in public and with whom they were seen.

In terms of competition, the RDH was competing against 18 other 5-star hotel establishments in the region, whereas in 1999, there had only been three 4-star (and no 5-star) hotels. It was now a more competitive environment, where hotels were offering discounted prices on accommodation to attract new customers. For example, the nearby New Park Hotel was charging ¥500 per night (about US$75), and regularly listed having full occupancy. Whether this rate could be sustained was yet to be determined.

In sharp contrast, the RDH had under 35 per cent occupancy but was still charging its standard un‑discounted rate of ¥940 (about US$135) per night. Competition discounters were gaining market share and affecting RDH income, but the hotel’s marketers declared that the RDH board would never let them openly run discounts.

With hotels in Yunnan developing their own online direct booking systems, customers using the Internet to seek hotel accommodation could now compare what was on offer online. The RDH marketers now had to deal with dynamic global operators that had better-managed[[6]](#footnote-6) and better-marketed hotels, and faster decision making. The loyal and long-serving staff at the RDH, who had developed a family-based, relationship-focused SOE structure, now had to compete for accommodation dollars in a highly competitive, 21st century Chinese market culture environment.

Loyalty and Turnover

In F&B and other departments at the RDH where change was slow, turnover was growing among younger and newer employees. Younger, university educated employees were leaving to pursue positions in companies with more modern practices and opportunities in places with merit-based systems rather than relationship-based ones.

The turnover of young employees in 2017 was fast becoming the hotel’s biggest challenge. From having almost zero turnover in 1999, the hotel now dealt with a turnover rate of 6.2 per cent.[[7]](#footnote-7) This turnover was primarily among young graduates recruited from the universities who realized the RDH was operated in an outdated style, with its current staff set in their ways, and offered limited opportunities for them to move up the ranks and take on more responsibility. Some young graduates also commented that the RDH paid lower wages and that its employees worked longer hours in comparison to other hotels.

Headhunters from competitor hotels took an aggressive approach in targeting talented, young middle managers at RDH looking for more opportunities, promotion, and greater responsibility. Many young graduates were also attracted by the possibility of finding careers at international hotel groups that could possibly take them outside of China and into the global community.

The Meeting

The RDH had reached a critical moment in its long and colourful history.[[8]](#footnote-8) The board members were due to meet in June 2017 to decide if the RDH would basically continue unchanged, or if the new push to modernize would be given more support.

1. Derek Scissors, “China’s SOE Sector Is Bigger Than Some Would Have Us Think,” East Asia Forum, May 17, 2016, accessed September 2, 2017, www.eastasiaforum.org/2016/05/17/chinas-soe-sector-is-bigger-than-some-would-have-us-think/. [↑](#footnote-ref-1)
2. See the accompanying spreadsheet for the RDH accounts (Ivey product number 7B17C049). [↑](#footnote-ref-2)
3. ¥ = RMB = Chinese yuan renminbi; US$1 = ¥6.6514 on September 1, 2016. [↑](#footnote-ref-3)
4. Guanxi is defined as a relationship between two people that features the exchange of favours; see Edward Yiu-chung Lee and Alistair R. Anderson, “The Role of Guanxi in Chinese Entrepreneurship,” *Journal of Asia Entrepreneurship and Sustainability* 3, no.3 (2007): 1–17. [↑](#footnote-ref-4)
5. The whole *guanxi* network or a chain of interconnected persons is defined as being a *guanxiwang*; Tim Ambler, “Marketing’s Third Paradigm: Guanxi,” *Business Strategy Review* 5, no.4 (1994). [↑](#footnote-ref-5)
6. For human resource management in a transitional economy, see: K.S. Law, D.K. Tse, and N. Zhou, “Does Human Resource Management Matter in a Transitional Economy? China as an Example,” *Journal of International Business Studies* 34, no. 3 (May 2003): 255–265. [↑](#footnote-ref-6)
7. For loyalty, commitment, and citizenship, see: Yui-Tim Wong and Yui-Woon Wong, “Workplace Guanxi and Employee Commitment to Supervisor in Chinese International Joint Venture,” *Journal of Chinese Human Resources Management* 4, no. 1 (2013): 39–7. [↑](#footnote-ref-7)
8. Stephen Grainger, *Roaring Dragon Hotel: A Second Attempt at Modernization* (London, ON: Ivey Publishing, 2012). Available from Ivey Publishing, product no. 9B12C055. [↑](#footnote-ref-8)