Human capital in the hospitality industry: Its components, role and importance in achieving corporate goals

Deborah Canale
University of Nevada, Las Vegas

Follow this and additional works at: https://digitalscholarship.unlv.edu/rtds

Repository Citation
https://digitalscholarship.unlv.edu/rtds/1276

This Thesis is brought to you for free and open access by Digital Scholarship@UNLV. It has been accepted for inclusion in UNLV Retrospective Theses & Dissertations by an authorized administrator of Digital Scholarship@UNLV. For more information, please contact digitalscholarship@unlv.edu.
INFORMATION TO USERS

This manuscript has been reproduced from the microfilm master. UMI films the text directly from the original or copy submitted. Thus, some thesis and dissertation copies are in typewriter face, while others may be from any type of computer printer.

The quality of this reproduction is dependent upon the quality of the copy submitted. Broken or indistinct print, colored or poor quality illustrations and photographs, print bleedthrough, substandard margins, and improper alignment can adversely affect reproduction.

In the unlikely event that the author did not send UMI a complete manuscript and there are missing pages, these will be noted. Also, if unauthorized copyright material had to be removed, a note will indicate the deletion.

Oversize materials (e.g., maps, drawings, charts) are reproduced by sectioning the original, beginning at the upper left-hand corner and continuing from left to right in equal sections with small overlaps.

Photographs included in the original manuscript have been reproduced xerographically in this copy. Higher quality 6" x 9" black and white photographic prints are available for any photographs or illustrations appearing in this copy for an additional charge. Contact UMI directly to order.

ProQuest Information and Learning
300 North Zeib Road, Ann Arbor, MI 48106-1346 USA
800-521-0600

UMI®

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.
HUMAN CAPITAL IN THE HOSPITALITY INDUSTRY:
ITS COMPONENTS, ROLE AND IMPORTANCE IN
ACHIEVING CORPORATE GOALS

by

Deborah Canale
Bachelor of Arts
Webster University, St. Louis Missouri
1991

A thesis submitted in partial fulfillment
of the requirements for the

Master of Science Degree
William F. Harrah College of Hotel Administration

Graduate College
University of Nevada, Las Vegas
August 2001

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.
The Thesis prepared by
Deborah Canale

Entitled
HUMAN CAPITAL IN THE HOSPITALITY INDUSTRY: ITS COMPONENTS, ROLE AND IMPORTANCE IN ACHIEVING CORPORATE GOALS

is approved in partial fulfillment of the requirements for the degree of

Master of Science in Hotel Administration

[Signatures]
Examination Committee Chair
Dean of the Graduate College

Examination Committee Member
Examination Committee Member
Graduate College Faculty Representative
ABSTRACT

Human Capital in the Hospitality Industry: Its Components, Role and Importance in Achieving Corporate Goals.

by

Deborah Canale

Dr. Cheri A. Young, Examination Committee Chair
Assistant Professor of Hotel Administration
University of Nevada, Las Vegas

Since “value in this economy is increasingly being driven by employees and their ideas, as opposed to hard assets” (Zimmerman, p. 32), I sought to obtain knowledge about the components, role, and importance of human capital in the hospitality industry. Data were collected by interviewing 19 hospitality human resources professionals. The findings revealed three main components of human capital: service-oriented employees, empowered employees, and committed employees. Specifically, respondents identified specific managerial activities and roles that influence the profitability of their companies and the three cornerstones of their companies’ missions: 1) treat employees well; 2) provide extraordinary service; and 3) provide shareholder value. Implications for management and future research are discussed.
# TABLE OF CONTENTS

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>ABSTRACT</td>
<td>iii</td>
</tr>
<tr>
<td>LIST OF FIGURES</td>
<td>vi</td>
</tr>
<tr>
<td>ACKNOWLEDGMENTS</td>
<td>vii</td>
</tr>
<tr>
<td>CHAPTER 1 INTRODUCTION</td>
<td>1</td>
</tr>
<tr>
<td>Significance of the Study</td>
<td>1</td>
</tr>
<tr>
<td>Statement of the Problem</td>
<td>4</td>
</tr>
<tr>
<td>Research Questions</td>
<td>4</td>
</tr>
<tr>
<td>CHAPTER 2 REVIEW OF RELATED LITERATURE</td>
<td>6</td>
</tr>
<tr>
<td>The New Economic World</td>
<td>6</td>
</tr>
<tr>
<td>Assets</td>
<td>7</td>
</tr>
<tr>
<td>The Accounting Paradox</td>
<td>10</td>
</tr>
<tr>
<td>Inadequacy of Traditional Financial Reporting</td>
<td>12</td>
</tr>
<tr>
<td>Intellectual Capital</td>
<td>14</td>
</tr>
<tr>
<td>Book Value and Market Value</td>
<td>18</td>
</tr>
<tr>
<td>Skandia's Value Scheme</td>
<td>19</td>
</tr>
<tr>
<td>Human Capital</td>
<td>22</td>
</tr>
<tr>
<td>Measuring Human Capital</td>
<td>25</td>
</tr>
<tr>
<td>CHAPTER 3 METHODOLOGY</td>
<td>27</td>
</tr>
<tr>
<td>Overview of Research Design</td>
<td>27</td>
</tr>
<tr>
<td>Data Collection Procedures</td>
<td>27</td>
</tr>
<tr>
<td>Sampling Procedures</td>
<td>29</td>
</tr>
<tr>
<td>The Interview Frame</td>
<td>31</td>
</tr>
<tr>
<td>Intellectual Capital Process Model</td>
<td>32</td>
</tr>
<tr>
<td>Data Analysis</td>
<td>34</td>
</tr>
<tr>
<td>Research Outcomes</td>
<td>37</td>
</tr>
</tbody>
</table>

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.
<table>
<thead>
<tr>
<th>CHAPTER 4</th>
<th>FINDINGS OF THE STUDY</th>
<th>38</th>
</tr>
</thead>
<tbody>
<tr>
<td>Introduction</td>
<td>38</td>
<td></td>
</tr>
<tr>
<td>Findings</td>
<td>38</td>
<td></td>
</tr>
<tr>
<td>Human Capital Process Model</td>
<td>40</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>CHAPTER 5</th>
<th>DISCUSSION AND CONCLUSIONS</th>
<th>62</th>
</tr>
</thead>
<tbody>
<tr>
<td>Discussion of Results</td>
<td>62</td>
<td></td>
</tr>
<tr>
<td>Human Assets Maintenance</td>
<td>63</td>
<td></td>
</tr>
<tr>
<td>The Perception of Human Capital Issue Among Human Resources Professionals</td>
<td>64</td>
<td></td>
</tr>
<tr>
<td>Measures of Human Capital</td>
<td>65</td>
<td></td>
</tr>
<tr>
<td>Implications for Management</td>
<td>67</td>
<td></td>
</tr>
<tr>
<td>Limitations</td>
<td>68</td>
<td></td>
</tr>
<tr>
<td>Recommendations for Further Studies and Conclusion</td>
<td>69</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>REFERENCES</th>
<th>71</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>APPENDICES</th>
<th>78</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profile of Respondents</td>
<td>78</td>
</tr>
<tr>
<td>Recurring Themes</td>
<td>79</td>
</tr>
<tr>
<td>Recording Chart Committed Employees</td>
<td>80</td>
</tr>
<tr>
<td>Recording Chart Service Oriented Employees</td>
<td>81</td>
</tr>
<tr>
<td>Recording Chart Empowered Employees</td>
<td>82</td>
</tr>
<tr>
<td>Shining Star Hotel &amp; Casino Report</td>
<td>83</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>VITA</th>
<th>108</th>
</tr>
</thead>
</table>

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.
## LIST OF FIGURES

<table>
<thead>
<tr>
<th>Figure</th>
<th>Description</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Figure 1</td>
<td>Conceptual Framework of an Asset</td>
<td>11</td>
</tr>
<tr>
<td>Figure 2</td>
<td>Skandia Value Scheme</td>
<td>20</td>
</tr>
<tr>
<td>Figure 3</td>
<td>Intellectual Capital Process Model</td>
<td>33</td>
</tr>
<tr>
<td>Figure 4</td>
<td>Human Capital Process Model</td>
<td>40</td>
</tr>
<tr>
<td>Figure 5</td>
<td>Service Oriented Employees Asset</td>
<td>42</td>
</tr>
<tr>
<td>Figure 6</td>
<td>Empowered Employees Asset</td>
<td>49</td>
</tr>
<tr>
<td>Figure 7</td>
<td>Committed Employees Asset</td>
<td>54</td>
</tr>
<tr>
<td>Figure 8</td>
<td>Human Capital Components</td>
<td>61</td>
</tr>
</tbody>
</table>
ACKNOWLEDGMENTS

First of all, I would like to thank my chair and mentor, Dr. Cheri A. Young, I cannot express my gratitude for what you have done for me. This project would not have been possible without your enthusiasm, encouragement, guidance and patience. Thank you for believing in me from the very beginning!

To Dr. David Corsun, Dr. Michael Dalbor and Dr. Michael Sullivan, I appreciate all your feedback and comments. Completing this thesis would have been much more difficult without your help.

Special thanks to all my friends and classmates, who helped me in numerous and creative ways. To Ernesto, thank you for being there when I needed you most.

Thank you all from the bottom of my heart!
A papino, nella speranza che tu possa essere orgoglioso di me ovunque sia!
La promessa che ti ho fatto mi ha dato la forza di andare avanti nonostante gli sforzi e i sacrifici di questi due anni. Ora devo mantenere le altre!
Ti voglio bene e mi manchi sempre di più.

A mamma, Massimo e Dalu': per il vostro amore, sostegno ed incoraggiamento.
Non ce l'avrei mai fatta se non avessi saputo che siete sempre li' per me!

English Translation

To my father, hoping that you are proud of me wherever you are!
The promise I made you is what gave me the strength to face these two years of pressure and sacrifices. Now, I will fulfill the rest of the promises!
I love you and I miss you more and more.

To my mother, Massimo and Dalu': for your love, support and encouragement.
I could not have made it without knowing that you were always there for me!
CHAPTER 1

INTRODUCTION

"At many companies, the human factor – employees’ knowledge, skill and ability to innovate and serve customers – has overtaken the bricks-and-mortar assets of the Industrial Age as the biggest driver of profit. Employers are scrambling to figure out what kinds of investments in people pay off: in reduced quit rates, more satisfied employees, better customer satisfaction and profit” (Shellenbarger, 2000, p. B1).

Significance of the Study

In today’s industrial world, economic wealth is determined more by knowledge and information than by the production process. Today the competitive advantage of a company is increasingly created from intangibles like ideas and know-how rather than from raw materials and physical might since a shift has occurred from production-based economies to knowledge-based businesses (Tapsell, 1998; Brennan, 1999; Harrison, 1999; Zimmerman, 2001). Consequently, today’s organizations’ challenge is to create the instruments to measure, manage and influence intangible assets (Cline, 1998).

In spite of their importance, intangible assets, although they apparently constitute the major value of many of today’s companies, do not appear in the financial statements as do all other tangible assets (Zimmerman, 2001). The traditional financial reporting
methods developed in 1494 by Luca Pacioli no longer seem effective to adequately assess today's realities (Harrison, 1999). The traditional accounting assumptions need to be re-conceptualized in order to give a "fair representation" of the financial realities of today's companies (Brooking, 1996).

In the United States, the accounting profession is guided by generally accepted accounting principles (GAAP) that provide a uniform basis for preparing financial statements. GAAP arise from the collaboration of different accounting bodies such as the Financial Accounting Standard Board (FASB), and the American Institute of Certified Accountants (Schmidgall, 1995). Contemporary GAAP were not instituted to include all intangible assets. Therefore, there is a quest for new performance measures since the traditional ones are no longer representative of today's corporate value. This is confirmed by the growing interest of firms such as Price Waterhouse, the American Institute of Certified Public Accountants, and the Canadian and Scottish Institutes of Chartered Accountants, Dow Chemical, Hughes Aircraft, Ernst & Young, the Canadian Imperial Bank of Commerce, and the Brookings Institute, a prominent educational research institute, which are examining non-financial measures of corporate performance (Stewart, 1994; Wallman 1995; Edvinsson & Malone, 1997; Harrison, 1999).

Additionally, a recent study done by the consulting group Watson Wyatt, "Human Capital Index Linking Human Capital and Shareholder Value," revealed a strong correlation between human capital and shareholder value (1999). Furthermore, in the past year, the management consulting firm Cap Gemini Ernst & Young has interviewed institutional investors, pension fund and money-mangers, and discovered that about 40%
of their decisions about portfolio allocation are based on non-financial information (Zimmerman, 2001).

The importance of intangibles, and in particular, of human capital, is reinforced by the human resource accounting literature. Resource theory suggests that the competitive advantage of a company hinges on "its specifics and not duplicated assets" and that "the most specific (and not duplicated) asset that an enterprise has is its personnel". [This is why] "some firms are more productive than others. With the same technology, a solid human resource team makes all the difference" (Archel, 1995 as cited in Barcons-Vilardell, Moya-Gutierrez, Somoza-Lopez, Vallverdu-Calafell, & Griful-Miquela, 1999, p. 1). According to Leslie Gaines-Ross, Research Officer of Burson-Marsteller, "in this new millennium, human capital is the name of the game" (Burson-Marsteller, 1999). In the last 15 years research has shown that investments in innovative work practices such as training, employee involvement and selection have a positive impact on the company's performance (Burson-Marsteller, 1999). This is probably why many corporate executives now see human capital investments as a source of competitive advantage (Ford, 2000; Bouillon, Doran & Orazem, 1996). The same is true of the hospitality industry, as highlighted by the findings of the Global Survey of the Hospitality Industry's Leadership Hospitality 2000 - The People, jointly conducted by Arthur Andersen Consulting and New York University. Indeed, the research aimed at giving a comprehensive view of the factors that will contribute to the successful management of the hospitality industry's human capital assets of the next millenium. Nevertheless, there is no commonly accepted information, nor descriptive or comparable data about human capital components and its value. Whence, the goal of my research
study was to elucidate the components of human capital, a crucial intangible asset of today's hospitality industry and its contribution to the achievement of corporate goals.

Statement of the Problem

Through the adoption of Skandia's "Value Scheme" and "Process Model" (Roos, Roos, Edvinsson & Dragonetti, 1998) as a frame of reference, I explored the concept of human capital, a central constituent of intellectual capital, in the hospitality industry. This study aims at identifying its components, role, importance and contribution to achieving corporate goals.

Research Questions

The research will be guided by the following questions:

♦ What are the components of human capital?
♦ Why do organizations need to value human capital?
♦ How can human capital be maintained and developed?
♦ What is the perception of human capital among human resources professionals?
♦ What are the activities that human resource departments spend money on and how do they create an asset for a company?
♦ How does human capital support an organization's goals and mission?
♦ How can human capital be measured?
♦ How does human capital affect the bottom line?

The purpose of this study was not to generate quantitative measures for assessing human assets, but to identify and discuss its main components. Particular companies can
then adapt these components in order to reflect their own realities. Additionally, once identified, these components may be used as a frame of reference for future studies aimed to understand and quantify the value of human capital.

**Summary**

The next chapter reviews the literature related to human capital, by discussing the transition from production to knowledge-based economies. The section will also indicate how the financial paradigms and accounting methods used today may not adequately represent companies' financial realities. The chapter will then illustrate the concept of human capital aimed at disclosing the intangible value related to people, a substantial determinant of organizational worth.
CHAPTER 2

REVIEW OF RELATED LITERATURE

The New Economic World

It is indisputable that today’s economic world is very different from the past. It no longer gravitates around physical assets such as buildings, machinery and land, but around intellectual, organizational, institutional and reputational assets (Blair & Wallman, 2000; Marriott, 2001). In the 21st century, the most important factors of business success and economic growth are intangible or non-physical (Blair & Wallman, 2000; Tapsell, 1998; Zimmerman, 2001). The shift is manifested, however, often indirectly: the economies of most industrial nations are no longer primarily based on products but services (Wallman, 1995) (the use of hotel rooms, catering, financial and legal advice) or experiences (concerts, sport events, cruises). Services are increasingly a big share of the economic output: the service portion of the GDP (Gross Domestic Product) rose from about 22 percent in 1950 to 39 percent in 1999. In addition, most products are enhanced in value by embedded technology (e.g. computing power on computers) or brand image (e.g. Coca-Cola); therefore, even physical products carry some intangible resources. Intangibles are not a synonym for services, but they are highly correlated because the delivery of professional services encompasses considerable inputs of intangibles (Blair & Wallman, 2000). Intangibles embrace components such as
personal skills, professional knowledge and organizational capabilities, significant factors in the delivery of services and goods.

This chapter intends to provide an understanding of the new economic realities that characterize today’s business world. It will also present the inadequacies of traditional accounting methods, the conceptualization of intangible assets, and provide a clarification of the related accounting concepts. More importantly, this section will also introduce the concept of intellectual and, in particular, human capital, believed to be the custodians of today’s organizational value.

Assets

As per FASB, an asset, in order to be considered as such, needs to meet four criteria:

1) Has to be well defined and separate from other assets; this means that it can be the object of a sale transaction.
2) The company needs to have control over it.
3) Its economic value needs to be reasonably predicted.
4) It should be possible to ascertain if its economic value has been impaired (Blair & Wallman, 2000; Gibson, 1998; Bouillon et al., 1996).

Only certain intangible assets can be considered as such, for example, intellectual property, databases and licenses. Nonetheless, intangible assets generally are not disclosed in the financial statements unless they have been the object of a transaction.

Then again, there are other intangible assets such as Research and Development (R&D), business secrets, business processes and human capital that do not meet all four
previously mentioned criteria. In fact, generally, they meet only criteria two and three (the firm “owns” the asset, and its economic value can be somehow predicted).

However, it is not possible to separate them from other assets, thus they cannot be attributed a specific value. For the reasons mentioned so far, the Task Force in charge of the report on intangibles and appointed by the Brookings Institute, elaborates the concept of intangibles and divides it into three different levels:

1) Assets that can be owned and sold such as intellectual property.

2) Assets that can be controlled but neither separated nor sold separately from other assets such as R&D.

3) Intangible assets that are not even entirely controlled by the company such as human capital.

Assets at level three are inextricably associated with people and they do not meet any of the four criteria dictated by FASB. However, undeniably, they have a strong influence on the company. Take for example personnel, management, and training policies that unquestionably have an impact on the productivity of a company, thus, contributing to its value and growth (Blair & Wallman, 2000). The same concept was reaffirmed by J. Willard Marriott Jr., Chairman and CEO of Marriott International, during his address to the Economic Club of Detroit where he told an anecdote about an employee “going the extra mile” for a guest: “Guest’s room [sic] may be our product, but our associate’s [sic] caring attitude is our value. We can’t measure it with statistics, and we can’t manufacture it. We can deliver that value only if we can attract, retain and inspire the best people” (Marriott, 2000, p. 6). In addition, value is strictly linked with “branding” the “antidote to commoditization”; without branding a distinguished hotel chain would
have to compete solely on the basis of price. Branding allows a company to be chosen among an unlimited choice of offers, and unquestionably is strictly associated with bottom line profits. However, how can we, for example, ascribe a dollar value to the thoughtful actions of a specific employee? How can we compare their value to industry benchmarks? How can we infer their proportional contribution to profits?

**Intangible Assets**

Defining what constitutes intangibles is difficult. There is a lack of consensus in the accounting field, and the interpretation depends on the different perspectives and areas of application (Blair & Wallman, 2000; Gibson, 1998). Following Blair and Wallman (2000) the term “intangibles” is defined as “non-physical factors that contribute to or are used in producing goods or providing services that are expected to generate future productive benefits” (p.12). Up to today, all accounting transactions were based almost exclusively on tangible assets: “the physical facilities used in the operations of the business”(Gibson, 1998, p. 103) such as land, buildings and machinery, and included only a confined category of intangibles such as patents and trademarks. Intangibles are intrinsically complex to identify, measure and account for. It is fairly easy to account for the contribution to revenue of a new guest room in a hotel, but so far, it is impossible to measure precisely what the contribution of employees’ skills is to enhancing revenue. Therefore, attempting to quantify how much employees’ skills improve revenues is very subjective and doing so is often controversial.

At the same time, ignoring the real value of intangibles or omitting their disclosure might lead to an unrealistic economic representation, misdiagnoses of problems and resultant inappropriate decisions (Blair & Wallman, 2000). An enhanced
understanding of the dynamics of today's economy based on the role and importance of intangibles, is, for example, vital in the decision making process that will affect the long run productivity/profitability of a company. The danger could be a costly misallocation of resources or a distorted economic account whether or not investment is capitalized or expensed.

The Accounting Paradox

Paradoxically, intangibles are not only ignored by the traditional accounting methods, but if purchased or developed, they are considered expenses rather than accretion to the company's worth (Blair & Wallman, 2000). An example is expenditures on human resources. The incongruity is that while employees can improve the future profitability of a company, in financial statements they are reported as costs rather than as investments (Parker, 1998). The inconsistency, say Edvinsson and Malone (1997), is that in today's economy when a company invests in human capital or information technology in order to be more competitive, it will be penalized in the income statement as well as in the balance sheet, and as a result its book value will be diminished. When a company "invests in human resources by acquisition and training, it anticipates a future generation of profits and services that will be produced by these assets. Training is, in fact, an "activity that develops the worker's capacity to improve efficiency and job quality, [and] therefore, the enterprise increases its profitability" (Barcons-Villardell, et al., 1999). Specifically in the hospitality industry, customer relationships, the core of the service, do not appear in the financial statements, yet, undeniably, in the long run, they are a major source of revenue. Enhanced customer relationships will increase profits "through repeat
business, referral sales, decreased customer maintenance costs, and reduced exposure to price competition" (Cumby & Barnes, 1996, p. 42). In the hotel industry, for example, hotels are constantly calculating the present net value of their existing customers: it is 4 to 7 times cheaper to retain a customer than to create a new one. According to a study done by Reichheld and Sasser, a modest 5% increase in customer retention results in 25 to 125% increase in profits (Reichheld & Sasser, 1990; McCarthy, 1997). Ritz-Carlton, for example, has estimated that a loyal customer is worth over US$100,000 over his/her lifetime, which is estimated to be 4 years (as cited in Kotler, Bowen & Makens, 1999; Bowen & Shoemaker, 1998). In this view, all expenses aimed at improving service should be seen as an investment rather than as a cost. The rationale is simple, and an explanatory parallel can be drawn between the creation of a factory and the creation of customer-service focused employees (quality employees):

![Conceptual Framework of an Asset](image)

Figure 1. Conceptual Framework of an Asset

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.
A factory is a valued tangible asset, capable of contributing to future net cash inflows (Johnson and Petrone, 1998). Its creation is made possible by the purchase of bricks (expense), and in this view, the expense is considered an investment, not merely a cost. Similarly, the creation of quality employees (intangible asset) is made possible through training (expense); however, the training is still considered a cost, rather than an investment aimed at generating future direct and indirect profits, such as in the example of the bricks.

Another contradiction is goodwill, the purchase premium over the book value of a company, which appears on the balance sheet only if a company purchases another company and its goodwill. However, it contributes to future cash flow (Johnson & Petrone, 1998). Undoubtedly, intangibles are able to generate, directly or indirectly, future economic benefits (Lev, 2000). If they do, they need to be considered assets.

Inadequacy of Traditional Financial Reporting Methods

The Traditional Accounting Assumptions and Concepts, the foundation of GAAP, need to be reconceptualized in order to give a “fair representation” of the financial realities of today’s companies. The Statements of Financial Accounting Concepts (SFAC) specify that one objective of financial reporting by business enterprises is intended to provide information that is useful in making business and economic decisions. SFAC also state that the information is of potential use to several interested parties that may not have the same objectives, and it has to satisfy the needs of external users who do not have access to comprehensive sources of information (Wallman, 1995). In addition, financial reporting should be useful in making rational investment, credit,
and similar decisions (Kim, 1996). Therefore, it should be made known that a company is worth more than its book value. The above principle is reaffirmed through the different Traditional Assumptions and Concepts of the Accounting information.

SFAC No. 2 deals with the qualitative characteristics of accounting information such as Relevance and Materiality (Gibson, 1998). Relevance is one of the primary qualities that make accounting information useful for decision making. In fact, relevant information “is capable of making a difference in a decision by helping users to form predictions about the outcomes of past, present, and future events or to confirm or correct prior expectations” (Wolosky, 1999). If this concept is normally followed in the preparation of the financial statements, then there would exist one more reason to include intangible assets in the yearly financial statements. By not doing so, SFAC compliance becomes arguable and we are judging by two different standards.

Materiality, another traditional assumption, is defined by the SFAC glossary as “the magnitude of an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement” (Gibson, 1998). According to Gibson, the SFAC glossary definition is the question that accountants should ask themselves when considering the materiality of a particular issue. For sake of clarity, Kimmel, Weygandt and Kieso (1998), developed the concept a little further and gave as an example a $100 error in recording a revenue for a company whose total revenue exceeds $326 million. In that case, by their definition, such an error is not material and it would not be material even if it were $10,000. Similarly, it can be contended that not reporting the value of intellectual
capital for General Motors would not be material either. In fact, General Motors’ $40 billion market value consists of mainly traditional tangible assets (Hiser, 1998).

However, the same principle would not apply in service industries, in particular hospitality, where intellectual capital may have far more weight than traditional assets.

Another deficiency is the Full Disclosure assumption, which indicates that the accounting reports must communicate all information that might influence the reader. In fact, information such as a pending legal case is normally disclosed by a footnote accompanying the annual reports because this is an issue that might change the value of a company. I would contend that both positive and negative facts need to be disclosed because one way or the other they might affect the opinion of the interested reader. Similarly, the intangible assets of the company should be disclosed as well, especially in today’s service industries where the gap between book value and market value is very large.

Intellectual Capital

Lately, intellectual capital (IC) has emerged as the most talked about intangible asset. It is not a new concept. It is probably as old as the creation of human beings, but today it is seen under another light, given different names, and covers different areas. Ultimately, the business world has discovered its potential to provide a competitive advantage (Edvinsson & Malone, 1997). In spite of this, the existing literature on intellectual capital does not provide a consensual definition; in general, the discrepancy revolves around the exact determination of its components. It seems that the interpretation varies according to the backgrounds and disciplines of the proponents, each
one presenting his or her own perspective that satisfies the needs, peculiarities and realities of the field to which he or she belongs. Nevertheless, with the growing interest that IC is rousing, it is apparent that there is a shared need to find a standardized description (Edvinsson & Malone, 1997).

In their book "Intellectual Capital" Edvinsson and Malone (1997) explored the definition of intellectual capital and presented the view of different individuals and groups having various backgrounds. Commissioner Steven Wallman, Security and Exchange Commission (SEC), includes in the definition of IC, not only human mental power, but also brand names, trademarks and book-value assets that have acquired worth throughout the years but are "currently valued at zero on the balance sheet" (Edvinsson & Malone, 1997, p. 3). Similarly, according to Thomas Johnson, professor of business administration at Portland (Oregon) State University, IC is what in accounting is called goodwill, such as trademarks and patents (Edvinsson & Malone, 1997). Venture capitalist and business writer William Davidow identifies IC as the dynamic perspectives such as market position, customer loyalty, and quality, which, if ignored, would misstate the value of a company (as cited in Edvinsson & Malone, 1997). Yet another definition of intellectual capital is provided by Annie Brooking who defines it as "our possession of knowledge, applied experience, organizational technology, customer relationships, professional skills and intercultural skills within the entire organization – the collective knowledge embedded in human capital and structural capital" that gives a company "a competitive edge on the market" in which it operates (Brooking, 1996, p. 179).

A more comprehensive definition of IC is provided by Stewart (1997), who divides IC into three components:
1) structural capital
2) customer capital
3) human capital

Structural capital deals with the technological side of the organization, databases, data warehouses and other information technology tools, as well as physical functions such as a production line or customer support methods. Customer capital is defined as the worth of a company’s relationship with its customers measurable, for example, by the amount of sales or businesses realized, or by less explicit ways such as complaint letters or level of customer trust. Human capital, on the other hand, is the most difficult component of IC to identify and probably the least tangible. It is the immense treasure that is kept inside the minds of the workforce (Healey, 1998). In fact, very frequently, the greatest accomplishments of a company arise from brilliant ideas rather than a company manual or database (T. A. Stewart, 1997). Additionally, Bresnahan, Brynjolfsson and Hitt (2000), found that companies that simultaneously invest in computer technology and human capital attain the greatest boost in productivity (as cited in Blair & Wallman, 2000).

Skandia, the largest Swedish insurance and finance company in Sweden, is a pioneer in the intellectual capital wave. Skandia has acknowledged the importance of intellectual capital and is trying to measure it and recognize its utility like all other classic assets conventionally used. In 1991, Skandia appointed Leif Edvinsson as “Director of Intellectual Capital,” the world’s first title involving intellectual capital. In 1995, Skandia released the world’s first public intellectual capital annual report, as a supplement to its classic financial reports, which highlighted the value of its IC.
(Edvinsson & Malone, 1997). The intent was to describe the “otherwise intangible dimensions of the operations, and not to create added value in the manner of the emperor’s new clothes” (Tapsell, 1998, p. 36).

Skandia gives a very practical and concise definition of intellectual capital. IC is the difference between the market value of a company and its book value (Anonymous, 1998). For Skandia, the best way to understand intellectual capital is to use the tree/company metaphor: a tree has a trunk, branches and leaves just like a company has an organizational chart, financial statements and illustrative brochures. However, we cannot assume that what is visible represents the entirety of the tree; there is much more to it. There is a precious invisible part: the roots. The roots will determine the future conditions and quality of what is visible. Similarly, in a company, the roots symbolize its intellectual capital, the hidden dynamic factors that make the company so valuable. According to Skandia, these hidden constituents normally take two forms: human capital and structural capital. Human capital is what leaves the office at 5:00 P.M. It is the company’s values, culture and philosophy. However, it is not owned by the company and cannot be traded. Conversely, structural capital is what remains in the office after 5:00 P.M.: hardware, software, databases, patents, trademarks and everything else that supports employees’ productivity, and unlike HC, it is owned by the company and it can be traded (Edvinsson & Malone, 1997).

Skandia’s rationale for reporting and valuing intellectual capital might not be the best and most accurate one; however, it certainly initiated the basis for further development. Other companies such as Monsanto, AT&T, and Dow Medical are now following its example.
Book Value and Market Value

The book value of a company, its accounting worth, does not customarily include intangible assets. However, companies are appraised on other criteria that create their market value. The gap between book and market value is customarily constituted by intangible assets (Edvinsson & Malone, 1997). Although intangibles are not included in the book value of a company, and hence are internally neglected, they are nevertheless accredited for externally. In fact, external stakeholders recognize their importance and are inclined to place high values on firms with high levels of intangibles. For example, in August 2000, the book value of Walt Disney Co. was about $43.7 billion (out of which $11.3 was recognized intangible assets) as opposed to a market value of $117 billion. In other words, the market considers Disney’s real value to be $73.3 billion higher than the book value (Blair & Wallman, 2000; Brennan, 1999). Another illustration is the giant Microsoft. On September 2000, its physical assets were $1.9 billion and its value was about $328 billion (Blair and Wallman, 2000). The difference in value represents the worth placed on intangible assets, the intellectual capital, the “term given to the combined intangible assets which enable [a] company to function” (Brookings, 1996, p. 12; Harrison, 1999). Evidently, the market considers intellectual capital capable of generating, even if not directly, future economic benefits (Edvinsson & Malone, 1997).

In the period from 1973 to 1993, the median ratio of market-to-book value for American public corporations increased from 0.8 to 1.7. According to Tapsell (1998), this is, to a certain extent, due to the increasing importance of intellectual capital. In the period between 1981 and 1993, the price paid for 391 American companies with a
median market value of US$1.9 billion was 4.4 times the book value. And, about 150 knowledge-driven corporations were acquired for more than 10 times their book value (Tapsell, 1998; Harrison, 1999). Therefore, it can be assumed that the purchasing companies held that the real value of the acquired corporations was much greater than the book value.

**Skandia’s Value Scheme**

For the development of the intellectual capital concept, Skandia created the Value Scheme. The Value Scheme is a flow chart that can be used as a general framework to develop an intellectual capital framework in each specific industry/company according to its specific context and distinctiveness.

Skandia reiterates that the book value of a company is not representative of its real value, hence, it considers the market value, the value perceived by the external stakeholders, as a more accurate benchmark. Therefore, it breaks up the total true value of a company into financial and intellectual capital. It then divides IC into human and structural capital. Skandia suggests the following framework:
Figure 2. Skandia Value Scheme adapted from Roos, et al., (1998)
Skandia Value Scheme Legend

Financial capital: the physical or monetary assets of the company.

Intellectual capital: the difference between the market and book value of the company.

Human capital: the knowledge, skills and experience of the employees.

Structural capital: what remains in a company when the people go home.

Customer capital: customers' relationships and loyalty.

Organizational capital: what the company invests in systems, tools and operating philosophy that advance the flow of knowledge of the company.

Innovation capital: the innovative results generated by intellectual property and commercial rights.

Process capital: the company’s know-how, such as manuals, best practices, and intranet resources.

Intellectual property: patents, trademarks and copyrights belonging to the company.

Intangible assets: assets that have no physical existence but are still of value to the company.

Observing the flow chart in Figure 2, one may notice that Skandia's Value Scheme puts more emphasis on structural capital, which is broken down into different components, and appears to neglect further conceptual definition of human capital. This emphasis may result from the company’s vision/mission and the nature of the industry sector in which it operates.
Human Capital

Human capital is one of the three most important groups of intangibles: discovery (e.g., research and development), organizational capital (e.g., operating philosophy) and human resources (Lev, 2000). Human capital is the sum of all human assets that support the organization's objectives and strategies, and that can respond to market pull according to the situation (Brooking, 1996). "When the company becomes misaligned with its market and market pull is diminishing, valuable human assets are those which are able to generate new strategies, products, services and technologies which are able to push the market" (Brooking, 1996, p. 46).

An exemplary illustration took place in 1994 when Maurice Saatchi, chair of the board of directors was dismissed from the company Saatchi & Saatchi (a distinguished advertising agency today called Cordiant). In order to protest Saatchi's dismissal, other executives left the company as well. What happened was not reflected in the company's balance sheet. However, the outcome was catastrophic. In fact, several large accounts such as British Airways and Mars defected, and even worse, the company's stock fell from $85/8 to $4. Needless to say, the market realized that most of the company's value was human capital represented by Maurice Saatchi and his entourage (Stewart, 1997, p. 60). A study by the well-known public relations company Burson-Marsteller found that the reputation of the CEO has a remarkable impact on the overall corporate reputation. A survey of 1400 stakeholders conducted in 1999 revealed that 95% of those surveyed would buy stock on the basis of the CEO's reputation, and its importance had increased almost 14% since 1997 (Burson-Marsteller, 1999).
Human Capital in the Hospitality Industry

As claimed by many authorities, in the labor-intensive hospitality industry the most important concern is the customers and the measurement of their relationship in terms of satisfaction, loyalty, and value. These relationships could not exist without employees and human capital: the sum of "the capabilities of the individuals required to provide solutions to customers" (Stewart, 1997, p. 76). In the hospitality industry, the employees are the essence of the service, and they represent the quality and values of the entire organization (Baloglu, Knutson, Ninemeier, Bowen, Laudadio, Mount & Marecki, 1997) to the extent that according to Booms and Bitner "one could even say they are the firm-in the eyes of the customer" (1981, p. 48). In a study done by Forte Hotels, Owen and Teare (1996), as cited in Baloglu et al., found a close correlation between employee satisfaction and customer satisfaction. The assumption is that hotels that attain high employee morale, and a corresponding low turnover rate, will experience high guest satisfaction.

Beyond question, it is primarily the employees who allow the creation of this relationship. This is due to the inseparability aspect of the service industry, where customer-contact employees are part of the product and where the physical environment in which the transaction takes place plays only a secondary role (Kotler, Bowen & Makens, 1999). In the hospitality industry, a contact employee has the endowment of affecting the overall service experience (Kotler, Bowen & Makens, 1999). Richard Normann, who created the term "moments of truth," reiterates the same concept (Normann, 1984). A moment of truth happens when employees and customers establish contact. According to Normann, at that point, whatever happens is no longer under the
direct influence of the company. It is the competence, motivation and tools of the employee together with the customer’s expectations and attitude that will act upon the outcome of the service (Normann, 1984). In essence, in most instances, the profitability of the company lies in the employees’ hands. In fact, a solid relationship between employees and customers increases the frequency and amount of purchases by customers (Kotler, Bowen & Makens, 1999). It also reduces price competition and costs. In addition, a solid relationship is a source to gain referrals from loyal customers; and moreover, the delivery of the service becomes easier and customized because the client’s needs and wants are already known (Kotler, Bowen & Makens, 1999). In this view, in the hospitality industry, the human resource component, human capital, is a better indicator of the future earnings capabilities or net worth of a company than other classic assets normally used (Hiser, 1998).

**Turnover**

If employees are the most important assets of the industry and “the marginal value of investing in human capital is about three times greater than the value of investing in machinery, why, then, do companies manage it so haphazardly” (Stewart, 1997, p. 85)? This is especially true in the hospitality industry where the turnover rate is extremely high, averaging over 100 percent annually, and reaching up to 300 percent in some companies. The numbers are daunting especially when translated into a dollar value: from $3,000 to $10,000 per hourly employee, and a likely average of $50,000 for managers (Woods, 1997). Baloglu et al. (1997) assert that high employee turnover negatively affects customer relationships and is associated with decreased repeat business and revenue, thus increasing costs and reducing revenue. This situation should be taken
into serious consideration, especially because, in contrast, most other U.S. industries with which the hospitality industry competes for employees face workforce surpluses (Woods, 1997). Even more daunting for the industry is that most experts believe that turnover is associated more with internal causes than external ones (Woods, 1997). Therefore, in this view and with the potential catastrophic consequences that the hospitality industry could face, human capital ought to be an integral part of corporate goals and strategies.

Measuring Human Capital

J. Roos, G. Roos, Edvinsson and Dragonetti (1998, p. 58) state it is impossible to identify indicators of intellectual or human capital until “what is supposed to be measured is clearly defined”. Undoubtedly, it is extremely difficult to ascribe a dollar value to something intangible; however, intangibles cannot be ignored since they create financial benefit. The challenge is for organizations to create the instruments to measure, manage, and influence intangible assets such as human capital (Cline, 1998). Roos, et al. (1998) argue for selecting the areas of intellectual capital most relevant to a company. Therefore, hospitality organizations, due their labor-intensive nature, should certainly be interested in defining, measuring, and managing human capital.

Summary

Even though there is no academic research on the subject of human capital, the literature presented in this chapter revealed that organizations recognize the need for its conceptualization. More than presenting definitions, the literature indicated potential components of human capital, which can be explored through this study, by indicating the inadequacies of current assessment practices. The literature indicated also that there
is an increasing concern regarding the need for measures that are representative of
today's financial realities and which should include intangible dimensions. Therefore,
this study is exploratory in nature, and as will be presented in the next chapter, industry
experts' ideas were used to conceptualize human capital. The methodology and data
collection procedures are further detailed as well in the next section.
CHAPTER 3

METHODOLOGY

Overview of Research Design

Human capital is a very nebulous concept; its components and implications are still obscure. On the whole, the existing literature and research is very limited generally and non-existent in the hospitality field. In addition, the literature does not provide commonalities among conceptualizations of human capital; consequently HC cannot be included in a uniform system of accounts. The purpose of this study was to elucidate and clearly define the concept of human capital, as well as identify the components, role, and importance of it in the hospitality industry. Therefore, the choice of a qualitative study was determined by the goal of collecting open-ended narrative data about the topic, without compelling respondents to fit their experiences, thoughts, and beliefs into predetermined standardized categories like, for example, in a questionnaire (Patton, 1980).

Data Collection Procedures

The data collection method used for this research was semi-structured interviews. Respondents were initially contacted via telephone. At that time I introduced myself, explained the purpose of the research and its derived benefits, and asked recipients for their participation (Kahn & Cannel, 1957). In order to maximize the chances to secure an
interview, during the preliminary telephone contact I enticed the recipients through the combined use of an altruistic and an egoistic appeal, also called combined appeal (Baloglu & Bowen, 2000). The former emphasizes the benefits that the hospitality industry and the human resource profession will gain as a consequence of the clarification of the human capital concept, and, in particular, its potential formal disclosure in financial statements. The egoistic appeal, on the other hand, accentuates the essential importance of the respondent’s individual contribution to the study.

The incentive provided to the respondents was the results of the study. I anticipated the response rate to be high because of the great interest raised by the topic in the past few months. The growing interest is confirmed by the proactive approach to human capital definition and measurement adopted by a leading hospitality company, Marriott International (Shellenbarger, 2000), the Hospitality 2000 Global Survey jointly conducted by Arthur Andersen and New York University, and the Task-Force appointment of the Brookings Institute.

In order to verify their efficacy, appropriateness and potential to meet the research objectives, sample interviews were conducted with two human resources professionals who are not part of the final study (Kahn & Cannel, 1957), and appropriate revisions were made according to the results of these two interviews (Maxell, 1996).

Interviews varied in length from 30 to 90 minutes. Each was tape-recorded whenever allowed by the interviewee, transcribed verbatim and coded in order to limit recording errors. According to the situation, extensive or condensed field notes were taken during the interviews and completed after the interview with additional details.
(Spradley, 1979). The locations of the interviews were at the companies of the respondents. This was due to practicality and the busy schedule of the informants.

At the end of each interview and throughout the duration of my study as needed, I compiled analytic memos that helped me record reflections, important insights and ideas about the specific meeting and about the research subject in general (Maxwell, 1996). Analytic memos are an effective tool for serious reflection about the topic and are particularly helpful for recording important insights about the subject under investigation that would otherwise be lost (Spradley, 1979).

All the transcripts and field notes were labeled with date, place, time, name and title of the person involved in the research. In addition, code names were assigned to the data in order to protect the identity of the interviewees. The names were sequentially coded with an HR prefix followed by a number (e.g., HR9). All records will be maintained in a locked filing cabinet in an undisclosed location for at least three years after completion of the study.

Sampling Procedures

The sampling procedure adopted for this study was purposeful sampling (Patton, 1980), also called criterion-based selection (LeCompte & Preissle, 1993 as cited in Maxwell, 1996). The choice was determined by the need to purposely select people who could provide significant information to achieve the aim of this study. The goal was to reasonably assure data quality and credibility of the findings. According to Kvale (1996) in current interview studies the number of interviews generally conducted is around 10 to 15. For this research, the sample consisted of 19 top human resource professionals from
hospitality companies. However, because the purpose of this study was to explore and
describe in detail a specific phenomenon, I conducted interviews until a point of
saturation was reached, that is, when additional interviews yielded inconsequential new
knowledge (Kvale, 1996). In order to reach my targeted sample I used a snowball
technique, which consists of gaining referral interviews from the different informants. I
interviewed one HR professional and then asked him or her to kindly refer me to other
professionals for additional interviews. Through the snowball technique, I had the
opportunity to interview informants at higher levels in the hierarchical structure.

The research instrument used in this study was semi-structured elite interviews
(Marshall & Rossman, 1995). The choice was determined by the purpose of discovering
the participant’s perspective and insight regarding human capital. The intent was to
capture and comprehend the complexity of human capital and its implications.
Specifically, elite interviews are conducted with a selected sample of individuals chosen
on the basis of their expertise in the area of the research (Marshall & Rossman, 1995).
Therefore, the interviews were structured so that the results were “deep, detailed, vivid
and nuanced” (Rubin & Rubin, 1995). Depth was obtained through the interviewee’s
thoughtful answers based on significant evidence; details provided solidity and presented
different angles on the subject. Vividness involves obtaining examples that can create
vicarious knowledge for the reader; nuance provides descriptive realism and precision
(Rubin & Rubin, 1995).
The Interview Frame

The goal of the interviews was to create an environment in which the subjects felt free and at ease to talk about their experience, feelings, and thoughts about human capital. At the beginning of each interview, I introduced the topic, and asked questions that directed the course of the interview towards the individual's definition and ideas about human capital (Kvale, 1996). At the end of each interview, I asked the respondents if they had any additional comments or feedback. and I then reiterated the goal and use of the information gathered. As suggested by Kvale (1996) the purpose of the interview was explained at the beginning, and direct questions were posed in order to achieve it (openness of purpose). However, in order not to compromise validity, and to eliminate as much as possible my influence on the topic (reactivity), I avoided the use of leading questions and closed and short-answer questions that could have discouraged participants from revealing their own perspective (Maxwell, 1996).

Interview Questions

Because of the inductive nature of this research, I did not formulate any explicit research hypotheses, but rather used orienting research questions aimed at illustrating some predictable directions that the research might take. This approach allowed some flexibility concerning the precise emphasize that the research might highlight, thus allowing the discovery and pursuit of other patterns within the general area of human capital (Marshall & Rossman, 1995). Indeed, the intent is to let the data collected to reveal an hypothesis(es) which will be grounded, developed, and tested in the results (Maxwell, 1996).

The followings are the orienting research questions used in this study:
♦ What are the components of human capital?

♦ Why do organizations need to value human capital?

♦ How can human capital be maintained and developed?

♦ What is the perception of human capital among human resources professionals?

♦ What are the activities that human resource departments spend money on and how do they create an asset for a company?

♦ How does human capital support an organization’s goals and mission?

♦ How can human capital be measured?

♦ How human capital affect the bottom line?

In the formulation of the above research questions I attempted to include both a dynamic and a thematic dimension with the intent of collecting data that was relevant for the research and at the same time able to promote interaction (Kvale, 1996).

**Intellectual Capital Process Model**

The ultimate goal of this research was to provide grounds for future attempts to ascribe a monetary value to human capital in the hospitality industry. However, we first need to identify human capital’s most relevant components. To this end, I used the Skandia Process Model (Roos et al., 1998, p. 63).

From a macro point of view, the Process Model is a method for identifying indicators of intellectual capital components, such as human capital, and using them as measurements for the intellectual capital of an organization (see Figure 3). The model is divided into four different parts.
The starting point is an organization’s mission statement or vision (business concept) which is then converted into activities or “key success factors” (KSF) - the cornerstone of strategic theory. KSFs “indicate the vital criteria that the particular strategy must meet in order to succeed” (Roos, et al., 1998, p. 65). A KSF is then exemplified by a practical activity labeled an “indicator.”

The use of an example will help clarify use of the Process Model. Marriott International’s mission statement is: “We are committed to being the best lodging and management services company in the world by treating employees in ways that create extraordinary customer service and shareholder value” (Haschak, 1998, p. 209). Marriott’s mission statement reflects its business concept. From the business concept, one can identify the Key Success Factors, those factors that are vital to the achievement of its mission: treat employees well, produce extraordinary customer service, and maintain shareholder value.
From these activities or KSFs, we need to identify the indicators that best reflect or capture these activities. If we examine one KSF, "employee treatment," for example, five separate indicators might be used to determine if the KSF has been accomplished:

- Low employee turnover
- High employee satisfaction
- Training budget as a percentage of turnover
- Percentage of employees reviewed
- Employees' perceptions of empowerment

Roos and colleagues (1998) suggest that the identification of KSFs and indicators should come from discussions with senior managers, taking their cues from the mission statement or business concept.

I asked human resources professionals to define the business concept or mission of their organizations which is the starting point of Skandia's model. Then, I asked them to identify the KSFs, those factors that are vital to the achievement of its mission. From the KSFs it was then possible to distinguish the indicators that best reflected or captured these activities that were ascribed to different components of intellectual capital (Roos, et al., 1998).

Data Analysis

The data was coded into meaningful categories that helped in the development of theoretical concepts about human capital in the hospitality industry (Maxwell, 1996). Being a qualitative study, validity and reliability were corroborated by the standards of transparency, consistency-coherence and communicability (Rubin & Rubin, 1995).
Transparency was attained by conscientiously transcribing all interviews verbatim, keeping the original version and maintaining a record of coding categories and peculiarities of each interview so that a reader could observe the logic and evidence that led to the conclusions. All interviews were checked in order to identify and understand possible incoherence/inconsistency in themes that were extracted from the interviews and ultimately analyzed for their meaning. The focus was also to provide, wherever possible, vivid and clear examples and experiences in order to improve communicability (Rubin & Rubin, 1995).

The examination of the data collected was an ongoing process with the interviews transcribed during the data collection period. The analysis was organized by the orienting research questions (Glaser & Strauss, 1967).

The analytic procedure followed five different modes aimed at meaningfully reducing the data collected for easier interpretation (Marshall & Rossman, 1995; Maxwell, 1996).

1) Organization of data

This first phase was done through repeated reading of the analytical memos and the transcription of the interviews. In this inceptive stage, the main intent was to enhance my understanding of the data (Schatzman & Strauss, 1973).

2) Creation of recording charts

Once my understanding of the data was clear and some common patterns started to emerge, the need was to systematically interpret and classify the data collected. To this end I created a recording chart for each theme emerging from the analytical memos.
and from the interview transcriptions as presented in Appendix III. This second stage helped also to generate categories and extract linkages among the different themes.

3) Test of the emergent links

As the themes and linkages from the recording charts became evident, I started testing their plausibility and testing them against the data collected. This entailed the evaluation of the adequacy, credibility, usefulness and centrality of the data. In this critical stage, I had to ascertain whether the data were adequate to answer the orienting research questions.

4) Identification of assets

In this stage, all the emerged themes were scrutinized in order to determine whether they had a traceable impact on the bottom line of a company, thus fitting the definition of asset and therefore could be considered a component of human capital.

5) Search for alternative explanations

In this stage, the challenge was to critically dispute the patterns that had emerged in the previous phase. In addition, I had to search for an alternative explanation for the data emphasized and the extracted linkages, and explain why the suggested themes were more plausible than an alternative explanation.

In a qualitative research study writing about the data is embedded in the analytical process of interpreting the complex raw data collected. Taylor and Bogdan (1984) propose five different methods of report writing. The method adapted for this research was the one that relates practice to theory by summarizing the data and linking it to more general theoretical constructs.
Research Outcomes

The point of this research was to have human resources professionals from various companies identify the KSFs and indicators for their particular organizations. Of course, the KSFs and indicators will reflect the business concepts of their organizations and will probably differ from company to company. However, the ultimate objective of this research was to find the commonalities among conceptualizations of human capital so that they could be included in the balance sheet.

Summary

As a result of this research, I will provide insights about the measurement of human capital that can be used by the hospitality industry. The outcome could help companies to measure, manage, influence and give the appropriate credit to human capital, a substantial component for the achievement of corporate goals in the hospitality industry. The next chapter outlines the findings of this research and presents a discussion of the results.
CHAPTER 4

FINDINGS OF THE STUDY

Introduction

For this inductive research, interviews were conducted in order to find answers to the guiding research questions. The interviews have provided important information for understanding the concept of human capital in the hospitality industry. The final sample size consisted of 19 human resources professionals. The informants held different positions within the human resources department and belonged to properties of different sizes. Their heterogeneity is portrayed in the profile presented in Appendix I.

Findings

As discussed in the methodology section, all the data collected were organized and analyzed through the use of recording charts (please see Appendix III). As a result of the data analysis done through the recording charts, 14 recurring themes emerged as shown on Appendix II. However, some of the themes were discarded because they were considered part of other themes, and others because they did not have a traceable impact on the bottom line of a company. As a result, three main themes were considered to fit the definition of an asset, and thus could be considered components of human capital.
These three components, which are extensively presented in this chapter are:

1) Service Oriented Employees
2) Empowered Employees
3) Committed Employees

These components can be defined as intangible assets: "non-physical factors that contribute to or are used in producing goods or providing services that are expected to generate future productive benefits" (Blair & Wallman, 2000, p.12). In particular, following the Brookings Institute classification, these elements would belong to level three: intangible assets that are not entirely controlled by the company. To enhance the interpretation of the data, I have provided a definition of each element and analyzed each individually, focusing on answering the orienting research questions.

**Human Capital Process Model**

For the interpretation of the data collected a revisited version of the Skandia Intellectual Capital Process was used and renamed “Human Capital Process Model”. In the Human Capital Process Model, I isolated and utilized only the human capital component of the four-fold concept of intellectual capital. I have focused exclusively on human capital because it is the only one that is pertinent to the goal of this study. The resulting model still consists of three different parts, as will be illustrated; however, the interpretation of the data is focused exclusively on human capital.
Indicators

Each of the components that constitute human capital is monitored, translated and operationalized into daily activities by an indicator, which is also a reflection of the Key Success Factors (KSF) (See Figure 4). Indicators are, for example, those activities, procedures, and values that create the specific asset. They are its “bricks and mortar”; therefore the results of this section will answer the research question: “What are the activities that human resources spends money on and how do they create an asset for a company?”

Additionally, each indicator, whether directly or indirectly, will also be analyzed in terms of its consequential traceable impact on the bottom line of a company. The examination of the indicators is followed by the discussion of their positive impact on a company, thus, satisfying the research question: “How does human capital affect the bottom line?”

Key Success Factors

Key Success Factors exemplify the mission statement of an organization and are its vital constituents. Each KSF is operationalized by one or more indicators. Therefore,
once we identify the indicators and the KSF to which they correspond we are also able to
answer the research question: “How does human capital support an organization’s goals
and mission?”

**Business Concept**

The Business concept is the mission statement and it outlines the strategic goals
of an organization. The mission statements encompassed in this study, though expressed
in different words and formats by the respondents, focus on the achievement of three
recurring goals. These common goals, which correspond to three different Key Success
Factors, are summarized as: 1) treat employees well; 2) provide extraordinary service;
and, 3) provide shareholder value. In the following section, each component of human
capital was analyzed in terms of indicators, KSFs, and its impact on the bottom line of a
company.

**Service Oriented Employees**

**Definition**

Through the data analysis, a service oriented employee is one who can provide the
best service for the particular type of clientele served by the organization in which he or
she works. It is important to note that quality-service specifications and needs vary
according to the guests’ expectations. Therefore, they will change according to the
different types of customers. In other words, the client of an upscale property will have
different needs and expectations regarding service delivery than will a client of a lower-
end property and vice-versa (HR 1, HR 5, HR 9, HR 11, HR 12, HR 14).
SERVICE ORIENTED EMPLOYEES

INDICATOR
HIRING PROCESS
- Appropriate attitude and skills
- Compatible values
- Passion and dedication

INDICATOR
TRAINING
- Focused on guests' expectations

INDICATOR
SERVICE ORIENTED CULTURE
- Upside down structure
- Management by example

KEY SUCCESS FACTOR
Extraordinary service

KEY SUCCESS FACTOR
Treat employees well

KEY SUCCESS FACTOR
Shareholder value

Figure 5. Service Oriented Employees Asset
Service Oriented Employees Indicators

A primary step in the creation of service oriented employees is undoubtedly the hiring process (HR2, HR 5, HR 7, HR, 11, HR 12, HR 13, HR 15, HR 16). In order to have a team of service oriented employees, it is important that the company hires people with the appropriate attitude and skills to successfully assist the guests (HR 4, HR 5, HR 7-12, HR 17). The company needs to hire people who are or have the potential to become quality employees. A key element in this process is certainly the retention of people whose values are compatible with the organization's, a sort of mental alignment that allows the company and the individual to pursue the goals with the same approach, style and perspective (HR 7, HR 11-13). In the hospitality industry in particular, because of the long and unusual working hours, it is also important to attract people who have a real passion and dedication for the job (HR 5, HR 9, HR 14, HR 16).

Training is another important element for the creation of service oriented employees (HR 1-11, HR 14-19). Through training, employees acquire the necessary knowledge to develop their skills and provide quality service. In particular it is important to train employees on the specific guest's expectations (HR 1, HR 9, HR14), as quality service is what fulfills the needs and wants of the guest.

Service oriented employees need the support of the entire organization (HR 9, HR 14, HR 15). Service has to be an integral part of the company's culture, and eventually the organizational structure needs to be turned upside down. In an upside down structure, the main concern is the customer and not the corporate management, as everyone in the organization is focused on better serving the customer rather than satisfying people above them in the hierarchical structure (Kotler, Bowen & Makens, 1999).
In order to grow and progress, service oriented employees also need to work in an environment where the service culture is constantly reinforced by managers and supervisors who lead by example (HR 1, HR 6, HR 11, HR 17, HR 19).

Service Oriented Employees and the Bottom Line

The above mentioned indicators have a potentially significant impact on the overall company in terms of direct or indirect revenue generation and cost savings. Buzzel and Gale (1987) identify a correlation between quality and profitability. Through their PIMS (Profit Impact of Market Strategy) Principle, they show that companies with high market share and quality have a high return on investment. Their findings have also met with unanimous consensus in more recent studies such as the impact of service quality on repurchase intentions (Anderson & Sullivan, 1993) and the correlation between service quality and market share (Kordupleski, Rust & Zahorik, 1993).

Hart, Heskett and Sasser (1990) found that poor service quality will lead to costs associated with employees’ absenteeism, turnover, and loss of morale because employees appreciate working in operations that are well run and they do not like receiving guest complaints. If high quality of service is provided, there is inevitably a cost reduction for the company.

The creation of service oriented employees makes it possible to create an unforgettable experience for the guest during his or her stay at a specific property. Today, hospitality organizations need to be able to provide not only a service but also an experience for their patrons. Firms that provide both will enjoy a competitive advantage over competitors that do not (HR 1, HR 5-7, HR 9, HR 11-13, HR 16, HR 18, HR 19). In fact, a long lasting competitive advantage is derived from a feature that cannot be easily
replicated by competitors (Kotler, Bowen & Makens, 1999). Having a competitive advantage is undoubtedly translated into increased revenue because more customers will likely prefer to stay at property X versus property Y.

Satisfied customers will also provide positive word of mouth (WOM) which has the potential of increasing customer flow (HR 9, HR 17, HR 18, McCarthy, 1997) and, therefore, revenue. Positive WOM can also reduce advertising costs because the word is voluntarily spread by the customer. It is in fact believed that on average, a satisfied guest will tell five others (Stauss, 1997).

Providing an unparalleled experience may also increase customer loyalty, a paramount condition for today's business success. Customer loyalty has the potential of increasing revenue and having a positive impact on employees. A loyal customer is easier to serve and satisfy because his or her needs and wants are already known (McCarthy, 1997). Research shows that employees enjoy helping guests with whom they have already developed a relationship.

In addition, if an employee enjoys his or her job, there is a greater chance that he or she will spread positive WOM about the employer. Employees' positive WOM will save the company money in terms of advertising costs related to hiring because applicants will flow spontaneously. If a company develops a good reputation as an employer, the flow of applicants will be enhanced, as will the quality of applicants. Additionally, applicants are more likely to be the best matches for the jobs, and qualified people are taken away from competitors (HR 9, HR 10, HR 14, HR 18).

Moreover, satisfied employees who enjoy their jobs will tend to stay longer with the company. Reduced turnover is probably the biggest cost-saving function that an
organization can achieve (HR 1-5, HR 9-13, HR 16, HR 17, HR 19). There are innumerable soft and hard costs associated with turnover.

"Hard costs include separation processing, coworker burdens such as overtime and added shifts, headhunter search, advertising, interviewing, reference checking, drug/psychological testing, orientation, and on the job training. On the other hand, soft costs include lost productivity of employees before their departure, lost productivity of having a vacant position, lower morale of remaining employees, lower productivity of the new hires, and additional supervision time required for the new hires" (Anonymous, 2000, p. 3).

For example, for each hiring, depending on the sophistication of the process, the cost can vary from $75 to $500 per employee (HR 12). The numbers are daunting (McCarthy, 1997). According to HR 11, if we take into consideration all the costs involved from the moment a person is hired to when he or she becomes proficient in a specific job, the minimum cost is $5,000 per employee. HR 11 says that if turnover could be reduced by 100 people per year, a number that is not outlandish for some of the properties existing in Las Vegas, it adds up to half a million dollar a year that is actually added to operating income. This is also supported by several studies indicating that in the period ending in 1992, the average cost of an hourly employee turnover was between $5,000 and $10,000, and the cost of replacing an executive with an annual salary of $100,000 may be between $75,000 and $210,000 (McCarthy, 1997). In addition, companies need to add to the equation the money that they might save when they need to fill other openings. In fact, if they can count on a strong and experienced team, they could promote from within the company and thus save a considerable amount of money (HR 4, HR 5, HR 10, HR 13,
HR 16, HR 18). Additional money is also saved in terms of management time lost on interviews and decision making, time that is withheld from concentrating on the actual operation of the business that gives the possibility of increasing revenue (HR 5, HR 9, HR 11, HR 19). A reduction in turnover can also save the cost of paying overtime to the people who have to replace the ones who are gone (HR 6, HR 16). In addition, morale and performance will not decrease because an employee, who is already working a specific shift, does not have to fill in for those absent, and can therefore concentrate and give his or her best in servicing the guests. Reduced turnover will also result in more consistent service that will, in turn, reduce variability of the service quality, a major concern of service industries (Kotler, Bowen & Makens, 1999).

A property that delivers superior service can also avoid price competition. Buzzel and Gale (1987) found that companies that deliver top quality could charge 5% to 6% higher prices than companies that deliver poor quality.

Service oriented employees help achieve the strategic goal of providing extraordinary service and are an indication of treating employees well. By delivering extraordinary service and treating employees well, organizations should be able to provide shareholder value because of the influence of these two KSFs on the bottom line of the organization.

**Empowered Employees**

**Definition**

Empowered employees is the second major asset of human capital (HR 5, HR 7, HR 11, HR 14, HR 16, HR 19). From the data analysis, an empowered employee is one who has the authority and responsibility to independently make particular decisions. Thomas and Vellthouse define empowerment as a set of four cognitions that reflect a
person's orientation to his or her work role (1990). The four cognitions are meaning, competence, self-determination and impact.

Meaning implies a fit between the work role requirements and an individual's beliefs, values, and behaviors (Spreitzer, 1996). Competence is a person's belief in his or her capabilities to skillfully perform activities (Gist, 1987). Self-determination is the freedom to make decisions regarding work behaviors (Deci, Connell, & Ryan, 1989). Impact is an individual's influence on working outcomes (Ashforth, 1989). All four cognitions reflect an active orientation towards an individual's work role (Spreitzer, 1996). This is of particular importance in service industries where it is impossible to envision all the wants of the customers, and often there may be a conflict between existing procedures and the attainment of customers' satisfaction. Therefore, companies need to be flexible and deal with each situation as it occurs. Having service oriented employees is not sufficient if companies do not allow them to use their judgment and discretion when dealing with the guest (Lewis & Chambers, 1989).

**Empowered Employees Indicators**

A company that is genuinely service oriented values the importance of having empowered employees. Therefore, the primary step is to have a service oriented culture (HR 7, HR 9, HR 17), an upside down structure, as already proposed in the service oriented employees indicators. Empowered employees are people who act like "adults," (HR 9) and are responsible for their own actions and decisions. However, in order to facilitate employees acting more "adult like," the company needs to treat them as such, strongly believing that they are qualified and providing them with the necessary tools. Self-esteem is in fact believed to be an antecedent of empowerment because
Figure 6. Empowered Employees Asset
individuals perceive themselves as being able to contribute to their work (Gist & Mitchell, 1992). The process thus starts at the hiring stage where the selection needs to be made taking into consideration the skills and potential of prospective employees (HR 5, HR 7, HR 11, HR 14; McCarthy, 1997). There are certain attributes, such as a caring attitude, that cannot be easily learned; they need to be innate (HR 5, HR 7).

Yet, at the same time, there are abilities, such as problem solving and decision making skills, that can enhance the natural talent of the employees and may be developed through pertinent training (HR 17, HR 18, HR 19; McCarthy, 1997). On the other hand, there are also abilities that simply need to be left free to be expressed. Often, the main inhibitor is the company itself that treats employees like infants by not letting them think on their own (HR 7, HR 9, HR 14). Companies should refrain from nurturing employees and on the contrary act as a mentor thus enabling them to be independent (HR 7, HR 9, HR 11, HR 14).

To this end, it is very important that the company's values, norms and goals are very clearly expressed, understood and embraced by the employees (HR 11, HR 12, HR 13). Research suggests that in order to empower their employees, organizations need to provide them with abundant information about the organization's missions, goals and values (Lawler, 1992; Spreitzer, 1995). When there is an affinity between the employee and the company, the latter does not have to be too concerned about possible critical misalignments and the employee can be confident of performing commensurately. This synergy needs to be reinforced by providing regular, punctual and relevant feedback (HR 4, HR 6, HR 7, HR 17) on the employees' performance. Lawler (1992) suggested that
that information about performance is critical for empowerment, an assumption that is also supported by Spreitzer (1995).

**Empowered Employees and the Bottom Line**

Empowering employees can have a halo effect on the guests, employees and the bottom line of the company. Empowerment gives the employees an opportunity to feel that they “own their jobs”, a key to employee satisfaction, which has a strong negative effect on employee turnover. Indeed, the more directly involved employees are in their jobs, the higher the level of satisfaction (Eade, 1993). Therefore, through empowering employees companies can attempt to reduce turnover and save money as previously discussed. In addition, more satisfied employees can positively affect customers’ satisfaction (McCarthy, 1997) which, as discussed earlier, can considerably increase revenue and decrease various costs.

A further advantage of empowered employees is the possibility of increased productivity (HR 11). If an employee has the authority to make certain decisions, the service process is expedited with the twofold advantage of increased guest satisfaction and service turnover. For example, if a service related decision can be made by a restaurant’s wait staff, the result will be a more satisfied guest because the issue can be solved promptly. In addition, the table might be occupied for a shorter time and hence be sold again to a different patron. According to Thomas and Velthouse (1990), empowered employees are also likely to be also more effective because of increased concentration, initiative and resiliency (Spreitzer, 1995).

Empowered employees have the potential to effectively improve service quality and productivity by uncovering creative solutions to specific situations (HR 11; Spreitzer,
1995), a factor that is particularly important in times of global competition and organizational change (Block, 1987; Kizilos, 1990). Employees are the ones who perform the job; they are the only ones who know exactly what takes place and how it takes place. They are aware of customers’ preferences and general behaviors, and can therefore create new solutions to old issues. Four Seasons Hotels, renowned for their unparalleled service culture and exceptional service delivery, provide an excellent example of employees’ creativity that has become a service standard. A parking valet at the Four Seasons Hotel in Seattle observed that many of their weekend guests were families with children who, after checking out of the hotel, often faced a long drive with the children tending to get hungry. He therefore surprised the families by leaving in their car a box of chocolate cookies and milk for each family (Sharpe, 1985). This is an illustration of a mere observation by an employee that was transformed into a very successful service delivery to the guests, a distinction that has the potential of creating an impact on the bottom line of the company.

A company that empowers its employees may be able to accomplish its mission and strategic goals by satisfying employees, guests and shareholders. As the previous analysis reveals, empowered employees are a sign of good employee management, have the potential to positively affect service quality, and as a consequence, will provide future shareholder value.

**Committed Employees**

**Definition**

Early studies of organizational commitment suggested that employee commitment to an organization can take three forms: a) moral commitment; b) calculative
commitment; and c) alienative commitment (Etzioni, 1961). Later, Caldwell, Chatman and O'Reilly (1990) restricted organizational commitment to two types: normative and instrumental. Normative commitment can be defined as a psychological bond to the organization (Cooper & Hartley, 1991) developed through commonalities of beliefs, attitudes and values, which correspond to the organization's (Lashley, 1997; Mowday, Porter, & Steers, 1982). Instrumental commitment represents a less positive relationship primarily based on the reciprocal alliance between employees and the organization, where the former see an equitable exchange between their contribution and the rewards received for it (Caldwell et al., 1990). Instrumental commitment is therefore the result of a rational calculation that takes into consideration the benefits of affiliation with a company and the drawback associated with its acquittal (Lashley, 1997).

Regardless of its definition, typology, or approach, commitment plays an important role in determining the bottom line of the company (Powers, 2000; McCarthy, 1997; HR3, HR 6, HR 7, HR 10, HR 17, HR 18, HR 19), and giving it a competitive edge (Dessler, 1993), two focal points of this study. In addition, its importance will likely increase in the next decade because of the incumbent labor shortage (Anonymous, 2000). In accordance with the respondents' contributions, this paper focused only on normative commitment.

**Committed Employees Indicators**

Respondents to a recent survey “Commitment in the Workplace-The 2000 Global Employee Relationship Report” pinpointed 5 areas that have the greatest influence on employees' loyalty: fairness at work, care and concern for employees, day-to-day satisfaction, trust in employees, and reputation of the organization (Anonymous, 2000).
Figure 7. Committed Employees Asset
The participants in my study identified the same areas. Again, and even more than in other instances, the issue has deeper foundations that go back to the hiring process (HR 6, HR 7). Caldwell et al. (1990), suggest that an individual's commitment to an organization can be influenced by the recruitment and the socialization processes that disclose the organization's values and modus operandi. Normative commitment is created by the synergistic effect of beliefs, attitudes and values.

Professing core values and beliefs however is not enough: the company needs to adhere to them and incorporate them in every action in order to meet employees' expectations (HR 3, HR 7, HR 17, HR 18). Caldwell et al. (1990), suggest that confirmation of pre-entry employees' expectations is positively related to organizational commitment. Too often companies promote the immense importance of their workers and how much they care for them, yet their back-of-the-house does not live up to those professed standards by the employer, nor does the location of the human resources office (HR 7; Goll, 1999). This dichotomy can have a long lasting negative effect (HR 7).

When starting to work for a company individuals have certain needs, desires and skills, often derived from the values, principles and beliefs pledged by the company, and if satisfied or put to use, increase the likelihood of commitment (Mowday et al. 1982). To this end, an accurate, thorough and serious orientation can have a large impact on future loyalty (HR 10, HR 19). Indeed, it is believed that the first months of a new hire are critical to the development of commitment (Louis, 1980), lasting attitudes and expectations because they can either coincide or conflict with prior expectations (Mowday et al. 1982).
Being a just employer is also believed to be a crucial factor in the development of employees' loyalty (HR 3, HR 6, HR 10, HR 19). Research into organizational justice has emphasized two aspects in particular: distributive and procedural justice (Tremblay, Sire & Balkin, 2000; Sweeney & McFarlin, 1993; Sheppard, Lewicki & Minton, 1992). Distributive justice deals with the fairness of the outcomes received such as, for example, whether a person gets a pay raise commensurate with his or her performance. Procedural justice, on the other hand, focuses on the individual evaluation of the procedures through which the reward is established, whether or not they are judged fair or unfair (Cropanzano, 2001; Tremblay, Sire & Balkin, 2000; Sweeney & McFarlin, 1993; Sheppard, Lewicki & Minton, 1992). Bies (1987) introduced a third idea of justice: interactional justice. Interactional justice is the fairness of the interpersonal treatment, and is linked to the way the procedure is communicated, but is separate from the procedures themselves. Although interactional justice was originally presented as a third form of justice, it is often included under procedural justice (Cropanzano & Greenberg, 1997; Tyler & Bies, 1990, Cropanzano, 2001).

A just employer encompasses several aspects, including providing adequate wages and benefits (HR 7, HR 10, HR 18). Justice is also achieved by creating clear and equitable policies and procedures not limited to the monetary compensation, but spread in other areas of the work environment (HR 6, HR 7, HR 18). Having policies in place is not enough; it is important to have well trained managers who can implement them impartially (HR 7; Anonymous, 2000).

Especially if loyalty is the result of a psychological bond, it is very important to nurture it. Employees need to feel valued and appreciated by the company (HR 7, HR...
Van Dyne, Graham, and Dienesch (1994) found a correlation between employees who have been led to believe that they make a difference in the organization and increased commitment. Therefore, it is important to involve them as much as possible in the activities of the company (HR 3, HR 7, HR 18, HR 19). Involvement can take several forms: from empowerment (HR 7), to clear and open communication (HR 6), or to "quality action teams" and suggestion schemes (HR 6; Lashely, 1997; McCarthy, 1997).

Committed Employees and the Bottom Line

Many advantages are linked with committed employees. The most common benefits are related to employee satisfaction, production and flexibility (Legge, 1995). Research suggests that organizational commitment is negatively related to turnover (O'Reilly & Chatman, 1986; Allen & Meyer, 1990; Eby, Freeman, Rush & Lance, 1999; Mowday et al., 1982; Powers, 2000; Koys, 2001). According to Lashely (1997), committed employees deliver enhanced customer service and perform beyond the call of duty, all important advantages in today's competitive and saturated hospitality market (Anonymous, 2000). The same view about employees' commitment was shared by most of the respondents (HR 3, HR 7, HR 10, HR 17-19) of this study. Additionally, the respondents believe that loyal employees have the potential of creating customer loyalty. This is also supported by McCarthy (1997) who alleges that most employees perform their jobs at about 60% of their potential, diminishing the possibility of delivering exemplary experiences to customers. If employees would consistently add the 40% discretionary effort, exemplary experiences could result in customer loyalty.

Research suggests also that commitment is negatively associated with costly behaviors related to absenteeism, attendance and punctuality (Caldwell et al., 1990:...
Angle & Perry, 1981; Mowday et al., 1982). Respondents to this study also believe that committed employees are less likely to be absent and/or late to work (HR 3, HR 7, HR 10, HR 17, HR 18, HR 19; Powers, 2000). Absenteeism yields real costs embedded in decreased productivity, overtime, scheduling problems, service quality and service turnover (West Seifert, 2000). The United States Department of Labor Statistics assesses that every year 106.1 million lost hours per week are due to absenteeism and lateness, which corresponds to an estimated loss of $30 billion (as cited in West Seifert, 2000). A rough calculation can therefore depict the enormous impact that commitment will have on the bottom line of a company in terms of cost savings.

The cost saving function of loyal employees is also manifested through the consequential decrease of litigation costs (HR 6, HR 7), the possibility of promoting from within the company (HR 10, HR 17), and the development of positive WOM from the employees regarding the organization as a good employer (HR 6, HR 18, HR 19).

Loyal employees not only save employers money, but also increase revenues (HR 17). Employees’ loyalty may create organizational citizenship behaviors, discretionary contributions that employees make and that promote the effective functioning of the organization (Organ, 1988). Organizational citizenship can also contribute to customer satisfaction (Morrison, 1995). Research suggests that employees’ positive attitudes towards the company they work for and their jobs influence positive employees’ behaviors towards customers (Rucci, Kim & Quinn, 1998). Strong dedication and commonly shared goals have the potential to unleash both creativity and a passionate concern for the job to be accomplished (Dessler, 1993; Mowday et al., 1982; Powers, 2000; Koys, 2001). Organizational citizenship behavior can also influence customer
satisfaction (Morrison, 1995). Not surprisingly, committed employees go the extra mile to satisfy the guest (Lashely, 1997; Koys, 2001).

Organizational commitment is influenced by several factors. Indeed, committed employees are, to a great extent, the result of a caring organization that acts upon a vital part of its mission: the KSF of treating employees well.

Committed employees internalize the values and mission of the organization to which they are committed. Therefore, committed employees will perform beyond the call of duty in order to provide “extraordinary service” for the guests, another vital KSF of the organization to which they are psychologically attached.

Summary

The original Skandia Process Model embodied the human capital component, but did not develop its conceptualization. The data provided from this study has indicated that human capital in the hospitality industry is composed of three components: service oriented employees, empowered employees and committed employees. The Human Capital Process Model that follows (see Figure 8) depicts the comprehensive conceptualization of these human capital assets developed in this section. The model shows their indicators and the corresponding KSFs that they satisfy. This resulting model may be used as a starting point for future research aimed at improving the understanding of HC and its possible valuing methods. This chapter illustrated in detail the core findings of the study. It presented the components of human capital, the activities that create them, their impact on the bottom line of an organization, and their effect on the achievement of corporate goals. In the next chapter I will summarize the main findings of the research and draw conclusions as to their meaning and importance. The chapter
will also provide an answer to the remaining research questions and discuss the limitations encountered while conducting this study. Finally, the chapter will discuss possible managerial implications and make recommendations as to possible future directions for human capital disclosure in the hospitality industry.
Figure 8. Human Capital Process Model
CHAPTER 5

DISCUSSION AND CONCLUSIONS

Discussion of Results

This study aimed at investigating the concept of human capital in the hospitality industry and its contribution in achieving corporate goals. No previously published research has investigated its components and role. My findings have highlighted the core human resources activities, the components of human capital, which represent an asset for a company: service oriented employees, empowered employees and committed employees. Each one of those assets is created through specific managerial activities and all have an impact on the profitability of a company. In addition, if properly nurtured, they also fulfill the three cornerstones of most hospitality organizations' missions: 1) treat employees well; 2) provide extraordinary service; and 3) provide shareholder value. Therefore, it can be reasonably inferred that if a company properly "maintains" these three assets just like it would for material assets, the outcome would probably be a productive business, a unique competitive edge, and the perception that the organization is an attractive employer. These assets, then, help produce profitability.
Human Assets Maintenance

The findings of this research indicate that human assets should be treated like any other physical assets. Companies spend a lot of energy and money to maintain and improve physical assets, such as buildings, because they want to preserve and possibly enhance their value. The same rationale should be applied to human assets. For example, hiring an employee is similar to buying land where someone wants to build a beautiful house. The best possible land is chosen to ensure that the house is built on good ground. The land has a value, and once the house is completed, the whole value has increased. However, if value is to be maintained or even enhanced, it needs to be embellished and maintained. The same rationale should be applied to employees. Even though hiring someone with the right attitude and skills is crucial, it is not enough. A company should nurture, enrich, and maintain its relationship with its employees.

Human assets maintenance can take different forms. Some of these forms are classic, such as training, recognition programs, social events, or tuition reimbursement. Additionally, there are creative programs such as rest and relaxation breaks, or offering "a maid for the day" (HR 12). The possibilities are endless and limited simply by a company’s dedication, imagination and resources. Indeed, the best form of maintenance is directly related to the peculiarities of the specific company and workforce. Thus, a maintenance program based on the assessment of the employees’ needs and on an analysis of the external and internal environment in which they operate is likely to substantially increase the impact of the motivational efforts. Even though the implementation of such practices is work intensive, the long-term results will certainly justify them.
The Perception of Human Capital Issues Among Human Resources Professionals

There is great uncertainty about the definition and application of the human capital concept. Yet, undeniably, it is gaining increasing importance. Last year at the beginning of this research, it was extremely hard to find any information that contained the words “human capital.” Recently, however, many references to articles, books, discussions, and web-sites related to the subject have surfaced. However, the concept of human capital is still not very clear, let alone its value and contribution. Hopefully, the intervention and resources allocated by leading research institutes, consulting firms and individual companies will soon provide common ground for extensive and well-aimed research.

The ambiguity regarding human capital is probably even greater in the hospitality field. According to this research, no convincing step has been taken towards understanding the magnitude and content of the phenomenon. Disappointedly, the words “human capital” are on everybody’s lips, but they seem more like trendy buzzwords than a real concern for many companies. Even though the words “employees,” “human assets” or “intangibles” may be mentioned in a company’s reports, it does not mean that human capital is adequately valued or even disclosed. There is a strong latent exigency among human resources professionals to finally sanction the value and importance of the resources that they manage. However, these professionals still do not know how to implement measures to assess and optimize the use of these human assets. To draw an analogy, it is like feeling a strong compelling emotion and not knowing how to express its intensity. Despite their shortcomings, human resources professionals believe that
measuring HC is feasible and beneficial, but they rely on someone else providing a ready-made solution.

One company in particular has accomplished the task of disclosing some possible measures and indices of human capital. In order to keep its anonymity, call this company “Shining Star” [in a dark sky]. The top management of Shining Star has very generously shared information about their undertaking.

Every year Shining Star publishes a detailed Human Resources Report that helps all the stakeholders involved understand the magnitude of the role and activities of the human resources department in achieving the corporate mission and goals (see Appendix IV). The report provides detailed comparative information about employment, compensation, benefits, training and development, costs and expense allocation, as well as the goals and functions of the human resources department. In addition, whenever possible Shining Star also provides corresponding indices allowing a comparison with the general industry averages.

Shining Star’s report is certainly not the answer to the human capital issue in the hospitality industry, but it is indeed a considerable foundation upon which other hospitality companies can build. Its inputs could be used to develop a framework that: a) discloses data that is meaningful for the hospitality industry, b) is replicable and applicable throughout the industry, and c) can eventually be exported to other industries.

Measures of Human Capital

The actual measurement of human capital would have been too ambitious and premature to be covered through this study. However, the purpose of this project was to
provide a basis for future and more specific research. Nonetheless, there are some important insights that have to be discussed.

Human capital can have different meanings and scopes in different industries and it will vary according to the mission, environment and peculiarities of each sector. Therefore, it is important to first identify what areas are meaningful and effective for the specific entity under consideration. Once they are identified and especially justified, then a dollar value can be assigned to human capital. The issue is how do we assign a dollar value to something so volatile as skills, talents and capabilities embedded in people?

The process is lengthy and complex. Indeed, the approaches so far adopted (metric systems and benchmarking) are rather complicated and not easily intelligible by the concerned majority. Furthermore, they might add confusion rather than clarification, and could further distance people from human capital interpretation and applicability. Therefore, I suggest to start by taking as a foundation a very simplistic user-friendly approach that can be meaningful to many, and then eventually elaborating upon it.

One way to start ascribing a dollar value to human capital activities could be to determine what a specific component of human capital costs to the company and subsequently compute how much the company could save by minimizing or increasing, depending on the circumstances, the presence of that specific component. For example, if it is possible to accurately determine what the real turnover cost is per employee per year, then it would be possible to calculate how much is saved each year by reducing turnover rate.

Alternatively, another way to attempt to give a dollar value to activities related to human capital would be to evaluate how much a specific service would cost the company
if it was done by an outsider, and then calculate how much the company can save by doing it internally. An exemplary illustration is provide by Shining Star which has decided to develop and implement a self-insured medical treatment plan that has allowed the company an annual “hard dollar” saving of $215,374, a substantial amount of money that can be invested in other more lucrative activities.

Another method could be to calculate the money that can be generated by outsourcing a specific service to other companies. A company can, for example, create its own Temporary agency and sell its services (HR 5) to others, thus becoming a revenue-generating center while allowing a quantification of its monetary value.

Implications for Management

Service oriented employees, empowered employees and committed employees appear to be the core components of human capital in the hospitality industry. These assets are created through specific managerial activities and all influence the profitability of a company. Companies could use the Human Capital Process Model developed through this study and the Shining Star Annual Report to develop their own human capital framework and specifications. Human resources professionals throughout the industry should take the necessary steps to pragmatically highlight the importance, role and contribution of their functions towards the achievement of corporate goals. It would also be beneficial to emphasize the cost saving function provided by the human resources department and its potential for becoming a revenue-generating center. Operations departments may finally perceive human resources as a partner able to influence the bottom line, rather then as “paper pushers” like it is still often unfortunately seen. On the
other hand, in order to support their new role, human resources professionals will need to think more like staff personnel do; they will need to be more practical. Professionals will also need to enrich their finance/accounting competencies and abilities in order to proficiently face their new role.

Limitations

Some limitations of this study should be noted. First of all, the findings cannot be immediately extended to the entire hospitality industry due to the attributes of the sample. The informants in my sample were purposefully chosen. The choice was determined by the need of purposely selecting a group of people that could provide significant information to achieve the aim of this study (Patton, 1980; Maxwell, 1996). In addition, all the informants, except one, belong to companies located in Las Vegas; therefore, the findings can only support cautious inference to other markets. Second, this research was based on the opinions of human resources professionals who are strictly involved with the topic and their view might not be omnicomprehensive. Human capital can be valued as a result of other factors such as firm’s reputation, client’s loyalty, and company’s database. Third, the data have been collected from only hospitality organizations; thus it enables limited inference to non-hospitality organizations. Fourth, it is important to take into consideration the situational constraints that dictated what is considered an asset for the organizations encompassed in this study. Components of human capital may vary according to type and attributes of the specific organizations and the clientele served; what constitutes an asset for an upscale property might not apply to a lower-end one and vice-versa.
For this study it was assumed that Skandia’s Value Scheme provides a comprehensive and versatile depiction of intellectual capital that can be used in each particular industry/organization according to its specific contexts and distinctiveness. Likewise, it was assumed that Skandia’s Process Model is an adequate and adaptable instrument to develop an organization’s intellectual capital system that includes human capital components.

Recommendations for Further Studies and Conclusion

The specific characteristics of the sample encompassed in this study limit the generalizability of these results. Future research depends on the development of a conceptually and methodologically sound definition of human capital that can lead to accurate measures of human resources activities. Future research might benefit from looking at other human capital conceptual constructs and measures attempted in other industries.

Today human capital is the key theme of innumerable conferences and symposia in all industries, finally gaining growing importance also in the hospitality industry. There must be a compelling reason for this growth and for the fact that numerous research institutes, individual companies and national accounting boards throughout the world are exploring means to define and capture the human capital dimension and its consequential effects.

There are not adequate, conclusive and widely accepted practices on human capital; however, it is certainly the core of a fast growing strategic arena, and we cannot neglect its role and importance in achieving corporate goals. Although financial boards
all over the world are beginning to recognize the importance of intangibles, it is difficult to address the issue because current accounting rules are mostly based on tangible assets. Until rules are created to reflect the new financial realities, the "social cost" of potentially misleading stakeholders outweighs the benefits of recognizing intangibles assets such as human capital.

However, investors have captured the relevance of intangible assets, and they, more and more, seemingly rely also on non-financial measures when making business decisions. Although existing financial rules do not permit accounting professionals to ascribe a dollar value to intangible assets, companies, whether compelled by the surrounding environmental circumstances or spontaneously, must take a decisive step towards some forms of accountability and disclosure of human capital.
REFERENCES


APPENDIX I

PROFILE OF RESPONDENTS

Property size from 232 to over 5,000 rooms per single property and all, except one, was located in Las Vegas.

The 19 respondents were as follows:

1 Executive Vice President Human Resources
1 Corporate Director Human Resources
4 Vice Presidents Human Resources
2 Human Resources Directors
3 Assistant Human Resources Directors
4 Employee Relations Managers
1 Training Manager
1 Employee Relations Supervisor
1 Human Resources Coordinator
1 Training Coordinator
APPENDIX II

RECURRING THEMES

The following is a list of the recurring themes highlighted by the data analysis:

- Training
- Service oriented employees
- Good reputation as employer
- Environment conducive to the organizational support
- Turnover reduction
- Efficient team
- Hassle-free environment
- Loyal/committed employees
- Human Resources department’s mentorship function
- Creation and espousement of procedures
- Human Resources department as a reflection of other departments
- Human Resources money saving function/profit center
- Empowered employees
APPENDIX III

RECORDING CHART COMMITTED EMPLOYEES

HOW IT IS CREATED

- Being a just employer
- Competitive wages
- Clear, fair, equitable procedures
- Hiring skills and attitudes
- Hiring compatible values
- Hiring passion and dedication

WHAT IT BRINGS

- Stay longer, reduced turnover, absenteeism and lateness
- Positive employees' WOM (increased flow of applicants, etc.)
- Can help create customer loyalty
- Unleash creativity
- Save costs associated with decreased productivity, overtime, scheduling problems, service quality and service turnover
- Employees perform beyond the call of duty
- Decrease litigation costs

Meet employees' expectations
Thorough orientation
Nurture psychological bond
Appreciate and value employees
Involve employees
APPENDIX III
RECORDING CHART SERVICE-ORIENTED EMPLOYEES

HOW IT IS CREATED

Hiring right attitude and skills
Hiring compatible values, passion and dedication
Training on guests' expectations
Service oriented culture
Upside down structure
Management by example

WHAT IT BRINGS

Provide not only service but experience
More customers
Can create loyal customers
Positive guests' WOM
Deliver quality service
Reduce advertising costs
Happy customers

Hiring right attitude and skills

Hiring compatible values, passion and dedication

Training on guests' expectations

Service oriented culture

Upside down structure

Management by example

Deliver quality service

Reduce advertising costs

Happy customers
APPENDIX III

RECORDING CHART EMPOWERED EMPLOYEES

HOW IT IS CREATED

- Treating them like adults
- Providing tools
- Hiring people with potential
- Feedback on performance
- Service oriented culture
- Appropriate training

WHAT IT BRINGS

- Happier employees
- Increased productivity
- Creative solutions
- Enhanced customer Service
- Help retention and reduce costs related to turnover
- Happier guests
- Increased revenue
APPENDIX IV

SHINING STAR HOTEL & CASINO

Human Resources Department

Annual Report for 2000
<table>
<thead>
<tr>
<th>TABLE OF CONTENTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>OVERVIEW</td>
</tr>
<tr>
<td>I. HUMAN RESOURCES MISSION STATEMENT</td>
</tr>
<tr>
<td>II. HUMAN RESOURCES OPERATIONS FOR 2000</td>
</tr>
<tr>
<td>III. EMPLOYMENT SECTION</td>
</tr>
<tr>
<td>Job Market Growth</td>
</tr>
<tr>
<td>Recruitment</td>
</tr>
<tr>
<td>Community Employment Commitment</td>
</tr>
<tr>
<td>Shining Star Employment Statistics</td>
</tr>
<tr>
<td>Transfers and Promotions</td>
</tr>
<tr>
<td>Records Retention and Maintenance</td>
</tr>
<tr>
<td>IV. EMPLOYEE RELATIONS SECTION</td>
</tr>
<tr>
<td>Termination Activity</td>
</tr>
<tr>
<td>XXX State Unemployment Compensation</td>
</tr>
<tr>
<td>XXX Equal Rights Commission/EEOC</td>
</tr>
<tr>
<td>National Labor Relations Board</td>
</tr>
<tr>
<td>Peer Review Committee</td>
</tr>
<tr>
<td>Open Door Procedure</td>
</tr>
<tr>
<td>Labor Relations Activities</td>
</tr>
<tr>
<td>Shining Star Turnover Statistics</td>
</tr>
<tr>
<td>V. WORKERS' COMPENSATION SECTION</td>
</tr>
<tr>
<td>Self-Insured Versus XXX Expenses</td>
</tr>
<tr>
<td>Shining Star's Self-Insured Program</td>
</tr>
<tr>
<td>Industry Averages</td>
</tr>
<tr>
<td>Self-Administration</td>
</tr>
<tr>
<td>VI. COMPENSATION SECTION</td>
</tr>
<tr>
<td>Merit Pay Plan and Performance Appraisal System</td>
</tr>
<tr>
<td>XXX</td>
</tr>
<tr>
<td>XXX</td>
</tr>
<tr>
<td>XXX</td>
</tr>
<tr>
<td>VII. BENEFITS SECTION</td>
</tr>
<tr>
<td>Benefits Activity</td>
</tr>
<tr>
<td>Employee Health Fair</td>
</tr>
</tbody>
</table>
Leaves of Absence
401(k) Plan

VIII. TRAINING AND DEVELOPMENT SECTION
Employee Appreciation and Recognition Programs
Community Related Activities
Employee Communications
New Programs and Special Interest Contests
Training and Development Programs
Tuition Reimbursement
Employees' Children's Scholarship Award

IX. EXHIBIT SECTION
Human Resources Expense Comparisons (1999-2000)
OVERVIEW:
Traditionally, Human Resources has been viewed by many as a service department responsible for: 1) attracting, recruiting, and processing employees, 2) ensuring compliance with employment laws, 3) maintaining employment records, 4) wage administration, 5) benefits design and administration, 6) employee relations/labor relations matters, 7) internal communications and employee events/activities, and 8) internal/external training of employees.

However, over the past two decades, Human Resources has become more of a profit center because of the direct impact its operations can have on a company's bottom line.

Increases in third party intervention within private sector employment by the various Federal and State agencies, litigators, and unions have increased the financial risks a company can be exposed to. These actions can dramatically reduce bottom line profits.

With the rising costs associated with health care and workers' compensation premiums, many large employers have had to cover these benefits and risks by implementing self-insured programs. The design, development, administration and management have become responsibilities of the Human Resources Department.

With the ever increasing world wide competition for consumer dollars and the need to operate as efficiently and effectively as possible, employers have come to recognize the need to reduce the "Soft Costs" involving high employee turnover. Experience has shown much of these costs occur from increased training requirements for new employees, lower levels of service or productivity due to inexperience, and other elements of operational disruption. Generally, higher turnover rates are due to: 1) job dissatisfaction, 2) poor wage and benefits programs, 3) poor leadership, and 4) a general "Dead End" feeling among line employees.

Therefore, proactive employers have allotted additional resources and improved programs to respond to the needs of their most valuable assets -- people. These include, but are not limited to: 1) formal training programs to enhance staff knowledge and job skills, 2) assessment planning and development programs to enhance staff transfer or promotional opportunities, and 3) leadership training to assist supervisors in teaching, motivating, and communicating with those individuals they are responsible for.

This document has been prepared to provide year-end information concerning the activities of Human Resources to identify the positive contributions in support of property wide operations by reducing the financial risks associated with third party intervention and effectively managing payroll/related/benefits expenses thus enhancing the overall profitability of Shining Star.
I. MISSION STATEMENT:

The mission of the Human Resources Department is to serve as a "Profit Center" for Shining Star by effectively and efficiently assisting in the management of the multi-million dollar "Human Capital" portfolio through:

* A proactive employment function dedicated to the efficient and effective recruitment, screening, and assistance in the selection of the most qualified internal or external applicants.

* An innovative compensation and benefits program designed to enable this facility to effectively compete with other establishments in attracting and retaining highly qualified guest service and staff support personnel without wasting valuable resources.

* A proactive Employee and/or labor relations function that 1) reduces the company's exposure to financial risks associated with third party intervention and 2) fosters the company philosophy of people being its most valuable resources and its unparalleled commitment to fairness.

* An effective and efficient risk management function designed to ensure a safe environment for Employees while reducing the losses associated with excessive turnover and self-insured programs.

* An innovative internal communications function that keeps Employees informed of current issues, benefits, and career opportunities.

* An internal and external training and development program designed to focus on this company's commitment to compliance with applicable laws, providing professional growth, ensuring excellence in guest service and job skills, and the enhancement of leadership skills.

II. HUMAN RESOURCES OPERATIONS FOR 2000:

Shining Star's Human Resources Department was staffed by XX Full Time Equivalents: X Vice President-Human Resources, X Compensation & Benefits Director, X Benefits Manager, X Employee Relations Manager, X Employment Services Managers, X Training Managers, X Support Services Managers, X Workers' Compensation Coordinators, X Human Resources Coordinators, X Recruiter/Career Counselor, X Human Resources Representatives, and X full time Clerks. An individual was transferred from the Security Department and assigned as Support Services Manager in January of 2001. This current ratio represents .79 Human Resources staff members per 100
employees. The Bureau of National Affairs (BNA) reported the national average was 1 per 100 employees during 2000. Shining Star spent $517 per employee for direct Human Resources support during 2000. The Bureau of National Affairs reported national Human Resources expenditures were budgeted to be $787 per employee in 2000.

This year, the vast majority of benefits expenses were allocated to the various operating departments rather than being centralized in Human Resources as had occurred in previous years.

During 2000, the direct cost of Human Resources operations was $1,100,000 compared to $1,001,000 in 1999. Other operating expenses increased given employment marketing conditions by $96,000. due to increases in recruitment, outside services, and employee relations costs. Payroll and related expenses increased by $40,000, reflecting an overall departmental direct expenses increase of $136,000.

The total cost of the self-insured health plan increased from $2,400,000 to $2,555,000 or by $155,000 due to several extremely expensive cases and the fact that we covered an average of 20 more eligible members per month this year. Medical claims costs increased by $315,558, prescription costs increased by $38,980, and dental claims cost increased by $10,567. Life insurance, stop loss coverage and short term disability expenses increased by $21,622 due to the increase in rates and more covered lives.

The workers' compensation costs increased from $145,602 in 1999 to $573,599 in 2000. This $427,997 increase in expense was due to several claims dating back to 1998 and 1999 receiving expensive treatments and claims being closed with PPD ratings issued. However, the overall expense would have been $792,969 had we been covered under the XXX system. Human Resources staff members continue to administer the program, thus saving the costs of a Third Party Administrator.

The 401(k) savings plan costs increased by $4,273 due to increased employer contributions.

Union health, welfare, and pension contributions increased from $4,293,974 to $4,622,140 due to increases in plan contributions from $1.82 to $1.92 per hour worked which occurred in the month of June and more eligible members.

III. EMPLOYMENT SECTION:

Job Market Growth:

Once again, the XXX job market witnessed unprecedented growth with the addition of approximately 10,150 new jobs due to the opening of the XXX in January, XXX in May, the XXX in August, and the XXX in September.
Recruitment:
The recruitment efforts taken to ensure proper hiring include the following: Classified ads in the XXX Journal (on an as needed basis), our telephone job hotline which is updated daily and available on a 24 hour basis, job openings faxed on a weekly basis to approximately 23 community agencies and attendance at 13 off-site job fairs which were conducted at XXX, XXX, etc. In addition, Shining Star continued announcing job openings on its own web site and the site operated by the XXX.

A good number of new hire referrals came from our own Shining Star employees. During 2000, 351 individuals referred by employees were hired in a number of different departments. Of the 942 new hires for the year, over 37% were from employee referrals.

In order to maximize effectiveness, the Employment Center began accepting new employment applications from 9 am to 4 pm daily. Employment processing was conducted weekly at 9 am every Monday and Wednesday; exceptions were made if necessary. All new hires and re-hires (over 6 months) were sent to orientation from 8 am to 2 pm on Thursdays. Since January of 2000 the Employment Center has received over 12,001 applications for employment consideration. There were 942 people hired to replace individuals who left Shining Star during 2000.

Community Employment Commitment:
The Human Resources Department continued its efforts with implemented plans and programs designed to continue our work with inter-local agencies for On-The-Job-Training contracts. During 2000, Shining Star received $8,689 in wage reimbursement from various federal and state agencies for employment training programs. During 1999, Shining Star received $55,904 from these various programs. We have found program funding to be significantly reduced from last year.

In addition, Shining Star has continued its participation in the Work Opportunity Tax Credit Program. The WOTC Program gives employers a federal tax credit if they hire certain categories of disadvantaged workers. Our participation in this program resulted in $13,500 in tax credits for the period of January through August of 2000. We have not received our tax credit amounts for September through December 2000. During 1999 we received $20,768 in tax credits.

In an effort to enhance Shining Star's community image and keep updated on State and Federal regulations in employment and training, the staff Recruiter/Career Counselor continued to attend and actively participate on the following Boards: Employment Security Council, State Job Training-Coordinating Council and the Governor's Workforce Investment Board. In addition, our Recruiter/Career Counselor served on a task force formed by the Governor to write the state plan for the Welfare to Work Program and XXX pilot program for the Workforce Investment Act.

We continue to actively recruit using various community agencies such as the Department of Training/Employment and Rehabilitation, the Veterans' Administration, Area Technical Trade Center and the American Rehabilitation Corporation. In addition,
we work with XXX State Welfare, the Community College of XXX, XXX Inc., and the XXX Training Program to assist Welfare to Work clients.

During 2000 Shining Star has received recognition for its hiring efforts involving the disadvantaged from the following: Employment Security Division, XXX State Welfare Division, XXX Homes for Youth, Department of Training/Employment and Rehabilitation, Safe Nest, CASE (Community Access Skill Enrichment) Program, Non-Custodial Parent Employment, and the County School District for the Area Technical Trade Center.

Shining Star Employment Statistics:
Based on aggressive employment recruiting among minorities through working with various agencies and a commitment to training and development, this workforce is among the best representation of the community it serves. Current XXX Country residents represent 72% Caucasian, 14% Hispanic, 4% Asian, 9% African-American, and 1% American Indian. During 2000, of all 2,150 employees, 43% represented Caucasian descent, 29% represented Hispanic descent, 17% represented Asian descent, 11% represented African-American descent, and less than 1% was of American Indian descent. Our population consisted of 54% male and 46% female.

Transfers and Promotions:
The in-house Placement Services have assisted many employees in obtaining promotional/transfer opportunities. During the past year, 765 employees applied for internal career opportunities with pre-screening interviews by Human Resources staff. Of those that applied, 288 employees were successfully transferred or promoted into new positions.

Records Retention and Maintenance:
It is the continued responsibility of the Human Resources Department to retain and maintain all employee records. This includes: personnel files on active and separated employees (retained on property for one year after separation-thereafter shipped to an outside warehouse), workers' compensation, benefits, and leave of absence records.

In addition, it is the Human Resources Department's responsibility to ensure that all legal requirements are current and valid such as Immigration Naturalization Service (INS I-9) forms and all required employment cards (i.e. sheriff's cards, alcohol awareness cards, health cards, driver's licenses, and employment authorization documentation).

IV. EMPLOYEE AND LABOR RELATIONS SECTION:
During the year, the Employee Relations function has been instrumental in working with departmental leadership to ensure all terms and conditions of employment were in
compliance with federal, state, and local laws and ordinances. In addition, Human Resources staff ensured applicable terms and conditions of collective bargaining agreements were administered properly. All disciplinary actions were reviewed to ensure they were corrective in nature and progressive steps were followed.

Termination Activity:
During the year, Shining Star experienced 626 voluntary terminations compared to 840 during 1999. The vast majority of these voluntary terminations were to accept other employment given the expansion of job opportunities throughout the city.

In addition, Shining Star separated 382 other employees during 2000. Of that number, 182 did not meet pre-employment requirements or complete the introductory employment period, and 200 were separated for unsatisfactory job performance or some type of willful misconduct. The potential liability from third party intervention resulting from these discharges has been minimal.

XXX State Unemployment Compensation:
Shining Star continued to use the XXX Company to assist in the processing of its unemployment compensation claims. Shining Star has continued to enjoy an excellent experience rating during both 1999 and 2000. The company's contribution rate for 2000 was 1.2% of the first $19,800 each employee earned during the year. This increase over the 0.6% for 1999 was due to our three year average annual payroll increasing from $29,141,761 to $41,943,932 as the payroll year 1995 dropped off.

Our excellent experience rating during 2000 was primarily due to the Human Resources pre-termination review process used and participation of management personnel in the appeals process. This process and practice was validated in that of the 121 claims that were protested, Shining Star received favorable dispositions on 56 of the 75 hearings conducted during 2000. 46 claims were pending review at the end of 2000.

Commencing January 2001 our rating was reduced from 1.2% to 0.9% on $19,800. The maximum experience rating that can be paid is 5.4% of the first $19,800 each employee earns during a year.

XXX Equal Rights Commission/EEOC Charges:
During 2000, three charges of discrimination were filed by these two agencies resulting from allegations of discrimination pertaining to terms and conditions of employment or discharge actions. Two were based on national origin, and one on race.

Of the claims remaining open at the beginning of 2000, all were closed within the year. Currently, the three claims actually filed in 2000 remain open and are pending a determination from the discovery process.
In addition, seven charges of discrimination for allegations of discrimination based on national origin have resulted in a law suit.

National Labor Relations Board Charges:
During 2000, a charge was filed by this agency resulting from allegations that the employer violated certain aspects of the National Labor Relations Act. This allegation was based on 1) the employer changing the terms and conditions of employment and 2) a violation of an employee's ability to support and help campaign for union representation.

The NLRB dismissed the discharge case and the hotel settled the case involving the union organizing issue.

Peer Review Committee:
There were no Employees who requested the Peer Review Committee hearing process during the year.

Open Door Procedure:
In excess of 730 employees have used the Open Door Policy to resolve disputes they were having with co-workers, supervision, or concerns about policies & procedures. These individuals have been interviewed, communicated with, and staff has interceded on their behalf where applicable.

Labor Relations Activities:
Culinary Workers XXX & Bartenders XXX: During 2000 we received 100 grievances compared to 136 in 1999. Of those filed, 72% as compared to 58% in 1999 were within the Food & Beverage Department, 20% as compared to 32% in 1999 within EVS & Housekeeping, 3% as compared to 5% in 1999 within Hotel Operations, and 4% as compared to 3% in 1999 within the Slot Department. Of the grievances filed, 32 were for terminations. 12 were settled prior to arbitration with reinstatement and 10 suffered a loss of pay. The other grievances were withdrawn by the respective Unions. No arbitrations were held during the year.

Operating Engineers XXX: This agreement expired in October of 2000 and negotiations commenced during the fall. An agreement was subsequently ratified, signed, and implemented in February 2001 following a Decertification Petition being filed by employees of the unit. We believe an NLRB Representation Election will be scheduled during the first quarter of 2001. One grievance regarding the termination of a XXX Engineer was filed during the year. The Union subsequently dropped this grievance rather than proceed to arbitration.
Teamsters XXX: No grievances were filed by this Union on behalf of the membership during 2000. This contract is scheduled to expire in August 2001.

Transport XXX of America: In December 2000, a petition was received from the National Labor Relations Board as filed by this union claiming recognition for the Dealers. A secret ballot was stipulated to and the hotel's five week campaign was completed. The secret ballot election was scheduled and held on XXX, 2001 with the Union being recognized as the bargaining agent for the Dealers. We anticipate contract negotiations to begin in March 2001.

Shining Star Turnover Statistics:
As of the end of December 2000, of the 2,155 employees on board, 675 of those were hired prior to the opening of the property and have almost five years of service. 176 employees were hired after opening, but before January 1, 1997. 97 employees were hired after January 1, 1997, but before January 1, 1998. 201 employees were hired after January 1, 1998 but before January 1, 1999. 384 employees were hired after January 1, 1999 but before January 1, 2000. These employees have a year or more of service. 534 of our employees were hired in 2000. In excess of 58.5% of our workforce has between two and four years of continued service with Shining Star. In excess of 17.8% of our workforce has more than one year of service and 24.7% of our employees were hired in 2000. During the calendar year 2000, a total of 941 employees were hired as compared to 1,194 during 1999.

A total of 1,008 employees had their employment terminated during 2000 as compared to 1,514 in 1999. 182 employees failed to complete their introductory employment period as compared to 349 during 1999. 200 employees were separated for cause or laid off as compared to 325 during 1999. 626 resigned their employment as compared to 840 in 1999. Of those terminating during the year, seven had four or more years of service, 194 had more than three years of service, 103 had more than two years of service, 284 had more than one year of service and 420 had less than one year of service.

V. WORKERS' COMPENSATION SECTION:
Shining Star's self-insured workers' compensation program continued to be highly cost effective during 2000, despite the settlement of several large claims. Aggressive case management designed to provide the injured employee with necessary and timely medical treatment, rehabilitation services, alternate duty assignments when authorized by the competent medical practitioner, and necessary follow-up have all contributed to better care at less cost to the company.

There were 112 claims which resulted in medical expenses only and 32 claims which resulted in medical expenses, TTD payments, and lost days from work. Lost days from work this year were 1,212, as compared to 704 in 1999. This major increase in lost days was largely due to five claims resulting in 622 lost days from work.
Self-Insured Versus XXX Expenses:
The total cost of the program during 2000 for administration, stop/loss coverage, medical claims, TTD (Temporary Total Disability) and legal expense was $577,598 compared to $297,308 during 1999 excluding reserve amounts. Shining Star maintained a "Reserve" of $126,000 for open 2000 and 1999 claims expenses. In excess of $375,000 paid out in 2000 was for claims filed in 1997, 1998, and 1999. This was a highly unusual year as several long standing and expensive cases were closed.

During the year 2000 Shining Star paid out ten PPD (Permanent Partial Disability) lump sum settlements. The total cost was $83,114. Additionally, we paid two Vocation Rehabilitation lump sum buyouts representing another $35,179 in expenses.

Two years ago, the State of XXX began to "Privatize" the State Industrial Workers' Compensation System. XXX became a private insurance company. Employers Insurance Company Of XXX. They then began converting employers to the new system and as of January 2000, XXX ceased to exist. The new system involves XXX charging a minimum annual amount with the employer covering its own claims costs. In addition, XXX charges a 12% administrative fee on all claims it handles. Finally XXX guarantees each employer's costs will not exceed the negotiated cap.

By using XXX's formula for Shining Star, we would have paid $792,969 during 2000 in premiums, administration, and claims costs. Our actual cost, excluding reserves, was $577,595 for 2000. This amount represents a "Hard Dollar" annual savings of $215,374. Actual claims expense for 2000 was $280,287 higher than in 1999. This was due to several 1998 and 1999 claims "Maturing" and requiring extensive medical treatment, TTD payments, and PPD settlements.

Effective January 1, 2000, XXXX, the statute involving compensation for alternate or light duty was changed. No longer will injured workers receive 66.6% of their wages at a non-taxable rate for Temporary Partial Disability payments. They will now receive 100% of their wages if they are assigned work in their regular job classification or 80% of their wages if they are assigned work in another job classification. These new TPD payments are taxable.

Shining Star Self-Insured Program:
The cost saving has continued to be based on maintaining a very aggressive safety program, quickly reacting to and ensuring appropriate medical treatment is available for all injuries, and virtually eliminating third party intervention from local attorneys. The combined efforts of the Safety Committee, departmental leadership, Security staff, Risk Management staff, and Human Resources representatives have proven extremely valuable in both reducing operating costs and more importantly reducing the expenses associated with work related injuries. The Workers' Compensation staff has continued to operate under a philosophy of "We are here to take care of You". They have done an excellent job of cost effectively managing the program and ensuring injured employees receive the required medical care.
Effective claims management involves: 1) Effective communications and coordination of services with the physicians, physical therapists, the departmental manager and the claimant, 2) Timely and accurate payment for services and Temporary Total Disability payments to the Employee, and 3) Continued personal contact with and service to the claimant which remains a key element to our success in managing the program.

Personal contact starts with a follow-up phone call at which time we inquire about their condition and take the opportunity to explain the benefits due them. We continue to work closely with the claimant throughout the entire process. In addition each claimant receives a get well card and those with serious injuries receive flowers or a cookie bouquet. As well, follow-up letters and questionnaires are sent to each claimant in order to afford them the opportunity to evaluate the level of care and service they received during the process. This provides us with an opportunity to discuss with them problems they encountered and continuously evaluate our services.

Industry and Property Averages:
As an industry standard, the average number of claims is 10% of the total number employed; we averaged 6.45% this year as compared to 7.34% in 1999. Our number of lost time claims was 25.2% during the year with 26.4% during 1999.

Self-Administration:
Since 1998, Shining Star staff have provided all administrative support services for workers' compensation, thus avoiding the average administrative charges of approximately $60,000 plus per year for a Third Party Administrator (TPA). The Return on Investment for the cost of the XXX Software was achieved during 1998. During 2000 we continued to reduce self-insured program expenses by approximately $47,000 as once again, a Third Party Administrator was not required.

Our annual administrative expenses for 2000 of $103,826 include: $20,707 for network access and repricing based on negotiated rates ($80 per Employee/per month), plus the annual XXX support fee of $4,725, $1,828 in legal fees, $33,720 in Stop/Loss Insurance, and $42,809 in State of XXX Division of Industrial Relations (DIR) fees.

In 2000 we had nineteen hearings scheduled, of which nine resulted in dismissals. Eight cases went before the XXX State Department of Administration with seven rulings being favorable and one being lost to the claimant. Six appeals were scheduled with three being dismissed, one favorable ruling on behalf of Shining Star, and two being scheduled for early 2001.

VI. COMPENSATION SECTION:
During the course of the year Shining Star participated in salary surveys conducted by the University XXX and XXX. Based on the results of these surveys Shining Star's compensation program appeared to remain very competitive within the local gaming
industry. Results of our mid-year analysis did not require any major adjustments to classification compensation schedules. However, data analyzed did require that certain classifications be "Capped" while others received market adjustments to maintain competitiveness.

Merit Pay Plan and Performance Appraisal System:
Shining Star's merit pay and performance appraisal system continued to be administered during 2000. Based on individual performance and business conditions, non-represented employees were evaluated and received merit increases based on job performance criteria.

XXX Workers Union, XXXX & XXXX Wages:
The new collective bargaining agreement was ratified by the membership in December 1998 and formally signed in 1999. During 2000, an across the board $1.175 pay increase became effective June 1st and a second $1.175 increase on December 1st. In addition, we continued to maintain and monitor the service time union wage increases from 80% to 100% based on experience and length of service as required under the contract.

Operating XXXX:
Under the terms of this collective bargaining agreement annual wages increased by approximately 2.5% with the last negotiated raise having been in October 1999. In addition, those employees participating in the apprentice program are eligible for "Step" increases of 5% every six months provided they have completed the on-the-job practical experience and course work required under the program. This collective bargaining agreement expired in October 2000 and was subsequently renegotiated in February 2001.

XXX:
Under the terms of this collective bargaining agreement annual wage increases of approximately 3.0% occur each year in August. The last wage increase under this agreement was August of 2000. The agreement expires in August of 2001.

VII. BENEFITS SECTION:
Health, Dental, Vision, and Life Insurance Plans:
Shining Star maintained its own self-insured health plan during 2000 for non-represented employees as well as those covered by XXX and XXX. An average of 831 employees were covered each month leaving approximately 169 each month ineligible.
The remaining 1,100 staff are covered by the XXX Health & Welfare fund. Hourly contributions were increased from $1.82 to $1.92 per hour worked effectively June 1, 2000. Costs are averaged at $332.73 per employee/per month.

The self-insured plan during 2000 averaged $242.36 per employee/per month compared to $236.82 during 1999. This represented a 2.3% increase in costs over the prior year. This minimal net expense was based on receiving approximately $232,000 in stop loss payments from calendar year 1999. Actual gross plan increases were $32.26 per employee/per month over 1999. These increased plan expenses were based on utilization as we experienced several very expensive claims during 2000.

The 2000 cost of the health plan (medical, vision, dental, prescription, stop/loss, life and short term disability) was $3,115,567 compared to $2,727,640 in 1999.

According to a study by the firm of XXXX, Inc. annual average health plan costs per worker for 1999 was $4,075 or $339.47 per worker per month. They projected costs to increase during the year 2000 to $4,404 per worker or $367.00 per worker per month.

A total of 24 monthly health insurance enrollment meetings were held. We enrolled approximately 256 members in 2000. The average number of employees per month covered on the health plan for the year was 831 compared to 811 in 1999.

In addition, a 24-hour benefits information hotline was implemented in June. This telephone recording provides Employees with step by step information regarding their medical, dental, vision, and prescription drug plans and how best to use them. As well, a benefits summary brochure was developed, printed, and distributed for Employees as a quick reference on their various plans.

During the year, Shining Star Human Resources staff members assisted in the implementation XXX workers' compensation program and health plan. XXX and XXX currently use a self-insured health plan program similar to Shining Star's. During the month of April Shining Star staff conducted over twenty insurance information and enrollment meetings at XXX as part of the pre-opening process.

Shining Star again provided quarterly on-site Hepatitis B series vaccines in accordance with federal and state laws to personnel within covered job classifications. Although XXX County experienced a shortage of flu vaccines this year, Shining Star was able to offer flu shots in December 2000 to our Employees of which 440 received them.

Employee Health Fair:
Shining Star's second annual health fair was held on XXX to all of its Employees. Over 800 Employees attended this year's event, which was held from 9:00 a.m. until 5:00 p.m. in the showroom.
An increase in the number of health care providers were represented at this year's fair, offering a greater variety of informational health issues for the Employees including: [list provided]

Certain health care providers offered free health screenings such as Body Fat Testing, Weight Testing, Breath Alcohol Testing, Bone Density, Blood Pressure Testing, Eye Screening Exams, Hearing Screening & Video Otoscopy Exams and Glaucoma Pressure Testing to all participating Employees. Some of the providers also presented wellness-related lectures on topics including "The Immune System," "Mindfulness Meditation," "Skin Wellness Tips," and "The Importance of Organ/Tissue Donation."

Numerous gifts were also given as raffle prizes by the attending vendors which included: a Sony Play Station, Toys R Us Gift Certificates, Wal-Mart Vision Gift Certificates, XXX Mall Gift Certificate, Gift Baskets, Dinner Gift Certificates, and the Grand Prize, a Schwinn 305P Stair Stepper Exercise Machine.

Leaves of Absences:
The state and federal laws regarding Family Medical Leave and Military Leave, as well as the union contract regarding leaves, are very complex. There are numerous regulations and legal requirements.

For medical leave, a certification of health must be completed by the employee's physician, and all leaves must be granted in writing on a form letter provided by the federal government. In addition, it is important that all medical information regarding employees is kept confidential.

Employees are eligible for up to 12 weeks of Family Medical Leave (FMLA), after one year of service and 1,250 hours worked. FMLA may be taken for: 1) the employee's own serious health condition, 2) a family member with a serious health condition, and 3) to care for a newborn, adopted, or foster child. The length of time an Employee may take for the above mentioned leaves differs under the union contract.

Employees who are active members of the XXX Air/Army National Guard or Armed Forces Reserve components are eligible for military leave for the purpose of training, augmentation of active duty forces, or mobilization due to a state or national emergency. The eligibility, terms and conditions of these types of leaves differ depending on the circumstances.

All employees are eligible for up to 8 weeks of personal leave after completion of their introductory period, and all employees are also eligible for bereavement leave and military leave as required under State and Federal laws.

In 2000, the Human Resources Department processed a total of 340 leaves of absence requests as compared to 374 during 1999.
401(k) Plan:
Quarterly enrollment meetings were held throughout the year by Human Resources staff along with XXX as an added benefit to assist Employees with their financial investments.

During the year a decision to change 401(k) Plan Sponsors was made under the direction of the 401(k) Investment Committee. This committee is composed of: [list provided].

In the first week of December 2000 XXX Financial Services representatives conducted eighteen (18) enrollment meetings to inform Employees about their new 401(k) plan. Employees were instructed that a sixty (60) day block-out period, during which no 401(k) transactions could take place, would occur during this plan change. Shining Star's re-enrollment period with XXX Financial Services was successfully completed and the entire transition process went smoothly. A total of 307 Employees are currently participating in the plan.

VIII. TRAINING AND DEVELOPMENT SECTION:
During 2000, this section continued its role by ensuring various Employee Recognition and Appreciation Programs were enhanced and maintained, effective communications occurred, and various community related activities were supported.

Employee Appreciation and Recognition Programs:
Employee Appreciation Day: During September 2000, the XXX Water Park was reserved for Shining Star's Employees, their guests and family members.

Employee Dining Room Holiday Celebrations: The Employee Dining Room staff hosted a number of special dinner menus for all Shining Star Employees in recognition of Independence Day, Halloween, Thanksgiving, and Christmas. In addition, entertainment was available during those special celebrations.

November-Employees' $10,000 Giveaway: In conjunction with the semi-annual Employee Meeting conducted in the XXX Showroom, employees in attendance received cash prizes for their attendance totaling $10,000. As well, several employees from various departments performed on stage during this information meeting.

Shining Star Life Saving Award: This program was developed in 1996 to recognize employees who were directly involved in the saving of a human life. Since the award's inception, nine people have been recognized. During 2000, two employees from the Security Department were recognized for their individual actions which saved a life.

Employee Promotion Program: During 2000 Shining Star's Promotion Recognition Program continued. Congratulatory cards were sent to the applicable employee which invited them and their guests to enjoy dinner in XXX's Restaurant with our compliments.

Employee Birthday Card Program: During 2000 this Birthday Recognition Program continued to be administered by the Human Resources Department. A card was signed by
the Vice President of Human Resources and sent to their homes. Approximately 200
cards per month are sent to employees.

XXXX Recognition Program: In November 2000, Shining Star began a recognition
program designed to reward those individual employees who were observed providing
"Exemplary Guest Service". This program was put in place as an adjunct to the
"Exemplary Guest Services Initiative" Program. Cards are given to employees which are
placed into a drum. At the end of each month, a drawing is held. Ten cash prizes of $100
each and one "Double your Paycheck" grand prize are awarded.

Community Related Activities:
The following identifies specific property wide events conducted during the year:

XXXX Campaign: In conjunction with representatives of XXX of XXX, a campaign
was held which resulted in 776 employees pledging over $44,463. Approximately 37%
of Shining Star's employees participated.

Community Blood Drive: Technicians from United Blood Services spent one day on
property in 2000, during which time over 19 employees donated blood. Each life-saving
donor received two free passes for the Shining Star Buffet.

Employee Communications:
XXXX (Employee Newsletter): Although the XXX was discontinued as a monthly
publication in order to eliminate the costs, a special benefits edition was updated and
published this year in order to assist with retention and employee recruitment.

Employee XXX: Published and distributed on an as needed basis in conjunction with the
Marketing Department, the XXX identify key operational issues or announcements that
need to be communicated to Employees quickly.

Bulletin Boards: Numerous bulletin boards are located throughout the "Heart of the
House" to announce special promotions, promotional/job opportunity announcements,
benefits enrollment meetings, and other items of concern to all employees.

Posters: Various 16 x 22 inch posters are located throughout the "Heart of the House"
used for safety issues, promotional opportunities, special events, marketing programs,
etc.

New Programs and Special Interest Contests:
During 2000, several programs were offered to our employees designed to enhance
employee retention and assist in making their quality of life more enjoyable.
Super Bowl Contest: This contest was designed to give employees an opportunity to have some fun and like our guests, get into the spirit of the weekend. The employee who came closest to predicting the outcome of the game won a $500 gift certificate to Best Buy.

Valentine's Day Contest: Employees had a chance to tell about the Best or Worst thing their sweetheart ever did. Prizes included: 1) A XXX Hotel Romance Package. 2) A romantic dinner for two and one night stay at Shining Star, and 3) A maid for the day or a 27" color television.

Employee Football Contest: This contest continued throughout the football season in order to have some fun and expose many of our employees to our Race and Sports Book.

Employee Craft Fair/Bake Sale: This event took place in December 2000 and provided an opportunity for employees to buy homemade crafts and baked items. The Craft Fair/Bake Sale was held in the Employee Dining Room with 10 employees selling their goods.

Book Fair: "Cover to Cover" held an on-site Book Fair, offering a variety of books to employees at discounts up to 70% off retail prices. One Book Fair was held in 2000, with sales of over $5,000. The hotel received 10% or $500 in commissions.

Community College of SouthernXXXEnrollment Fair: Representatives from XXX spent two days in 2000 stationed in the Employee Dining Room to provide employees with course descriptions and current schedules, information about financial aid, and convenient on-site admissions. Enrollment counselors provided a convenient opportunity for employees to learn more about the degree and certificate programs offered by XXX.

Christmas Contest: A contest was held in December to see who could "guess the number of M & M's" in the jar. The winner received a 27" color television and a DVD Player.

Training and Development Programs:

New Employee Orientation: This 6 hour program was designed to assist newly hired employees in understanding Shining Star's policies, procedures and practices and to meet applicable legal training requirements. Employees are trained on guest service standards, teamwork, preventing sexual harassment, fire, safety, and blood borne pathogens. The final portion of the program includes a complete tour of Shining Star. There have been 43 classes with over 900 employees in attendance. In addition, Shining Star staff in conjunction with XXX personnel planned, coordinated, and conducted six mass New Employee Orientations for the grand opening of the property in XXX.

Interviewing Skills: Participants learn about the importance of a well-planned interview. The purpose of the interview is discussed as well as maintaining ethical and legal standards of selection. This module gives participants guidelines for effective Behavioral-Based Interviewing. Four classes were conducted with 46 employees in attendance. In addition, one was held at XXX.
Preventing Sexual Harassment: Participants learn to recognize sexual harassment in forms of verbal, visual, and physical behaviors. The class discusses company and personal liabilities due to sexual harassment, and identifies and defines responsibilities managers have for preventing sexual harassment in the workplace. There were four classes with over 105 employees in attendance. In addition, one was held at XXX.

Sponsor Skills: Participants learn skills to help develop new employees during their first few days on the job by using effective communication skills to identify job responsibilities, demonstrating job skills, and providing appropriate feedback to the new employees and management. To attend the class, employees must be recommended by their Supervisor. There were seven classes with over 118 employees in attendance.

Supervisory Series: This series is designed to enhance supervisory skills for entry level leaders. Topics include Personal Profiles, Supervisory Responsibilities, the Managerial Grid, styles of leadership and case studies. Four complete sessions of the four part series were offered with over 107 employees in attendance.

Performance Management: This class is designed to assist leaders and managers in understanding the importance of providing behavioral-based, accurate and timely feedback to their employees. Participants learn about the performance review process and communication techniques for explaining reviews to employees. Four classes were held with over 45 employees in attendance.

Discipline Without Punishment: Participants learn how to effectively discipline employees, guide their behavior in more positive directions, and administer disciplinary actions fairly and consistently. Four classes were held with over 111 employees in attendance. In addition, one was held at XXX.

Emergency Medical Technician Certification: During 2000, six Security Officers completed Emergency Medical Technician training and were awarded their State EMT Certification. These programs were conducted off-site by various State Certified Agencies and the training is designed to enhance the medical abilities of our Security Officers to respond to needs of our guests who may require emergency medical treatment.

Computer Software Training: Throughout the year, 15 employees who were in need of specialized software training were sent to 24 Learning Center seminars and workshops at their training center. Courses were eight hours in length and included Microsoft Word, Excel, Power Point, Access, etc.

Exemplary Guest Service Initiative: This program was designed and developed to train departmental representatives to assist in the training and implementation of a "Culture" which exemplifies great guest service. The program launch started mid year with sponsors being nominated and having attended two workshops. They have learned and put into practice assessment and evaluation skills designed to identify strengths,
weaknesses, and opportunities for improvement within their respective departments, shifts, etc.

Tuition Reimbursement:
All full-time Employees who have been with Shining Star for at least six months and are in good standing are eligible to receive Tuition Reimbursement while following the guidelines of the program.

31 Employees benefited from this program in 2000 receiving $16,196 in reimbursements for tuition and fees.

Employees' Children's Scholarship Award:
In January 2000 and in August 2000, Shining Star awarded two $2,000 scholarships to the children of employees for the purpose of attending the University of XXX.

The program is available to children of full-time Employees having in excess of six months of continuous service with Shining Star. Each year, prior to May 31st, eligible children must submit their applications for consideration by the committee. Scholarships are awarded based on merit including, but not limited to, academic standing, extracurricular activities, work history, community service, etc.
## HUMAN RESOURCES ACTIVITY REPORT

### I. Employment Referral Source

<table>
<thead>
<tr>
<th>Source</th>
<th>YTD 1999</th>
<th>YTD 2000</th>
<th>Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Advertisement</td>
<td>1135</td>
<td>4027</td>
<td>2892</td>
</tr>
<tr>
<td>Associate Referral</td>
<td>1775</td>
<td>1756</td>
<td>-19</td>
</tr>
<tr>
<td>Walk-In</td>
<td>3790</td>
<td>4554</td>
<td>764</td>
</tr>
<tr>
<td>Agency</td>
<td>158</td>
<td>368</td>
<td>210</td>
</tr>
<tr>
<td>Other/Union</td>
<td>1097</td>
<td>1296</td>
<td>199</td>
</tr>
<tr>
<td><strong>Total Number</strong></td>
<td><strong>7555</strong></td>
<td><strong>12001</strong></td>
<td><strong>4046</strong></td>
</tr>
</tbody>
</table>

### II. New Hires

<table>
<thead>
<tr>
<th>Source</th>
<th>YTD 1999</th>
<th>YTD 2000</th>
<th>Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Advertisement</td>
<td>110</td>
<td>98</td>
<td>-12</td>
</tr>
<tr>
<td>Associate Referral</td>
<td>444</td>
<td>351</td>
<td>-93</td>
</tr>
<tr>
<td>Walk-In</td>
<td>488</td>
<td>363</td>
<td>-125</td>
</tr>
<tr>
<td>Agency</td>
<td>18</td>
<td>19</td>
<td>1</td>
</tr>
<tr>
<td>Recalled/Reinstate</td>
<td>19</td>
<td>23</td>
<td>4</td>
</tr>
<tr>
<td>Rehires</td>
<td>37</td>
<td>33</td>
<td>-4</td>
</tr>
<tr>
<td>Other/Union</td>
<td>78</td>
<td>55</td>
<td>-23</td>
</tr>
<tr>
<td><strong>Total Number</strong></td>
<td><strong>1194</strong></td>
<td><strong>542</strong></td>
<td><strong>-252</strong></td>
</tr>
</tbody>
</table>

### III. Promotions/Transfers

<table>
<thead>
<tr>
<th>Source</th>
<th>YTD 1999</th>
<th>YTD 2000</th>
<th>Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number Applied</td>
<td>956</td>
<td>765</td>
<td>-191</td>
</tr>
<tr>
<td>Number Transfers</td>
<td>370</td>
<td>288</td>
<td>-82</td>
</tr>
</tbody>
</table>

### IV. Job Openings

<table>
<thead>
<tr>
<th>Source</th>
<th>YTD 1999</th>
<th>YTD 2000</th>
<th>Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total Number</strong></td>
<td><strong>1850</strong></td>
<td><strong>2123</strong></td>
<td><strong>273</strong></td>
</tr>
</tbody>
</table>

### V. Agency Reimbursement for OJT:

<table>
<thead>
<tr>
<th>Source</th>
<th>YTD 1999</th>
<th>YTD 2000</th>
<th>Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total</strong></td>
<td><strong>$55,904</strong></td>
<td><strong>$8,689</strong></td>
<td><strong>-47,215.43</strong></td>
</tr>
</tbody>
</table>

### VI. Associate Accidents

<table>
<thead>
<tr>
<th>Source</th>
<th>YTD 1999</th>
<th>YTD 2000</th>
<th>Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number Medical Only</td>
<td>131</td>
<td>112</td>
<td>-19</td>
</tr>
<tr>
<td>Number with Days Lost</td>
<td>47</td>
<td>32</td>
<td>-15</td>
</tr>
<tr>
<td><strong>Total Number</strong></td>
<td><strong>178</strong></td>
<td><strong>144</strong></td>
<td><strong>-34</strong></td>
</tr>
</tbody>
</table>

### VII. Lost Days/Work

<table>
<thead>
<tr>
<th>Source</th>
<th>YTD 1999</th>
<th>YTD 2000</th>
<th>Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total Number</strong></td>
<td><strong>704</strong></td>
<td><strong>1212</strong></td>
<td><strong>508</strong></td>
</tr>
</tbody>
</table>

### VIII. Estimated XXX Expense (XXX)

<table>
<thead>
<tr>
<th>Source</th>
<th>YTD 1999</th>
<th>YTD 2000</th>
<th>Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Estimated XXX Expense (XXX)</td>
<td><strong>$523,104</strong></td>
<td><strong>$792,969</strong></td>
<td><strong>$269,865</strong></td>
</tr>
<tr>
<td>Provider Network Expense</td>
<td><strong>$25,421</strong></td>
<td><strong>$25,469</strong></td>
<td><strong>$48</strong></td>
</tr>
<tr>
<td>XXX State Fees (Quarterly)</td>
<td><strong>$26,703</strong></td>
<td><strong>$42,809</strong></td>
<td><strong>$16,106</strong></td>
</tr>
<tr>
<td>Stop/Loss Expense</td>
<td><strong>$38,456</strong></td>
<td><strong>$33,720</strong></td>
<td><strong>-$4,736</strong></td>
</tr>
<tr>
<td>Claims Expense</td>
<td><strong>$200,000</strong></td>
<td><strong>$450,000</strong></td>
<td><strong>$250,000</strong></td>
</tr>
<tr>
<td>Legal Expense</td>
<td><strong>$3,172</strong></td>
<td><strong>$1,828</strong></td>
<td><strong>-$1,344</strong></td>
</tr>
<tr>
<td><strong>Total Workers Comp Expense</strong></td>
<td><strong>$293,792</strong></td>
<td><strong>$553,826</strong></td>
<td><strong>$260,034</strong></td>
</tr>
</tbody>
</table>

## Tower Health Plan

<table>
<thead>
<tr>
<th>Source</th>
<th>YTD 1999</th>
<th>YTD 2000</th>
<th>Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Health Admin Expense</td>
<td><strong>$126,728</strong></td>
<td><strong>$126,902</strong></td>
<td><strong>$174</strong></td>
</tr>
<tr>
<td>Medical Claims Expense</td>
<td><strong>$1,800,000</strong></td>
<td><strong>$2,200,000</strong></td>
<td><strong>$400,000</strong></td>
</tr>
<tr>
<td>Rx Admin Expense</td>
<td><strong>$6,570</strong></td>
<td><strong>$6,398</strong></td>
<td><strong>-$172</strong></td>
</tr>
<tr>
<td>Rx Claims Expense</td>
<td><strong>$330,605</strong></td>
<td><strong>$369,585</strong></td>
<td><strong>$38,980</strong></td>
</tr>
<tr>
<td>Vision Claims Expense</td>
<td><strong>$34,433</strong></td>
<td><strong>$35,611</strong></td>
<td><strong>$1,178</strong></td>
</tr>
</tbody>
</table>

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.
<table>
<thead>
<tr>
<th>Description</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dental Admin Expense</td>
<td>$16,131</td>
<td>$16,151</td>
<td>$20</td>
</tr>
<tr>
<td>Dental Claims Expense</td>
<td>$155,209</td>
<td>$166,776</td>
<td>$10,567</td>
</tr>
<tr>
<td>Life Insurance Expense</td>
<td>$48,822</td>
<td>$50,719</td>
<td>$1,897</td>
</tr>
<tr>
<td>Stop Loss Expense</td>
<td>$108,037</td>
<td>$122,455</td>
<td>$14,419</td>
</tr>
<tr>
<td>STD Expense</td>
<td>$60,731</td>
<td>$66,037</td>
<td>$5,306</td>
</tr>
<tr>
<td><strong>Total Plan Expense</strong></td>
<td><strong>$2,688,266</strong></td>
<td><strong>$3,115,567</strong></td>
<td><strong>$427,301</strong></td>
</tr>
<tr>
<td>Number Covered</td>
<td>9739</td>
<td>9975</td>
<td>236</td>
</tr>
<tr>
<td><strong>Per Mo/Per Member Cost</strong></td>
<td><strong>$276.03</strong></td>
<td><strong>$312.34</strong></td>
<td><strong>$36.31</strong></td>
</tr>
<tr>
<td>Associate Contributions</td>
<td>$500,000</td>
<td>$700,000</td>
<td>$200,000</td>
</tr>
<tr>
<td><strong>Per Mo/Per Member Net Cost</strong></td>
<td><strong>$224.69</strong></td>
<td><strong>$242.36</strong></td>
<td><strong>$17.57</strong></td>
</tr>
<tr>
<td>Culinary Per Mo/Per Member</td>
<td>$315.41</td>
<td>$325.52</td>
<td>$10.11</td>
</tr>
<tr>
<td>VIII Unemployment</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of Claims</td>
<td>350</td>
<td>352</td>
<td>2</td>
</tr>
<tr>
<td>Number of Protested Claims</td>
<td>145</td>
<td>121</td>
<td>-24</td>
</tr>
<tr>
<td>Favorable Dispositions</td>
<td>101</td>
<td>55</td>
<td>-45</td>
</tr>
<tr>
<td>Unfavorable Dispositions</td>
<td>18</td>
<td>19</td>
<td>1</td>
</tr>
<tr>
<td>Pending</td>
<td>26</td>
<td>46</td>
<td>20</td>
</tr>
<tr>
<td>IX Terminations</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Introductory</td>
<td>349</td>
<td>182</td>
<td>-167</td>
</tr>
<tr>
<td>Voluntary</td>
<td>840</td>
<td>626</td>
<td>-214</td>
</tr>
<tr>
<td>Involuntary</td>
<td>325</td>
<td>200</td>
<td>-125</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>1514</td>
<td>1008</td>
<td>-506</td>
</tr>
<tr>
<td>X Turnover Percent</td>
<td>5.7%</td>
<td>3.82%</td>
<td>-1.91%</td>
</tr>
<tr>
<td>XI Union Grievances</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Grievances Filed</td>
<td>133</td>
<td>101</td>
<td>-32</td>
</tr>
<tr>
<td>Boards of Adjustment</td>
<td>73</td>
<td>59</td>
<td>-14</td>
</tr>
<tr>
<td>Number Resolved</td>
<td>107</td>
<td>73</td>
<td>-34</td>
</tr>
<tr>
<td>Number Arbitrated</td>
<td>6</td>
<td>2</td>
<td>-4</td>
</tr>
<tr>
<td>XII Board of Review</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Board of Review Procedures</td>
<td>3</td>
<td>0</td>
<td>-3</td>
</tr>
<tr>
<td>XIII NERC/EEOC Charges</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Charges Received</td>
<td>8</td>
<td>3</td>
<td>-5</td>
</tr>
<tr>
<td>Charges Pending</td>
<td>12</td>
<td>3</td>
<td>-9</td>
</tr>
<tr>
<td>Charges Withdrawn</td>
<td>7</td>
<td>13</td>
<td>6</td>
</tr>
</tbody>
</table>

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.
### HUMAN RESOURCES EXPENSES COMPARISON

<table>
<thead>
<tr>
<th>Description</th>
<th>Year End 2000</th>
<th>Year End 1999</th>
<th>Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Human Resources Payroll &amp; Related</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Regular</td>
<td>$250,000</td>
<td>$200,000</td>
<td>$50,000</td>
</tr>
<tr>
<td>Overtime</td>
<td>$784</td>
<td>$175</td>
<td>$609</td>
</tr>
<tr>
<td>Holiday</td>
<td>$0</td>
<td>$461</td>
<td>-$461</td>
</tr>
<tr>
<td>Training</td>
<td>$70</td>
<td>$29</td>
<td>$41</td>
</tr>
<tr>
<td>Other</td>
<td>$1,493</td>
<td>$425</td>
<td>$1,068</td>
</tr>
<tr>
<td>Supervisory</td>
<td>$125,000</td>
<td>$127,000</td>
<td>-$2,000</td>
</tr>
<tr>
<td>Supervisory-Other</td>
<td>$505</td>
<td>$312</td>
<td>$193</td>
</tr>
<tr>
<td>Administrative</td>
<td>$120,000</td>
<td>$115,000</td>
<td>$5,000</td>
</tr>
<tr>
<td>Payroll Taxes</td>
<td>$45,454</td>
<td>$39,263</td>
<td>$6,191</td>
</tr>
<tr>
<td>Health Insurance*</td>
<td>$132,010</td>
<td>$104,735</td>
<td>$27,275</td>
</tr>
<tr>
<td>Dental Insurance</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td>Life Insurance</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td>Workers Comp</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td>PTO</td>
<td>$19,457</td>
<td>$21,086</td>
<td>-$1,629</td>
</tr>
<tr>
<td>401(k) Expense</td>
<td>$7,333</td>
<td>$23,780</td>
<td>-$16,447</td>
</tr>
<tr>
<td>Tuition Reimbursement*</td>
<td>$8,668</td>
<td>$8,664</td>
<td>$24</td>
</tr>
<tr>
<td><strong>Total Payroll &amp; Related:</strong></td>
<td>$710,794</td>
<td>$640,950</td>
<td>$69,844</td>
</tr>
<tr>
<td><strong>Total Labor Costs:</strong></td>
<td>$710,794</td>
<td>$640,950</td>
<td>$69,844</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Description</th>
<th>Year End 2000</th>
<th>Year End 1999</th>
<th>Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Other Operating Expenses</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Comp-Food</td>
<td>$17,894</td>
<td>$7,588</td>
<td>$10,306</td>
</tr>
<tr>
<td>Comp-Beverage</td>
<td>$1,584</td>
<td>$1,117</td>
<td>$467</td>
</tr>
<tr>
<td>Comp-Rooms</td>
<td>$1,350</td>
<td>$570</td>
<td>$780</td>
</tr>
<tr>
<td>Comp-Show Admissions</td>
<td>$0</td>
<td>$45</td>
<td>-$45</td>
</tr>
<tr>
<td>Comp-Tower Admissions</td>
<td>$634</td>
<td>$37</td>
<td>$597</td>
</tr>
<tr>
<td>Comp-Tower Attractions</td>
<td>$371</td>
<td>$25</td>
<td>$346</td>
</tr>
<tr>
<td>Repairs &amp; Maintenance</td>
<td>-$29</td>
<td>$2,125</td>
<td>-$2,154</td>
</tr>
<tr>
<td>Supplies-General</td>
<td>$13,558</td>
<td>$2,408</td>
<td>$11,150</td>
</tr>
<tr>
<td>Supplies-Office</td>
<td>$16,940</td>
<td>$10,308</td>
<td>$6,632</td>
</tr>
<tr>
<td>Associate Relations</td>
<td>$100,000</td>
<td>$150,000</td>
<td>-$50,000</td>
</tr>
<tr>
<td>Business Meals</td>
<td>$97</td>
<td>$841</td>
<td>-$744</td>
</tr>
<tr>
<td>Drug Test Fees</td>
<td>$42,656</td>
<td>$46,498</td>
<td>-$3,832</td>
</tr>
<tr>
<td>Dues &amp; Subscriptions</td>
<td>$3,240</td>
<td>$4,889</td>
<td>-$1,649</td>
</tr>
<tr>
<td>Outside Seminars</td>
<td>$3,662</td>
<td>$3,608</td>
<td>$74</td>
</tr>
<tr>
<td>Outside Services</td>
<td>$100,000</td>
<td>$70,000</td>
<td>$30,000</td>
</tr>
<tr>
<td>Postage</td>
<td>$1,211</td>
<td>$3,244</td>
<td>-$2,033</td>
</tr>
<tr>
<td>Printing/Copying</td>
<td>$8,751</td>
<td>$21,591</td>
<td>-$12,840</td>
</tr>
<tr>
<td>Promotion-Other</td>
<td>$2,698</td>
<td>$1,016</td>
<td>$1,682</td>
</tr>
<tr>
<td>Recruitment</td>
<td>$98,620</td>
<td>$38,532</td>
<td>$60,088</td>
</tr>
<tr>
<td>Telephone</td>
<td>$678</td>
<td>$661</td>
<td>$17</td>
</tr>
<tr>
<td>Travel</td>
<td>$0</td>
<td>$359</td>
<td>-$359</td>
</tr>
<tr>
<td>Miscellaneous Expense</td>
<td>$0</td>
<td>-$10</td>
<td>$10</td>
</tr>
<tr>
<td><strong>Total Other Operating:</strong></td>
<td>$414,435</td>
<td>$365,442</td>
<td>$48,993</td>
</tr>
<tr>
<td><strong>Total Human Resources Direct:</strong></td>
<td>$1,125,229</td>
<td>$1,006,392</td>
<td>$118,837</td>
</tr>
<tr>
<td>Benefits</td>
<td>Property Wide</td>
<td>Current Year</td>
<td>Prior Year</td>
</tr>
<tr>
<td>--------------------------------</td>
<td>---------------</td>
<td>--------------</td>
<td>------------</td>
</tr>
<tr>
<td>Tuition Reimbursement</td>
<td>$25,472</td>
<td>$25,578</td>
<td>-$106</td>
</tr>
<tr>
<td>Health Insurance</td>
<td>$2,500,000</td>
<td>$2,400,000</td>
<td>$100,000</td>
</tr>
<tr>
<td>Workers Comp</td>
<td>$573,599</td>
<td>$145,602</td>
<td>$427,997</td>
</tr>
<tr>
<td>401(k) Expense</td>
<td>$195,387</td>
<td>$191,114</td>
<td>$4,273</td>
</tr>
<tr>
<td>Union Dues</td>
<td>$4,622,104</td>
<td>$4,293,974</td>
<td>$328,130</td>
</tr>
<tr>
<td><strong>Annual Total</strong></td>
<td><strong>$7,916,562</strong></td>
<td><strong>$7,056,268</strong></td>
<td><strong>$860,294</strong></td>
</tr>
</tbody>
</table>
VITA

Graduate College
University of Nevada, Las Vegas

Deborah Canale

Local Address:
1299 Summer Dawn Avenue
Henderson, Nevada 89014

Home Address:
Parco Fiamma, 6
89126 Reggio Calabria, ITALY

Degree:
Bachelor of Arts, Management, 1991
Webster University, St. Louis, Missouri

Special Awards:
Student Leadership Award for outstanding achievements in improving students’ social life - 1991 - Webster University, St. Louis, Missouri

Thesis Title:
Human Capital in the Hospitality Industry: its Components, Role and Importance in Achieving Corporate Goals

Thesis Examination Committee:
Chairperson, Dr. Cheri A. Young, Ph. D.
Committee Member, Dr. David Corsun, Ph. D.
Committee Member, Dr. Michael Dalbor, Ph. D.
Committee Member, Dr. Michael Sullivan, Ph. D.