

Case study: the Star Hotel

We outline examples of incentive schemes that were developed by the hotel's management.

This case study is based on events that happened several years ago. The hotel in question was part of a chain that allowed individual general managers to develop their own HR policies and practices as long as these could be justified. The general manager of the Star Hotel was an experienced and thoughtful man who understood the 'theory of management', rather than simply practising it. He believed in the principle of incentivization and wanted to introduce it in parts of the hotel where he believed it would stimulate employees to improve their performance, and, in so doing, the overall performance of the hotel. He was, however, aware that not all employees/work could be incentivized. In this case, it is important to understand where the potential for additional, performance-related rewards lies.

It can be difficult to produce schemes that pass the 'fault test'. By this we mean designing incentive schemes that don't have fairly significant or indeed fundamental faults and weaknesses. So, an important question to ask when designing such schemes is, why won't they work? The answer to this is usually found in one or more of the following explanations:

1. The work that employees do cannot easily be measured, and as a consequence changes in outputs—whether these are expressed in volume or value terms—are difficult to establish. A variant of this is that schemes often measure the wrong expression of performance.
2. The employees have insufficient control of their behaviour to change what they do or how they do it. People need to have the ability to be different in response to the chance of achieving an additional reward linked to their job. If they are too tightly controlled this cannot happen.
3. The schemes pitch the level of reward at either too high a level or too low a level. The first results in a very costly scheme that has the potential of creating unintended consequences, while the latter will not motivate employees to change. It is important here to consider concepts such as fairness and the work–wage bargain.
4. Schemes are overcomplicated and require significant resources to administer them; they are context-unrealistic.

In the case study, schemes were designed for the hotel receptionists, cleaners, conference and banqueting staff, and management team. Whole organization schemes based on profit or gain-sharing principles were not considered, largely because the incentive effect of such schemes can be difficult to relate to. By this we mean that annual bonus payments can be difficult to relate to day-to-day behaviour and results, and that such schemes do not differentiate between individual contributions.

If we take an example of one of the schemes that was developed, the one for the receptionists is probably the best example. First, it was a group scheme—all five receptionists participated and shared an equal monthly bonus. Second, the measure of performance used to reward them was average yield per room. Taking the base line of the 69 per cent occupancy rate as a starting point, one option would be to simply reward increases in this up to 100 per cent, either as a straight-line relationship or linking the relationship between performance and reward in a more variable way. The problem with this is that it only encourages the staff to sell more rooms, which they may do at a discounted rate. The objective is to encourage them to maximize the revenue from the rooms, either by selling more at the average room rate, still with less than 100 per cent occupancy or by achieving 100 per cent occupancy or as near as possible, with a slightly reduced average room rate. Such a scheme would calculate the additional gross revenue from a base line figure or in relation to a monthly target, and allocate a proportion of this as a bonus pool. A figure in the region of 25 per cent of the gross revenue, smaller if an above target figure is used, would be considered appropriate.

Finally, consideration should be given to the use of non-monetary rewards. In the case of the Star Hotel, these were not considered as powerful as monetary payments, but they can be effective, depending on the situation.