

# Pecos Valley SteakHouse Case

Lee E. Weyant, DBA  
2014<sup>©</sup>

---

## Table of Contents

<b>Introduction</b>	<b>2</b>
<i>Learning Objectives:</i>	<b>2</b>
<i>Overview:</i>	<b>2</b>
<b>The Environment</b>	<b>4</b>
<b>Pay Structures</b>	<b>6</b>
<b>Benefits</b>	<b>8</b>

## Introduction

### *Learning Objectives:*

This case study is designed to address issues of designing organizational compensation systems. The experiential nature of this case requires students to:

- communicate effectively,
- use information technology,
- collaborate, and
- apply managerial principles to solve organizational issues.

### *Overview:*

SRE, Inc. is a privately owned management firm located in Reading, Pennsylvania. The company has decided to open a full-service, casual-dining restaurant, called Pecos Valley SteakHouse, in Reading. Conceptually this restaurant is being positioned to compete with Hoss's Steak & Seafood.

You have recently joined SRE, Inc. as their Human Resource Manager. After last week's staff meeting, Sam Snow, CEO SRE, Inc., and Bob Miller, VP Operations, asked you to join them to discuss the Pecos Valley SteakHouse project. Sam conceded that the management team had done a good job of creating the concept, building design, and other "hardware" issues, but he was uncomfortable with the "people" side of the project. Bob stated that he felt comfortable that the manning levels would be adequate to handle the initial opening and the first year of operation. As Bob said, "We've looked at other operations and this manning seems appropriate. We'll start with these numbers and adjust as needed." Sam added, "What I'm concerned about is . . . well to be frank, we're not sure how much to pay these people? This project is so different from our other ventures." Sam continued "I want you to help develop the compensation system for this project. You should keep in mind that our underlying philosophy is to have compensation and benefits that attract, retain, and motivate employees."

Throughout the ensuing discussions you learned:

- there are no job descriptions, and
- currently SRE, Inc. provides only those benefits required by law. Sam acknowledged that any changes to benefits would affect the entire company (i.e., 100 employees after the establishment of the new restaurant)

As the meeting ended, Sam added "Bob and I expect to see progress reports along the way." On the way back to the office you began thinking about how you could involve the other members of your HR staff to address the issues.

Table 1 shows the projected staffing levels for the new restaurant.

Table 1  
Manning Levels

Job Title	Number	Comments
General Manager	1	Overall responsibility for restaurant reports to VP Operations SRE, Inc.
Assistant Manager	2	1 Back of House (BOH) Manager, 1 Front of House (FOH) Manager
BOH	30	1, Head Chef reports to BOH Manager 3, Assistant Chefs that report to Head Chef, have shift leadership responsibility Remaining staff consists of line cooks, prep individuals, and dishwashers
FOH	30	1, Beverage Supervisor reports to FOH manager 1, Lead Host/Hostess reports to FOH manager Remaining staff consists of host/hostess, wait staff, beverage staff, and bussers.

## The Environment

Compensation systems are used to attract, retain, and motivate employees. The development of a compensation system must align with the overall strategy of the organization. As such these systems will be affected by the environment in which the organization operates.

Your first challenge is to understand the external environmental issues affecting Pecos Valley SteakHouse. The information gleaned from this environmental scan will assist in the development of the compensation system. As such you have decided on addressing several issues.

1. Industry Profile: What are the general characteristics of the full-service, casual dining restaurant industry? What is the industry's sales volume? What are the major economic, technological, and legislative challenges facing the industry? Organizations, such as the National Restaurant Association (<http://www.restaurant.org>), and Hoover's provides information about the restaurant industry in general and the full-service, casual dining restaurant specifically.
2. Economics: The rate of inflation as measured by the Consumer Price Index (CPI) will assist in determining your pay structure. The US Department of Labor, Bureau of Labor Statistics (BLS) (<http://www.bls.gov>) reports monthly on changes to the CPI. The CPI is reported monthly as an index number (i.e., 227) and a monthly percent of change in the index number. While this information about the change in the CPI is an important metric, most managers will focus on the annual percent of change in the CPI. The annual (i.e., the last 12 months) rate of change in inflation provides a measure of how inflation is affecting the purchasing power of the wages being offered by your company. For example the April 2012 CPI report would show the annual percentage rate of change since April 2011. As the compensation manager who will be interested in knowing the CPI trend for the last 12 months.
3. Labor Market: The BLS reports the monthly changes in unemployment at the national, state, and local (i.e., Metropolitan Statistical Areas (MSAs)) levels. The national unemployment rate provides a macro view of the US economy and the availability of the workforce. Some states will also publish unemployment information through their state level bureau of labor and industry. The state reports augment the federal BLS by reporting unemployment rates at the county and/or city level. The MSAs typically focus on major population areas within a state. As a compensation manager you are interested in the unemployment trends for the past 12 months in these three major areas - National Unemployment, State Unemployment, and Local (City) Unemployment.
4. Competitors: From a compensation perspective your competitors represent alternative employment opportunities for your employees. If your compensation system is not viewed by your employees as competitive, then they may seek other opportunities. An analysis of your competition should involve two major

sources of competition - direct and indirect. The direct competitors are those firms that are in the same industry, same segment. For example, a direct competitor of Chili's is Applebee's. Another form of direct competition are those firms in the same industry, different segment. For example, McDonald's as a quick service restaurant (QSR) is in the same industry, different segment compared to Chili's. Your indirect competitors are all other firms that could employ your employees. The local hospital is an indirect competitor to Chili's.

You are to write an environmental scanning report addressing the four issues above.

## Pay Structures

As we have seen the goals of a compensation system is to attract, retain, and motivate employees. Implied in these goals is the issue of competitive wages and benefits. Organizations must have a sense of the wages and benefits being offered in the locale, (i.e., “the market”). Some organizations will take a very formal approach by conducting wage surveys. These activities may be done by a third party consultant for an individual company, industry, or region. Some organizations will use a less formal approach. For example, throughout the year HR managers may gather newspaper clippings of any article that discusses union contract settlements, proposed health insurance changes, or plant closures. Another informal approach is to use the resources of the Bureau of Labor Statistics (<http://www.bls.gov/bls/blswage.htm>). The BLS will list wage data by occupation and industry at the national and regional level. Some states through their department of labor and industry will publish wage data. Likewise many trade associations will publish wage data specific to that industry.

After gathering the data HR needs to establish the pay ranges for each job family. The pay range consists of a minimum (i.e., entry level) pay, middle (i.e., relates to the market wages), and maximum (i.e., the top level of pay). The range spread (i.e., the difference between the minimum and maximum rates of pay) is normally expressed as a percentage. Compensation managers must establish their midpoint for the pay range based on their compensation goal. If a company follows the market, the midpoint will represent the median market pay for that particular job family. If a company has a lead or lag wage policy, they adjust their middle point accordingly. For example if your research shows the median salary for the occupation is \$30,000 and you want to lag the market by 10%, then the midpoint salary for this occupation would be \$27,000 or 10% below the median market. Similarly, leading the market by 10% would mean a \$33,000 midpoint for your base pay.

After establishing the midpoint, Compensation managers must calculate the minimum and maximum pay rates based on the given midpoint. One method calculates the minimum and maximum rates based on the range spread. Another method calculates the minimum and maximum rates as a percentage of change from the midpoint. Both methods are acceptable, but the calculations provide slightly different results.

Using the data collected in the previous Pecos Valley SteakHouse projects combined with the BLS, state online resources, and news article wage data, determine the salary structure for the General Manager and Assistant Manager jobs.

1. What will be the compensation goal relative to the market? Will Pecos Valley SteakHouse lead, follow, or lag the market in terms of pay for these occupations? What is the rationale for this decision?
2. Pay systems normally are a combination of base pay, incentive pay, and pay-for-performance. What will be the combination at Pecos Valley SteakHouse for

these occupations? If you are using incentive pay as part of your plan, then you must decide on the combination of individual, group, and company-wide incentives that be used in your pay structure. You will need to provide details and a rationale for the various incentive plans used in your pay structure.

3. Assume a 40% range spread for each occupation. Calculate the midpoint, minimum, and maximum salary points for each occupation's pay grade.
4. Using the pay range calculated in number 3 above, what is the salary for a General Manager at a 87% compa-ratio level? What is the salary for an Assistant Manager at a 105% compa-ratio level?
5. Calculate the pay overlap between these two pay grades.
6. Referring to your CPI analysis earlier in this project, what is your estimated CPI rate for 2015? Using this estimate recalculate the midpoint, minimum, and maximum points for each pay grade to reflect this inflationary salary increase.

## Benefits

Many of the fringe benefits we have in today's organizations are a result of the wage systems established in the United States during World War II. At that time wages were tightly controlled to help with the overall war effort. Companies were able to grant benefits in lieu of wages. After the war, these benefits were continued through the collective bargaining process and became "norms" for all companies.

Today, we have two broad categories of benefits - mandatory and discretionary. The mandatory benefits are established by legislative action - Social Security, Unemployment Compensation, Workers' Compensation, and Family and Medical Leave. Discretionary benefits are established by the individual company. Over time the competitive forces have created a system where many of the discretionary benefits are considered the "norm" by employees.

Discretionary benefits may be funded solely by the employer. These benefits are considered non-contributory since the employee does not contribute or pay a portion of the cost. Discretionary benefits may be funded through employee contributions to pay the benefit costs. These contributory plans may range from 100% employee contribution to a near zero percentage. A company may use a contributory plan for one benefits and a non-contributory plan for other benefits.

You need to recommend a discretionary benefit system for Pecos Valley SteakHouse. This recommendation should consider:

1. Benefit Eligibility
  - a. Which employees are eligible for benefits?
  - b. When do employees become eligible for benefits?
2. Paid Time Off Benefits - Identify the paid time off plans offered by the company. Be sure to identify the details on how many days an employee is eligible for paid time off. For example, Vacations - 2 weeks after 1 year of service.
3. Retirement Plans
  - a. Will the company offer a defined benefit or a defined contribution plan?
  - b. What is the rationale for this recommendation?
  - c. If a retirement is offered, will it be a contributory or non-contributory plan. If contributory, what is the rate of employee contribution to the plan?
4. Health Insurance Plans
  - a. What type of health insurance plan, if any, will be offered by the company?  
Example - HMO, PPO, CDHP.



- b. What is the relative cost of offering health insurance? Do not consider the impact of the Patient Protection and Affordable Care Act, 2010, on this decision.