



# Compensation Programs

## CHAPTER

## OUTLINE

- Compensation Management
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## CHECKLIST

## OF CHAPTER LEARNING OBJECTIVES

*As a result of satisfactory completion of this chapter, readers will be able to:*

1. Describe the differences between extrinsic and intrinsic rewards as they relate to employee compensation programs.
2. Explain how compensation programs are affected by federal, state, and local laws.
3. List and describe the most common forms of direct financial compensation.
4. List and describe the most common forms of indirect financial compensation.
5. List and describe some of the most common forms of nonfinancial compensation.



## Impact on Human Resources Management

Despite arguments to the contrary, pay is not the central issue responsible for attracting and retaining most employees. Pay is only one of a variety of factors that impact an employee's willingness to work. Worker pay is, however, critically important to employees and employers alike, because it affects so many other business issues.

In general, workers who feel they are unfairly paid will, if possible, seek jobs they believe more equitably reward their efforts. Alternatively, employers who pay their employees significantly more than other employers may find their operating costs are too high to allow them to stay competitive and achieve the profits they need to stay in business. Unfortunately for HR managers, elusive concepts such as fair, equitable, and competitive defy unanimous agreement. As a result, the challenge faced by HR managers is to design and manage compensation systems that are simultaneously perceived as reasonable by both employees and employers. The best of HR managers actually go one step further and use their compensation programs as an essential tool for attracting and retaining excellent workers, as well as maximizing profits for their employers.

It is important to realize that people rarely are attracted to, or leave, a job for money alone. Instead, they are attracted or leave for career advancement, new challenges, lack of appreciation by the company, inability to have an impact, coworker conflict, job insecurity, family matters, and a variety of other factors. This is not to imply that pay is unimportant to workers at all levels; it is critically important. Employee demands for higher wages, shorter working hours, better benefits, and the like are important in and of themselves. Viewed more deeply, they are an expression of far more general strivings for self-worth, responsibility, power, and even calls for justice.

As is true in many other HR areas, managers designing compensation systems must understand the law. When creating effective compensation systems, however, more is at stake than ensuring the system's legality. Managing compensation systems well involves two main issues: controlling costs and leveraging pay (getting the most bang for the buck). This can be done by establishing a compensation and benefits system that tracks costs, helps ensure pay equity, is understood by all employees, and recognizes the fundamental, long-term wisdom of justly balancing the financial interests of both employees and employers.

## Compensation Management

1. Describe the differences between extrinsic and intrinsic rewards as they relate to employee compensation programs.

The majority of hospitality workers like their jobs and enjoy the rewards they receive from working in the industry. For most of these workers, however, a critically

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**Compensation:** The amount of money and other items of value (e.g., benefits, bonuses, perks) given in exchange for work performed.

**Compensation package:** The sum total of the money and other valuable items given in exchange for work performed.

important part of their job satisfaction relates to the **compensation** they receive for doing their jobs.

While some hospitality workers consider their jobs to be fun, few people have the luxury of working just for the fun of it. In most cases, workers seek to evaluate the entire **compensation package** offered by their employer when they assess the amount they are paid for their work, and when they consider whether that payment is adequate, or fair. It is important that managers ensure that employees know about their hourly pay, but it is just as important that employees be informed about their entire compensation package (including items such as meals, travel discounts, benefits, bonuses, perks, and the like).

Most employees, naturally, would like their compensation package to be as large as possible. Interestingly, however, it is rarely in the best interest of employers to make compensation packages as small as possible. The reason for this is twofold. First, employers who advertise positions offering a below-average compensation package tend to attract workers with lesser skills. This is so because more highly skilled workers seek higher-paying positions and employers. Second, those employers who seek to minimize the amount paid to their employees tend to lose the best of their workers to other organizations that are willing to pay more. Consequently, when less-skilled workers are attracted to an organization, and when the best of an organization's workers ultimately seek employment elsewhere, customer service levels inevitably are below average, resulting in below-average company profits. The optimum compensation program attracts very high-quality workers, provides for excellent customer service levels, and, by doing so, allows the company to maximize profitability.

In most cases, when discussing their compensation, employees will point out their salaries, wage paid per hour, or tips received during their average shift. When HR managers discuss their own operations' compensation programs, they talk about much more than the amount of money paid to their workers, because experienced HR managers know a comprehensive compensation program consists of important **extrinsic rewards** as well as **intrinsic rewards**.

For most employees, both extrinsic and intrinsic rewards are important. As a result, HR managers must consider both types when developing their operation's total compensation program. Figure 8.1 lists some of the most common extrinsic and intrinsic rewards utilized in the hospitality industry.

It is important to recognize that not all employees react in the same manner to rewards offered by employers. For some workers, intrinsic rewards are critically important. For others, financial rewards may be most important, and for still others, status and the nonfinancial extrinsic rewards may be what they like most about the compensation they receive. All employees do exchange work for rewards. Probably the most important (or at least the most talked about!) reward is money or pay. While not all employees earn the same amount of money, nearly all employees view the amount they are paid as a real indication of their value in the eyes of management. Therefore, an employee who discovers that a coworker makes as little as 5 or 10 cents more per hour than he or she does can become upset. For many workers, the amount of money they make significantly enhances or detracts from their own feelings of status and self-worth. Thus, an equitable compensation program that considers pay, as well as all other employee rewards, is critical.

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**Extrinsic rewards:** Financial, as well as nonfinancial, compensation granted to a worker by others (usually the employer).

**Intrinsic rewards:** Self-initiated compensation (e.g., pride in one's work, a sense of professional accomplishment, or enjoying being part of a work team).

EXTRINSIC REWARDS	INTRINSIC REWARDS
<b>FINANCIAL</b>	
Salaries	Participation in job design
Hourly pay	Participation in decision making
Cost-of-Living Adjustments (COLAs)	Greater job freedom
Tips	More interesting work
Commissions	Opportunities for personal growth
Bonuses	More job security
Merit pay	Empowerment
Incentive pay	
Profit sharing	
Paid leave	
Mandatory benefits	
Voluntary benefits	
<b>NONFINANCIAL</b>	
Preferred office space or work station	
Preferred personal computer or kitchen tools	
Preferred meal privileges	
Designated parking place	
Business cards	
Special dress codes	
Secretary	
Impressive titles	
Travel/meal discounts	

**FIGURE 8.1:** Extrinsic and Intrinsic Employee Rewards

**Compensation management:**

The process of administering an organization's extrinsic and intrinsic reward system.

The goal of any effective **compensation management** program should be to attract, motivate, and retain competent employees. To achieve this goal, the program must be perceived by employees as essentially fair and equitable.

It is important to remember that fairness in pay can only be considered in the context of organizational profitability. Organizations that can pay employees less, but still deliver a quality product, will, in the short run, be more profitable than competitors who pay their employees more. This is so because profits are simply computed as revenue minus expenses, and, in the hospitality industry, employee compensation is one of any operation's largest expenses. Experienced HR managers know, however, that an employer whose compensation program is not perceived as fair by employees will not, in the long run, attract and retain the best and most talented workers. Outstanding employees who have the ability to do

better financially for themselves and their families will seek employers who do pay fairly. This is not to imply that those employers who pay the most money in direct salaries and wages will attract the best workers. In fact, those HR managers who can clearly show employees the inherent fairness of their company's *complete* compensation program will, in the long run, attract and retain the best workforce. This is so because compensation directly affects employee motivation, and motivation affects employees' view of compensation. Highly motivated workers tend to view their company's compensation programs as fair, while those who are less motivated often find fault with the manner in which they are compensated.

Managing compensation is, to a great degree, the management of employee expectations and perceptions. To do this well, HR managers must devise an effective compensation system. To be useful, such a system typically includes:

1. *Categorizing of jobs.* Not all employees do the same work, and the result is that employee pay differences do exist. It is also true that most employees will readily accept this rationale as the reason for pay variations. It is easy for most employees to understand, for example, that a tray line supervisor in a hospital's dietary department would make more money per hour than a tray line server working in the same facility.

In a similar manner, employees will undoubtedly understand that a fine-dining operation's executive chef would be paid more than that operation's sous chef. When employees understand real differences in job responsibilities, they can better understand the reasons for differences in pay.

HR managers can add flexibility and enhance employees' understanding of their compensation programs by creating several categories within the same job, each of which may have its own **pay range**. For example, desk agents in a hotel may be classified as trainee, intermediate, senior, and so on to designate different experience or skill levels. Each classification would, under this system, have its own pay range. Employees can also routinely be made aware of the skills or experience needed to advance to higher levels and of any opportunities offered by the employer to help them become trained or eligible for these higher positions.

2. *Comparison of employee pay to the local labor market.* Assume that three different hotels offer their employees identical nonwage compensation packages. In such a scenario, would \$7.50 be a fair hourly wage to be paid to each hotel's laundry workers? The answer, to some degree, will depend on exactly where the hotels are located. Hourly wages paid for laundry workers in New York City will be higher than those paid to similar workers in rural Midwest U.S. communities.

International hotel companies operating in Punta Cana in the Dominican Republic, for example, would likely pay yet another rate. Between the extremes will lie a variety of prevailing **local wage rates**, each based on the individual community and labor market in which the operation is located.

HR managers can stay abreast of local wage rates by conducting periodic **salary surveys**.

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**Pay range:** The lower and upper limit of hourly wages or salary paid for a specific job. For example, the pay range for an entry-level room attendant in a hotel may be between \$7.50 and \$8.50 per hour to start.

**Local wage rate:** The prevailing pay range for distinct job categories in a specific community or labor market.

**Salary survey:** A comprehensive review of local wage rates and pay ranges paid for one or more individual job categories (e.g., the average local wage rate, or range, paid to hotel bartenders, room attendants, or groundskeepers).

You can easily conduct your own salary surveys by talking to your counterparts working at other hospitality operations in your area. They will usually be happy to share such information, because they want to have the benefit of your data just as much as you desire access to their numbers. In addition, managers may be able to purchase commercial salary surveys in some locations.

Salary surveys can tell you a lot. First, they provide a way to establish pay ranges for various jobs. Second, they can tell how your wages or salaries compare with the labor market. Third, surveys can give you an idea of how many job categories should be established for each job group.

Managers need not follow the local market conditions by matching the wage rates found in a salary survey. For example, an HR manager may pay more aggressively for some jobs than others, based on a view of how many qualified workers are available, how critical it is to fill the jobs, and the amount of position turnover they are expecting.

3. *Management of internal pay equity.* Most HR managers agree that managing internal pay equity is more important than ensuring external equity. This is so because employees are much more likely to know the hourly pay or salary of the persons they work with than the amount paid to a person in another operation. Also, many employees realize that it is difficult to compare, for example, the pay at two different restaurants, because each may offer differing benefit packages that help explain the pay differences.

Employees typically feel that they can make comparisons about coworkers within their own operation. Also, employees will have a better foundation for pay comparisons because they have a better idea of what their coworkers actually do on the job and how well they do it. All of these factors create a much higher potential for morale problems and turnover if pay rates are not seen as equitable.

Some managers control this internal equity issue by mandating that employees not discuss their pay with other employees. While this approach may sometimes be effective, its legality is questionable, and it will not likely prevent employees from covert discussions. In fact, some employees may believe that a “no discussion of pay” policy implies that there are pay system inequities, and managers are trying to cover it up.

Internal equity is best achieved by paying people within the pay range established for their jobs and by paying for identifiable measures such as job performance, full- vs. part-time status, shifts worked, assignments completed, or other objective factors. For example, a hotel may elect to pay a desk agent working the 11 P.M. to 7 A.M. shift more per hour than a coworker doing identical work on the 7 A.M. to 3 P.M. shift. In this example, the shift worked, rather than the tasks completed, justifies the pay differential between the two employees.

4. *Linkage of pay to job performance.* Most managers and employees agree that workers who perform their jobs better should receive greater pay and larger

pay increases than their peers who do not. At the same time, they may not believe that their own companies do a good job of rewarding superior effort.

In Chapter 9, you will learn more about how HR managers evaluate employee contributions to their operations' effectiveness. You'll learn that a quality performance evaluation system is an effective tool for achieving many goals, including improving employee skills and identifying employee efforts worthy of additional pay and responsibility.

Measurable employee effort and other factors, such as difficulty level of the work, shift assignments, and current pay, should play an important role in helping HR managers develop a **merit pay system** that effectively helps them determine appropriate employee pay rates.

The hospitality industry is unique in that many jobs have their own built-in individual merit pay plans. For example, servers and bartenders working in tipped positions often find that the money they earn from tips is directly tied to the quality of service they provide. This same principle of closely associating effort with pay is an important one and is a key component in any effective compensation program.

Some hospitality managers feel that pay should not be closely tied to individual performance. They reason that linking individual pay with performance erodes teamwork. It does take more than one individual to effectively perform work tasks in most hospitality operations. However, because paychecks are not issued to groups rather than individuals, most employees believe that they should be paid according to their own best individual efforts. An evaluation of that effort should include an assessment of each worker's contributions to their team's success. Such an open and objective assessment is typically viewed by employees as a much fairer system than one where the assessment is based primarily on membership in a specific group (whose members were not likely chosen by the employee).

5. *Maintenance of open communications.* While some HR managers find it uncomfortable to talk to employees about pay, it is a topic that every employee talks or thinks about on an ongoing basis. The amount of pay-related communication that is appropriate will vary between operations. Many companies do not effectively communicate the mechanics of compensation plans in the organization.

For example, unit managers typically must inform employees about their pay, but they may be reluctant to say too much for fear that they will have to justify some perceived pay inequity that they may not fully understand or even agree with. When managers say nothing, this often requires employees to rely on the rumor mill, an information source that is well noted for its inaccuracy and exaggeration.

Discussing employee pay is always a delicate situation. What is most critical for all employees (including HR managers!) to understand is how their pay or pay increase was determined, why it is that amount, and what, if anything, the employee can do to earn more.

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**Merit pay system:**

A compensation program that links increases in pay to measurable job performance. Under such a system, those workers who perform better receive proportionally larger percentage pay increases.



## IT'S THE LAW!

**M**anaging the compensation for tipped employees is a challenge in nearly all segments of the hospitality industry. Legally, tipped employees are those who customarily and regularly receive more than \$30 per month in tips. Tips actually received by tipped employees may be counted as wages for purposes of the FLSA (Fair Labor Standards Act, see Chapter 2), but the employer must pay not less than \$2.13 per hour in direct wages. If an employer elects to use the tip credit provision, the employer must (1) inform each tipped employee about the tip credit allowance (including the amount to be credited) before the credit is utilized; (2) be able to show that the employee receives at least the minimum wage when direct wages and the tip credit allowance are combined; and (3) allow tipped employees to retain all tips, unless they participate in a valid tip-pooling arrangement.

If an employee's tips combined with the employer's direct wages do not equal the federal minimum hourly wage, then the employer must make up the difference. If an employee is employed concurrently in both a tipped and a nontipped job, the tip credit is available only for the hours spent in the tipped job.

Current law forbids any arrangement between the employer and the tipped employee, where any part of the tip received becomes the property of the employer. A tip is the sole property of the tipped employee. Where an employer does not strictly observe the tip credit provisions issued by the FLSA, no tip credit may be claimed, and employees are entitled to receive the full cash minimum wage, plus all of the tips they have received.

Many hotels and restaurants charge guests a compulsory service charge. A service charge (e.g., 15 percent of the guest's total bill) is *not* a tip but, instead, is part of the employer's gross receipts. Where service charges are imposed and the employee receives no tips, the employer must pay the entire minimum wage and overtime required by the FLSA.

The requirement that an employee must retain all tips does not preclude tip-splitting or -pooling arrangements among employees who customarily and regularly receive tips, such as servers, bellhops, counter personnel (who serve customers), bussers, and bartenders. Tipped employees cannot, however, be forced to share their tips with employees who have not customarily and regularly participated in tip-pooling arrangements, such as dishwashers, cooks, chefs, and janitors. Only those tips that are in excess of tips used for the tip credit may be taken for a tip pool.

Where tips are charged on a credit card, and the employer pays the credit card company a percentage on each sale, the employer may pay the employee the tip, minus that percentage, but the charge on the tip may not reduce the employee's wage below the required minimum wage. The tip amounts due from payment cards must be paid no later than the employee's regular payday, and cannot be held while the employer is awaiting reimbursement from the payment card company.

## Legal Aspects of Compensation Management

### 2. Explain how compensation programs are affected by federal, state, and local laws.

Generally, employers may establish wages and salaries as they wish, but they also must comply with federal, state, and local laws that directly affect compensation programs. For example, you learned in Chapter 2 that the Equal Pay Act (1963) requires that equal pay must be given to men and women for equal work, if the jobs they perform require equal skill, effort, and responsibility, and if they are performed under similar working conditions. In addition to equal pay for equal work, numerous other federal, state, and local laws regulate how much an employer must pay employees. In the hospitality industry, these laws have a broad impact.

### FEDERAL LEGISLATION

By the end of the 1800s, the industrial age was spurring the growth of factories known as sweatshops that employed women, children, and recent immigrants who had no choice but to accept inferior wages and harsh working conditions. Social activists pushed for laws at the state level to pay all workers, regardless of social status or gender, a wage that would allow them to maintain an adequate standard of living.

In 1912, Massachusetts became the first state to enact a law mandating a **minimum wage** (interestingly, in 2006, it also became the first state to mandate health insurance for all of its citizens). By 1938, twenty-five states had enacted minimum wage laws. Some states established commissions to determine the minimum wage based on what was perceived to be a fair wage for employees. Eventually, however, a U.S. Supreme Court decision held that state laws regulating wages were unconstitutional. According to the courts, these laws violated the rights of employers and employees to freely negotiate and form contracts over appropriate wages. Other state courts, following the precedent set by the Federal Supreme Court, ruled that their own state statutes were also unconstitutional. President Franklin D. Roosevelt responded by attempting to enact federal legislation granting the president the authority to mandate a minimum wage as part of the federal government's right to regulate interstate commerce. The Supreme Court ruled President Roosevelt's first attempt at such legislation to be unconstitutional, but the Court upheld his second attempt, the 1938 Fair Labor Standards Act (FLSA), as constitutional.

The FLSA, among other provisions, established child labor standards and set the nationwide minimum wage to be paid to covered employees. It also defined the wage rates that must be paid for working overtime.

Some, but not many, hospitality operations may be too small to be covered under the FLSA. HR managers should check with their local offices of the Wage and Hour Division, listed in most telephone directories under "U.S. Government, Department of Labor, Wage and Hour Division."

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**Minimum wage:** The least amount of wages that employees covered by the FLSA or state law may be paid by their employers.

The minimum wage is established and periodically revised by Congress. Its most recent revision occurred in 2007. HR managers would do well to continually monitor the actions of Congress with regard to changes in the minimum wage, because nearly all hospitality employees are covered by the minimum wage, with some exceptions. For example, the FLSA allows an employer to pay an employee who is younger than 20 years of age a training wage, which is below the standard minimum, for the first 90 consecutive calendar days of employment. Also, tipped employees can be paid a rate below the minimum wage if the reported tips plus the wages received from their employer equals or exceeds the minimum hourly rate.

The FLSA does not limit the number of hours in a day or days in a week that an employee over the age of 16 may work. It does allow employers to require employees to work more than 40 hours per week. However, under the FLSA, covered employees must be paid at least one and one-half times their regular rates of pay for all hours worked in excess of 40 in a workweek. Some employees are exempt from the overtime provision of the FLSA. These include salaried professional, administrative, or executive employees.

To enforce federal wage and hour laws, the Wage and Hour Division of the Federal Department of Labor has investigators stationed throughout the country. If they encounter violations, they recommend changes in employment practices to bring the employer into compliance, and they may require the payment of any back wages due to employees. Employers who willfully or repeatedly violate the minimum wage or overtime pay requirements of the FLSA are subject to civil penalties of up to \$1,000 per violation. Employees may also choose to bring a lawsuit against their employer for back pay as well as other costs, including attorney's fees and court costs.

## STATE LEGISLATION

Many states continue to maintain their own minimum wage laws. In those states, employees are covered by the law that is most favorable to them (in other words, whichever wage [state or federal] that provides the highest compensation). The differences in state employment laws can be significant, and HR managers must be aware of those that relate to the state(s) in which they do business. To illustrate this fact, consider the very specific differences contained in the sample wage and hour laws, of selected states, detailed in Figure 8.2. Clearly, individual states have a great deal of latitude in enacting their own wage and overtime laws.

The actual hourly minimum wage rates for the individual states vary widely and change often. For an up-to-date listing of the minimum wage in each state, go to: [www.dol.gov/esa/minwage/america.htm](http://www.dol.gov/esa/minwage/america.htm).

## LOCAL LEGISLATION

In addition to wage and hour legislation passed at the federal and state levels, some wage and hour laws have been passed at the city or county level. In many

ALASKA: Workers employed as school bus drivers receive at least two times the Alaska minimum wage.

ARKANSAS: Employers of workers who receive board, lodging, apparel, or other items as part of the worker's employment may be entitled to an allowance for such board, lodging, apparel, or other items, not to exceed 30 cents per hour, credited against the minimum wage.

INDIANA: An employer must pay a base wage for tipped employees (any employee who receives more than \$30 per month in tips), and the employer must pay the difference between the base wage and federal minimum wage if applicable.

MICHIGAN: Workers younger than age 18 are entitled to a 30-minute meal break after five hours of work. Michigan law does not require a meal break for workers older than age 18.

NEW HAMPSHIRE: An employer cannot require a worker to work more than five hours without a 30-minute meal break. An employee who reports to work at the employer's request is entitled to be paid a minimum of two hours' wages.

OREGON: State law prohibits employers from taking a credit against minimum wage for tips. Employees are entitled to 30-minute meal periods for work shifts six hours or longer, and 10-minute work breaks during each four-hour work shift.

VERMONT: State minimum wage is increased annually by law.

WEST VIRGINIA: Minors 14 or 15 years of age must receive work permits before working. The permit is forwarded to the Division of Labor, which ensures that minors are not working in hazardous or unsuitable conditions.

WASHINGTON: No employer may employ a minor without a work permit from the state along with permission from the minor's parent or guardian and school.

**FIGURE 8.2:** State-Enacted Wage and Hour Legislation

**Living wage:** The minimum hourly wage necessary for a person to achieve some subjectively defined standard of living. In the context of developed countries such as the United States, this standard is generally considered to require that a person working 40 hours per week, with no additional income, should be able to afford a specified quality or quantity of housing, food, utilities, transportation, and health care.

cases, this local legislation takes the form of **living-wage** laws that, in most cases, can directly affect hospitality businesses.

The first living-wage law was passed in Baltimore in 1994. The ordinance there stipulated that businesses holding service contracts with the city pay a minimum of \$6.10 per hour, rising to \$7.70 as of July 1998, and thereafter moving in step with inflation. A single mother working full time at \$7.70 per hour would (at that time) have been able to live with her child above the federally defined poverty line. Within four years of the Baltimore ordinance, living-wage laws passed in New York, Los Angeles, Chicago, Boston, Milwaukee, Jersey City, Durham, Portland, Oregon, and eight other cities. Today, more than 120 cities and counties have enacted such measures.

The living-wage ordinance in Los Angeles goes further than mandating wages alone. Passed in 1997, the ordinance was only the country's third living-wage law, but it was the first to include a provision for healthcare benefits. It applies to certain businesses in four categories: (1) those that have service contracts with the city, (2) lease land from the city, (3) require city operating permits, or (4) receive city financial assistance. Restaurants, hotels, and bars operate with city permits,

so they are covered by the ordinance. The law mandates that workers at these businesses be paid \$7.72 per hour if the company provides health benefits, or \$8.97 per hour if no health coverage is provided.

Emeryville, California, provides another example of why local wage laws must be understood by HR managers. In that city, a ballot initiative allowed 194 citizens to cast the deciding votes in setting minimum wages for the city's hotels. The 2005 Emeryville law mandates a minimum wage of \$9 per hour and an average wage of at least \$11 per hour for employees at hotels with more than 50 rooms. Interestingly, employers operating in the tourist zones in Santa Monica and Berkeley, California, must pay a higher minimum wage rate than employers in other parts of these cities. In Santa Fe, New Mexico, employers with 25 or more employees (including most hotels) must pay a minimum wage of \$9.50.



## Human Resources MANAGEMENT ISSUES

(8.1)

**S**haron Alexander operated The Texas Saloon, an upscale steakhouse restaurant that also served beer and wine. Sharon's average menu item sold for \$20. Employees were allowed to eat one meal during their shift. For those who voluntarily elected to eat this meal, Sharon would deduct 25 cents per hour (\$2 per eight-hour shift) from the federal minimum wage rate she paid her entry-level dishwashers, which reflected the reasonable cost of the meal.

Sharon relied on the Fair Labor Standards Act (FLSA) Section 3(m), which states that employers can consider, as wages, "reasonable costs . . . to the employer of furnishing such employees with board, lodging, or other facilities if such board, lodging, or other facilities are customarily furnished by such employer to his employees." Sharon interpreted this regulation to mean that she could pay the entry-level dishwashers a rate that, when added to the 25-cent per hour meal deduction, equaled the federal minimum wage.

One day, Sharon was contacted by her state Department of Employment, which charged that she was in violation of the state minimum wage law. That law stated that "total voluntary deductions for meals and uniforms may not decrease an employee's wages below the federal minimum wage on an hourly basis." Sharon maintained that, because she was in compliance with the federal law, she was allowed to take the meal credit against the wages paid to her entry-level dishwashers.

### QUESTIONS

1. Is Sharon in compliance with all of the compensation-related laws that affect her?
2. Do federal wage laws take precedent over state wage laws?
3. Do state wage laws take precedent over federal law? Explain your answer.

Rules about tip recording and reporting are complex, and it is the responsibility of HR managers to explain these rules fully to tipped employees.

*Courtesy  
PhotoDisc/Getty  
Images*



Specific wage rates to be paid by employers are adjusted often by local governmental entities, but the examples cited here demonstrate the importance of hospitality managers understanding the local wage and hour legislation that affects their operations, and in making their own opinions well-known when such legislation is under consideration in their communities.

As a final word on the legal aspects of compensation, it is important to note that employers may (voluntarily) commit themselves to the legal responsibility to pay workers a specific amount. Thus, for example, when an employer agrees, in writing, to pay one of its executives \$100,000 per year, it is legally obligated to do so. In a similar manner, an organization that agrees to specific wage rates in a union contract must pay those rates to employees covered by the contract.

## Direct Financial Compensation

### 3. List and describe the most common forms of direct financial compensation.

In many cases, when employees consider compensation, they are concerned with direct financial payments they receive. Although it may take a variety of forms, direct financial compensation for hospitality employees typically consists of one or more of the following:

- Salaries
- Wages

- Incentives and bonuses
- Tips

## SALARIES

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**Salary:** Pay calculated on a weekly, monthly, or annual basis rather than at an hourly rate.

**Exempt (employee):** An employee who is not subject to the minimum wage or overtime provisions of the Fair Labor Standards (FLSA).

**Nonexempt (employee):** An employee who is subject to the minimum wage or overtime provisions of the Fair Labor Standards (FLSA).

In the hospitality industry, managers and some higher-level supervisors are typically paid a fixed **salary** rather than an hourly rate.

The advantage to employees of a salary system is the consistency of their pay. An advantage to employers is that such employees are not subject to the overtime provisions of the FLSA. To illustrate, Jack Lester works as a salaried dining room supervisor. He regularly works between 45 and 65 hours per week, but Jack's employer is not required to pay him overtime for the hours in excess of 40 that he works weekly.

The FLSA requires that most employees in the United States be paid at least the federal minimum wage for all hours worked, as well as overtime pay at one and one-half times the regular rate of pay for all hours worked over 40 in a workweek. Section 13(a)(1) of the FLSA, however, provides an exclusion from both minimum wage and overtime pay for employees employed as verifiable executive, administrative, professional, and outside sales employees. Such employees are termed **exempt** employees (to distinguish them from **nonexempt** employees).

To qualify for exempt status, employees must meet certain tests regarding their job duties and be paid a minimum salary (\$23,660 annually at the time of this text's production).

Job titles do not determine exempt status. Therefore, Jack Lester's title (dining room supervisor) does not determine his exempt status. Rather, his specific job duties and salary must meet all of the requirements of the Department of Labor's regulations to qualify for exempt status. In the hospitality industry, most exempt jobs fall into either executive, administrative, or (in the case of some hotel sales and marketing positions) outside sales classifications.

In general, to qualify for the executive employee exemption, all of the following tests must be met:

- The employee must be compensated with a salary of not less than \$455 per week.
- The employee's primary duty must be managing the operation or managing a customarily recognized department or subdivision of the operation.
- The employee must customarily and regularly direct the work of at least two or more other full-time employees or their equivalent.
- The employee must have the authority to hire or fire other employees, or the employee's suggestions and recommendations as to the hiring, firing, advancement, promotion, or any other change of status of other employees must be given significant weight.

To qualify for the administrative employee exemption, all of the following tests must be met:

- The employee must be compensated with a salary of not less than \$455 per week.
- The employee's primary duty must be the performance of office or nonmanual work directly related to the management or general business operations of the employer or the employer's customers.
- The employee's primary duty includes the exercise of discretion and independent judgment with respect to matters of significance.

To qualify for the outside sales employee exemption, all of the following tests must be met:

- The employee's primary duty must be making sales (as defined by the FLSA) or obtaining orders or contracts for services or for the use of facilities, for which a payment will be paid by the client or customer.
- The employee must be customarily and regularly engaged away from the employer's place or places of business.

The exemptions provided by FLSA Section 13(a)(1) apply only to white-collar employees who meet the salary and duties tests described in their regulations. The exemptions do not apply to manual laborers or other blue-collar workers who perform work involving repetitive operations with their hands, physical skill, and energy. FLSA-covered, nonmanagement employees in production, maintenance, construction, and similar hospitality-related occupations such as cooks, bakers, carpenters, electricians, mechanics, plumbers, craftspeople, engineers, or general construction workers and laborers are entitled to minimum wage and overtime premium pay under the FLSA. They are not exempt under the Part 541 regulations no matter how highly they are paid.

There has been some confusion in the hospitality industry regarding when employers may legally deduct pay from salaried (exempt) employees. Generally speaking, exempt employees must receive their full salary for any workweek in which they perform any work, without regard to the number of days or hours worked. However, the following conditions allow employers to deduct wages in daily increments from exempt employees:

- Absence for one or more full days for reasons other than illness or disability
- Absence for one or more full days for illness or disability provided the deduction is made in accordance with a policy that provides compensation for time lost due to illness (e.g., sick leave)
- To offset amounts received for jury duty, witness fees, or military pay
- Per diem (per day) payment in the initial and last weeks of employment
- Good-faith penalties for violation of major safety regulations
- Good-faith unpaid disciplinary suspensions for one or more full days for violation of workplace conduct policies

Several widely publicized lawsuits have been filed against companies in the hospitality industry that violated salary provisions of the FLSA. As a result, it is

important that HR managers understand the federal provisions related to salary payments. They must also remember that, when the state laws regarding salary payments differ from the FLSA, an employer must comply with the standard that is most protective (beneficial) to the salaried employee. For example, in California employers must take into consideration several critical differences when classifying employees. To cite one such difference, the salary threshold in California required to reach exempt employee status requires that employees must earn a monthly salary of no less than two times the state minimum wage, or \$2,340 per month (vs. the current \$1,966 per month federal minimum). HR managers can find links to their own state labor departments at: [www.dol.gov/esa/contacts/state\\_of.htm](http://www.dol.gov/esa/contacts/state_of.htm).

## WAGES

### Hourly

**wages:** Money paid or received for work performed during a one-hour period.

### Piecework

**wages:** Money paid or received for completing a certain amount (one piece) of work.

In the hospitality industry, wages paid to workers typically take the form of **hourly wages** or **piecework wages**.

Interestingly, the definition of *wages* can vary greatly, depending on the way the word is used. *Wages* is a term used in a variety of contexts, and thus HR managers must realize, for example, that a taxing authority, such as a state government, may view the term *wages* as including:

- All remuneration paid for personal service, including salaries, bonuses, and commissions, paid to all workers of all ranks, including officers of a corporation
- The cash value of any remuneration paid in any medium other than cash
- All tip income
- Monies paid for time lost due to sickness or accident
- Expense allowances
- Dismissal (termination payouts)
- Money paid to workers for such items as board, lodging, union dues, employee payments to pension or benefit funds, social security tax, and premiums on group insurance policies

For purposes of this chapter, *wages* will refer only to those monies paid directly to workers based on the number of hours worked (hourly wage) or the amount of work completed (piecework wage).

While most hospitality workers, such as cooks, front desk agents, clerical staff, and others, are paid an hourly wage in keeping with their position and the area in which their jobs are located, some hotel managers use a piecework wage system when compensating hotel room attendants. The disadvantages to such a piecework payment system, based on the number of rooms workers are assigned to clean, can be numerous and significant. Consider Sara and Jenny, two employees working at the same 700-room convention hotel. Sara is a front office agent and is paid an hourly wage. Jenny works as a room attendant and is paid a flat piecework wage for successfully cleaning each assigned room. In Sara's case, the wages she earns

will be based on her skill and ability as well as local employment conditions. In contrast, Jenny's wages will be based in large measure on factors beyond her control such as:

- The number of guests staying in the hotel (and thus the number of rooms to be cleaned)
- The day, month, or season of the year
- The total number of room attendants employed by the hotel
- The total number of room attendants scheduled to work each day by the hotel's housekeeping supervisor

The piecework wage systems used in hotel housekeeping departments are very different from those used in manufacturing industries, where workers are typically guaranteed a standard wage rate for achieving a preestablished standard output. When the worker output exceeds this standard, the employee earns a predetermined amount for each piece produced. In these systems, workers who, for example, complete an hour's worth of quality work in 50 minutes obtain a bonus percentage (e.g., 50 percent) of the labor saved.

It should be easy for most HR managers to understand that, while a true piecework wage system may be intended to minimize the time it takes for room attendants to do their jobs, in addition to other disadvantages, such a system as currently applied in hospitality also encourages employees to hurry through their work and, as a result, speed rather than room cleanliness is rewarded.

Required room amenities such as bedding components mandated by hotel chains are increasing. HR managers who are interested in fair compensation programs should be careful about implementing a payment system that places selected employees (room attendants) in a compensation program that is difficult to defend. This is especially so when they (the managers) would likely be displeased if the program could be applied to them.

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#### Performance-based pay:

A compensation system that rewards workers for their on-job accomplishments rather than for time spent on the job.

**Incentive:** Motivational plan provided to employees based on their work efforts.

**Bonus:** Financial reward paid to employees for achieving predetermined performance goals.

## INCENTIVES AND BONUSSES

In addition to salaries and wages, many hospitality organizations that are committed to developing compensation systems designed around **performance-based pay** include **incentives** and **bonuses** in their overall programs.

Incentive or bonus programs may be designed to reward individuals, work teams, departments, or entire operations. Incentive and bonus programs are becoming increasingly common in the hospitality industry, because managers believe that they increase their workers' quality and quantity outputs. From a motivational perspective, tying compensation to specific job accomplishments will typically focus employee efforts on those tasks that lead directly to increased financial rewards. When designed carefully, performance-based pay components can increase worker income and lead directly to improvements in guest service and product quality levels.

Some managers believe that employee bonuses and incentives should be avoided because they are costly. In fact, the opposite is often true. As a cost-saving device, performance-based bonuses and other incentive rewards avoid the fixed expenses of annual and permanent employee pay increases. Bonuses and other financial incentives do not typically become a permanent part of the employee's base (regular) compensation. Therefore, employee pay increases are not computed based on the value of the incentives, and the result can be significant labor cost savings.

Despite the many advantages of including some performance-based components in an operation's compensation system, there can be potentially negative effects. Consider two college students, each of whom has been assigned to read a book with information related to a course in which they are enrolled. One student is told that reading the book will result in extra points being added to the final grade. The other student is given no such assurance. Which student is more likely to read the book? This example also illustrates that, despite potentially positive results, with this type of grading system, students may choose to do important work only when it leads directly to a payoff. In a hospitality environment, the result may be employees who perform only tasks that lead directly to additional financial compensation, while they ignore other important job components that are not directly tied to performance pay. When incentives are tied to specific aspects of job performance, some workers may avoid performing unmeasured, and thus unrewarded, activities in favor of measured and rewarded activities.

## TIPS

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**Tip:** A gift of money given directly to someone for performing a service or task. Also known as a *gratuity*.

In the hospitality industry, **tips** (and the practice of tipping) are perhaps the most unmistakable example of a performance-based compensation system.

As a form of employee compensation, tips are often controversial. Tips are given to employees by customers and, therefore, if the business did not exist, neither would the employee's tips. As a result of this somewhat unique situation, the laws regarding tips and how they may (or may not) be considered as employer payments to employees are constantly being examined at the federal, state, and local levels.

The subject of tips is directly addressed in federal compensation-related legislation. The FLSA defines a tipped employee as one whose monthly tips exceed the minimum established by the Wage and Hour Division of the Department of Labor. Currently, tips received by these employees may be counted (credited) as wages for up to 50 percent of the minimum wage. The Wage and Hour Division also determines the minimum cash wage that employers must actually pay to tipped employees. If an employee's hourly tip earnings (averaged weekly) added to this hourly wage do not equal the minimum wage, then the employer is responsible for paying the difference between the minimum wage and the **tip credit** amount.

The value of the tip credit to hospitality employers is significant. Consider the case of Lawson Odde, who is employed in a state with a minimum wage of \$8 per hour.

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**Tip credit:** The amount of tips employers are allowed to count (credit) toward the wage payments they make to employees.

Under the law, his employer is allowed to consider Lawson's tips as part of his wages. Therefore, his employer is required to pay Lawson only \$4 per hour, and take a tip credit for the other 50 percent of the wages needed to comply with the law.

HR managers should remember that the Department of Labor will also allow employers whose employees are tipped on a credit (or debit) card to reduce the payment card tips by an amount equal to the handling charges levied by the payment card company. Like the minimum wage and the requirements for overtime pay, state and local laws regarding tipped employees and allowable tip credits can also vary. It is very important that HR managers remember that, because tips are given to employees (and not to employers), the law carefully regulates the influence that employers have over these funds. In fact, if an employer takes control of the tips an employee receives, that employer will not be allowed to utilize the tip credit provisions of the FLSA.

In some hospitality operations, employees routinely share tips. Consider, for example, the table busser whose job includes refilling water glasses at a fine-dining establishment. If a guest leaves a tip on the table, the size of that tip would have



## Human Resources Management: CURRENT EVENTS 8.1

### CALCULATING OVERTIME PAY FOR TIPPED EMPLOYEES

**T**ipped employees are generally subject to the overtime provisions of the FLSA. The computation of the overtime rate for tipped employees when the employer claims a tax credit can be confusing. Consider, for example, a state in which the minimum wage is \$8 per hour, and the applicable overtime provision dictates payment of one and one-half the normal hourly rate for hours worked in excess of 40 per week. To determine the overtime rate of pay, use the following three-step method:

1. Multiply the prevailing minimum wage rate by 1.5.
2. Compute the allowable tip credit against the standard hourly rate.
3. Subtract the number in step 2 from the result in step 1.

Thus, if the minimum wage were \$8 per hour, and the allowable tip credit were 50 percent, the overtime rate to be paid would be computed as:

1.  $\$8.00 \times 1.5 = \$12.00$
2.  $\$8.00 \times .50 = \$4.00$
3.  $\$12.00 - \$4.00 = \$8.00$  overtime rate

**Tip-pooling:** An arrangement in which service providers share their tips with each other on a predetermined basis.

**Service charge:** An amount added to a guest's bill in exchange for services provided.

been influenced by the attentiveness of the busser assigned to that table, as well as the server who waited on the guests.

Generally speaking, when a tip is given directly to an employee, management has no control over what that employee will ultimately do with it. An exception to this principle is a legitimate **tip-pooling** arrangement. The FLSA does not prohibit tip pooling, but HR managers must approach this area with extreme caution.

As you have learned, a tip is given to an employee, not to the employer. As such, a tip is different from a **service charge** that is collected from the guest by the employer and distributed in the manner judged best by the employer.



## Human Resources MANAGEMENT ISSUES (8.2)

Stephen was hired as a busser by the Sportsman's Fishing Club. This private club served its members lunch and dinner, as well as alcoholic beverages. Stephen's duties were to clear tables, replenish water glasses, and reset tables for the servers when members finished their meals. Stephen's employer paid a wage rate below the minimum wage, because they utilized the tip credit portion of the FLSA minimum wage law.

When he was hired, Stephen read the tip-pooling policy in place at the club, signed a document stating that he understood it, and voluntarily agreed to participate in it. The policy stated that "All food and beverage tips are to be combined at the end of each meal period, and then distributed, with bussers receiving 20 percent of all tip income."

John Granberry, an attorney, was a club member and a guest who enjoyed dining in Stephen's assigned section because Stephen was attentive and quick to respond to every member's needs. Mr. Granberry tipped well, and the dining room staff was aware that Mr. Granberry always requested to be seated in Stephen's section.

One day, after Mr. Granberry had finished his meal and had added a generous tip to his member charge slip, he stopped Stephen in the club lobby and gave him a \$20 bill, with the words, "This is just for you. Keep up the good work." A club bartender observed the exchange. Stephen did not place Mr. Granberry's tip into the tip pool. When confronted by his supervisor, Stephen stated that Mr. Granberry's \$20 gratuity was clearly meant for him alone. Stephen's supervisor demanded that Stephen contribute the tip to the pool, but Stephen refused.

### QUESTIONS

1. Is Stephen obligated to place Mr. Granberry's tip into the tip pool?
2. If Stephen continues to refuse to relinquish the tip, what steps, if any, should his employer take?
3. Do you feel Stephen should be allowed to voluntarily withdraw from the tip-pool arrangement and still maintain his current employment?

Not surprisingly, tip pooling is a complex area, because the logistics of providing hospitality services is sometimes complex. When a server clears a table, resets it, serves guests by him- or herself, and then again clears the table, the question of who should benefit from customers' tips is straightforward. When, however, a hostess seats a guest, a busser—who has previously set the table—provides water and bread, a bartender provides drinks, and a server delivers drinks and food to the table, the question of who deserves a portion of the tip can become perplexing. Employers are legally allowed to assist employees in developing a tip-pooling arrangement that is fair: one that is based on the specific duties of each service position. This participation should be documented in the employee's personnel file.

By law, employees in a tip-pooling arrangement cannot be required to share tips with their peers who do not customarily receive tips, including those in positions such as janitor, dishwasher, and cook. Even well-constructed, voluntary tip-pooling arrangements can be a source of employee conflict. In addition, state laws vary, so it is a good idea to check with your state trade association or Wage and Hour Division regulator to determine the regulations applicable in a specific operation.

## Indirect Financial Compensation

### 4. List and describe the most common forms of indirect financial compensation.

#### Benefits

**(employee):** Indirect financial compensation offered to attract and keep employees or to comply with legal mandates.

#### Mandatory benefits

**(employee):** Indirect financial compensation that must, by law, be offered to employees.

#### Voluntary benefits

**(employee):** Indirect financial compensation a company chooses, on its own, to offer its workers in an effort to attract and keep the best possible employees.

While many employees tend to focus primarily on the amount of direct financial compensation paid as salary or wages, HR managers know that the cost of employee **benefits** will account for 20 to 40 percent of the total amount their operations actually spend on employee compensation.

In most countries, an employer's compensation program must include more than just the salaries or wages owed to employees. As a result, employers must provide their workers with more than just money. In the United States, federal, state, and local legislators have passed laws that require employers to provide their workers a variety of **mandatory benefits**. In addition, many companies seek to enhance their ability to attract and retain the best possible workforce by providing additional **voluntary benefits**.

### MANDATORY BENEFITS

The amount of money employers are actually required by law to spend on employee benefits is significant. Most experts estimate that government-mandated benefits such as social security, workers' compensation, and unemployment insurance represent approximately 10 percent of an employer's total payroll cost.

At the federal level, the government's mandatory social security program is an insurance program funded through a dedicated payroll tax. It is formally known as

the Federal Old-Age and Survivors Insurance Trust Fund and the Federal Disability Insurance Trust Fund program (OASDI), in reference to its three components (OA for old-age retirement, S for survivors' (widow/widower) income, DI for disability income). When initially signed into law by President Franklin D. Roosevelt in 1935, the term *social security* covered unemployment insurance as well. The term now is used to mean only benefits paid out for retirement, disability, or death. In this program, an employer's contributions are matched by a mandatory, equal contribution from the employee.

At the state level, workers' compensation now provides medical and disability benefits for work-related injuries and illnesses. In addition, all states mandate an employer's participation in a workers' unemployment insurance program. Unemployment insurance specifics vary by state, but all essentially provide some money for a temporary period of time, if employees lose their job due to no fault of their own. Under this insurance program, the employer pays the insurance premiums, while the employee is the recipient of any payments.

Many employers voluntarily offer pension plans for employees. While the offering of such plans is, in fact, voluntary, the 1974 Employee Retirement Income Security Act (ERISA) governs the activities of employers who offer pension plans. If employers offer pensions, the plan must comply with a wide range of reporting and disclosure requirements.

Similarly, many employers voluntarily offer their employees the opportunity to participate in a group health insurance program. The Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA) mandates requirements for the continuation of healthcare benefits in the event of an employee's job loss or a business closing. These provisions cover group health plans of employers with 20 or more employees. Essentially, COBRA gives workers who were covered by health insurance, but who are no longer employed, the ability to maintain their insurance coverage under the employer's health plan at their own expense for a limited period of time (currently 18 months).

## **VOLUNTARY BENEFITS**

When hospitality organizations design their overall compensation programs, a crucial area of concern relates to the voluntary benefits they should provide. All employers must provide those benefits required by law. Today's workers, however, expect more than just a salary or hourly wage and mandatory benefits; they seek additional considerations that will enrich their lives and assist them financially. Employers understand that their employees desire these benefits. Each organization must determine what it feels is the best set of benefits to offer. In many cases, the answer to this question is determined by the type of worker employed, the profitability of the company, and the operational philosophy of the employer.

In many cases, employees are allowed to choose from a variety of voluntarily offered benefits based on their own life needs. These popular cafeteria-style benefit programs recognize that, for example, the benefits sought by a single mother

working full time may be vastly different from those desired by a semiretired employee working only a few hours per week. In this case, it is not likely that an unvarying benefit package would be best for either employee.

Employers offer a variety of benefits voluntarily, and one of the most popular voluntarily offered employee benefits is health insurance, because virtually all employees (and their families) have health-related needs. Health insurance plans typically cost organizations 8 to 10 percent or even more of their total payroll dollars. Yet, as costly as these plans are, employees often take them for granted. Properly promoted, however, healthcare plans can make a significant difference in the quality of employees an organization attracts and retains.

A variety of health insurance programs can be offered by employers, including:

*Medical insurance.* This is the most costly item in this category, equaling 7 to 8 percent of the typical organization's payroll. In most cases, companies pay a percentage of the cost of such programs (from 25 to 75 percent of the premium charged) and pass the remaining premium costs on to employees.

*Prescription drug plans.* These plans allow employees to purchase prescription drugs through a network of pharmacies at a reduced rate. In the typical prescription drug plan, employees pay \$30 to \$50 for a brand-name prescription and \$10 to \$20 for a generic prescription. The balance of the prescription's cost is picked up by the insurer.

*Dental plans.* A typical dental plan has a fixed, but modest deductible (e.g., \$50 to \$100 per visit) and an annual maximum amount that will be provided to the insured person (typically \$1,000 to \$2,000 per year). Routine dental care is usually fully covered, while 50 percent of the cost of major treatment (e.g., bridges and crowns) is covered. Some programs also provide partial funding for orthodontics treatments.

*Vision care plans.* These popular plans are offered by many companies as part of their overall health insurance program. Vision plans subsidize the cost of eyeglasses or contact lenses and eye exams. The premiums required to obtain programs of this type are relatively low.

In addition to health-related insurance, many employers offer their employees life and accident insurance policies as well. In the most common case, life insurance equal to two or three times the employee's annual pay and **AD&D insurance** equal to two times the employee's annual pay are provided. Supplemental life insurance plans are also offered by many companies. These plans allow employees to purchase additional life insurance coverage through **payroll deduction** at little or no cost to the employer.

An additional and popular income protection plan is a short-term disability, or pay continuance, program. Typically, these plans offer income continuance that provides the employee with full pay for the first month of disability, and then provides a benefit that ranges from 50 to 75 percent of the employee's pay for up to

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#### **AD&D**

**insurance:** Short for Accidental Death and Disability, a form of life and income replacement insurance.

#### **Payroll**

**deduction:** A payment method in which the employer deducts money from an individual employee's paycheck and submits it directly to a program (e.g., insurance, savings, or retirement) in which the employee participates. These deductions may be made from an employee's after-tax or pretax wages.

All hospitality employees have healthcare needs that can be cost effectively addressed through employer-sponsored group health insurance policies.

*Courtesy Corbis Digital Stock*



three more months of disability. At some companies, long-term disability policies that continue the employee's pay beyond that provided by the short-term disability policy are also offered.

### OTHER VOLUNTARY BENEFITS

While health, disability, and life insurance are the most widely offered voluntary employee benefits, others that are offered by many hospitality organizations include:

- *Paid time-off.* Companies spend approximately 10 percent of payroll on paid time-off plans. This is usually money well-spent by the organization, because paid time-off is highly valued, especially with today's time pressures on employees and their families. Paid time-off typically takes one of three forms:
  - *Holidays.* The paid holidays that virtually every company provides are New Year's Day, Memorial Day, Independence Day (July 4), Labor Day, Thanksgiving Day, and Christmas Day. In the hospitality industry, most businesses are open on these days. Then employers may offer employees additional wages to work on these days.
  - *Vacation days.* Paid vacation granted to, usually, only full-time employees, often varies with years of service. Typically, employees are granted 10 days of vacation per year upon hire, with the number of days granted increasing as the number of years worked increases.

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**401(k) (retirement) plan:** A retirement plan that allows employees in private companies to make contributions of pretax dollars to a company pool that is then invested for them in stocks, bonds, or money market accounts.

- *Sick pay.* Sick or personal days are paid time-off for employee illness. Most companies also allow employees to use these days for the illness of a family member.
- *Retirement programs.* Retirement plans typically cost organizations about 3 to 5 percent of payroll. These are most often offered as either a pension plan or a *401(k) plan*. Pension plans are typically funded only by the company. They have lost their popularity recently because they are highly regulated and, therefore, difficult to administer. Currently, fewer than 8 percent of small companies (under 1,000 employees) and about 20 percent of large organizations offer pension plans.
 

**401(k) retirement plans**, however, are very popular. Today, many companies offer employees the opportunity to contribute their own pretax money to a 401(k). These plans have several advantages over pensions, including the fact that they are portable: if employees leave the company, they can take the full value of the 401(k) account with them. Furthermore, employees can typically choose where to invest their funds from among several investment options. These programs are relatively easy for companies to administer. Some hospitality companies match a portion of their employees' retirement contributions.
- *Employee Assistance Plans (EAP).* These programs provide counseling for employees encountering a variety of life issues related to:
  - Alcohol
  - Drugs
  - Health
  - Legal
  - Financial
  - Housing
  - Mental health
  - Child care
  - Elder care
  - Grief
  - Spousal/child/parent abuse
  - Career planning
  - Retirement
- *Health Care Reimbursement Accounts (HCRA) and Dependent Care Reimbursement Accounts (DCRA).* These programs allow certain medical expenses, deductibles, and child care costs for employees and their families to be paid by employees on a pretax basis.
- *Hospitality-specific benefits.* By the very nature of their businesses, some hospitality companies can offer their employees benefits such as reduced-cost meal programs, hotel stays, or travel. Discounted dining, guest rooms, and transportation offered at greatly reduced employee rates are very popular employee benefits and can usually be offered by employers at a relatively low cost.



## Human Resources Management: CURRENT EVENTS 8.2

### WHEN IS PAYDAY?

The Fair Labor Standards Act (FLSA) places many obligations on employers, including overtime, minimum wage, and child labor requirements. However, the law does not specify exactly when the wages must be paid. It simply states that “every employer shall pay to each of his employees . . . who in any workweek is engaged in commerce or in the production of goods for commerce . . . not less than the minimum wage.”

However, courts generally have read the FLSA to require the prompt payment of wages due. For example, in *Rogers v. City of Troy*, 148 F.3d 52 (2d Cir. 1998), the court considered whether a city could change its pay period. In allowing the city to make the adjustment, it pointed out that although the FLSA does not assert when wages must be paid, the courts have interpreted the statute to require that wages be paid in a timely (prompt) manner.

Most states have stepped in to fill the void left by the FLSA. In fact, almost every state has passed legislation specifying minimums for how frequently (usually biweekly or monthly) wage payments must be made to employees. Because state laws vary, HR managers should consult the Wage and Hour Division of their State Department of Labor for detailed information on when wages they owe to their workers must be paid.

## Nonfinancial Compensation

### 5. List and describe some of the most common forms of nonfinancial compensation.

Earlier in this chapter, you learned that intrinsic rewards can be powerful employee motivators. In addition to mandatory and voluntary benefits and other financial incentives, many companies complete their compensation programs by including intrinsic rewards designed to enhance workers’ positive feelings about themselves and their jobs. While these rewards may not include direct financial payments to employees, they are certainly an integral part of a company’s overall compensation program. Some of the most common and effective of the intrinsic motivators used in the hospitality industry provide employees with:

- Increased participation in decision making
- Greater job freedom

- More responsibility
- Flexible work hours
- Opportunities for personal growth
- Diversity of tasks

Perhaps the most critical part of an effective intrinsic compensation package is provided simply by giving employees more responsibility in their work assignments. Effective HR managers determine their employees' suggestions about changes that can yield efficiency, productivity, customer service, or other improvements, and then determine if it is possible to make these changes. Other examples of simple tactics that HR managers can undertake to make their employees' work more meaningful include:

- Simple thank-you notes that show appreciation for good work. A personal note can be an excellent and much-appreciated reward.
- Staff or employee meetings outside of the operation (possibly a nice restaurant or park).
- Birthday programs where a gift is delivered to employees during the week of their birthday.

Many hospitality managers encourage away-from-work employee activities to build team spirit and to enhance the social aspects of the workplace.  
*Courtesy Image 100 Ltd.*



- Employee outings arranged by employees and designed to increase camaraderie. Outings of these types can include picnics, visits to skating rinks or bowling lanes, golfing, or another activity desired by employees.
- Paid time-off certificates to reward perfect attendance.
- Baseball caps, hats, shirts, jackets, and the like, embossed with the company name or logo.

Regardless of the components of the specific compensation program you institute, the employees must know exactly how and why that system was developed. Failing to keep employees informed about how the program was created and, when it changes, the reason for the changes, will likely yield employee dissatisfaction and conflict. Many experienced HR managers believe that an organization's ability to communicate the rationale behind its compensation programs is just as important as the quality of the programs. Organizations that maximize the effectiveness of their overall compensation programs often find that clear communication of the program's processes and objectives helps them to achieve employee recruitment and retention goals established for the programs.

## HUMAN RESOURCES TERMS

The following terms were defined in this chapter:

<b>Compensation</b>	<b>Piecework wages</b>
<b>Compensation package</b>	<b>Performance-based pay</b>
<b>Extrinsic rewards</b>	<b>Incentive</b>
<b>Intrinsic rewards</b>	<b>Bonus</b>
<b>Compensation management</b>	<b>Tip</b>
<b>Pay range</b>	<b>Tip credit</b>
<b>Local wage rate</b>	<b>Tip-pooling</b>
<b>Salary survey</b>	<b>Service charge</b>
<b>Merit pay system</b>	<b>Benefits (employee)</b>
<b>Minimum wage</b>	<b>Mandatory benefits (employee)</b>
<b>Living wage</b>	<b>Voluntary benefits (employee)</b>
<b>Salary</b>	<b>AD&amp;D insurance</b>
<b>Exempt (employee)</b>	<b>Payroll deduction</b>
<b>Nonexempt (employee)</b>	<b>401(k) (retirement) plan</b>
<b>Hourly wages</b>	

## FOR YOUR CONSIDERATION

1. In this chapter you learned about different forms of direct, indirect, and non-financial compensation. Consider your own career. Which of these types of compensation is most important to you? Do you believe the same form(s) of compensation would be most important to those you will directly manage? Explain your answer.
2. Insurance benefits have traditionally been offered to employees and their immediate families. Today's employees, however, often define *family* in a much different manner than did previous generations of workers. The increase in openness of same-sex living arrangements has resulted in more employees seeking insurance benefits for their domestic (live-in) partners, regardless of their marriage status or their partner's gender. Some companies now offer insurance benefits to domestic partners, but others do not. Do you think companies should offer benefits to domestic partners? Why or not?
3. Finding affordable, quality day care is a challenge for many hospitality employees. In some cases, progressive hospitality employers have done a good job of securing reduced-cost services of this type, or even providing on-site day care for no- or low-cost to their employees. Assume you were an HR manager in such a progressive facility. How would you respond to a group of older employees who questioned the company's use of significant compensation resources directed at a targeted category of workers (those with young children)?

## CASE STUDY: HUMAN RESOURCES MANAGEMENT IN ACTION

"Look," said Adrian, "I really like it here. It's great. But the Downtown Inn is paying three dollars more per hour. I have a family. I have to take it for them."

"It" was a banquet manager's job that had been offered to Adrian, a young and talented banquet manager at the Uptown Inn. Adrian was meeting with LeeAnn Krenshaw, his boss and the director of banquet services at the hotel where he had worked for two years.

"Are you sure the tips will be the same?" asked LeeAnn.

"They said their service charge was 20 percent, same as ours," replied Adrian.

LeeAnn thought about the situation before she approached Tim Thatcher, the hotel's HR director. She told Tim about Adrian's pending resignation.

"That's really unfortunate," replied Tim. "Adrian is a great worker, and we really don't have anyone on staff ready to move up to his position. Do you have any active applicants for the job?"

"No, but I do know the banquet supervisor at another local property," replied LeeAnn. "She's good, and makes about the same money there as Adrian does here."

"Do you think she would want to work here?" asked Tim.

“If the money was right, I think she would,” replied LeeAnn.

“How much do you think it would take to make her consider the move?” asked Tim.

“Well, she wouldn’t likely move for the exact same pay,” replied LeeAnn. “She’ll want a raise to move. I think it would need to be in the three-dollar range or so per hour to make it worthwhile for her.”

***Dimension: Employee Perspective:***

Review the scenario described in the case study, and then address the following questions:

1. Why (in addition to money) do you think Adrian seems prepared to accept the job offer from the Downtown Inn?
2. Assume you are Adrian. What, if anything, could your current employer do to convince you to stay?
3. As a tipped hotel employee, Adrian’s income could vary based on the tip-pooling policy in place at the Downtown Inn. Identify at least three additional areas in which the compensation program at the prospective employer might vary significantly from the Uptown Inn’s program.

***Dimension: Company Perspective***

Review the conversation described in the case:

1. What, in addition to a pay increase, do you believe is the primary cause of workers seeking alternative employment opportunities?
2. What are the specific real, and potential, disadvantages to your organization of losing an employee such as Adrian?
3. Assume Adrian is one of several talented banquet managers on the hotel’s staff. Also assume LeeAnn’s colleague Sara is hired at a pay rate \$3 per hour higher than the average pay of these employees. What are the likely outcomes that would occur if and when Sara’s pay becomes common knowledge in the food and beverage department?

***Dimension: Compensation Program Assessment***

1. If you were Tim, would you advise LeeAnn to pursue Sara as a potential employee? Why or why not?
2. Assume you are LeeAnn. What specific problems within your departmental compensation program does this situation illustrate?
3. Assume you are the general manager of this hotel. Who on your management team is responsible for ensuring that your property does not lose talented employees such as Adrian to your direct competitors? Explain your answer.

**INTERNET ACTIVITIES**

1. For most HR managers, the U.S. Department of Labor can be a significant source of up-to-date information about employer responsibilities at the federal and state levels. To access their site, and to see an example of how to use the site effectively, go to: *www.dol.gov*.
  - a. Select “Search.”
  - b. Enter “State Minimum Wage.”
  - c. Select “Minimum Wage Laws in the States” from the search results.
  - d. Select the state where you live or go to school.
  - e. Identify the minimum wage rate for workers in your state.
2. The Internet offers a tremendous amount of specific information to HR managers. The Human Resource (HR) site is one such example. To access the site, go to *www.hr.com*.

When you arrive, click on:

  - a. Areas of Interest
  - b. Choose “Benefits” (or “Compensation”)

Read the information presented about the subject area you selected, and then answer the following questions:

  - a. The information on sites such as *www.hr.com* is quite valuable. How do you believe such sites fund their cost of operation?
  - b. What are the potential hazards of utilizing a site such as HR.com?
3. The Internet is also a good source of creative ideas that can be used by all HR managers to enhance their own compensation programs. To see an example of a site that offers a wide range of specific compensation-related information, and specifically, to view information about employee incentives, go to: *www.authoria.com*.

When you arrive:

  - a. Select “Solutions.”
  - b. Select “Incentives.”
  - c. Select “Watch the Demo.”

When you have reviewed the incentive demo, answer the following questions:

  - a. How critical do you think incentives are to the effectiveness of an operation’s total compensation program?
  - b. Do you think hospitality managers currently use incentives to their maximum potential? Defend your answer.