Foreign Trade University

Faculty of Business Administration

Department of Management & Human Resource

Module: HRM (QTRE403)

Lecturer: Ngô Quý Nhâm

Email: quynham@gmail.com

Case Unit 08 – Comansation and Pay for Performance – Hotel Paris

THE HOTEL PARIS INTERNATIONAL

Starting as a single hotel in a Paris suburb in 1990, the Hotel Paris is now a chain of nine hotels, with two in France, one each in London and Rome, and others in New York, Miami, Washington, Chicago, and Los Angeles. As a corporate strategy, the Hotel Paris's management and owners want to continue to expand geographically. They believe doing so will let them capitalize on their reputation for good service, by providing multicity alternatives for their satisfied guests. The problem is, their reputation for good service has been deteriorating. If they cannot improve service, it would be unwise for them to expand, since their guests might prefer other hotels after trying the Hotel Paris.

Several things are complicating their problem. Elected in 2012, French president Francois Hollande has found it hard to halt or even slow the country's economic decline. His attempts to impose incremental tax rates of 75% on wealthy citizens prompted many to contemplate leaving France. Furthermore, many tourists—faced with similar economic challenges elsewhere—are increasingly staying at short-term rental apartments in Paris, found on the Web, (often through sites such as airbnb.com) for a fraction of what a fine hotel stay might cost.

The Strategy

Top management, with input from the HR and other managers, and with the board of directors' approval, chooses a new competitive strategy and formulates new strategic goals. It decides: "The Hotel Paris International will use superior guest services to differentiate the Hotel Paris properties, and to thereby increase the length of stays and the return rate of guests, and thus boost revenues and profitability." All Hotel Paris managers—including the director of HR services—must now formulate strategies that support this competitive strategy.

The Strategically Required Organizational Outcomes

The Hotel Paris's basic strategy is to use superior guest services to expand geographically. For HR director Lisa Cruz, reviewing the hotel's activities makes it clear that achieving the hotel's strategic aims means achieving a number of required organizational outcomes. For example, Lisa and her management colleagues must take steps that produce fewer customer complaints and more written compliments, more

requent guest returns and longer stays, and higher guest expenditures per visit.

The Strategically Relevant Workforce Competencies and Behaviors

The question facing Lisa, then, is this: What competencies and behaviors must our hotel's employees exhibit, if we are to produce required organizational outcomes such as fewer customer complaints, more compliments, and more frequent guest returns? Thinking through this question helps Lisa come up with an answer. For example, the hotel's required employee competencies and behaviors would include, "high-quality front-desk customer service," "taking calls for reservations in a friendly manner," "greeting guests at the front door," and "processing guests' room service meals efficiently." All require motivated, high-morale employees.

The Strategically Relevant HR Policies and Activities

The HR manager's task now is to identify and specify the HR policies and activities that will enable the hotel to produce these crucial workforce competencies and behaviors. For example, "high-quality frontdesk customer service" is one such required behavior. From this, the HR director identifies HR activities to produce such front-desk customer service efforts. For example, she decides to institute practices to improve the disciplinary fairness and justice in the company, with the aim of improving employee morale. Her assumption is that enhanced airness will produce higher morale and that higher morale will produce improved front-desk service.

THE NEW COMPENSATION PLAN

The Hotel Paris's competitive strategy is "To use superior guest service to differentiate the Hotel Paris properties, and to thereby increase the length of stay and return rate of guests, and thus boost revenues and profitability." HR manager Lisa Cruz must now formulate functional policies and activities that support this competitive strategy by eliciting the required employee behaviors and competencies.

Like several other HR systems at the Hotel Paris, the compensation program was unplanned and unsophisticated. The company has a narrow target range for what it will pay employees in each job category (front-desk clerk, security guard, and so forth). Each hotel manager decides where to start a new employee within that narrow pay range.

The company has given little thought to tying general pay levels or individual employees' pay to the company's strategic goals. For example, the firm's policy is simply to pay its employees a "competitive salary," by which it means about average for what other hotels in the city are paying for similar jobs. Lisa knows that pay policies like these may actually run counter to what the company wants to achieve strategically, in terms of creating an extraordinarily service-oriented workforce. How can you hire and retain a top workforce, and channel its behaviors toward high-quality guest services, if you don't somehow link performance and pay? She and her team therefore turn to the task of assessing and redesigning the company's compensation plan.

Even the most casual review by Lisa Cruz and the CFO made it clear that the company's compensation plan wasn't designed to support the firm's new strategic goals. For one thing, they knew that they should pay somewhat more on average than did their competitors if they expected employees to exceed expectations when it came to serving guests. Yet their review of a variety of metrics (including the Hotel Paris's salary/competitive salary ratios, the total compensation expense per employee, and the target percentile for total compensation) suggested that in virtually all job categories the Hotel Paris paid no more than average and, occasionally, paid somewhat less.

The current compensation policies had also bred what one hotel manager called an "I don't care" attitude on the part of most employees. What she meant was that most Hotel Paris employees quickly learned that regardless of what their performance was, they always ended up getting paid about the same as employees who performed better and worse than they did. So, the firm's compensation plan actually created a disconnect between pay and performance: It was not channeling employees' behaviors toward those required to achieve the company's goals. In some ways, it was doing the opposite.

Lisa and the CFO knew they had to institute a new, strategic compensation plan. They wanted a plan that improved employee morale, contributed to employee engagement, reduced employee turnover, and rewarded (and thus encouraged) the sorts of service-oriented behaviors that boosted guest satisfaction. After meeting with the company's CEO and the board, the CFO gave Lisa the go-ahead to redesign the company's compensation plan, with the overall aim of creating a new plan that would support the company's strategic aims.

Lisa and her team (which included a consulting compensation expert) set numerous new measurable compensation policies for the Hotel Paris, and these new policies formed the heart of the new compensation plan. A new job evaluation study provided a more rational and fairer basis upon which the company could assign pay rates. A formal compensation survey by the consultant established, for the first time at the Hotel Paris, a clear picture of what competitive hotels and similar businesses were paying in each geographic area, and enabled the Hotel Paris team to more accurately set targets for what each position at the hotel should be paying. Rather than just paying at the industry average, or slightly below, the new policy called for the Hotel Paris to move all its salaries into the 75th percentile over the next 3 years.

As they instituted the new compensation policies, Lisa and the CFO were pleased to learn from feedback from the hotel managers that they were already noting several positive changes. The number of applicants for each position had increased by over 50% on average, turnover dropped by 80%, and surveys of morale and commitment were producing higher results. Lisa and her team now began to consider how to inject more of a "pay for performance" element into the company's compensation plan, perhaps by instituting new bonuses and incentives. (We will see what she did in Unit Case 08-1).

THE NEW INCENTIVE PLAN

The Hotel Paris's competitive strategy is "To use superior guest service to differentiate the Hotel Paris properties, and to thereby increase the length of stay and return rate of guests, and thus boost revenues and profitability." HR manager Lisa Cruz must now formulate functional policies and activities that support this competitive strategy by eliciting the required employee behaviors and competencies.

One of Lisa Cruz's biggest pay-related concerns is that the Hotel Paris compensation plan does not link pay to performance in any effective way. Because salaries were historically barely competitive, supervisors tended to award merit raises across the board. So, employees who performed well got only about the same raises as did those who performed poorly. Similarly, there was no bonus or incentive plan of any kind aimed at linking employee performance to strategically relevant employee capabilities and behaviors such as greeting guests in a friendly manner or providing expeditious check-ins and check-outs.

The bottom line for Lisa and the CFO was that the company's financial rewards system—potentially, the single-biggest tool they had for channeling employee performance toward accomplishing the Hotel Paris's goals—was totally inadequate. She and her team thus turned to the job of deciding what sort of incentive-based reward systems to install.

Based on their analysis, Lisa Cruz and the CFO concluded that, by any metric, their company's incentive plan had to be changed. The percentage of the workforce whose merit increase or incentive pay was tied to performance was effectively zero, because managers awarded merit pay across the board. No more than 5% of the workforce (just the managers) was eligible for incentive pay. And, the percentage difference in incentive pay between a low-performing and a high performing employee was less than 2%. Lisa knew from industry studies that in top firms, over 80% of the workforce had merit pay or incentive pay tied to performance. She also knew that in high-performing firms, there was at least a 5% or 6% difference in incentive pay between a low-performing and a high-performing employee. The CFO authorized Lisa to design a new strategy-oriented incentive plan for the Hotel Paris's employees. Their overall aim was to incentivize the pay plans of just about all the company's employees.

Lisa and the company's CFO laid out three measurable criteria that the new incentive plan had to meet. First, at least 90% (and preferably all) of the Hotel Paris's employees must be eligible for a merit increase or incentive pay that is tied to performance. Second, there must be at least a 10% difference in incentive pay between a low-performing and high-performing employee. Third, the new incentive plan had to include specific bonuses and evaluative mechanisms that linked employee behaviors in each job category with strategically relevant employee capabilities and behaviors. For example, front-desk clerks were to be rewarded in part based on the friendliness and speed of their check-ins and check-outs, and the housecleaning crew was to be evaluated and rewarded in part based on the percentage of room cleaning infractions.

With these criteria in mind, Lisa and her team turned to designing the new merit and incentive pay plan. They created a larger merit pay pool, and instructed supervisors that employees scoring in the lower 10% of performance were to receive no merit pay, while the difference in merit pay between the top category and medium category employees was to be 10%. They contracted with an online employee recognition firm and instituted a new "Hotel Paris instantaneous thankyou award program." Under this program, any guest or any supervisor could recommend any hotel employee for an instantaneous recognition award; if approved by the department manager, the employee could choose the recognition award by going to the company's Web site. The incentive structure for all the company's managers, including hotel managers, assistant managers, and departmental managers, now ties at least 10% of each manager's annual pay to the degree to which his or her hotel achieves its strategic aims. The plan measures this in terms of ratings on the guest satisfaction index, average length of guest stay, and frequency of guest returns. Ratings on all these metrics soon began to rise.

QUESTIONS

1. Lisa knew little about setting up a new compensation plan. Based on what you learned here in Dessler Human Resource Management, what would you tell her if she asked, “How do I set up a new compensation plan for the Hotel Paris?”
2. Would you suggest that Hotel Paris implement a competencybased pay plan for its nonmanagerial staff? Why or why not? Outline what they need to do for one.
3. Devise a ranking job evaluation system for the Hotel Paris’s nonmanagerial employees (housekeepers, valets, front-desk clerks, phone operators, waitstaff, groundskeepers, and security guards) and use it to show the worth of these jobs relative to one another
4. Discuss what you think of the measurable criteria that Lisa and the CFO set for their new incentive plan.
5. Given what you know about the Hotel Paris’s strategic goals, list three or four specific behaviors you would incentivize for each of the following groups of employees: front-desk clerks, hotel managers, valets, housekeepers.
6. Based on what you learned in the chapters on compesation and pay for performance, lay out a complete incentive plan (including all long- and short-term incentives) for the Hotel Paris’s hotel managers.