

The price of quality

Salary levels are obviously crucial to attracting and retaining top talent, but what is a fair wage and how do salary levels differ throughout the industry? HVS Executive Search's Chris Mumford has the answers.



The 2005 annual survey report on recruitment, retention and turnover conducted by the Chartered Institute of Personnel and Development found that 37 per cent of employers cited the level of pay when asked to list the key reasons for employee turnover during the last year. Furthermore, when asked what steps they were taking to address the issue of staff retention, 40 per cent stated that they were increasing pay.

It is clear that pay is a key part of successful employee hiring and retention. However, paying employees fairly is a

constant balancing act. Pay your high performers too little and you risk losing them. Pay them too much and you dent your profitability. But how do you know what to pay?

Typically, there are a number of options to help you determine an employee's pay packet. A popular method in the hotel sector is to make use of the network of contacts that most executives develop and gain informal market intelligence by asking industry colleagues. Likewise, recruiters are often able to give an approximate figure of what a position is worth in the marketplace.

Alternatively, a hiring manager may rely on past experience, or simply offer a new recruit the package paid to the previous incumbent.

For senior-level executive recruitment, the majority of hotel companies make use of market data collected through specific market salary surveys. These surveys allow companies to benchmark salaries against criteria that are relevant to their industry, sector and geographic location. In this way, companies are able to make strategic decisions, such as where to position themselves in the marketplace, and remain competitive.

Key factors

But what factors determine pay levels? What criteria should companies bear in mind when benchmarking an employee's salary against that of the competitor peer group? Specifically, does the character of the hotel have any influence on the level of pay awarded to management? When conducting a local market salary survey, how important is it to consider factors such as room count and location when comparing like with like?

According to Alistair Chambers, director of compensation and benefits at Rezidor SAS Hospitality: 'We look at a number of factors when calculating general manager

packages. These include, in addition to the specifications of the particular hotel, career history, past performance, previous earning history, location and local market conditions.'

Traditionally, factors that come into consideration when determining hotel pay include:

- Size of the hotel in terms of both revenue and room count
- The management type (owner-operated franchise, independent management company)
- Hotel class (budget, mid-rate, first class, luxury)
- Location (city centre, beach, airport)
- Hotel type (resort, convention, extended stay)

Hotels come in all shapes and sizes, with varying management responsibilities, financial priorities, employee numbers and facilities. Managing a 100-room hotel with one restaurant and two small meeting rooms in a city centre is certainly a different proposition to running a 600-room resort property with multiple F&B outlets and conference and banqueting facilities in a beach resort.

In reality, however, do these factors actually have an influence on hotel management pay levels? Is bigger better when it comes to hotel size and pay packet size, or



can less be more? Is there a difference between salary levels at luxury hotels and first-class hotels, between city centre hotels and resorts, or between chain and independent hotels?

'A hotel with a higher room count will typically mean higher turnover, higher cost base, a higher number of employees to manage, and a higher complexity of operation,' explains Alistair Chambers. 'This in turn requires a general manager with a more senior profile and a higher salary package than at a smaller hotel. Similarly, if the local market placed a higher premium on salaries at five-star hotels than at three star hotels, then we would follow.'

Establishing a benchmark

HVS studied hotel management salary data collected through the HCE Hospitality Compensation Exchange®. First, we looked at those with the most responsibility, the general managers. We then analysed general manager base salaries at hotels in Paris with fewer than 200 rooms against those at hotels with more than 200 rooms. The results in Table 1 indicate that, on average, general managers of hotels with more than 200 rooms earn a base salary of €149,504, 23 per cent more than their counterparts at hotels with fewer than 200 rooms.

TABLE 1. GM BASE SALARY: >200 ROOMS VS <200 ROOMS (PARIS)

| Number of rooms | Position | Average annual base salary |
|----------------------|-----------------|----------------------------|
| Fewer than 200 rooms | General manager | €121,511 |
| More than 200 rooms | General manager | €149,504 |

The difference in earning potential however becomes much greater when we look at the data by hotel class and compare general manager salaries at first-class hotels against those in the luxury segment. As Table 2 shows, general managers at luxury hotels have greater earning potential than their colleagues in the first-class sector. The average luxury hotel general manager in Paris makes €169,662, a difference of 65 per cent over that of first-class hotel general managers.

TABLE 2. GM BASE SALARY: FIRST CLASS VS LUXURY (PARIS)

| Hotel class | Position | Average annual base salary |
|-------------|-----------------|----------------------------|
| First class | General manager | €102,722 |
| Luxury | General manager | €169,662 |

These figures make sense when considering the nature of

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For senior-level executive recruitment, the majority of hotel companies make use of market data collected through specific market salary surveys. These surveys allow companies to benchmark salaries against others

a general manager's job and their responsibility for the entire operation. Hotels with a larger room count and a higher classification are typically more complex to run and require a higher level of managerial responsibility. But is it just the general manager whose salary is influenced by the type of hotel operation? Does the same hold true for other management positions in the hotel? Is a restaurant manager's salary impacted by the size of the overall hotel? Is a sales manager selling room nights at a luxury hotel worth more than one selling nights at a first-class property?

Based on findings in a recent HVS survey of hotel salary levels in London, the answer is to all these questions is a resounding yes. Bigger hotels and luxury hotels pay more across the board, with few exceptions. If one considers the 50th percentile, the point in the data range where 50 per cent of the data falls, every position at luxury hotels in London has a higher salary than at first-class hotels, except for the executive housekeeper (whose salary differs by -2.76 per cent). The average difference in average base salary between luxury and first class is 16 per cent.

The same applies when one analyses the data by number of rooms (see Table 3); the bigger the hotel, the greater the average salary, except in the case of the sales manager. The difference, however, is not so great, with the average gap between salary levels being 7 per cent.

TABLE 3. AVERAGE BASE SALARY BY NUMBER OF ROOMS (LONDON)

| Average base salary | Fewer than 200 rooms | 200-400 rooms | More than 400 rooms |
|-----------------------|----------------------|---------------|---------------------|
| Restaurant manager | £26,859 | £28,886 | £31,388 |
| Front-office manager | £31,756 | £32,214 | £33,536 |
| Reservations manager | £23,735 | £24,843 | £25,333 |
| Executive housekeeper | £33,740 | £37,109 | £41,493 |
| Sales manager | £29,000 | £28,276 | £27,947 |

This difference even applies at line level. HVS's recent London salary survey included hotel restaurant waiters. The average base salary at first-class hotels was £11,660 against £12,995 at luxury hotels.

However, a salary package does not typically consist of just a base salary. When putting together an expatriate's salary package in particular, there are a number of factors to bear in mind in addition to annual salary. Expatriate benefits vary depending on location, but in the main hotel senior management can expect an annual housing

TABLE 4. SALARY PACKAGES FOR DIRECTORS OF ROOMS AT GULF HOTEL CHAINS

| Director of rooms | Minimum | 25th percentile | 50th percentile | 75th percentile | Maximum |
|------------------------------|----------|-----------------|-----------------|-----------------|----------|
| Annual base salary (net) | \$31,792 | \$46,207 | \$48,000 | \$54,720 | \$81,600 |
| Annual paid bonus | \$5,249 | \$7,895 | \$9,763 | \$16,162 | \$19,200 |
| Annual housing allowance | \$20,400 | \$23,424 | \$26,000 | \$26,634 | \$27,200 |
| Annual travel allowance | \$600 | \$1,170 | \$2,180 | \$3,051 | \$3,206 |
| Annual car allowance | \$5,712 | \$6,570 | \$7,428 | \$8,286 | \$9,144 |
| Medical insurance | \$139 | \$986 | \$1,360 | \$1,632 | \$1,749 |
| Retirement plan contribution | \$3,024 | \$3,024 | \$3,024 | \$3,024 | \$3,024 |

allowance, car allowance, health insurance, pension contribution, relocation expenses and annual flight tickets to the home country or country of hire. In addition, the executive often benefits from a tax-free salary paid in US dollars, euros or sterling.

For example, HVS recently undertook a study of salary packages awarded to hotel management in the Gulf region of the Middle East (see Table 4). The question was if, as with base salary, the various allowances were determined by factors such as hotel size and classification. HVS took the general manager data and divided the peer group into two sets: those at hotels with fewer than 300 rooms and those at hotels with more than 300 rooms. The average annual housing allowance awarded to general managers of hotels with fewer than 300 rooms was \$33,166. At hotels with more than 300 rooms, the average annual housing allowance was \$34,147, a difference of 3 per cent.

On examining the same general manager data by hotel class, the study revealed there to be only a very minor difference between the two groups. General managers at first-class hotels were awarded an annual housing allowance of \$34,155 against \$33,483 paid to general managers of luxury hotels, a 2 per cent difference. The same also held true for annual travel allowance, car allowance, health cover and pension.

There is also little difference in bonus-earning potential. The average bonus for a general manager of an international chain hotel in the Gulf region is 33.6 per

cent. If the data is broken down by hotel size and class, there is a slight difference in bonus levels, but not in the way one might expect. As Table 5 shows, the bonus awarded as a percentage of salary was, surprisingly, higher at smaller hotels than at their larger counterparts, although the general managers at larger hotels had a slight edge in base salary.

Similarly, although general managers of luxury hotels earn considerably more in base salary than their colleagues at first-class hotels, when it comes to bonuses they actually earn less as a percentage of salary (see Table 6).

Therefore, it appears that, although base salary can be influenced by factors such as hotel size and class, additional salary package components such as housing and travel allowances remain constant, and bonus levels appear to be influenced by separate factors. However, this does not negate

the need to benchmark package components such as housing allowance against the competitor market norms. The hotel's characteristics may not have an influence, but it is still important to ensure that each piece of the salary package is competitive within the market.

TABLE 5. AVERAGE GM BONUS AND BASE SALARY: >300 ROOMS VS <300 ROOMS (GULF REGION)

| Hotel room count | Average bonus (% of salary) | Average base salary (net) |
|----------------------|-----------------------------|---------------------------|
| Fewer than 300 rooms | 37.48 | \$96,989 |
| More than 300 rooms | 30.82 | \$98,952 |

TABLE 6. AVERAGE GM BONUS AND BASE SALARY: FIRST CLASS VS LUXURY (GULF REGION)

| Hotel class | Average bonus (% of salary) | Average base salary (net) |
|-------------|-----------------------------|---------------------------|
| First class | 34.88 | \$88,062 |
| Luxury | 31.04 | \$116,626 |

There are a number of factors to take into account when composing a competitive salary package that will boost employee attraction and retention. It is clear that of these factors, criteria relating to the character of the hotel have an influence on salary level. It is therefore important to consider such factors when determining employee salaries and, through salary surveys, to benchmark salaries against relevant comparable data and compare apples with apples. **HMI**