**The Hotel Paris International** (adapted from Dessler, 2013)

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

**Corporate Strategy:**

Top management, with input from the human resource manager and other managers, and with the board of directors’ approval, chooses a new competitive strategy and formulates new strategic goals. They decide: “The Hotel Paris International will use superior guest services to differentiate the Hotel Paris properties, and to thereby increase the length of stays and the return rate of guests, and thus boost revenues and profitability.” All Hotel Paris managers, including Lisa Cruz, Director of Human Resources, must now formulate strategies that support this competitive strategy.

**Compensation System:**

Like several other HR systems at the Hotel Paris, the compensation program was unplanned and unsophisticated. The company has a narrow target range for what it will pay employees in each job category (front-desk clerk, security guard, valet, etc). Each hotel manager decides where to start a new employee within that narrow pay range. The company has given little thought to tying general pay levels or individual employee’s pay to the company’s strategic goals. For example, the firm’s policy is simply to pay its employees a “competitive salary,” by which it means about average for what other hotels in the city are paying for similar jobs. Lisa knows that pay policies like these may actually run counter to what the company wants to achieve strategically, in terms of creating an extraordinarily service-oriented workforce. How can you hire and retain a top workforce, and channel their behaviors toward high-quality guest services, if you don’t somehow link performance and pay? She and her team therefore turn to the task of assessing and redesigning the company’s compensation plan.

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

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

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

**Pay for Performance:**

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

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

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

**Benefits**

Although the Hotel Paris’s benefits (in terms of things like holidays and health care) were comparable to those of other hotels, Lisa Cruz knew they weren’t good enough to support the high-quality service behaviors her company sought. Indeed, the fact that they were roughly comparable to those of similar firms didn’t seem to impress the Hotel Paris’s employees. 60% of employees consistently said they were deeply dissatisfied with the benefits they were getting. Lisa’s concern was that dissatisfaction with benefits contributed to morale and commitment being below what they should be, which inhibits the Hotel Paris from achieving its strategic aims. Lisa therefore turned to the task of assessing and redesigning the company’s benefits plans.

As they reviewed the numbers relating to their benefits plan, Lisa Cruz and the CFO became increasingly concerned. They computed several benefits-related metrics for their firm, including benefits costs as a percentage of payroll, sick days per full-time equivalent employee per year, benefits cost/competitor’s benefits cost ratio, and worker’s compensation experience ratings. The results, as the CFO put it, offered a “good news-bad news” situation. On the good side, the ratios were generally similar to those of most competing hotels. The bad news was that the measures were strikingly below what they were when they compared with the results for high-performing service-oriented businesses. The CFO authorized Lisa to design and propose a new benefits plan.

Lisa knew there were several things she wanted to accomplish with this plan. She wanted a plan that contributed to improved employee morale and commitment. She also wanted the plan to include elements that made it easier for employees to do their jobs so that, as she put it, “they could come to work and give their full attention to giving our guests great service, without worrying about child care and other major family-oriented distractions.”

One of the metrics Lisa and her team specifically wanted to address was the relatively high absence rate at the Hotel Paris. Because so many of these jobs are front-line jobs - valets, limousine drivers, and front desk clerks, for instance – it’s impossible to do without someone in the position if there is absence. As a result, poor attendance had a particularly serious effect on metrics such as overtime pay and temporary help costs. At the urging of her compensation consultant, Lisa decided to look into a system similar to Marriott’s “BENETRADE.” With this benefit program, employees can trade the value of some sick days for other benefits. As Lisa put it, “I’d rather see our employees using their sick day pay for things like additional health care benefits, if it means they’ll think twice before taking a sick day to run a personal errand.”

**Your Assignment:**

Put yourself into Lisa Cruz’s position. Based on the information provided and what you’ve learned in the class, answer the following questions:

* What type of base pay plan should Hotel Paris implement? Job based or person based? It can be different for different levels within the organization. Support your decision by highlighting the benefits of the plan you choose and disadvantages to the plan you don’t.
* In determining internal equity, what are some of the factors that should be considered when conducting job evaluation. That is, what would you weight more heavily if you were charged with developing a job evaluation program? How would you go about ranking positions within the hotel, from housecleaning and front desk up to general manager?
* For external competitiveness, how would you select your market competitors to benchmark against? How will you set your pay line with respect to the market?
* Lisa and the CFO outlined some criteria for the pay for performance plan. What do you think about the measurable criteria she has selected? Are they realistic or not? What would you recommend changing to improve the plan?
* Given the information you have, what types of behaviors would you incentivize for Hotel Paris employees? List three behaviors for front-desk clerks, valets, and housecleaners to be included in a short-term incentive program.
* Using a MBO type plan, list 3 goals that would be appropriate for the general manager position for the upcoming year.
* What behaviors can be influenced through the benefits program? Would a Benetrade type program, where employees can trade their paid time off for other types of benefits, have the desired result?
* What other benefits could be implemented to further incentivize employees toward the desired behaviors?
  + Keep in mind the cost of benefit programs, so offering a wide assortment of new benefits may not be the best solution. How do you get return on your benefits investment?
* Are there other perks that the Hotel Paris could offer that may improve employee morale and commitment?

Format:

This is an individual case. I would like this in a report format, with an executive summary and sections dedicated to Base Pay, Pay for Performance, and Benefits. Total length is up to you, but I would expect it will take more than two pages and no more than 6.