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Organizational optimization and the growth of Shandong hotel industry

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ABSTRACT

Prior research has not discussed the sustainable development of Shandong Hotel Industry. By a study on the stages and periods of the industry's dynamic evolution, it can be seen that problems still exist during its growth, which does not only affects the speed of its quantity growth, but also affect the direction of its qualitative improvement. Applying SCP theory and industry growth theory to this research, we use data of Shandong Hotels from 2008 to 2011 to conduct this research. By an analysis of its market structure, market conduct and market performance and other aspects, the study proposes the strategies for industrial sustainable growth, by which hotel industry in Shandong province can achieve optimizational allocation of resources, improve its economic benefit and promote the sustainable growth.

KEYWORDS

Sustainable development; Shandong hotel industry; SCP theory.



INTRODUCTION

The GDP of Shandong Province has been continuously listed the top three for many years in China. Recently, with tourism moving towards the strategy industry and pillar industry in national economy, Shandong tourism has stepped into a strategic opportunities period of accelerating development. The upgrading of tourism industry, together with strong, good economic fundamentals and tourism consumption demand, has provided strong support for the rapid development of hotel industry in Shandong province. First, the scale of the hotel industry in Shandong province has been expanding each year, the number of the Star-rated tourist hotels increasing fast from 342 in 2001 to 869 by the end of 2011^[1]; what's more, the connotative development of the hotel industry in Shandong province has also been improved apparently, as is in the fact that the hotel industry pattern with the group and chain brand as the leading ones has been formed, and the growth of hotel enterprises have achieved great progress, too.

However, by a study on the industrial dynamic evolution phases and periodicity, it can be seen that there are still some problems for the industrial development in Shandong Province, which are mainly displayed in the unreasonable allocation of resources, low benefit of scale economy, the relatively single business, the low level of product innovation and differentiation, coexistence of excessive competition and competitive inadequacy, and the single competition method. These problems do not only affect the hotel industry's development in Shandong Province in terms of the speed of the changes in number, but also the direction of the change in quality. Under the current situation, it is of great significance for promoting the hotel industry's sustainable development in Shandong province, to investigate the hotel industry's organizational changes from the aspects of the market structure, market conduct and performance and so on, and to discuss the hotel industry's organization optimization strategy of realizing hotel industry resources' optimal allocation, of raising its economic benefits and of rationalizing industrial structure.

THE SCP THEORY AND INDUSTRY GROWTH THEORY

The SCP analysis paradigm of industrial organization theory

Industrial organization theory studies resources allocation among various enterprises within the same industry sector. It mainly focuses on the effects of industrial organization situation and its changes on industry resource allocation efficiency, by an attempt to analyze the internal competitions and the monopoly among enterprises within an industry, so as to provide a theoretical basis to maintain the normal market order and economic efficiency.^[2] The core issue of Industrial organization theory is to research in the competition and monopoly market condition, how enterprises and market achieve optimal economic performance through the organization and adjustment.^[3]

According to the Harvard School, the research framework of industrial organization theory is the interaction of Structure, Conduct, and Performance, that is, the so-called SCP paradigm. This theory thinks that there is a progressively restrictive cause-and-effect relationship among Structure, Conduct, and Performance. To be exact, Structure determines Conduct, which decides the Performance. Therefore, in order to obtain the ideal performance, the most important is to adjust and improve the unreasonable market structure through public policies.^[4]

Industry growth theory

Industry growth refers to the life cycle evolution of a single industry, or to the continuous process of the existence of an industry in the national economy. During the process of industrial growth, the aspects of the industry's time and space motion, internal and external performance, quality and quantity and so on all undergo profound evolution. Specifically, the industry's evolution reflected by industry growth as an organic system should include three aspects: the changes of industrial scale, of industrial technology and of industrial organization^[2]. First, industry scale changes represent the expansion of the lateral movement of industry growth, and show the features of industry growth in number. It is the external manifestation of industrial growth. Second, change in industrial technology is the essential factor to lead the stage replacement of industry from elementary development to advanced development, and to decide the industrial growth. It stands for further developing direction of the longitudinal motion of the industry growth. It shows the qualitative characteristics of industry growth. Last, industry organization change is the change of enterprise number and scale distribution as well as that of the relations among the enterprises, and thus it is the internal evidence of industry growth.

Specific to the research on tourism industry, Cooper together with others, Lapierre and Hayes, Loannides and Debbage, Marino, Hjalagr and so on have put forward some measures for tourism industry development respectively by analyzing the tourism sector structure and the tourism product structure^[5]. Most of Chinese scholars, who in recent years, have made some achievements on the growth of tourism industry, agree that adjusting and optimizing the industrial structure is one important link in the growth of China tourism industry^[6].

AN ANALYSIS OF SHANDONG'S HOTEL INDUSTRY ORGANIZATION

Shandong Province has 869 star-rated hotels in 2011, by which it ranked the second in the total 31 provinces or cities in China. The total number of rooms in Shandong Province in 2011 reached 117 391, accounting for 7.96% of total rooms in China. And its average room occupancy rate is 67.09%, which is higher than the national average occupancy rate of 61.00% and occupies the second place in the country. The hotel revenues of 16.342 billion RMB and hotel taxes of 1.125

billion RMB in Shandong Province both ranked the six respectively in China, but still there is a great distance from such areas as Beijing, Guangdong and Zhejiang and so on. Shandong hotel industry employed 117, 200 people and the overall labour productivity reached 129,420 RMB / person, below the national average level of 150,180 RMB / person^[1].

An analysis of the market structure of Shandong hotel industry

It can be concluded, from an analysis of current situation of the hotel industry in Shandong province with the industrial organization theory’s SCP paradigm^[6], that its market structure has the following characteristics:

The unbalanced hotel industry’s hierarchical structure and regional layout

Compared with 2010, by the end of 2011, Shandong Province has five more five-star hotels, the total number being 29, 2 more four- star hotels, the total being 152, 14 more three-star hotels, the total being 489, 34 less two-star hotels, the total being 210, and one less one-star hotel, the total being one. From the data of Shandong province star tourist hotel hierarchical structure during 2010 and 2011, it can be seen that two- star, three-star and four- star hotels, make up the major part of Shandong province tourist hotels. Among them, three-star-rated hotels especially had a larger proportion, making up 53.1% and 55.5% of the total number of Shandong’s hotels in 2010 and 2011 respectively. While one-star-rated hotels and two-star-rated hotels as the main accommodations to meet with the public’s basic consumption and economical consumption needs, makes up a minor part of the province’s total hotels, having a proportion of about 27.5% in 2010, and a proportion of about 24% in 2011 (Figure 1).

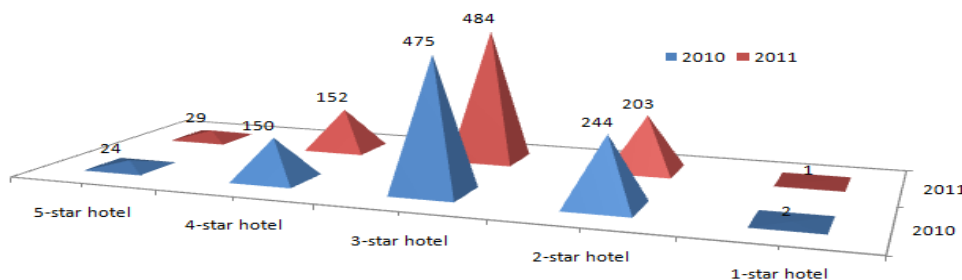


Figure 1 : The 2010-2011star-hotels’ hierarchical structure in Shandong province

What’s more, although the total number of star-hotel rooms has been increasing since 2008 in Shandong province, the number of one-star and two- star hotel rooms is gradually decreasing. In contrast, the number of four-star and five-star hotel rooms of is increasing year by year, and the number of three-star hotel rooms has relatively grown greatly, despite a slight decrease in 2010. From the data in 2011, it can be seen that compared with the year of 2008, in 2011, the two-star hotel rooms dropped in number by 46.4%, and one-star hotel rooms by 87.4% (TABLE 1). In fact, by an analysis of the main consumers of Shandong province’s tourist hotels at present, we can say that although the disposable income spent on tourist consumption is on the rise gradually, and the demand for middle class hotels has been increased too, tourist hotels of lower levels that can meet the public’s basic and economic needs, will have considerable market potential for a long time.

Poor scale economic benefit, and low market concentration degree

In 2011, Shandong province had 6 star-rated tourist hotels with more than 500 guest rooms, and 37 with 300 to 499 guest rooms, 70 with 200to 299 guest rooms, 292 with 100-199 rooms, and as many as 461 with less than 99 rooms^[1]. The above data shows, although the total number of star-rated tourist hotels in Shandong province is rising in recent years, the hotel scale is relatively small, with 85.47% hotels have less than 200 rooms.

TABLE 1 : 2008 - 2011 Shandong province star tourist hotel room number

| Number Year | Five-star hotels | Four-star hotels | Three-star hotels | Two-star hotels | One-star hotels | Total |
|-------------|------------------|------------------|-------------------|-----------------|-----------------|--------|
| 2008 | 7063 | 22404 | 45516 | 22791 | 397 | 98171 |
| 2009 | 7220 | 24972 | 49591 | 20050 | 268 | 102001 |
| 2010 | 8268 | 27827 | 46996 | 13914 | 100 | 97105 |
| 2011 | 9838 | 27871 | 67416 | 12216 | 50 | 117391 |

Data sources: <http://www.sdta.gov.cn/>

What’s worse, the size of Shandong province’s tourist hotel is generally small, which also makes that among the total number of the top enterprises with larger scales in all the industry, the enterprises of the hotel tourist industry share a

smaller proportion. Low market concentration and highly dispersed main management body of the hotel market led to a highly competitive market and an industry lack of scale economy profit. To change the small unit size of hotels, the scattered layout of the property, the poor scale economy effect and other problems of the hotels in Shandong Province, there is an urgent need of industrial structure optimization to promote resource allocation and intensive development.

The market behavior analysis of hotel industry in Shandong province

The hotel merger and acquisition

In order to solve the problem of weak market competitiveness and limited profit ability of independent hotels, the hotel industry often pay much attention to improving hotel industry's scale benefit through the horizontal or vertical merger and acquisition way^[7]. At present, the Shangri-la, Sheraton, Hilton, Intercontinental, Four Seasons, Hyatt, Amy and other international hotel groups are using their own brand advantages, investing in some cities in Shandong province in different ways. For example, Hilton group and Lushang group have signed letter of intent cooperation, planning to transform the former ChiLu Hotel, which has closed down for six years, into the first Hilton Hotel in the capital of the province.

The virtual hotel cooperation behavior

In the face of more and more violent market competition, Shandong province tourist hotels, especially independent tourist hotels are actively seeking development by searching for partners and establishing strategic alliances between hotels and alliances between hotels and other enterprises^[8]. Founded in 1999, Shandong Province Hotel Club currently covers 23 four-star hotels with a good reputation, great social influence, and good operating conditions in 17 cities of the whole province. The union becomes an important development platform for the member hotels to share resources, exchange feelings and experience through the unified marketing propaganda and promoting the club members' cooperation and communication.

In addition, "(Zhonghao) Friendly Hotel Marketing Alliance Summit" established in Jinan in 2007 under the leadership of Zhonghao Grand Hotel Jinan and by 9 star-rated hotels in nine cities of Shandong province, has now become virtual organization of 9 tourist hotels covering 12 cities. The organization provides the independent hotels with a kind of innovative marketing mode for their reference in the fierce market competition, by uniting independent hotels in different regions and of different characteristics, with marketing as the point cut^[9].

An analysis of Shandong's hotel industry performance

Since 2008, the hotel industry in Shandong province has gradually got rid of the impact of economic crisis, and improved its business performance year by year. The total revenue from all the star-rated tourist hotels of the province has risen from 12.769 billion RMB in 2008 to 16.89 billion RMB in 2011, and the guest room occupancy rate from 64.34% in 2008, up to 67.09% in 2011, and the average room prices also from 219.0 RMB/night up to 304.7 RMB/night correspondingly (TABLE 2). These numbers indicate that, the overall ability of tourist hotels in Shandong province to create wealth is increasing.

TABLE 2 : 2008 - 2011 Shandong province hotel industry performance

| Index Year | Room occupancy rate(%) | Average room rate (yuan/room•night) | Revenue (billion yuan) | Profit (billion yuan) |
|------------|------------------------|-------------------------------------|------------------------|-----------------------|
| 2008 | 64.3 | 219.0 | 127.7 | — |
| 2010 | 66.7 | 291.0 | 142.2 | 2.2 |
| 2011 | 67.1 | 304.7 | 168.9 | 1.25 |

Data sources: 2008-2011 national statistical bulletin of Star-rated Hotels

However, in spite of its steady growth, the performance of hotel industry in Shandong province still has some structural contradictions and problems at depth. Firstly, the unbalanced hierarchy structure and regional development of the hotel industry are fully reflected in the hotel industry's performance indicator composition. For a long time, three-star and four-star tourist hotels are the main sources of the total revenue of the industry, while one-star and two-star hotels only share a very small proportion. In 2012, only 5 of the 17 cities' hotel industry revenue exceeded the average level of the entire province, and the highest one (Qingdao) was even 35.64 times higher than the minimum (Laiwu)(Table 3). The big gaps in revenue were mainly reflected in those five-star or four-star hotels of coastal cities and Jinan, the capital city of Shandong province. Moreover, in recent years, the room occupancy rates of three-star, four-star and five-star hotels have shown a downward trend, indicating a structural surplus signal in the region and types of hotel industry supply, and implying the concerns of blind hotel investment. Secondly, despite the increasing revenue of star hotels of Shandong province in recent years, its profit has shown a decline to some extent. One of the chief reasons for the decline lies in the great pressure of cost caused by the continuous rise of the energy prices. There are two aspects. The first aspect is that the hotel equipments are of great variety, extensive distribution, high investment, and comprehensive functions. They do not only constitute a hotel's assets directly, but their operation cost is important part of a hotel's total cost. The second aspect is that the factors of

suppliers such as the use of superior building materials, the requirements and regulations of the State and the industry for product standard, the popularization and application of high-tech in hotel industry, and the rise in land prices and so on, also directly or indirectly added to the hotel investment cost and operation cost.

TABLE 3 : 2012 Cities of Shandong province hotel industry performance

| Index City | Room occupancy rate(%) | Average room rate (yuan/room•night) | Revenue (billion yuan) |
|------------|------------------------|-------------------------------------|------------------------|
| Qingdao | 68.5 | 454.7 | 39.2 |
| Jinan | 64.0 | 340.0 | 22.1 |
| Yantai | 60.0 | 268.1 | 19.3 |
| Weifang | 57.7 | 375.8 | 19.5 |
| Weihai | 73.0 | 292.3 | 13.5 |
| Dongying | 63.0 | 315.6 | 8.3 |
| Linyi | 58.2 | 244.7 | 6.6 |
| Zibo | 62.6 | 277.3 | 6.2 |
| Taian | 59.6 | 227.0 | 5.6 |
| Jining | 62.2 | 294.8 | 5.4 |
| Liaocheng | 63.4 | 258.0 | 4.3 |
| Rizhao | 63.9 | 262.7 | 4.1 |
| Dezhou | 61.3 | 213.9 | 2.9 |
| Binzhou | 60.2 | 205.0 | 2.3 |
| Zaozhuang | 60.8 | 201.9 | 2.2 |
| Heze | 69.4 | 204.2 | 2.1 |
| Laiwu | 60.2 | 168.6 | 1.1 |

Data sources: 2012 Shandong statistical bulletin of star-rated hotels

CONCLUSIONS

To solve the existing problems of in Shandong's hotel industry structure, the competent department of the government should make and implement effective industry policies, and strive to promote the hotel industry's structure optimization and improve their comprehensive competitiveness, and thus achieve the sustainable development of the hotel industry.

Firstly, we need to strengthen policy guidance and optimize resource allocation of hotel industry^[10]. To improve the unreasonable resources allocation in Shandong's hotel industry, first, we should change the unbalanced hotel hierarchal structure and the scale structure; second, we should gradually balance the regional distribution of the hotel industry's resources. To achieve these, the government departments should guide actively the hotel industry layout, following the laws of the market.

Secondly, Shandong hotel industries need to implement the group strategy and brand strategy for the sake of improving the economies of scale^[11]. From the international hotel competition and development trend, it can be seen that group strategy and brand strategy is not only the intrinsic request of the hotel enterprises' development, but also the strategic needs of hotel industry's scale expansion. In the face of the small scale and poor profits of scale of the current independent hotels in Shandong province, the involved departments should speed up the hotel industry's development steps to promote group strategy and the brand strategy, in accordance with the market rules and the requirements of the modern enterprise.

In order to promote the group strategy, government should encourage capital operation marketability, and focus on solving the problems of the lack of funds and talents, removing the constraints of administration management rules, and cultivating the specialized management group.

In terms of brand strategy promotion, compared with the introduction of international hotel brands, there has a more need of cultivating and developing local hotel brands. On the one hand, existing international hotel brands in Shandong are mainly five-star hotels and budget hotels. The introduction of different grades and types of hotel brands are needed urgently, in order to enhance the internationalization level and the overall performance, and raise the awareness and competitiveness of hotel industry. On the other hand, compared with international brands, the market influences of domestic hotel brands in Shandong are still very weak. In order to improve their competitiveness, the management strategy should be altered from the competition based on the pure hardware facilities and price to the value strategy and brand strategy based on the quality and efficiency.

Thirdly, for the sustainable development of Shandong hotel industry, conforming to the market demand, and promoting the diversified formats and product innovation is very necessary. From a policy-making perspective, part of the industrial policies represented by the evaluation criteria for star grade hotels played a certain positive role in regulating and guiding the hotel enterprise behaviour. However, because of too much emphasis on standardization, lack of flexibility and individuality, they in fact too often limited the hotel product innovation, and to a large extent, caused these problems as the current operation forms of hotel industry in Shandong province are relatively single and the level of product differentiation is low. In order to change this situation, the government should first change the idea, and conform to the change of market demand when making industrial policies and industry standard.

Take evaluation criteria for star grade hotel for example, the government should set more flexible evaluation criterion, and change higher grade star hotel operation mode of blindly pursuing the diverse functions, and comprehensive equipment, to realize more flexible market positioning, to provide more personalized products, and to pay more attention to the quality of service^[12]. Besides, the government should break the single star hotel evaluation system, and create standard subsystems of evaluation for different types of hotels as resorts hotel, economical hotel, boutique hotel, club type hotel, exhibition hotel and so on, to realize the diversified operation forms. At last, government departments should by flexible policy guidance, guide the hotel enterprises to solve the hotel industry's problems of the single structure format and the lack of product innovation gradually, with customer demand as the growth point, and by highlighting the development logic of value innovation.

Finally, from the perspective of customers, the local hotel chains should take the advantages of international hotel chains deriving from the adoption of international standards and brand strategy. A brand ensures the quality of a particular product or service. A hotel brand not only creates an image for the product of service, but also for the company as well as the local hotel industry. Commercial brands make it simpler for consumers to compare prices which consumers take a minimum of risks. Therefore, when they buy a specific brand's product or service, it must meet their expectations. There are different market segments in Shandong hotel industry and multiple hotel brands should be taken into consideration especially for local hotel chains. On the other hand, the local hotels have their unique competitive advantages, such as good social networks with local governments and state-owned enterprises, which can help meet the customers' demands better than that of international ones. While learning from the international hotels chains, the local hotels should try to preserve the local flavour to build up their brand assets.

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