

A full-page background image showing three hikers in winter gear standing on a snowy mountain ridge, looking down at a valley with a town and a winding road. Snow-capped mountains are in the background.

# The Opportunity Every Hospitality Chief Human Resources Officer Has to **Drive Revenue**

Executives in charge of people can play an outsized role in raising employee engagement. In the hotel, restaurant, and travel industries, that's key to boosting customer loyalty.

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# The Opportunity Every Hospitality CHRO Has to Drive Revenue

## EXECUTIVE SUMMARY

Engaged employees are necessary to the successful functioning of any enterprise. In businesses that rise and fall on the quality of their customer service, employee engagement is especially critical. Today, employee engagement measurements frequently tell a disheartening story of growing numbers of disaffected workers whose alienation from their organizations and jobs too often has led to suboptimal service, rising customer dissatisfaction and defection, and disappointing shareholder returns.

This situation presents a key challenge to the hospitality sector, as it does to all B2C businesses. Yet lackluster employee engagement is a major opportunity for chief human resources officers (CHROs). By helping their company's leaders define the organization's purpose, values, and vision, CHROs can play an outsized role in improving employee engagement, customer satisfaction, and shareholder value.

In this paper, we show the crucial roles that CHROs played at companies whose high levels of employee engagement have had a big impact on customer satisfaction and financial success: Vail Resorts, Marriott International, Southwest Airlines, Starbucks, and other companies.



**I**n Greek myths, the gods would regularly disguise themselves as poor wanderers, showing up at the doors of kings and commoners to see if they were practicing Xenia: the religious obligation to be hospitable to travelers. And woe to those who failed the gods' test.

The gods testing today's hospitality companies – hotels, restaurants, airlines, and others – to see if they are providing excellent customer service have different names but are no less powerful: Yelp, TripAdvisor, Facebook and, for employees, Glassdoor. And woe to the companies that fail their tests.

The most important factor in pleasing these digital deities – and the millions of potential customers they embody – is the morale and engagement of the frontline employees who interact with hospitality customers every day. A landmark study of almost 8,000 business units in 39 companies found that those units scoring in the top 25% on employee engagement had customer ratings 12% higher than those units in the bottom 25%.<sup>1</sup> As a Harvard Business Review article put it, "There is a chain of cause and effect running from employee behavior to customer behavior to profits."<sup>2</sup>

More simply, as David Rodriguez, Marriott International's executive vice president of global human resources, told us: "If you ensure the well-being of associates, they will deliver the innovation and memorable experiences that create passionately loyal customers, and the business will take care of itself." Or as Dave Pace, former CHRO of Starbucks who now heads quick-service restaurant chain Jamba Juice, explained to us: "Unless you come up with a product that is so unique and compelling that people are going to look the other way at bad customer experiences because they're craving the product, the reality is that the overall experience in the facility is as important or more important than the product itself. Building employee retention and engagement in that world is more critical than it has ever been."

But when employees are not engaged, and excellent service is not delivered, negative posts and reviews appear on Yelp, TripAdvisor, Facebook, and other social media channels. And they can have a huge impact on revenue. A sizable 82% of U.S. adults say they read online customer ratings or reviews before a first-time purchase; 45% believe they help make businesses more accountable to them.<sup>3</sup> When reviews are bad, business can drop off and

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1 Journal of Applied Psychology, "Business-Unit-Level Relationship Between Employee Satisfaction, Employee Engagement, and Business Outcomes: A Meta-Analysis," accessed at [http://www.factorhappiness.at/downloads/quellen/s17\\_harter.pdf](http://www.factorhappiness.at/downloads/quellen/s17_harter.pdf)

2 Harvard Business Review, "The Employee-Customer-Profit Chain at Sears," accessed at <https://hbswk.hbs.edu/archive/the-employee-customer-profit-chain-at-sears>

3 Pew Research Center, "Online Shopping and E-Commerce," accessed at <http://www.pewinternet.org/2016/12/19/online-shopping-and-e-commerce/>



customer loyalty evaporate. According to a 2016 Harvard Business School study, a restaurant's first bad review on Yelp can reduce revenue 13%.<sup>4</sup> Conversely, according to the same study, every added star in a Yelp review translates to a 5% to 9% revenue gain.<sup>5</sup> And when room prices are equal, travelers are 3.9 times more likely to choose a hotel with a higher review score. In fact, 76% say they are willing to pay more for a hotel with a higher score.<sup>6</sup>

Clearly, all businesses must strengthen employee engagement and morale. Engaged, energized employees treat customers better and that produces positive online reviews (and revenue). And the way employees treat customers makes or breaks companies in the hospitality sector. However, maintaining morale is a difficult task in an industry where employee turnover rates are so extraordinarily high. In the hotel industry, according to the U.S. Bureau of Labor Statistics, the annual turnover rate reaches 74%. Average employee tenure in the overall hospitality and leisure segment – at 2.2 years – is the lowest of any industry tracked.<sup>7,8</sup>

Not coincidentally, many hospitality and travel companies have neither developed nor implemented a holistic, integrated engagement strategy to motivate their front-line employees. The result: These firms struggle to provide the consistently high-quality service upon which the company depends, and which consumers increasingly demand. Without a holistic, integrated strategy for employee engagement – and someone who takes ownership by being personally accountable for its implementation and success – organizational efforts can become fragmented and ineffective.

In most organizations, chief human resources officers (CHROs) are charged with maintaining employee engagement. This can be a huge opportunity for them to make a strategic difference in the way their businesses operate. However, without a comprehensive strategy for doing so, and a plan for implementing and gauging the strategy's success in winning employees' hearts and minds, even the most talented and committed CHROs will find the mission statements they post on corporate websites ignored, and the plaques engraved with corporate values they hang on walls unread.

Without a comprehensive, effective employee engagement strategy, employees inevitably will be pulled in different directions, assessed on different metrics by different business units, and caught between conflicting goals. For example, if call center supervisors ask representatives to do whatever it takes to create a positive customer experience while the rewards system compensates the reduction of average handle times, employees will grow cynical. They will reduce call times even if it worsens the customer experience. This not only degrades the customer experience, it tarnishes the employee experience. In fact, it often breeds cynicism and causes employees to post negative reviews on Glassdoor and

*Continued on page 6*

4 Harvard Business School Working Paper, "Reviews, Reputation, and Revenue: The Case of Yelp.com," accessed at [https://www.hbs.edu/faculty/Publication%20Files/12-016\\_a7e4a5a2-03f9-490d-b093-8f951238dba2.pdf](https://www.hbs.edu/faculty/Publication%20Files/12-016_a7e4a5a2-03f9-490d-b093-8f951238dba2.pdf)

5 Harvard Business School Working Paper Series, "Reviews, Reputation, and Revenue: The Case of Yelp.com," accessed at <https://www.hbs.edu/faculty/Pages/item.aspx?num=41233>

6 TrustYou, "Study Shows Travelers Willing to Pay More For Hotels With Better Travel Reviews," accessed at <http://www.trustyou.com/press/study-shows-travelers-willing-pay-hotels-better-travel-reviews>

7 Hotel Management, "4 truths about hotel employee retention," accessed at <https://www.hotelmanagement.net/4-truths-about-hotel-worker-employee-retention>

8 Bureau of Labor Statistics, "Employee Tenure Summary," September 22, 2016, accessed at <https://www.bls.gov/news.release/tenure.nr0.htm>

## The CHRO Opportunity:

# Chief Engagement Booster

**A**mong C-suite executives, CHROs are best positioned to boost employee engagement by implementing a holistic strategy to create a consistent, customer-first organizational culture. By the nature of their role, CHROs can focus on performance across an entire organization. What's more, they often bring strong facilitation skills (essential to bringing people and functions together) to the task.

For these reasons and others, CHROs should seize the opportunity to become more strategic players within their organizations. They can do so by accepting accountability for the customer service that results when employees are highly engaged in their jobs. In turn, that only happens when the company's purpose is one that employees (and of course customers) can get behind; when its values are in line with that purpose, and are codified and shared at all levels; and the company's vision for how it will achieve its purpose is laid out rigorously.

CHROs who can be a lynchpin in making this happen can help raise employee engagement to unprecedented levels, which in turn can increase customer loyalty and revenue to unprecedented levels.

While CEOs (as they should) focus on EBITDA, bottom-line performance, and stockholder returns, and CFOs do their job by analyzing corporate spending, cash flow, and assessing return on investment, CHROs can (and we believe should) step back to analyze how programs designed to engage employees fit together to effect positive, lasting cultural change.

The CHRO should set up processes through which employees can align who they are with what they do. This means helping employees see how their personal values align with the organization's values and how, by performing their jobs at the highest level, they are making a lasting and positive difference in both the success of the organization and the organization's purpose. When employees understand how their careers and personal growth align with the company's mission, values, and vision, they will exercise their discretionary performance to benefit customers, resulting in higher levels of service, both internally and externally.

CHROs are attuned to what drives employee behaviors — both positive and negative — and they know what levers to pull to produce positive outcomes and changes. Plus, CHROs can identify for their C-Suite peers the ROI of these engagement efforts, including



higher employee retention rates and lower recruiting costs. (According to a study of California businesses by the University of California, Berkeley, average employee replacement costs last decade was “a significant fraction of annual wage costs.”<sup>9</sup>)

This is not to say that CEOs (or CFOs and COOs) do not have a role to play in crafting employee engagement strategies and policies and seeing them through. For example, Howard Schultz, who stepped down in June from his role as executive chairman of Starbucks, was a strong advocate for employee engagement initiatives, such as the Green Apron Book full of customer relationship tips for Starbucks baristas.

Indeed, the CHRO can't go it alone on the employee engagement front. One obvious ally is the chief marketing officer, whose responsibility includes enlisting internal champions to support the brand identity, one that unifies employees, empowers them, and make them proud of the work they do and the company for which they do it. Ideally, the CHRO should enlist all his or her executive peers in an effort that will improve employee morale and effort in every function within the enterprise.

When the CHRO combines each business function's ideas for creating engagement, they will build upon one another. That creates strategic momentum and a multiplier effect, increasing the value of the overall strategy. This is what Southwest Airlines did with great success when it combined its low-fare pricing strategy with a differentiating mission of customer service “delivered with a sense of warmth, friendliness, individual pride and company spirit.”<sup>10</sup> [See “Southwest Airlines' Culture Ambassadors,” Page 12.]

<sup>9</sup> Institute for Research on Labor and Employment, “Employee Replacement Costs,” accessed at <http://irle.berkeley.edu/files/2010/Employee-Replacement-Costs.pdf>  
<sup>10</sup> Southwest Airlines, “The mission of Southwest Airlines,” accessed at <https://www.southwest.com/html/about-southwest/index.html>

**To compete and win, hospitality companies must consistently deliver outstanding customer service — their main competitive differentiator.**

*Continued from page 4*

other websites in which employees talk about the firms that employ them. And that, in turn, will make it difficult for the company to attract top talent.

Recognition programs, employee-of-the-month awards, bonuses, and other methods for boosting morale and rewarding performance that are not aligned with the organization's mission, values, and vision predictably will fall by the wayside. Even when they are regularly used, they will provide only small improvements in customer service.

In sum, without a consistent engagement strategy and the tools and processes to support it, employee engagement will decline, customer service will suffer, and the review site gods will grow angry. For example, according to the American Customer Satisfaction Index, U.S. consumers are unhappy with airline service (which saw a drop of 2.7 points this year)<sup>11</sup> while customer satisfaction in the hotel industry has remained flat. This is unsustainable at a time when Airbnb has reduced variable hotel profits by up to 3.7% in the 10 U.S. cities where it has the largest presence.<sup>12</sup>

This is a dangerous trend for the hospitality industry. To compete and win, hospitality companies must consistently deliver outstanding customer service—their main competitive differentiator. And if they take employee engagement strategically and seriously, they – and their employees – will thrive.

But exactly how can a hospitality company CHRO take a lead role in dramatically improving employee engagement? We'll outline a process and illustrate it with examples from ski resort operator Vail Resorts, Marriott, Southwest Airlines, Starbucks, hotel management

<sup>11</sup> ACSI, "Benchmarks by Industry," accessed at [http://www.theacsi.org/index.php?option=com\\_content&view=article&id=148&Itemid=213](http://www.theacsi.org/index.php?option=com_content&view=article&id=148&Itemid=213)

<sup>12</sup> Forbes, "The Airbnb Effect: Cheaper Rooms for Travelers, Less Revenue for Hotels," accessed at <https://www.forbes.com/sites/hbsworkingknowledge/2018/02/27/the-airbnb-effect-cheaper-rooms-for-travelers-less-revenue-for-hotels/#3354b90dd672>

## ***Getting Employees to Drive Engagement Initiatives***

**W**hen organizations are trying to increase employee engagement, the best way to proceed is to do it with their people, not to them. The CHRO should draw employee change agents from a pool of their company's most committed employees. These people embody the culture the organization wishes to create.

At Vail Resorts, these influencers originally came from across the entire company: ski operations, marketing, hospitality, retail, HR, finance and more. They were recruited into the culture team. They conducted employee focus groups and found opportunities to improve the organization's culture. They also created what the company called "street teams" — local versions of the culture team with model employees who could promote the larger group's efforts and create enthusiasm at the grassroots. The street teams have become a point of contact for all Vail Resorts employees with questions about the company's culture, and are empowered to

take actions to advance the company's mission and values.

Recognition programs are also crucial to boosting employee engagement. To reward those who provide customers with an experience of a lifetime, and to help employees understand what it looks like, Vail Resorts created a rewards program. Each location nominates Epic Service winners — those employees that go above and beyond to provide the Experience of a Lifetime to guests or colleagues. The winners of the annual Epic Service Award from each location are flown to one of Vail Resorts' iconic locations, where they are provided the same high-end guest experience (fine dining, early access to the slopes, spa treatments, etc.) that they themselves deliver to their guests each and every day.



company Two Roads Hospitality, Jamba Juice, and other companies. That process has three core elements:

- Defining the organization's purpose or mission (beyond making a profit) – the “why” the organization exists. The specific difference the company wants to make in the well-being and lives of its customers.
- Using that purpose to determine the organization's values – what employees must believe and how they must behave, to achieve the company's purpose. Those values will guide who is hired, how they're trained and promoted, and how the company communicates and rewards employees.
- Setting the organization's vision – with its purpose and values articulated, determining how to achieve that purpose and get employees to exemplify the values it requires. Sometimes setting the vision will require a company to re-think in what businesses it has a true competitive advantage. (Vail Resorts defined its vision as “reimagining the mountain experience around the world,” which led top management to refine and further focus the company's strategy.)

We have seen this process help several hospitality companies dramatically improve employee engagement, which in turn has greatly improved the customer experience they provide, and ultimately boost customer satisfaction and loyalty. Let's explore each element.

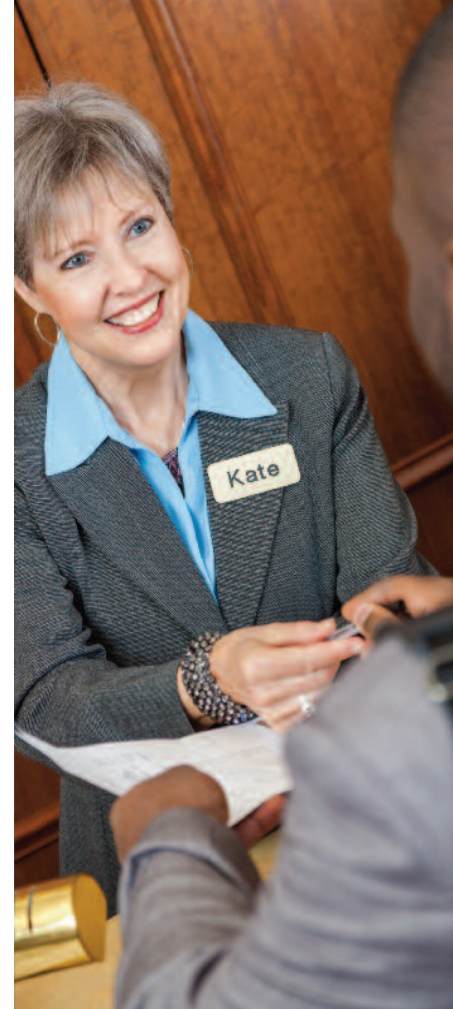
## STARTING WITH ORGANIZATIONAL PURPOSE

The reason to start with purpose is that when an organization's mission is meaningful to employees, getting them to embrace their work has a huge head start (assuming they buy into the company's purpose).

According to Abraham Maslow's hierarchy of needs, what brings people the greatest satisfaction and happiness (after their basic needs of a living wage and security are met) is self-actualization – the belief that what they are doing is meaningful, and provides an opportunity for personal growth. If their organization's purpose or mission is one they embrace, employees will find their work highly meaningful.

This proposition was confirmed in research that surveyed over 20,000 workers around the world at 50 companies. The study concluded that “Why we work determines how well we work.” The researchers identified six reasons why people work (including, of course, money). High-performing corporate cultures maximize the fun of work, the potential for the individual to succeed and advance their careers, and the purpose of their work.<sup>13</sup> For instance, employees want to know they are working for an organization that is doing the right things – taking care of them, prioritizing the customer experience, being a force for good in the community, protecting the environment – and they want to know how they can become involved in these efforts. [See “Empowering Marriott's 700,000 Ambassadors,” page 8]

13 Harvard Business Review, “How Company Culture Shapes Employee Motivation,” accessed at <https://hbr.org/2015/11/how-company-culture-shapes-employee-motivation>



**Leading companies  
have defined their  
missions in ways  
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valued employees.**

This yearning for purpose in work is becoming ever more prevalent as Baby Boomers age and Millennials assume managerial roles. Both groups want more agency in their work lives; the former wishes to leave a legacy, the latter to create one. CHROs in the hospitality industry who can translate these potent desires into their talent management strategies have a huge opportunity to drive customer satisfaction and revenue in their companies.

Leading companies such as Disney, Google, Kickstarter, Nordstrom and others have defined their missions in ways that make it easy to find and keep valued employees. Disney's mission is to make people happy. Google's mission is to "organize the world's information and make it universally accessible and useful." The funding platform Kickstarter's is to help bring creative projects to life. Fashion retailer Nordstrom's is to give customers "the most compelling shopping experience possible."

Consider Starbucks. When Dave Pace was CHRO during the company's growth in the 2000s from \$3 billion to \$10 billion in revenue (and a global workforce expansion from 50,000 to 300,000 employees), he fielded questions about the global café chain's high-volume

## Empowering Marriott's **700,000** Ambassadors

**Profile:** Approximately 700,000 associates wear a Marriott badge, working at 6,700 properties in 130 countries and territories.

**2017 revenue:** \$22 billion.

Employee engagement was baked into the founding of the Marriott hotel chain. "Take care of associates and they'll take care of customers," is a well-known saying of J. Willard Marriott Sr., the company founder. For a global company, says David Rodriguez, the chief human resources officer (CHRO) of Marriott International, that means empowering local teams to bring their own experiences to efforts like the company's employee well-being program, Take Care.

### Take Care has three pillars:

1. **Me** – pursuing a holistic approach to my personal health and overall well-being.
2. **Me and you** – jointly contributing to an inclusive and enriching environment.
3. **We** – working together to make Marriott a force for good in the world.

The company supports employees in their expressions of these values. For example, in Bangkok, Thailand, hotel employees banded together to give away bike helmets to local children who did not have them. Workers held ceremonies to award the helmets,

painting and decorating them to personalize them.

"The amount of cultural pride in that program is amazing," says Rodriguez.

"I don't know of any other program in our system quite like it, which makes the point

that every location really asks itself: What are the elements of our culture and how do we want to express it? In this case, it's outside the hotel; in others, it's inside the hotel."

Marriott's HR organization has a data team that analyzes employee engagement. The team has found that hotels with higher engagement scores also have high levels of teamwork and camaraderie, a "sort of family atmosphere," Rodriguez says. That leads to customers feeling appreciated and "at home," and the community feeling that the company is a good neighbor.



**Results:** The company ranks above industry average in the American Customer Satisfaction Index rankings.<sup>14</sup> It also is one of a small group of companies to have appeared every year on Fortune's "Best Companies to Work" list since its inception more than 20 years ago. Rodriguez says that in 2018, Marriott's global engagement scores reached historic highs and continued to exceed Aon Hewitt best employer benchmarks.

14 ACSI, Benchmarks By Company, Hotels, accessed at [http://www.theacsi.org/index.php?option=com\\_content&view=article&id=149&catid=&Itemid=214&i=Hotels](http://www.theacsi.org/index.php?option=com_content&view=article&id=149&catid=&Itemid=214&i=Hotels)

hiring (on average 300 daily hires, every day of the year). Instead of hiring an army of recruiters, Pace says Starbucks did not come up with a strict playbook. Instead, it provided overall guidance to store managers, referenced the company's mission and directed store managers to find people who could connect with other people and who enjoy building relationships. "If the objective is to make a difference in peoples' lives every day, then you better find people who can do that," he says. [See "Walking the Talk on Engagement," page 11.]

When a company's stated mission or purpose is not one that excites employees, they come to work half-interested in their jobs. Vail Resorts Inc. seized upon this opportunity in 2009, when it was a \$977 million revenue company that owned five ski resorts, 11 luxury hotels (including ones in the Caribbean), five golf courses, and other properties.<sup>15</sup> The Great Recession hit the resort industry hard, and the Colorado-based company's business was accordingly impacted. (Its fiscal 2010 revenue declined 11% from 2009, and profits fell 38%.)

During this downturn, the company identified the opportunities to further examine its culture and clearly articulate its greater organizational purpose. It discovered that while most employees loved their jobs, that love did not always extend to the company. Why? Many felt the company's core purpose or mission was too heavily focused on profit. While they liked numerous things about the company and their jobs, it wasn't a higher purpose they could buy into. They felt the "why they do what they do" was about more than profit.

It created a disconnect between the organization and employees that, especially in those difficult economic times, the company wanted to solve. Accordingly, in 2009, Vail Resorts created a "culture team" of 22 employees from different functions, roles, and levels. The team's sole job was to drive employee engagement through the articulation of a greater organizational purpose than boosting profits, creating shareholder value or receiving a paycheck.

Vail Resort's culture team, after many meetings, created a new company mission statement that would resonate with all stakeholders, especially employees: "The Experience of a Lifetime." This played out in two ways: creating the experience of a lifetime for employees, so they can provide the experience of a lifetime for its guests. These simple, easy-to-remember words captured why employees did what they did.

Employee engagement surveys at the company from 2010 to 2014 found that the percentage of employees who could identify with its mission rose from 85% to 90% – a big increase. When employees believe that what they are doing is meaningful, it makes it far easier to internalize the need to take the lead in delivering superior service – the goal of an effective employee engagement strategy.



<sup>15</sup> Vail Resorts 2010 annual report, p. 27. <http://investors.vailresorts.com/static-files/322089ff-746a-4949-968d-584e70409758>

## TRANSLATING PURPOSE INTO VALUES

From an organization's purpose comes its values – the beliefs and behaviors that an organization feels its employees must possess to achieve its purpose. Those values must explicitly explain to employees why they will enable the company to achieve its mission – i.e., a mission that is appealing not only to the company's investors but also to its employees.

Once the culture team at Vail Resorts articulated the company's new purpose, they worked on redefining its values. Prior to this, those values were not clearly articulated, although many employees could express what they thought the company valued (service, community and the environment among them). The team developed a set of values and their corresponding descriptions, aspirations and behaviors, which they then presented these to the company's leaders to get input.

## Walking the Engagement Talk @ Starbucks and Jamba Juice

**Dave Pace** speaks about the importance of employee engagement as someone who has served as both a CHRO (at Starbucks) and as the current CEO at Jamba Juice, a quick-service chain that emphasizes healthy lifestyles.

Pace says chief executives can demonstrate a company's purpose and mission as a way of engaging employees by making decisions to not do something. For example, Jamba Juice has rejected cost-saving options in its food service business, such as replacing whole-food ingredients with less expensive purees.

"Part of your role as a CEO is to bring your values to life, to live them, to talk about them and demonstrate that you use them to make decisions," Pace told us. "And even more importantly, CEOs must use them to not do things. It's powerful to say to someone that 'We're doing this because it's consistent with our values.' But it's even more powerful to say, 'You know what? We're not doing this because it's inconsistent with our values.'"

"Our mission is to simplify and inspire healthy living. So if we're putting something out there that is not necessarily healthy or not advancing that mission, then we have to make a decision that we're not going to do it," he says.

Pace believes metrics such as employee turnover and tenure of store managers correlate directly to employee engagement.

From his days as CHRO at Starbucks, a leadership position at Taco Bell and now CEO at Jamba Juice, Pace has learned that leaders need both a company-wide overview and a unit-level view of their culture through employee engagement surveys. The



overview might indicate a 401(k) plan needs to be improved or that people don't understand the company's strategy. The unit-level view can reveal training needs or equipment that needs improving.

And by asking employees what they and their co-workers can do to improve their engagement, leaders can empower them to make those things happen. "You've got to have things that they can control and act on within their own environment," he says.

Pace says the strongest CHROs are attuned to multiple layers of thinking. Not only are they in synch with corporate mission and values, but they also know how employees are feeling and functioning as they relate to those values. As well, they are ready with suggestions for addressing problems. In addition, he says, the best CHROs understand the company's business strategy and tailor their actions to fit within it.

"Having a good understanding of the business model, having a good understanding of how you make money, understanding how you fit into that model at all times are critically important," Pace says of HR chiefs. "When you do understand that, and are thinking along the lines of how to support the firm's strategy, that is where the real value-added comes."

The resulting values – to serve others, do right, do good, drive value, be safe, and have fun – have come to define much of the culture. One of those values, “do good,” focuses on the importance of supporting local communities and preserving the pristine environment in which its ski resorts are situated. Its product, finally, is the outdoors. It has therefore been no great leap for the company’s roadmap to the future – leveraging employee sentiment and thereby their engagement – to set out a path for reducing the company’s environmental footprint and improving its energy efficiency through environmentally sustainable practices. (They include, among others, eliminating their carbon footprint by 2030, and working with suppliers of environmentally-friendly and sustainable supplies, reducing costs while becoming more green.)

The company’s values continue to appear everywhere employees gather: in break rooms, posters hanging on their desks, and bulletin boards. More importantly, the company has embedded its values into key talent management processes:

- Hiring (e.g., values-based questions)
- Performance management
- Training and development programs (including new employee orientation)
- Employee communications
- Reward and recognition programs

Vail Resorts’ values not only resonate with employees; many of them resonate with the company’s customers (like environmental stewardship). They create a virtuous circle in which Vail Resorts does well by doing good.

What Vail Resorts did in articulating its purpose and values has been done for years in a number of highly successful hospitality-related companies. Consider Marriott International. The company has five core values: putting people first (“take care of [employees] and they will take care of customers”); pursuing excellence in every endeavor; embracing change (and innovation); acting with integrity; and serving our world (having a positive impact on sustainability and social issues). The first value is about employees and customers. That is crucial. That lets employees know that Marriott has them front and center. The fifth value is also crucial to today’s employees. Those values have been crucial to helping Marriott become the world’s largest hotel company by revenue: \$22 billion in 2017, nearly twice the revenue of 2008.

Southwest Airlines, the largest air carrier in America with 57,000 employees serving more than 120 million passengers a year, has long had a companywide culture committee composed of employees representing every work group. The committee, originally intended to plan Southwest’s 25th anniversary, organized a successful celebration and has continued to live on and evolve. The committee’s purpose now is to recognize, celebrate, and appreciate employees across the Southwest system. Employees apply to be on the committee and must have the recommendation of their leader. They are role models and represent Southwest’s culture.

The success of the culture committee has led to the creation of other employee engagement groups. A president’s council focuses on the operation and hospitality. The diversity council focuses on the organization’s inclusion efforts. Taking it a step further, in 2008, Southwest Airlines created a formal role—culture engagement specialists—to promote its commitment to customer service as a competitive differentiator. Culture

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**Vail Resorts’ values not only resonate with employees; many of them resonate with the company’s customers. They create a virtuous circle in which Vail Resorts does well by doing good.**

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engagement specialists report into the culture services team and support specific regions, and their efforts to celebrate local milestones and accomplishments.

“We believe employee engagement and customer satisfaction are directly connected,” Julie Weber, vice president and chief people officer at the Dallas-based airline, told us. “We have believed this for a very long time, and we attribute it to our founder, Herb Kelleher. Our employees are our differentiator in the industry. They are the ones responsible for delivering that incredible hospitality.” [See “How Southwest Airlines Creates Its Culture Ambassadors,” below.]

Now let’s look at Two Roads Hospitality, a company resulting from the merger of Destination Hotels and Commune Hotels that put luxury resorts together with small urban hotels. Two Roads, which Hyatt Hotels Corp. said it would acquire for between \$480 million and \$600 million by the end of 2018,<sup>16</sup> needed to establish a new cultural identity that both

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16 Hyatt press release, October 8, 2018, accessed at: <https://newsroom.hyatt.com/news-releases?item=123739>.

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## How Southwest Airlines Creates *Culture Ambassadors*

**Profile:** Southwest Airlines is the largest domestic air carrier in America with 57,000 employees serving more than 120 million passengers a year

**2017 revenue:** \$21 billion.



For decades, Southwest has had a companywide culture committee charged with inspiring coworkers to own, strengthen and promote Southwest’s service-oriented culture. The committee, established by Colleen Barrett, a Southwest founder and president emeritus, has 600 active members and 250 alumni. Employees apply for this volunteer position with their superior’s approval.

As part of its continued employee engagement efforts, Southwest established in 2008 a role of culture engagement specialist to promote its commitment to customer service as a differentiator. The culture engagement specialists, part of the culture services department, partner with key stakeholders across the organization to advocate for the voice of the employee. The team is regionalized and works with leadership at the local level to develop and influence custom strategic plans to enhance culture and employee engagement.

“For all of our employees, we have what we call ‘Living the Southwest Way,’” says Julie Weber, vice president and chief people officer. “Those are the expectations we have of every employee that we use to base our job interviews on, and our performance evaluations as well: a warrior spirit, servant’s heart, and fun-loving attitude. Our companywide culture committee members and culture engagement specialists must be exemplars of what living the Southwest Way means.”

**Results:** Culture-building efforts have contributed to Southwest’s low annual voluntary turnover rate: less than 3%. Another contributing factor has been a rigorous hiring process that emphasizes a cultural fit in addition to the necessary job skills. The company has an industry-leading customer satisfaction rating, according to the American Customer Satisfaction Index.<sup>17</sup>

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17 ACSI, Benchmarks By Company, Airlines, accessed at [http://www.theacsi.org/index.php?option=com\\_content&view=article&id=149&catid=&Itemid=214&i=Airlines](http://www.theacsi.org/index.php?option=com_content&view=article&id=149&catid=&Itemid=214&i=Airlines)

companies could embrace. Thousands of employees at every level of the company participated in surveys, focus groups, and meetings with executives to establish the values that would guide both leadership decisions and employee behaviors. The company articulated a series of core values and began a program to create cultural ambassadors who demonstrate those values and hold accountable those who do not. “Because we were very inclusive in the process of coming up with the core values, they really resonated,” says Bobbi McPherson, senior vice president of people services, calling those values “an anchor to keep coming back to.” [See “Creating a New Culture at Two Roads Hospitality,” page 15.]

Hospitality CHROs should focus on priorities like these – environmental responsibility; community action; concierge-type service – and fit them into the larger strategic HR roadmap in a way that ensures they are building the agenda from the foundation up. Organizations must consider the hierarchy of needs to build an HR infrastructure that is sustainable and results in the desired impacts over time. For instance, a more sophisticated strategy like a 360-degree evaluation program will not reach its full potential if the organization is not meeting basic needs like competitive compensation and benefits programs.

When building the HR roadmap, each initiative must align with and integrate into a longer, multi-year strategy for driving sustainable, positive change. Creating a roadmap that puts first things first will ensure that critical interdependencies are developed – e.g., the leadership competencies, learning and development programs, and effective coaching that need to be in place before implementing a 360-degree evaluation process.

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**Organizations must consider the hierarchy of needs to build an HR infrastructure that is sustainable and results in the desired impacts over time.**

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## MOVING FROM VALUES TO VISION

Once a company has spelled out the specific values, beliefs, and behaviors its employees must possess to achieve the organization’s mission, it must translate that into its vision or strategy – i.e., how it is going to hire, motivate, train, and retain employees who are highly engaged and keep customers satisfied and hungry to return.

It is not enough to express the desire to create a purpose-driven organization, define that purpose, and articulate the organization’s values. CHROs and other leaders must create a roadmap to the desired future state. Once a team is clear on where it wants to go, it can begin thinking about how to get there. That requires a clear vision articulating what HR could and should be to the business. Then HR must follow that with a thoughtful, multiyear roadmap of activities that align with the organization’s mission, values, and vision. These activities will reinforce one another and have a multiplier effect.

Consider the case of Sage Hospitality, one of the largest privately-held management and real estate investment companies in the United States. The Denver-based company manages more than 75 luxury hotels and more than a dozen high-end restaurants around the U.S. It competes heavily for talent in the hotels and restaurant business.

Accordingly, it begins its employee engagement efforts in the hiring process through a candidate concierge position (described by its former chief people officer, Lisa Donovan). Job applicants call the concierge to ask what they should wear to the interview, where to

*Continued on page 15*

## Cross-Functional Teams

# *Drive Engagement at Vail Resorts*

**Profile:** Vail Resorts has nearly 40,000 employees (including full-time, part-time and seasonal) at 18 ski resorts and other destinations around the world.

**2017 revenue:** \$2.0 billion.

In 2009, Vail Resort's corporate leadership committed to developing an internal group of employees — existing and rising peer leaders — to define, embrace and promote a positive workplace culture. It had to be a culture that fellow workers could relate to their work at Vail Resorts and its meaning in their lives. This resulted in the formation of the cross-functional, cross-divisional Culture Team, composed of employees from most every function within the organization.

Based on employee surveys (that the culture team helped devise) combined with interviews with key leaders, and supported by internal HR experts, the team designed a strategy to support Vail Resorts' mission "to create the experience of a lifetime for our employees, so they can in turn provide the experience of a lifetime for guests."<sup>18</sup>

The strategy included a rewards program (e.g., now referred as the Epic Service Award), which flew the winning employees to the different Vail Resorts' properties, such as the one at Grand Teton National Park, as well as the ski slopes in Vail, where they were provided fine dining and early access to the slopes. This accomplished two goals: It rewarded deserving employees, and it gave them a sense of what Vail Resorts' high-end customers experience, the better to tailor their service to customer expectations.

The culture team also defined the company's values as:

- Serve Others: Own it, personalize it and elevate it.
- Do Right: Act with integrity — always do the right thing, knowing it leads to the right outcome.
- Drive Value: Grow profit through smart and innovative business practices.
- Do Good: Preserve our natural environments and contribute to the success of our local communities.
- Be Safe: Be committed to the safety and wellness of employees and guests.
- Have Fun: Fun is our product, so create fun, enjoy your work, and share the contagious spirit.

Over the years, Vail Resorts has worked to solidify these values. In fact, they have become such an engrained part of the culture that the culture team was able to disband. "The power of the

vision, mission and values is in the embodiment of how we operate. People are driven intrinsically by that commitment to a sense of purpose," says Lynanne Kunkel, the current CHRO at Vail Resorts.

Kunkel says that Vail Resorts continues to use cross-functional teams to drive important initiatives like sustainability, a top driver of employee engagement. For example, each Vail Resorts mountain has an Epic Promise team, led by a Champion — a senior resort employee. The Champion oversees three committees of 6-10 people on each of the Epic Promise pillars: community engagement, environmental stewardship, and employee support. Each committee leads initiatives specific to its pillar. For example, in 2017, the Park City resort team initiated the replacement of paper cups with reusable plastic cups to reduce waste. On the employee side, the Epic Promise Foundation collects donations from employees to help peers in need (with tuition, for example, or traveling to visit a sick parent). And on the community side, Epic Promise Days enable Vail staff to spend time in their local communities to restore public lands, improve schools, building hiking trails and other public service projects. In 2018, Vail saw 2,242 employees donate 8,678 volunteer hours on 30 different projects.<sup>19</sup>

Also vital: aligning leadership and accountability around the company's values. Kunkel points to how Vail Resorts uses engagement surveys to hold leaders and departments accountable to living and upholding these foundational values. Those same engagement surveys also enable company leadership to gauge how well and how quickly newly-acquired resorts are integrating into the larger culture, which is critical for continued success. "This piece, around leadership alignment and accountability, is a critical enabler to bringing our vision and values to life in a way that serves the business, our people and our growth objectives," she says

**Results:** Initially, between 2010 and 2011, two aspects of employee engagement improved significantly: The first was the percentage of employees who felt they contributed to the firm's mission (rising from 94% to 96%); the second was the number of employees who identified with the firm's mission (which increased from 85% to 91%).<sup>20</sup> More recently, Kunkel attributes a three point rise in sustainability engagement scores from 2017 to 2018 to a continued commitment to sustainability-related activities. Consultancy Willis Towers Watson considers a 2% year-to-year rise to be strong progress in these metrics. Vail Resorts continues to see some of the highest engagement scores, often outperforming the Will Towers Watson high-performing norms.

<sup>18</sup> Vail Resorts website <http://www.vailresorts.com/Corp/info/mission.aspx>

<sup>19</sup> Epic Promise Week 2018, Vail Resorts website, accessed at <http://www.epicpromise.com/get-involved/epicpromise-week/>.

<sup>20</sup> Willis Towers Watson (2011), Vail Resorts 2011 Winter Employee Engagement Survey.

*Continued from page 13*

park, how they should prepare, and, after the interview, how it went. Similar to a hotel concierge, the candidate concierge greets the job applicant at the door, walks them through the building to describe the art and architectural features, provides beverages and snacks, and guides both the applicant and interviewing team through the process of their panel interview.

Providing this service, says Donovan, demonstrates to the candidate the organization's values, the behaviors that flow from it, and the type of service it wants them to provide.

In this way, Sage Hospitality can winnow out candidates who will not be able to rise to the challenge of high-touch service. It also can create "a deep desire to work for the company because the experience [of being interviewed] was very positive and engaging as opposed to scary, ambiguous, and cumbersome," Donovan explains.

## Creating a New Culture at *Two Roads Hospitality*

**Profile:** Privately held, slated to be acquired by Hyatt Hotels in 2018. More than 15,000 employees. More than 95 properties, including hotels and resorts, in eight countries. Founded in 2016 from merger of Destination Hotels and Commune Hotels.

A 2-year-old company resulting from a merger, Two Roads Hospitality needed to establish a new cultural identity around which employees at a range of properties – from luxury destination resorts to small urban hotels – could rally.

Bobbi McPherson, senior vice president of people services at Two Roads, says the work began in earnest soon after the merger to reach consensus on seven core values: serve from your heart, celebrate individuality, deliver greatness, earn trust, go above and beyond to solve problems, live your whole life, and find fun in daily tasks.

Over the course of a year, thousands of employees at every level participated in surveys, focus groups, meetings with top executives to derive the company values which guide leadership decisions as well as workers' day-to-day behaviors.

The company has embarked on a program to reward and promote "cultural ambassadors," employees who demonstrate the company's core values and hold accountable those who don't. The program originated with senior leadership. It calls for building multiple levels of ambassadors from the headquarters office to the property level.

"This talent review is not a one-time event," McPherson says. "This is something we intend to repeat as part of our annual and quarterly talent and performance review process. Then we tie our rewards to the outcomes of the talent review placements."



The company has created a "9-box" assessment that looks at an employee's performance and his or her behaviors as a cultural ambassador. Two Roads holds cross-disciplinary sessions to evaluate talent to incorporate multiple perspectives. The company also uses its engagement survey data to inform the 9-box discussion. In the future, Two Roads hopes to use this process to identify talent at all levels of the company, including up-and-coming managers and leaders. This puts the company's culture, values and engagement levels at the center of a leader's career path opportunities and aligns corporate goals with the individual's. "We had a unique situation that we were trying to integrate two companies that had very distinctive and different personalities," says McPherson. "Because we were very inclusive in the process of coming up with the core values, they really resonated. You're golden when you have that because you have an anchor to keep coming back to."

**Results:** The program is ongoing.

For many (perhaps most) hospitality companies, their vision and strategy will remain the same after going through this process. But in some cases, the exercise of spelling out purpose, values, and vision will force a hospitality company to revisit its core mission and strategy. In these cases, top management may discover it can't strive to be the best in the world in all their diverse operations, even if employee engagement is high.

This is what happened at Vail Resorts. Once it more clearly defined its purpose of creating the “experience of a lifetime” and its values, this new-found clarity resulted in the decision to narrow the company's focus exclusively to ski resorts and complimentary businesses (i.e., lodging, food and beverage, retail, and transportation) associated with those resorts. The solidification of the core (ski resorts) allowed the company to more intensely focus on being the best in the world in this specific space. In the midst of redefining its purpose, values, and vision, top management decided that the non-mountain related operations were a big distraction. So it began to divest itself of its non-mountain-related properties and related holdings.

Looking at 2018, the transformation has been remarkable. Vail Resorts Inc. revenue has more than doubled from its troublesome year of 2009, to \$2.0 billion in fiscal 2018.<sup>21</sup> Some 99% of that came from its ski resorts and nearby lodging, restaurants and stores. Net income attributable to Vail Resorts was \$380 million – more than seven times the number of 2009.

## EMPLOYEE ENGAGEMENT AS A STRATEGIC IMPERATIVE

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In this hyper-connected, digitalized world, customer satisfaction is all that matters, and the degree of their satisfaction (especially in the hospitality sector) almost exclusively depends upon the quality of the service experience provided by the frontline employees with whom they interact (and the back-office employees who support them). As Marriott's Rodriguez says, “For us, culturally, there has always been this premise that the most sustainable way to run a successful company is to make sure that the employee experience is very strong. In turn, the employees are going to be motivated to create great experiences for customers.”

Employee engagement is an effort that addresses individuals personally and, through them, the teams of which they are a part. When everyone in an organization from top to bottom is engaged, understands the organization's mission, and shares its values and vision, a positive, productive organizational culture emerges.

Inevitably, there will be some employees who won't embrace their organization's mission, vision, values, and culture no matter how well they are communicated and reinforced, and no matter how visible and tangible the benefits of doing so. When these employees understand where the organization is heading and how determined it is to get there, they may realize that they are not a good fit and choose to find another employer whose values and beliefs better align with their own. When that happens, both they and your organization will be better off.

The flip side of that coin is that by clearly articulating the company's mission, values, and

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21 Vail Resorts annual SEC 10-K filing for 2018, accessed at <http://investors.vailresorts.com/static-files/f59e65b9-7c4d-478d-b582-f21a7eb825b0>.

vision – and building the programs and processes that support and sustain it – a CHRO can play a crucial role in helping the firm attract and retain aligned, committed employees.

For top-performing HR leaders, the solution to employee engagement begins with clearly articulating the organization's larger purpose (mission, values, and vision) and then helping employees find greater meaning and sustenance in their work lives. That will produce greater employee engagement and a stronger desire to serve customers. In turn, this will allow the company to profit and grow.

This requires a collaborative effort. CHROs need to enlist employees in defining what is possible, how to make a company's mission, values, and vision live and breathe, and how to make them relevant to every individual so that they understand both the organization's purpose and their own role in fulfilling it. CHROs should work with employees to develop an integrated approach to communicating those values and purpose, establishing individual accountability, and rewarding those behaviors that support and advance the company's goals.

In these ways, CHROs can play a critical and strategic role in their organizations: enhancing employee engagement, improving corporate performance, boosting the bottom line, and propitiating today's digital gods. ■

## ABOUT THE AUTHORS

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Dr. Mark Gasta brings over 25 years of C-Suite and corporate experience to his role as the leader of FMG Leading's hospitality practice. Prior to joining FMG Leading, Mark served as Executive Vice President and Chief People Officer for Vail Resorts Management Company, the premier luxury mountain resort company in the world. In his role at Vail Resorts, Mark planned and executed on organization-wide people strategies that increased effectiveness and enhanced performance and health throughout Vail's 30,000 employees. An expert in leader development, team alignment, empowerment, engagement, and high-performing cultures, Mark also teaches in the Masters of Tourism Management program at Colorado State University.



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A seasoned Human Resources professional with deep expertise across a broad spectrum of HR and industries, Jen's career includes experience working with a range of organizations, from non-profits to Fortune 500 companies. Before joining FMG Leading, she served as Senior Director of Human Resources for Vail Resorts, and earlier in her career, as Director of Human Resources for Starbucks Coffee Company. In her current role as a Senior Consultant with FMG Leading, Jen helps clients build HR capability and effectiveness, with a focus on leader development, performance management, strategic planning, mergers and acquisition integration, and succession planning.



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Steve came to FMG Leading from the hospitality industry, where he held leadership roles for nearly 2 decades at luxury hotels around the world. He began his hospitality career with Starwood Hotels & Resorts before joining The Ritz-Carlton Hotel Company in April 2000 in Jamaica. Steve held various leadership positions at three different properties before becoming the youngest General Manager in the brand's history at The Ritz-Carlton, Kuala Lumpur at age 29. In addition to his current market development, growth strategy, and brand oversight responsibilities at FMG Leading, he has delivered learning programs and keynotes on service excellence, culture, and leadership to a wide range of clients.

A scenic view of a snow-covered mountain range with three hikers in the foreground. The hikers are seen from behind, standing on a snowy slope and looking out over a vast, snow-covered valley. The mountains in the background are rugged and covered in snow, with some rocky peaks visible. The sky is a pale, hazy blue.

## ABOUT FMG LEADING

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FMG Leading is a premier business advisory firm that creates client value at the intersection of enterprise strategy and human capital performance. We help our clients identify high-leverage, targeted investments in leader quality, team execution, and culture that align with their business strategy, accelerating growth and creating an exponential ROI.

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