CHAPTER 12

Incentives

Competition among employers to attract and motivate effective employees, and other factors such as the nature of the taxation system have obliged employers over the years to seek ways and means of making the total remuneration package more attractive to employees. In some cases benefits, such as free health care insurance and airmiles are offered, often because other competitors do so. In other cases, incentives are offered in order to focus the employee's attention on the business objectives of the employer, e.g. to support a yield management system or to increase the number of contracts run by a contract caterer.

What motivates?

In Chapter 2 the contributions of a number of different theorists were considered. Most of these are crucially concerned with what motivates people to work. In spite of the vast body of knowledge coming from people like Taylor, Mayo, McGregor, Maslow and Herzberg, there is still no consensus. Many managers still hold to the belief that money, because of what it can buy (including security and status), is a major motivator. Others tend to the more complex views of Maslow and Herzberg, arguing that people work for a composite package, including money, security, self-esteem, esteem of others, job satisfaction, etc. At a practical level this discussion obviously concerns the merits or otherwise of reward systems and incentive schemes. Some people argue that employees should be given an adequate wage or salary and that so long as other conditions and prospects are adequate, such as regular review of earnings and the likelihood of promotion, people will give what they consider to be a fair day's work. The prospect of incentives will not spur them to continued greater efforts. It is also argued, on the other hand, that incentive payments are most effective when people are dependent upon them, i.e. the nearer the basic pay is to subsistence levels, the more effective an incentive scheme.

In works of a highly creative nature the prospect of incentive payments is considered unlikely to stimulate greater creativity. There are others, however, who argue that incentives will certainly influence productivity, saying, for example, that in a selling situation the prospects of earning commission will definitely stimulate greater selling effort. It is also argued that because of the growing interdependence of working people they can no longer increase their own earnings without the involvement of their colleagues. In many cases nowadays this is true, and this is recognized in various schemes that reward teams as opposed to individuals.

In the hospitality industry, because of its nature, there are many opportunities for individuals to increase their earnings considerably – particularly in the selling areas, such as waiting, bar work, hotel reception and function catering. Within the scope of this book it is not possible to consider further the arguments for and against incentive schemes. There are unfortunately innumerable examples supporting both viewpoints. It is intended here to look at the main forms of incentives operated in the hospitality industry, including tips, the 'tronc', service charges, bonuses and commissions. Other financial incentives such as profit sharing are considered in the next chapter.

In other industries other forms of incentive payments are used. These include methods such as payment by results (PBR), piece rates or measured day work, which are usually based on work measurement techniques, whereas those commonly used in the hospitality industry are more normally related to financial targets such as gross profits, turnover and variable costs (e.g. gas, electricity). In some cases they may be entirely discretionary.

Although tipping and the tronc were mentioned along with other forms of financial incentive, it is probably better to think of them as part of normal earnings. Financial incentives are normally intended to stimulate and promote extra productivity, whereas tips, the tronc and service charges are considered by many employees as a matter of right and something without which they could not have a reasonable living standard.

Tipping is a form of payment that originated when many workers in the old inns were not employed by the innkeeper but were retained by guests to do particular jobs such as carrying bags, cleaning garments, etc. Many consider it an anachronism in this day and age, and a view that has been expressed by many people for many years is that it needs to be eliminated as rapidly as possible. Professor Nailon of Surrey University, however, wrote in 1978 that it is not necessarily a bad practice but that it may have profound effects on interdepartmental relationships. Also it removes from management an important area of personal control by making the customer, rather than the employer, the paymaster (Nailon, 1978).

Service charges, many argue, on the other hand, are quite acceptable methods for an undertaking to use to raise revenue, so long as the sum allowed for distribution to the workforce is distributed on a fair basis. In many tourism-based economies it is common to find that tariffs are inclusive of taxes and service charges, and tipping is being eliminated, although in some countries where service charges are included staff still expect some tip, if not the traditional 10–15%. Sometimes where a service charge is included in the bill, tipping may be discouraged, and notices on bills, menus, brochures and in guest rooms discourage guests from giving tips in addition to paying the service charge.

Principles of incentive schemes

In designing an incentive scheme, whether for the hospitality industry or any other, there are several principles that should be adhered to for it to be effective in the long term:

1 Take into account cultural differences – some forms of incentives just do not work in some cultures.
2 The undertaking's major business objectives should be promoted and their achievement assisted by incentive payments. These payments should enable individuals to identify with the success of the undertaking; for example, if food gross profit is vital, the chef and maybe his staff as well should be rewarded for achieving gross profit targets. But only elements over which a person exerts control should be included. A chef, for example, has no control over the rent and the rates, so there is no point in including these in a scheme for the chef.
3 When an incentive scheme is to be introduced, all workers should be considered because of the effect the scheme may have on existing earnings differentials and the possibility of creating friction between staff.
4 Payments should be related to results by comparing actual performance with forecasts, targets, standards or budgets. This may be done individually or on a group basis.
5 Targets should be realistic, i.e. achievable with reasonable effort and agreed with the person or group concerned.
6 Targets should be reviewed regularly, and at least annually, so that payments are something to be earned with effort rather than something that becomes a matter of right. They should also be reviewed if circumstances change considerably; for example, if a vast new office block opens next door to a snack bar, trade will probably increase greatly, through no effort of the manager. The turnover and other targets should, therefore, be reviewed at the same time, bearing in mind that extra work will be created and that wages and salaries may have to be increased.
7 An incentive scheme should be simple and clearly understood by those within the scheme.
8 Payment of the incentive should be made as near as possible to the period in which it was earned. Long delays in payment cause irritation and reduce the incentive element.
9 All elements of a scheme and any rules should be objective. Management should not incorporate discretionary rules such as 'management reserves the right to withhold payment without giving a reason'. Incentives, if earned, should be a matter of right, not for management to dispense on a discretionary basis, and the terms of the incentive scheme should become part of the contract of employment.

1 *Job*	Chef			
2 *Commission*	1 per cent of all 'gross profit' (for this purpose revenue less purchases and labour costs) in excess of £2000 per week, after achieving the following targets			
3 *Targets*	1 Purchases not to exceed 45 per cent of revenue 2 Kitchen labour not to exceed 15 per cent of revenue			
4 *Example of calculation*				
Period 7				
Food cost	£6000	(37.5%)	Revenue	£16000
Labour cost	£2200	(13.75%)		
	£8200			
'Gross profit'	£7800	(48.75%)		

Gross profit £7800 $-$ £2000 $=$ £5800 $\times$ $\frac{1}{100}$ $=$ £58.00

Commission to be £58.00

Figure 12.1 Example of an individual incentive scheme (chef)

Incentives are normally used to stimulate performance and particularly to increase sales and control costs. Figures 12.1–12.3 are included as examples. Having looked at these examples, which are intended to illustrate principles only and which demonstrate that incentive schemes can be designed for many departments in an organization, it is vital to bear in mind that their introduction may have undesirable consequences which could exclude their being used; e.g., the chef may well place commission above customer satisfaction and buy cheap materials or keep labour costs too low for efficient service; the receptionists may overbook (more than is desirable) and consequently lose customers for the future. On the

1 *Department*	Front Office
2 *Commission*	£120 for every 1 per cent in excess of occupancy targets, distributed to all front office staff pro rata to salaries
3 *Target*	85 per cent occupancy
4 *Examples of calculation*	
Period 7	
Actual occupancy 90.0% therefore 5.0 $\times$ £120 $=$ £600 to be distributed	
Salaries: Head receptionist	£14,000
2 Senior receptionists @	£13,000
2 Cashier/receptionists @	£10,000
Total salaries	£60,000
£600 commission	
£30,000 salaries $=$	£0.01 per £ salary
Therefore the following commissions will be paid	
Head receptionist*	£14,000 $\times$ £0.01 $=$ £140
Senior receptionists*	£13,000 $\times$ £0.01 $=$ £130
Cashier/receptionists (part time)	£10,000 $\times$ £0.01 $=$ £100

* live in staff

Figure 12.2 Example of a group incentive scheme

1 *Job*	Restaurant manager		
2 *Commission*	5 per cent of net profit up to budget 10 per cent of net profit between 101 per cent and 130 per cent of target budget 20 per cent of net profit in excess of 130 per cent of target budget		
3 *Target budget*	£40,000 net profit		
4 *Example of calculation*			
Year ended 31 December 2005	Actual net profit = £56 000		
Commission rate	*Qualifying net profit*	*Commission*	
5%	£40,000	£2000	
10%	£12,000	£1200	
20%	£4000	£800	
Total	£56,000	£4000	

Note: In this example it is interesting to note that although the top rate of commission is 20 per cent and consequently well worth striving for, the actual rate of total commission is only just over 7 per cent.

Figure 12.3 Example of an individual incentive scheme (manager)

other hand, from the restaurant manager's scheme it can be seen that, because the commission is related to net profit, the manager has an interest in successfully controlling all aspects of the business, including turnover, purchases, wages, variables and, of course, customer satisfaction. In designing an incentive scheme, therefore, one has to ensure that the benefits to the individual do not stimulate him or her to take measures that may not be in the employer's interests. Incentives can cover such things as sales, gross and net profits, occupancy, average room rates, suggestion schemes, new staff introduction bonuses and new business introduction bonuses.

Financial incentives can reward individual employees or groups of employees through increased payment for their increased contribution to the enterprise. However, they can achieve little on their own. They should be part of a comprehensive, well-balanced human resource policy that is based upon achieving the employer's main objectives.

Further Reading and References

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Questions

1 Describe the objectives of incentive schemes and the various alternatives in regular use.

2 Discuss which you consider to be the most important principles if incentive schemes are to be effective. What do you understand by 'effective'?

3 Discuss what external factors influence the nature of incentive schemes.

4 Discuss the relationship between incentive schemes and alternative methods of wage and salary administration.

5 Discuss the role played by wages, salaries and incentives in implementing an employer's human resource policy.

6 Evaluate the approach to incentive schemes used by an employer you know well.