

High-Performance Business II



# Exploring the mindset of the high performer

By Walter E. Shill and Robert J. Thomas

The development and diffusion of a winning mindset is central to the ability of a high-performance business to outpace its competitors. Here's how one company—Harrah's Entertainment—created that mindset by mastering five key tasks.



Nearly a year ago, Accenture asserted that high-performance businesses distinguish themselves not only through their strategic decisions and business practices but also through their performance anatomy. Furthermore, we suggested that companies that had built a robust performance anatomy were adept at five critical tasks: balancing market creation with disciplined execution; multiplying talent; using a selective scorecard to guide performance measurement; viewing information technology as a strategic asset; and renewing continuously (see “In search of performance anatomy,” *Outlook*, October 2004).

But since this initial exploration of the concept, our research has led us to conclude that performance anatomy can also be characterized in simple terms as reflective of an organizational mindset. During the past year, we have made several in-depth studies of companies to test the hypothesis that the development and diffusion of a winning mindset is central to the ability of a high-performance business to out-execute its competitors.

This article is based on one of those case studies; in it we explore how Harrah’s Entertainment exemplifies this winning mindset. During the past decade, Harrah’s has infused its organization with just such a mindset, and in the past five years, the company has enjoyed enviable financial performance and rapid organizational growth. Our research indicates that the company owes a great deal of its success to its robust performance anatomy. Moreover, this in-depth look at Harrah’s provides the hard, real-world evidence to support our conviction that, far from being an amorphous and often vague characteristic like culture, performance anatomy or a winning mindset can be observed, measured, improved and made into an important source of sustained competitive advantage.

### **Balancing market creation and disciplined execution**

High-performance businesses thrive on the inherent tension between creativity and discipline. On the one hand, they demonstrate a relentless drive to find, test and invest in new products and services, new clients and new concepts. On the other hand, they distinguish themselves through disciplined execution.

Harrah’s actively manages this tension. Founded as a bingo parlor in Lake Tahoe, Nevada, by Bill Harrah in 1937, Harrah’s is now one of the world’s largest casino and hotel empires. It consistently has been one of the most profitable companies in its industry, and it outperformed its peers through the recession and the post-9/11 slump in the travel market. In the past five years, Harrah’s revenues and profits have grown impressively (see chart, opposite), and during the same period, it has mushroomed from 14 casinos and 14,000 employees to 44 properties and nearly 100,000 employees. In June 2005, Harrah’s capped its growth streak by acquiring a major rival, Caesars Entertainment, for \$9.4 billion.

According to CEO Gary Loveman, the key to profitable expansion has

been the company's ability to bring innovation to the casino business while at the same time refining and keeping the promise that "every time you come to Harrah's, your experience will be better than your last visit and better than [it was or would be at] the competition."

Consider how the company uses innovation to shape its market. In 1997, for example, Harrah's launched a loyalty program called Total Gold. Now known as Total Rewards, this initiative is what the company calls "the gaming industry's first national, multi-brand loyalty effort."

Data from the program revealed that 80 percent of company revenues were coming from 20 percent of Harrah's customers. Management pounced on that insight to differentiate the company by offering rewards (free meals and room upgrades, for example) designed to encourage the most profitable customers to spend all of their casino dollars at Harrah's properties. This

move helped Harrah's debunk an industry myth that customers are loyal to a location (such as Las Vegas or Atlantic City), not to a casino or a brand. Now the company has taken the reward system a step further by offering incentives to regular customers at Harrah's properties outside the traditional gaming hubs—in New Orleans, for instance, or Kansas City—to add Las Vegas or Atlantic City to their travel plans.

Such market making is matched by the company's emphasis on disciplined execution. Tim Stanley, Harrah's CIO, notes that new employees are often surprised by management's insistence that nothing be left to chance. "One of the first things they figure out," he says, "is you need to have a plan, week by week or even day by day—not just how you're going to spend the money, but how you're going to operate."

Each aspect of a property's service delivery—the average time it takes to greet a customer, for example, or

## Harrah's bottom line: Beating the odds

During the past five years, Harrah's has been one of the most consistently profitable companies in its industry, outperforming its peers through the most recent recession and the post-9/11 slump in the travel market.

Income statement \$ millions, 2000–2004	2004	2003	2002	2001	2000
Total revenue	4,548.3	3,948.9	3,747.9	3,648.5	3,329.8
Gross profit	1,924.4	1,689.5	1,688.8	1,703.7	1,537.7
Total operating expense	3,757.2	3,289.2	3,039.2	3,075.2	3,047.1
Operating income	791.1	659.7	708.7	573.2	282.7
Income before tax	528.8	428.2	470.6	345.7	17.8
Income after tax	338.1	272.6	296.2	219.9	2.4
Net income	367.7	292.6	235.0	209.0	-12.1

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to deliver a drink—is measured and reported to management on a weekly basis. And if revenues are down on a particular weekend by comparison to that same weekend the previous year, the property’s general manager gets a call on Monday morning seeking an explanation.

As Harrah’s strives to innovate and enrich the customer experience, it studiously avoids emulating the risky moves of some of its competitors. Harrah’s does not, for instance, have an “edifice complex.” As Ken Weil, vice president of slot machine operations, explains it, “You look at [some gaming companies] and wonder, ‘Why are they spending all that money to put a new restaurant on top of the hotel?’ We just wouldn’t bet the farm on a \$2.7 billion building.”

Indeed, while its competitors raced to outdo one another by building expensive showplaces, Harrah’s painstakingly built a diverse nationwide portfolio of casino holdings full of loyal customers. Even its recent decision to acquire Caesars, one of the industry’s original showcase casino properties, was fueled by CEO Loveman’s belief in the “scalability” of Harrah’s winning mindset and the compatibility of the two companies’ business models.

Harrah’s considers the positive attitude of its employees to be one of its most important differentiators. Data collected from customers, mystery shoppers and supervisors tell the company unequivocally that talented, motivated and upbeat employees are the best guarantor of customer satisfaction. In turn, satisfied customers are the best predictor of future cash flow. According to John Bruns, vice president for customer assurance, “We know how to describe what an upbeat, positive attitude looks and sounds like, and we train [employees to have] it. We certify observers to measure it, score it in real time and give employees ongoing feedback.”

Management leaves little to chance when it comes to recruiting and developing top-notch employees. A rigorous screening process identifies people who will fit comfortably into Harrah’s unique culture. “We look at [an applicant’s] background, of course, but we also have our own employee metrics department that has built assessments for every level: line employees, supervisors, managers and senior leaders,” explains Jerry Boone, senior vice president of human resources.

Managers use these assessments to conduct structured interviews and role-playing exercises that indicate how people approach problems. Although Harrah’s believes firmly that hiring people who already embody company values is the key to retaining outstanding employees, it also invests heavily in training. Notes customer assurance vice president Bruns: “Our responsibility is the continuous improvement of [employees’] skills. It’s not just a matter of saying, ‘You took two weeks of training and now we throw you out to the wolves.’ No, no. We’re going to continue to work with you and build your skills.”



Harrah's CEO Gary Loveman

**Keeping the promise that "every time you come to Harrah's, your experience will be better than your last visit and better than the competition"**

### **Multiplying talent**

Most businesses believe that their talent should be greater than the sum of their parts. But the leaders of high-performance businesses bring an intensity to developing people similar to the focus they display toward financial management. They work especially hard at getting the right people into the right jobs. They do it, once again, through what might appear to be contradictory means: They focus simultaneously on productivity and creativity.

Advancement at Harrah's is based on merit, not tenure, and the process can be challenging. For example, candidates for the position of customer service director, whether internal or external, must pass three tests before they will even be considered for an interview. They must take a psychological test, assess a case study during 90 minutes of role playing involving mock customer interactions, and undergo a structured, 10-question interview that is taped and analyzed by Bruns and a human resources executive.

"About 20 percent pass all three gates and earn a face-to-face interview with the general manager," says Bruns. It makes sense to be that selective when one considers the importance of a customer service director for a given property. A property's general manager, for example, derives 25 percent of his or her bonus from customer service scores, so the director must be first-rate in terms of both ability and temperament.

The payoff from Harrah's talent multiplier? According to Chief Operating Officer Tim Wilmott, "I think the toughest thing [for our competitors] to replicate is the level of intensity we have regarding our customers. Our customer focus is inherent throughout the entire organization, and it's world-class."

### Using a selective scorecard

High-performance businesses are disciplined, demanding and selective about the ways they measure value. They use measurement to support decision making, and they track not only tangible assets but also intangibles like brand recognition, corporate reputation and employee engagement. Though intangible assets are often overlooked by Wall

Street, high performers actively manage them to both justify and increase the company's future value—that portion of a company's share price reflecting as-yet-unknown revenue sources (see "Future value: The \$7 trillion challenge," *Outlook*, February 2004).

Like many of its competitors, Harrah's relies on survey data, market feedback and financial measures to gauge its success. But the company doesn't lose the forest by trying to measure all the trees—it measures only those areas that relate directly to what Accenture calls a company's value-creation algorithm or model (see "Marks of distinction," *Outlook*, June 2005).

For example, each property is expected to show quarterly incremental improvement in service and financial outcomes. Tied to these reports is a sophisticated bonus system that rewards employees not for simply having high levels of customer satisfaction but for showing improvements in this area. In fact, at one location that was No. 1 in customer satisfaction for four straight quarters, employees received no bonuses at all. Although the numbers were strong, they were not improving, and Harrah's seeks to "raise the bar every time," as Bruns puts it.

Executives like Loveman and Weil believe that one of Harrah's most important intangible assets is trust between management and employees at all levels. Earning trust takes time and a great deal of investment in communication, but Loveman has led by example. In 2002, for instance, the company sought to rein in the cost of employee benefits. When it came to Loveman's attention that these changes would make benefits less affordable for the average Harrah's employee, he publicly admitted



COO Tim Wilmott

**Maintaining a "level of intensity regarding our customers, inherent throughout the entire organization," that's hard for competitors to replicate**

the move was a mistake and quickly corrected course.

In another high-profile test, top managers were writing the company's mission statement when someone suggested this line: "We're a distributed, multi-branded casino product." As Tom Jenkin, general manager of some of Harrah's largest properties, later put it, "Translated down about five layers, that statement means exactly nothing. Take it down to the guy sweeping the floor: How does that tell him how he fits into the company? In fact, it doesn't mean much to me!"

By keeping in mind how the mission statement would be received throughout the company, top managers were able to craft a message that avoided biz-speak and helped everyone understand the ways he or she fit in and contributed to the business's success. Such actions show Harrah's attention even to hard-to-measure intangibles like trust.



CFO Charles Atwood

**Encouraging employees to take calculated risks and look for opportunities, even if they're "crazy ideas," to foster genuine innovation**

### Viewing IT as a strategic asset

High-performance businesses translate data into decisions. They insist that IT serve business purposes, underscoring a conviction that they need to know more about their industry and their customers in real time than their competitors do. They want to know which customers are most valuable and then treat them differently.

When Loveman joined Harrah's seven years ago, he was inundated with proposals to spend more on IT. He countered by asking a simple question: "What are we doing to make sure that our best customers know that there's a promotion at a given property next Thursday?" His point wasn't to throw cold

water on the proposals but to make sure that the technologists were focused first and foremost on initiatives that would lead to growth.

While Harrah's competitors were investing heavily in showplace properties, Loveman was encouraging his team to plow money into marketing and technology, leading operations executive Weil to conclude that "this is a marketing organization with a specialty in technology that happens to be in the casino business."

Harrah's makes technology decisions to improve the customer experience. For example, consider how it handles the distribution of larger jackpots that can't be paid on the spot. According to COO Wilmott, "On a Saturday night, when you have 85 percent occupancy on your slot floor, you just humanly can't get to everyone at once. We want to distribute payouts to our very best customers first." Technology makes it possible to pinpoint those customers.

Moreover, through its customer satisfaction surveys, Harrah's found that customers on the slots floor were often frustrated by how frequently the machines jammed or had to be refilled with coins. In 2004, the company invested \$100 million to upgrade its slot machines so that they worked with tickets, not coins. Throughout the rollout, Harrah's closely monitored customer satisfaction levels and saw early on that customers had widely accepted the new technology. Harrah's connection of IT to customer needs has allowed both the house and its patrons to win.

### Continuously renewing the business

High-performance businesses are

never satisfied with the status quo and strive to revitalize the company on an ongoing basis. They imbue their people with this mindset and as a result are able to renew themselves at all levels and places with remarkable efficiency.

At Harrah's, continuous renewal is driven by management's understanding that the company must balance marketplace responsiveness with a steady focus on core capabilities. Customer service is both a core capability and central to renewal efforts, and the relentless pursuit of customer insight is expected from everyone—from the model builders in marketing to the guest-reception staff to the parking lot attendants.

One way of gathering that insight is through regular "buzz sessions," in which employees coming off a shift can share their experiences with staff about to start a new one. As one supervisor explains, "I'm listening for barriers that they experienced last night when they were on the floor. What are customers saying that we could do differently?"

Employees are actively encouraged—through the company's open-door policy—to raise concerns, suggestions and ideas with management, even with the CEO directly. Loveman holds quarterly, four-hour "call-in" sessions in which employees chat with him one-on-one, confidentially, and raise any issue they deem important. According to HR executive Boone, employees have made liberal use of the opportunity after seeing that Loveman acts on their concerns—and that they won't suffer retaliation.

Aside from putting in place a compensation system that rewards con-

tinuous improvement at all levels, Harrah's top management encourages employees to take calculated risks and look for opportunities to foster genuine innovation. CIO Stanley, for example, believes that slot machines "aren't going to do it" for the Nintendo generation and considers the potential need for new forms of gaming. And CFO Charles Atwood is willing to give a hearing to someone who has the "crazy idea" of having Harrah's "give away" the casino and charge for the food. These possibilities show that Harrah's isn't going to stand pat on its recent success.

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Harrah's understands the importance of building a winning mindset—at every level, from the front line to the C-suite—to distinguish itself from the competition. But it continues to challenge itself, embracing risk and change in pursuit of greater things, as evidenced by its recent acquisition of Caesars. Loveman knows that his next big challenge will be to find a way to bring Harrah's mindset to Caesars.

The Harrah's story underscores the importance of performance anatomy as an identifiable and manageable asset, albeit an intangible one. It can be observed, measured and improved; and once it is ingrained throughout an organization, it is very difficult for competitors to replicate. In subsequent articles we will describe in detail how case studies of companies like Harrah's have led us to design and apply highly practical tools for diagnosing and improving a company's performance anatomy.

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