CULTURAL TRANSFORMATION AT SHANGRI-LA, SYDNEY

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ABSTRACT

This paper reports on a case study undertaken at the Shangri-La Hotel in Sydney, Australia. The re-branding of the luxury hotel required a sensitive reading of cultural difference between that of the Chinese parent company and the new location. While 'Shangri-La values' are a key factor in the hotel group's strategy it was found that such values were developed within an Asian context and could not be easily transported to a non-Asian location such as Australia. In-depth interviews of senior staff members and an analysis of internal and external documents helped to explain how Shangri-La became Sydney's most successful deluxe hotel within three years. Faced with restrictive workplace legislation, minimal staffing levels and a set of entrenched cultural values often at odds with the desired organisational culture, Shangri-La management successfully navigated a course that would preserve brand integrity while adapting to cultural difference. Change has been successfully managed by taking an integrative multi-perspective approach to transformational change.

Keywords *Organisational culture, change management, values, national culture, cross-cultural behaviour*

INTRODUCTION

The launch of a luxury hotel in Sydney offered an unprecedented challenge to Hong Kong-based Shangri-La Hotels and Resorts, implementing the first stage of its expansion program into non-Asian locations. The goal was to establish, within two years, a corporate culture that would embody the unique quality of Shangri-La's style of hospitality and to secure its position as the number one luxury hotel in Sydney. The cultural transformation took longer than anticipated as management came to terms with various practical constraints and entrenched values and attitudes that did not seem to fit with the desired culture. However, within three and half years from arriving in Australia, Shangri-La had become the premier luxury hotel in Sydney in terms occupancy rates and revenue per room. This case demonstrates how the organisation responded to some challenging organisational, industrial and cultural issues and analyses how it successfully navigated its way from start-up to market leader, albeit a little more slowly than first imagined.

The Hong Kong-based Shangri-La Hotels and Resorts is the largest Asian-based deluxe hotel group in the region. The chain comprises 49 deluxe hotels and resorts in key cities of Asia and the Middle East and it is regarded as one of the world's finest hotel management companies. In July 2003, the group took control of its first Australian property, Shangri-La Hotel, Sydney (formerly ANA Harbour Grand Hotel) as part of a global expansion strategy that would see the group grow from 44 to 69 properties

by the end of 2008. The company recognises that greater expansion opportunities are available through lease, joint venture or management contracts but such projects threaten control over the quality of the Shangri-La brand (Hamdi 2006). The group has over 40 projects under development in Canada, mainland China, France, India, Japan, Macau, Malaysia, Maldives, Philippines, Qatar, Seychelles, Thailand, United Arab Emirates, United Kingdom and the United States. In this context, the struggles with cultural adaptation and adjustments to organisational processes in Sydney has far reaching implications for the success of the group as it provides a springboard for organisational learning that will inform the group's expansion into other non-Asian locations.

Performance figures showed rapid improvement under the new management and have been continuing to improve over the last four years. A competitor analysis carried out by ANA Harbour Grand Hotel showed they were ranked fourth against the other major luxury hotels in Sydney in 2001 and third in 2002 (ANA Harbour Grand Hotel Sydney 2002). In July 2003 Shangri-La, Sydney, was ranked fourth against its competitors (i.e. Four Seasons, Westin, Sheraton and Intercontinental) in occupancy ranking, third for average revenue per day and third for revenue share index. By December 2005 and December 2006 year-to-date figures showed that Shangri-La was ranked number one over all these key indicators. As further recognition of Shangri-La's success, the hotel received 7 industry awards in 2005 (Weeden & Cottan 2006). In 2006 they Won Best Luxury Accommodation, NSW Tourism Awards; Australian Hotels Association Deluxe Hotel of the Year; and Australian Hotels Association Most Creative Marketing Campaign. The hotel was also voted as One of the Top 20 Overseas Business Hotels, Conde Nast Traveller (UK) 2006-07 which demonstrates Shangri-La's growing international reputation (Shangri-La Hotels and Resorts 2006).

A major driver of its success is the repeat business it generates from key customers. The Shangri-La, Sydney, has achieved a 38% return guest ratio for the business segment and a 22% return guest ratio for total guest numbers. To achieve these results Shangri-La had to ensure levels of service and customer responsiveness ahead of its competitors. Consequently, this study will help to determine the factors that are responsible for the Shangri-La Sydney's ability to develop a culture of customer

responsiveness that typifies the Shangri-La brand supported by an existing workforce whose previous notions of service needed to be redefined. Therefore, the following research question is put forward:

> *Research Question 1: What are the factors that hindered the successful transformation of the organisational culture of the Shangri-La Hotel, Sydney?*
>
> *Research Question 2: How did Shangri-La overcome the hurdles presented in RQ1 to become the leading luxury hotel in Sydney in 3.4 year of launch?*

This paper is divided into the following sections: Firstly, there will be a methodological discussion followed by a description of the 'Shang-Care' values and philosophy that underpin the Shangri-La culture. Secondly, there will be an analysis of the various forces restraining the cultural transformation. The restraining forces include factors such staff composition and numbers, complex workplace legislation, and divergent cultural attitudes and values. Thirdly, findings from the case study will describe and analyse the journey to an adjusted Shangri-La culture specifically adapted to the Australian context. Specifically it is posited that the Shangri-La management has taken an implicit 'multi-lens perspective' to strategic organisational change (Rajagopalan & Spreitzer 1997). It is concluded that by using multiple approaches to change management Shangri-La, Sydney has demonstrated a willingness to respond flexibly to new conditions without compromising core values and has become a role model of management practice as the group moves into new, non-Asian destinations.

METHODOLOGY

A case study methodology was adopted for this research. Steblein (1999) argues that there are three main types of case data, all of which share the focus on one complex organisational unit and a representational process of multi-method immersion. However, they differ in important aspects of the organisational reality that is studied. This particular study is an exemplar case. Exemplar cases are amongst the most influential data in organisational studies because they are so frequently taken up by academics and organisational participants as action-oriented templates that provide 'ersatz organisational experiences against which they test other data and ideas' (Steblein 1999:266). Further,

the case study method is the most appropriate method to use when there is a need to investigate a specific arena in depth (Gummesson 2005; Deshpande 1983; Yin 1989; Parkhe 1993) as is the case for this examination of how the Shangri-La dealt with a new set of environmental influences when entering the Australian hotel market.

Ten in-depth interviews, which ranged in length from 45 minutes to two hours, were conducted with management and supervisory staff from the Shangri-La, Sydney. To gain a representative cross-section, respondents included the General Manager along with representatives from various departments such as marketing, human resources, accounts, concierge, housecleaning, front office and food and beverage services. Such issues as time, availability of staff, access to staff and cost to the organisation influenced the decision to limit the interviews to senior staff. All but one interview was recorded and transcribed. The data was analysed in NVIVO qualitative software package. Further to the in-depth interviews, a document analysis was also undertaken. Documents from the Shangri-La and from various industry bodies were examined. The aim of this step was to triangulate the findings from the qualitative in-depth interviews.

Direct quotations from the interviews are used through the findings sections. The quotations help to highlight relevant themes (Miles & Huberman 1994; Yin 1994) and generate preliminary explanations (Deshpande 1983). Respondents' quotes will be presented in italics.

FINDINGS

The Desired Culture

The Shangri-La group's defining feature is based on its philosophy 'Shangri-La hospitality from caring people'. All staff undergo the "Shangri-La Care" training program within six months of joining the group and according to the human resources manager, training accounts for 1% of total labour costs. The training represents a serious investment and is designed to develop a consistent Shangri-La style of service to deliver a superior guest experience and build brand loyalty. The core values of the training are: respect, courtesy, sincerity, helpfulness and humility and the training modules focus on the group's mission of "delighting customers each and every time". Not confined to training programs,

Shangri-La Care is a living culture within the group, strongly supported by top management and continuously cascaded through the organisation.

The overarching theme emerging from the data in reference to Shangri-La's competitive advantage was its unique culture and style of service. As evidenced by one employee,

> *The view and room size gets them in; the service gets them coming back*

Further, it was noted that it is the specific quality of that service, i.e. its unique Asian flavour, that was what impressed guests so much. Some descriptions of the style of service were given, for example:

> *Caring, a word that we probably all use, respect, sincerity, courtesy, helpfulness and humility is a big one*

The approach to service and organisational culture had developed within a singularly Asian context previous to the opening of the Sydney hotel such that there were to be some shocks ahead as management recognised that this culture could not be easily transported to a new social and cultural environment without some adjustment. An experience that typified the gulf in attitudes between the status quo and the Shangri-La ideal at start-up was described by one senior manager:

> *I'll never forget it. I was starting work the next morning and I called down to say can I get my suit pressed. In any of our hotels throughout Asia, 'sure absolutely what time do you need it by?' But the response I got was 'Sorry mate, laundry's closed'. That, to me that was the quintessential Australian culture because it wasn't the guy at the end of the phone being rude, it was him saying 'sorry, that laundry's closed' and it was a very Australian response.*

This friendly but inflexible response was indicative of some of the practical and less tangible obstacles to change that would hamper the transformation process ahead.

The Barriers to Change

Human resource issues

Customer service employees embody the corporate brand (Malone 2004) yet ANA staff were firmly entrenched in the hotel. The ANA General Manager for example had been there for 7 or 8 years. Further, the new manager,

> *. . . committed to staff that we weren't going to come in and get rid of people.*

The policy of retaining existing staff along with the composition of the new workforce had a number of major implications. Firstly, the change to a highly customer-responsive culture would be difficult without the ability to employ new staff imbued with the necessary service-oriented attitude characteristic of the Shangri-La brand (Bettencourt, Gwinner & Meuter 2001). At start-up there was a lack of key executives to model and instil corporate values. Shangri-La Sydney was established with the assistance of a task force team of ten Shangri-La specialists who stayed for about six months. The General Manager explained that it was challenging to model the corporate culture with such a small executive:

> *So my opportunities at the start revolved around a handful of people because they were the ambassadors of Shangri-La . . . but those opportunities have now become probably 30 or 40.*

Secondly, the composition of the workforce in the Australian hotel industry is different to Asian countries. Research suggests that up to two-thirds of hospitality employment in Australia is characterised as non-standard (combining part-time and casual) and around half is on a casual basis (Timo & Davidson 2005), whereas the staff in other locations would be predominantly full time. This has important implications for training outcomes, motivation and cultural change. As noted by one manager,

> *Typically in Asia you'd be working with 80% or maybe more would be full time headcount. Here just over 50% of my staff is full time headcount and now we've got part-timers and casuals and an enormous mixture of different labour forces. So to get them into training is far more complex than it is in Asia. And there are rules around each one of these groups.*

Thirdly, the staffing structure issue was further complicated by inconsistent and complex workplace legislation surrounding each of the staff groupings. Australia's industrial relations framework has undergone substantial change since the 1980s including award restructuring and enterprise bargaining in line with the federal government's efficiency principles (Knox 2006). However, Australia's institutionalised industrial-relations framework and the practices and attitudes associated with it are still much a part of present day management-employee relationships. Job demarcation rules are of particular significance for an organisation building a customer-responsive culture:

Workplace legislation is quite restrictive . . . It's very hard to get people to be flexible, to get a maid to change a light bulb or something like that. In Asia you can, but here you can't . .

Contending with the Australian industrial relations climate was said to be one of the biggest learning experiences for Shangri-La management.

Finally, attaining the high levels of customer service with only half the number of staff available than would normally be present in an Asian hotel has proven to be the greatest practical obstacle to building the Shangri-La culture. Added to this, the staff at Sydney routinely take their ten days of sick leave, they have thirty days of vacation leave and work a forty hour week that is actually 37 ½ hours working time. This time to work with staff is immensely less than what is available in Asia. All the managers interviewed made some reference to the need to adjust systems and apply for exceptions to policies and procedures in order to adjust to the staffing levels in Sydney.

Australian versus Asian values

A study by Fletcher and Bohn (1998) identified high ratings of psychic distance between Australia and China, where the Shangri-La group originated. Psychic distance refers to a measure of how far a country is perceived to be away from Australia in terms of cultural elements such as belief systems, language barriers, and different attitudes to business, material standards and patterns of behaviour (Fletcher & Bohn 1998). Consistent with Fletcher and Bohn (1998), our interviews revealed that there were many areas of difference between doing business in Asia as compared with operating in Australia for the Shangri-La group and these dissimilarities were often a surprise to management.

The most obvious and by far the most important focal point of psychic distance that needed to be resolved quickly was the belief system associated with what 'good service' embodied. 'Asian hospitality' is at the heart of the Shangri-La brand and rests on the core values of respect, courtesy, sincerity, helpfulness and humility. Embedding a core value such as humility has been difficult in a strongly egalitarian country such as Australia where it can almost seem like servility to be asked to be

humble. Australians are typically casual, not tending to treat people differently even when there are great differences in age or social standing (Mackay 1993).

Language barriers became evident and there were a number of obvious changes that needed to be made to company documents to accommodate the increased sensitivity to minority groups and Anti-Discrimination Legislation in Australia. Another more telling example revealed a semantic gulf between Australia and Asia and actually prompted Shangri-La head office to change their mission statement across the group. The original mission statement, ‘One team, one way, towards dominance’ was received in Australia with considerable resentment possibly due to Australian sensitivities regarding cultural imperialism (Beilharz 2001). The Shangri-La mission statement now reads 'One team, one way, towards excellence' as a result of the Australian response.

The interviews revealed a number of cultural differences between that of the parent company and the Australian organisation that are consistent with Hofstede’s work (1980) on cultural dimensions. Hofstede’s research suggests that people in Australia are relatively individualistic while those from Asian countries like China, Taiwan and Singapore are relatively collectivistic in their values. This difference has an impact on the provision of after-work social activities that are generally poorly attended by Australian employees. A more humorous example of the contrast between individualist and collectivist orientation was played out as Shangri-La head office directed staff to learn a company song. The 'gooey and lovey-dovey' song, so warmly embraced in Asia, needed to be dropped from the training program before it was imposed on the incredulous Australian staff. Uncertainty avoidance, the emotional response people have with regard to uncertainty and change is moderately high for the Chinese (Hofstede 1980) such that planning and attention to detail can be significant issues. Shangri-La, in its administrative style, typifies the great deal of formal attention generally given to processes in Chinese organisations to ensure that there are significant levels of certainty (Shanks, Parr, Hu, Corbitt, Thanasankit & Seddon 2000). It is this attention to detail and systems that has been a sometimes tedious challenge for the Australian employees yet at the same time ensures consistency of quality.

With regard to power distance, the degree to which a culture accepts social inequality between people in a society, there is marked difference between countries such as Australia, Great Britain and the United States who have small power distance scores and most Asian cultures have higher power distance scores (Hofstede 1980). A few staff noted that they felt they were expected to look up to the guests in a way that they did not feel comfortable about. For example, one manager stated,

> *Australians aren't servile. Australians will serve somebody but they don't think they are lower than that person whereas an Asian person will actually think that person's higher and will treat them like that. An Australian will actually think 'no you're my equal, I'm serving you but. .'*

However, the challenges associated with cultural adaptation and the staffing structure were offset with some advantages of the new workforce.

The Strengths of the Australian Employees

While it was identified that Australians find humility a challenge they can actually be strong in service aspects such as flexibility, empowerment and anticipation of customer needs. These sorts of qualities have been difficult to instil in the high power-distance cultural environments of Asia. Further, the disregard for power differentials has been turned to advantage by the sales and marketing team who are unafraid of approaching prospective clients to carve out new markets. As commented by the marketing manager:

> *My Asian colleagues might be a little intimidated to see the CEO of this company or that company because there's the face issues and there's the protocol issues whereas your Australian salespersons are a lot more brazen and they'll knock on Murdoch's door if they have to.*

Available training hours may be shorter in Australia but it was found that the Australians learn quickly, requiring less repetition of concepts. This has lead to a redesign of the training sessions to suit the new location.

Building the 'New' Shangri-La Culture in Australia

In this case of strategic change we were interested in the factors that hindered the successful transformation of the organisational culture of the Shangri-La Hotel, Sydney and how management overcame these hurdles. It has been demonstrated that although these barriers slowed the process of change they have not been insurmountable. Shangri-La's success can be explained by drawing on the insights of Rajagopalan & Spreitzer (1997) who proposed three main theoretical perspectives related to the process of change management:

The rational perspective

A rational lens approach to strategic change sees change as a sequential, planned search for optimal solutions for well-defined problems, based on previously defined organisational objectives. The implication of this approach is that change is understood as a unitary concept where a best outcome of a previously agreed or imposed strategy is achieved. There are many management actions observed at Shangri-La that are indicative of a rational approach to strategic change management: the desired culture is clearly articulated, embedded in systems and policies and appropriately rewarded; the head office keeps tight control on standards and operating procedures to maintain consistency and brand integrity; and the general manager held out a specific goal to be number one within two years and have an identifiable Shangri-La brand presence in Sydney.

The learning lens perspective

A learning lens perspective, in contrast, views change as an iterative process of experimentation and action, using feedback to inform subsequent actions, and which alters the organisation's behaviour. An implication of taking a learning perspective is that the final strategy outcome cannot be anticipated nor is it clear for whom in the organisation learning will take place. Because this was the first Shangri-La hotel to be managed outside Asia management took a learning perspective in order build organisational knowledge for further expansion into other non-Asian locations. Such learning was particularly noticeable in the area of adjusting to cultural difference. Schneider & Barsoux (2003) argue for the need to identify the cultural assumptions embedded in human resource policies such that cultural differences can be evaluated in terms of their likely impact. There are two challenges: on the one hand the imposition of human resource policies can lead to alienation or low morale when they are

ill-suited to the local culture; on the other hand confusion and lack of coherence can arise when each local unit determines its own policies.

Our research suggests that it has been Shangri-La's ability to react flexibly to new situations whilst maintaining a high degree of control of the brand centrally that has smoothed the process of cultural change. For example, dropping of the word 'dominance' from the corporate mission statement indicates this willingness to respond to varying conditions and take this learning across the company. Another example is what was previously labelled as 'Asian hospitality' has now become 'Shangri-La' hospitality according to company documents. This change is reflective of the new cultural mix that incorporates the strengths and weaknesses of the employees in a new location and Shangri-La's willingness to adapt to new markets.

The cognitive perspective

Under a *cognitive* lens perspective changes in managerial and employee actions firstly require changes in cognitions. Our observations indicate that this certainly was not the most predominant perspective taken. For example, staff were replaced gradually rather than totally, there was only a small Shangri-La trained executive to begin with and the immediate goals were to do with easy and tangible changes. However, examples have been given where clashes of values have lead to changes in attitudes and beliefs of both employees and managers. One manager claimed that although she believed she understood the training programs she didn't really 'get it' until she stayed in other Shangri-La hotels. Training is as much concerned with instilling the core values of caring, respect, sincerity and humility as it is with teaching transferable skills.

The rational approach to change is concerned with the content of change i.e. systems and structures. The learning and cognitive approaches to change are primarily about the process of change i.e. how to change. Effectively implementing strategy requires consideration of both content and process (Rajagopalan & Spreitzer 1997) and it is evident from this study is that all three perspectives have been taken when implementing the corporate strategy at Shangri-La, Sydney. Strictly measured systems to increase efficiency, accountability and synergy across the hotel functions have been imposed in order to realise corporate business objectives. However, this research has shown that the

cultural blend exemplified by Shangri-La, Sydney has involved deeper cognitive and behavioural adjustments as well as providing much valuable learning for the larger organisation as it seeks out new markets and ventures into new socio-cultural environments.

CONCLUSION

Shangri-La Sydney has positioned itself against its competitors by creating value through the experience of Shangri-La hospitality. It is the characteristic 'Asian flavour' of this service that provides consistency of purpose and stability of identity that is hard for competitors to imitate. The dysfunctional consequences of standardisation are ameliorated by a responsive corporate executive and a customer-focused culture. This responsiveness and flexibility was demonstrated through many examples of adaptations made to training programs, auditing and information systems, company communications and exceptions to organisational routines. This approach to service is embedded in the corporate culture and is communicated to the customer through the marketing activities. The development of a clear Shangri-La identity in Sydney took perhaps two years longer than first anticipated by management but the willingness to work with an existing workforce and deal openly with cultural differences and staffing structures has ensured Shangri-La, Sydney's ongoing transformation.

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