

# Administration of wages and salaries

Wages and salaries in the UK hospitality industry have long been a focus of criticism of the industry as an employer.

One of the problems for the hospitality industry and its pay levels is that, relatively speaking, each employee does not generate large sums of revenue for the employer. In hotels, for example, a Plimsoll analysis (*Hospitality*, February 1998) showed that hotel and restaurant staff on average generated around £50,000 per annum per employee. Using BHA figures the actual figure in 2004 was around £36,000 including part-timers (*Trends and Statistics 2004*, BHA, 2004). From this the employer has to pay all costs, including materials, labour, debt financing and tax. Such levels of sales per employee do not leave much room for significant increases, particularly when compared to other industries where each employee may generate hundreds of thousands of pounds each year.

Many organizations have wage and salary systems that have evolved over time and which in many cases have not really addressed the crucial task of matching an organization's goals closely to its reward systems. This is particularly so in the hospitality industry, where the majority of enterprises tend to be small and where there is a lack of professional management expertise. In

order to be effective, a remuneration policy and its dependent package needs to be aimed at achieving the owner's overall business objectives. For example, if an owner's business policy focuses on quality, the rewards system must not conflict with that policy by focusing staff effort on other objectives such as sales volumes per se. From the human resource policy perspective, if an employer's policy is to encourage long service and career development among most of its employees, the employer may offer an incremental payment system that rewards long service in itself. If the employer chooses to recruit from a volatile, young and relatively cheap labour market, it will probably offer low rates of pay with little room for significant increases. Some employers will mix their policies, encouraging managers to make careers with them whilst not encouraging long-serving operative staff. Obviously, wage payment is a highly charged subject and in the hospitality industry it is a very contentious one owing to a variety of complications. Apart from the lack of method in setting basic rates, in some sectors other factors such as tipping, service charges and the provision of meals and living accommodation all have to be taken into consideration. Within a single establishment it is quite possible to find a complex range of permutations of all the various benefits received by employees. Some live in and earn tips, some live out and do not earn tips; some are provided with meals and some are not. In addition, in the largest organizations, some subsidiaries encourage tipping, whereas others do everything to eliminate it and also levy service charges. This may be even further complicated by some executives being provided with company cars and other benefits. On closer examination, however, it may well be found that these same executives are worse off (in cash and kind) than their own residential managers.

In the contract catering field the problems can be exacerbated by other factors. The client's employees, for example, may enjoy extremely high rewards (e.g. in the City of London) which make the catering staffs' rewards look very insignificant.

Mars, Mitchell and Bryant (1979) claim the payment system in hotels has particular problems because it consists of

- basic pay and subsidized lodging and subsidized food
- tips and service charges (where applicable) and fiddles and 'knock-offs'.

Although Mars and Mitchell wrote this 25 years ago, regular surveys among returning industrial release students indicate that little has changed in this respect. Mars and Mitchell attached particular importance to the fiddles element because of the power it provides to management. They suggest that management lays down parameters within which fiddles are acceptable, but at the same time if someone displeases them for other reasons they can dismiss the person for fiddling. Undoubtedly, whether fiddling is institutionalized or not, it is a major source of income to employees, and causes headaches to the industry's employers.

## Types of employees

Within the hospitality industry, irrespective of any legal definitions (see Chapter 16), there are four main types of employee. From a payment or earnings point of view these are

*Salaried employees:* usually paid monthly by cheque or credit transfer and usually consisting of managers and senior supervisors.

*Full-time employees:* usually working around 30–45 hours a week and who know from week to week that they have guaranteed work; paid usually weekly in cash.

*Part-timers:* usually working fewer hours than a full-timer and who generally know from week to week that they have guaranteed work. Usually paid by the hour. As a result of the EU decisions most part-timers qualify, pro rata, for the same fringe benefits, such as holidays, as the full-time members of staff.

*Casuals:* normally working on a session-by-session basis (e.g. one evening) with no guarantees about future work. Usually paid by the session in cash.

Most pay systems are based on two principles: to reward for time or for performance. In the first case, obviously, there is also an element of performance – one is not paid indefinitely for time if the performance is not satisfactory. In the second case, however, payment for performance, there are a number of questions that have to be addressed, e.g. is it the individual's, the group's or the enterprise's performance that is rewarded, or is it the inputs or the outputs that are rewarded? In some cases performance-related schemes have been introduced in order to strengthen the employer–employee link at the expense of the trade-union–member link.

## Formal wages administration

In the hospitality industry a major responsibility of owners and their managers is to decide how to distribute fairly among all employees the money set aside for payment of staff. This may range from as little as 10% of revenue in some efficient public houses to over 40% in top-class hotels. This money may derive from normal revenue or may also come from retained service charges. Managers may decide by looking at what competitors are paying, what has been historically the employer's practice and, in many cases, what is necessary to overcome a current crisis. The result is that considerable anomalies exist in many hotels, catering establishments and, indeed, whole firms. As mentioned in the last chapter, newcomers may be paid more than similar staff with long service and more-senior staff may earn less than some juniors.

The exact policy to be adopted by an employer with regard to wage and salary systems will depend to a great extent upon the business objectives, human resource policies and style of management; for example, in organizations where labour turnover is not considered to be important, there may be little method or formality in setting rates of pay. In other organizations, however, where it is recognized that a stable labour force is a valuable asset, much more method will be applied to wage and salary matters. This is typically so in the public sector, where for many years employers set out to be exemplary.

Where there are many employees with differing levels of skills, fair salary administration may depend upon job evaluation, which measures the relative importance to the organization of different jobs. But after jobs have been evaluated, rates will have to be set for each grade to ensure that there are realistic differentials between grades so that more senior jobs and promotions are rewarded by worthwhile differences in earnings; promotion then becomes something to aim for. This is illustrated in Figure 11.1.

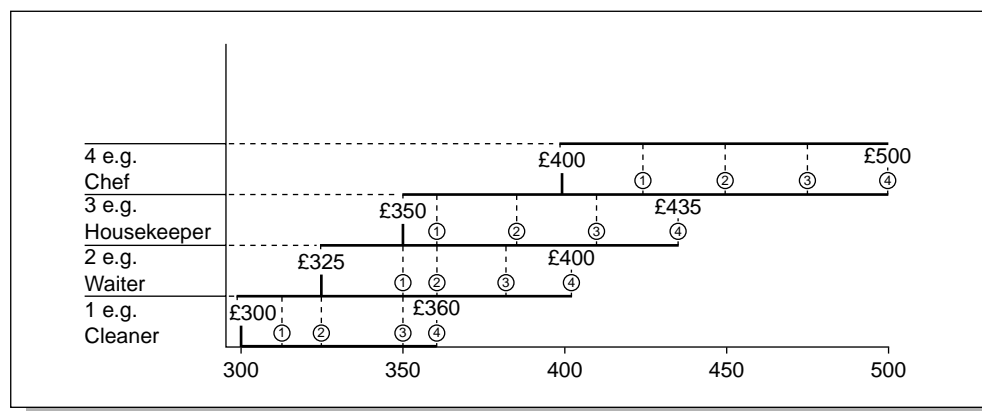
Grade	Basic wage (£ week)
1	200
2	220
3	240
4	265

**Figure 11.1** Example of a grade and wage table

Determining the rate for each job or for key jobs depends on many factors, including the make-up of the workforce, statutory requirements, competitors' rates of pay, other industries' rates of pay, cost of living and the location of the employer. Because of this, in order to establish or to maintain competitive rates of pay, it will be necessary to study advertisements in the press and to keep in touch with staff agencies, the local Job Centres and the local associations of hoteliers and caterers. In making decisions as a result of this research, it is vital to ensure that all factors affecting rates of pay are taken into account, such as tips and service charges, actual hours worked and the provision or otherwise of meals and accommodation. Some employers with units in different regions may, in addition, require different rates or even entirely different structures for each branch or region.

## Increments – merit and service

In some situations, in order to encourage good performance and long service, it may be appropriate to provide merit and service increments and where this is done there will normally be overlaps between grades, enabling someone in a low grade, but with long service or high merit, to earn more than someone in a high grade with short service. This recognizes that a person's competence and value to an organization may increase with service, and because of this the increment is granted both as an increased share of the employee's overall contribution and to encourage them to stay. Figure 11.2 shows a scale for such a scheme.



**Figure 11.2** Example of an incremental pay scale

In the example shown in Figure 11.2 an employee could anticipate, with satisfactory service, to move from the minimum to the maximum in a period of about four years, giving an average annual increase of about 6–7%. The exact rate might be determined by performance appraisals and by the employer's financial policy. The advantage of this system, if publicized, is that employees know what they can expect to earn by gaining promotion or by staying with an employer. In addition, some employers have age-related scales or rates of pay, usually for employees up to about 21 years of age. Increases in these cases would normally be granted on each employee's birthday.

In some cases starting wages or salaries offered to newcomers may not normally be more than 20% above the minimum and this would only be permitted where appropriate experience in the type of job justifies it. Some trade unionists are opposed to incremental scales, saying that every job should have a set rate and that age and service are irrelevant if the job is performed satisfactorily. Furthermore, they claim that such systems can have an adverse effect on staff turnover because management, in order to keep payroll costs down, will encourage labour turnover, thus retaining a high proportion of employees at the lower end of the scales.

Reviews should take place regularly and should fit into the employer's budgetary and financial cycle. In seasonal establishments reviews may take place towards the end of the season in order to retain those employees management wants to keep.

Apart from increases for merit, service and promotion, some systems also allow for cost-of-living increases to be made from time to time. These will probably be related to government data such as the retail price index, but where such increases are granted it is important to bear in mind that they have little positive motivational effect – unlike a promotion or merit award. That is because they are usually granted to all employees without discriminating between the good and the not so good. On the other hand it is important to keep in mind that the absence of cost-of-living increases may have a negative effect – i.e. the employees' relative level of earnings may fall and force them to seek employment elsewhere. It can be said that although cost-of-living awards have little positive motivational effect, their absence may have a negative effect such as a higher labour turnover.

In the last twenty years, changes in approach, from salary administration to reward management, have been observed. More and more senior executives are trying to turn their employees into entrepreneurs – people who earn a direct return on the value they help create. 'The shift towards contribution-based pay makes sense on grounds of equity, cost, productivity and enterprise.' Such changes to salary systems have continued since Kanter was writing in 1989, encouraged by various changes such as delayering, restructuring, the competitive environment and changes to taxation.

As Ian Kessler (1995: 255) writes, 'the search for the perfect pay system has assumed something akin to the search for the holy grail and has been reflected in pay fads, fashions or cycles'. In spite of this comment, which suggests that the perfect system has yet to be developed, most experienced managers would probably support the view that once a systemized salary system is operational the whole question of pay issues such as differentials or 'equal pay' becomes easier to manage effectively.

## Further Reading and References

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## Questions

- 1 Describe the objectives of a systematic wage and salary administration system.
- 2 Discuss in which sectors of the hotel and catering industry systematic wage and salary administration is least likely and most likely to be found and why.
- 3 Discuss what you consider to be the most likely consequences of a lack of systematic wage and salary administration and why.
- 4 Discuss what changes are likely to be made in the future to improve wage and salary administration procedures.
- 5 Discuss the relationship between salary administration and performance appraisal (see Chapter 7).
- 6 Evaluate the approach to wage and salary administration used by an employer you know well.