Empowering Customer-facing Employees: Learnings from the Casino Industry

by Asís Martínez-Jerez, Dennis Campbell, and Marc Epstein

Summary

One essential tactic used by the gaming industry to encourage players to increase their handle is to offer complimentary room upgrades, show tickets, and upscale dinners, as well as other comps, such as product discounts. Sales force members on the floor, at the front desk, or in group meeting contract discussions often must decide on the spot whether to comp a guest and how much to offer. Although casinos have a general framework to guide employees in their comping decisions, sales managers are also called on to provide training and guidance for their sales force. Based on the outcomes from operational exception reports, this study compares the outcomes of two different approaches to sales force empowerment. One approach is relatively tight, point-by-point analysis of staff members' comping decisions, and the other is a looser, more general approach that touches on essential knowledge regarding the outcomes of comping. The resulting model found that the looser approach fostered greater staff learning and generally stronger financial results. In sum, this study of the casino industry suggests that the way to empower and monitor your customer-facing employees is to let them try an activity and learn from the results.

ABOUT THE AUTHORS

Francisco de Asís Martínez-Jerez (Asís) joined the Cornell Nolan School in July 2020, after spending seven years at the University of Notre Dame and almost 20 years at Harvard Business School. In his research and consulting activities, Asís focuses on the design of customer centric organizations for performance. In current projects Asís is exploring how firms may combine AI with employee wisdom to improve decision outcomes, how to design incentive systems to leverage the leadership style of middle managers, or how to promote initiatives that shape a company's culture

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At the Nolan School, Asís teaches courses on strategy implementation, performance measurement, and managerial accounting, and he is currently developing a course on casino strategy.

A native of Alicante, Spain, Asís earned his undergraduate degrees in Law and Business Administration at ICADE-Madrid, his MBA from Harvard Business School, and his Ph.D. in Business Economics from Harvard University. His professional experience includes working for La Suisse Assurances in Lausanne, Switzerland, and consulting for McKinsey & Co. in Europe and Latin America. He currently serves on the Boards of Directors of E.D. Bullard and Asclepii, and consults firms throughout Europe and the Americas. In 2005, Asís received the HBS-MBA Class Award for Teaching Excellence, the Jim Bulloch Award for Innovation in Management Accounting Education in 2010, the top teaching awards at the Mendoza College of Business in 2016, 2017, and 2020, teaching awards at the Nolan School of Hotel Administration in 2023, and the Notable Contribution Award to the Management Accounting Literature in 2019. Asís enjoys the company of his lovely wife, María José, and often escapes to New York city to visit his daughters, Victoria and Aitana.

Dennis W. Campbell is the Dwight P. Robinson Jr. Professor of Business Administration at Harvard Business School. During his time on the faculty, he has taught in and chaired a variety of courses in the school's MBA, doctoral, and executive education programs in the U.S., Asia, and the Middle East. Professor Campbell's research and teaching activities focus broadly on the relationship between management control systems, organizational culture, and strategy execution. His current research efforts center more specifically on exploring how leaders can use formal systems to shape organizational culture and innovation capacity, particularly in the context of adopting new business models based on digital technology and AI. He has studied these issues extensively in both domestic and international contexts and has published numerous case studies and done advisory work in these areas across a variety of industries including retail, hospitality, financial services, and consumer-goods manufacturing.

Professor Campbell received his doctorate from Harvard Business School. Prior to beginning his doctoral studies, he worked at the Board of Governors of the Federal Reserve in Washington, D.C. on research and policy related to the structure, conduct, and performance of U.S. banking institutions and markets. He also previously served as a research fellow and chair for the Center for Organizational Entrepreneurship at the Filene Research Institute and is currently serving on the board of the Harvard University Employees Credit Union.

ABOUT THE AUTHORS

Marc J. Epstein was, until 2014, Distinguished Research Professor of Management at Jones Graduate School of Business at Rice University in Houston, Texas. Prior to joining Rice, Dr. Epstein was a professor at Stanford Business School, Harvard Business School, and INSEAD (European Institute of Business Administration). In both academic research and managerial practice, Dr. Epstein is considered one of the global leaders in the areas of innovation, sustainability, social impact, governance, performance measurement and accountability in both corporations and not-for-profit organizations.

Dr. Epstein has extensive academic research and practical experience in the implementation of corporate strategies and the development of performance metrics for use in these implementations. In many recent articles and books Epstein shows how the use of new strategic management systems can help organizations focus strategy, link to performance metrics, and drive improved performance in organizations. In a recent book, *Making Innovation Work: How to Manage It, Measure It, and Profit from It*, he applies these approaches to driving increased innovation in large organizations and developing appropriate measures of success. In June 2014 his second book on innovation focused on breakthroughs, *The Innovation Paradox: Why Good Businesses Kill Breakthroughs and How They Can Change*, was released.

He has worked extensively in developing countries in Africa, Asia, and South America on innovative and entrepreneurial solutions to global challenges and measuring and managing the social impacts of corporations, NGOs, and foundations. Each year he took all of his MBA students to Africa as part of his course “Commercializing Technology in Developing Countries.” In 2011, his book *Joining a Nonprofit Board: What You Need to Know* was published. In 2013, his book *Pharmacy on a Bicycle: Innovative Solutions for Global Health and Poverty* was released. And in 2014 his book based on extensive field research throughout the world, *Measuring and Improving Social Impacts: A Guide for Nonprofits, Companies, and Impact Investors*, was published.

In 2014, the second edition of his highly acclaimed book *Making Sustainability Work: Best Practices in Managing and Measuring Corporate Social, Environmental, and Economic Impacts*, was published to provide guidance to managers and academics on the implementation of corporate social responsibility. He has also written extensively on corporate and non profit board governance, the role of boards of directors, organizational trust, the business case for sustainability, and corporate accountability.

He is the author of twenty books and well over 200 professional papers that have won numerous top academic, professional, and business awards. Dr. Epstein also provides seminars, executive courses, consulting, and presentations to senior managerial audiences throughout the world.

CHR REPORTS

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Complementary offers made on the spot are a substantial foundation of casinos' business model. Casino and hotel hosts on the casino floor, at the hotel front desk, and in group meeting negotiations are frequently called on to determine when to offer comps and what kind of offer to make. The presence of comps is no secret, and the competition to court the most valuable customers is intense.

Just as the staff must decide how to proceed with regard to comps, managers also face the persistent question of how to empower employees to make the appropriate comping decisions. Each casino hotel maintains comping guidelines, but most operations seek to offer their customer-facing staff the opportunity to seize the moment with an unexpected offer. Managers, usually marketing managers or chief financial officers, are then called on to provide some form of feedback on the host employees' decisions. Such feedback should balance the decision-making rights of the customer-facing employees with the control systems that protect the firm's strategic path (and revenue). In this article, we examine how the managers' control styles affect employees' professional development (and thus the revenue outcomes of their decisions on the floor).

Considering the importance of gaming-industry comps, we studied the comping and control practices of the MGM-Mirage group. We found that employees' learning and long-term development are improved by a monitoring system in which customer-facing employees are made accountable for their decisions but are allowed and encouraged to justify them. This article summarizes the findings of the study, entitled, "The Learning Effects of Monitoring," published in *The Accounting Review.*[1]

In today's marketspace, companies see their customer relationships constantly besieged by new technologies, aggressive competitors, and sophisticated customers who are widely informed of their opportu-

[1] Campbell, D., M. Epstein, and A. Martínez-Jerez, 2011, "The Learning Effects of Monitoring," *The Accounting Review,* 86 (6): 1909-1934.

nity set. A deep understanding of customer needs, as well as opportunities and rapid responses to address them, is essential to fend off these threats. Take the case of a casino hotel's loyal convention customer. A sales threat might arise when a competing brand adopts an advanced event management platform, or when new or converted properties offer upgraded facilities. In this case, the customer may be well informed of their options through online travel agencies and travel research websites.

Winning the customer's continued business often depends on the event manager having sufficient autonomy to adjust the offering price or other elements to the customer's specific circumstances. Giving the event manager such freedom comes at a potential cost, however, because managers can give too much value for too little compensation. Maybe their judgment is clouded by the attractiveness of the business, or maybe they do not feel the full pain of lower revenues. But in some cases, the manager may be too soft in their negotiation with the customer. For that reason, and because empowering customer-facing employees is an imperative of modern competition, it is necessary to implement some controls that delineate the framework within which that decision power may be used. The choice of control systems will depend on the firm's strategy, human capital, culture, and other elements of the organizational design. Inevitably, this choice will drive the company's profits and its employees' development. Measuring this impact is the focus of our research.

Determining the Comp

Casino hosts (customer relationship managers) have the responsibility of deciding how much to comp the customers as a function of the amount they play (or the potential amount). Gaming customers who spend more time in the casino and play larger amounts are typically offered such comps as upgraded rooms, better tickets for the hottest shows and fights, and meals at better restaurants. Unlike hotel or airline loyalty programs, the relationship between gaming and comping high rollers does not follow strict mathematical rules (although numerical calculations do apply). Instead, the hosts have some leeway in the form of decision rights. In general, hosts are instructed to comp a percentage of the theoretical win for the trip, but they are allowed to deviate if they find it justified.

The theoretical win is a measure of a customer's profitability estimated as a function of the money spent gaming during their stay at the property. We must note that theoretical win is a narrow and incomplete measure of the customer's value, as it focuses on the customer's short-term behavior in the casino. As an example of the dangers of applying only theoretical win, take the case of a valuable and loyal customer traveling with their child to celebrate a birthday. The customer's gaming activity on this particular trip might well be abnormally low. Nevertheless, a host may want to consider the expected future profits the casino will earn upon the customer's return and comp them by an amount higher than called for by the play levels in the current trip. Thus, in this example, the host may want to go above the comp suggested by the casino and allow the customer to enjoy a wonderful birthday party. For this reason, hosts are empowered to go above and beyond the comp directives.

Firms need to give freedom of decision to front-line employees, but also retain reasonable control.

However, this ability to go "above and beyond" opens the possibility that hosts may comp low-value customers excessively. To preempt hosts from giving inappropriate or excessive comps, the property's chief financial officer (CFO) or marketing manager has the responsibility of reviewing hosts' comp levels. Some marketing managers are meticulous in their monitoring, while others adopt more of a big-picture approach. Consequently, we used this dichotomy to analyze the effects of different monitoring styles on hosts' behavior and learning.

MGM-Mirage Study

Each night, the property CFOs received the exception report, which listed the instances when the hosts had exceeded the casino's suggested comp amount. In our interviews with numerous MGM managers, we realized there was high variation in how they used this

Hosts whose comps were tightly monitored received the message that generous comps were not a desirable decision.

report to follow up with their customer relationship hosts. In sum, we found two distinct approaches. Some CFOs asked the hosts each day about the specific situations when they had awarded higher comps. Other CFOs only inquired about egregious cases of excessive comps and left the routine review of exceptions to the property marketing manager. Both types of CFOs indicated that the objective of their review was to help hosts improve their effective use of comps. However, the behavioral effects of these contrasting approaches were different than expected, as we explain below.

What we found is that hosts in the tightly monitored operations received the message that generous comps were not a desirable decision and, further, that management was monitoring the situations when they exercised their decision rights to exceed the suggested comps. These hosts felt strong implicit incentives to avoid deviating from explicit decision guidelines. In contrast, hosts in more loosely monitored properties got the message that prudent use of the excess comping discretion is generally accepted in the property, albeit in appropriate circumstances.

The comping behavior of hosts throughout the company clearly revealed that hosts responded to these implicit incentives (and disincentives). Hosts in tightly monitored properties exceeded the explicit guidelines on much fewer occasions than hosts in loosely monitored properties. Furthermore, the average comp deviation was significantly smaller in tightly monitored properties than in loosely monitored ones.

Learning from feedback. We must note, however, that the differences that we just highlighted do not necessarily imply differences in hosts' learning and development. Both sets of hosts could learn from their managers' feedback. In this view, for instance, hosts in the tightly monitored properties worked at being conscientious in using their comping discretion and learned from managers' reaction to each situation in which they exceeded the explicit guidelines. Each time they deviated from the suggested comp, they may have thought they had only one shot to get it right and, therefore, ensured everything was accurate. On the other hand, traditional learning theories would argue that those hosts working in the loosely monitored properties used their decision discretion more frequently, had numerous opportunities to observe first-hand the consequences of their decisions, and therefore learned more from those consequences.

Testing the learning effect of the two management approaches presented an empirical challenge. First, we had to develop a model of future customer profitability based on the observable factors up to the point where the host made the comping decision. Then, we had to analyze whether excess comping decisions were related to instances where our model predicted lower future profitability than eventually realized. Additionally, we had to investigate whether comping decisions complying with the explicit guidelines were related to our model's underestimation of future profitability. In other words, we had to test whether hosts could identify the customers who would be more profitable in the future more accurately than our statistical model could. We found that hosts were indeed more likely to comp above the guidelines to customers that would become more attractive than our model predicted, but only in the properties with loose monitoring. We concluded that a more loose and conversational style of control led to greater psychological safety for hosts, more frequent and better use of their freedom to comp, and more overall learning.

Balancing Decision Freedom with Management Control

The generalizable managerial implication of our research is that firms need to give freedom of decision to front-line employees so they can adapt the company offerings to the customer's special circumstances. Such freedom must also comprise sufficient control so front-line employees can learn when they use that freedom. Thus, we suggest freedom within a framework.

The nature of management control should differ according to the circumstances. At MGM, the casino hosts were managing relationships with high rollers, and the comps and profits involved were high enough to justify the intervention of the property's CFO or marketing manager. In contrast, the economic stakes of each decision at a hotel's front desk might not be so high. In most situations, the front-desk associate may upgrade a stay to reward a loyal customer or may give a meal voucher to recover a service breakdown. These cases generally do not call for top management's direct involvement, since the stakes are relatively small, and managers can simply limit the weekly number of upgrades awarded by an associate. Such a weekly restriction will not only limit the profits at risk from an associate's decisions but will also force the associate to weigh which customers to reward and what benefits to expect from each decision. In this situation, the hospitality firm needs to give associates sufficient performance information so they can gauge the impact of those upgrades and comps.

In general, the adequate balance between freedom to decide and style of control will depend on the economic stakes of the customer relationship and the cost of the decision. At a bar, for instance, the server should have the freedom to comp some customers free drinks, but at the same time the server needs to know the economics of their decisions. Without that information, the learning process will be slower, and the barkeep will not have needed guidance. In contrast, when the economics are larger and the risks higher, such as in the hotel's conventions department, there should be more involvement of top management in control of these comping decisions. In the latter instance, however, management involvement should be relatively loose, to help sales representatives' development.

In summary, empowering employees is necessary, but that alone is not enough. Mechanisms must be in place so that empowerment provides better results for the company and for employee growth. First, limits must be established on employee decision discretion so they can understand the cost of decision freedom. Second, feedback must be provided so learning can happen. Our study indicates that such feedback should be appropriately general and highlighting major issues, rather than specific and point by point for every exception. Most important, management must emphasize that learning is valued in the company, meaning that customer-facing employees have the psychological safety that allows them to experiment, make mistakes, and learn from those mistakes. ■

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