

## ***Guanxi* Neglect at the Roaring Dragon in South-west China: The demise of an International Management Contract**

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*‘guanxi neglect – neglecting opportunities to show respect towards  
guanxi relationships’*

### ***Abstract***

*This paper introduces the concept of guanxi neglect through a case study that describes the takeover of a formerly Chinese managed hotel by a western based, international hotel management company. Specifically, it covers the cultural conflict that occurred for employees trying to adapt from the former Chinese relationship (guanxi) based planned methods of hotel management to that of the more market oriented, management company. Conclusions that are drawn highlight cultural characteristics and issues that companies taking over or approaching joint-ventures with SOEs, are advised to be aware of.*

*In recent years, the hotel business environment in south-west China has undergone significant changes. China’s opening-up has encouraged an outbreak of new hotel construction and property speculation as companies and investors hope to cash in on the domestic and international exposure of the unique region. Prospects for growth in the number of tourists and investors visiting the region in the future were good.*

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*The Roaring Dragon Hotel, was a famous 40 year old-Chinese SOE. In the second half of 1999 an international management company set about transforming the culture within the hotel from a Chinese hotel that was relationship based environment to a modern market oriented organisation. Following story describes the experience during the transition from a planned to market economy.*

## **Methodology**

From May to December 1999, June to July, 2001, and November to December 2002, research into the modus operandi of *guanxi* was carried out at a four-star hotel (referred to here as the Roaring Dragon Hotel) in south-west China. The hotel employed more than 670 people.

Interviews were recorded with 35 middle and senior managers from the hotel and a group of 11 officials, academics, and businessmen from this environment. 15 participants were interviewed on more than one occasion across the three research periods. Un-attributed, direct quotes used throughout this manuscript are taken from verbal transcripts of these interviewees.

In addition, a 65-item written survey was conducted with hotel staff the week before the takeover and again three months after the takeover. 439 completed the first survey and 144 the second. Some findings from this survey are acknowledged in the following.

## **The Roaring Dragon Hotel**

The Red Dragon<sup>2</sup> Hotel had been the first four star hotel in the city and since the early 1960s had enjoyed a reputation as the most famous accommodation-provider in the region. Being a state owned enterprise (SOE) with a long and colourful history, it was

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<sup>2</sup> The names of all people and places have been changed to protect the research sources.

the region's premium guesthouse for visiting government officials, dignitaries and guests.

To staff the Hotel at its commencement, employees had been transferred in from other SOE or government departments primarily on the strength of their *guanxi* or connections. Having gained a position from the opening of the Hotel, Roaring Dragon employees felt 'excited' and 'very proud'. Some recalled 'if your relatives or your friends knew that you were working in Roaring Dragon, you would be admired', 'it was a good work unit - *danwei*', and 'you were lucky if you worked there'<sup>3</sup>.

The original Hotel was a four-storey, rectangular, grey structure built in 1960 in a dull Russian style. By 1993, the provincial government had funded a new extension and the Hotel now consisted of two parts: the old four-storey section joined by a modern sixteen-storey extension perched on a hill behind the old Russian. There was a contrast in the standard of accommodation. Room rates were cheaper in the old section and so it attracted Chinese visitors searching for quality economy accommodation. Visiting government officials and higher-end customers on the other hand felt more comfortable in the newer and naturally more expensive section. There were two guarded entrances to the Hotel, one on each level. A series of stairways, elevators and a warren of banquet rooms, hallways, storage areas, offices, cafeterias, and a laundry untidily connected the two buildings.

## **Reflection on a 1993 Experience**

The Roaring Dragon was a Chinese managed SOE until the opening of the new extension in 1993 when the provincial government decided to contract an international company to manage the Hotel with the objective of improving the quality of customer service. KYZ Corporation was identified as a suitable international management organisation and was contracted to manage the Hotel. Their representative, Mr. Meyer, a Mandarin-speaking German, became the Hotel's new

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<sup>3</sup> These quotations are taken directly from the 35 interviews with Red Dragon Hotel employees.

General Manager (GM) with the former Chinese GM, Mr. Wen, becoming second-in-command.

After a short time under the new management, Wen began complaining that he had lost his privileges. He could 'no longer enjoy practices such as inviting someone to the Hotel for a complimentary dinner or reap other benefits without first gaining approval from Meyer the KYZ GM. For Wen and his former management staff, the change of management was an issue of great concern as most of the privileges they had previously enjoyed had been discontinued. This loss of benefits resulted in the Chinese managers' being reluctant to embrace new management practices as 'in their hearts the Chinese employees did not want to be managed by Meyer or the KYZ Corporation'. In terms of incentive or financial reward, there were few, if any, reasons for the Chinese employees to make the new arrangement work. 'Employee salaries had not changed' and 'the foreign management did not know the Chinese way'.

From the time KYZ took over the management of the Hotel, business gradually declined. After three months, occupancy was very low' and the recently opened extension was only in operation above the seventh floor. Finally, after a year of poor performance, the Chinese provincial government told KYZ that they were not performing well and that they wanted to end the contract. KYZ did not receive this notification well and commenced proceedings to claim damages in the courts from the provincial government breaking the contract. The provincial government had *guanxi* with the local judges and was confident the damages would be minimal. After a year of apparent non-cooperation and turmoil, the KYZ management left in November 1994 and Wen, the former Chinese GM resumed control.

With Wen's reinstatement came the resumption of the former organisational culture including the practices of nepotism and favouritism. *Guanxi* cliques in the Hotel resumed operation and the re-establishment of relationships with the local tourist agents resulted in the occupancy levels returning to their former levels.

The Roaring Dragon Hotel was eventually required to fund the resulting lawsuit compensation to KYZ. To Wen and the employees it did not matter as ‘the provincial government would pay the damages’.

## **The 1998 Story**

By 1998, the provincial government had again become dissatisfied that the potential of the Hotel was not being realised, especially as the Roaring Dragon was situated in a famous tourist location. Since the Chinese management’s resumption of control in 1994, the financial performance was still well below its potential. At times, the Hotel was losing money and the provincial government ‘was not happy with the way it was being managed’.

Under Wen, management practices remained outdated and ‘the staff were not developing or expanding the Hotel business’. Among the employees, there was an atmosphere of little concern as their salaries, although ordinary, were secure and they were content in the knowledge that the provincial government would cover any of the Hotel’s losses. The Hotel *danwei* was highly ranked<sup>4</sup> which meant that the working conditions and benefits were good when compared with those of the rest of the population (Walder, 1986). The ‘580 yuan per month paid to a barman’ or the ‘1500 yuan per month paid to a manager’, combined with the easy work, neat and tidy uniforms, complimentary meals, accommodation and fringe benefits made the Hotel an attractive and respectable place of work.

The organisational culture was very relaxed with many employees finding time to read newspapers and enjoy a green tea during working hours. For some managers, conducting private business was easy and from time to time they could be seen leaving the premises for a few hours to attend to ‘other business’. One example was the Hotel’s Head of Training who had a restaurant just a few blocks away. In the afternoons, he would make regular visits to ensure operations and supplies at his

restaurant were flowing smoothly. It was easy as the Hotel was overstaffed, jobs were secure, and besides no Chinese manager wanted to be responsible for firing potentially well connected, lazy or unproductive employees.

As Rofel (1999: 108) identified, this type of SOE, as having work cultures that still operated largely under the shadow of the Cultural Revolution and carried employees who 'did not have commitment' or a 'sincere working attitude'. The Roaring Dragon Hotel employees did not want to work hard and were not concerned about the Hotel's steady decline in popularity and income. China's new market economy demanded that organisations become profitable, yet the Roaring Dragon's Chinese management showed little concerns for generating profit and basically did not comply. During the same period, competition arrived as new hotels opened their doors and as this competition grew, the financial fortunes of the Roaring Dragon Hotel declined even further.

As a result, in 1998 the provincial government was again tempted to contract an international management company to arrest the declining fortunes of the Roaring Dragon. They identified Nothill as an organisation with the right international reputation, credentials and brand name to take up the management contract. They felt confident that under Nothill's management, the Roaring Dragon Hotel's potential would be realised.

In March 1998, negotiations commenced with the globally respected Nothill Company to take over management of the Roaring Dragon. By mid-1998, it was agreed in principle that Nothill would take control of the management of the Roaring Dragon and, to save face, the incumbent Chinese GM, Wen, would be installed as the GM 'of a new company, the Roaring Dragon Limited'. The role of Roaring Dragon Limited would be to oversee the activities of Nothill and 'act as a conduit through which Nothill communicated with the Hotel's Board'.

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<sup>4</sup> Each *danwei* receives a ranking from the government which determine its status in the Chinese community. This status directly influences the benefits and advantages the *danwei* is able to gain for its

## **Nothill and Harvey's arrival**

To negotiate the finer points in the contract and help prepare the Roaring Dragon for a complete management takeover, Nothill sent one of their Australian Managers, Mr. Harvey, to complete the negotiations and initially co-manage the Hotel with Wen from May 1998. It did not take Harvey long to realise that a management takeover would involve changes in the Roaring Dragon's organisational culture. Entrenched *guanxi* practices, the poor quality of customer service and at times significant annual losses had to be converted into more accountable, quality service practices with employees who were prepared to strive for excellence.

Harvey's mandate included identifying efficient and effective staff who would be able to help develop the Nothill standard of excellence at the Hotel. He realised that this might not be easy as many of the existing staff had been employed there for fifteen years or more. During that time the majority of them had experienced little or no training, and had developed only a limited understanding of the concepts of western professionalism or efficiency. Harvey faced the challenge of transforming a large group of relaxed family-based employees, working under an ad-hoc management style into a professional group of employees operating under a structured international commercial culture.

From the time of his arrival, Harvey 'mixed easily' with the Chinese people and regularly attending important functions, giving presentations and speeches', playing tennis with the Governor, and sometimes even chatting at the nearby English Corner.

Nothill's Austrian born Head Chef Thomason, arrived five months after Harvey to take charge of the Roaring Dragon's Food and Beverage (F&B) Department. Notified of his appointment in England, Thomason had flown into China without a visa and was met at the airport by a provincial government representative. After a few questions were asked, he 'was given a 24 hour temporary visa for 100 yuan'. The next morning, 'a government official took his passport and secured him a long term visa'. He encountered a 'similar process with his Immigration Health Certificate'. The ease

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members.

with which the two events were taken care of highlighted the advantages of having powerful *guanxi* within the provincial government.

A few months later, problems began to surface. Although officially Nothill's representative, Harvey could not make any major decisions in the negotiations without consultation and approval of Nothill's Regional President in Singapore and the Corporation's Vice President in Beijing. Even though Harvey had negotiated most of the details of the Nothill takeover contract, he was never really in control. As one Chinese manager commented, 'all the important decisions were made in Singapore and Beijing'.

After ten months, Harvey returned to Australia. There was speculation that he had left because the 'weather was not good for his health', but many employees believed that 'he was fed up with the frustration of nothing happening'. Others believed that 'the Roaring Dragon Hotel board were against him 'from day one' and that was the reason 'why his management lasted less than one year'.

## **Erhi T**

Erhi T was a large SOE that had accumulated significant wealth in the region through its tobacco production. To help eliminate the Roaring Dragon's seemingly ever growing debt, the provincial government 'told the Board of Erhi T to buy the Roaring Dragon Hotel' so the resulting funds could be used to repay the debt. This request was made soon after Nothill's arrival. Reliable sources claimed that 'the Erhi T board was reluctant to make the purchase' and this was reflected in their delays in signing the contract. Fortune reported that 'eighty points in the original agreement had to be re-negotiated' between the Roaring Dragon and Nothill after Erhi T had arrived.

By March 1999, after difficult negotiations, Erhi T had 'purchased sixty percent of the Roaring Dragon Hotel for an estimated twenty million yuan'<sup>5</sup>. The final contract

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<sup>5</sup> No where was this sum officially printed or stated. However trusted informants who worked in the Red Dragon Accounts Department indicated that this figure was correct.

Grainger, S., '*Guanxi* Neglect at the Roaring Dragon in South-west China: The Demise of an International Management Contract.'

stated that Nothill would manage the Hotel and Roaring Dragon Limited would continue as the Chinese management arm. This was the first official agreement between the two parties and it had proven a cumbersome task.

At the first meeting between the new Chinese shareholders and the Hotel employees, an Erhi T manager made the comment that they 'did not really want to buy the Hotel'. That seemed to signal an inauspicious beginning and was perhaps, an indicator of the troubles to follow.

## **The Provincial Government**

As the former government guesthouse, the Roaring Dragon Hotel's relationship with the provincial government was very important. To nurture important government relationships, Hotel managers would regularly invite officials to dinner and to enjoy gifts such as moon-cakes and glasses displaying the Roaring Dragon logo. In addition they would arrange meetings with them to drink tea and offer to assist them in resolving any problems they might have.

From the Hotel's beginning, ministers had been the only government representatives who could afford to stay at the Roaring Dragon. As the only four-star hotel in the city for more than thirty five years there had never been a problem as far as low occupancy was concerned. However, that began to change from late 1998 when the number of hotels with the capacity to receive government and four-star accommodation guests increased from one to three, with a further two more competitors due for completion in mid-1999. Government officials and those who could afford it now had the choice of staying at a hotel that could offer them modern facilities and services at a competitive price.

*April 1999*

## **Fortune arrives**

Following Harvey's departure, Nothill searched for a new General Manager and found their candidate in their African operations. Mr. Paul Fortune arrived in April 1999, two months after Harvey had left, to finalize the contract and resume preparations for the Roaring Dragon to complete its transition from 'co-management by Nothill and the Roaring Dragon Limited to full management by Nothill'. This was contracted to begin from the first day of August 1999.

Almost immediately Fortune established a pre-opening budget with the Roaring Dragon which 'covered Nothill's expatriate pay roll with effect from August 1'. He also identified that 'cash flow was going to be the main issue confronting the Roaring Dragon'. Erhi T may have to come up with working capital for at least the first two or three months before the newly managed Roaring Dragon could generate enough income to operate independently'.

With the contract finalised, the Hotel's Board of management suddenly expanded from four to twenty members. Among the new additions were 'the local Communist Party Chief, the Chief Secretary, the Union representative, and eleven Erhi T representatives'. Fortune believed 'everyone was trying to get a seat on the Board to keep an eye on Nothill'. As was the norm in Chinese management situations, 'connections and relationships' had played a key role in deciding all the positions on the Board. Fortune soon realised that it was 'politically correct to include the Hotel Workers Union and to pay respect to them so as to minimise any problems they may cause'. In a push for information and to stamp its authority, 'the Board proposed Nothill supply them with a copy of the Roaring Dragon's accounts every week'. Fortune politely refused.

Fortune and Nothill's real concerns were 'whether all the negotiated contractual agreements were going to be met' and that their 'brand name would not be brought in and thrown on the building' with all other contractual agreements falling by the

wayside or encountering delays. As insurance, it was stipulated in the contract that Nothill would take over the management of the Hotel. However, the Roaring Dragon would not be re-named as a Nothill hotel until such time as significant progress had been made towards improving the quality of service, and that construction was underway on a proposed new five-star wing in place of the old Russian building. Once the old section had been demolished, and the service quality in the modern extension brought up to Nothill's international standard', the Hotel would be "re-branded the Nothill Roaring Dragon Hotel".

The demolition of the old section of the Hotel was to begin by January 1, 2000 and so it was planned that the new five-star accommodation wing and function centre would be completed ready for opening in late 2002. Fortune felt 'confident that in two years, his team would be able to develop the local Chinese employees to a level whereby they could reproduce Nothill's world class standard of service'.

The old section of the Hotel was closed and stripped for demolition and all that remained open for guests was the modern, more expensive section of the Hotel. Left with a smaller number of rooms to service, redundancy was going to be an issue that Nothill was going to have to deal with. The remaining 675 employees were well in excess of the 350 employees Nothill estimated would be required to run the reduced number of rooms at capacity. Many staff would need to be re-employed elsewhere or have their redundancy paid out. In contrast, Nothill 'planned to bring in eight expatriate staff to manage the takeover' and later, when the time was right, expand their management team to include 'pastry chefs, an executive chef, food and beverage managers, and a much stronger professional team'.

In preparation for the forthcoming changes, Fortune publicly announced that all employees would undergo a two month training period following which employees would be chosen to be retained by Nothill based on their attitude and ability. Previously valued *guanxi* networks would supposedly become irrelevant and powerless. Erhi T or the former Chinese GM would have no control over the selection process and Erhi T would resolve any redundancy issues by paying out existing employee contracts or finding them positions elsewhere'. There was excitement

among the young staff who could see opportunity working with an international hotel and concern among the older staff for the security of their position. As none of the employees had ever experienced a redundancy program before, many were unsure as to how this exercise was going to be handled. Fortune quietly suspected that ‘when the redundancy lists were decided, Nothill would see *guanxi* connections come out of the woodwork’ in an attempt to save some unproductive yet well connected employees from losing their jobs and face<sup>6</sup>.

### **Emerging competition**

Meanwhile in the local cityscape, new four and five-star hotels were nearing completion to commence operations that were in direct competition with the Roaring Dragon. These hotels were operated by international management corporations and enjoyed the advantage of recruiting their employees based on qualifications, appearance, efficiency and ability with no concern for *guanxi* relationships. The new competitors had hired international recruiting firms to sort through the hundreds of applicants who had applied for positions to identify the best recruits.

In contrast, Nothill had inherited an untrained staff, a high percentage of whom had gained their positions through connections. Those with good *guanxi* with the HR Manager were usually able to find sons, daughters, relations and members of their *guanxiwang*<sup>7</sup>, a position without much trouble. An introduction or a recommendation to the recruiting staff always gave their ‘applicant’ the added advantage. Most of the existing employees had been ‘introduced to the HR Manager at the Roaring Dragon’ and this ‘introduction’ had usually resulted in them securing a position. Another reason given was that when a parent retired or passed away their son or daughter legally had the right to secure a position as a replacement in the SOE.

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<sup>6</sup> For a deeper investigation of ‘face’ see Brunner and Koh (1988: 39), Chen (1995: 54), Hofstede and Bond (1988), and Yeung and Tung (1996: 57).

<sup>7</sup> *guanxiwang* (‘*guanxi* net’) means the whole network of *guanxi* through which influence is spread’ (Ambler, 1995). In China, these networks are like a complex web of trusting relationships. Grainger, S., ‘*Guanxi* Neglect at the Roaring Dragon in South-west China: The Demise of an International Management Contract.’

Historically, the Roaring Dragon's recruitment policy has been very relaxed. Under former planned economy conditions, there was little need to consider generating a profit, as 'all costs were financed by the provincial government'. Hence on a regular basis, more employees than were necessary were hired.

Fortune realised that the Roaring Dragon's nepotistic history had the potential to be one of Nothill's obstacles in trying to choose the best employees to remain at the Hotel. At one time or another there had been as many as 32 families with more than one family member working at the Hotel. The kitchen had more than 70 chefs, many of whom did very little productive work. Departmental workloads were unbalanced with young employees stationed at the Front Desk and in the Restaurants working harder than older employees who worked 'behind the scenes'. After older, more experienced, employees had finished their work duties on any given day they would 'talk, play cards and read the paper and just complete a few extra minor tasks during working hours'. Nothill wanted to change some deeply entrenched behaviour.

Nothill was inheriting the Roaring Dragon's staff and it was proving to be a very different game to choosing a totally new staff from the beginning. Fortune admitted that Nothill would 'have to make the best of the given situation'.

### ***July***

In early February 1999, Nothill and the Roaring Dragon had agreed to a freeze on the recruitment of any new employees. However the hiring of new employees by the Chinese HR Department continued even after the agreement was struck, as the managers' wanted to provide opportunities for the younger members of their *guanxiwang* to work for the 'world famous Nothill Hotel'. During the time between Harvey's departure and Fortune's arrival, Nothill did not have a General Manager on site. The Chinese managers took advantage of the moment by hiring some extra young employees with the thought that it would go unnoticed. Fifteen new employees chosen during this period were told they 'would start work in July 1999, after completing their schooling'. These new appointments faced 'no evaluation or interview process' and a training manager's comment was 'maybe we will just ask a

few questions'. Thomason, remained the only Nothill employee at the Hotel during that period. He noticed some new faces in his department one day and was told 'these are your new employees'. He was a little angry that this had been done behind his back as 'he had no control over who was chosen, their calibre, education, or ability'. Fortune registered his complaint with the Chinese managers and Erhi T.

In late July, Nothill's international managers arrived to take charge of the F&B, Front Office, Accounts, Housekeeping, and Supply Departments. Fortune confirmed that between August 1st and October 31<sup>st</sup>, employees would be assessed on their ability and their quality of service. Nothill management would be working with them day in and out to assess their performance under strict, demanding conditions and to determine 'whose eyes were sparkling' and 'who was comprehending and adapting well to the new system'. Any employee who failed to meet the new higher standards would be asked to leave.

When Nothill's international HR Manager arrived, she was surprised to discover that the Hotel had kept 'very limited records on employees' personal details, schooling, and experience'. Her immediate task was to set up and develop accurate files on every employee. This illuminated the difference in standards of professionalism between the old and the new methods of HR management of the Roaring Dragon Hotel.

The take over from August 1st caught the imagination of the younger employees as they glimpsed the prestige that they would gain from working for an international hotel. Recalling the KYZ experience of 1993, older employees agreed that 'Nothill was more famous' but cautioned as they 'were unsure of what the new management would be like', 'who would be laid off' and what future those made redundant would face. Redundancy was a new concept in south-west China and one Chinese HR manager explained that 'it would be difficult to ask someone to leave their job without a good reason or explanation'. Preserving the 'face' of employees made redundant was an issue that would need to be addressed.

A significant event occurred in the same month. NuFu Travel was an agency that had in the past provided much business to the Roaring Dragon. In late July, they offered

the Hotel a touring Japanese group that required a small banquet at the Hotel as part of their tour package. Nothill Head Chef Thomason, arrogantly told NuFu Travel that their package price 'was too cheap' and refused to accept their offer stating he 'wanted a higher price'. The former Chinese Head of F&B, Madame Fang advised him that 'if he refused the offer he would effectively be excluding Nothill from any future bookings from NuFu'. Thomason refused to agree on the cheaper price package and as a result, NuFu retaliated by canceling all future' tours booked to stay at the Hotel. Madame Fang complained that Thomason's 'management was not Chinese and he does not understand'. The relationship she had painstakingly spent years building up was destroyed in one telling blow by his refusal. In a disappointed tone, she claimed 'we are in China and must respect the Chinese way'. The *guanxi* she had developed between the Roaring Dragon and the NuFu agents was seriously damaged as a consequence of Thomason's lack of understanding of the *guanxi* dynamic and his *guanxi* neglect. This resulted in the loss of all business coming from the NuFu at a critical time in the Roaring Dragon's transition when hotel competition in the region was growing. The damage to the relationship between the Roaring Dragon and NuFu was of no consequence to NuFu as they could now send their customers elsewhere. Agents in general now had more quality accommodation to choose from, with cost reductions and fringe benefits being offered by competitors that were equal to or better than those offered by the Roaring Dragon. It had become a buyers' market and hotel Sales departments now vied with each other to offer the best package deal to NuFu and other agents in order to attract their business.

Aside from Madame Fang, the long-serving top Chinese Chef of the Roaring Dragon Mr. Wang, was also unhappy with Thomason's management and complained directly to Wen, the GM of the Roaring Dragon Limited. Thomason's questionable 'people to people' skills were feared by everyone who worked in the F&B Department especially when he would 'stare and yell'. The 'Chef in Charge' resigned after Thomason transferred him from the Chinese Kitchen to the Western Restaurant against his wishes and Thomason's personal secretary "could not stand his bad temper" and resigned soon after.

## Using *guanxi* to transfer out

After a short time under Nothill's co-management, employees realised that they had to work much harder. Those who had strong *guanxi* with Wen and who 'did not like to work hard' or for Nothill or 'were likely to be laid off' used their relationship with him to transfer to the Roaring Dragon Limited. For these transferees, working under Wen would be easier and their employment would be secure. As such, those who enjoyed good *guanxi* with either Wen, senior management in the Roaring Dragon Limited hierarchy or high ranking government officials were able to transfer out of the Nothill-managed part of the Hotel and into the Chinese-managed Roaring Dragon Limited. Wen was able to find new positions with lighter workloads for these members of his *guanxiwang* or network. Other unhappy staff used their *guanxi* to gain transfers to new positions with either Erhi T or other associated companies. Not everyone had strong enough *guanxi* to transfer to another organisation. Those able to 'pull' *guanxi* and transfer to the Roaring Dragon Hotel Limited now worked under very little pressure in an air-conditioned office on the seventh floor of the building adjacent to the Hotel. In contrast, those remaining under Nothill's management, were working under greater demands and pressure and the fear of redundancy for employees was beginning to grow. Just prior to Nothill's takeover, ten employees had transferred to the Roaring Dragon Limited and in the month that followed, another seventeen transfers took place.

Although Nothill was glad to see staff leaving the Hotel voluntarily, there was a down side. Those who left took with them their critical industry contacts and *guanxi* connections. *Guanxi* is difficult to transfer and usually the connection with an organisation ends with an individual's departure. As Nothill consolidated further, one of the oldest members of the Chinese management team, the former Head of the F&B Department, Madame Fang, decided to leave, taking with her a large percentage of the guaranteed income generating contacts for the Hotel. After witnessing for herself Thomason's style of management, she had decided on a transfer to the Roaring Dragon Hotel Limited. Whether Nothill was aware or not, it had allowed the number one *guanxi* holder to leave and this proved to be a costly example of *guanxi* neglect.

## **Agencies and competition**

To generate occupancy in the new and much more competitive market, the Roaring Dragon Hotel's sales staff now had to work much harder to develop and maintain good relations with their travel agents. The record of poor treatment of NuFu by Thomason, combined with Nothill's refusal to offer any discounts meant that it was proving harder for the sales team to develop any new business. As competition got tougher, competitive pricing became the number one priority. Nothill, somewhat arrogantly, banked on its international reputation to attract bookings and refused to partake in any discounting. Nothill would instruct Roaring Dragon sales team to offer agents 'rooms for US\$32 per night for group bookings' whilst 'competitors could provide the same for as low as US\$20'. The reality was that Nothill's global fame was of no importance to booking agents when they were searching for the most competitive price. Developing supportive *guanxi* links with tour agents had become critical to business survival and the new hotels were performing this task better than the Roaring Dragon.

By the end of July, the combination of in-house rumours and the tougher work standards set by Nothill had taken effect. The level of job security felt by employees had begun to deteriorate. In a survey of Roaring Dragon employees conducted a week before the full Nothill takeover, only 41 out of 437 (9.4%) respondents believed their position to be 'secure'. Uncertainty existed, as employees knew little about their new expatriate managers or Nothill's objectives and wondered if their good standard of work and past record of employment would guarantee their job security.

### ***August***

On the first day of August, all employees were issued with a short-term contractual agreement guaranteeing 'they would retain their position for three months, two months of which would be spent on training followed by a month on probation'. During that time, each employee's ability, attitude and approach would be evaluated in preparation for 'the number of Hotel employees being reduced from the existing 685 employees to a total number of 350 employees.'

Nothill estimated that 320 employees with long-term contracts would need to be made redundant. Employees were told 'this reduction was necessary because the old Russian part of the Hotel was being demolished' and that 'the number of rooms requiring service would be significantly reduced'. Once the new Hotel wing was completed and demand increased, Nothill planned to recruit new employees. However, there were no obligations on them to re-hire any of the old employees.

The old section of the Roaring Dragon Hotel sat stripped of assets in readiness for demolition. From then on, the Roaring Dragon had no conference hall or Chinese Banquet restaurant to service even their faithful long-time customers. In the past the Roaring Dragon had enjoyed good relationships with government departments and agencies such as the NuFu and the Foreign Tourist Company (FTC). Both had regularly booked large buffets, banquets and events in the old banquet room. The closure meant large meetings and banquets were no longer available to guests. The empty halls echoed the Roaring Dragon's witness to many famous meetings and banquets.

The remaining modern restaurant in the new wing did not have a Chinese ambience and agencies were reluctant to hold their banquets there. Fortune believed business would only start to recover from 2002 onwards after the completion of the new wing. Demolition was already behind schedule and the relationships between management from Erhi T, the Roaring Dragon Limited, the provincial government and Nothill were not developing well.

As part of the changes in organisational culture and conditions at the Roaring Dragon, all managers and supervisors now had to work an eight-hour day and the opportunity to take long tea breaks or conduct private business during normal working hours was eliminated. Leaving the hotel site was no longer easy as Nothill managers' made sure that everyone trained hard whilst they were being assessed. This change in policy and procedures at the Hotel caused upheavals in organisational culture. The Roaring Dragon's method of service delivery and style of administration were changing beyond recognition. There was fear among many of 'the old staff that they would not be able to adapt' to Nothill's new management style.

## *September*

At the beginning of September, the group of fifteen young employees who had been illegally recruited by the Chinese managers, after the agreed freeze on hiring, became the first redundancies. In order that they did not lose face, they were told they were being 'given the opportunity to resume their studies'. There were tears among these young employees and they were not entitled to any redundancy payouts due to their short period of service.

For the contracted employees with less than five years service, a voluntary redundancy package was drawn up offering 1000 yuan for each year of completed service. Retrenching younger employees was seen as a more attractive option as the redundancy cost for those with only a few years service was significantly less than the larger sums needed to pay-out long serving staff, some of whom had more than thirty years service. Nothill re-confirmed that there was to be no new hiring for some time and seventeen employees accepted the redundancy package on offer, as they did not like the new system.

The challenge for Nothill was to transform a relaxed, Chinese working environment that was not focussed on quality, into one with Nothill's dynamic, international standard of excellence. Employees needed to become sharper, brighter, and more receptive in order to survive whilst the culture and chemistry of the organisation began to change. Employee's who used to 'sit around smoking and reading the papers' in May, were now busy all the time or, if an opportunity arose, they were relaxing out of sight. As new management practices were introduced, several observers wondered if this could last? Would the growing dissatisfaction among employees' work against Nothill in the long term?

Chinese managers agreed that 'the tables, chairs, windows and appearance of the Roaring Dragon had changed but in the hearts and minds of the employees, there had been little change'. A skilled bar tender was still paid only 580 Yuan (US \$75) per month for a 40-hour week with no annual holidays. Although now under Nothill management, the Roaring Dragon remained Chinese in most other aspects. Old

practices survived but had gone ‘underground’. Captains still ‘hid in the “out of order” guest rooms to watch TV, sleep, or play cards’. One change that evolved was that someone was now on watch at all times because if one was caught it meant immediate dismissal.

With the onset of the winter months, the number of tourists dwindled. With the peak season over, hotels now relied heavily on their relationships with agents, the discount rates they were prepared to offer to provide them with a steady trickle of customers up until the beginning of the next peak tourist period.

Several of the managers with important *guanxi* retired or moved on as the news spread regarding the Hotel’s forthcoming downsizing. Members of the provincial government were still scrutinizing Nothill’s performance closely whilst the rumblings of discontent were beginning to increase in volume.

### ***October***

Preceding Nothill’s arrival, government officials wishing to enjoy the finest local cuisine, negotiate some agreement or impress some important clients, would always take guests to the Roaring Dragon to visit a trade fair or enjoy a banquet. Now government representatives had to hold their banquets and entertainment activities elsewhere and a sense of emptiness and gloom pervaded the once grand old Hotel. The old wing still lay empty and idle - stripped, gutted, and ready for demolition. However, if one took a closer look, some businesses were still operating offices on the ground floor under ‘private arrangements’. There was still no confirmation from Erhi T that money would be made available to begin the construction of the new building in 2000.

From the human resource perspective, the number of voluntary redundancies continued to trickle in. This had taken a negative turn for Nothill when five talented young staff from the Front Office and F&B departments gave notice in October to seek better opportunities elsewhere. Some had secured positions in other Chinese

hotels or at a foreign-managed hotel where ‘*guanxi* connections did not hold all of the power’.

Nothill’s managers maintained the increased pressure on employees to perform. The new standard of work being demanded meant that some employees were unable to cope with the faster and more demanding pace of the job’. Many old staff with simple backgrounds had difficulty relating to the concept of five-star service and working under managers who ‘spoke’ a different language.

The employees who ‘used to go to the cafeteria for lunch or dinner with one of their work associates’ now ate alone as the new roster completely eliminated this *guanxi* building activity. The atmosphere that now prevailed in the cafeteria contrasted markedly with that of previous years. Employees who had shared lunch with their fellow workers for more than ten years had difficulty understanding why they now had to eat alone.

Fortune had begun to receive some interesting telephone calls about future downsizing and enquiries about who would be asked to leave. All the employees who wanted to go of their own free will had now departed. The next phase of the downsizing was ‘to release about sixty workers per week from the beginning of November’. Fortune said ‘it would be done as quietly as possible with a few from each department being made redundant each week’. A few existing staff had been told their positions were secure. Although there were few guests at the Hotel, employees who wanted to maintain their positions continued to train hard.

As part of Nothill’s strategy to improve its limited facilities, the Hotel disco was re-named, re-staffed, re-furbished, and re-opened but it was still unable to attract more than a few customers on any given night. The new Chinese restaurant, tentatively ‘planned to be open in a month’, was scheduled for fitting out. However, employees doubted this deadline would be met as ‘contractors were rarely on time’. Before work on the restaurant could begin, contractors first had to build a bridge as well as fill a large hole in the external wall. For Nothill, keeping to their tight schedule was at

times difficult as the quality of the relationship between them and the service provider would often determine the timeliness of the work provided.

### ***November***

With limited guests and with only two restaurants open, business for the F&B Department was slow. No further bookings came from the NuFu agency. Other agents were also looking elsewhere and the Chinese customers did not like the restaurants in the modern section of the Hotel. 'They were too open to the public and offered little privacy for banquets or meetings'. Business was very quiet and for eight days, the only people who ate at the Hotel's Western restaurant were Nothill managers as part of their contractual agreements.

In an attempt to stimulate business, Nothill managers' began notifying other Nothill hotels in the region of the Roaring Dragon's facilities. Whilst several of the expatriate managers attended a four-day training program in Nanjing, Nothill hosted a conference for marketing managers from other Nothill hotels in Asia. In spite of these strategies, the flow on was very limited and the occupancy level of the Hotel remained low.

### **The four Mondays**

Following the completion of the three-month training program, the schedule of redundancies began. On the first Monday in November, a group of workers were given their redundancy payouts late in the afternoon. There was no prior warning given to these employees, as Nothill feared that if given advanced notice, some of them 'may damage or steal equipment before they left'. Employees made redundant were told to proceed to the salaries department to collect their pay out, leave the building, and not report for work again. For those who had given many years of service to the Hotel, it seemed a very sad, sudden and disrespectful ending.

No reason was offered as to why these ‘employees were no longer required’ nor were they ‘thanked for their years of service’. In the locker room where they handed in their uniform for the last time, many murmured and voiced their complaints. Several senior managers commented that ‘if the Chinese managers had been in charge of the redundancy process, they would have handled it differently’. What transpired was a market driven action by Nothill. However, it contrasted significantly to the ‘Chinese’ way of dealing with people.

Many of the employees made redundant had hoped to continue working at the Hotel for a long time. Suddenly their dream had been taken away, there was ‘no job tomorrow’ and there was the serious issue of their loss of ‘face’ to contend with. What would their families think? Would they ask ‘why will you not go to work tomorrow?’ ‘What did you do to be asked to leave?’ What would our families and friends think of this?

As downsizing continued, more negative information about the Hotel redundancies and Nothill’s management filtered out. News of what was happening at the Roaring Dragon reached the Provincial Labour Bureau (PBL) which was responsible for holding the employment documents or *dangan*<sup>8</sup> of all unemployed citizens. They started receiving large numbers of *dangan* from the Roaring Dragon and had heard rumours that more would arrive later in November. Immediately, the PBL put a ban on receiving any more of the workbooks of those made redundant. This situation needed to be managed with sensitivity, as the Roaring Dragon needed the PBL to accept all of the workbooks of the employees being made redundant. To placate the PBL, HR Manager Madame Dong and some other senior Hotel staff invited sixteen members of the Labour Bureau to enjoy a banquet at the Roaring Dragon. This gesture restored the *guanxi* between the PBL and the Roaring Dragon and the large number of workbooks waiting to be cleared were accepted.

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<sup>8</sup> the *danwei* controls the dossier, or *dang’an*, on personal matters. The *dang’an* represents the individual in the state bureaucratic system and is lodged in where the person legally belongs. The *danwei*, in that sense, owns the individual through its possession and control of their *dang’an*. For more see Lu & Perry (1997: 5 – 13) and Davis and Vogel (1990).

On each Monday in November the redundancies continued. There were tears, sadness, surprise and anger at the 'pay-out window'. With the onset of the redundancy process and the change in organisation culture, the work atmosphere became very uncertain. Employees began to think 'if I can get paid out, why not take it? They had lost confidence in the Hotel and some that had given many years of service no longer feared redundancy. Others looked at their payout as a chance to make a new beginning. The employees had been warned of the possibility of redundancy when Nothill took over and many were prepared for any outcome. Upon receiving their payout, some commented that the Roaring Dragon's 'once friendly and supportive atmosphere no longer existed' and with many employees leaving the Hotel, the work environment had become 'very sad'. Few said that that they 'would go back to working in the hotel industry'. As more employees were made redundant, the level of respect between Nothill and Chinese employees began to fall. One manager summarized by observing that each employee now 'wore' two faces, a 'fake' smile for the international managers and a worried frown in reality.

Occupancy levels continued to decline. The Roaring Dragon was a large Hotel with 300 rooms in total and on one night there was only one paying customer staying in the entire Hotel. By late-November, concern was growing that the Hotel did not have sufficient funds remaining to pay operating expenses, let alone wages. All advanced tour group-booking contracts had expired and no future bookings were confirmed. The tourism industry in this city had now had time to assess Nothill and from the Chinese perspective, their conclusion was not very good.

By the end of November, many of the Hotel's young workers had been made redundant whilst older staff remained as some of their redundancies were worth up to thirty five thousand yuan each. Erhi T was directly accountable for financing redundancies and understandably its Board was not happy.

Limited progress continued with the construction of the new Chinese Restaurant. Although the grand opening was planned for the last week in December, Nothill were not prepared to sign off on developmental stages of the new Chinese restaurant until work was completed to specification. Contractors would do such things as to 'order

the new doors but not new locks'. The karaoke rooms on the second floor had no doors and Nothill had to request the installation of automatic doors to seal off the rooms as the major function centre downstairs was in direct sound range. There were problems between Nothill and the company in charge of construction and getting tasks completed became slow and cumbersome.

Still no agreement had been reached between Nothill and Erhi T regarding the funding of the demolition of the old Russian section of the Hotel, leaving the old building still sitting empty and idle.

Paying for the purchase and installment of the new computing system was causing some problems, with both Nothill and Erhi T expecting the other to pay. Nothill wanted to install a modern, near state of the art IBM system but Erhi T was reluctant. Erhi T argued that Nothill should pay for the cost of the system. Nothill blatantly refused and negotiations dragged on. The proposed time of installation had passed seven weeks earlier and still there was no sign of progress. Nothill's computer-training team, who had planned to arrive at the Hotel at the beginning of October for training purposes, now postponed their arrival indefinitely. After a ten week delay, it was finally agreed that Erhi T would pay for the new computing system. Fortune admitted that 'every day is a struggle but we are making progress'. It was planned that by the end of December, all of the old employees who were no longer required would have been released and their contracts paid out.

A potential *guanxi* conflict concerning downsizing was looming. Fortune expected to take to the Board the final list of old employees who were to be made redundant and expected complaints and some negotiating to take place. They were a lot of well connected, inefficient and ineffective staff who did not fit the Nothill mould but who had the connections on the Board to protect their positions. Fortune admitted that he was prepared to make a few changes to his list but did not want to end up with 'a lot of useless staff'.

The Roaring Dragon continued to have a very low occupancy rate and was losing money. Nothill had an Accounting Manager, a Marketing Manager, a House Keeping

Manager, two F&B Managers and a Reception Manager working full time at the Hotel and being paid exorbitant international rates. Erhi T did not like to have to meet the cost of having these ‘foreigners working in their empty Hotel’. The original objective of improving the quality of service at the Roaring Dragon was fading and the disgruntled echoes among the Erhi T Board members were growing louder.

The majority of remaining Roaring Dragon employees had now lost their motivation to work or attend training classes. Some of the remaining employees likened the empty Hotel to a ‘morgue’. Under the former Chinese management, the more affordable old Russian section had attracted a lot of guests seeking economy room rates and there was usually a busy atmosphere in this part of the Hotel. The three star market segment accommodated there had generated a small yet reliable profit. This segment could no longer be accommodated at the Roaring Dragon. Now with the old section closed, the number of customers prepared to pay higher room rates in the modern section was very small. Nothill’s rate of 800 Yuan per night for a double room was not competitive.

Nothill’s Marketing Manager visited Beijing, Shanghai, and Taipei in another attempt to generate a flow-on of tourists from other Nothill hotels in the region. These expensive and unsuccessful journeys further fuelled the frustration of the Erhi T Board. The small cash reserve, which had been accumulated by the Roaring Dragon over the last decade, was rapidly being used up and rumours began to circulate that for the next pay period, the Hotel did not have the money to pay employees’ wages.

Since Nothill’s arrival, a previously happy, polite, well-mannered work force had by now lost its initiative, sparkle and drive due to the lack of customers, the demanding Nothill management, the redundancy schedule and the negative work environment. Fear prevailed and some employees in private even showed their anger. A couple of minor incidents had occurred in the disco after some employees had stayed at work after their dismissal, but Fortune commented that ‘generally everything was proceeding steadily’.

Some of the remaining employees were now being told that their 'jobs were secure' yet there was still an air of depression in the work place. Fortune left for Hong Kong for discussions with regional Nothill Managers regarding their company's China strategy for the next five years. At the Roaring Dragon, occupancy was averaging just six percent with most other competing hotels in the vicinity enjoying twenty- percent occupancy rates.

### ***December***

The Hotel's reserve fund was now exhausted and there was insufficient money left to fund the payroll. Nothill's Training Manager and the second in charge of F&B both went to collect their wages at the end of the month and were told that there were no funds left to pay them. Erhi T were now being asked to spend over one hundred million yuan. This was to finance the construction of a new five star wing, fund the wages of more than three hundred employees, pay the redundancies of more than three hundred employees, and cover the salaries and expenses of nine expatriate Nothill managers. Income generation at the Hotel was low and the Erhi T Board of Management did not like being saddled with these unwanted expenses. The provincial government held the power and the easiest option had been for them was to use Erhi T's financial resources to support the ailing Roaring Dragon Hotel.

Development projects planned by Nothill were now stalled as the flow of money from Erhi T had dried up. The new computers had been installed but were not yet paid for. There was fear that 'employees would not get their December wages' and it was rumoured that 'employees may have to take a pay cut'. An increase in workload had become the norm for all employees. A Chinese manager felt that 'one employee now was doing the work of three employed under the former Chinese management'. The remaining young employees could still see *guanxi* networks providing protection and allowing employees to retain their positions due to their connections and not the quality of service they were able to provide. Good *guanxi* with those in power remained the most important criteria to insure the positions of such employees.

In late December, the Erhi T Directors and provincial government officials held a critical meeting to discuss the Roaring Dragon's and Nothill's future. By originally inviting Nothill to manage the Roaring Dragon, the provincial government had felt that they had made the right decision and expected to see improvements in the number of customers coming through the door. Some expected the tap to be 'turned on' and the Hotel to be 'full of guests'. After five months of observation of Nothill's management and the development of the Roaring Dragon's financial crisis, both Erhi T and the provincial government wanted to end their association with Nothill. Politically, the Roaring Dragon Hotel needed to survive as the provincial government could not be allowed to lose face on this issue.

The Hotel had stopped paying its debts, bringing a flood of suppliers to Wen's door pleading to be paid for their goods and services. Erhi T injected half-a-million yuan into the Roaring Dragon account and it was used in a week to cover operating expenses, accounts payable and basic four-star Hotel requirements such as air conditioning and power. Two of the three passenger lifts had been taken out of use and the air conditioning was turned off in the evenings.

Before leaving for Christmas in Europe, Fortune met with the Chairman of the Erhi T Board to arrange for more funds to be released to finance the improvements planned for 2000 and beyond. Following his mandate, Fortune had embarked on a costly 'long term program to develop the Roaring Dragon into a five-star hotel' whilst Erhi T had 'expected the Hotel to be self-funding much sooner'. They did not expect to face the need to provide such a large amount of extra funds to maintain basic operations and had become reluctant to continue injecting more money into the Hotel's operations. From early September they had even refused to accommodate their own visiting guests at the Hotel.

The Erhi T Board was not happy with having to pay large redundancies to long-serving staff who had only been placed under their responsibility for a period of six months. The provincial government and the Erhi T dominated board waited for Fortune to depart to Europe for Christmas and immediately ordered the delay of the planned redundancies of the final thirty long-term employees.

The provincial government's experiment with KYZ had cost them nine million-yuan in one year and it was estimated that Nothill had lost more than ten million yuan in their first four months. With the excitement at the beginning of both takeovers it would have been difficult for the provincial government to imagine such poor outcomes on both occasions. Some commented that the lack of respect for *guanxi* and *mianzi* shown by both KYZ and Nothill were just two of the incompatibilities that could have been better managed. Here is another example of *guanxi* neglect.

From the moment Nothill had taken over, Wen had watched from the sideline. As GM of the Roaring Dragon Limited he had installed an executive suite on the top floor of the administration building adjacent to the Hotel and used it as the office for their employees. The Roaring Dragon Hotel accounts were contracted to cover the costs for these facilities and by now more than 30 personnel had used their *guanxi* connections to gain transfers from the Roaring Dragon Hotel to the Roaring Dragon Limited. Fortune commented how they 'had a staff of thirty when they really only needed six'.

With Nothill's rumoured departure, some Chinese managers began to conduct their private business again. As if to admit the inevitable, Nothill's expatriate managers began taking extended lunches. Communication between the Roaring Dragon employees and Nothill's managers decreased to become minimal. The futures of the Nothill expatriate managers had been decided. The accountant was now only present for just one week out of three as he serviced Nothill's other hotels in China. The Nothill Front Office Manager was leaving to take a new position in Europe and the assistant F&B Manager had been appointed to a position for Nothill Dalian. Thomason had plans to marry a local Chinese girl and had accepted a position at the Nothill Singapore. Nothill's management contract had ended.

In mid-January 2000, Nothill's Board of Directors in Europe received official notification from the local provincial government that they wanted to conclude the contract. It appeared on the surface that Nothill had only made a few mistakes, however these were critical. Apart from their misunderstanding of the importance of face and relationships, they had pursued their goal of transforming the Hotel's culture

and organisational capacity with unabated vigour. Some employees claimed that Nothill was never serious about making the Roaring Dragon Hotel their own or never wanted to use their brand name on the Hotel, however, many acknowledged the Hotel's improved standards of facilities and service. Speculation emerged that Nothill had used the Roaring Dragon as a training ground to familiarize their managers with the Chinese organisational and cultural environment before setting them up in Nothill's growing chain across China? Were they using the Roaring Dragon to prepare their international managers to staff Nothill's new hotels being constructed elsewhere in China? Whatever the reasons, Nothill's management had lasted just six months.

## **Discussion**

Although Nothill had inherited many inefficiencies at the Roaring Dragon, could they have planned for and managed the transition more effectively and smoothly? The main negative effect of their downsizing policy had been the loss of almost all their young, talented, and educated employees. Nothill did re-employ a few young staff at their other hotels in Asia; however there were few other realistic options.

When making decisions about downsizing, the related social and workplace upheavals that occur must be a common problem faced by managers reforming SOE in China. At the Roaring Dragon, this situation was made worse as a consequence of the illegal late recruitment drive undertaken by HR Department that eventually resulted in those fifteen new recruits being the first targets of retrenchment. From a Chinese perspective was this corruption or a culturally accepted norm?

A large number of the redundancies were among young employees with only a few years of service. By retaining the old staff, Nothill reduced the youthful vibrancy within the Hotel. If the reduction in the number of older staff had commenced at the beginning of August, Nothill would have been compensated for some of the extra cost of these early redundancies through having to pay the younger employees

significantly lower salaries. Overall, such a strategy would have helped maintain a more dynamic and youthful service environment.

Job-sharing, which would have been a socially acceptable method of reducing the excessive size of the Roaring Dragon's work force. As job-sharing does not exist in south-west China, the introduction of this concept would require a shift in traditional Chinese management practice. If job sharing could be accepted into the context of downsizing in this part of Chinese economy, it would help to maintain community harmony and reduce the number of unemployed. Two beneficial outcomes of job-sharing at the Roaring Dragon would have been Chinese employees preserving their face or *mianzi*, and more importantly being able to maintain their employment status. Economically, having their hours reduced would have eased the burden of the potential loss of income for each employee's family and created opportunities and provide support whereby legally employees could conduct their own private business outside of working hours. For any management venture in China, a strong policy must be developed aimed at outlawing illegal activities that take place during working hours. This was one objective that Nothill did succeed in achieving.

Nothill's method of terminating employees showed little respect for face. Each Monday, in November at 4pm, employees who were told to proceed to the payout window. In the queue they would joke nervously and laugh among themselves as they waited for their pay envelope. One could feel the uncertainty. Employees whose jobs were secure would glimpse those made redundant as if another class of the unemployed had been created. Among those saying goodbye there were tears, the loss of dreams and more acutely, the loss of face. Any respect or status those employees had enjoyed within the Roaring Dragon organisational culture was suddenly gone. In its place was the realisation that uncertainty lay ahead. Could Nothill have planned and conducted this process in a more sensitive and private way?

The fact that Nothill expatriate managers had only been there for such a short time before the redundancy process began meant they had not been able to develop strong working relationships with employees. For the Chinese managers this had been an advantage in that the Nothill's managers bore the full brunt of responsibility for any redundancy decisions taken. When they left they could take the blame with them. If

the Chinese organisation, under Wen, had been asked to carry out the task of downsizing, the damage this would have done to the Chinese managers would have been greater and with long-lasting repercussions. To maintain harmony, none of the Chinese managers 'wanted to be the bad man who made fellow employees redundant'.

After the commencement of the downsizing, any form of training in progress became ineffective. Nothill's Front Office Manager showed her frustration in having to 'train a young staff member for a week and then having to say goodbye on the following Monday'. I argue that a better long-term policy would have been to retain the younger employees and continue the training program for them and gradually reduce the number of older employees through redundancy.

Care needed to be taken when making decisions concerning redundancy. The loss of senior staff members with significant *guanxi*, in particular with agents and government officials, could have been handled more effectively. Nothill's sudden introduction of western operational methods to replace the long practiced Chinese methods meant that many strong *guanxi* connections that contributed financially to the Hotel's bottom line were rudely interrupted, weakened or dissolved. I argue that when a foreign company commences any form of joint project with a mainland Chinese SOE, extensive research needs to be undertaken to identify the important people within the SOE. If respect were given towards the existing *guanxi* networks at the Roaring Dragon, a better occupancy and financial performance would have been easily achieved. By allowing Madame Fang and several other members of her influential *guanxiwang* to transfer to the Roaring Dragon Hotel Limited, Nothill had effectively removed a significant percentage of their real and potential business. Nothill management should have taken time to develop stronger relationships and a better understanding of their Chinese employees, especially managers and their communication systems. This would have enhanced their level of acceptance, especially when employees were being asked to try to learn new operational methods. Nothill's introduction of new work methods on more of a gradual step by step basis may have minimised the damage from the collision between Nothill's international and the Roaring Dragon's domestic organisational cultures. This strategy would have

taken longer to produce positive results, however the corresponding respect and trust established between management and employees would have preserved the social and organisational harmony at the Roaring Dragon, and produced a more profitable long term outcome.

One particular scenario in question was the Nothill F&B Department's policy on banquet bookings. Better preparation and research by management would have told them that it might have been wiser to accept the banquet offers from local agents from the beginning of their takeover. Thomason's early refusal to take a small banquet set the tone for the relationship with NuFu. Accepting that offer and taking the time to get to know the agents better may have helped to establish supportive relationships and produce better financial results in the long-term.

Had the provincial government placed an ambitiously high expectation on the projected number of four or five star tourists that would visit this developing region? By issuing four new licenses to build four or five star hotels, they had created a surplus of rooms that could never be filled in the short-term by the expected number of tourists. Some form of market correction would occur in future, as some of these hotels would be forced to diversify or close down. Serious discounting of hotel rates already existed in this segment of the market and this trend looked likely to continue.

Historically, both the KYZ and Nothill management groups had made the mistake of not building strong and trustworthy relationships with Wen or any of the Chinese Roaring Dragon Hotel managers. This lack of any close personal relationships, combined with the Nothill managers and employees having no common language. A communication void developed across which it was sometimes difficult for information to pass. In Nothill's situation, the Chinese managers who were multi-lingual were 'gatekeepers' to what information crossed the void between international management and local employees. As well as being responsible for interpreting the message from the sender, they must decide how each communication should be presented and interpreted. Consequently, local Chinese managers played a critical role as go-betweens. To be effective In China, foreign executives must be able to speak Mandarin with a degree of fluency, have an understanding of Chinese cultural

nuances, and have trustworthy English-speaking Chinese nationals working in their confidence. In Nothill's case, none of these conditions existed. The establishment of effective relationships would have ensured that any information was accurately and easily disseminated enabling many organisational changes to be better interpreted, accepted and implemented. The ability of managers' to speak the local language and understand the nuances and body language of this culture will provide greater meaning to all communications. In this case, the employment of two or more multi-lingual intermediaries capable of understanding both cultures and languages would have enhanced managerial cross-cultural communications significantly. As none of the Nothill managers could speak Mandarin and few of the Chinese managers wanted to speak English, the situation was not ideal.

Although Messrs. Wen and Fortune worked in adjacent buildings, they rarely consulted each other. They spoke different languages and their relationship would have been more productive and profitable by using multi-lingual go-betweens. Mr. Wen should have been the first person with whom both KYZ and Nothill should have established a supportive relationship as he was aware of the problems and solutions to the difficulties both KYZ and Nothill were experiencing in running the Hotel. Changing his approach and outlook would have assisted significantly.

Some Hotel staff had strong *guanxi* ties with top government officials who protected their position in the Hotel. At times, these employees' behaviour before the takeover could be quite arrogant. Fortune commented how they 'often disregarded the policies of the Hotel' but added 'what can you do with them? You can't terminate their services because there would be serious trouble from the power brokers in their *guanxi hu*'<sup>9</sup>. In these situations in China, those in government play a critical role and must be treated with care.

Challenge lies in eliminating the practice of officials and department heads using an SOE's time and resources to put more money into their own pockets. Those

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<sup>9</sup> *guanxi hu* ('*guanxi* family') means a person, organisation, even government department, occupying a focal point in one's *guanxi* network (Davies, Leung, Luk, and Wong, 1995; Ambler, 1995; Park & Luo, 2001; Luo and Chen, 1997).

interviewed at the Roaring Dragon told stories of corruption and confirmed that there existed practices which advantaged and protected members of Mr. Wen's inner clique whilst they profited at the Hotel's expense. To dismantle and to remove the departmental cliques requires hotel GMs to develop ethical structures and effective systems of supervision.

In Nothill's redundancy schedule, the criteria of saving money came ahead of considering employees' abilities whilst relationships were not considered at all. This *guanxi* neglect contributed significantly toward both the KYZ and Nothill ventures being unable to generate any significant support from their Chinese managers and employees due to their poor relationship management.

What could Nothill have done better? In this instance, the work environment was dominated by Chinese culture and for Nothill to be successful they may have tried harder to understand this culture and adapt their methods to match the environment. Given relationships are the primary determinant of one's level of success in Chinese business, basic strategies needed to be undertaken to develop closer relationships and better understanding of the Roaring Dragon employees, management and board members. For instance, inviting agents, board members and government officials to spend some time together with Nothill's new management team would have undoubtedly aided in facilitating a much more successful long term outcome for Nothill.

Allowing the Hotel's sales and marketing team greater flexibility in offering competitive rates to tour agents might have contradicted Nothill's global strategy, however in this situation, it would have worked in Nothill's favour. With Nothill needing to establish and consolidate relationships with agents, such flexibility would have aided in a smoother transition and more long-term business from agents. As the standard of their service improved perhaps then they may have increased prices.

In changing from the planned style of management to the new, I argue that it would have been beneficial to offer some form of incentive to employees to reward their quality of new service delivery. This implies an extra investment, such a positive

incentive would have produced rapid improvement in the quality of service provision and aid in the speed of organisational transition. Before Nothill's arrival, many of the sales team would just sit in the office and answer the telephone as there was little incentive to be active in trying to generate business. Sales incentives would have motivated them to be in contact with the market place and in developing business relationships with agents. Several sales employees told of occasions when the telephone rang with someone requesting rooms and sales employees would respond by saying 'I'm sorry, we are completely full', when in reality the Hotel had only a twenty or thirty percent occupancy. This situation had arisen because the sales employees wages were low and 'the number of rooms they sold made no difference' to their earnings. A simple incentive would have encouraged them to work harder contributing to the long-term generation of a higher occupancy rate for the Hotel.

It appeared that the provincial government had learnt little from their unsuccessful 1993 experience. After KYZ's demise in 1993, the former Chinese GM Wen resumed his position and once again, the operation of *guanxi* and corruption re-emerged. Following Nothill's demise in 1999/2000, Wen again resumed the position of GM.

### ***March 2000***

Fortune, although no longer the Hotel's GM, remained at the Roaring Dragon waiting to finalise the contract and recover Nothill's outstanding debt. In a scenario similar to that of KYZ in 1993, Nothill and Erhi T were contemplating potential legal action.

Both parties hoped to conclude their association legally by signing a 'Termination of the Management Agreement' on the last Friday in March 2000. An international accounting firm had completed the final audit and all the new computers and software programs that had been installed were disconnected and sent back. Apart from Fortune, all of Nothill's expatriates had left.

It is said that in China, 'if you want to do any business you must first develop a strong relationship with the stakeholders'. Through *guanxi* neglect, Nothill's management had ignored the importance of *guanxi*, *mianzi* and the development of relationships.

Following the departure of Nothill and the reinstatement of Wen as GM there was a revival in the importance given to *guanxi* and, as in 1993, there was an immediate improvement in Hotel occupancy levels. New employees were hired and gained their position via their *guanxi* or connections. By the beginning of June 2000, sixty of those who had been laid off had been re-employed. From a Chinese perspective, everything was getting back to normal. It seemed as if the Roaring Dragon had once again avoided the forces of the market economy. However, could it be avoided for much longer?

## **Conclusion**

One must be careful to define the context in which these conclusions apply. This study was conducted in an existing SOE in the hotel sector in the south-west region of China. This environment had characteristics that were far removed from the most rapidly developing markets of Shanghai and Guangzhou (Guthrie, 1999). The amount of change and reform that has occurred in south-west China has been significantly less than that experienced in coastal regions. It is in this context that these conclusions apply.

I argue that any company that is contemplating taking over or going into a joint venture with an existing SOE in China will undoubtedly profit from conducting an in depth investigation into the *guanxi* networks that exist in the organisation being considered. This investigation should uncover the strength and power of the existing *guanxi* network, especially those of senior management, and the possible advantages and disadvantages to gain in allowing such networks to remain in place. Accessing this information may not at first be easy. However from day one of the process relationship building practices need to be implemented with major *guanxi* holders, stakeholders, and government representatives. This strategy is aimed at gaining a clearer understanding of the respective SOE and its operating environment. This research will also help to limit the amount of business lost as a result of *guanxi* neglect that may occur after operations begin. These considerations will enhance the

likelihood of success in business. Communication with the existing Chinese senior management of the organisation needs to be open and ongoing.

Employees being made redundant should be notified in a one-on-one environment in a manner that preserves their face and minimizes the immediate exposure of these employees to their peers and other employees. In considering which employees to make redundant, the strength and power of the *guanxi* connections of those being considered need to be thoroughly investigated prior to any such action.

Consideration needs to be given to the age of those being made redundant. Even though retaining long serving employees may prove the most cost effective in the short term, retaining young employees will enhance the vibrancy of an organisation, especially in the SOE hotel industry, and its ability to change. Retaining younger employees is likely to increase the level of education and is also likely to enhance the success of any future training programs. Job-sharing is an option that organisations should consider in making the redundancy process less socially and economically devastating. More research is required in this area of study.

Changes in organisational methods and processes need to be implemented in stages so as to allow employees to adjust. This strategy will also reduce fear and enhance acceptance of change. Especially in early days of a takeover or JV, companies need to consider the Deng Xiaopeng philosophy ‘to cross the river by feeling the stones’<sup>10</sup> and to change SOE practices gradually (Rawski, 1997, Guthrie, 1999).

Corrupt and unethical practices need to be uncovered, discussed openly with those involved and explained as to why they can no longer exist. To assist in the elimination of such practices, incentives need to be considered to enhance the development of new and more ethical practices. *Guanxi* practices that are involved in the organization’s income generating processes need to be investigated and clearly understood before any changes are made.

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<sup>10</sup> That is to follow the prophecy of Deng Xiaopeng “  
Grainger, S., ‘*Guanxi* Neglect at the Roaring Dragon in South-west China: The Demise of an International Management Contract.’

Trustworthy, multi-lingual translators need to be identified in both the target and takeover organisations to ensure and monitor whether management instructions are being clearly understood by employees. Those' in this role will enhance the quality of feedback on how directions are received and interpreted. These employees need to be positioned strategically within the organisation to ensure that change processes are implemented effectively and are supported.

During the negotiation process and prior to signing the contract, Chinese managers who are involved in any change or contracted processes need to be identified and well informed of the expectation that they will support the contract without deviation. A confidential, reporting mechanism inside the organisation needs to be established so as to allow senior managers and individuals anonymity in making management aware of any breeches that may occur.

Finally, the organisation that is taking over needs to promote a long-term perspective to give confidence to stakeholders and employees and to reduce the amount of resistance to change that they may encounter.

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