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Total compensation practices and their relationship to hospitality employee retention

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Total Compensation Practices and Their Relationship to Hospitality Employee Retention

by

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Abstract

Choice Hotels has franchised hotel owners who must understand the financial impact that arises from turnover due to employees' perceptions of inequitable total compensation. Currently, for franchise hotel owners, there is not any guidance on this from Choice Hotels. The purpose of this paper will be to explore the current literature regarding total compensation and to develop a set of recommendations that Choice hotel owners can use to retain both their managers and employees. If there is any question as to why turnover is such an issue in the hospitality industry, one only needs to look at the countless studies on the subject to find that most agree that poor total compensation is one of the major reasons for turnover. Owners and companies must understand that there is a direct link between equitable, competitive compensation and increased revenues. If hospitality companies continue to have the reputation of having high turnover and poor compensation, companies will not be able to get the most productive employees to work for them. If owners feel that they cannot afford to have competitive compensation plans, they must understand the true cost of turnover. It is more cost effective to pay a good employee to stay and to be productive, than to incur turnover costs when they leave.

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Part One

Introduction

Employee turnover has been a continuing concern in the hospitality industry (Hinkin and Tracey, 2000). The 2008 Labor Turnover Survey from the U.S. Bureau of Labor Statistics (2009) showed that the accommodations and food services had the highest amount of quits [voluntary turnover] from Jan 2008 to Dec 2008 out of all the industries surveyed. According to the U. S. Department of Labor (2009), “hospitality careers are often stereotyped as low-wage…High turnover is a key challenge in the hospitality industry.”

Hotel managers and employees desire fair and motivating total compensation in their jobs. Salary.com (2009) found that 56% of employees voluntarily left their jobs because of inadequate compensation. If the managers and employees perceive their total compensation equitable, they will be less likely to leave for another job.

Zingheim and Schuster (2008) found studies that had shown that 50% of employees were open to changing jobs and that only 55% of the workforce was engaged in their jobs. They felt that companies must have total compensation policies, not just focus on pay and benefits. A system must be in place to make the organization attractive to the high performers. Organizations that have a competitive compensation package can have a sustainable competitive advantage because of lower turnover, more engaged employees, and higher revenues through engaged employees.

Many Choice Hotel owners are not experts in hiring and pay practices, however in order for them to be successful; they must learn how to make others successful for them. Choice Hotels does not provide hotel owners any guidance or suggestions on hotel manager and employee total compensation. However, these owners are looking for best practices in order to ensure that they stay competitive and do not lose their managers and employees to other hotels. Salary or wages alone are a not a strong enough incentive to gain organizational commitment from managers and employees.

In order for Choice Hotels and its hotel owners to continue to be successful, total compensation practices must be addressed. Turnover and poor compensation have negative effects on hotel organizations, on productivity, and on revenue.

Purpose

The purpose of this paper will be to explore the current literature regarding total compensation and to develop a set of recommendations that Choice hotel owners can use to retain both their managers and employees.

Statement of problem

Choice Hotels has franchised hotel owners who must understand the financial impact that arises from turnover due to employees' perceptions of inequitable total compensation. Currently, for franchise hotel owners, there is not any guidance on this from Choice Hotels.

Justification

Choice Hotels has over 4,000 franchised properties nationwide, representing a large variety of management and staff positions. The current economic challenges have reduced hotel revenues and caused owners to cut costs. It is more important than ever to offer guidance on total compensation because owners must understand the financial impacts of poor total compensation practices.

Chikwe (2009) felt that hospitality had a turnover culture and this was considered normal and unavoidable. If a turnover culture exists in an organization, Chikwe believed that it would counter a company's objectives to increase guest satisfaction and decrease expenses. Chikwe contended that a company with high turnover gained a negative reputation, contained many new untrained workers, and thus would lose its competitive edge in the market.

Sturman (2006) researched hotel pay and performance, and stated that, "both 'how' one is paid, and 'how much' one is paid can influence performance" (p. 9). Equitable total compensation can lead to increased profits because motivated managers and employees help to increase hotel sales, customer satisfaction, and overall condition and cleanliness of the hotel.

Inequitable total compensation can create turnover, which costs hotels money not only in recruitment and replacement costs but also in lost business while the position is vacant. A well-trained manager or employee can take several years to develop and to be successful in their position. In order for hotel owners to recruit well-trained and successful managers and employees, they must have competitive total compensation packages in place.

Constraints

There is some literature but not a large amount specifically on total hotel compensation practices, as many hotel companies do not publicize their policies. There is not much detailed analysis industry wide either on manager and employee satisfaction in hotel jobs or on voluntary turnover. However, there is considerable data on total compensation in other hospitality industries and in non-hospitality industries, which can be applied to the hotel manager and employee.

Glossary

Benefits: Indirect pay such as health care, retirement fund, sick, and vacation pay.

Compensation: See Total Compensation

Compensation Satisfaction: Whether employees are happy with their compensation.

Financial Incentives: Variable pay, such as bonuses, pay for performance, or commissions

Non-Financial Incentives: Satisfaction from the job and/or working environment

Pay: Money or wages in exchange for work. It can be paid out hourly or an annual salary.

Retention: The act of keeping a worker in the organization.

Total Compensation: All pay and rewards that employees receive including salary, benefits, financial rewards and non-financial rewards.

Turnover: When a worker leaves the organization. Turnover can be voluntary or involuntary.

Way of Life: Balance between work and personal hours.

Part 2

Literature Review

Introduction

This literature review starts by defining Total compensation, which comprises many factors beyond wages. Next, the review discusses the importance of compensation satisfaction and compensation planning in employee retention. Lastly, the review discusses the costs of turnover.

Defining Total Compensation

It is important to note the many different terms used for total compensation because it encompasses more than just monetary payment for work. Total compensation or compensation is “the total of all rewards provided employees in return for their services” (Mondy, 2008) (Refer to Figure 1 in Appendix A for a more detailed breakdown.) Total Compensation is the combination of four core elements: pay, benefits, financial incentives, and non-financial compensation. It has also been termed “total pay” (Zingheim and Schuster, 2008), “compensation package” (Sturman, 2001) and “direct and indirect compensation” (Namasivayam, Miao, & Zhao, 2006; Heneman & Schwab, 1985).

Namasivayam et al. (2006) noted that compensation satisfaction varies depending on employee position, manager or hourly employee. Total compensation satisfaction must be evaluated for each level of the organization. They concluded that the hospitality industry relies on hourly employees to deliver guest satisfaction, so hotels must understand what motivates these employees.

Sturman (2001) felt that the hospitality was losing quality employees because their compensation for high-level jobs was not competitive. He suggested the employers should not just compare compensation levels of other hotels but must consider the employee's education, training, and experience. Sturman recommended the U.S. Labor Department's Dictionary of Occupational Titles as a good resource when evaluating positions in hotels. His study did conclude that hospitality jobs offer lower compensation then other industries, thus increasing turnover in the hospitality industry. Sturman does counter the adage that hotels cannot afford to pay higher wages. He argues that since the hospitality industry relies on employees to deliver quality service in order to obtain higher revenues, then attracting and retaining the best talent through better compensation practices would benefit employers.

Pay

Pay refers to base wages or salary for work (Kline and Hsieh, 2007). They described two important factors when considering pay, the job description and the importance of the job within the company. When considering pay, they also emphasized market data must also be considered when factoring pay. Their study on California hotels found that limited service hotel had a less flexible salary structure then full service hotels. The purpose of their study was to benchmark pay for hotel positions in California so that hotels could avoid pay inequities.

Guthrie (2000) defines pay or wages that are "attached to the jobs that employees perform." Employee position and length of employment were traditionally what determined wages in most companies. Employees would receive annual merit increase. Guthrie felt that the employee's skill and job knowledge needed to factor in to pay. Guthrie's study suggested that companies should invest in human capital in order to reduce turnover. He recommended that increased pay should occur when an employee gained job specific certification. This person-based system meant that the overall company was stronger because its employee based was multi-talented and much more flexible in job abilities. Guthrie also concluded that this system encouraged and rewarded employees for gaining more in depth knowledge in their jobs and reduced turnover. Since companies are investing in their employees, there is an expected rate of return. Employers might fear that their investment might leave the hotel. Guthrie felt that if the certification and pay were company specific then employees would realize that they were not only valued in their job but that other companies would not give them similar pay in the same jobs.

Benefits

Heneman and Schwab (1985) defined benefits as indirect pay or payment for “time not worked” such as health care, retirement account, and insurance. They remarked that traditionally companies viewed the value of benefits separate from pay. The study concluded that benefits and pay must be viewed together otherwise; employees would be dissatisfied with their total compensation. Their study also found that most employees did not differentiate between pay and benefits. Employees expected them both to come with the job. They commented that there were not many studies on pay and benefits. Most studies they found only focused on pay satisfaction.

Williams, McDaniel, and Ford (2007) similarly concluded that many employees considered benefits as an integral part of their compensation package or saw them as “entitlements.” Their study on benefits focused on age and job satisfaction. They found that older, more educated workers were more likely to be in higher positions in the organization, thus having higher wages and benefits. These employees had higher expectations of being treated fairly and could have lower job satisfaction when they felt they were not treated fairly. They recommended that companies look at increasing benefits if they could not increase pay in order to increase job satisfaction.

Namasivayam et al. (2007) advised that if benefits are offered to the managerial employees, they should be offered to all employees. They found that non-managerial employees were highly motivated by benefits. They even recommended that in order to increase job satisfaction and retention with part time workers, that companies should provide benefits.

Popkin (2005) found that vacation leave was the most common form of benefits and pension plans were the least common in companies of all sizes. His study found that small businesses gave fewer benefits and that benefits overall were in decline due to increased costs. The study found that sick pay was available in only 65 percent of small businesses versus 81 percent in larger companies (more than 100 employees). The study also found that younger organization also offered fewer benefits then more established companies. Due to the higher costs for smaller businesses, this Small Business Association study recommended that the government should allow small businesses more access to pool their resources together, so they could obtain less expensive benefits.

Financial incentives

Financial incentives are defined as variable pay (Zingheim and Schuster, 2008). Some examples of financial incentives are pay for performance, bonuses, commissions, profit sharing and gain-sharing (Guthrie, 2000). They generally apply to managers. Moncarz, Zhao, and Kay (2008) concluded that hotels could reduce turnover if they gave incentive pay to non-managerial employees.

Moncarz et al. (2008) felt that hotels could have higher employee retention rates if they offered financial incentives. Employees would consider leaving their jobs if hotels only focused solely on pay. Hotels must offer other incentives so that they are competitive or unique in the marketplace. They recommended that hotels must clearly communicate their compensation policies, create clear goals for the employees and make their financial incentives achievable.

Croes and Tesone (2007) studied the effects of higher minimum wages in hotels in Florida. In their study, they theorized that increases in the minimum wage would increase the amount of hotel layoffs, between 2-4%. They also proposed that hotels might reduce benefits, working hours, or pass on increases by increasing guest room rates. They studied focused on the housekeeping department. They studied the option of increasing the number of rooms cleaned per housekeeper. By increasing the number of rooms cleaned per person, the hotel lowered operational expenses. The employees however, were not motivated to clean more rooms effectively. They found that financial incentives worked on motivating housekeepers. A housekeeper, whose standard is to clean 16 rooms a day, was paid an extra $4 or $5 per room over the hotel standard.

Sturman (2005) researched if financial incentives influenced employee performance. He found that bonus appeared to be the most effective financial incentive. He used three different theories to describe why employees were influenced by financial incentives: economic theory, equity theory, and expectancy theory. In economic theory, Sturman theorized that employees worked harder to be paid more. In his equity theory, Sturman explained that employees reacted and changed their performance with the understanding of an increase in rewards. Lastly, Sturman describes expectancy theory as when employees understand that as their performance increases their performance ratings increase, which can then lead to higher financial incentives. Sturman concluded that though companies must analyze the costs associated with providing financial incentives, financial incentives vary from year to year and are not a permanent wage like a merit increase. Sturman calculated that a 1% increase in wages only increased performance 2.2% or a return on investment of 320% but the same 1% given, as a bonus to the employee, would motivate them so that the return on investment was 6,500%. If companies want to maintain or increase employee satisfaction but do not want to increase base pay, they should consider financial incentives.

Non-financial compensation

According to Moody (2008, p. 277), non-financial compensation is defined as "satisfaction that a person receives from the job itself or from the psychological and/or physical environment in which the person works." Under Moody's definition, this would include "congenial co-workers" or positive feedback. It should be noted that non-financial compensation could cost companies money. Patton (2009) added that other non-financial compensation rewards could include an employee recognition program or training and development opportunities. Something as simple as a verbal "attaboy" would be considered non-financial compensation according to Tahmincioglu (2004).

Walsh and Taylor (2007) stressed that the key to retaining hospitality professionals was to develop them with in-house training programs and to offer growth opportunities. Their study found that managers wanted challenging jobs that were interesting, allowed them to be involved in decision-making, and provided them with opportunities to develop new skills. They concluded that for younger managers, total compensation was important. Lack of opportunity caused turnover.

Chen and Choi (2008) conducted research on hospitality managers to find out if there were generational differences in work value. They concluded that while there are some differences in work value among all three generations surveyed, (Baby Boomers, Generation X, and Millennials) supervisory relationship, achievement, and way of life were the most valued.

Their study detailed how employers must look at different non-financial ways to motivate employees in order to retain them.

Total Compensation Satisfaction for Retention

Total compensation satisfaction plays an important part in employee retention. Namasivayam et al. (2006) explained that it is important for companies to understand what motivates their employees to increase retention. Their study on Smith Travel Research's Hospitality Compensation and Benefit Survey from 2001-2003 concluded that having a competitive total compensation system does effect hotel RevPar positively. Namasivayam et al. concluded that total compensation might differ depending on the role of the employee in the organization. They reported that managers were more motivated by a combination of base pay and incentive pay, while non-managerial employees were more motivated by base bay and benefits.

Sturman (2006) found that, "Compensation can be a powerful tool for managing employees, but that the effects of base pay are different from those of raises, which in turn are different from those of bonuses." Carraher, Mulvey, Scarpello, and Ash (2004) explained that single pay structure for all employees decreased compensation satisfaction. They found that compensation satisfaction depended on the employee's job complexity. Compensation satisfaction is different for sales managers then line level employees. Different compensation systems must be looked at for different employee positions.

Heneman and Schwab (1985) hypothesized that there were four dimensions of compensation satisfaction: pay levels, benefits, raises, and pay structure. Their findings concluded that total compensation satisfaction was a "multidimensional construct." There was enough evidence from their research to support that satisfaction with total compensation can increase job satisfaction. However, they also concluded that employees who are satisfied with their total compensation might be more satisfied in some areas and not as satisfied in others. They recommended that companies survey their employees' attitudes on individual compensation components. Companies may find that there are some potential savings, while maintaining overall compensation satisfaction. For example, they found that some employees were not satisfied with their pay but were satisfied with their benefits. So in order to increase compensation satisfaction, the company only had to review their pay practices but did not have to increase their benefits.

Williams et al. (2007) conducted a comprehensive meta-analysis and found that employee organizational commitment was related to dimensions in compensation satisfaction. Their report also explained that in order to create compensation satisfaction, companies must plan, communicate, and follow through with their compensation policies. Effectively communicated total compensation policies provide signals to employees regarding their company's culture and "the extent to which employees are valued by the organization" (p 449).

DiPietro and Condly (2007) used the Commitment and Necessary Effort (CANE) model of motivation to find how hospitality employees are motivated. They discovered that non-financial compensation or the quality of the work environment played an important part on employee turnover intentions. They explain companies must be cognizant of the employee's perception of a quality work environment. Otherwise, there is a gap in understanding between employee and employer. "Until the gaps are resolved, employees will leave the job--either mentally or physically" (p. 16).

Total Compensation Planning for Retention

Namasivayam et al. (2007) noted that a combination of human resource practices was needed for an effective compensation plan. Kline and Hsieh (2007) felt that a well thought out total compensation plan was essential for the "credibility of the management and the success of the business." Creating a total compensation plan must be part of the hotel's overall business plan. They found that if employees perceived that they were not receiving sufficient pay for their work, they were likely to reduce their output or turnover. Kline and Hsieh discussed that high performers were most likely to leave and that the remaining lower performers would stay. Both scenarios would result in lower revenues for the hotel. Since hospitality is a service industry where employees interact directly with guests, they explained that the "quality of service depends on the quality of employees." They also remark that a competitive total compensation plan can lead to better hiring practices and retaining high quality employees.

Carroll and Sturman (2009) suggested that hospitality managers look beyond their own industries when comparing compensation practices because jobs in unrelated industries may actually have similar experiences and compatible skills. The hospitality industry does compete with other industries for the same valued employees. Total compensation practices in other industries must be considered. They created a job compatibility index in which they identified non-hospitality jobs that were compatible with hospitality jobs. For example, they found that six jobs such as lifeguard and childcare, had similar job skills as hotel front desk clerks, but were lower paid. They felt that recruitment of individuals in these lower pay jobs would allow hotels to attract motivated employees.

Sturman (2006) found that the hospitality industry provides the lowest average salaries and bonuses of any other field. In an earlier study by Sturman (2001), he analyzed the National Compensation Survey published by the U.S. Department of Labor's Bureau of Labor Statistics and compared it to job placement and wages of Cornell University's School of Hotel Administrations graduates. He concluded that though, "some may argue that hotels and restaurants simply cannot afford to match other industries' pay rates for operational positions" (p. 76), in order to maintain high service levels, which lead to higher levels of guest satisfaction and repeat business, employers must work to retain high quality employees.

A study by Woods and Macaulay on six hotels and six restaurants (1989) asked the owners if they were taking any proactive measures to reduce turnover and all 12 companies stated that they had no plan to reduce to turnover. They felt that hospitality companies were not making employee retention a priority.

Choi and Dickson (2010) in their review of hotel data concluded that effective human resource practices were the key to high retention. Their study found that many hospitality companies do not feel that training is worth the expense. Choi and Dickson felt that hotels must spend the money and time on training their employees because it will increase retention. Their study showed the effectiveness of well-executed management training programs in reducing employee turnover and increasing job satisfaction.

Enz, Canina, and Walsh's (2006) research concluded that hotels should invest in the training of their managers, that is not just pay and incentives, but that hotels should pay "special attention to their compensation practices as a necessary starting point to link human resources policies with investments that provide the greatest return [which are well trained managers]" (p.

12). On a similar note, Woods, Sciarini, and Breiter (1998) concluded that performance appraisals are too infrequent; generally, providing performance feedback or appraisals once a year is ineffective. Performance appraisals that are only tied to a pay increase or no increase without constructive, regular feedback are a weak human resources practice in the hotel industry.

Without compensation planning, companies are in danger of creating an unsatisfactory working environment. Williams et al. (2007) found that if employees are satisfied with how the company operates and communicates its compensation policies, they remained committed to the organization. They felt that a company's reputation was also at stake because if they maintained a good reputation of compensation satisfaction, this would attract the higher skilled workers. Equitable compensation practices begin by a company understanding and establishing a benchmark for calculating turnover costs. Employers must understand their opportunity costs if they do not have a compensation plan.

Costs of Turnover

Chikwe (2009) defined turnover as the "movement of workers out of an organization." He felt that hotels were more focused on their bottom line revenue and not focused on the employees who helped to generate that revenue. He also felt that there was unfounded belief that turnover was good for the company and employees. Though often discussed in literature, Chikwe found this premise untested. Chikwe also suggested that seasonal labor not be included as part of turnover calculations, since employees are hired for a specific period only.

Tracey and Hinkin (2001) drew data from 105 hotels. They concluded two things: hotels with fewer than 150 rooms had an average six-month turnover rate of 63 percent, and hotels with average daily rates below $60 had an average six-month employee turnover of approximately 59 percent. In a later study, Tracy and Hinkin (2006) put turnover costs into five cost categories: pre-departure costs (severance package and human resource functions related to exit paperwork), recruitment (costs associated with advertising and time creating a pool of applicants), selecting (interviewing), orienting and training. The results of their study on hospitality firms was that on lower complexity jobs, the turnover cost was about $5,700 and about $10,000 on higher complexity jobs.

Tracey and Hinkin (2008) broke down turnover costs into hard costs, soft costs, and opportunity costs. They felt that there were too few turnover studies conducted in hospitality to give a set turnover cost. They indentified three financial implications for turnover in the hospitality industry: the financial loss due to lack of service quality and consistency, the lack of motivation and quality performance by the employee who is planning to leave, and the loss of productivity due to training and skill acquisition of the replacement employee.

The actual cost of turnover is still much debated in the literature because turnover is more than just the cost of replacing the employee (Gustafson, 2002). Casado (2005) felt that because the hospitality industry can experience turnover exceeding one hundred percent, companies must understand the financial impact and be able to calculate turnover rates.

Schlesinger and Heskett (1991) estimated that turnover could cost up to “150% of the employees’ remuneration packages.” Their study calculated the costs of hiring a replacement, new employee training costs, and lost productivity. This would put the cost of replacing a general manager earning $50,000 a year at $75,000. Their study was at the upper end for calculating turnover costs based on the current literature.

Conclusion

Total compensation satisfaction can lead to increased profits because motivated managers and employees help to increase hotel sales, customer satisfaction, and overall condition and cleanliness of the hotel. Inequitable total compensation can create turnover, which costs hotels money not only in recruitment and replacement costs but also in lost business while the position is vacant. A well-trained manager or employee can take several years to develop and to be successful in their position. In order for hotel owners to recruit well-trained and successful managers and employees, they must have competitive total compensation packages in place. Hinkin and Tracey (2010) advocate that well designed and effective retention programs pay for themselves because they save the company turnover costs. They also feel that companies that understand the value of employees and implement practices to reduce turnover will outperform the competition.

Turnover by itself is not necessarily a bad thing especially if an employee is maxing out on their pay scale and there is no room for internal promotion. However, as Morrell, Loan-Clarke and Wilson (2001) pointed out, “If managers assume turnover is an inevitable fact of organizational life, they may fail to recognise [sic] instances of turnover as symptomatic of the underlying problem” (p. 8).

Part Three

Introduction

Total compensation planning can help increase employee retention. As hospitality companies are looking for ways to reduce expenses and increase revenues, companies must review or create compensation policies. As the literature review section discussed, retaining employees is a challenge for the hospitality industry, creating a negative view of the industry, and making it harder to hire the best employees.

Total compensation practices for specific hospitality companies are not shared and very little academic hospitality research is conducted on the subject. Though the literature sites multiple reasons for turnover, the majority of it agrees that compensation is a major cause. This section will provide a summary of findings from the literature, provide recommendations for compensation planning, and provide further thoughts on the subject.

Results

Sixteen studies agreed that poor compensation or poor compensation policies were the main reasons for turnover. Four studies cited poor human resource practices as reasons for turnover. They all agreed that hospitality companies were doing very little to proactively address turnover rates. They also felt that hospitality companies underestimated the cost of turnover and overestimated the cost of equitable total compensation.

The results are tabulated below:

Study	**Industry**	**Findings: Turnover Due to**	**Recommendations**
Carraher et al. (2004)	General	Compensation	Different compensation plan for high cognitive complexity jobs vs. low complexity jobs.
Carroll & Sturman (2008)	lodging	Poor HR/hiring	Review pay and compensation from other industries to compare. Hire for skills and competencies to fit job description.
Chickwe (2009)	Hospitality	Compensation, poor HR	Add Incentive pay. Have a clear policy on recruitment, retention, motivation, exit interview, and employee development.
Choi & Dickson (2010)	Hospitality	Poor HR	Offer promotions, conduct exit interviews, have regular performance appraisals, have better training.
Croes & Tesone (2007)	lodging	Compensation	Communicate better on incentive programs. Incentive plans for hourly workers. Incentives increased production and reduced turnover. Have better training.
DiPietro & Condly (2007)	Hospitality	Lack of motivation, turnover culture	Have a targeted incentive program. Need a supportive workplace.
DiPietro & Milman (2004)	Quick Service Rest.	Compensation, long hours, conflict with supervisor	Offer opportunities for regular pay raises and promotions. Have targeted incentives, a supportive environment, flexible hours, and adequate staffing. Higher wages can be justified because of high costs of turnover.
Enz et al. (2006)	lodging	compensation	Hotels that spend more money on service workers realize higher operating income in later years.
Gustafson (2002)	Private Club	Compensation, long hours, conflict with supervisor	Promote from within, flexible hours, reward employees, manager should fill in for employees to create a team environment.
Heneman & Schwab (1985)	general	compensation	Benefits matter. Make raises consistent and clearly communicate compensation policies.
Hinkin & Tracey (2010)	Hospitality	compensation, poor supervision, poor working environment	Pay better. Track turnover. Have better training & orientation.
Kline & Hsieh (2007)	Lodging	Compensation, working environment	Have compensation equity with the external market. Have basic rewards to fulfill employee's needs. Have compensation equity with internal organization. Review compensation on an individual basis.

Moncarz et al. (2008)	Lodging	compensation, poor work environment, poor communication of mission and goals	Mentor employees. Communicate reward systems, mission and guiding principles. Promote from within.
Namasivayam et al. (2006)	hospitality	compensation	Non-managers were motivated by benefits and wages. Managers were motivated by base and incentive pay. Part time workers want access to benefits and this would help keep them.
Simons & Hinkin (2001)	Lodging	Increased turnover decreased profits	Have better training, compensation, rewards, and benefits.
Sturman (2001)	hospitality	Compensation	Past performance can predict future performance. Use market comparisons for compensation. Merit and pay for performance increased performance. Pay raises mattered most.
Sturman (2006)	Hospitality	compensation	Have incentive pay and benefits.
Walsh & Taylor (2007)	Hospitality	Compensation, unfairly treated, career development/advancement	When giving pay increases explain employee performance, offer rewards, and communicate pay practice to employees.
Williams et al. (2007)	general	compensation	Benefits satisfaction leads to fewer turnovers. Seniority matters - older workers expect larger raises for their experience. Compensation planning system leads to organizational commitment.
Woods et al. (1998)	lodging	Poor HR/hiring	Have appraisals throughout the year instead of annually. Explain compensation practices.
Zingheim (2008)	general	Compensation	Have pay for performance. Fashion hire offer around what new hires want to reflect value/skills/competency they add. Copy successful organizations. Communicate about pay and rewards.

The researchers are sometimes unclear about the language they used to describe total compensation. At times "pay" was used to describe total compensation.

After conducting research on the topic and the linkages explored and found, I have designed two easy tools for hotel owners and management to use to assess their current compensation plan and to assess relative satisfaction of their local managers with their total compensation. The Total Compensation Planning Guide can be used by the hotel as a reference guide to begin their compensation planning or as a tool to enhance their current compensation plan.

Total Compensation Planning Guide

1. Planning
   a. Conduct a total compensation wage survey (competition, outside industries)
   b. Review total compensation benchmarks from industry studies (Smith Travel, Salary.com)
   c. Copy other successful organizations
   d. Review compensation of current employees
   e. Conduct in-house compensation surveys to find out current employee satisfaction
   f. Determine the cost of turnover for each position (recruitment costs, training costs, loss of business during replacement period)
   g. Determine alternatives and costs for parts of compensation (benefits, pay for performance, better working condition)
   h. Determine optimal staffing levels
   i. Establish total compensation for each position
2. Recruitment
   a. Clearly communicate compensation plan
   b. Fashion hire offer based on employee's skills
   c. Provide a training guide
   d. Provide orientation
   e. Conduct properly planned training
   f. Provide guide for promotional opportunities
3. Retaining
   a. Again - clearly communicate compensation plan (mission, goals) to all employees
   b. Conduct regular performance appraisals (monthly, quarterly) not based on pay
   c. Pay incentives on a regular basis instead of annually
   d. Foster a teambuilding atmosphere by cross training
   e. Recognize and appreciate employees (parties, employee of the month)
   f. Create flexible schedules
   g. Create a mentor program
   h. Train in-house or send employees to seminars to learn new skills
   i. Promote from within

4. Turnover
    a. Conduct exit interview
    b. Track turnover
    c. At least annually, start back at #1 again and review the compensation plan.

In order for hotel to gauge how satisfied employees are with their current compensation, the hotel can use The Employee Total Compensation Satisfaction Survey (see figure 2). Once the results are tabulated, management can determine what parts of the Total Compensation Planning Guide would be useful.

Recommendations for Further Research

After evaluating the literature, it is clear that more research should be conducted on compensation satisfaction in the hospitality industry. There were very few large surveys conducted in the hospitality industry. There was very little literature about the components of total compensation such as benefits satisfaction. There was a larger focus on pay satisfaction; this could be because many hospitality companies do not offer other forms of compensation such as benefits and financial incentives.

For Choice Hotels, they should consider conducting a survey of the over 5,000 franchised hotels in order to create a benchmark for hotel owners. See the compensation satisfaction survey in figure 2. As noted by the literature, many smaller companies and individual hotel owners do not reliably track turnover. At the hotel level, much more training must be done on compensation planning because this is just as valuable as revenue management training. Choice Hotels provides hotels guidance on revenue planning and customer service planning, however no guidance on total compensation planning and retention. As shown in the literature, controlling compensation and turnover can either create more revenues or increase expenses.

Conclusion

The majority of the studies agreed that compensation planning is vital to solving an organization's turnover problem. For Choice Hotels, consideration must be given to reducing expenses by addressing turnover. If the franchisees have proper total compensation planning and implement it effectively, they will reduce turnover costs and increase employee satisfaction. The result of proper planning and implementation is increased profits from productive employees. Proper compensation planning is a lengthy process, it starts prior to hiring an employing, continues with recruiting and retaining employees, and must be reviewed when employees turnover.

Many of the studies recommended that when creating a compensation plan, hospitality companies must make sure their total compensation package is competitive not only within the industry but also within other industries that hospitality companies compete for employees. Employees will be able to compare compensation on their own. In order to hire the most qualified employees, companies must do their homework first.

The studies also comment on the poor human resource practices or lack of human resource professionalism in the hospitality industry. A culture of the "warm body" syndrome continues where the hotel is short staffed and the new employee is put on the front lines with little training. The studies also agreed that there seems to be a common view of turnover as unpreventable, in essence giving up on the employee before they ever started.

All of the Choice Hotels are independently owner and the majority is smaller limited service hotels who do not have a dedicated human resource position. Choice should provide the hotel owners with compensation planning resources such as training and guidelines.

Once the planning process is started, hospitality companies must decide what will be included in their total compensation package. The majority of the studies recommended regular pay raises, financial incentives (pay for performance), non-financial incentives (flexible hours, pleasant working environment), and benefits. Compensation planning does not end once an employee is hired or quits. Every year, the hotel should re-evaluate their compensation plan.

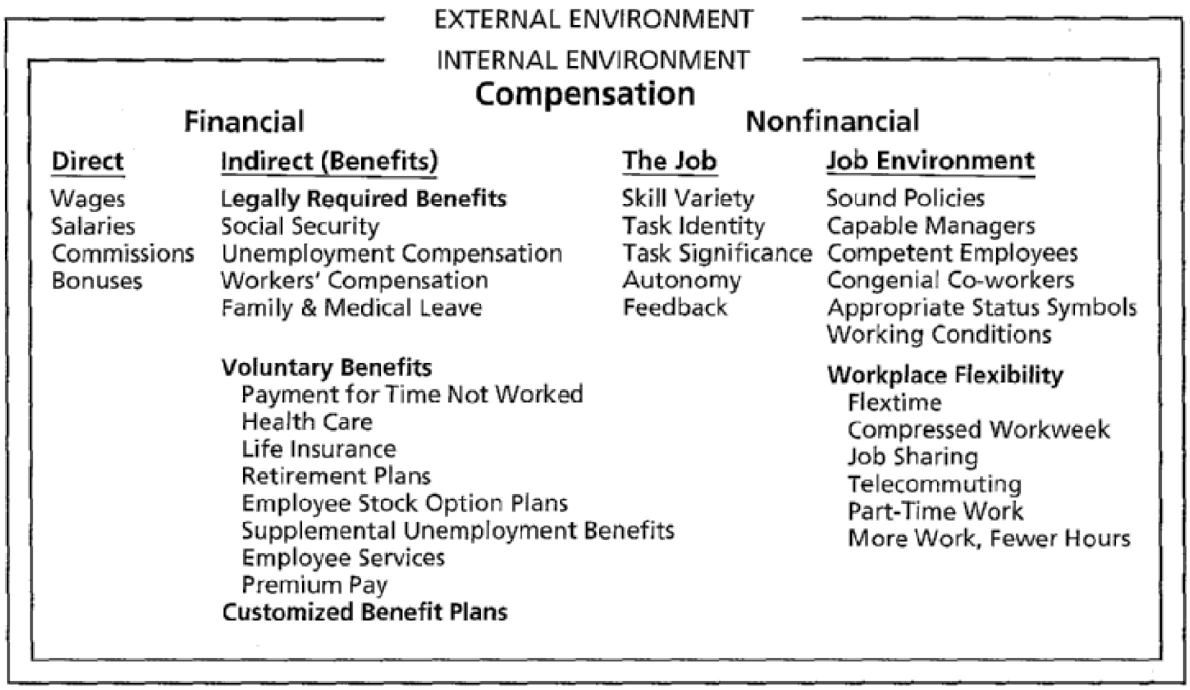
Compensation planning is not easy. It can at times be quite complicated to determine true turnover costs and to gauge employee satisfaction. However, the studies repeatedly stress that planning is essential. Compensation planning must be conducted as often as hotels conduct revenue meetings or sales and marketing plans.

If there is any question as to why turnover is such an issue in the hospitality industry, one only needs to look at the countless studies on the subject to find that most agree that poor total compensation is one of the major reasons for turnover. Owners and companies must understand that there is a direct link between equitable, competitive compensation and increased revenues. If hospitality companies continue to have the reputation of having high turnover and poor compensation, companies will not be able to get the most productive employees to work for them.

If owners feel that they cannot afford to pay competitive compensation, they must understand the true cost of turnover. It is more cost effective to pay a good employee to stay and to be productive, than to incur turnover costs when they leave.

Appendices

Figure 1.



Note: from *Human Resource Management* (10th ed., p. 277). New Jersey: Pearson Prentice Hall.

Figure 2. Employee Total Compensation Satisfaction Survey

1. What is your job title:
2. Are you paid a Salary or Hourly wage? ❑ Salary ❑ Hourly Wage
3. What is your annual pay?

Under $17,000 ❑	$45,001-$50,000 ❑
$17,000 -$20,000 ❑	$50,001-$55,000 ❑
$20,001-$25,000 ❑	$55,001-$60,000 ❑
$25,001-$30,000 ❑	$60,001-$65,000 ❑
$30,001-$35,000 ❑	$65,001-$70,000 ❑
$35,001-$40,000 ❑	$70,001-$75,000 ❑
$40,001-$45,000 ❑	$75,001 or More ❑

4. Do you receive a bonus above your salary or wage? ❑ Yes or ❑ No
   a. If you receive a bonus, on average what is the amount?

Under $1,000 ❑	$6,001-$7,000 ❑
$1,001-$2,000 ❑	$7,001-$8,000 ❑
$2,001-$3,000 ❑	$8,001-$9,000 ❑
$3,001-$4,000 ❑	$9,001-$10,000 ❑
$4,001-$5,000 ❑	$10,001-$11,000 ❑
$5,001-$6,000 ❑	$11,001-$12,000 ❑
	$12,001 or More ❑

5. Do you receive a commission above your salary or wage? ❑ Yes or ❑No
   a. If you receive a commission, on average what is the amount?

Under $1,000 ❑	$6,001-$7,000 ❑
$1,001-$2,000 ❑	$7,001-$8,000 ❑
$2,001-$3,000 ❑	$8,001-$9,000 ❑
$3,001-$4,000 ❑	$9,001-$10,000 ❑
$4,001-$5,000 ❑	$10,001-$11,000 ❑
$5,001-$6,000 ❑	$11,001-$12,000 ❑
	$12,001 or More ❑

6. Do you receive health benefits? ❑ Yes or ❑ No

    a. If you receive health benefits, what is included (please check all that apply)

Medical ❑	Dental ❑
Vision ❑	Life Insurance ❑

7. Other Benefits – Please check all that apply

Vacation ❑	Sick ❑	PTO ❑	401K ❑
Other (explain)			

Key for turnover intentions survey items:

1=Strongly Disagree

2=Moderately Disagree

3=Neither Agree nor Disagree

4=Moderately Agree

5=Strongly Agree

Rating

Turnover Intentions

1. I often think about quitting my job. *1 2 3 4 5*

2. If you could choose, how much longer would you stay at your present job?

- ❑ *Less than 6 months*
- ❑ *six months to one year,*
- ❑ *longer than one year*
- ❑ *I have no intentions of leaving*

3. I am currently looking for a job outside my organization. *1 2 3 4 5*

4. I would leave this company if I could find a similar position for less compensation at another hotel *1 2 3 4 5*

5. I would leave this company if I could find a similar position for the same compensation at another hotel *1 2 3 4 5*

6. I would leave this company if I could find a similar position for more compensation at another hotel *1 2 3 4 5*

Key for compensation satisfaction survey items:

1=Very Dissatisfied

2=Dissatisfied

3=Neither Satisfied nor Dissatisfied

4=Satisfied

5=Very Satisfied

Overall Satisfaction with Compensation-Related Issues

1. My take-home pay.	*1*	*2*	*3*	*4*	*5*
2. My benefits package.	*1*	*2*	*3*	*4*	*5*
3. My most recent raise.	*1*	*2*	*3*	*4*	*5*
4. My bonus package.	*1*	*2*	*3*	*4*	*5*
5. Influence my supervisor has on my pay.	*1*	*2*	*3*	*4*	*5*
6. My total compensation package.	*1*	*2*	*3*	*4*	*5*
7. The raises I have typically received in the past.	*1*	*2*	*3*	*4*	*5*
8. The Hotel's compensation structure.	*1*	*2*	*3*	*4*	*5*
9. Information the Hotel owner communicates about total compensation issues of concern to me	*1*	*2*	*3*	*4*	*5*
10. *The value of my benefits.*	*1*	*2*	*3*	*4*	*5*
11. Consistency of the Hotels' compensation policies.	*1*	*2*	*3*	*4*	*5*
12. The number of benefits I receive.	*1*	*2*	*3*	*4*	*5*

13. How my raises are determined.	*1*	*2*	*3*	*4*	*5*
14. I am paid fair wages for my job	*1*	*2*	*3*	*4*	*5*
15. My wages are comparable to other people Doing my job in mid-scale, limited hotels in the area	*1*	*2*	*3*	*4*	*5*

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