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Unemployment: The impact of SARS on  
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M Warner & G O M Lee

WP 03/2005

The Judge Institute of Management  
University of Cambridge  
Trumpington Street  
Cambridge CB2 1AG, UK  
[www.jims.cam.ac.uk](http://www.jims.cam.ac.uk)

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Grace Lee  
Dept of Public and Social Administration  
City University of Hong Kong  
Email: [sgrace@cityu.edu.hk](mailto:sgrace@cityu.edu.hk)

Malcolm Warner  
Judge Institute of Management  
University of Cambridge  
Email: [m.warner@jims.cam.ac.uk](mailto:m.warner@jims.cam.ac.uk)

Please address enquiries about the series to:

Research Support Manager  
Judge Institute of Management  
Trumpington Street  
Cambridge CB2 1AG, UK  
Tel: 01223 760546 Fax: 01223 339701  
E-mail: [research-support@jims.cam.ac.uk](mailto:research-support@jims.cam.ac.uk)

# **Epidemics, Labour-Markets and Unemployment: The Impact of SARS on Human Resources Management in Hong Kong**

*Grace O M Lee and Malcolm Warner*

## ***Biographical***

Grace O.M. Lee is currently Associate Professor in the Department of Public and Social Administration, City University of Hong Kong.

Email: [sagrace@cityu.edu.hk](mailto:sagrace@cityu.edu.hk)

Malcolm Warner is currently Professor and Fellow Emeritus, Wolfson College and Senior Research Associate, Judge Institute of Management, University of Cambridge.

Email: [m.warner@jims.cam.ac.uk](mailto:m.warner@jims.cam.ac.uk)

(approximate word count: 8,629)

**Abstract**

*This article examines the links between epidemics and their economic consequences, specifically in terms of their impacts on labour-markets and jobs. To exemplify the above, we examine the effects of SARS (Severe Acute Respiratory Syndrome) on the Hong Kong economy, its labour-market and its level of employment and unemployment. The article hypothesizes that the greatest impact would be on human resource management (HRM) in the service-industries and on particular sub-sectors, such as the hotel sector. It concludes that the dramatic demand and supply 'shocks' significantly affected both the demand for and the supply of labour in the sector, with discernable HRM consequences.*

**Key-Words**

Asian economy, epidemics, employment, Hong Kong, hotel sector, Human Resource Management (HRM), labour-market, People's Republic of China (PRC), Severe Acute Respiratory Syndrome (SARS), service sector, uncertainty, unemployment.

## ***Introduction***

Epidemics have clearly had an impact on world history, often with wide economic consequences (Cipolla, 1976). The 'Black Death', involving bubonic plague, that spread across Europe from the fourteenth century onwards, was one of best-known examples, devastating both economies and societies. Some say it originally came from Asia. It killed as many as one-third of the total population of Europe between the years 1346 to 1350, even leading to the persecution of the local Jewish population, who were soon blamed for spreading the disease, by their Christian neighbours (Singer, 1998). One of the 'lessons of history' from past epidemics, like that of outbreaks of cholera and the numerous plagues that blighted medieval Europe (Watts, 1997), was the frequent pattern of 'victimizing and stigmatizing of helpless members of minority groups and the indifference of public officials callous to human suffering' (Briggs, 1961). 'Demonization' as a phenomenon took root in most parts of Europe around this time, as simplistic explanations were sought by the afflicted. Zealous campaigns against witchcraft also characterized the subsequent period.

Hunger and famine went hand in hand with decline in trade. Rising mortality rates affected both the demand for and supply of goods, services and the labour-inputs that went into them, then as now.

The English classical economist Malthus (1766-1834) had studied the major impact of plagues on populations and economies, as checks on demographic growth (Pressman, 1999:29ff). 'Crises' such as plagues led to peaks of mortality that linked population changes and labour supply with key economic variables (Floud and McCloskey, 1994: 60). However, Malthusian gloom was challenged on a number of counts; some economists saw technology as the 'engine of growth' in both agriculture and industry (Cipolla, 1976:136). The most recent severe health disaster last century was the global influenza epidemic after the First

World War, the so-called 'Spanish Flu'; it allegedly killed more people than all those who died in armed combat. Such epidemics represent *exogenous*, as well as *endogenous*, 'shocks' that can have far-reaching impacts on economic activity, as well as representing human tragedy.

Not long into the new millennium, a new threat appeared in Asia and was feared to be another replay of the 1918-19 'flu disaster, namely what became known as 'SARS' (namely, Severe Acute Respiratory Syndrome) epidemic of recent time. Although to date this seemed to have ended in July 2003, any complacency would be misplaced as it killed 916 people worldwide, mainly in the People's Republic of China (PRC) and Hong Kong Special Administrative Region (HKSAR), and infected 8,422 others (World Health Organization, 2003). In this instance, however we are looking at a relative short-term phenomenon compared with what economists and economic historians have in the past analyzed over the Braudelian *longue durée*. But it is still early days, although we hope we have seen the last of this specific epidemic. But as Cipolla (1976:130) reminds us speaking of the aftermath of the plagues:- 'The fact is that until the end of the seventeenth century not a year passed without particular cities or entire regions of Europe suffering badly from some epidemic'. As populations grew and became more concentrated in cities, the problems of mass infections grew: we still live in such circumstances, with Hong Kong having the world's highest population density.

This article begins with a brief background on the start of the epidemic and then moves on to briefly discuss the short-term economic impact of SARS on the Asian economies, moving on to a specific examination of the consequences for Hong Kong, its labour-market and one particularly vulnerable sub-sector of its service industry, namely hotels and hospitality from a HRM perspective. Thus, epidemics, mortality and economics are now integrally linked as mass air-travel has become a potentially worldwide transmission-belt in the contemporary,

globalized world.

Given its relatively low morbidity and mortality, why had the economic impact of SARS appeared to be so devastating? *A priori*, neither an outside observer nor even an economics expert would have predicted such catastrophe in the making in the circumstances. There had been several incidences of new 'flu viruses in Hong Kong in recent years, as well as infections affecting chickens and the like, that had ultimately been contained (Huque and Lee, 2000). Much of the economic impact, it seemed, stemmed from the high degree of uncertainty and fear generated by SARS. It is no exaggeration that panic gripped the region- the coauthors of this article are happily 'living witnesses' of this phenomenon. Everybody in the region wore masks and stocked up masks; pressed the lift buttons with disposable tissue paper; frequently cleaned their homes and public utilities with 1:99 diluted bleach; schools and universities had been closed for weeks. People across Asia had opted to stay at home to reduce the probability of infection. Service exports, in particular tourism-related exports, were very hard-hit.

How could the very 'open' Hong Kong economy (see Chan and So, 2002) accommodate this 'shock' and how long in particular could its hotel industry survive in face of the drastic plunge of average hotel occupancy rates from 83 per cent to 18 per cent, when compared to the same months in 2002? In the face of this fall in demand, we go on in the article to discuss the various *cost-cutting measures* in managing human resources adopted by the Hong Kong hotel industry and then try to analyze their impact.

## **Hypotheses**

In order to set out our research, we have formulated the following hypotheses:-

- (i) *The greater the adverse impact of SARS on the Hong Kong economy, the greater will be the negative impact on the service industries and specifically on the hotel sector.*
  
- (ii) *The greater the adverse impact of SARS on consumer demand in the Hong Kong hotels and hospitality sector, the greater will be the negative impact on the related demand for labour in terms of hotel employees in specific hotel groups in the sector.*
  
- (iii) *The greater the adverse impact on the demand for labour in the Hong Kong hotel sector, the greater will be the negative impact on the labour-market in terms of lay-offs and redundancy among hotel employees in specific hotel groups in the sector.*

## **Methodology**

In attempting to study the impact of SARS on the Hong Kong economy and specifically on hotel sector employment, we adopted a two-pronged methodology. First, we generated an in-depth *information database* on the SARS epidemic, taking into account its economic as well as its HRM implications, by using the internet, library resources and literature search. Second, we carried out on-site empirical field-based research, involving interviewing over forty decision-makers in the Hong Kong economy and its hotel industry, such as government officials, senior managers and union officials in the period just after the epidemic and its aftermath, as contact would have been dangerous when possible infection was feared. We have cited a selection of the interviews but only where they were fully germane to the main

concerns of this particular article.

### **The Origin of SARS**

The first fatal cases of 'atypical pneumonia', as it was first called, probably occurred in Guangdong Province in southern China, just next to Hong Kong, in November 2002. The term SARS (Severe Acute Respiratory Syndrome) appears to have been used for a patient in Hanoi who was visiting Vietnam, who became ill on February 26, 2003, and was evacuated to Hong Kong where he died on March 12. This first case in Hanoi had stayed at a hotel in Kowloon, Hong Kong, at the same time as a 64 year-old doctor who had been treating pneumonia cases in southern China. This doctor stayed at the *Metropole Hotel* and was admitted to hospital on February 22. He died from 'respiratory failure' soon afterwards (Tomlinson and Cockram, 2003). He was the first known case of SARS in Hong Kong and appears to have been the source of infection for most, if not all cases in Hong Kong, as well as the cohorts in Canada, Vietnam, Singapore, USA, (not to mention Ireland) and subsequently Germany and Thailand.

The second major epicentre in Hong Kong, accounting for over 300 cases, has been an apartment complex called '*Amoy Gardens*'. The source has been attributed to a patient with renal failure receiving haemodialysis at the *Prince of Wales Hospital* who stayed with his brother at *Amoy Gardens*. He had acute diarrhea, and infection may have spread to other residents by a leaking sewage-drain, allowing an aerosol of virus-containing material to escape into the narrow light-well between the buildings and spread in rising air-currents (Tomlinson and Cockram, 2003). Sewage also back-flowed into bathroom floor drains in some apartments. Spread to people in nearby building also occurred, probably by person-to-person contact and contamination of public installations.

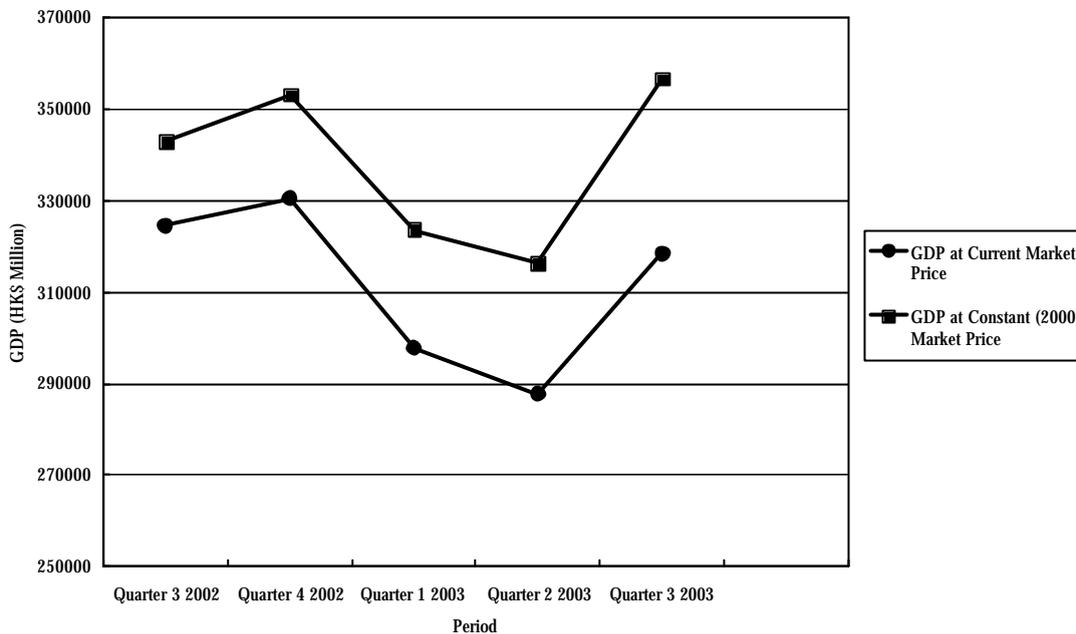
While SARS did pose significant medical risks for local populations, it had far greater economic implications on the world economy because of the threat of a potentially devastating, worldwide epidemic, for which there was seemingly no medical cure available.

SARS had allegedly spread in China around the Autumn of 2002 experts claim, in the South of the country, most likely in Guangdong Province, geographically adjacent to Hong Kong. Many hundreds of suspected cases were reported on the mainland, in Beijing and other major cities. The Chinese government at first denied the news but eventually was shamed into adopting a more robust, nationwide and transparent public health policy.

### **The Economic Impact of SARS on Hong Kong**

A Chief Economist for *World Bank East Asia* estimated that a direct impact effect of SARS would be to reduce East Asian growth by 0.4 to 0.5 per cent of GDP, bringing the estimated cost of SARS in the range of US\$20 billion to US\$25 billion, a huge amount<sup>1</sup> (World Bank, 2003). The *Asian Development Bank* (ADB) calculated the likely effect of the disease under different epidemic scenarios, and forecast losses totaling up to US\$20 billion in the four most vulnerable economies, namely China, Hong Kong, South Korea and Taiwan (BBC News, 9 May 2003). In the case of Hong Kong, the ADB predicted that SARS could knock four percentage points off economic growth in 2003, taking it down more or less to zero. Figure 1 shows the drastic decline in the GDP of the SAR in the first and second quarter of 2003 when SARS hit Hong Kong. It was a bad time for any news of this kind to reach Hong Kong, as a downturn in economic activity had already occurred and deflation had begun to appear, with slow but relentless increases in unemployment<sup>2</sup>. The ultimate economic impact of SARS on Hong Kong, let alone China, as well as on the region, has yet to be convincingly assessed.

**Figure 1: Gross Domestic Product (GDP) of the  
Hong Kong Special Administrative Region**

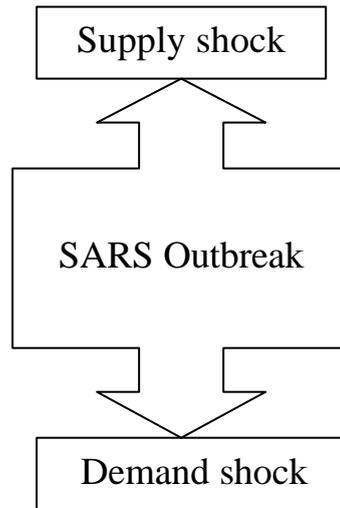


Source: Census and Statistics Department, HKSAR government

[http://www.info.gov.hk/censtatd/eng/hkstat/fas/nat\\_account/gdp/gdp1\\_index.html](http://www.info.gov.hk/censtatd/eng/hkstat/fas/nat_account/gdp/gdp1_index.html) (accessed on 28 November 2003)

There were a number of channels by which the SARS outbreak could affect an economy. We have admittedly simplified the *causal* links in our model but use it at this point to exemplify the main variables we have chosen to highlight in order to present the human resources consequences. One channel was seen as operating through ‘supply- shocks’. If the outbreak could not be effectively contained, the work force would be reduced because of illness or precautionary measures to prevent the spread of SARS, thereby disrupting business operations and production (Asian Development Bank, 2003). There was also the risk of a major demand ‘shock’ as people just stopped shopping and became paralyzed into economic indecision (see Figure 2).

**Figure 2: The Economic Impact of SARS**



Why had the economic impact of SARS been so serious, given the relatively low morbidity and mortality? While SARS did pose significant medical risks and had major economic implications, it had exerted a disproportionately large *psychological* impact on people, as we shall see later in more detail. In the short run, economic consequences arose almost wholly from public perceptions and fear of the disease, harking back to accounts of medieval Asia or Europe.

The pronounced impact of SARS may possibly be attributed to the combination of two aspects of information about the illness: the almost costless and rapid transmission of information due to the development of modern mass media and communication technologies in MacLuhan's 'global village'; and perhaps more importantly the lack of sufficient medical information on SARS (Fan, 2003). This stimulus may be conceptualized as inducing a 'demand-shock', particularly on consumption. In locations with a high incidence of SARS, physical movement of people was restricted, either voluntarily or involuntarily, thus potentially reducing consumer spending. SARS thus we surmised mainly affected economic growth by reducing demand (Field interviews, June-July 2003). Consumer confidence did in fact dramatically decline in a number of economies, leading to a significant reduction in

private consumption spending. Much of the impact stemmed from the great uncertainty and fear generated by SARS<sup>3</sup>. People had opted to stay at home to reduce the probability of infection. Service exports, in particular tourism-related exports, were to be hard hit. Investment was affected by reduced overall demand, heightened uncertainties, and increased risks. Foreign investment inflow was delayed or reduced in reaction to SARS (Fan, 2003). The possible fall in the demand for labour for the goods and services that people would not be buying, would from the specific focus of this paper, have to be taken into account.

Although SARS had affected every component of aggregate demand, private consumption had particularly borne the brunt of the impact. Services involving face-to-face contact had been dealt a severe blow by the widespread fear of infection through such interactions. Tourism, transportation (particularly airlines), and retailing had been the hardest hit sectors as consumers shunned shops, restaurants, and entertainment venues; and travelers cancelled trips. The chairman of the *Hong Kong Federation of Restaurants and Catering Services* noted that 25 restaurants had been closed within the first two weeks of April 2003, leading to unemployment of over 1,600 restaurant staff and over 16,000 of their members were either on 'no-pay' leave or were forced to accept pay cuts ranging from 10 to 30 per cent (*Wen Hwei Pao*, 15 April 2003). Government statistics indicated that the restaurant trade suffered a drop of nine per cent in revenue in the first quarter of 2003 when compared to the same time in 2002 (*Ming Pao*, 17 May 2003). A publicly-listed Chinese restaurant that had 18 outlets closed down seven of its outlets in May 2003, causing around 500 retrenchments (ibid). As a result of the drastic 70 per cent plunge in the number of visitors in April and May when compared to the same months in 2002, the *Ocean Park* theme-park suffered a monthly loss of HK\$15 million to HK\$20 million (*Ming Pao*, 21 May 2003). It was the first time in its 26 years' operation had the *Ocean Park* authorities declared that the Park would be closed every Monday starting from June 2003, until further notice. Furthermore, all of the 600 staff had to

take four days' 'no-pay' leave a month (ibid). It was thus very likely that there would be possible linked implications in terms of labour-markets and human resources.

Asian economies are heavily dependent on tourism, which accounts for at least ten per cent of gross domestic product in most of the affected countries. City-states such as Hong Kong and Singapore are heavily dependent on the sort of service industries that demand regular and varied human contact – something many in the region are eager to avoid: these sectors are very labour-intensive. According to the analysis of the *International Labour Organization* (ILO), reduced travel due to new concerns over SARS, combined with the ongoing economic downturn, was set to cut another five million jobs in the battered world tourism sector in 2003 (ILO, 14 May 2003). Hong Kong tour operators reported an 80 per cent plunge in bookings while retail sales had plummeted by about 50 per cent (*Hong Kong Standard*, 15 April 2003). The situation was exacerbated by the travel advice issued by the World Health Organization (WHO) recommending that 'persons travelling to Hong Kong Special Administrative Region and [adjacent] Guangdong Province, China consider postponing all but essential travel' (WHO press release, 12 March 2003). Findings from an impact-assessment study commissioned by the *World Travel and Tourism Council* suggested that SARS would cost a loss of 41,720 jobs in the Hong Kong tourism and travel-related industries, 'chopping HK\$280 billion off the economy' (*Ming Pao*, 17 May 2003). The deputy president of the Council remarked that the impact of SARS on the travel industry was five times more detrimental than the loss caused by September 11, 2001 terrorist attack on the United States of America (ibid).

As visitor-arrivals had dropped, hotel occupancy rates had fallen significantly in Hong Kong, as well as in China and Singapore. An IATA director commented that the Hong Kong airline industry was the hardest hit. According to statistics in April 2003, passenger rates had fallen

by 60 per cent in Hong Kong, as compared to 40 per cent in Seoul and Singapore; 37 per cent in Bangkok, 36 per cent in Kuala Lumpur (*Ming Pao*, 7 May 2003). Airlines such as *Cathay Pacific* had cancelled a large number of flights; over 45 per cent of the flights had been cancelled weekly in April 2003 (*Hong Kong Economic Times*, 1 May 2003) a period when one of the present co-authors was entering and later exiting Hong Kong airport. Ticketing sales of *Cathay Pacific Airways*, which accounted for 40 per cent or more of the company's total revenue, plunged by over 70 per cent in the first two weeks of April from HK\$120 million to HK\$4 million (*ibid*). The monthly passenger rate had fallen by 80 percent, from one million to a little more than 200,000 compared to the same time last year (*Ming Pao*, 7 May 2003). Business of the airline's caterer was so badly affected that all of its 600 staff had to take 15 days' 'no-pay' leave in the consecutive months of May and June 2003, meaning a 50 per cent pay cut (*Ming Pao*, 10 May 2003). *Cathay Pacific* made a daily loss of 23 million in May. It was in a serious crisis; its cash reserve could only last for 40 days (*Ming Pao*, 7 May 2003). Yet its staff was allegedly 'very supportive' of the company's cost saving strategies<sup>4</sup>. Around 1,170 of its 6,000-strong workforce, including 1,000 flight attendants, 70 pilots and 100 ground staff, were said to have participated voluntarily in the 'no-pay' leave' scheme (*ibid*).

Hong Kong's seasonally adjusted unemployment rate had increased to 8.7 per cent by May 2003, and the underemployment rate also increased to 4.2 per cent over the same period, mostly reflecting the adverse impact of the spread of SARS since mid-March 2003 (Field interviews, May 2003), compounded by the growing economic slow-down in Asia and indeed worldwide, that had already been taking root even before the SARS virus first appeared (see Table 1). Disentangling these multiple economic trends, is of course, very difficult to do but is clear that SARS seriously aggravated the cyclical factors.

**Table 1: Statistics on Labour Force, Unemployment and Underemployment**

| Period          | Unemployed<br>(‘000) | Unemployment<br>Rate<br>(Seasonally<br>Adjust) (%) | Underemployed<br>(‘000) | Underemployment<br>Rate (%) |
|-----------------|----------------------|--|-------------------------|-----------------------------|
| 1/2003-3/2003   | 259.8                | 7.5  | 100.7                   | 2.9                         |
| 2/2003-4/2003   | 273.7                | 7.8  | 112.7                   | 3.2                         |
| 3/2003-5/2003   | 287.3                | 8.3  | 135.0                   | 3.8                         |
| 4/2003-6/2003   | 300.0                | 8.6  | 151.0                   | 4.3                         |
| 5/2003-7/2003   | 309.2                | 8.7  | 148.7                   | 4.2                         |
| 6/2003-8/2003   | 309.4                | 8.6  | 141.0                   | 4.0                         |
| 7/2003-9/2003   | 297.3                | 8.3  | 126.6                   | 3.6                         |
| 8/2003-10/2003# | 282.0                | 8.0  | 120.0                   | 3.5                         |

Note: # Provisional Figure: Estimates are made based on preliminary population estimates, and are to be revised upon the availability of the revised population estimates one month later.

These figures are subject to further revision upon finalization of all monthly population estimates for a given year by August of the following year.

Source: Census and Statistics Department, HKSAR government

<http://www.info.gov.hk/censtatd/eng/hkstat/fas/labour/ghs/labour1.htm> (accessed on 28/11/2003).

While decreases in employment were seen in many major economic sectors, including construction, restaurants and hotels, and manufacturing, there were also increased incidents of employees being temporarily suspended from work or asked to take ‘no-pay’ (ie unpaid) leave, thereby leading to an increase in underemployment (Census and Statistics Department, 2003).

## **The Economic Impact of SARS on the Hong Kong Hotel Industry**

The economic impact of SARS on the Hong Kong hotel industry will now be examined first in terms of the *labour demand* for hotel services as well as their *labour supply* (see Lee and Warner, 2001a; 2001b; 2002; 2004).

Between March and June 2003, many business sectors in Hong Kong had been adversely affected. Starting from the outbreak of SARS and the issue of global advisory warning by the World Health Organization on Hong Kong, businesses related to tourism - including retail, travel agents, restaurants, airlines, hotels - had dropped dramatically. The HKSAR government announced that the number of passenger aircraft had been reduced by no less than 59 per cent in May 2003 (Information Services Department, 13 June 2003). Tourists from all over the world had postponed or cancelled their trips to Hong Kong. The number of visitor arrivals from March 2003 to May 2003 dropped significantly from 1,347,386 to 427,254. The average hotel occupancy rates plunged from 79 per cent to 18 per cent when compared to the same months last year, a dramatic fall to say the least (see Table 2).

**Table 2: Tourism Performance**

| Month          | Visitor Arrivals | Average Hotel Occupancy |
|----------------|------------------|-------------------------|
| June 2002      | 1,174,202        | 79%                     |
| July 2002      | 1,368,693        | 82%                     |
| August 2002    | 1,501,078        | 86%                     |
| September 2002 | 1,370,279        | 82%                     |
| October 2002   | 1,584,563        | 85%                     |
| November 2002  | 1,570,192        | 92%                     |
| December 2002  | 1,668,474        | 89%                     |
| January 2003   | 1,545,978        | 82%                     |
| February 2003  | 1,408,139        | 81%                     |
| March 2003     | 1,347,386        | 79%                     |
| April 2003     | 493,666          | 22%                     |
| May 2003       | 427,254          | 18%                     |
| June 2003      | 725,236          | 34%                     |
| July 2003      | 1,291,828        | 71%                     |
| August 2003    | 1,644,878        | 88%                     |
| September 2003 | 1,478,699        | 82%                     |

Source: Tourism Commission, *Tourism Performance*.

[http://www.info.gov.hk/tc/tourism\\_per/index.htm](http://www.info.gov.hk/tc/tourism_per/index.htm) (accessed on 28 November 2003)

The *Hong Kong Hotels Association* announced in April that the hotel occupancy rates of all five-star hotels alarmingly dropped to single digits, comparing to an average of around 80 per cent of the same time last year (see Table 3), and suffered an average daily loss of half a million Hong Kong dollars (*Sing Tao Daily*, 13 April 2003).

**Table 3: Hotel Room Occupancy Rate from January to May  
(2002 and 2003 Compared)**

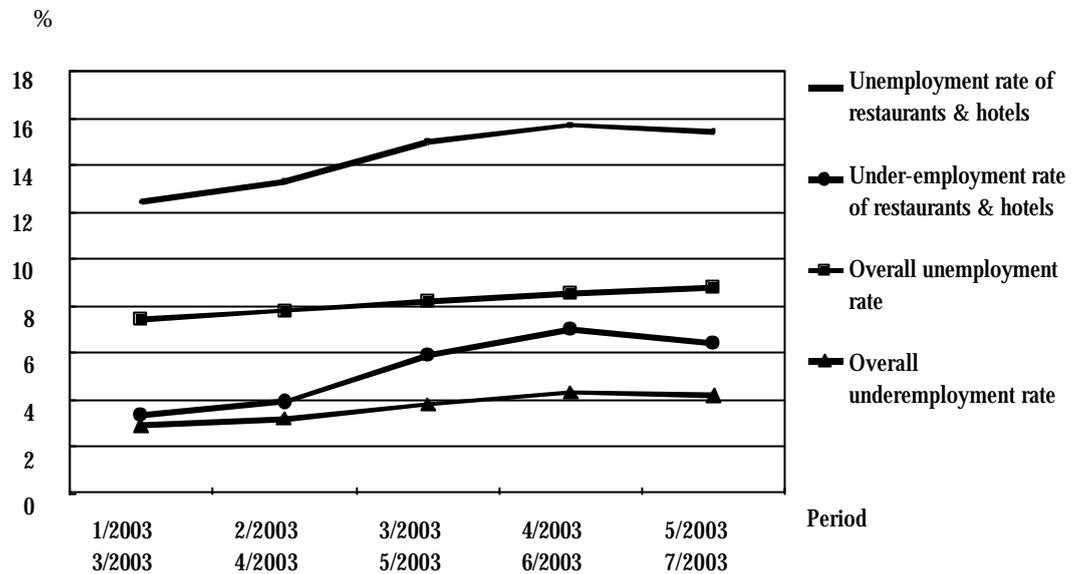
| Month    | All Categories |          |
|----------|----------------|----------|
|          | 2002 (%)       | 2003 (%) |
| January  | 81             | 82       |
| February | 75             | 81       |
| March    | 86             | 79       |
| April    | 87             | 22       |
| May      | 83             | 18       |

Note: All categories include the High Tariff A Hotels, High Tariff B Hotels, Medium Tariff Hotels, Tourist Guesthouses.

Source: Hong Kong Tourism Board, (26 June 2003). *May Arrival Figures Hit New Low, But Signs of Recovery Now Starting to Show. Annex II*. Hong Kong: Hong Kong Tourism Board.

To survive in such turbulent environments, hotels in Hong Kong resorted to various measures to cut costs. Figure 3 shows that the unemployment and underemployment rates of the hotel sector climbed steeply, when compared to the overall unemployment and underemployment rates in Hong Kong.<sup>5</sup>

**Figure 3: Unemployment Rate and Underemployment Rate of the Hong Kong Special Administrative Region (1-3/2003 to 5-7/2003)**



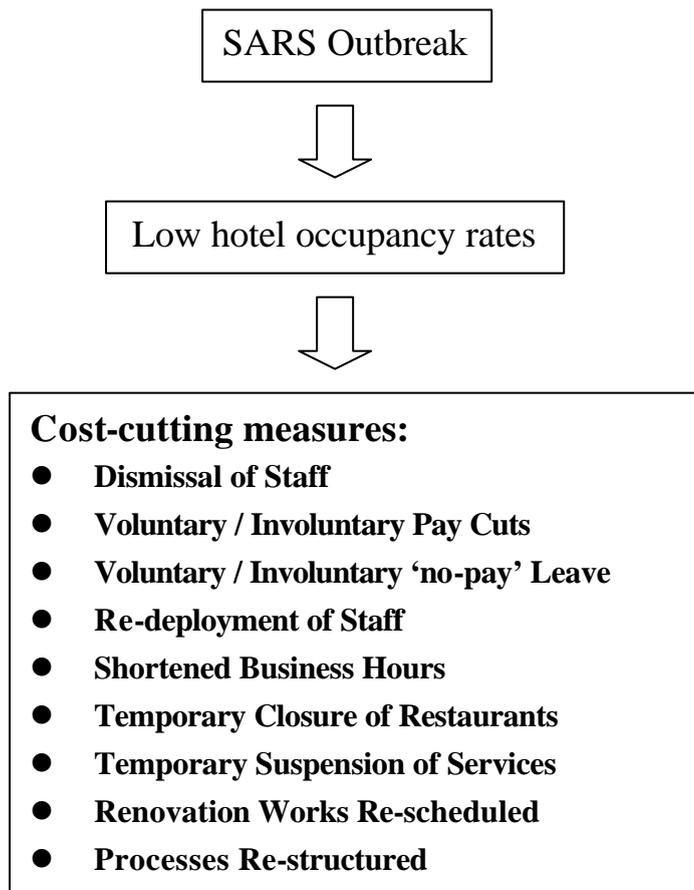
Source: Census and Statistics Department, HKSAR government

[http://www.info.gov.hk/censtatd/eng/hkstat/fas/labour/ghs/labour1\\_index.html](http://www.info.gov.hk/censtatd/eng/hkstat/fas/labour/ghs/labour1_index.html) (accessed 28 Nov 2003)

### **The HRM Impact of SARS in the Hong Kong Hotel Industry**

We now go on to discuss the HRM implications of the changing labour demand and labour supply consequences noted above (see Figure 4).

**Figure 4: Cost-cutting Measures Adopted by the Hong Kong Hotel Industry**



In one prominent example, the five-star *Hyatt Regency* hotel dismissed 130 staff - 22 per cent of its total establishment - positions ranging from front line staff to managerial level. The principle of 'last in, first out' was adopted in making retrenchment decisions. Most of the dismissed staff was not eligible for redundancy compensation, as they had worked in the hotel for less than two years. The rest of 470 staff had to take ten days' 'no-pay' leave per month (*Ming Pao*, 15 May 2003). Hotels throughout the region took tough human resource decisions, with many introducing 'no-pay' leave that ranged from 20 to 48 per cent of the working month (Keith, 2003). But senior staff was still expected to continue to work the 'hours required', which effectively made the unpaid leave an ill-disguised pay cut (Field interviews, June-July 2003). The *Report of Weekly Consultations on Effect of SARS on Business* revealed that employment in the hotel industry dropped by 2.4 per cent in late April 2003, and the percentage rose to 7.1 per cent in early August 2003. The average percentage of

hotel employees who had to take 'no-pay' leave also rose from 79.3 per cent to 88.9 per cent from early to late June 2003 (see Table 4).

**Table 4: Weekly Average Percentage Change in Current Employment of Hotels as Compared with the Normal Situation and 'no-pay' Leave Arrangements of Hotel Staff**

| Week Ended | Change in Current Employment | Current 'no-pay' Leave Arrangements |   |  |
|------------|------------------------------|-------------------------------------|---|--|
|            |                              | Proportion in the sector (%)        | % of staff involved in hotel groups concerned | Average % of staff with 'no-pay' leave in the sector |
| 26/4/2003  | -2.4                         | Not applicable                      |   |  |
| 3/5/2003   | -2.6                         |                                     |   |  |
| 10/5/2003  | -2.8                         |                                     |   |  |
| 17/5/2003  | -2.7                         |                                     |   |  |
| 24/5/2003  | -5.6                         |                                     |   |  |
| 31/5/2003  | -4.3                         |                                     |   |  |
| 7/6/2003   | -6.9                         | 100.0                               | 79.3  | 79.3   |
| 14/6/2003  | -6.6                         | 100.0                               | 85.0  | 85.0   |
| 21/6/2003  | -6.8                         | 100.0                               | 89.0  | 89.0   |
| 28/6/2003  | -5.9                         | 100.0                               | 88.9  | 88.9   |
| 5/7/2003   | -6.6                         | 91.7                                | 90.2  | 82.7   |
| 12/7/2003  | -6.0                         | 90.5                                | 88.6  | 80.1   |
| 19/7/2003  | -7.0                         | 80.0                                | 89.2  | 71.3   |
| 26/7/2003  | -7.2                         | 70.8                                | 87.2  | 61.8   |
| 2/8/2003   | -7.1                         | 62.5                                | 85.8  | 53.6   |
| 16/8/2003  | -5.8                         | 30.4                                | 78.6  | 23.9   |
| 30/8/2003  | -4.6                         | 12.5                                | 80.0  | 10.0   |

Source: Economic Analysis Division of Financial Services and the Treasury Bureau and Census and Statistics Department, *Report of Weekly Consultations on Effect of SARS on Business*. [http://www.info.gov.hk/censtatd/eng/interest/sars/sars\\_index.html](http://www.info.gov.hk/censtatd/eng/interest/sars/sars_index.html) (accessed on 28 November 2003).

Table 5 shows the human resource arrangements of major hotels in Hong Kong.

**Table 5: Human Resources Arrangements of Major Hotels in Hong Kong**

|                          |   |
|--------------------------|---|
| <i>Hyatt Regency</i>     | Sacked 130 staff. Other 470 staff took 10 days 'no-pay' leave per month.  |
| <i>Grand Hyatt</i>       | Closed some floors. All staff on 'no-pay' leave.                          |
| <i>Regal Hotel Group</i> | All employees of its 5 hotels took 8 days 'no-pay' leave per month.       |
| <i>Marriott</i>          | Voluntary 'no-pay' leave. CEO took one month off as a showcase.           |
| <i>Excelsior</i>         | All staff on 'no-pay' leave (days not disclosed).                         |
| <i>Peninsula</i>         | 'no-pay' leave of 2 days per month since April 2003.                      |
| <i>Island Shangri La</i> | Voluntary 'no-pay' leave of 2 to 8 days per month since April 2003.       |
| <i>Great Eagle</i>       | All of 800 staff took 'no-pay' leave of 1 – 5 days in April and May 2003. |

Source: *Ming Pao*, 15 May 2003.

Other cost-cutting measures adopted by hotels in Hong Kong included: temporary closure of restaurants, shortened business hours, redeployment of staff, rescheduling of renovations and restructuring of kitchens (Field interview, August 2003). The *Grand Hyatt* temporarily closed three of its restaurants and bars, and staff who were affected were redeployed (*Sing Tao Daily*, 13 April 2003). The prestigious *Mandarin Oriental* temporarily suspended its breakfast buffet, and shortened the business hours of the café by two hours to an hour before midnight.

Although no staff had been laid off in the equally famous *Peninsula Hotel*, employees were told to clear annual leave almost immediately, while some were deployed to other department – including engineering to paint guest rooms (Shellum, 2003). According to the executive

chef of the *Peninsula* who had worked in the hotel for 16 years, the staff did not mind ‘as long as they keep their jobs’. The eight kitchens were combined into ‘one big unit’ where everyone did everything. The chef was quoted to inform that ‘[p]reviously, each kitchen needed a certain amount of people just to switch on the lights in the morning’ (ibid). Planned renovations of a Swiss restaurant were brought forward. The Verandah kitchen was closed and certain menus combined. The room-service kitchen was moved to the lobby, which allowed 24-hour operation with minimum manning. Because of the drastic cut in demand, contracts with food suppliers had to be re-negotiated to cut down supplies immediately. With the introduction of unprecedented discounts and local packages, the *Peninsula’s* restaurants are starting to fill again. According to the executive chef, the positive aspects of the SARS crisis are twofold: that hygiene awareness has been put into the forefront of people’s minds, and the crisis has brought his whole team together (ibid).

With the SARS epidemic over, tourists are beginning to return to Hong Kong, especially from mainland China. There has been a significant increase in hotel occupancy rates since tourists from certain cities in Guangdong province were allowed to apply for individual tourist visas in July. Beijing and Shanghai were added to the list in September. However, hotel occupancy rates in Hong Kong were still below levels seen before the SARS outbreak in the second quarter of 2003. The chairman of the *Hong Kong Hotels Association* expected the average hotel occupancy rate to reach around 70 per cent, compared with 81 per cent last year, and hotel room rates to fall about ten to 15 per cent in 2003 compared to the previous year (*Dow Jones Business News*, 9 September 2003).

## **Discussion**

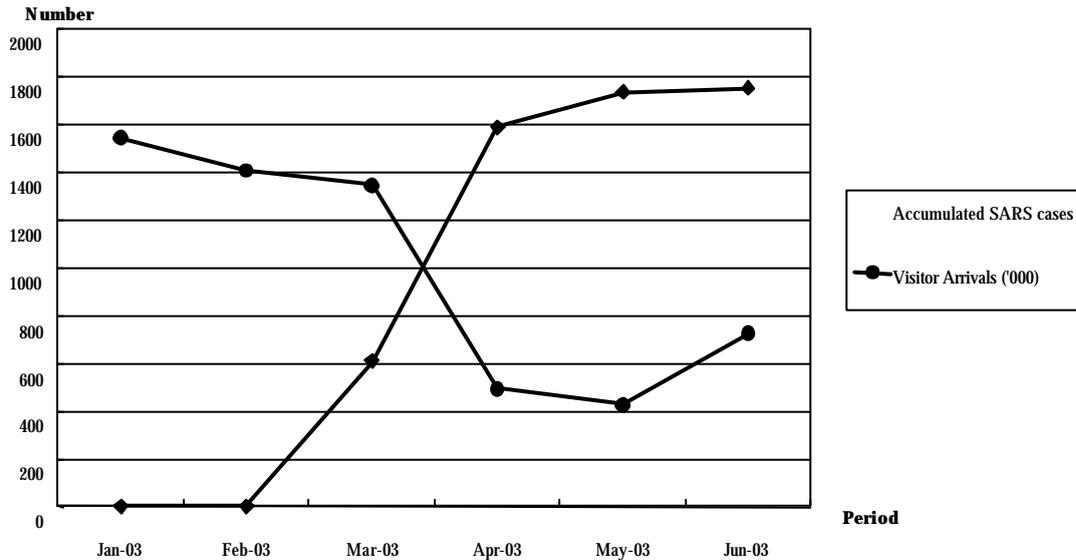
We now turn to a discussion and evaluation of the economic and HRM impact of SARS on Hong Kong and its hotel sector.

We will discuss the evidence we have collected in terms of the set of hypotheses we adumbrated earlier. Taking each hypothesis in turn, we can see

- (i) *The greater the adverse impact of SARS on the Hong Kong economy, the greater will be the negative impact on the service industries and specifically on the hotels sector.*

Figure 5 shows the negative relationship between the number of SARS cases and the number of tourist arrivals in Hong Kong. The higher the number of confirmed SARS cases in Hong Kong, the steeper the drop in the number of tourists.

Figure 5: SARS Cases and Visitor Arrivals



Source: Tourism Commission, *Tourism Performance*.

[http://www.info.gov.hk/tc/tourism\\_per/index.htm](http://www.info.gov.hk/tc/tourism_per/index.htm); Health, Welfare and Food Bureau,

HKSAR Government, *SARS Bulletin*, 23 June 2003.

<http://www.info.gov.hk/dh/diseases/ap/eng/bulletin0623e.pdf>

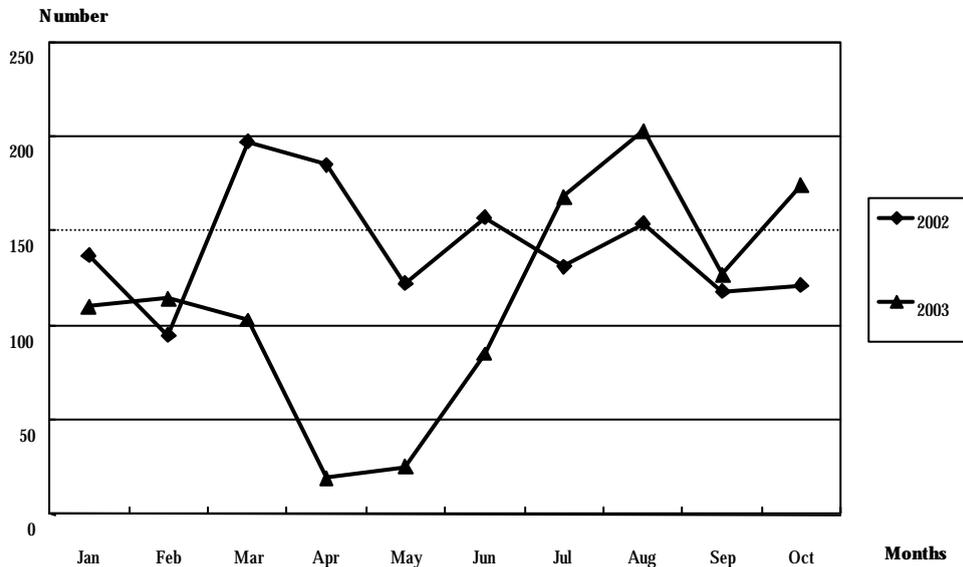
As seen in Table 2, the number of tourist arrivals drastically declined since the travel advice issued by the *World Health Organization* (WHO press release, 12 March 2003). The number of visitors had plunged from 1,347,386 in March to 493,666 in April 2003, and the hotel occupancy rate plummeted from 79 per cent to 22 per cent within a month. The Personnel manager of an (anonymous) five-star hotel that targeted the MICE market (business travellers who visited Hong Kong for [m]eetings, on [i]ncentive tours, for the purpose of [c]onventions and [e]xhibitions) informed us during the interview that their room occupancy rate fell from over 90 per cent in March to 13 per cent in April 2003, meaning a loss of around 20 million in expected revenue (Field interview, November 2003). The situation deteriorated in May and June 2003. Single-digit room occupancy rates of two to three per cent led to a loss of HK\$50 million. Group cancellations of rooms, ranging from 250 room nights per booking to 2,200 room nights per booking,

became the norm for the three months of March, April and May 2003. For example, the cancellation of a concert performance by the rock-band '*Rolling Stones*' incurred a business loss of 360 room-nights. As a result of the infrequent visitors, food and beverage businesses also dropped to very low levels. Some restaurant outlets that had very few customers were shutdown in that period. The Personnel manager lamented that '[t]he situation had never been worse. It was even worse than the 1989 June Fourth Tiananmen Square Incident in Beijing, the 1998 Asian Financial Crisis, and the September 11 terrorist attack on the US in 2001' (Field Interview, November 2003).

(ii) *The greater the adverse impact of SARS on consumer demand in the Hong Kong hotel sector, the greater will be the negative impact on the related demand for labour in terms of hotel employees in specific hotel groups in the sector.*

As business was poor across the sector, hotels resorted to temporary closures of business or restaurant outlets, and shortening of business hours in general. This certainly impacted negatively on the demand for labour. Figure 6 shows the drastic drop in the number of vacancies registered with the Labour Department for the SARS period, when compared to the figures in 2002. While the general economy of Hong Kong suffered as reflected by a drop in the total number of vacancies, the 'hotel and boarding house' industry fared even worse. Despite the fact that there were various channels of recruitment, statistics of the Labour Department did to some extent serve as a barometer of the demand for labour in Hong Kong.

**Figure 6: Hotel and Boarding House Vacancies Registered with the Labour Department  
(January to October 2002 and 2003 Compared)**



Source: HKSAR government Press Releases.

*(iii) The greater the adverse impact on the demand for labour in the Hong Kong hotel sector, the greater will be the negative impact on the labour-market in terms of lay-offs and redundancy among hotel employees in specific hotel groups in the sector.*

The number of layoffs and redundancy in the hotel industry was relatively low despite the crisis situation. Only one in the eight hotels covered in Table 5 had actually dismissed staff. Most hotels squeezed their savings from the payroll by compulsory requirements of employees to clear their accumulated leave and take ‘no-pay’ leave. Human resources released from closure of restaurants were redeployed to take up the duties of staff that were on leave. The number of ‘no-pay’ leave policies offered, varied from one hotel to another, as shown in Table 5.

In one of the five-star hotels that asked for anonymity, employees were told that they could go on leave for weeks as they had to clear all their accumulated leave (in that particular hotel,

employees with less than ten years' service were entitled to 12 days' per year, while employees with more than ten years' service could have 24 days per year); and take 'no-pay' leave. To meet the lessened demand for labour, the supply was reduced, by encouraging staff to take their unpaid leave. All employees had to take 'no-pay' leave from the months of April to August 2003 across-the-board. Three days' 'no-pay' leave were taken in April 2003. This accounted to a salary reduction of 9.9 per cent; this helped the hotel save an average of one million Hong Kong dollars per person in that month. The impact on business was reviewed every month. As business deteriorated in the months that followed, all employees across-the-board had to take nine days' leave in the respective months of May and June 2003, meaning a substantial salary reduction of 30 per cent per person. The decision of taking 'no-pay' leave across the board was made by the General Manager in consultation with their US-based headquarters and the local hotel owner. The situation became relatively more promising in July; the number of 'no-pay' leave to be taken was reduced to six days, and three days in August 2003. Altogether all such savings amounted to about ten per cent of the total business loss of more than HK\$50 million over the period. As such measures involved a change in the terms and conditions of employment, each employee was required to sign a letter of consent to that effect every time the number of days of 'no-pay' leave changed. Yet employees were said to be 'very understanding'; and that 'sacrifices were made to keep the jobs' (Field interview, November 2003). One interviewee confided that senior staff often conducts 'business as usual', despite being on 'no-pay leave' (ibid). With the end of SARS and the central government's boost of tourism by allowing travelers from nearby Guangdong province, and further away from Shanghai and Beijing to arrange self-organized visits, room occupancy rates returned to normal (over 80 and 90 per cent) in the months of September to November 2003. Since then, the 'no-pay' leave policy was suspended.

Human resources practices adopted by hotels appear to have been relatively low-key in their

operation – for example, in the form of effecting pay-cuts by encouraging the taking of ‘no-pay’ leave, for the most part. The apparent compliance of hotel employees in this ‘sharing the pain’ policy was *prima facie* facilitated by the ostensibly ‘paternalist’ HR practices of ‘good communication’ and ‘caring organizational culture’ (according to several HR managers interviewed)<sup>6</sup>.

Most major hotels were fairly *transparent* with their employees about the bad business situation. In one of the hotel manager interviews, we were told that business losses due to room-cancellations, expected revenue losses, and the low occupancy rates were shared with staff during their quarterly employees' meeting, amongst other information on SARS such as signs and symptoms of SARS, health advice, and preventive mechanisms like taking body-temperature daily before going to work, compulsory wearing of masks, proper disposal of masks, and cleaning of lift-buttons every two hours with diluted bleach. Repeated emails and notices were sent and posted to employees reminding them of the importance of adequate rest, good personal hygiene, and staying away from work if they felt unwell (Field interview, November 2003). Pregnant employees in one hotel were given ‘special leave’ with full pay, when their annual leave was cleared, as fatality among pregnant SARS victims was the highest.

The so-called ‘caring organizational culture’ of one hotel could best be illustrated by an Employee Loan scheme that was initiated by one major hotel owner (Field Interview, November 2003). Each employee could apply for a HK\$10,000 interest free loan, payable in four equal payments in the four months when ‘no-pay’ leave was in place, to be repaid in ten monthly instalments in 2004 by monthly auto pay deductions. Furthermore, the Personnel Manager of a hotel that exercised the across-the-board ‘no-pay’ leave system confided that a one month discretionary bonus would be paid to staff before the Lunar New Year as a

gratitude to employees for helping out in the difficult months.

Coincidentally, *Cathay Pacific* airline had also announced that it would pay staff a year-end bonus equal to the greater of half a month's salary or HK\$7,000; and employees who took the special leave (three weeks' unpaid leave between June and September 2003) would be entitled to reimbursement of foregone salaries (*South China Morning Post*, 26 November 2003). Cathay Pacific's trade unions were said to be pleased with the reinstatement of bonuses, as it would 'highlight the recovery in air traffic since SARS, and was an effort to reward staff that had helped the airline get through the crisis' (ibid.).

Investment in employee training and development also helps to foster a 'people-oriented' and 'caring' culture. Most of the top hotels began to conduct workshops on topics like 'service excellence', 'leadership' and 'languages'. For example, with the growing market of the mainland 'big spenders', Mandarin Chinese (*putonghua*) language training became an allegedly 'trendy' training programme for frontline staff (Field interview, November 2003). Special interests courses, such as 'flower arrangement' and 'Chinese Opera', taught and organized by staff were supported by one hotel with the provision of training venue (ibid).

The so-called 'employee-focused' philosophy may be demonstrated in the case of one specific hotel by an annual Employee Opinion Survey to measure employee satisfaction and opinion towards management (Field interview, November 2003). The personnel manager informed that more than ten sessions of Microsoft 'Powerpoint' presentations explaining the survey had been held in 2003. Staff then returned an anonymously-filled in questionnaire in a glued envelope to be sent to a consultancy firm in the US for data-analysis. Results were to be shared with employees in January 2004, followed by action plans for improvements (ibid).

Apart from the formal mechanisms, social activities such as employee mahjong competition and soccer competition also serve to encourage team spirit. One hotel boosted its *esprit de corps* by sponsoring employees-outings on a departmental basis at HK\$100 per head per year (Field interview, November 2003). Others included visits to the *Ocean Park*, annual staff parties, hotel anniversary celebrations crowned by senior management cutting cakes, live bands, and lucky draws (all videoed and replayed at the employee common-room for a re-experience of the good memories).

### **Concluding Remarks**

It is clear that the impact of SARS on the Hong Kong economy and specifically the hotels sector was on the whole significantly *negative*. Both the quantitative, as well as the qualitative, data we have gathered - points in this direction. The HRM implications were dire, if apparently benignly administered; yet mass layoffs and redundancies were not rife. The impact of labour-displacement and cost-cutting appear to have been mitigated by the largely 'paternalist' HR practices adopted, common in the Hong Kong business culture (see Selmer and De Leon, 2003).

On the other hand, employee compliance may be seen both negatively as well as positively. It is well known that unionization in Hong Kong is relatively low (Ng and Warner, 1998; Fosh et al, 1999) but not negligible overall (approximately 22.1 percent in 2002), even by urban Asian standards. As at the end of 2002, there were across the Special Administrative Region for all workers, an accumulated total of three registered trade union federations and 666 registered trade unions (comprising 622 employee unions, 23 employer unions and 21 mixed organisations of employees and employers) in Hong Kong. The declared membership of the 622 employee unions was 676,534 (Commissioner for Labour, 2002). Unionization in the hotel industry worldwide is generally weak but in Hong Kong it is probably worse. Hotel-

workers had, it would seem, little option but to comply with the stop-gap HRM measures put forward by managements.

In the absence of collective bargaining (see Fosh et al, 1999), tripartite collaboration at the industry level with a view to fostering harmonious labour relations was promoted by the Labour Department instead. Nine industry-based tripartite committees had been set up over the years, including the catering, hotel and tourism industries (ibid). These committees provide forums for the representatives of employers, employees and the government to discuss issues of common concern relevant to the industries. *The Tripartite Committee on the Catering Trade* that comprises nine employers' associations and nine trade unions had at least drawn up a *Code of Labour Relations Practice* and a sample employment contract for the catering industry, and produced a reference guide on employment-related issues relevant to the hotel and tourism industry in 2003 (*Labour Focus*, 16 June 2003 to 1 July 2003).

Occupational health and safety has for some time been another area of concern in the Catering industry. In the past three years, the number of industrial accidents in the catering industry has been the highest among the other trades in Hong Kong (Labour Department, 2003). To bring about improvement in work safety in the catering trade, the Labour Department and key stakeholders of the industry, namely the *Occupational Safety and Health Council*, *Occupational Deafness Compensation Board*, five employers' associations and two trade unions, have been jointly organising safety award schemes since 1999 with the objectives of heightening good safety and health culture and promoting safe work practices in the industry. The health and safety performance of the catering industry has since gradually improved over the last couple of years (ibid).

The Hong Kong experience of 'de-industrialization' (see Chan and So, 2002: 248) in the later

half of the 1980s and early 1990s had earlier led to a large 'labour surplus' that we estimate at almost half a million factory-workers. These were, however, mostly drawn into the booming economy and the growth in tertiary industries, hence the low unemployment-rates (as low as 1.4 percent in 1989) before Hong Kong was exposed to 1997 Asian crisis. Trade and tourism were then badly hit as in the recent SARS epidemic, although the earlier crisis's effects lasted longer, with Hong Kong's trading partners suffering from even more severe setbacks. The crisis of business confidence in 1997 had led to a wave of business collapses and closures that inevitably led to more widespread layoffs and retrenchment.

As the economy recovered by the early 2000s, it was thought that service-sector jobs above all, in sectors like the hotel sector, both in low as well as high-valued added products and services would compensate for job losses. The SARS epidemic of early and mid-2003 has probably been a grim reminder of the Special Administrative Region's economic vulnerability. Today, there is less of a major 'crisis of confidence', at least compared with 1997, but spirits remain low as the economy slowly recovers and the labour-market still remains fragile.

The HKSAR economy fortunately soon bounced back. Rising competitiveness was greatly boosted by a weakening American dollar (the HK\$ is pegged to the US one). Tourism helped the economy to recover in the second half of 2003. Mainland visitors and a rise in exports greatly helped here (Harney, 2003). However a number of concerns remained, among them structural problems, over sixty straight months of deflation, as well as joblessness. There was a budget deficit over 6 percent; prices fell further, by over 3.5 percent, in spite of the fact the narrow M1 money-supply rose faster than in any other economy in East Asia (Subbaraman et al, 2003:9) and unemployment again rose, to over 8 percent (2003:14). One can interpret this data as either telling us that the trend was hardly dented by the 'SARS effect'; on the other

hand, we may decide it may have accentuated the key macro-economic imperfections noted above. We can say quite firmly that it had a decidedly negative impact on employment and human resources, with both economic and psychological consequences (see Lai and Chan, 2002), that may have medium-term, even long-term implications.

If it was thought that the expansion of service-employment, such as in the hotel industry or any other, would create a positive and stable employment equilibrium and compensate for the loss of manufacturing jobs, the Hong Kong authorities may have to re-consider their strategy and continually be on their guard against unforeseen circumstances.

In today's globalized world (see Warner, 2002), exogenous shocks may rock economies, almost instantly and no-one can accurately predict the co-efficient of vulnerability. Instancing 'new' epidemics, like SARS, we may find that their bark may however be worse than their ultimate bite. This epidemic killed many fewer victims than feared. But in the 'global village', it was to be the 'virtual epidemic' par excellence, as it created a huge psychological tidal wave that potentially could have economically devastated the Hong Kong and possibly the whole of East Asia, if not across other continents.

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<sup>1</sup> This figure seems extraordinarily large and there is no robust way to judge if it was an over-estimate.

<sup>2</sup> We will see later in this article that the rise in unemployment even after the SARS epidemic had passed was relentlessly upward in its trend rate.

<sup>3</sup> The psychological impact of SARS cannot be underestimated. This may have been because the WHO had declared that the virus, from the Corona family, was new and there was no treatment or vaccine at hand to deal with it.

<sup>4</sup> We have no objective corroboration of this account but it does seem plausible in the circumstances.

<sup>5</sup> The coefficient between the hotel sector and macro-level unemployment was highly geared as one might expect, since the former was more demand-sensitive.

<sup>6</sup> According to our field-interviews, HR managers were genuinely impressed by the 'understanding' exhibited by their employees in the course of the emergency, although the workers had apparently no 'realistic' alternative but to 'comply' with management initiatives in what was by all accounts a very 'testing' situation for all concerned.