You cannot transport a culture, but you can indeed translate it; that is, take into account and adapt to the local environment (Giovanni Angelini, CEO and managing director of Shangri-La Hotels and Resorts (Hamdi 2006)).

INTRODUCTION

The Hong Kong-based Shangri-La Hotels and Resorts is the largest Asian-based deluxe hotel group in the region. The name 'Shangri-La' and company philosophy, 'Shangri-La hospitality from caring people', were inspired by James Hilton's legendary novel, Lost Horizon. The novel's mythical paradise perfectly encapsulates the ideal of genuine serenity and service for which Shangri-La Hotels and Resorts has come to be recognised. 'Shangri-La Care' is a living culture within the group, strongly supported by the top management and continuously cascaded through the organisation.

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. Of the 49 Shangri-La hotels worldwide, 37 are owned by the group through Hong Kong-listed Shangri-La, Asia. The Sydney venture represents a shift away from the owner-operator strategy of previous years as it leased the property. 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. In this context, success in Sydney has far-reaching implications for success of the group. The struggles with cultural adaptation and adjustments to organisational processes will provide a springboard for organisational learning and inform the group’s expansion into other non-Asian locations.

Located in the heart of the historic Rocks district, Shangri-La, Sydney is most famous for its sensational views of Sydney Harbour and twin icons the Harbour Bridge and Opera House. In March 2005 an A$37 million refurbishment was completed, incorporating guest rooms, public areas, restaurants and bars and setting a new citywide benchmark for accommodation, food and beverage products and service.

Performance figures showed rapid improvement under the new management and have been continuing to improve over the last 3 years 4 months. A competitor analysis carried out by ANA Harbour Grand Hotel showed it was ranked fourth against the other major luxury hotels in Sydney in 2001 and third in 2002. In July 2003 Shangri-La, Sydney was ranked fourth against its competitors (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 seven industry awards in 2005. In 2006 it 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 One of the Top 20 Overseas Business Hotels, Conde Nast Traveller (UK) 2006–07, demonstrating Shangri-La’s growing international reputation.

Shangri-La went from ‘0 to 100’, from arriving to number one, in the Sydney deluxe hotel market in a short period of time. However, the transition has not been easy, with a number of challenging cultural and operational issues that needed to be addressed.

SHANGRI-LA ARRIVES . . . SLOWLY SLOWLY

On his arrival at Shangri-La, Sydney, the general manager, Michael Cottan articulated a clear vision to his team:

We are going to be the number one hotel in two years!

The realisation of this vision meant facing some key challenges unique to the Australian environment and new for the Shangri-La group’s singularly Asian experience of hotel management. To the general manager’s frustration, and contrary to expectations, he found that the process actually took 3 years 4 months.

Some of the key issues faced by Shangri-La in the ‘early days’ included:

• the property: This was the most pressing issue. Until the major refurbishment could be undertaken in 2004, the initial re-branding needed to be supported by soft changes, such as physical signage and bed linen, that could be accomplished quickly.

• re-branding: Shangri-La considers itself to be the market leader in Asia yet the brand image in Australia and North America is relatively low. This meant Sydney represented an important stage of the global strategy.

• human resource issues: ANA employees were firmly entrenched in the hotel and the new management made a commitment to its new employees that Shangri-La was not going to come in and get rid of people. The staffing issue had two major implications. First, the change to a highly customer-responsive culture would be difficult without the ability to employ new staff endowed with the necessary service-oriented attitude characteristic of the Shangri-La brand (Bettencourt, Gwinner and Meuter 2001). The second implication was the practical obstacle to attaining the high levels of customer service with only half the number of staff available than would normally be present in an Asian hotel.

• national culture: Aside from the differences between the organisational cultures of ANA and Shangri-La, the new management was facing its first foray into a Western culture, which formed an interesting overlay to all the above challenges. How would Australians interpret the brand? Could this environment really deliver the standard and style of service that Shangri-La was used to delivering? The lack of experience with working in a Western environment meant there was not a lot of experience to fall back on.

So what is ‘Shangri-La’? And how do you inspire employees to realise the vision when they already feel they are providing a high level of service?

The following section describes how Shangri-La responded to the above organisational, industrial and cultural issues and analyses how it successfully navigated its way from 0 to 100 (from start-up to market leader on revenue per room for the deluxe segment of the hotel market in Sydney), albeit a little more slowly than was first anticipated.

CULTURAL STRUGGLES (1)—BUILDING A CUSTOMER-RESPONSIVE ORGANISATIONAL CULTURE

The Shangri-La group’s defining feature is based on its philosophy, ‘Shangri-La hospitality from caring people’. Appendix A describes in detail the guiding principles of ‘Shangri-La hospitality’ and how employees are socialised into the culture through the extensive training programs offered. A number of significant challenges had to be faced in order to develop the Shangri-La culture. This next section identifies why Shangri-La, Sydney can be considered a customer-responsive
organisation and follows with a discussion of the obstacles encountered in building this culture.

The organisational culture of Shangri-La can be understood as a customer-responsive culture. Some key variables identified in the marketing literature as being routinely evident in customer-responsive cultures have been developed at Shangri-La, Sydney. An important one of these is staff attitudes (Bettencourt and Gwinner 1996). Shangri-La ‘hires for attitude, trains for skills’. Appendix A demonstrates that training constitutes a serious investment—Shangri La spends about 1% of its total labour costs on training. Further, successful customer-responsive cultures have employees who are conscientious about pleasing the customer and willing to work outside their normal job requirements to satisfy a customer’s needs. For example, when the doorman greets a guest and finds out some information they pass that information on to other members of the front office team.

Shangri-La, Sydney largely succeeded in building a customer-responsive culture, but change was slower than initially anticipated due to restraining forces such as staff turnover, inappropriate training styles, low staffing levels and the complex legislative environment of the Australian workplace. These restraining forces will now be discussed.

**STAFF TURNOVER**

Shangri-La, Sydney has one of the lowest staff turnover rates in the industry, but the issue is a pressing one in countries such as Australia where work in the hospitality industry is not generally considered as a career move. The group seeks to retain high-calibre employees by helping them achieve their personal and career goals. The general manager has had little success in lowering the level of turnover due to the nature of the labour force, which consists of a large number of part-time and casual staff.

**TRAINING STYLES**

Shangri-La invests heavily in training (as described in Appendix A), and this forms the core of the socialisation process. The training programs were also highly standardised across the group, a fact which jarred with the Australian employees who questioned the length of the training and the style of the videos used in training sessions. The human resources manager had to eliminate the culturally inappropriate content of the courses and make them shorter. The basis of some of this resistance to the training styles of the Asian parent company can be explained by differences in national culture, discussed later in this case.

**STAFFING LEVELS**

It is an ongoing frustration for all staff that they are expected to perform the same tasks in the same way as in Asian hotels, but with almost half the number of staffing hours available. On average the Shangri-La hotels in Asia have twice the number of employees than the Sydney operation. This is largely due to the differences in costs associated with salaries. Shangri-La, Sydney needed to adjust systems and apply for exceptions to policies and procedures in order to adjust to its staffing levels.

The composition of the workforce in the Australian hotel industry is also different to that in 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 and Davidson 2005), whereas the staff in other locations would be predominantly full-time. This has important implications for training outcomes, motivation and cultural change.

**LAWS AND LEGISLATION**

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 very much a part of present-day management–employee relationships. The labour market is characterised by more centralised, formalised processes, based significantly on legal adversary relationships, than what is likely to be found in other countries (Lewis,
Morkel and Stockport 1999). Job demarcation rules are of particular significance for an organisation building a customer-responsive culture. With restrictive workplace legislation, it is very hard to get people to be flexible. The general manager highlighted this as one of the biggest learning experiences:

> ... the general laws, legislation and issues here around labour force rules are also quite different to Asia. You can pretty well do what you want in Asia to a certain degree. Every country has certain regulations but nothing even gets close to the environment of work legislation [in Australia].

**CULTURAL STRUGGLES (2)—ASIAN VERSUS AUSTRALIAN VALUES**

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 and Bohn 1998). The index of psychic distance ratings of countries from Australia shows that China (the country of origin of the Shangri-La group) has the second largest psychic distance (29.2) of the countries listed (Fletcher and Bohn 1998). Further, other Asian countries where Shangri-La operates also have high psychic distance, for example Hong Kong (psychic distance of 20.5), and Singapore (psychic distance of 19.3). Research has shown that ‘the success of a relationship marketing strategy is heavily dependent on levels of psychic distance’ (Conway and Swift 2000, p. 1391) and as highlighted, the psychic distance between Australia and China is very high. Consequently, culture should have an impact on the operations and dealings Shangri-La, Sydney has with head office, and when dealing with the whole concept of operating in a new culture.

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. Australians are certainly capable of behaving in this manner, but these are not the first qualities likely to come to mind when describing the value systems that underlie Australian culture. When asked which of these values were the most challenging to instil, one manager identified ‘sincerity’ and ‘humility’ as the most difficult:

> Sincerity because some people see this as a job on the side while they’re studying. It’s not their career. Sometimes it becomes very robotic, that style of service. It’s not innate to genuinely want to be here for the customer.

This was reiterated by another manager who noted that humility was not an attitude that came naturally to many Australians:

> Being in Australia we’ve had a slightly different form of hospitality. I think we’re not quite as humble as the Asian style of hospitality. Even though we are serving people we can tend to be a little bit proud.

‘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. Although Australians find humility a challenge they can actually be strong in such service aspects as flexibility, empowerment and anticipation of customer needs.

It can be observed that whenever a challenge has arisen, Shangri-La has responded by listening carefully and responding flexibly without compromising its core values. Maintaining core values requires a deeper understanding of what constitutes national cultural values of each Shangri-La location. Using Hofstede’s (1980) framework as a guide some important differences between the value systems of Asia and Australia were identified:

1. **Social orientation**: Shangri-La is a very family-focused company; this comes from the Malaysian–Chinese family side of the company that is still very much involved. The family culture encourages regular social activities for all staff, but when such functions are run in Australia staff members are unlikely to enjoy the bonding experience.

A humorous example of differing values of
group identification was played out as Shangri-La head office directed staff to learn a company song. The human resources manager reported that the staff in Asia were very proud of this song about peace, serenity and paradise as it represented the company. She accurately anticipated that the song would be far too ‘gooey and lovey-dovey’ to inflict on Australians who would most likely greet it with derision. Fortunately the song was dropped from the training program before it was imposed on the incredulous Australian staff.

- **Planning and attention to detail**: 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 et al. 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.

- **Humility**: this is a core value at Shangri-La, yet in a strongly egalitarian country such as Australia humility can almost seem like servility. Australians are typically casual, not tending to treat people differently even when there are great differences in age or social standing (Mackay 1993). 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. They are willing to offer service, but view the guest as very much their equal no matter what their social standing is.

  There is also ongoing discomfort noted amongst some staff members with the reinforcement of hierarchical relationships within the culture of Shangri-La management. Some employees note that managers maintain distance from staff below them and are unlikely to engage directly with frontline employees.

  The disregard for power differentials has, however, been turned to advantage by the sales and marketing team, who are unafraid of approaching prospective clients to carve out new markets. They have greater confidence than the Asian sales teams to prospect assertively for influential clients.

- **Goal orientation**: Australia exhibits moderately aggressive goal behaviour. Chinese culture presents a paradox, with research suggesting that the Chinese attitude when directed at activities aimed at achieving something such as material goods could be seen to be supportive of aggressive goal behaviour. Taoist and Confucian values, on the other hand, emphasise harmony, simplicity and the rejection of self-assertiveness and competition, which would be associated with passive goal orientation. The paradox became evident in some comments:

  *This is going to contradict slightly, but it is a very Americanised Asian culture. It was all these kind of programs, our core values, and all those sort of things. Very American based in terms of the actual structure of the training and modules but the flavour is Asian.*

  While the feminine goal orientation may be appropriate with regard to service the more aggressive style of the Australian sales force is certainly valued.

**The Marketing Function at Shangri-La, Sydney**

A key factor that has contributed to its success is the core values instilled at Shangri-La, Sydney. These core values are firmly underlined by the clear market orientation that runs through the whole organisation. Market orientation is the basis of the marketing discipline; it refers to the implementation of the marketing concept, the cornerstone of marketing theory (Kohli and Jaworski 1990). A definition of market orientation is ‘the organization wide generation of market intelligence pertaining to current and future customer needs, dissemination of the intelligence across departments, and organization wide responsiveness to it’ (Kohli and Jaworski 1990, p. 6).

It was reported that under ANA and in the early months of the transition the hotel did have good service. But Shangri-La’s strategic vision was not merely to adjust individual elements—it was to alter the structure, systems and values of the hotel such that the *gestalt* of market orientation was realised. Shangri-La, Sydney creates value for its
guests by increasing the benefits to them in relation to their costs. This was exemplified by the growth in the corporate segment resulting from a strategy of bundling services rather than cutting rates. The hotel decreases the guests’ costs in relation to what they are buying by providing a unique style of service that is difficult to replicate. Training programs are developed and adapted according to feedback from customers. For example, regular and high-status customers like to be recognised, so the front office staff have instituted a program whereby frequent guests are invited to be photographed so that next time they visit staff will recognise them and address them by name. There is a high level of commitment to return custom, and guest recovery is the basis of one Shangri-La’s compulsory training programs.

The effort to create superior value for the customer is evident throughout all the company’s systems and processes. Inventory, revenue, bookings, check-in and customer service systems are being upgraded constantly to make use of the latest technology to create customer value. The company is diligent in removing obstacles to coordination. One example of this is the call diversion system. When the phone bookings are overloaded they are automatically bounced through to Kuala Lumpur so that no customer is discouraged by unanswered calls.

Helping to build the market orientation of Shangri-La, Sydney was the marketing function. This played a pivotal role in the success of Shangri-La, Sydney. The Shangri-La has been proactive in strategic and tactical areas of marketing. Four areas of marketing are critical in the success of Shangri-La. These are (1) the service encounter; (2) branding; (3) systems innovation; (4) target marketing. Further, a major driver of their success is the repeat business they generate 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. Further, the lifetime value of a key customer to the whole Shangri-La group is estimated at US$120 000. Consequently, the importance of getting the marketing ‘right’ so customers will return is critical.

(1) The service encounter

The service encounter with consumers is a critical part of the overall marketing mix for hotels, particularly hotels that are in the deluxe segment of the market. Shangri-La hospitality has been successfully embedded in the corporate culture and is communicated to the customer through the marketing activities. Marketing in particular needs to match this culture as the ‘mystique’ of Shangri-La may be as much to do with shaping and reaffirming guests’ perceptions of the Shangri-La experience as it is to do with developing any specific staff behaviours.

(2) Branding

They associate the brand with Audrey Hepburn. She [the Shangri-La] is refined, she’s beautiful and really the only subtle difference is that she’s Asian.

The development of the Shangri-La brand has been successful, given the short period of time the product has been in the market. A number of factors have helped build the brand over this period of time, including:

• labelling the hotel: The Shangri-La building holds a prominent position on the Sydney city skyline, thus allowing for a high level of exposure.

• integrated marketing communications: The majority of the marketing messages disseminated by Shangri-La have been seen as being ‘on brand’—that is, telling the one story.

• service levels: Service has been a key ingredient in building the brand.

• aggressive public relations and advertising campaigns: Shangri-La has used public relations and advertising assertively to disseminate the brand message in the marketplace.

• price integrity: Shangri-La was seen not to reduce its room rates to the extent of other competitors in the deluxe segment of the hotel market in Sydney. Consequently, this has limited the diluting effects that large
discounts can have on the brand, particularly with competitors at the premium end of a market.

(3) Systems innovation
Although Shangri-La service levels are a key component of its success, the face-to-face element of the interaction is only one part of the experience. Systems that allow quality service to be delivered are needed. This is another area where it is evident that the marketing activities of the hotel are well integrated throughout the organisation. Systems that allow for the staff to better meet service levels have been implemented. This is critical at Shangri-La, Sydney compared to a number of other Shangri-La hotels throughout Asia due to the low staffing levels in Sydney that make it particularly vulnerable to service shortfalls.

(4) Target marketing (the corporate market)
The seasonal fluctuation in demand was a weakness that Shangri-La turned into an opportunity by reducing dependence on the leisure market and assertively seeking corporate accounts. This strategy has paid dividends for Shangri-La with demand now more evenly spread over the year. The way in which this was achieved was also an important element in the success of Shangri-La. Rather than engage in rate-cutting competition that would damage the brand Shangri-La followed a value-added approach. They won over accounts by identifying the specific needs of the corporate customer and bundling services to satisfy those needs, for example internet facilities for specific groups.

All these marketing activities required that a central question of international marketing be addressed—to what extent should an international firm standardise its marketing mix when entering other countries? Like many international firms Shangri-La Hotels and Resorts seems to adopt a two-step process: it standardises some elements of the marketing mix such as brand name, product design and positioning, and then local managers are called upon to critique the marketing strategies and develop plans to implement customised elements of the marketing mix. There is clearly a high degree of control of the brand that is exercised centrally, yet examples such as dropping of the word ‘dominance’ from the corporate mission statement indicate a willingness to respond to varying conditions.

The journey from 0 to 100 has not been an easy one, but the cultural blend exemplified by Shangri-La, Sydney has provided much valuable learning for the larger organisation as it seeks out new markets and ventures into new socio-cultural environments.

APPENDIX A  FROM GOOD TO GREAT—TRAINING IS KEY AT SHANGRI-LA

‘Great hotels are made by great employees, not by crystal chandeliers or expensive carpets.’ This strongly held belief at Shangri-La Hotels and Resorts translates to a firm commitment to employee development. Such dedication will be increasingly important as the group’s workforce grows from 28 000 to an expected 50 000 by 2010.

The process begins with careful selection—staff are ‘hired for attitude, trained for skills’—providing a fertile foundation for the Shangri-La philosophies to be embraced. Shangri-La then invests heavily in training—perhaps more than any other hotel group—with intensive, ongoing coaching for all staff at 50 hotels and resorts.

The group then retains its high calibre staff by creating an environment whereby employees may achieve their personal and career goals; Shangri-La has one of the lowest staff turnover rates in the industry.

The group’s defining feature is its exceptional and warm hospitality, as defined by its philosophy ‘Shangri-La Hospitality from Caring People’. All staff undergo the ‘Shangri-La Care’ training program within six months of joining the group.

The program is designed to develop a consistent Shangri-La style of service to deliver a superior guest experience and build brand loyalty. Respect, courtesy, sincerity, helpfulness and humility are all core values of the training. Under the umbrella theme ‘Shangri-La Care… The Shangri-La Way’, the program is divided into four modules: Shangri-La Care 1—Shangri-La hospitality from caring people, Shangri-La Care 2—‘Delighting customers’, Shangri-La Care 3—‘Recover to gain loyalty’ and Shangri-La Care 4—‘Taking ownership’.

The four modules of Shangri-La Care focus on the
Shangri-La Care is a living culture within the group, strongly supported by top management and continuously cascaded through the organisation. All hotels are required to allocate a specific budget for training and development, and the hotels’ general managers are responsible for ensuring that all the allocated funds are spent year after year.

Training in China
A focal region for training programs is China as Shangri-La expects to expand its portfolio of 21 hotels there to more than 30 by 2008, requiring its current China workforce to increase by nearly 9000 employees, of which 20% will be at managerial levels.

In December 2004, the group opened the Shangri-La Academy, Beijing. The Academy offers a number of certificate programs and a diploma program open to both existing Shangri-La employees [and] public students. The certificate programs (over the) culinary arts, food and beverage service, front office, housekeeping, laundry, engineering, training and development, and human resources management. All the courses have an institutional learning component and sequential on-the-job training in the hotels. To date, the Academy has trained more than 770 students, with a total of 2000 graduates expected by 2008.

Creating a ‘STAR’ sales force
Shangri-La Hotels and Resorts launched a proprietary sales and marketing training program in 2005—‘STAR’ (Shangri-La Training for Aggressive Revenues). More than US$3 million will be spent over four years to STAR-train 2000 sales and marketing employees in hotels and worldwide sales offices. The first tailor-made sales education program for Shangri-La, STAR incorporates the essence of Shangri-La’s corporate culture in teaching essential selling skills, negotiation, strategic sales management, sales leadership and motivation skills.

Learning online
E-learning courses for management staff were launched with eCornell in April 2005. There are 57 online courses available in five areas: human resources management, management essentials, hospitality and food service management, strategic management and financial management. Three thousand spaces for employees will be offered over the period 2006 to 2011.

Training ‘on the road’
The Shangri-La group established the Mobile Learning Centre in 2003, which offers a wide variety of leadership and management programs conducted by in-house and external trainers in different hubs in strategic locations. This provides employees continuous learning opportunities within the group.

Hong Kong-based Shangri-La Hotels and Resorts, Asia-Pacific’s leading luxury hotel group, currently manages 50 hotels under the five-star Shangri-La and four-star Traders brands, with a rooms inventory of over 24 000. The group has over 40 projects under development in Canada, mainland China, France, India, Japan, Macau, Maldives, Philippines, Qatar, Seychelles, Thailand, United Arab Emirates, United Kingdom and the United States.


Bibliography
Questions

1. How did the Shangri-La, Sydney go from 'a new kid on the block' to the top hotel in the deluxe hotel segment of the market in 3 years 4 months?

2. Identify and explain the cultural issues that the Shangri-La, Sydney faced in their first years of operation. Use Hofstede's (1980) work into cultural dimensions to identify possible cultural differences between the head office of Shangri-La in China and Shangri-La, Sydney.

3. Customer service employees perform a critical role in the successful running of a deluxe hotel. In relation to the employment of customer focused staff, what differences exist between the economic structures of the Shangri-La's traditional markets (Asia) and the economic structure of Australia? How did management attempt to reduce the impact of this difference?

4. Mr Cottan, the general manager of Shangri-La, Sydney, had previously worked in Shangri-La hotels in Asia. He found that there was a marked difference in labour laws and industrial relations between countries in Asia and Australia. Identify any of these differences highlighted in the case. How did they affect the operations of the business?

Photo credit

Image courtesy of Shangri-La Hotel, Sydney.