



The Evolution of International Competence of Chinese Hotel Corporations and Its Implications

Bo Lv

Management School, TianJin University

Tianjin 300071, China

Economic School, TianJin Normal University

Tianjin 300387, China

Tel: 86-22-8577-3245 E-mail: HLJLB1@yahoo.com.cn

Liming Zhao

Management School, TianJin University

Tianjin 300071, China

Abstract

Under the backgrounds of special situation of international development in Chinese hotel corporations, this paper analyzed the development path in the context of macroeconomic reform and explored the evolution processes of the Chinese international competence. In order to enter the higher level of the international competence, establishing the international strategy and carrying through the learning and innovation plan are absolutely necessarily steps.

Keywords: China's hotel corporations, International competence, The path of the evolvement

1. Introduction

There are two obvious characters of the internationalization in Chinese hotels compared with the other international hotels. First, China is a transition economy system and the government and the corporations are both faced with some problems to transform function and adapt market economy. While the Chinese hotel corporations seem to be confronted with more severe test. On one hand, it is the same for the Chinese hotel corporations to deepen the reformation, on the other hand, with the pouring of the international hotels of other countries, its market share increased quickly, and then it is difficulty for the Chinese hotel corporations to compete with them. Second, our country is a developing country, we could not entirely use the hotel operation experience of the developed countries, such as the entry mode of the international market, the inner predominant construction of the hotel corporations, and we need to establish the development strategy according to our situation. Today, the competition of the tourism economy is the drastic international market competition, with the distinct characteristics of long-term, arduous and antagonism nature. The transnational tourism corporations need pay attention to the diversification of the supply and need in the international market and try to develop in the dynamic game with the other oversea tourism corporations. So, it is another deeper thinking about our hotel corporations from the pure competitive resource to the international tourism competitive advantages.

Along with its progress in reform and opening up, hotel corporations has formed competition track of the whole industry in the constant innovation. In order to put forward to the international operation strategy of the Chinese hotels, we should be on the premise of understanding the competence of our hotel corporations from the strategic perspective and doing some scientific forecast to the evolution of international competence of China's Hotel Corporations. The system administrative level of the hotel corporations is the point of view to analyze hotel competition. With the in-depth development of the tourism economy of China, the system administrative level will supply good background for the hotel corporations to improve its competition with macroeconomic policies. The organization of the hotel corporations is another point of view to analyze hotel competition. According to the organization construction of the hotels in different period, we could form a systematic understanding on how to become the main body of the tourism market

economy. So, from the two above perspectives, this article synthetically analyzed the evolution of international competence of China's hotel corporations.

2. System evolution of the Chinese hotel corporations

The behavior choice of the corporations is restricted to the environment and arrangement. To much extent, system determines what to do to realize the corporation goals and how to do it. The Chinese international corporations are faced with system environment different from other countries, which determine that its international operation behaviors are different from other countries too.

The Chinese hotel's system format gave birth to the fact that hotel is taken as a dictated department to exert external affairs. Before 1978, one part of our hotel corporations is the old hotels left behind before the liberation. Others are state guesthouse, overseas Chinese hotels, which to receiver the officials from other countries, overseas Chinese and foreign experts.

Though these corporations are called hotels, yet the nature of the management belongs to rest house. With the open-up policy, Chinese tourism industry gradually entered the right path, the true commerce hotels came into being. All kinds of modern management ways were applied in the hotels and the management level of the hotels improved greatly. After 90s, hotels started to carry out the Star Assess System, which is the symbol that our hotel corporations began to make for the mature steady stage in way of scale, management level, service quality and the operation thinking. Our country holds the most concentrated star-rated hotels according with the international standard and these hotels have become the important energetic productivity of the Chinese tourism industry. By the end of 2006, there are 12,751 star-rated hotels in China, and among them there are 302 five-star hotels which represent the regional economic level. Recent years, in particular, the introduction of the advanced experience of the international hotel corporations made our hotel industry stride forward to the internationalization and modern direction. The situation of the whole industry is promising: the decrease of the industry barriers, the increase of the professional staff, many veteran hotel management corporations and more and more thinking and practice about the internationalization.

According to the above analysis, the system evolution of the China's hotel corporations can be grouped into three stages:

On the first stage, hotels catering to overseas customers changed from the administrative unit to enterprise unit, and the hotels became the independent enterprise entity. From 1950s to 1970s, our hotel industry operated in the administrative or state-owned mode. The hotels at that time were the subordinates of the government by the influence of the planned economy. Because the material of the hotels was unified assigned, price was unified price, we could not called them "corporations", and these hotels were only implement the administrative reception role. Since the implementation of reforms and the opening of doors to the international community in 1978, in order to fit the market economics, hotels first changed the nature of the rest house and operated independently in term of the responsibility, right, profit principle. On that basis, separating proprietary rights from management rights and breaking away from the daily management of the government, hotels carried out the commercialized, socialization and marketization policy. The government upheld the function of economics and state assets management, while the hotel corporations upheld the function of daily operation management, which made the hotels developed quickly. According to statistic bulletin of the 2006 Chinese star-rated hotels, there were 5832 state-owned hotels accounting for 45.7% of the total, 902 collective economy hotels accounting for 7.1%, 256 foreign-funded enterprises accounting for 2.0% as well as 329 hotels from Hong Kong, Macao and Taiwan accounting for 2.6%. These four types of the hotels stood 57.4%. Besides that, affiliated companies, joint -stock companies and private companies were totally 5452, according to 42.6% of the whole hotels. Multi-ownership types developed together, not only provide the agility operation modes for our hotel corporations, but increase the level of management as well. Chinese hotels became the important industry to contact the international business frontier.

On the second stage, in order to deepen reform and opening up and lay the foundation of the modern enterprise system, the management of the hotels changed from the experimental management to scientific management. With the increasing of the decision making power in operation and management of the enterprise, hotels began to think about the service quality and management mode. From 1982, beginning with the studying Jianguo Hotel, our hotels were making waves on learning from international hotels. At the end of 2006, there were totally 37 international hotel groups including 60 hotel brands in China, and 502 hotels were managed by them. By way of joint-ventured, cooperate, commit to overseas hotels and join in the international hotel group, the service of our hotels gradually became standardization, and did positive effect on the institutionalization of the hotel management. From then on, the management of our hotel was striding forward to the high level.

On the third stage, in the implementing modern enterprise system stage, our hotels became the main body of the tourism market economics. With the deep of the modern enterprise system cognition, tourism corporations began to do joint -stock system transformation and list in the tourism sector. Nowadays, government led social money into capital input

according with macro-industrial policy. By setting up modern enterprise system, our hotels seize this opportunity and strive to form diversification property structure. According to absorb corporate shares, staff shares, float loan and issue stocks, our hotels could receive foreign capital, recruit capital and increase capital accumulation. The corporate champion of our hotel—Jinjiang hotel, took hotel and catering as its main primary business by recapitalization. It developed Budget Hotel in some regions, meanwhile it improved production line and business chain, which not only brought prosperity of the ShangHai hotel industry, but also achieved double retained profits continuously as the outstanding achievement.

Hotels belong to competitive corporations, and our country encourage hotels to be diversified ownership corporations. For the future, our hotels should absorb capital to become shareholders, do equity joint venture and keep the participation position of the country, even in the end withdraw from the hotel capitals. These years, hotels gradually become privatization by reorganization, association, contraction, lease, joint venture, entrust management, merger and acquisition, alienation with pay, vendue and other ways like those. Large-scale hotel enterprises which ahead of others frequently adopt shareholding reform to realize diversified ownership and create opportunity to further developments.

All above is the system evolvement path of our hotels, getting across more than 20 years to reform. Recently there are a lot of large-scale hotel groups in the hotel industry. These groups having strong competitive strength begin to explore the international market and hope to gain leading position. With the development of the Chinese tourism market, the competition will more severe, which will place a premium on the system construction and system evolution of the Chinese hotel corporations potentially.

3. Organization development of the Chinese hotel corporations

After the last twenty years, the market scale and organization form have changed ultimately, among which hotel group is the more important one.

From 1984 to 1985, Huating, Jinjiang, Xinya, Donghu hotel groups were established successively in Shanghai. In 1987, Lianyi, Hualong and Frindship hotel groups were established. Jinjiang international holdings Co. established in 1993, and became the biggest hotel management corporation. Since the 1990s, there were more and more hotel groups established, the principal part of which were departments and local authorities. Some corporations in other industry invested in tourism, like COFCO, CITIC, and formed some large-scale hotel groups. For example, Gloria Hotels and Resorts was the second national hotel group, which was invested by COFCO. Besides that, some regional governments were individually established their tourism groups, such as Shaanxi Tourism Corporation Group, Beijing Tourism Group, Yunnan Tourism Corporation Group, Guilin Tourism Corporation Group etc. These tourism groups included large numbers of hotels, which formed some small hotel groups. According to the 2006statistical data of the National Tourism Administration of The People's Republic of China, there were 180 national hotel management Co. in our country, which supervised 1299 hotels, having an average of 7.2 hotels. There were more than 7 hotel groups managing 10000 rooms, including four Budget Hotel brands: Jinjiang inns, Home inn, Merrylin and Motel 168. On the hotel quantity, the proportion of our hotel groups was 9.7%, while this ratio was 80% and 50% in USA and Europe, which showed that our hotel group had a long way to go.

At the beginning of our hotel groups establishment, they attach importance to the scale. Compared with the core capability and predominant resource, these groups pay more attention to the capital amount. Guiding with this thought, many hotel groups are "shape meet, spirit part", and the organizational structure cannot improve the market competition. So, in the course of our economics reform, the increase of the organizational efficiency depends on the market and transforming internal operation mechanism, not only the accumulation of the capital.

Joint-equity enterprises are a comparatively perfect modern organizational system, which is a product of the market economics and large-scale, socialized production. Now in our tourism sector, there are many corporations taking hotels as their primary business, such as Jinjiang Tower, Dongfang Hotel, Century plaza Hotel, Grand Hotel, Huatian hotel, International hotel, Bohai Pearl Hotel etc. After getting listed on the stock market, these hotels take general stockholders' meeting as the greatest power, director board as permanent executive department, supervisory board as watchdog agency, which stating explicitly who is responsible for each aspect of the work and forming a power triangle. In the course of exploring the international market, according to the powerful brand advantage and specialization management, the large-scale joint-equity hotels will play an exemplary role and lead the domestic enterprises to the high strategic goals.

4. The evolution of international competence of Chinese hotel corporations

From the above, we know that our hotels go through a series stages: the resource capability, the management mode, market analysis, operational system, which is a sequence process that break the occluded economics system. In the open market condition, China entered WTO and add new variable for the development of the hotels. Therefore, gaining international competition and innovation capability are the current objects of our hotels.

There are different characteristic industrial stages in different countries. Prof. Porter thinks that the process that one

industry participated in the international market of some country has four stages: firstly it is driven by the factors, secondly by the investment, thirdly by the innovation, fourthly by the wealth. In the different stage, the determinant factors of some industry have change distinctly. The evolution of the industrial international competition will not only put up in the given industry, but also reflect in the cluster of the industries.

Combined with the analysis above, we deem that the hotel corporations participated in the international competition will go through four stages too: factor-driven stage, management-driven stage, integration-driven stage, innovation-driven stage. From the status quo of the internationalization, our hotels is on the interim between the second stage and the third stage and we need take all kinds of favorable measures to make the progress fast. In the factor-driven stage, the hotel corporations make use of the comparative advantage or the monopoly advantage to do the international operation. Restaurant is the primary way to solicit trade. The Chinese food culture has the inimitable advantage and the hotels could give prominence to this characteristic, assorted with the western style. In addition, the mysterious eastern cultures and the landscape eastern construction with carved beams are also the special advantage of our hotels. We could make good use of the resource and explore the international market. In the first stage, the international experience of our hotels is not systematic and the marketing theory is not profound. We mainly depend on the price to compete with the other hotels. The factor-driven stage is the primitive stage of international operation, and the hotels in this stage feel about the way. Only depending on the resource factor to drive the competition make our hotels passive, and we need to explore the support competition advantage to step higher stage.

In the management-driven stage, the headspring of the competition is not the comparative advantage or the monopoly advantage. We have already abstracted some rules to suit the Chinese hotels from the practice of the overseas experience, and we can use these rules to help the hotels to establish strategy. Some hotels will produce the strong control in the market using the “pass away behavior” and begin to do the prophase investment and special plan to form the hotel groups. They cultivate the good reputation, demonstrate the designer-label hotel, gain the human resource and the marketing channel and strive to establish the mature brands standard according to the specialization management

The integration-driven stage is the landmark of the hotels. This goal of the stage is not simply form the hotel groups with the capital accumulation, is to use the mature hotel groups to exercise the Modern Enterprise Management System and in the end to consummate the international layout of our hotels. For the hotels in this stage, there are comprehensive brands, having the integrated brand family; the international layout is reasonable, according to the different object markets and the product traits, different chains were expaned; liquidizing remnant assets, flexibility and efficiency of using the merger, acquisition, joint venture etc property transactions; making good use of the opportunity to list overseas, allocating funds and widen the force of the hotels; combining the franchise with contract administration effectively, carefully weighing of risks and rewards; having the advanced basic network, bearing the strength to participate in the international competition.

The innovation stage is the highest stage of all. In this stage, international hotels fully understand the politics, economics of the host country, fully appreciate the culture and diversity, and go along the cultural blending. The managers of the international hotels may be the cosmopolites, not only boost the economics of the home country and host country, but also make a contribution for the world. The international competitive advantages begin to deepen and diffuse from external and internal industry. In the innovation-driven stage, international hotels practice in the production, organization, market and other aspects, pushing to the continuous development.

5. The implications of international operation of Chinese hotel corporations

The international competitive model of the hotels point out the direction to establish the international strategy of our hotels and put forward long-term requirement of the pushing our hotels to the high stage. The deduction of the model is not the goal, we want to use it to direct the international operation present and for the future. Aiming at different stages, there are different emphases on the international strategy. For example, when in the resource-driven stage, the availability, the reproducibility and the cost of the resource will have the important effect on the international competition. In the management-driven stage, the management ability and the mature production standard of the hotels are critical. In the integrated-driven stage, hotel corporations will utilize the strong capital to operate flexile property rights and go out of the country with the strong brand power and the network strength. The innovation-driven stage is the highest and optimal

stage, in which our hotels do not concentrate on the ordinary competition, while on the basis of the innovation, they apply themselves to make contribution for the home country, host country even the whole world.

References

- Chuck Y. Gee. *International Hotel Management*. the Educational Institute of the American Hotel & Motel Association.
- Gu, Huimin. (2001). *The Essentials of the famous hotel groups*. Liaoning scientific technology publishing company.
- Gu, Naikang. (2003). *The International Behaviors of the Chinese Corporations in the Transition Economy*. Zhongshan

University Publishing Company.

Jeffrey S. Harrison. (2003). Strategic Analysis for the Hospitality Industry. *Cornell Hotel and Restaurant Administration*, (4).

Jin, Pei. (1996). The Research on the industrial competition. *Economy Research*, (11).

Li, Jie & Zhao, Wenhong. (2000). *The Strategic Management of the Tourism Corporations*. Chinese tourism publishing company.

Xie, Yuping. (1999). The Study on the Shareholding Reform of Our Tourism Corporations. *Transaction of the Guilin Tourism Schools*, (1).

Zou, Tongqian. (2000). The Steps and Ways of Our Hotels Participated in the International Competition After WTO. *World Economy and Political Forum*, (4).