

**The Chinese Hospitality Industry: A perspective article**

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# The Chinese Hospitality Industry: A perspective article

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Abstract: This paper illustrates the logics shifting in the Chinese hotel industry since 1949 and offers a better understanding of how and why the Chinese hotel industry has evolved into its present situation.

The logic evolution and future trends in this market were also discussed.

Keywords: Institutional Logics Perspective, evolution, hotel industry, China

## 1. Introduction

In the past 75 years, Chinese hospitality industry experienced fundamental changes. The main body of the extant literature tends to focus on micro-level analyses, such as human resource management, marketing, consumer behaviour and information technology (Burke et al., 2009; Law et al., 2014; Tasci and Guillet, 2012). Only a few studies have aimed at a macro-level and described the structural change (Gu et al., 2012; Yu and Gu, 2005; Pine et al., 2013; Yu, 1992). However, these studies did not aim to investigate how and why the Chinese hotel industry has evolved into its present situation. Considering the radical institutional changes that have occurred on the societal level and the remarkable changes of values and routines that have occurred in the hospitality industry, it is

important to answer the how and why questions through institutional logics perspective.<sup>1</sup>

## 2. Past perspective 75 years of developments

### 1946-2020

The years between 1946 and 1949 witnessed the full-scale of Chinese Civil War and travel activities resumed in 1949 after the birth of the People's Republic of China. Therefore, this paper divided the history of the contemporary Chinese hotel industry into three stages: 1949-1977, 1978-2001, and 2002 to the present. Hotel business in each period was dominated by state logic, profession logic, and market/corporation logic, respectively.

#### 2.1 State logic (1949-1977)

Between 1949 and 1956, all hotel facilities in mainland China were nationalized. Hotel management aimed to serve public affairs under the ideology of socialism within a planned economy. For example, Hotel Administration Department, an institution in charge of operating 12 large hotels in Beijing, including Beijing Hotel and Peace Hotel, was set up by National Government Offices Administration (NGOA, an institution in charge of the central government's administrative affairs, was established in 1951) in 1954, in order to better serve the needs of domestic and overseas guests.<sup>2</sup> One document which was titled *Circular of the Management of Beijing Hotel*, and was issued by NGOA in 8th July 1955, made it clear that "the guiding principle of the management is to serve the central

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<sup>1</sup> Institutional logics are "socially constructed patterns of symbols and material practices, assumptions, values, beliefs, and rules by which individuals and organizations produce and reproduce their material subsistence, organize time and space, and provide meaning to their social reality" (Thornton and Ocasio, 1999, p. 804).

<sup>2</sup> [http://www.ggj.gov.cn/ltxgbj/syrg/201110/t20111010\\_11694.htm](http://www.ggj.gov.cn/ltxgbj/syrg/201110/t20111010_11694.htm), retrieved on 12th August 2018.

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4 government, and provide accommodations for guests from central government and its  
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6 departments”(Xu, 2014). The basis of the management’s attention was to fulfill  
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8 accommodation tasks that were planned and assigned by governments and its agencies  
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10 indifferent levels, and the managing authority depended on the hierarchy position in the  
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12 hotel's administration and Communist Party. This planned economy led to a supply  
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14 shortage, poor service quality and inefficiency, and constituted one of the major driving  
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16 forces behind the need for pushing logic shifting.  
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## 25 2.2 Profession logic (1978-2001)

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27 Profession logic was quickly developed through the introduction and adoption of  
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29 advanced international hotel management techniques and skills, which occurred shortly  
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31 after the Reform and Opening policy in 1978 when foreign tourists flooded in and supply  
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33 shortage became a major concern. For example, Jianguo Hotel, which was opened in  
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35 1982 as one of the first three joint-ventures in China, was managed by the Hong Kong  
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37 Peninsula Hotel Company through a management contract. Peninsula sent out an  
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39 international team that was constituted of more than forty hotel experts from Switzerland,  
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41 Germany, Hong Kong, and other countries/regions. The new logic emphasized the service  
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43 quality and was supported by top leaders in China. This can be seen, for instance, in a  
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45 conversation with the high-level officials from CNTA on 2<sup>nd</sup> January 1979. In this  
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47 conversation, Deng Xiaoping pointed out, “The staff in hotels could earn more money if  
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49 they provide good service, no matter how young they are.”<sup>3</sup> In 1988, CNTA formulated  
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<sup>3</sup> Deng Xiaoping, *Deng Xiaoping on Tourism*, Beijing: Central Party Literature Press, 2000, p.4.

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4 the influential Star-rating Standard for Tourist Hotels and aggressively pushed for the  
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6 diffusion of the standard.  
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9 As a result, the number of star-rated hotels increased from 22 in 1989 to 7,358 in 2001,  
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11 with 60% of them being state-owned hotels. Under the profession logic, most hotels were  
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13 either run by individually hired professionals or by management teams through  
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15 management contracts with international hotel companies. In both cases, whether the  
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17 individual or the team should be hired or not depends on their reputations in the hotel  
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19 management market. Therefore, an increase in the personal and team reputations  
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21 became a basis for many strategies.  
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### 30 2.3 Market/Corporation logic (2002-present)

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32 The market economy system was established as the overall goal for the economic reform  
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34 in China in the 14<sup>th</sup>National Congress of Communist Party of China in 1999 and was  
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36 driven 8 of our 39 interviewees to start their private businesses in the 1990s and early  
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38 2000s. For example, Huang Deman, the founder of the Vienna Hotels Group (ranked No.  
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40 20 out of 325 in Hotels Magazine in 2015 and was acquired by Jinjiang Group in 2016),  
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42 was encouraged by the market economy reform and went to Shenzhen to open his first  
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44 inn in 1994. However, the market/corporation logic was not fully established until the chain  
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46 operation model was developed by major brands at the turn of the century. This was a  
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48 period when domestic tourism was booming, and affordable standardized hotels were  
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50 being popular with travellers. Under market/corporation logic, hotel management started  
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52 to be treated as a business rather than a profession. Several large brands, including  
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4 Home Inns, Hanting Inns, and Seven Days Inns, were established by entrepreneurs who  
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6 had no hotel management experience. These brands competed fiercely for position and  
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8 shares within the national market, an arena where speed and efficiency were far  
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10 outweighed quality. Ji Qi, founder and president of China Lodging Group, put it very clear  
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12 in his “80/100 principle”, stating that “when we keep growth rate as a priority, we could  
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14 not ask for 100% quality, 80% is pretty good.”<sup>4</sup>  
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Table1 listed the three logics and illustrated their main attributes, including the trigger event, economic system, sources of Identity, sources of legitimacy, sources of authority, basis of Strategy, basis of attention, cornerstone events, and institutional entrepreneurs. The attributes within each institutional logic explained the different beliefs, values, and practices that concern how products and services should be produced and how people and operations should be organized. For example, to increase the scale, profit and market share, the market/corporate logic companies applied a set of bold practices, including 100% occupancy operation, hourly rated hotel rooms, and labour-saving means of production, with staff-room ratio as low as 0.2. The efficiency in this logic was often actualized by sacrificing the service quality.<sup>5</sup>

Indeed, different institutional logics and their shifting are key to understand the changes in industry structure, conducts of hotel companies and market performance that have occurred in the past seven decades. Based on this understanding, it is clear how and why

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<sup>4</sup> Ji Qi, *Founder's Notes*, Changsha: Hunan People's Publishing House, 2018, p.107.

<sup>5</sup> Ji Qi emphasized it in his 2018 book that, “It is time to make up a missed lesson about quality. If we could not make the quality enough good as we want, we would better slow the growth speed down 5% or 10%”. Ji Qi, *Founder's Notes*, Changsha: Hunan People's Publishing House, 2018, p.108-109.

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4 the Chinese hotel industry evolved into its present situation.  
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6 The three organizational-level logics in the hotel industry could be traced to different  
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8 higher orders in the societal-level (Friedland and Alford, 1991), in which the socialist  
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10 transformation in the 1950s, open-door policy in 1978 and market reform in 1992 played  
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12 key roles. It should be emphasized that although these organizational-level logics were  
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14 distinctive, they overlapped after 1978, as all three could be observed within hotel  
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16 businesses. For example, there is at least one guest house that is governed by state logic  
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18 and is owned and operated by Government Offices Administrations in each province or  
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20 municipality. Meanwhile, the two largest segments in the hotel market, economy hotels  
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22 and star-rated hotels, are dominated by market/corporation logic and profession logic,  
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24 respectively, though the latter has lost its influence over the recent years.  
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### 35 **3. Future perspective 75 years 2020-2095**

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37 When entering the second decade of the 21st century, it appears that two trends emerge  
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39 with regards to the logic evolution in the near future.  
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43 Firstly, the market/corporation logic and profession logic have been moving closer, to the  
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45 point of merging. For example, two large profession logic companies, BTG Jianguo Hotel  
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47 Group and Shanghai Jinjiang Hotel Group, merged with two large market/corporation logic  
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49 companies, Home Inns Group and Plateno Hotel Group respectively in 2016. The biggest  
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51 market/corporation logic company (in term of hotel rooms in operation at the end of 2018),  
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53 China Lodging Group, hired two executives from profession logic companies as the heads  
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55 of the group's high-end business and began paying more attention to service quality.  
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4 Secondly, the unique beliefs and practices found in several innovative companies,  
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6 including Tujia and Xiaozhu, the Chinese versions of Airbnb, and Ctrip and Meituan, the  
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8 two largest online hotel distributors in China, could indicate that new logics are emerging.  
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10 These companies have shown different sources of authority, along with a different basis of  
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12 attention and source of identity from those of the three established logics (Qiu et al., 2019).  
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14 For example, in Ctrip, the largest OTA in China, 50TB of data was generated daily on the  
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16 platform by its 300 million users and could be used to analyse and understand the  
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18 demographics, customer demands and travel behaviours, which then could help in  
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20 offering tailored products and services.<sup>6</sup> Insights from data, rather than expertise from  
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22 experience, has become the new authority in decision making, and these include pivotal  
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24 decisions such as how to select a location for Huazhu (花筑) Hotel in which Ctrip is a  
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26 strategic investor. Technology developments in tourism and hospitality will play a key role  
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28 in shaping the industry and the new logics in the future (Buhalis and Leung, 2018; Buhalis,  
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30 2020).

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32 The merging of the existing logics and the emerging of new logics will thus be an exciting  
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34 phenomenon in the Chinese hotel industry in the following decades. In the short term, it is  
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36 believed that the market/corporation logic and the profession logic will finally merge into  
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38 one hybrid logic. Meanwhile, the emerging new logic will earn its justification in the near  
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40 future, bringing about a challenge against the values, beliefs, and practices founded in the  
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42 existing logic. In the long term, the Chinese hotel industry will embrace more new logics  
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44 and related logic shifting.  
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59 <sup>6</sup><https://www.mckinsey.com/featured-insights/china/how-chinas-largest-online-travel-agency-connects-the-world-a-n-interview-with-ctrip-ceo-jane-sun>, retrieved on 12th March 2019.  
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#### 4. Conclusion

Applying the institutional logics perspective, this paper contributes to the existing literature by describing the three major logics that delineate the tremendous changes that have been seen in the Chinese hotel industry in the past seven decades. The institutional logics perspective discussed in this paper provided an effective framework to understand industry change and answer related identity (who are we) and practice (what do we do) questions that are highly relevant to organizational and market evolution. The institutional logic change has become a salient phenomenon in the hotel industry across the world in recent years. Future studies that apply this approach will be able to shed new lights on the hotel management research.

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Table1 Dominated Institutional Logics in Hotel Industry since 1949

	State Logic 1949-1977	Profession Logic 1978-2001	Market/Corporation Logic 2002-present
Trigger event	All hotel facilities were nationalized between 1949 to 1956.	Reform and Opening policy were implemented in 1978.	The market economy was recognized in 1992.
Economic system	Planned economy	Personal capitalism	Market/Managerial capitalism
Sources of Identity	Hotel management as a public service	Hotel management as a profession	Hotel management as a business
Sources of legitimacy	In conformity with government orders	Techniques, skills and reputation	Profitability and market position
Sources of authority	Hierarchy position in administration and Communist Party	Professionals, experts	Entrepreneurs, professional managers
Basis of strategy	N.A.	Increase personal and team reputation	Increase size, efficiency and profit
Basis of attention	Planned tasks	Quality	Efficiency
Cornerstone event	Peace Hotel Beijing was built in 1952 to accommodate The Asia and Pacific Rim Peace Conference	Opening of Jianguo Hotel in 1982; Star-rating Standard for Tourist Hotels (1988)	Home Inns was established in 2002
Institutional entrepreneurs	N.A.	Zhang zhijun from Great Wall Sheraton (Beijing); Zhang Rungang from BTG Jianguo Hotel Group(Beijing)	Qi Ji from Home Inns and China Lodging Group(Shanghai); Nanyan Zheng from Plateno Group(Guangzhou)

Note: N.A. = not available, as under state logic, there was little space for entrepreneurship and strategic activity.

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