

## Wage differentials in the lodging industry: A case study.

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### **Abstract:**

Salary compensation programs are widely used as a tool to attract, retain, and motivate employees in the hotel industry. The development of a sound compensation plan is a critical component of any successful business. This study investigated the pay differential from different perspectives by using the data collected by the California Hotel and Lodging Association (CHLA), the largest state level hotel association in the United States. The results indicated that full service hotels offer higher base pay in positions such as General Manager, Resident Manager, and Executive Housekeeper as compared with limited service hotels. When accounting for hotel size only, hotels with more than 300 rooms offered higher base pay than their counterparts in several but not all managerial positions. The findings serve as a reference for human resources administrators in the state of California to develop their pay system. Pay differential rates were calculated to see the wage gap between different managerial positions. The results also provide a base salary reference to those looking for a job in the lodging industry.

**Keywords:** compensation | salary | wages | hotel management | hospitality industry | lodging industry | wage differentials

### **Article:**

#### INTRODUCTION

Hotel wage compensation programs are widely used as a tool to attract, retain, and motivate employees. The development of a sound compensation plan is critical to the credibility of the management and success of a business. Several reasons highlight the importance of an effective pay system in the industry. One is high employee turnover rate within the lodging industry. Many researchers have found that pay affects both employees' decision to leave and their level of job satisfaction (Ghiselli, Lalopa, & Bai, 2001; Peppard & Boudreau, 1995). Second, the lodging industry is a service industry. The quality of the service depends upon the quality of the employees. Pay has been used to attract and keep the best employees. Third, in the hospitality sector, labor costs which include salary and benefits, average about a third of total revenue and 43 percent of all operating expenses (Quek, 2000). Sound management practices require that

employers pay competitively, but not excessively. This makes it critical for companies to develop a pay system that balances the needs of the employees and the needs of the employer to minimize labor costs.

To be effective, a company's pay system should include four things: (1) A sufficient level of rewards to fulfill basic needs; (2) equity with the external labor market; (3) equity within the organization; and (4) treatment of each member of the organization in terms of his or her individual needs (Lawler, 1989). Among those factors, equity is probably the most important. Based on equity theory, people in social exchange relationships believe that rewards should be distributed according to the level of individual contribution (Adams, 1965; Walster, Walster, & Berscheid, 1978). People tend to determine what they and others deserve to be paid by comparing what they give to the organization with what they get out of the organization. If they regard the exchange as fair or equitable, they are likely to be satisfied. When individuals perceive that their ratio of inputs to outcomes is not equal to that of their comparative referents, they are likely to be dissatisfied and may end the inequitable relationships by leaving their organizations (Werner & Ones, 2000). High performers who feel that their pay is too low may leave the organization. As a result, the company loses its productive talents. If dissatisfied employees stay, they may react by withholding efforts in order to restrict output or lower quality. A pay differential is the difference in pay, either within the same department, across departments, or among organizations.

A pay differential determined by internal equity is the salary at one level divided by the salary at the next level, irrespective of job content or function. Pay differentials reflect the relative worth of these positions to the organization and are not related to the individual's or job incumbent's knowledge, skills, and abilities (Tang, Chiu, & Luk, 2000). There is nothing that can destroy the morale of a group of employees faster than the belief that the pay structure is inequitable. The purpose of this study is to investigate the pay differential from different perspectives by using the data collected by the California Hotel and Lodging Association (CHLA) in 2000. The data were chosen because CHLA is the largest and most influential state lodging trade association in the United States and in the world. The data were randomly selected from the hotels in California and represent diverse segments of the lodging industry.

This research focused on the following questions:

1. In terms of hotel segment, do luxury hotels pay their managers more than their counterparts? What are the pay differential rates?
2. Do larger hotels pay their managers more than smaller hotels? What are the pay differential rates?
3. What are the pay differential rates between General Manager and other managerial positions?

REVIEW OF WAGE AND SALARY SYSTEM PRACTICES

According to Wheelhouse (Jackson & Schuler, 2003; Wheelhouse, 1989), the goal of the wage and salary program is to help the company attract and keep qualified employees, provide equal pay for equal work, reward good performance, control labor costs, and maintain a cost parity with direct competitors. An employee's base pay refers to the wage or salary he or she receives, exclusive of any incentive pay or benefits (Jackson&Schuler, 2003). In establishing base pay, two pieces of information are required. One is the information about the job itself and its relative value within the organization. The other is the market information about what other employers pay for the job.

Most lodging companies employ the following administration activities to establish their wage and salary system (Tang et al., 2000; Wheelhouse, 1989).

1. Job analysis is the systematic collection of information about jobs in order to develop job descriptions, resulting in job specifications.
2. Job evaluation is comparison of jobs by a systematic procedure such as ranking; jobs point factor technique is used to provide a set of criteria for differentiating jobs for the purpose of wage determination. Job evaluation assists in maintaining internal equity in the pay rates among jobs.
3. Choosing appropriate survey data for comparison of pay rates to those of your company. Special attention should be paid to those hospitality operations that are geographically close to yours, and that provide similar products/services, because they may draw employees away from your operation.
4. Developing a wage and salary structure of grades, classifications or rates of pay. To do this, the jobs are categorized in terms of compensable factors obtained from the job analysis: the skill required, job responsibilities, effort, working conditions and job requirements. The philosophy, mission statement and organizational goals will influence which factors are weighted more than others.
5. Developing wage and salary budgets (including annual merit or improvement pay).
6. The appraisal of individual employees for purposes of salary adjustments.
7. Making changes in a wage and salary grade, classification, or rate of pay.

## METHODOLOGY

This research examined data from the employee compensation survey conducted by the California Hotel and Lodging Association (CHLA) in 2000. The target population was all the hotels in the State of California, USA. Three thousand hotels from the target populations were randomly selected to participate in the study. To increase the response rate, postcard reminders were sent to the non-respondents three weeks after the first questionnaires. Two hundred fifty-

seven questionnaires were returned, yielding a response rate of 8.5%, which is quite consistent with the response rate from the studies conducted in the lodging industry (David, Grabski, & Kasavana, 1996; Reid & Sandler, 1992). Of the respondents, 34 of them were bed and breakfast properties. Due to the fact that bed and breakfast operations are slightly different from other hotel operations, this type of property was excluded from the data set. In addition, five cases were deleted due to participant errors. A total of 218 usable data were included in this study for analysis.

Because the source of the study was a secondary data, the survey questions were not tailored to the purpose of this study. The job positions varied according to the types of service and the size of the hotels. Many missing data were found among operational level positions. Hence, in order to have a large enough sample size to perform the statistical analysis, this study focused only on the salaries of managerial positions with titles such as General Manager, Resident Manager, Controller, Front Office Manager, Reservation Manager, Director of Maintenance, Director of Sales, Sales Manager, Executive Housekeeper, Human Resources Manager, Purchasing Manager, Security Manager, Chief Engineer, Banquet Manager, Food and Beverage Managers, Executive Chef.

To answer question one, Analysis of Variance (ANOVA) was employed to determine if there were statistically significant differences among six different types of hotels in terms of their managerial positions. The six different types of hotels include limited service-budget/economy, limited service-commercial, limited service-deluxe/luxury, full service-moderate, full service-commercial, full service-deluxe/luxury hotels. Then differential rates were further calculated by using the highest monthly salaries divided by the other salaries. The discrepancy between the different salaries was identified.

To answer question two, the same statistical methods used in question one were employed. ANOVA was conducted to see if there were statistically significant differences among different sizes of hotels. Hotels that participated in this study were placed into three different categories based on Kasavana and Brooks' hotel categories (2001). Hotels with less than 150 rooms are classified as small hotels, 150-299 rooms are classified as middle-sized hotels, and hotels with rooms more than 300 are classified as large hotels.

To answer question three, pay differential rates were further calculated by comparing the average of General Managers' salaries against the average salaries of other managerial position.

Descriptive analyses were used to exhibit the pay structure of responding hotels in terms of job positions, major functional departments, and lodging segments.

## RESULTS

The results of the ANOVA showed that there were statistically significant base pay differences in General Manager's minimum and maximum salaries, Resident Manager's maximum salary,

and Executive Housekeeper's minimum/maximum salaries among six types of hotel segments (see Table 1). The pay differential ratios are also provided in Tables 2-4.

TABLE 1. Results of ANOVA by Hotel Types

Job Title	F-Value	P-Value
General Manager (Min)	9.450	.000
General Manager (Max)	9.552	.000
Resident Manager (Max)	12.417	.001
Executive Housekeeper (Min)	8.430	.000
Executive Housekeeper (Max)	7.448	.000

Min = Minimum Monthly Salary, Max = Maximum Monthly Salary.

TABLE 2. Differential Rate by Hotel Type for General Managers

Hotel Type	Average Minimum Monthly Salary (USD)	Differential Rate
A. General manager monthly minimum salary		
A Limited service-budget/economy	3280.47	E/A = 1.89
B Limited service-commercial	3924.90	E/B = 1.58
C Limited service-deluxe/luxury	4337.09	E/C = 1.43
D Full service-moderate	5356.16	E/D = 1.16
E Full service-commercial	6191.45 *	E/E = 1.00
F Full service-deluxe/luxury	6169.38	E/F = 1.003

	Average Maximum Monthly Salary (USD)	Differential Rate
B. General manager monthly minimum salary		
A Limited service-budget/economy	4129.05	F/A = 1.89
B Limited service-commercial	4331.45	F/B = 1.80
C Limited service-deluxe/luxury	5585.16	F/C = 1.40
D Full service-moderate	6897.50	F/D = 1.13
E Full service-commercial	7397.92	F/E = 1.06
F Full service-deluxe/luxury	7814.43 *	F/F = 1.00

\* Highest average monthly salary.

In terms of the hotel size, significant salary differences were found in General Manager minimum/ maximum salary, Resident Manager maximum salary, Controller maximum salary, Reservation manager minimum/maximum salaries, Director of Maintenance minimum salary, Director of Sales minimum/ maximum salaries, Sales Manager maximum salary, Executive Housekeeper minimum/maximum salaries, Human Resources Manager maximum salary, Chief Engineer minimum/maximum salary, Food & Beverage Manager minimum/ maximum salaries, Executive Chief minimum salary (see Table 5). The pay differential rates among these positions are also shown on Tables 6-15.

TABLE 3. Differential Rate by Hotel Type for Resident Managers

Hotel Type	Average Maximum Monthly Salary (USD)	Differential Rate
<b>Resident Manager Monthly Maximum Salary</b>		
A Limited service-budget/economy	2273.20	F/A = 4.59
B Limited service-commercial	2916.50	F/B = 3.58
C Limited service-deluxe/luxury	2775.00	F/C = 3.76
D full service-moderate	4625.00	F/D = 2.26
E Full service-commercial	–	–

F Full service-deluxe/ luxury	10433.0 *	F/F =1.00
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Dashes indicate the average maximum monthly salary of the resident managers were not estimated due to the zero number of resident managers from that hotel type.

\* Highest average monthly salary.

TABLE 4. Differential Rate by Hotel Type for Executive Housekeepers

Hotel Type	Average Maximum Monthly Salary (USD)	Differential Rate
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**A. Executive Housekeeper Monthly**

**Minimum Salary**

A Limited service-budget/economy	1802.80	D/A = 1.55
B Limited service-commercial	1936.79	D/B = 1.45
C Limited service-deluxe/luxury	1799.32	D/C = 1.56
D Full service-moderate	2801.75 *	D/D = 1.00
E Full service-commercial	2637.17	D/E = 1.06
F Full service-deluxe/luxury	2768.52	D/F = 1.01

Average Maximum Monthly Salary (USD)	Differential Rate
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**B. Executive Housekeeper Monthly**

**Maximum Salary**

A Limited service-budget/economy	2167.60	F/A = 1.72
B Limited service-commercial	2165.92	F/B = 1.72
C Limited service-deluxe/luxury	2516.47	F/C = 1.48
D Full service-moderate	3308.65	F/D = 1.13
E Full service-commercial	3172.89	F/E = 1.17
F Full service-deluxe/luxury	3722.94 *	F/F = 1.00

\* Highest average monthly salary.

## CONCLUSIONS

The results partially supported hypothesis one and two and suggested that full service hotels offer higher base pay for positions such as General Manager, Resident Manager, and Executive Housekeeper than limited service hotels. In the full service category, full service-"luxury" hotels were found to offer a higher maximum base salary in the three positions but not a higher minimum salary. For example, the full service-moderate hotels offered higher starting salaries for Executive Housekeepers (2,801.75 vs. 2,768.52) and General Managers (6,191.45 vs. 6,169.38) than the full service-luxury hotels did.

TABLE 5. Results of ANOVA by Hotel Size

Job Title	F-value	P-value
General Manager (Min)	31.33	.000
General Manager ( Max)	72.54	.000
Resident Manager ( Max)	8.52	.006
Controller (Max)	14.09	.000
Reservation Manager (Min)	3.23	.049
Reservation Manager ( Max)	6.23	.004
Director of Maintenance (Min)	11.83	.000
Director of Sales ( Min)	12.09	.000
Director of Sales ( Max)	15.94	.000
Sales Managers ( Max)	4.21	.020
Executive Housekeeper (Min)	28.56	.000
Executive Housekeeper (Max)	48.84	.000
Human Resources Manager (Max)	3.72	.033
Chief Engineering ( Min)	4.79	.012
Chief Engineering ( Max)	17.19	.000
Food & Beverage Manager (Min)	6.52	.003

Food & Beverage Manager (Max)	16.15	.000
Executive Chef (Min)	4.34	.018

TABLE 6. Differential Rate by Hotel Size for General Managers

	Hotel Size Average Minimum Monthly Salary (USD)	Differential Rate
<b>A. General Manager minimum salary</b>		
A Small hotels ( Room No _150)	4036.07	C/A = 1.87
B Middle-size hotels (Room No: 150-299)	5420.23	C/B = 1.40
C Large-size hotels (Room No _300)	7564.53 *	C/C = 1.00
	Average Maximum Monthly Salary (USD)	Differential Rate
<b>B. General Manager minimum salary</b>		
A Small hotels (Room No _150)	4576.57	C/A = 2.28
B Middle-size hotels (Room No: 150-299)	6775.12	C/B = 1.54
C Large size hotels (Room No _300)	10414.83 *	C/C = 1.00

\*Highest average monthly salary.

TABLE 7. Differential Rate by Hotel Size for Resident Managers

	Hotel Size Average Maximum Monthly Salary (USD)	Differential Rate
<b>Resident Manager maximum salary</b>		
A Small hotels (Room No _150)	2679.75	C/A = 2.33
B Middle-size hotels (Room No: 150-299)	2200.00	C/B = 2.84
C Large-size hotels (Room No _300)	6250.00*	C/C = 1.00

\* Highest average monthly salary.

TABLE 8. Differential Rate by Hotel Size for Reservation Managers

	Hotel Size Average Minimum Monthly Salary (USD)	Differential Rate
<b>A. Reservation Manager minimum salary</b>		
A Small hotels (Room No _150)	2141.31	C/A = 1.21
B Middle-size hotels (Room No: 150-299)	1997.24	C/B = 1.30
C Large-size hotels (Room No _300)	2601.90 *	C/C = 1.00
	Average Maximum Monthly Salary (USD)	Differential Rate
<b>B. Reservation Manager maximum salary</b>		
A Small hotels (Room No _150)	2343.36	C/A = 1.62
B Middle-size hotels (Room No: 150-300)	2670.50	C/B = 1.42
C Large-size hotels (Room No _300)	3786.00 *	C/C = 1.00

\* Highest average monthly salary.

TABLE 9. Differential Rate by Hotel Size for Director of Maintenance

Hotel Size Average Minimum

Monthly Salary(USD)

Differential Rate

**Director of Maintenance minimum salary**

A Small hotels (Room No \_150) 2259.08 C/A = 1.80

B Middle-size hotels (Room No: 150-300) 2248.83 C/B = 1.81

C Large-size hotels (Room No \_300) 4073.6 \* C/C = 1.00

\* Highest average monthly salary.

TABLE 10. Differential Rate by Hotel Size for Director of Sales

	Hotel Size Average Maximum Monthly Salary(USD)	Differential Rate
<b>Director of Sales Maximum monthly salary</b>		
A Small hotels (Room No _150)	4228.13	C/A = 1.87

B Middle-size hotels (Room No: 150-300)	4575.73	C/B = 1.40
C Large-size hotels (Room No _300)	6977.29 *	C/C = 1.00

\* Highest average monthly salary.

TABLE 11. Differential Rate by Hotel Size for Executive Housekeepers

	Hotel Size Average Minimum Monthly Salary(USD)	Differential Rate
<b>A. Executive Housekeeper minimum salary</b>		
A Small hotels (Room No _150)	1907.05	C/A = 1.67
B Middle-size hotels (Room No: 150-300)	2492.87	C/B = 1.28
C Large-size hotels (Room No _300)	3180.82 *	C/C = 1.00
	Average Maximum Monthly Salary(USD)	Differential Rate

**B. Executive Housekeeper maximum salary**

A Small hotels (Room No _150)	2174.31	C/A = 1.96
B Middle-size hotels (Room No: 150-300)	3063.56	C/B = 1.39
C Large-size hotels (Room No _300)	4258.17 *	C/C = 1.00

\* Highest average monthly salary.

TABLE 12. Differential Rate by Hotel Size for Human Resources Managers

	Hotel Size Average Maximum Monthly Salary(USD)	Differential Rate
<b>Human Resources Managers maximum salary</b>		
A Small hotels (Room No._150)	3856.67	C/A =1.42
B Middle-size hotels (Room No: 150-300)	4060.75	C/B = 1.35
C Large-size hotels (Room No _300)	5472.90 *	C/C = 1.00

\* Highest average monthly salary

TABLE 13. Differential Rate by Hotel Size for Chief Engineers

	Hotel Size Average Minimum	Differential Rate
	Monthly Salary(USD)	
<b>A. Chief Engineer minimum salary</b>		
A Small hotels (Room No. _150)	2646.71	C/A = 1.35
B Middle-size hotels (Room No: 150-300)	2963.97	C/B = 1.21
C Large-size hotels (Room No _300)	3586.00 *	C/C = 1.00
	Average Maximum	Differential Rate
	Monthly Salary (USD)	
<b>B. Chief Engineer maximum salary</b>		
A Small hotels (Room No. _150)	2772.61	C/A = 1.67
B Middle-size hotels (Room No: 150-300)	3487.78	C/B = 1.33
C Large-size hotels (Room No _300)	4635.94 *	C/C = 1.00

\* Highest average monthly salary.

TABLE 14. Differential Rate by Hotel Size for Food and Beverage Managers

	Hotel Size Average Minimum	Differential Rate
	Monthly Salary(USD)	
<b>A. Food &amp; Beverage Manager</b>		
<b>minimum salary</b>		
A Small hotels (Room No. _150)	3491.54	C/A = 1.33
B Middle size hotels (Room No: 150-300)	3140.41	C/B = 1.48
C Large size hotels (Room No _300)	4632.13 *	C/C = 1.00
	Hotel Size Average Maximum	Differential Rate
	Monthly Salary(USD)	
<b>B. Food &amp; Beverage Manager</b>		
<b>maximum salary</b>		
A Small hotels (Room No _150)	3843.45	C/A = 1.73
B Middle size hotels (Room No: 150-300)	3582.88	C/B = 1.86

C Large size hotels (Room No \_300) 6664.77 \* C/C = 1.00

\* Highest average monthly salary

TABLE 15. Differential Rate by Hotel Size for Executive Chefs

	Hotel Size Average Minimum Monthly Salary(USD)	Differential Rate
<b>A. Executive Chef minimum salary</b>		
A Small hotels (Room No. _150)	4657.14 *	C/C = 1.00
B Middle-size hotels (Room No: 150-300)	3129.28	A/B =1.49
C Large-size hotels (Room No _300)	3489.85	A/C =1.33

\* Highest average monthly salary.

This illustrates that full service-luxury hotels had a larger salary structure range and consequently, more flexibility in salary. Perhaps due to their limited operations and scale, limited service hotels may have a less flexible salary structure. Pursuing a position such as General Manager, Resident Manager, and Executive Housekeeper in a full service hotel offers more potential for increasing a manager’s base salary.

In terms of a General Manager’s minimum/maximum salary, the full service hotels paid almost double that of limited service-budget/economy hotels (the differential rate was 1.89). In terms of the Executive Housekeeper’s minimum/maximum salary, the differential rates between full service hotels and limited service-budget/economy hotels were 1.55 and 1.72. It was noted that full service-luxury hotels paid five times more than the limited service-budget/economy hotels. It is possible that in many full service hotels, the Resident Manager, in addition to overseeing the daily operations of the hotel, has to serve as General Manager during the latter’s absence.

Hotels with more than 300 rooms offered higher base pay than their counterparts for such positions as General Manger, Resident Manager, Controller, Reservation Manager, Director of Maintenance, Director of Sales, Executive Housekeeper, Human Resources Manager, Chief Engineering, and Food and Beverage Manager.

With the exception of the Executive Chef position, it was found consistently that larger hotels (with more than 300 rooms) paid more than small and medium-sized hotels. The average minimum salary for the Executive Chef in small hotels was 4,657.14, against 3,489.85 in large hotels. This is the only position that yielded a result where a smaller property paid more than a larger property for the same position. Due to the nature of the data, this study does not have the information to describe why this is the case for the executive chef position. However, one could

speculate that it may depend on the nature of that position within small hotels such as the chef may serve as both food and beverage manager and chef.

Medium-sized hotels did not pay more than the small hotels in these positions. According to the results, small hotels paid higher base salaries than medium-sized hotels for positions such as General Manager (minimum/ maximum base salary), Resident Manager (minimum/maximum base salary), Director of Maintenance (minimum base salary), and Food and Beverage Manager (minimum/maximum base salary).

The largest pay differential rate among the different hotels was found between medium-sized hotels and large hotels with regard to the Resident Manager's maximum salary (the differential rate was 2.84). Another large pay differential rate was found between small hotels and large hotels with regard to the General Manager's maximum salary (the differential rate was 2.33). The pay differential rate was smaller between small and large hotels for positions such as Reservation Manager (minimum pay, where the differential rate was 1.21), Chief Engineer (minimum pay, differential rate 1.35), and Food and Beverage Manager (minimum pay, differential 1.33).

The types and the size of the hotels do matter when comparing lodging managers' base pay. Managers at the larger, more complex hotels tend to be paid more. A possible explanation is that the larger the hotels, the more complexity the operations are. Consequently, managers are required to take more responsibilities and have more experience or capabilities. The types of services describe the quality and service level of a hotel. It was evident that hotels with greater complexities, such as luxury and first class hotels, pay their managerial employees the most.

In terms of career path, the greatest pay differential between General Manager and the department heads was found in the Executive Housekeeper, followed by Front Office Manager. General Manager earned almost twice as much the Executive Housekeeper, and 1.5 times as much the Front Office Manager. The smallest pay gap was found between General Manager and the Director of Sales. The pay differential rates were between 1.09 and 1.16.

(Table 16)

## IMPLICATIONS AND LIMITATIONS

The findings provide a hotel industry pay profile and contribute to the understanding of pay structures and pay differentials in the lodging industry by examining the empirical sample. The results can also serve as a reference for human resources administrators in the state of California to develop their pay systems and avoid pay inequity. The results also provide a base salary reference to those looking for a job in the lodging industry. The pay differential between General Manager and the entry level job can provide information regarding the compensation reward a person will have when developing his or her career path.

TABLE 16. Pay Differential Between General Managers and Other Department Heads

Position Title	Min (USD)	Max (USD)	Dif. Ratio (Min)	Dif. Ratio (Max)
GM	4789.68	5742.52	1.00	1.00
FO Manager	2848.14	3718.00	1.70	1.50
Executive HK	2319.21	2802.55	2.10	2.05
Director of Sales	4146.59	5260.12	1.16	1.09
H R Manager	3589.69	4661.16	1.33	1.23
Controller	3983.39	4994.17	1.20	1.15
F&B Manager	3758.50	4656.15	1.27	1.23

However, this study has several limitations. Due to the secondary data, many missing data were found in bonus and benefits. Hence, this study only focused on base pay or wage. An inclusive approach that investigates the whole compensation package is suggested for further study. Future studies should include benefit packages that delineate the medical, dental, insurance, retirement, and vacation compensation. Also, due to the unique nature of the hotel industry there are additional benefits relating to the field. Many hotel companies offer meals, free or reduced rates on hotel room, housing and dry cleaning as part of management's benefit packages.

The sample was also limited to the hotels in the state of the California. The base pay may vary among hotels located in different geographical regions due to the different living costs in different areas. This research provides a case study of one state at a point in time. The generalization of this study was limited to the state of California. Future research can collect national data to increase the generalization and make a regional comparison.

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