

**What's In the Stars? (Russian 5-star hotels don't compensate better than their 4-star counterparts) - By Tatiana Veller and Ekaterina Gil**  
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What is the best way to start a career in the hospitality industry in Russia? After comparing the line staff salary data for 3-, 4-, and 5-star hotels across Russia in 2008, we have drawn a few surprising conclusions.

In our most recent article on management packages we noted that the Executive Committee members in 4- and 5-star hotels in Moscow and St.-Pete's were compensated, on average, significantly better in 2007 than in 2008. The average change in their base salaries was 18% across all positions. Most likely, this is directly tied to the overall better performance of the hotel properties under international management: better economic conditions in Russia and rising inflow of FDI increase the volume of business travel to the country, which in turn strengthens the "seller's market" situation in room supply and helps increase the rates.

According to a study by Deloitte, in the first 4 months of 2008, RevPAR of Moscow hotels increased 28.1% compared to the same period a year ago. In Russia, this figure was only surpassed by St.-Petersburg, where each hotel room brought to the bottom line 35.9% more this year than last.

But, how did this "economic wonder" contribute to the financial situation of those who really make your hotel stay either most enjoyable or barely bearable - the line staff? Sadly, their average base salaries (across all positions, according to a 2007-2008 HVS Compensation Survey of 5-star hotels) only grew 11,2%, and did not even surpass the 11.9% rate of inflation in Russia. Table 1 below gives this data by position in absolute values.

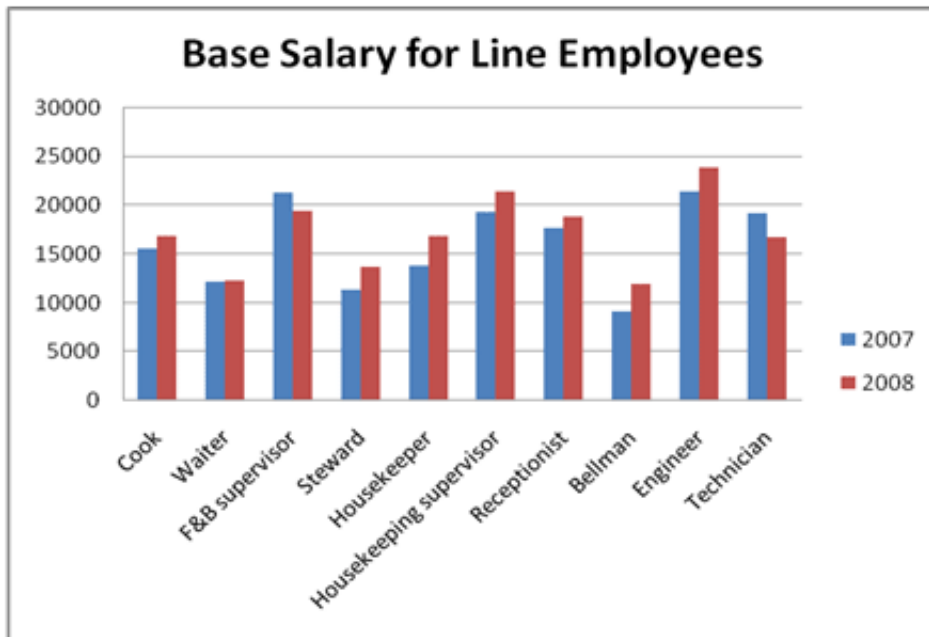


Table 1: Line employees - change in base salary from 2007 to 2008, in rubles per month

With HVS Executive Search being in a business that is closely related to career management, we often get asked by recent or future hotel school graduates, "What is the best way to start one's career in hospitality?" After comparing the salary data for 3-, 4-, and 5-star hotels across Russia in 2008, we have drawn a few surprising conclusions. Those just entering the workforce and looking to make a quick buck should stick to the "golden middle" of 4-star properties, as they are the highest payers to their line staff both in base salary and total cash compensation (which includes any additional monetary payouts to staff). See Table 2 below for details (3-star base salaries were taken as a base level for comparison, at 100%).

On the other hand, those looking at this industry for a long-term career and willing to invest time to reap the financial rewards in the future should definitely consider sticking to 5-star properties, at least when working in Russian territories. Manager compensation seems to grow in direct correlation with increasing of hotel category. (Table 3 gives more detailed data - 3-star base salaries are taken for a base level at 100%).

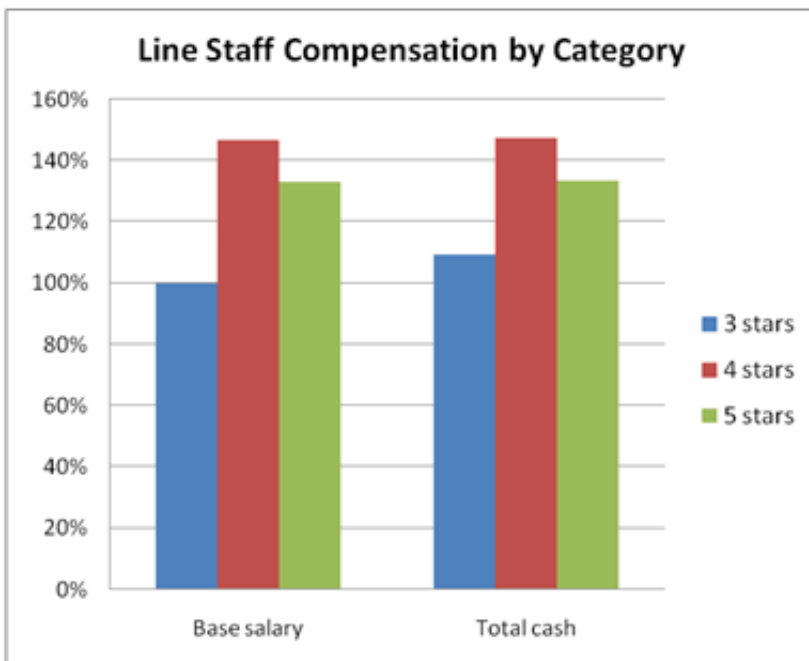


Table 2: Change in line staff salaries by hotel star rating

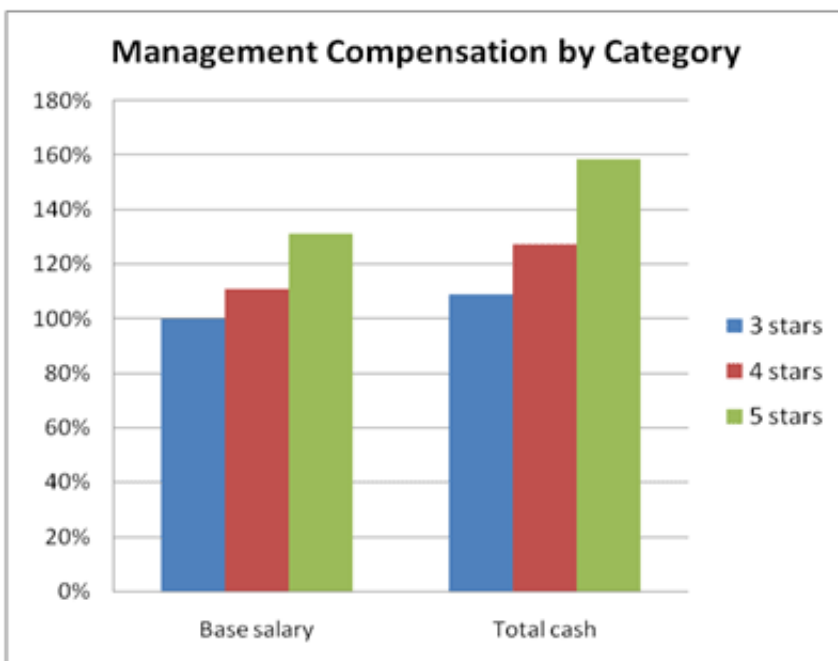


Table 3: Change in management salaries by hotel star rating

Another observation we must make concerns the variable part of compensation packages and pay-for-performance, a recent hot topic in the discussion of compensation practices at the Executive Suite and Board levels of public and large private companies. On the "ground level" of hotel companies, wouldn't it make a lot of sense to tie at least some part of line employee's compensation to the results of his/her work as well? Various ways to measure this include guest satisfaction scores, lack of room cleanliness complaints, number of error-free check-ins, amount of upsold wine per shift at a hotel restaurant, and bookings of facials or taxi limos by the hotel concierge to name just a few. However, in reality, the bonuses for the line employees at the surveyed 4- and 5-star hotels in Russia don't exceed, on average, a measly 2% of their base salary.

The question then becomes, why would one choose a 5-star hotel as their place of employment over the lower-level competitor? Brand attraction must play a large part, as well as prestige of being affiliated with a name that spells luxury, such as Ritz Carlton, Swissotel or Park Hyatt. In addition, 5-star hotels must train their employees to a higher standard of service (we hope for the sake of those who pay their prices in major Russian markets!). Now another discovery can be added to this list - working at a luxury property holds more rewarding financial perspectives in the longer term, when one moves to take the upper management position in a few years.

**Tatiana Veller** heads up Moscow office of HVS Executive Search. Tatiana has been involved in hospitality industry in Russia and US for over 10 years. Having academic degrees in Hotel Management and International Business from US and Russian institutions, combined with line and managerial operational experience with some of the top companies and several years in Executive Search with a focus on Hospitality, gives Tatiana a unique view on developments in hotel industry in Russia and CIS and an ability to compare it with practices and standards worldwide.

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