

# 9

## Reward strategies in the tourism and hospitality industry

### Chapter objectives

This chapter considers reward strategies in the tourism and hospitality industry. Specifically this chapter will:

- Review differing employer and employee objectives with regard to pay.
- Consider debates about minimum and maximum wages and comparability of pay across tourism and hospitality sub-sectors and occupations.
- Recognize the importance of tipping as part of the reward package in tourism and hospitality.
- Discuss the variety of additional non-monetary rewards available to tourism and hospitality employers.

## Introduction

The first problem we face when thinking about the notion of reward strategies is a terminological one. When we talk about rewards we are likely to hear a variety of terms. For example, Foot and Hook (2005) note a number of commonly used terms used to describe payment systems, including 'compensation', 'remuneration', 'reward', 'payment', 'wages' and 'salaries'. Increasingly in a prescriptive HRM sense there is much talk of 'total remuneration planning', 'reward management' or 'reward strategy' as denoting a more strategic and holistic approach to the rewarding of employees. Therefore in this more prescriptive view it is argued that employees seek a range of monetary and non-monetary rewards – the so-called 'cafeteria approach' – from employment of which money is only one aspect, even if it is often the primary consideration for employees. Thus, employees may seek both extrinsic and intrinsic and financial and non-financial rewards at work. That said, a more realistic assessment is that in reality the provision of extrinsic rewards is certainly the most substantive issue in the effort–reward bargain and often the most problematic aspect of employment. Therefore this chapter will focus on the notion of extrinsic rewards and in particular pay as it will often be the main reason why people work. In considering pay and other aspects of remuneration, this chapter will also recognize how the nature of tourism and hospitality as an employing sector will significantly impact on the development of reward strategies. For example, the existence of a relatively large number of unskilled and semi-skilled employees means low pay is endemic in many parts of the tourism and hospitality sector, particularly the sub-sector of hotel and catering.

## Employee and employer views of pay

Torrington et al. (2005) recognize how, 'the contract for payment will be satisfactory in so far as it meets the objectives of the parties' (p. 569). In recognizing this point we can now consider how these objectives are likely to differ depending on whether it is employees or employers.

### Employee objectives for the contract for payment

#### *Purchasing power*

The absolute level of weekly or monthly earnings will determine the standard of living of individual employees, so they will aim to maximize their purchasing

power. In simple terms, employees will ask themselves how much they can buy with their earnings. Torrington et al. suggest that employees will rarely be truly satisfied about their purchasing power. Indeed, it could be argued that purchasing power has become ever more resonant in an era of conspicuous consumption in which marketing and advertizing portray a wide array of goods or services which people should be aspiring to consume.

### ***Felt to be fair***

In many respects the notion of felt to be fair is captured in the idiom of 'a fair's day pay for a fair day's work'. In this sense employees tend to have a strong sense of what they feel is an appropriate level of payment which is fair to the job they are doing. As Torrington et al. note the employees who feel underpaid are likely to withdraw from the job and are more likely to be absent or late, for example. This situation can be exacerbated if an employee has no real choice in terms of potentially moving elsewhere. Of course employees may not simply feel underpaid, there may be some instances were employees actually feel they are overpaid. In such instances employees may feel guilty or attempt to look busy, which from an organizational point of view may not necessarily be particularly productive.

### ***Rights***

Here Torrington et al. recognize the fundamental issue of the rights of employees to a particular share of a company's profit or the nation's wealth. Clearly, the manner in which wealth is currently shared out is one which engenders much debate and many employees might feel that they are not getting a reasonable or fair share of the wealth that is created. This general sense of unease will often be expressed by trade unions in particular, who will seek to create a more fair division of wealth based often on notions of social and economic justice.

### ***Relativities***

Torrington et al. note that a question often asked by employees is 'how much do I (or we) get relative to ... group X?' (p. 597). In that sense the notion of relativities is similar to the issues considered in the discussion of felt to be fair. Here though the employee will not ask whether remuneration is fair to the job done, but instead whether it is reasonable compared to jobs done by other people. Comparison may take place at a number of levels from the immediacy of the person sitting at the next desk to other companies or other professional or occupational groups. Much

of this comparison may not be based on an entirely objective view. For example, in comparing one job with another there may be significantly more responsibility in a job that perhaps shares a similar title or job description.

Notions of felt fair, rights and relativities are particularly important and will often lie at the heart of much of the debate and controversy which is generated about pay and especially whether people are being 'fairly' paid (see HRM in practice 9.1).

## Review and reflect

Are the chief executives described in HRM in practice 9.1 'greedy bastards', as John Edmonds suggests, or fairly remunerated?

### **Recognition**

Torrington et al. note how most employees want to see their personal contribution recognized either to be reassured of their worth or to facilitate career progression. Part of this recognition may well be financial recognition, though in reality there may be other aspects as well as the financial in recognizing and improving performance.

### **Composition**

Composition refers to the issue of how a pay package is made up and how this may vary between individual employees, depending on things like age or sex. For example, younger employees may be much more concerned with high direct earnings at the expense of indirect benefits such as pensions, which are likely to be of more interest to older employees. Other issues surrounding the composition of pay packages include aspects such as overtime and incentive or performance-related pay.

## **Employer objectives for the contract of payment**

### **Prestige**

As Torrington et al. note, 'there is a comfortable and understandable conviction among managers that it is "a good thing" to be a good payer' (p. 598). Clearly part of the reason for being a good payer is to attract the best labour which is available to an organization. Torrington et al. warn that being a good payer does not axiomatically bestow a reputation as a good employer. That said, they also suggest

## HRM in practice 9.1 The disparities between those who have and those who do not have in tourism and hospitality

Much of the debate about disparities in pay focuses on notions of fairness and equity and the difference between those at the top and bottom of the earnings ladder. Indeed, the issue of pay inequality has often been at the forefront of trade union campaigns to increase wages for those lower down the organizational hierarchy. For example, John Edmonds, then general secretary of the GMB union, once famously railed against private sector bosses who awarded themselves inflated pay increases describing them as 'greedy bastards' (Milne and White, 1998) who were indulging in the 'politics of the pig trough' (Milne, 1998). Certainly this debate has some resonance for tourism and hospitality and over the years there has been plenty of evidence to suggest that there is a significant pay gap between those who have and those who do not have in tourism and hospitality.

*Travel and Leisure Industry Salary Survey 1997* found that the highest paid directors at the UK's top 12 tourism and hospitality companies earned an average of £478 500, compared to a staff average of £11 360. Some of the so-called 'fat cats' were:

Peter George – Ladbroke chief executive £1 280 000

Gerry Robinson – Granada chairman £728 000 (though in December 1999 by cashing in share options he made a pre-tax profit of £5.26 million)

Sir Ian Prosser – Bass chairman £678 000

*Caterer and Hotelkeeper* (23 December 1999) reported that chief executives in the hospitality industry received an average pay increase of 20.8 per cent, compared to 3.5 per cent for employees.

*Caterer and Hotelkeeper* (18 May 2000) reported how David Thomas, Chief Executive of Whitbread, saw his total salary raised by 25.8 per cent, while group profits dropped by 14.8 per cent. His overall earnings were £593 103. The same article also reports how the average basic salary of 20 selected chief executives in the hospitality and leisure sectors was £330 835, which with bonuses and benefits rose to £370 293.

*Leisure and Hospitality Business* (25 July 2002) reported the highest paid chief executives packages for 2001/2002. The highest earner was Tom Oliver, Director of Six Continents Hotels and Resorts, who had a basic salary of £527 000, bonuses of £533 000 and benefits of £207 000, giving him an overall package of £1 267 000. The lowest paid director was Paul Dermody of the De Vere Group. His basic salary was £231 000, his bonus was £50 000 and his benefits £13 000, giving him a total salary of £294 000.

*IRS Employment Review* (19 May 2006) report a survey of salaries in the leisure industry. Amongst other things it notes that the average employee in the industry earns £18 602 a year, just 4.4 per cent of the average £501 613 paid to chief executives.



## HRM in practice 9.2 The NMW in the leisure industry

IDS (2004) note that in the past many companies in the leisure sector have preferred to keep their rates well ahead of the NMW. However, more recently the level at which the NMW has been uprated has meant that some leisure employers have found it more difficult to be a higher paying employer. In the past by paying above the NMW some leisure employers were seen as 'good' employers, especially given the large number of unskilled jobs in the sector. As one company is quoted as saying, 'Now when we are asked what we pay, we have to say "minimum wage" which puts a real stigma on both the job and the staff who do these jobs'.

that being seen as a low-paying employer will mean an organization has a reputation as being a poor employer.

### **Competition**

Here a key issue is the need to pay rates that are sufficiently competitive to sustain the employment of the right number of appropriately qualified and skilled employees for the organization's needs. Unlike prestige the key aspect in considering competition is the need for a good fit to ensure for example that employers are not over paying employees.

Clearly an important part of prestige and competition is the manner in which the organization is interacting with the external labour market and ensuring that they are getting the right kind of labour at the right kind of price (see HRM in practice 9.2 and 9.3).

### **Control**

Torrington et al. note the manner in which organizations have to consider controlling pay and particularly the extent to which money may be saved, though changes with regard to legislation in areas such as redundancy mean that such measures are less apparent in organizations.

### **Motivation and performance**

At one level there is a simple issue facing organizations in terms of their ability to use payment to motivate employees to perform well. In reality though there may be a number of means to achieve this. For example, the use of performance-related pay.

## HRM in practice 9.3 Challenging perceptions of 'McJob'

McDonald's has often been at the forefront of arguments that suggest that work in tourism and hospitality is inherently low paid and with little meaning. For example, Douglas Coupland, the author of *Generation X: Tales for an Accelerated Generation*, coined the term McJob to describe a low-paying, low-prestige, low-dignity, low-benefit job, no-future job in the service sector. Recently the company has sought to address these issues head-on with a sustained campaign to change perceptions about the McJob descriptor. A key part of this re-branding has been attempts to draw attention to fairness with regard to career opportunities and remuneration. For example, the company has suggested that the proportion of employees who regard their pay as 'fair' is 30 per cent higher than comparable companies. Part of the reason for this finding may be the manner in which McDonald's pay well above the lowest rate of the NMW for 16–17-year olds. The company has a lowest rate of £4 per hour for this group of employees, a full pound above the state's 16–17-year-old development rate. Of course, McDonald's have a relatively large number of employees who will be in the 16–17 age bracket and so arguably could be seen to be a 'good' employer to that particular segment of the labour market. Interestingly this is in contrast to the rate for 18–21-year olds and those aged 22 years, where the lowest rate is at the level of the NMW, although with increments staff can eventually earn a top hourly rate of £8.70.

Derived from Anon (2006); Overall (2006).

### Cost

Torrington et al. note how just as employees are concerned with their purchasing power, so employers are interested in the absolute cost of payment. In particular, organizations will be concerned of the impact on labour costs on profitability or cost effectiveness. This issue has a particular resonance in tourism and hospitality due to its labour intensive nature, meaning that the proportion of labour costs is higher than most other industries.

### Change management

Pay may be used as part of a broader change management process. For example, there may be additional bonuses available for employees willing to develop new



behaviour, attitudes or skills, which are required as part of a cultural change process.

In sum, employers will be seeking an approach to reward management which is likely to have several principal objectives, including:

- Attract and retain suitable employees.
- Maintain or improve levels of employee performance.
- Comply with employment legislation.

Clearly, the approach that an organization develops towards reward strategies does not exist in isolation and there will be a number of other influences on pay determination that will affect such considerations, including:

- *Beliefs about the worth of the job* – for example, the size, responsibility, skill requirements and ‘objectionableness’ of duties.
- *Individual characteristics* – for example, age, experience, seniority, general qualifications, special skills, contribution, performance and potential.
- *Labour market* – the level and composition of any given reward package will be influenced by labour supply and demand at either national or local labour market level, and whether an organization is seeking to create a strong internal labour market.
- *Strength of bargaining groups* – for example, the potential for trade unions to influence pay determination. At any given time the relative strength of trade unions will be influenced by other external economic factors, such as the level of unemployment and feelings of job security.
- *Government intervention and regulatory pressures* – for example public sector policy and other policy initiatives. Most obviously, the statutory national minimum wage (NMW), but also in terms of public policy towards aspects such as trade unions and collective bargaining.

There are a wide range of things then which can conceivably influence and shape the rewards that employees may get and the ‘market rate’ for a particular sector or occupation. Let us now begin to develop this framework within the context of tourism and hospitality.



## Remuneration in tourism and hospitality

Generally when we are talking about remuneration in the tourism and hospitality industry, we can start with the fairly negative observation that relative to other industries the majority of jobs and occupations within the sector are poorly remunerated (Lucas, 2004; Baum, 2006). When we recognize that often there is low status ascribed to the industry the perception held by a number of people is that for many tourism and hospitality is an employer of last resort, with mundane, degrading employment. The prevalence of low pay and perceptions about low status can be seen as being two key issues which continue to sustain the negative view held by many of tourism and hospitality work (Lindsay and McQuaid, 2004). To begin to examine remuneration in tourism and hospitality in detail we should begin by recognizing the work of Mars and Mitchell (1976) and their notion of the 'total rewards system'. The 'total rewards system' has several aspects, which are: basic pay and subsidized food and lodging, which can be considered as the 'formalized' aspect of the wage-effort bargain; and other aspects which can be considered as more informal rewards, these being tips, which are semi-formalized, and 'fiddles and knock offs', which are non-formalized. In reality, it is apparent that the notion of a 'total rewards system' is in fact a misnomer and there are a variety of other aspects in terms of a range of benefits that may be used by tourism and hospitality organizations to make up a reward package, a point which we will further consider later in this chapter. Nevertheless, at least initially the notion of the total rewards system provides a useful starting point to consider some fundamental issues and concerns in understanding reward practices in the tourism and hospitality industry, particularly with regard to basic pay and tipping.

### Basic or base pay

In a general sense Torrington et al. (2005) note that there are a number of approaches to the setting of base pay rates. Here, of course as we noted earlier in this chapter managerial actions may be constrained by the manner in which the state influences pay determination, most obviously with the provision of minimum wage legislation. In addition to this aspect though Torrington et al. also note the importance of external market comparisons and for example whether employers will pay at or above 'the going rate' for a particular job. There are also internal



labour market mechanisms in which the skills and experience of employees will have a bearing on their pay. A further mechanism to determine pay is job evaluation, which is a systematic attempt to aid the establishment of differentials across jobs within a single employer. As a consequence the organization's wage budget is divided among employees on the basis of assessing the nature and size of the job they do. The last mechanism identified by Torrington et al. is that of collective bargaining, where pay rates are determined through collective negotiations with trade unions or other employee representatives. As will be discussed in the following chapter though, trade union representation has always been very low in the tourism and hospitality sector and collective bargaining has tended to play little influence in pay determination in the sector. Instead, determination of pay in tourism and hospitality has traditionally been a matter of managerial prerogative (Lucas, 2004).

In considering pay in tourism and hospitality the first point which is worth noting is the enduring and prevailing existence of low pay in the sector. For example, Wood (1997a: 69) notes how, 'the majority of academic evidence concurs in suggesting both that basic rates of pay in hotels and catering are inadequate and employers are frequently ruthless in pursuing low-pay strategies'. Thus tourism and hospitality, and particularly the hotel and catering sub-sector, is low paid, both in absolute terms (i.e. purchasing power) and relative terms (compared to most other workers) (see also HRM in practice 9.4).

Whilst the hotel and catering sub-sector is clearly low paid, the picture in other areas of the tourism sector may be more mixed. On the one hand, Baum (2006) notes how other sub-sectors such as travel agencies, airlines and tour operators, who are often staffed by young and female employees, also offer relatively poor remuneration. Often this will mean that for a number of front-line positions, such as travel advisors, the pay rate will be at or near the NMW. For example, MyTravel, a major provider of package holidays and other leisure travel services, offers a salary range for a travel advisor of £9000–£11 500 (<http://www.mytravelcareers.co.uk/retail/> accessed 15 May 2006). On the other hand, a recent survey conducted by Croner in conjunction with the Association of British Travel Agents (ABTA) suggests that the median basic salary for workers in the travel industry was £21 753, which rose to £23 135 when other aspects such as commission and bonuses were added (IRS, 2006b). These figures are clearly significantly higher than the figures for the hotel and catering industry noted in HRM in practice 9.4. Moreover, whilst relatively low pay may be true for a number of front-line positions in tourism and hospitality it is a different picture for other occupational

## HRM in practice 9.4 Condemned to low pay? A history of low pay in the hospitality industry

1975 – The Hotel and Catering Economic Committee suggested on the basis of low pay of 60 pence an hour for men and 55 pence an hour for women, 49 per cent of full-time men and 88 per cent of full-time women in hotels and catering were low paid, compared to 11 per cent and 53 per cent in 'all industries' across the economy.

1986 – Byrne estimated that between 57 and 64 per cent of full-time workers in hotel and catering employment were low paid (i.e. defined as earning less than two-thirds of male median earnings).

1989 – A British Hotels, Restaurants and Caterers Association survey revealed catering managers earned 27 per cent less than average non-manual workers and non-manual employees earned 28 per cent less than the average for manual workers.

1999 – The Office of National Statistics *New Earnings Survey 1999* found that waiters/waitresses (average gross annual salary £8879), along with kitchen porters and kitchen hands (average weekly wage £180.50) were the lowest paid of all UK employees (the average yearly pay across all occupations was £20 919).

2003 – The Office of National Statistics *New Earnings Survey 2003* found that hotel and restaurant employees were the lowest paid in the country. Average gross annual pay for full time restaurant and hotel employees was just £16 533, compared to a UK average of £25 170.

2005 – The Office of National Statistics *Annual Survey of Hours and Earnings 2005* found that hotels and restaurants had the lowest median gross annual earnings at £14 653. The highest paying sector was financial intermediation at £29 962. The median for all industries and services was £22 903.

Derived from Wood (1997a); Bozec (1999); Anon (2003); IRS (2006a).

groups. For example, IRS (2006c) note that in First Choice Airways' a first officer can expect to start work with the company at a basic salary of £31 011, with a captain's salary ranging from £67 576 to £94 113. Generally though, as with the hospitality sub-sector, the bulk of employees within tourism-related occupations are likely to be relatively low paid (Baum, 2006). To an extent though Baum also recognizes that within a number of tourism jobs aspects such as travel opportunities, uniforms

## HRM in practice 9.5 Work as leisure

Guerrier and Adib (2004) conducted research by interviewing and observing 14 overseas tour reps in Mallorca. They found that for this group of employees there will often be a blurring between work and leisure, which may allow the worker to enjoy some of the benefits of leisure at work. As an example overseas tour reps may not distinguish between their work and non-work lives. Customers may be their friends, their workplace is where they would 'hang out' anyway and their work does not demand a subordination of self but only a presentation of their authentic, fun loving and sociable self.

and a generally pleasant working environment may encourage something of a trade-off between a desire for higher levels of pay and less acceptable conditions or other benefits (see HRM in practice 9.5).

### Wage regulation in tourism and hospitality

Although we noted above that pay determination has largely been dictated by the managerial prerogative in more recent times the introduction of the NMW has introduced greater regulation by statutory means. The NMW marks a significant change in the British employment landscape and will be discussed in due course. To place the emergence of the NMW in context though it is worth briefly mentioning wages councils, which had previously played a role in setting a *de-facto* minimum wage. For a large number of those working in tourism and hospitality, and particularly hotel and catering, the wages councils provided a minimum safety net with regard to wages for nearly 50 years. First introduced in 1909 as trade boards, and first covering the hospitality sector from the mid-1940s, wages councils peaked in the 1950s covering over 3.5 million workers, providing surrogate collective bargaining for the low paid (Metcalf, 1999). At the time of their abolition in 1993 there were three wages councils that covered different sub-sectors of the commercial hospitality industry and the mean hourly rate they set was £2.97 per hour which was £115.96 for a 39-hour week or £6029.92 per annum (Goldsmith et al., 1997). From 1993 to the introduction of the NMW in 1999 there was no real protection for employees and evidence suggests that a number of employers took advantage of this omission in an attempt to drive down wages (Lucas and Radiven, 1998; Lucas, 2004).

The NMW now seems a well established aspect of the employment landscape but prior to its introduction there was vociferous debate about whether it should even be introduced. For example, the British Hospitality Association (BHA) was implacably opposed to the NMW. Much of the debate was centred on whether the argument was best understood from a moral or economic point of view (see Wood, 1997b for an overview of the debate). For example, in the interests of social justice proponents of the NMW suggested that all employees should be 'decently' paid. On the other hand, opponents pointed to the likely rise in unemployment created by rising payroll costs stemming from the NMW. It was in this context that the NMW was introduced by the Labour Government. Once the minimum wage was accepted as a key policy plank of New Labour's notion of 'fairness at work', the main issues became practical ones, such as the level the wage was set at and the way it was implemented and enforced. To a large extent these issues were determined by the Low Pay Commission (LPC), which was established in July 1997 as a statutory body and has continued to play a key role even after the enactment of the minimum wage legislation. The LPC consists of nine members who represent the interests of employers, unions and employees, and 'objective' independent expert academics (Thornley and Coffey, 1999). Indeed, the LPC was able to largely agree on the terms of the implementation of the NMW and is suggested as providing an exemplar of a positive social partnership between employers and employees in particular (Metcalf, 1999; though see Thornley and Coffey 1999 for a more critical account).

The LPC reported in 1998 with the *National Minimum Wage Act* coming into being in the same year and the NMW actually starting on 1 April 1999. There was much discussion and horse trading in relation to issues such as the level of the NMW and whether things like tips would be included. For example, with regard to the rate the Confederation of British Industry suggested £3.20, the Trades Union Congress had suggested £4.00 and many trade unions and pressure groups, such as the Low Pay Unit (LPU), using the formula of applying half male median earnings to the New Earnings Survey, suggested £4.61. George Bain, then chair of the LPC, had gone on record to suggest that £3.75 was not outrageous (Barnett, 1997) and it was calculated that if Wages Councils had still been in existence the rate in April 1999 would have been £3.90 (Metcalf, 1999). Ultimately though the main rate was set by the LPC at £3.60 (see HRM in practice 9.6).

The reaction to the NMW was mixed. On the one hand employers views were generally favourable about what they felt was an acceptable rate. For example, the



## HRM in practice 9.6 The LPC: Shaping the NMW in tourism and hospitality

### *Main recommendations:*

- NMW to be £3.60 with an upgraded rate of £3.70 in June 2000.
- Development rate for 18–21-year olds £3.20 per hour rising to £3.30 by June 2000.
- NMW not expected to be subject to regular annual revision and not index-linked in any fashion.
- 16–17-year olds exempt.

### *The Government response:*

- Acceptance of the £3.60 figure, which came into force on 1 April 1999.
- Development rate to be £3.00 per hour.
- No guarantees that the upgraded rate would apply to either the development or full rate in June 2000.
- Exemption of young workers.
- Tips and service charges distributed centrally via payroll to count against NMW, but cash tips paid by customers directly to staff not included.
- A maximum figure of £20 to be deducted for the cost of employees' accommodation.

Derived from Walsh (1998); Metcalfe (1999).

BHA applauded what they considered to be a 'realistic' wage, supported the 'sensible' level for 18–21-year olds, but expressed regret that there were no regional variations (Clavey, 1998). There were also some concerns from some tourism employers that the accommodation offset would count towards payment of the NMW but only at the rate of £20 per week (Fox, 1998; at the time of writing this offset now stands at £27.30).

On the other hand, trade unions and the LPU were less sanguine at what they felt to be an overly prudent and overcautious rate. As Bill Morris, then General Secretary of the Transport and General Workers Union, pithily put it, 'Thank you for the principle, shame about the rate' (cited in Metcalfe, 1999: 193). Similarly, Rodney Bickerstaffe, then General Secretary of Unison, applauded the implementation of the NMW whilst also suggesting that, '£3.60 for an hour of anyone's life at the end of the 20th century in one of the richest countries on earth is not something to be proud of' (cited in Clavey, 1998: 10; and see HRM in practice 9.7).



## HRM in practice 9.7 A 'Living Wage'?

The GLA (2006) note that since the inception of the NMW, at what many trade unions felt to be an unnecessarily low level, there has been much discussion of what is an 'acceptable' level for the NMW. More recently, a campaign has emerged in support of a 'living wage'. Originating in America, the living wage campaign aims to address what it considers to be 'poverty wages'. Currently it is suggested that the 'living wage' for London should be £7.05 (similar campaigns have been started in other parts of the UK) and campaigners are seeking to target industries such as tourism and hospitality to ensure that companies are paying this wage. With mayoral support in London and a commitment from the London 2012 Olympic project team to the living wage, the campaign has enjoyed some success in raising the issue of low pay.

Despite the disappointment on the part of trade unions and other lobbying bodies at the rate at which the NMW was set, approximately two million workers did receive a wage increase as a result of the legislation, with many of these workers being women, part-timers, youths, non-whites and single parents (Metcalf, 1999). Of course many of these workers were to be found in tourism and hospitality with the LPC estimating that around 800 000, or 42 per cent, being in the retail and hospitality sectors (LRD, 1998).

Although the tourism and hospitality industry was disproportionately affected in terms of the number of employees who benefited from the NMW, due to its low rate it has been suggested that in reality there has been 'minimum impact' and 'much ado about nothing', even in smaller businesses (Rowson, 2000; Turnbull, 2000; Adam-Smith et al., 2003). Indeed, a survey undertaken of low-paying sectors by Income Data Services (IDS) prior to the introduction of the NMW found that a number of larger tourism and hospitality companies, such as Centre Parcs and Marriott, were already paying at, or over the rate at the point of implementation (IDS, 1999, though see also HRM in practice 9.8).

Employer concerns about issues such as loss of competitiveness and job losses have also proved to be wide of the mark (LRD, 2001). For example, Lucas (2004) notes how employment has increased in the hospitality sub-sector by over 200 000 since 1999.

As was noted earlier in this chapter the LPC having initially recommended the rate for the NMW has had the responsibility of reviewing its operation and in the

## HRM in practice 9.8 Pizza Hut and Pizza Express: Taking away from their employees

Pizza giants, Pizza Hut and Pizza Express, found themselves at the centre of controversy when the NMW was implemented. Both companies responded to the implementation of the NMW by seeking to reign in costs. Pizza Hut removed paid taxi fares home for their staff, claiming that they could no longer afford this benefit with the introduction of the NMW. Pizza Express initially retained a basic rate of pay of £3.10, with the expectation that tips would make up the shortfall, despite the law saying that tips could only be included if they were paid through the bill. As a result of this decision the company was ultimately forced to pay out £250 000 in back pay to waiting staff.

Derived from Anon (1999a, b).

period from 1999 has recommended regular annual uprating, though this has reflected prevailing economic circumstances rather than any particular uprating formula. Interestingly though in the period 2002–2006 the adult minimum wage has increased by 27.4 per cent, while average earnings increased by just 17 per cent (LPC, 2006). Though in its most recent report the LPC does acknowledge that the phase in which they are committed to increasing the NMW above average earnings is now complete and in future will have no presumptions that increases above average earnings are required. Importantly, the LPC also recommended that 16–17-year olds be brought under the umbrella of the NMW from October 2004 (see Table 9.1). Bringing 16–17-year olds under the aegis of the NMW again disproportionately impacted on tourism and related industries with retail and hospitality respectively accounting for 45 per cent and 21 per cent of the overall total brought under minimum wage protection (LPC, 2006).

Although the NMW is a relatively recent phenomenon in the UK nearly all OECD countries have minimum wage setting arrangements (Metcalf, 1999). A number of Scandinavian countries and countries such as Germany and Italy rely on collective bargaining mechanisms to set minimum wages, ordinarily at a sectoral level. In a large number of countries though there are statutory requirements and it is interesting to compare the UK with a number of other countries (see Table 9.2).



**Table 9.1** How the UK NMW has evolved since 1999

Adult rate (for workers aged 22+)		Development rate (for workers aged 18–21)		16–17-year olds rate	
1 April 1999	£3.60	1 April 1999	£3.00	–	–
1 October 2000	£3.70	1 October 2000	£3.20	–	–
1 October 2001	£4.10	1 October 2001	£3.50	–	–
1 October 2002	£4.20	1 October 2002	£3.60	–	–
1 October 2003	£4.50	1 October 2003	£3.80	–	–
1 October 2004	£4.85	1 October 2004	£4.10	1 October 2004	£3.00
1 October 2005	£5.05	1 October 2005	£4.25	1 October 2005	£3.00
1 October 2006	£5.35	1 October 2006	£4.45	1 October 2006	£3.30

Source: <http://www.lowpay.gov.uk/> Reproduced with permission from the LPC.

## Review and reflect

In considering debates about the NMW and the pay disparities outlined in HRM in practice 9.1, is there an argument for a *maximum wage*?

In addition to basic pay there are a number of other aspects which can be considered in reviewing payment issues in tourism and hospitality. IDS (2005a, b) in their annual review of hotels, pubs and restaurants note a number of additional areas where employees could enhance basic pay. Just over half of the 20 hotels they surveyed offered a premium for night work. This payment could either be a flat rate, for example night porters in one hotel could earn £1800 more than day porters. Alternatively some of the surveyed hotels paid a premium for those hours worked at night with IDS citing the example of food and beverage staff receiving an additional 30 pence an hour for every hour worked past midnight. With regard to the broader issue of bonus and incentive schemes, all but two of the surveyed hotels offered a bonus or incentive scheme. Many of these schemes attempt to incentivize front-line staff to offer good quality service in showing appropriate behaviours and attitudes and may use some of the customer appraisal techniques discussed in the previous chapter, such as mystery guests. In over half of the schemes payments are related to sales, with profit- and performance-related payments being the next most



**Table 9.2** Comparison of the level of the adult minimum wage across selected countries, end 2004

Country (and year first introduced)	In UK £ <sup>a</sup>	Age at which full rate usually applies	Adult rate as a percentage of full-time median earning
Australia (1996, some form since 1907)	5.37	21	58.5/55.1 <sup>b</sup>
Belgium (1975)	4.92	21	48.5
Canada (women 1918–1930, men 1930–1959)	3.66	16	39.5
France (1950, 1970 in current form)	5.20	18	56.6
Ireland (2000)	4.15	20	51.7
Japan (1959, 1968 in current form)	2.71	–	33.7
Netherlands (1968)	5.04	23	46.4 (50.1)
Portugal (1974)	1.99	16	38.0 (44.4)
Spain (1963, 1976 in current form)	2.34	16	30.0 (35.0)
United Kingdom (1999)	4.85	22	43.2
United States (1938)	3.37	20	32.2

<sup>a</sup>Adjusted for purchasing power parities (August 2004).

<sup>b</sup>Depends on the earnings survey used.

Figures in brackets include annual supplements.

Derived from Metcalfe (1999); LPC (2005).

common measure. The criteria differed across the hotels. IDS cite the example of Hilton where heads of division receive a bonus based on profit, service and people management, whereas staff received a bonus based on sales. In one of the surveyed hotels food and beverage staff received a bonus based on service charge. Only one of the surveyed hotels had a share option scheme and one also operated payments for guest mentions. A further issue is that of pay progression and IDS note how a number of the fast food companies that they surveyed linked pay to progression. For example, McDonald's links pay increases to performance appraisals, which are based on four fixed levels, 0 per cent for 'needs improvement', 3 per cent for 'good', 4.5 per cent for 'excellent', 6 per cent for 'outstanding', with most employees receiving a 3 per cent rise. Pay progression may also be linked to the completion of



training in Prêt A Manger, where employees have to pass three assessments and written tests to progress. Similarly, within the travel industry a recent survey of salaries reported in IRS (2006b) found that bonus payments were common at all levels of the industry. For example, half of the companies in the survey paid commission to employees, based on their sales.

## The practice of tipping

The notion of tipping is important in a number of ways, not least in its economic importance. For example, Lynn (2003) suggests that consumers tip over \$16 billion a year in the US. Tipping may allow some tourism and hospitality workers to significantly augment their income, though the potential impact with regards to issues such as job satisfaction and emotional well-being equally need to be considered. Ogbonna and Harris (2002) also note the possibility of tipping being used as a managerial mechanism to encourage individualization and subjugation of employees. Tipping in this latter view becomes an important managerial tool for the indirect control of employees in the employee–customer interaction, as well as potentially suppressing interest in more collective power, for example through trade union organization. Ogbonna and Harris (2002) note how employees in the UK restaurant they studied resisted managerial attempts to resort to a system in which tips would be kept by the company in return for a 10 per cent increase in pay; in addition in the same case study management threatened to abolish tipping if the employees became unionized.

### Review and reflect

What are likely to be some of the financial and emotional hazards for tourism and hospitality employees who are reliant on tips to sustain a reasonable wage?

It is important to note that tipping is very much culturally bound and as Ogbonna and Harris (2002: 726) recognize, 'although tipping is an internationally recognizable behaviour, the actual practice is heavily influenced by societal cultural considerations'. For example, tipping is widely practiced within the US, but is not as widespread in the UK and elsewhere (see HRM in practice 9.9).

## HRM in practice 9.9 Tipping in different countries

The US is generally recognized as having the most highly developed approach to tipping. For example, it is not unusual for hotel guests to have to tip five people before they get to their room. In the US for many tipped positions the general expectation is that customer should tip at least 15 per cent. Tipping is less prevalent in other countries such as Australia, New Zealand and Sweden. For example, in New Zealand tipping is not considered a normal cultural practice and moves to a US-type approach appear unlikely. Managers and employees in New Zealand saw the institutionalization of tipping in the US as distasteful and were particularly unanimous in their denunciation of the US practice of using tips to boost poor wages. It was felt that employers should fairly remunerate employees and that this should not be left to customers. In many south-east Asian countries it is not customary to tip and tipping can be a sensitive topic, especially if social conventions are breached and people lose 'face'. In contrast, research in France – where tipping is unusual – found that if a waitress touched customers she got more and better tips. This 'touch effect' is found in other countries, such as the US, but seems particularly pronounced in France due to the tactile nature of social relations.

Derived from Callen and Tyson (2000); Casey (2001); Dewald (2001); Gueguen and Jacob (2005).

Tipping is then largely driven by socio-cultural norms and/or individual conscience. In relation to tourism and hospitality we should recognize that some workers are in a position to enhance basic wages from tips, but this is only true for those in tipped positions. Even for those in tipped positions it should also be acknowledged that tips are notoriously unpredictable. Lynn (2001; and see also Lynn, 2003) conducted a meta-analysis of a number of studies which had examined the relationship between restaurant tipping and service quality and found a weak relationship. Consequently, for many front-line staff tipping may be more influenced by external factors such as the race and gender of the customer, prevailing weather conditions or even the result of football or rugby matches that are played near the restaurant (Ogbonna and Harris, 2002).

The point is often made as well that tipping means losing sight of the fact that the vast majority of people in tipping positions are generally in low-wage, low-status occupations. Despite this point there is an argument, usually from employers,

that tipping is a good motivator and that abolishing tips and paying higher wages is not the answer, while alternatively others argue that tips are an unwelcome part of the tourism and hospitality industry and a 'fair' fixed living wage would be more desirable (Wood, 1997a). Critics of tipping would also argue that the practice weakens social relationships as a number of interactions in tourism and hospitality become overtly economic exchanges. It is also argued that tipping increases power differences as in menial low-status jobs tipping reinforces and makes salient the inferior status of workers. For example, Ogbonna and Harris (2002) found that a number of waiters and waitresses they interviewed felt that they were often abused physically and mentally and had to accept subtle forms of sexual exploitation. Engaging in sexualized flirting with customers may be part of a process that degrades and debases front-line workers, often for comparatively little financial reward (a point further considered in Chapter 11). There is also the final related point that tipping tends to encourage a very individualistic view of the workplace and does little to sustain a harmonious workplace relationships and that tipping tends to weaken organizational commitment.

Clearly there is much debate about the efficacy and morality of tipping, though given the reality of this practice still being prevalent in a number of tourism and hospitality environments it is worthwhile briefly considering the underlying motives for tipping and how servers may maximize their tips. With regard to motives underlying tipping Lynn et al. (1993) suggest the following:

- Desire for good service in the future.
- Desire for social approval.
- To compensate servers equitably for their work (i.e. reward their effort).
- Desire for status and power.

Furthermore, Lynn (1996 and 2003) reports on research which suggests a number of ways in which servers' are likely to increase their tips:

- Server introduction in a genuine and professional manner.
- Squatting next to table, though this is more likely to work in a casual dining environment, compared to fine-dining where it may be considered inappropriate.
- Smiling at customers.
- Touching customers.
- Credit card insignia on tip trays.



- Writing 'Thank You' on checks.
- Drawing a 'happy face' on checks.
- Wearing a flower in hair and other means of personalizing the server's appearance.
- Entertaining customers by for example telling a joke.
- Forecasting good weather.
- Calling customer by name.

Of course, there are several obvious caveats to the above discussion. First, the research is based in the US and as we noted earlier in this chapter tipping is a culturally bound phenomenon. Second, not all of these tip-enhancing techniques will be appropriate for every type of restaurant or service setting, or indeed every server. Consequently some of these aspects may work better than others and should be used advisedly, both by individual employees and managers who encourage servers to use such techniques.

## Fiddles and knock-offs

Whilst basic pay, accommodation and tipping represent the more formalized aspects of the reward package in tourism and hospitality it is also briefly worth considering fiddles and knock-offs. Mars and Nicod (1984) found a large range of fiddles in their work and note how 'they are acts of dishonesty which the people involved do not consider dishonest' (p. 116). Fiddles generally involve pilferage from organizations, usually in a monetary sense. Knock-offs can also be considered a form of fiddle involving the purloining of (usually) small items such as soap, linen and towels. Generally, these practices are institutionalized within the organization and may be dependent on a degree of management and supervisory collusion, although certain boundaries and parameters will be set to delineate what is 'acceptable'. Indeed, with regard to this notion of acceptability organizations may tighten up on a 'blind eye' approach to fiddles and knock-offs when business slackens and the organization is looking to reduce labour costs (Lucas, 2004). A further important point noted by Wood (1997a) concerns the notion of individualism and the extent to which this is exacerbated by these practices. Thus, 'Whatever arrangements exist for the allocation of fiddles and knock-offs there are some grounds for believing that, as with tipping, these aspects of informal rewards militate against the development of a collective workplace or occupational ethic, fostering individualism and competitiveness' (p. 88).



## Other benefits

Although Mars and Mitchell characterized their model as a 'Total Rewards System', many critiques have suggested that the use of total in this instance is clearly a misnomer, and neglects a variety of other rewards which may be made available by the organization. For example, in their survey of 20 hotel companies IDS (2005b) found that three quarters provided free meals and staff discounts on rooms, restaurants and shops within the hotel. Twenty per cent offered free use of leisure facilities, including spas, beauty therapists, chiropodists and gyms.

### HRM in practice 9.10 Total rewards fly in at First Choice Airways'

First Choice Airways' is a UK leisure airline and part of First Choice Holidays plc. The company employs over 14 000 staff, including nearly 400 pilots. The rigorous entry requirements and on-going training and competency testing at least twice a year are indicative of the high level of responsibility associated with being a pilot. Resultantly the company has recently reviewed the total reward package offered to pilots and as a consequence developed a 'Pilot Change Agenda'. A key part of the change agenda was to ensure the pilots felt valued. Amongst other things this has led to the company to review the pay and other rewards offered to pilots and to develop a new 'total reward' perspective. Traditionally pilots already had a very good rewards package including: competitive base pay; two final-salary pension schemes; a money purchase pension scheme; free medical checks; private medical insurance; concessions of £1000 per year to spend on First Choice holidays, and the option to buy further holidays on a tax efficient basis; free uniforms; duty and subsistence allowances; share plans; voluntary benefits, for example childcare vouchers and other insurance and generous annual leave entitlement. Under the new change agenda additional aspects of the total reward system include a new bonus plan that links payments to adherence to corporate values and desired behaviour or performance, a new share plan scheme, flexible working options and a new long service award scheme. Of course, the nature of this package is very much driven by the highly competitive environment in which the company is operating and the unique nature of pilots as a group of employees in terms of their skills and qualities.

Source: IRS (2006c).

Around a sixth of hotels offered a pension scheme. Only one hotel provided life assurance, dental, optical and private medical care. A minority of respondents paid maternity pay above the statutory minimum, with 70 per cent paying sick pay above the statutory minimum. A similar survey conducted in the travel industry and reported in IRS (2006b) also noted a range of benefits. Over 70 per cent of the 34 companies surveyed offered a company pension scheme, though only 11 per cent of companies offered a final salary pension scheme. Over half of the companies offered private health insurance, with 39 per cent offering life insurance and see HRM in practice 9.10.

Although HRM in practice 9.10, in particular, illustrates the possible range of additional benefits that could be made available, in reality research suggests that most tourism and hospitality workers are less likely to enjoy such benefits. For example, Lucas (2004) cites figures from the Workplace Employee Relations Survey which compares the tourism and hospitality industry with all private sector services in terms of non-pay terms and conditions. With regard to employer pension scheme, company car/allowance, private health insurance and sick pay in excess of statutory requirements tourism and hospitality employers were significantly lagging behind other employers in both private service sector and all industrial sectors.

## Conclusion

We have examined a range of issues which cover rewards and payment which demonstrate that arguably a fair and effective deal is still some way off for the bulk of the tourism and hospitality workforce, and especially those in the hotel and catering sub-sector. In an ideal world the effort–reward bargain would satisfy all parties but the reality is different so for employers the strategy that is pursued seems to coincide with the controlling operations and cost aspects of Torrington et al.'s framework and for the employees there is little choice and no real sense of aspiring to any of the loftier principles embodied in the Torrington et al. framework. Furthermore prescriptive accounts of 'total reward' schemes that support the notion of employees picking and choosing from a range of options to tailor a pay and benefits package that meets their particular needs, need to be treated with a good deal of caution in tourism and hospitality where the cafeteria approach remains rare. Of course, as we acknowledged, there are exceptions to low pay both sub-sectorally and occupationally, though for the majority of employees in





tourism and hospitality notions of 'fair' remuneration remain somewhat elusive. Indeed, this may seem rather paradoxical as often those entrusted with delivering high-quality service may be the lowliest paid in the organization.

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## Websites

For an interesting discussion of the campaign towards a 'living wage', see [http:// www.livingwage.org.uk/](http://www.livingwage.org.uk/)

The US version of the campaign also has a website at <http://www.letjusticeroll.org/index.html>

The Low Pay Commission has lots of useful material on their site at [http:// www.lowpay.gov.uk/](http://www.lowpay.gov.uk/)

There is lots of interesting material on tipping at <http://www.tipping.org/index.shtml> and <http://www.bbc.co.uk/dna/h2g2/alabaster/A640018>