

THE PRIVATIZATION OF THE TIGER LEAPING GUEST HOUSE IN NANJING, PRC

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

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The Tiger Leaping Guest House in Nanjing had a long history, originally having been owned and run by the Liang family from the early 20th century. Following the takeover of China by Chairman Mao's forces in 1949, the two Liang brothers had to leave China under the cover of darkness to escape to Taiwan, always with the hope to return one day to the old Guest House they and their parents had owned and run. Until now, this chance had not come.

Now in 2005, the Liangs had maintained their hotel tradition in Taiwan with similar family pride, skill and professional drive. This generation did have the opportunity to return to Nanjing to investigate its parents' and grandparents' former Guest House, business and lifestyle. Many surprises awaited, including finding family members once thought lost forever, discovering a Guest House much neglected after being run as a government state-owned enterprise (SOE), and the opportunity under new Chinese economic laws and conditions to re-purchase the Guest House and make it once again a viable Liang family hospitality operation. How could the Liangs turn a mainland Chinese SOE into a fully privatized operation whilst having to retain the existing SOE staff? How could they best navigate the bureaucracy of the takeover of a Chinese SOE and the challenge of converting a company that evolved under the planned economy to one that was vibrant and successful in China's new market economy? What resources did they have available to facilitate this operation successfully whilst maintaining their Confucian traditions?

HISTORY

In 1934, the Liang brothers, Xin and Jiang, inherited a small guest house from their father who had passed away, aged 66. Located on the outskirts of Nanjing, Jiangsu Province, in the People's Republic of China, the Tiger Leaping¹ Guest House had 45 rooms that could accommodate up to 108 guests. Despite their father's passing, their mother continued to help and work alongside her sons, passing on her knowledge

¹ *Their father had named it the Tiger Leaping Guest House after recalling his earlier days when he had visited the Tiger Leaping Gorge not far from "Shangri-La" (Zhongdian as it is today).*

and skills to enable them to become good hoteliers. Xin and Jiang, both young and keen to grow their business, looked for every opportunity to develop ties and new business under the conditions of the Chinese market economy.

Over the next 10 years, the Liang family struggled hard to provide quality service to their customers and to save and expand, as they dealt with a number of serious issues including the invasion by the Japanese and the Nanjing massacre in 1937, where several of their extended family and employees were killed or injured. In spite of these disasters, their Guest House escaped serious damage and they were able to resume business after the Japanese were driven out.

By 1947, the brothers' operations had grown to 68 rooms but they were increasingly concerned about the growing military clashes between President Chiang-Kai-Shek's forces and those of the peasants' rebellion headed by Mao Zedong. Although not directly affected at that time, they had read stories in the Chinese newspapers of the clashes that had been occurring in the far west and north and the growing strength of the Communist Forces. By 1948, their concern had increased with growing unrest, increased military interactions in the north-west, and the advancements made by the Communists. As their concern increased, the brothers began to make contingency plans to leave China should it become necessary.

When the Chinese Communist Party (CCP) took power in 1949, the brothers' uncertainty grew. When managers of several of their larger competitors in the hotel industry in Nanjing were made examples of and paraded in shame through the city square as "capitalist roaders" and "bourgeois capitalists" by the CCP, as well as being placed under arrest and later sent to re-education camps in the west near Chengdu, the Liangs' anxiety increased even more. With movements becoming harder and rumours rife of the Chinese border closing, both Xin and Jiang realized the time had come to collect as many of their belongings and as much of their wealth as possible and to abandon their business for the time, with the hope of returning after the danger had passed.

The Liang brothers travelled via Hangzhou to Shaoxing and under the cover of darkness and with the help of friends were able to board a junk² to an awaiting larger "refugee" ship headed for Taiwan. They had heard reports that Taiwan was safe and that it now was home of their deposed leader, Chiang-Kai-Shek.

Many years passed and still they could not return to mainland China, as all borders had been closed. Both Xin and Jiang married and settled down in Taiwan and established another smaller guest house in Kaoshiung, a day trip by boat from Hong Kong. In the 1980s, both brothers passed away, leaving the guest house to Xin's two sons Mike and Guo, and Jiang's son Kai and daughter Li Ping. As if by tradition, both Xin and Jiang's widows continued to work with their children in the family's business for another 10 years to help their children to hone their skills as good hoteliers. By 1999, the Liang family's guest house in Kaohsiung had grown into a four-star hotel with a 75-room capacity and the family had also acquired a second 48-room guest house in Taipei.

Throughout their lives, Mike, Guo, Kai and Li Ping's fathers had passed on mainland Chinese traditions to their children and told them stories of how their grandfather eked out a living in Nanjing in the 1920s. The family had survived the Japanese in the Second World War and had had to leave their old premises, the Tiger Leaping Guest House, and come to live in Taiwan, when faced with the growing threat of the Communist Party at their door. From time to time, Mike, Guo, Kai and Li Ping heard rumours that the old Guest House still existed and had become an SOE, owned and run by the Nanjing provincial government since China's re-opening in 1978. In 2003, this was confirmed by a visiting friend who had toured Nanjing.

² A flat-bottomed sailing vessel used in the China seas.

The Liangs had also read in the national newspapers that Chinese Premier Zhu Rongji had declared that Beijing's goal was to "seize the big and let go of the small" state-owned enterprises. As a result, provincial and city governments were directed to speed up the privatization of SOEs under their control. At an "investment symposium" in Nanjing in June 2003, 72 contracts worth 18 billion Yuan (US\$2.2 billion) had been signed, including the controversial sale of several public utilities.

Mike, Guo, Kai and Li Pin also knew that the success of China's economic reforms had resulted in massive changes in Chinese society. Poverty had been reduced and both wealth and inequality were increasing in a similar way to other developing economies; people were travelling more and there had been a significant increase in international tourists and business people visiting Nanjing and Greater China.

Over a family dinner during the mid-autumnal celebrations in September 2004, the subject of the old Guest House came up in conversation. Like many overseas Chinese whose parents and families fled the Communists before the closure of China's borders, the Liangs had a strong desire to one day return to Nanjing. After that dinner, they made a decision to travel to Nanjing to visit their family's ancestral home and to rediscover their roots.

Six months later, the Liangs' East China Air flight touched down in Nanjing and the Liangs began a four-night stay. Their main intention was to locate the old Guest House and also see if they could find any surviving members of their extended family who had survived the passing of Chairman Mao in 1976 and the opening up of China since 1978.

NANJING

Driving through the newly constructed streets and highways, the Liangs soon came to their family's old Guest House, which stood not far from Nanjing's centre, now a fast-growing metropolis. With a crooked and aged sign hanging by the front entrance, the Tiger Leaping Guest House looked old and broken down and in need of serious maintenance.

During their stay, they also located four distant cousins through their searches, one of whom, Yang Zhang Liang, they found to be the vice-president of the local branch of the China Bank in Nanjing. When the Liangs arrived at Yang Zhang's office, he was overjoyed to have found his long-lost cousins and eager to hear about their lives as successful hoteliers in Taiwan. Later that week, they met for lunch with Yang and his family and reminisced about all the old stories their parents had told them and how circumstances had changed since the old days. After lunch, Mike, Guo, Kai and Li Ping presented Yang and his family with a handsome complimentary gift parcel from their hotel in Taiwan and an invitation to stay with them should they ever visit Taiwan. Yang and his family were very pleased and Yang made them an offer of help, saying "any way I can help you in Nanjing, please let me know." They returned the offer with one of their own of help and assistance in Taiwan if required, thus cementing the bond between these long-separated cousins.

Out of interest and curiosity, Guo and Kai also visited the office of the Property Management Bureau of the Nanjing government and found that their parents' former Guest House was on the market for sale — the provincial government was looking for a buyer so as to have the property removed from its SOE list. At that office, Guo and Kai discovered to their great surprise that another of their distant cousins, Mrs. Liang Yan, occupied a senior position in the Bureau. After recovering from the shock and surprise of meeting Guo and Kai, Liang Yan immediately invited her newfound relatives to her home to meet her husband and children and to enjoy a meal together. Over dinner, Liang Yan divulged that the provincial

government was experiencing difficulties finding a buyer due to the broken-down condition of the building and the caveat attached to the purchase that the new owner(s) would have to retain all existing staff or pay out their redundancies. Due to those conditions, Liang Yan thought the selling price was quite cheap.

On their return to Taipei, the Liangs reflected on their parents' history and struggle and had further discussions about the family's old Guest House. A month later, Guo and Li Ping returned for a feasibility study to ascertain if the purchase and restoration of the old Guest House was a viable proposition.

TIGER LEAPING GUEST HOUSE

After spending three weeks on-site, Guo and Li Ping found a 92-room guest house with poor work practices, unsystematic production systems, backward technology and a reward system unrelated to performance. Neither the managers nor directors of the Guest House were concerned with income generation, as the Guest House management primarily focused on providing accommodation for visiting low-level government workers. Guo and Li Ping also became aware that the employees greatly valued trust and mutual respect. It seemed that the senior managers only gave orders and there was never any feedback or contributions made by employees in regard to policy or improving work procedures. There also appeared to be dominant family cliques within the work force and it seemed that bureaucracy and bribery were issues that would have to be dealt with should they purchase the Guest House.

Guo and Li Ping also found that all of the employees were accommodated either on-site or in the near vicinity as a requirement of their *danwei*³. All single employees lived together in a two-storey building adjacent to the Guest House whilst couples and their families lived in apartments nearby. Should the purchase proceed, a condition of sale was that the Nanjing city government would help to accommodate those workers off site or offer them an opportunity to purchase their own houses or apartments at a low subsidized price.

In the workplace, employees were poorly motivated, as they had never been required to take responsibility for any decisions or decision making, always having been told by a superior what to do and how. This resulted in an environment where both managers and employees showed poor organizational loyalty, little to no motivation to achieve higher outcomes or goals and, significantly, a lack of any kind of loyalty to the Guest House. The absence of an expectation of employees to be actively involved in organizational planning and operation, combined with the relationship-based style of management, had sown the seeds of a fertile environment for internal family-based networks, cliques and *guanxi* among employees at all levels.⁴

Taking responsibility for the management of this group of workers would require sensitivity on the Liangs' part, as they discovered that most of the current managers were untrained Communist Party cadres whom they suspected had powerful connections amongst the Party ranks. If these managers had *guanxi* with Party officials, care would be needed to avoid any possible future misunderstandings or problems with the Party hierarchy.

³ A *danwei* or work unit is the name given to a place of employment in China. While the term *danwei* remains in use, today it is more properly used to refer to a place of employment during the period when the Chinese economy was more heavily socialist or when used in the context of state-owned enterprises.

⁴ S. Grainger, *Organisational Guanxi and State Owned Enterprises in South West China*, VDM, Saarbrücken, 2010.

Whilst employee contracts were signed for a period of three years and usually renewed without question, the Liangs did discover that as part of the agreement of sale with the provincial government, all workers' contracts would be discontinued from the date of settlement.

The lack of any motivational or incentive program at the Guest House, combined with limited training for employees, had helped to produce a workforce that had no desire to work hard, be efficient or provide quality service for customers. The pressure to perform on employees who enjoyed *guanxi*⁵ with superiors appeared even more minimal.

The recruitment process at the Guest House was one primarily based on *guanxi*. Even though a Nanjing city government regulation stated that relatives of an employee were not permitted to work in the same guest house, the training manager admitted that it was not uncommon for a manager or supervisor to secure a job for a daughter, son, brother, sister or relative. The front office manager described how at one time there were more than two members from each of 12 families working at the Guest House, with up to six from one family working in the food and beverage department. Some employees had limited work skills, but because they had the "right relationships," they were guaranteed a position somewhere in the SOE. During her eighteen years in the position, the senior HR manager had approved all senior appointments; she described how upper and middle management positions often did not go to the best qualified, but rather to "the best connected." The majority of Tiger Leaping Guest House employees had secured their positions through transfers from other SOEs and government departments primarily on the strength of their *guanxi* with Party and government officials.

The Guest House had a record of rarely attracting more than 40 per cent occupancy. This gave those with good *guanxi* with their senior managers the opportunity to enjoy a range of benefits. These included scheduled weekends off, being given tasks that required little effort, opportunities to earn more money, being able to start work a little late and being assigned no shift work. The Guest House was generously overstaffed with 168 employees and the Liangs identified where significant improvements in productivity could be made.⁶

The number of years as an unproductive SOE had also provided a golden opportunity for each long-serving departmental manager to develop his or her own internal clique or "in-group." The Liangs discovered that this usually consisted of a small number of members within each department, with the prime goal appearing to be how to use the Guest House's resources to the clique's advantage. The loyalty, secrecy and commitment of members of the clique were rewarded with security of tenure and the opportunity to enjoy the benefits of the in-group.⁷

Within this "secure" environment, mutual cooperation and trust ranked high amongst members of the clique, as they enjoyed fringe benefits such as stability in terms of relations and security of their positions. In-group trust promoted strong ties and the corresponding development of a deep mistrust of out-group members. In-group members were selected strictly on the basis of specific attachments or kinship, without regard for ability. Managers openly showed favouritism towards certain members of their staff by providing them with special opportunities for dining and sharing time together as a reward for their loyalty. Clique insiders who leaked any "secret" information to outsiders faced expulsion and the loss of benefits that came through mutual cooperation.⁸

⁵ Two definitions for *guanxi*: 1) "Friendship with continued exchange of favours," from L.W. Pye, *Chinese Negotiating Style*, Quorum Books, Westport, Connecticut, 1992, and "A network of personally defined reciprocal bonds," from Y.A. King, "Kuan-hsi and Network Building: A Sociological Interpretation," *Daedalus*, Spring 120(2), 1991, pp. 63-85.

⁶ S. Grainger, *Organisational Guanxi and State Owned Enterprises in South West China*, VDM, Saarbrücken, 2010.

⁷ *Ibid.*

⁸ *Ibid.*

One housekeeping supervisor even allowed members of his *guanxiwang* to use rooms free of charge. Some rooms displayed “out of order” signs that managers and captains used for leisurely activities such as watching television, sleeping, reading or playing cards. Under-employed “insiders” could not be fired or made redundant and were retained by the organization on low wages. As many regular employees maintained *guanxi* with higher government or Party officials, departmental managers were especially careful to avoid doling out harsh criticisms or taking hasty actions. Maintaining harmony in the workplace was important.

There was no pressure on management to generate a profit or balance the financial accounts, given that the Tiger Leaping Guest House was completely state-owned and still operating under a pre-reform SOE system that focused primarily on providing accommodation to government workers and Party officials.

THE DECISION

The Liangs left Nanjing, still wondering if they should purchase the old Guest House and make this their first step of expanding back into mainland China. If they proceeded there would no doubt be serious challenges ahead. Was it more practicable to bulldoze and reconstruct the premises or should they just forget about the idea? A driving force inside them was that they realized that if they could resurrect the old establishment, their parents, now long gone, would be very proud of them. Following lengthy discussion and consideration at a family meeting back in Taiwan, the Liangs decided to buy back the property, close the Tiger Leaping Guest House for demolition and commence the construction of a new five-star facility to cater to the growing number of domestic and international tourists, government functions and private business people visiting the region.

Their plan was to re-open the newly privatized five-star 120-room Guest House in March 2007, which would include features such as a grand entrance lobby, broad open walkways, a business centre, a conference centre, private tea rooms and a large multi-function centre for conferences, banquets and special events. They hoped that their cousin Liang Yan would be able to assist them to complete the relevant official documentation required to gain permission to carry out the purchase and construction, and that their cousin Yang Zhang would advise them in regards to the possibility of financing the operations from within China.

Before the bulldozer moved in to begin demolition, the Liangs considered how they would transform the inherited workforce that came as part of the contract of sale, what qualities they wanted their opening workforce to possess, whether the documentation process required to facilitate the transition would be an onerous task, the best ways to finance the new initiative, and how best to preserve the good Chinese cultural characteristics of their inherited employees whilst eliminating the bad habits the existing workers had formed as a consequence of spending most of their working lives in an SOE.