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**A Diagnosis of Inherent Problems in Implementing Internal Marketing in Macau and Singapore Casino Companies**

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## **Abstract**

With spectacular growth in demand since opening the market to foreign competition, executives within the Macau casino industry seem to have focused their attention to enhancing capacity and opening new casino properties. Meanwhile, the Singapore casino market is expected to overshadow that of Las Vegas in the very near future. Despite such optimistic prognosis, the long-term scenario for the casino industry in both jurisdictions could spell trouble. It seems most casino operators in major Asian markets have not devoted adequate thought to their service culture and internal marketing strategy. With overall capacity in Asia slated to increase significantly in the next couple of years, the labor shortage for casino companies in Macau and Singapore will get more acute. Current impressive revenues notwithstanding, increased capacity will also put pressure on marketing to attract and retain valued customers. In light of these developments, we review five key challenges to internal marketing practices for casinos in Macau and Singapore: culture, climate, recruitment, compensation, and training.

## **Introduction**

In today's world of global competition and saturated demand, few industries have the luxury of operating in an environment with huge pent-up demand and limited competition. Yet, this is precisely the scenario one encounters in the newly opened or recently liberalized casino markets of Macau and Singapore. Such munificent business climate offer little incentives for top management to engage in strategic initiatives that would ensure continued long-term success of their casino enterprise. We believe that such myopic thinking could ultimately lead to severe operational handicaps if not threats to the very survival of these companies currently operating in hyper-growth markets. Furthermore, we argue that attention to issues such as corporate culture and internal marketing during times of prosperity offers the best insurance for service industries against labor shortages and unexpected abrupt drop in demand. To better comprehend executive behaviour in a largely sellers' market, we present a framework with which is to explain the antecedents and consequences of such market structure.

The casino industry in Macau and Singapore has exhibited robust growth in 2010/2011. When casinos elsewhere, particularly in the United States are suffering from a lack of demand brought about by the global financial crisis, gaming revenues for Macau and Singapore casinos have been nothing short of spectacular. It is Macau that is shoring up financial results for U.S. gaming operators such as Wynn and Las Vegas Sands. Recent results suggest that close to 85 percent of revenues of Las Vegas Sands originate from Macau and Singapore. That both Wynn and Las Vegas Sands sought to list their securities on the Hong Kong market

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should therefore not come as a surprise to anyone. As of writing this article, MGM is also in the process of floating its equity in China.

While 2011 might see Macau gaming revenues cross the US\$30 billion milestone, future competition and labor shortage may make a significant dents in the sector's profitability. For one, Galaxy Macau has built a 2,200 room casino integrated resort with around 600 tables and 1,500 slot machines. Parcels 5 and 6 for Venetian have also resumed construction. Wynn Macau anticipates approval to build a casino on the Cotai strip in 2011. According to an article in the 26 August, 2010 issue of *Macau Post Daily*, Galaxy Macau and a new Sands China property scheduled to be opened next year, are set to employ over 22,000 workers in total.

All these new properties will create substantial additional capacity in gaming products. Galaxy alone will contribute one eighth in terms of currently existing gaming tables in Macau. On the other hand, tens of thousands of new employees will be needed to run the new facilities. This is against a backdrop of steadily decreasing unemployment rate in Macau. The Statistics and Census Service said the unemployment rate fell to 2.8% from 2.9% in the March to May 2010 period. The underemployment rate slid to 1.9% from 2.1%. In recognition of the labor shortage threat, many currently operational properties have intensified their efforts to retain their workforce. Importation of labor for frontline jobs is not easy. The SAR Government in Macau has been very vigilant in allowing the importation of foreign labor, and has imposed punitive sanctions on companies that violate laws in relation to employment of local vis-à-vis foreign workers.

Overall, the employment situation does not bode well for the Macau casino industry. Casino companies are apprehensive that there may not be the needed workforce to run their multi-million dollar properties. The labor shortage may result in significant delays in the opening of new properties, and a poaching of workers from existing properties is to be expected when new properties open. The net impact on the bottom line for both properties currently being designed and constructed and those that are already operating would be huge.

Although a recent entrant into the casino space, the city state of Singapore has performed beyond expectations. The Marina Bay Sands (MBS) integrated resort earned US\$305.8 million in EBITDA in the last quarter of 2010, in line with the parent company's expectations. The company expects to generate \$US2 billion in pre-tax profits in 2012. The financial picture appears equally rosy for Resort Worlds Sentosa (RWS). Having opened its doors on February 12, 2010, the company made a tidy S\$1.3 billion in gross profit for the full financial year. With around 20,000 staff between the two resorts, employee retention, training, and engagement is bound to assume center stage.

This paper takes a prescriptive approach to managing the workforce in Macau and Singapore. We posit that significant enhancement in attention to internal marketing is needed if Macau and Singapore casinos are to attract and retain the requisite workforce. Later in the paper, key managerial implications emerging from this perspective have been discussed. Since Macau has a longer tenure within the casino industry, most insights presented herein are based on Macau companies. However, based on our consulting experience and very limited research in the Singapore market, we feel that the two casino companies in Singapore will have to deal with similar challenges.

### **What Is Internal Marketing?**

The genesis of internal marketing (IM) can be traced back to the 1970s in the early works of Berry, Hensel, and Burke (1976), who viewed internal marketing as a strategy whereby an organization designs its jobs and markets itself to its employees as though the employees were

the firm's (internal) customers. Although there are several earlier definitions of internal marketing, the one provided by Berry and Parasuraman (1991, p. 151) seems most basic and coherent:

Internal marketing is attracting, developing, motivating, and retaining qualified employees through job-products that satisfy their needs. Internal marketing is the *philosophy* of treating employees as customers.

The premise behind adopting an IM orientation is that in the process of service delivery, a firm's frontline employees actively interact with the customers, and in effect, become the public face of the service establishment. The outcome of this interaction plays a huge part in the overall quality of service experience as perceived by the customers. Heskett, et al. (1994) go on to suggest that service quality, customer loyalty, and firm profitability are significantly impacted by the organization's "internal service quality," which encompasses IM issues such as workplace design, job design, employee development, employee recognition, and providing employees with the proper tools for serving customers.

Although internal marketing has been defined in a number of ways since its inception over thirty years ago, the common thread across all definitions is its fundamental focus on employees. By striving to create satisfied, engaged, and motivated employees, a firm is able to offer a product that will delight the end customer. The ultimate goal of IM is to create a service culture which instils customer consciousness among employees (Grönroos, 1990; Rafiq and Ahmed, 1993).

Ueno (2010) reviews the work of several services marketing scholars to assess the elements of IM that are common across these discourses (Grönroos, 1990; Berry and Parasuraman, 1992; Joseph, 1996; Taylor and Cosenza, 1997; and Kasper, et al., 1999). All elements, she reports, can be subsumed under twelve headings: (1) Recruitment and selection; (2) Training; (3) Teamwork; (4) Empowerment; (5) Performance measurement and reward systems; (6) Communication; (7) Culture; (8) Top management commitment, involvement, and leadership; (9) Employee commitment and involvement; (10) Internal marketing segmentation and targeting; (11) Internal marketing research; and (12) HR issues such as motivation and job satisfaction.

Clearly, there exists causality and overlap across several IM elements mentioned above. For example, "top management commitment, involvement, and leadership" will result in appropriate emphasis on recruitment, training, empowerment, and culture. Nonetheless, identification of common elements discussed within the IM literature is useful for researchers as well as practitioners. Researchers are provided with a crisp "content analysis" of IM, while practitioners can appreciate, at a glance, the direction and outcomes of implementing IM. Based on previous research on Macau's casino employees (Gu and Sui, 2009; Kale, 2007; Ruiz, 2006; Wan, 2010), and on our own informal interviews with several casino employees in Macau and Singapore, we have identified identify five key elements of IM that could be most problematic for the casino industry in Macau and Singapore: culture, climate, recruitment, compensation, and training. A framework depicting the interrelationships between these elements is presented in Figure 1.

### **Applying IM to Macau Casino Industry**

#### *Culture*

Tony Hsieh, the CEO of Zappos, the legendary online shoe company known for its outstanding customer service, has said, "Your culture is your brand. Customer service shouldn't just be a department; it should be the entire company."

Fundamental to effective internal and external marketing is the existence of a robust *service culture*. Service culture refers to a specialized culture within the broader concept of organizational culture. Service culture can be defined as “a culture where an appreciation for good service exists, and where giving good service to internal as well as ultimate, external customers is considered a natural way of life and one of the most important norms by everyone” (Grönroos, 1990, p. 224).

Let us look at the culture of casino organizations in Macau. Apart from Stanley Ho’s SJM, all casino companies in Macau have begun their operations post 2003. As such their organization cultures are still in a state of flux; largely impacted by the person at the helm and on the nationality of the parent company. Unfortunately, for many of Macau’s casino companies (and based on recent evidence, the same appears to hold true for Singapore-based casino organizations), the tenure of chief executives is relatively short-lived, thus making lasting cultural footprints difficult, if not impossible. To exacerbate the situation, two of Macau’s casino companies, MELCO-PBL and MGM Macau have been formed through collaboration between an ethnic Chinese partner and an Australian/U.S. partner. This makes it all the more difficult to craft a service culture that would be acceptable to all constituencies within top management.

### *Climate*

Service culture is important in that it shapes the policies, procedures, processes, personnel hiring and training, scripts, control procedures and complaint handling techniques that define the service offering’s essential elements. In this regard, service culture strongly impacts service climate, i.e., employee perceptions of the practices, procedures, and behaviors that get rewarded, supported, and expected with regard to customer service and customer service quality (Schneider, White, and Paul, 1998). To the extent that employees perceive that they are rewarded for delivering quality service, their organization’s service climate will be stronger. Furthermore, perceptions that customer service is important to management will also contribute to a strong service climate.

As in the case of service culture, there are serious handicaps in instituting a strong service climate within the Macau and Singapore casino industry. For one, most employees may not have worked in a labor-intensive service industry such as casinos prior to their current job. Until 2003, the Macau casino industry operated as a monopoly, catering primarily to VIP clients. As such, a strong service climate was not deemed vital to profitability. Wan (2010) supports the widespread lack of service quality consciousness among casino workers in Macau. In her study, 43.1% of the respondents did not feel quality service was important or that their customers demanded it. One of the interviewees in this study said:

Perhaps casino gaming in Western countries is treated as a form of entertainment, but in Macau it is purely a matter of betting. Most of our customers, especially VIPs come only to win money. They don’t care about our services. Some of them even prefer for us not to say anything, but just give them cards and money.

Lack of employees’ buy-in with regard to quality service is further compounded by the composition of the casino workforce in Macau and Singapore. The current workforce within both gaming jurisdictions is culturally diverse. Most dealer-level employees tend to be locals, but as one moves beyond the supervisor cadre, one sees several nationalities represented: Americans, Australians, Filipinos, Turks, Macanese, and Britishers, to name but a few. Each group interprets expected customer service levels and customer oriented behaviours in light of its prior experiences and national culture. Also, because the Macau and Singapore casino markets are growing so fast, management attention has been focused on property expansion and market share gains, and not on issues such as service culture and service climate, which

may not have immediate payoffs as, for example, opening additional 100 gaming tables or constructing a new casino property. Consequently, there is less than solid understanding among the casino workforce in both countries about what management expects by way of customer service and how employees will be rewarded for delivering the service that management expects. Wan (2010, p.68) quotes the views of one of the Macau frontline employees she interviewed:

Our managers are from different countries such as Macau, the United States, Australia and Britain and have different management styles. American managers emphasize service quality, Australian managers focus on cost control, and Chinese managers rely on Guanxi [networking and personal relationships].

Given such diverse and often conflicting signals from supervisors, it should come as no surprise that frontline employees feel confused about what behaviours management expects of them. Role conflict is inevitably the result.

### *Recruiting*

Recall that IM is about attracting, motivating and retaining “qualified” employees. A business gets to have qualified employees through its recruitment and training practices. Recruiting qualified employees in a tight labor markets such as Macau and Singapore is indeed challenging. Not surprisingly, whenever a new property opens, there is extensive poaching of employees from competing casinos from both within and outside the jurisdiction (Kale, 2007).

Ruiz (2006) reports that in preparation for the opening of Wynn Macau, the company adopted a culturally sensitive approach to its recruiting. Mass-hiring techniques that are effective in Las Vegas were tweaked to focus on bonding with potential employees. Efforts to develop trust with the labor market were underway long before actual recruiting began. Instead of relying on job fairs, a common practice in countries such as the U.S., the company spent a lot of time hosting small gatherings and information sessions, a strategy that served to forge stronger bonds with the applicants.

Wynn also expended considerable effort in developing a powerful brand. In emphasizing branding advantages when it comes to recruiting, Ruiz (2006) quotes Peter Zhang of Mercer Human Resource Consulting in Shanghai, “Having a strong employer brand is critical in China... It is not uncommon for companies that lack name recognition to compensate by offering premium salaries.” By investing in brand-building, and by tailoring its recruiting strategy to the local audience, Wynn was able to attract enough qualified employees to the new casino property. In fact, the company received 70,000 applications, representing about 25 percent of Macau’s workforce.

A similar approach to recruiting was adopted by MBS in Singapore. The company adopted the ‘Be magnificent’ campaign that has resonated well among potential recruits. However, since majority of the recruits would not have prior casino environment experience, hiring criteria had to be modified to reflect this challenging reality.

### *Compensation*

In their study investigating the drivers of job satisfaction among Macau casino-hotel employees, Gu and Siu (2009) report that overall employee satisfaction was found to be positively correlated with employee loyalty. The authors noted “mediocre” levels of employee satisfaction on items related to salary and benefits, support (encouragement, help, and guidance from superiors and co-workers), and training. Ironically, the key drivers of overall employee satisfaction were, in order of importance, salary and benefits, training, and support.

With the acute employee shortages looming over the horizon, it would make sense for casino operators to raise dealer earnings from the current MOP16,000 a year (inclusive of tips). We do not suggest that the wage levels parallel those prevalent in U.S. or Australia, as this would seriously disrupt the wage equilibrium, and could jeopardise casino profitability given the 40% gaming tax in Macau. We do, however, advocate that casino companies should consistently strive to be very competitive in terms of the salaries they pay to frontline employees if they want to attract quality workforce and keep that workforce motivated. Casinos may want to develop gainsharing programs whereby employees' future rewards are linked to the performance of the entire property or to specified units within the property such as the casino.

Disappointment with compensation has also beset the two casino properties in Singapore. An article in the March 3 issue of the *Straits Times* reports that casino dealers at MBS and RWS were disappointed with the one-month and two-month bonuses paid to them at the respective properties. The same article reports that at least seven of the MBS dealers planned on quitting once they found another job. MBS and RWS dealers said that they take home an average of \$1,800 a month – slightly lower than Macau's average of \$2,000 -- despite the fact that the cost of living is higher in Singapore than in Macau.

### *Training*

The impact of employee training on company performance is well-documented (Bassie and McMurrer, 2007; Harel and Tzafrir, 1999). The fact that Gu and Siu (2009) report a strong positive relationship between overall employee satisfaction and the level of training in the casino context is noteworthy. Also important is the fact that respondents in this study allocated their employer a mediocre score on the training dimension. The authors go on to conclude:

Our survey shows that 71.5% of the employees had never participated in any training programs and the majority of casino workers were young people. On the other hand, our regression model implies that younger employees are less likely to be satisfied with the firm but training can help increase employee satisfaction. Therefore, there is indeed a need for Macau casino hotels to step up training to improve work performance and employees' satisfaction (Gu and Siu, 2009, pp. 574-5).

The same sentiment was expressed by Kale (2007, p.7) almost four years ago where he advocated IM as the antidote for Macau's labor shortage. Speaking of training, Kale writes:

The labor crunch in Macau means that there may not exist opportunities to hire enough qualified people for a particular job. This would necessitate retooling of the existing workforce for handling new jobs or additional responsibilities. For example, a server in F&B may need to be retrained as a Baccarat dealer. This would not only require training in dealing cards at a Baccarat table but may also require language and communication skills training. Any large casino establishment would have some employees who are not well-suited for their current position but would flourish in other roles. In such instances, an internship program might help. Employees could shadow their co-workers in other jobs to learn more about the nature and content of internal job opportunities.

On a similar note, Ruiz (2006) also highlights the vital role of training Macau's casino employees. She writes, "Training is critical in Macau's service-oriented market. Unlike Las Vegas, where the bulk of income stems from machines, revenues in Macau depend on high rollers..." Recognizing the link between employee training and providing a superior customer experience, Wynn Macau has made employee development one of the cornerstones of its workforce management strategy. All employees receive highly individualized training in

groups of no more than 20 and are required to pass certification programs before interacting with guests on the property.

### **Managerial Implications**

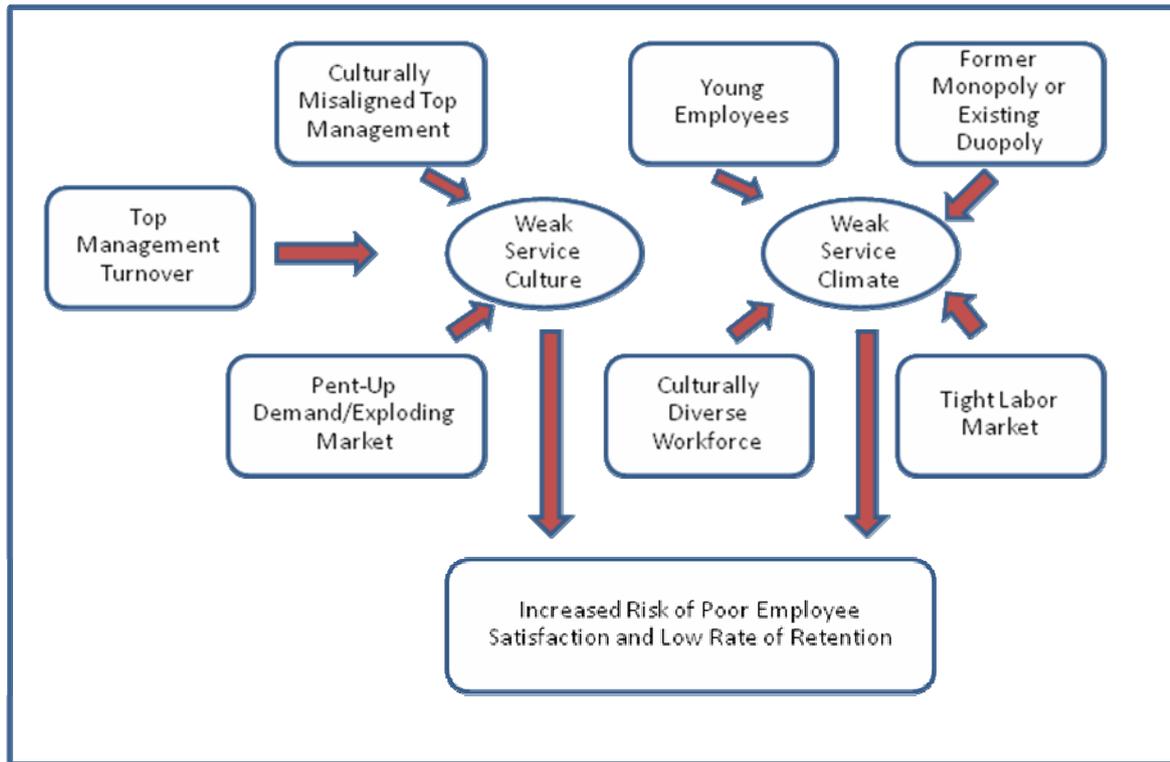
Problems in internal marketing add to costs of doing business and lower employee as well as customer satisfaction. The costs of replacing employees in China can range anywhere from 25 percent to 50 percent of their annual salary. Similar figures would apply for Singapore casinos as well. We believe that addressing IM issues related to culture, climate, recruitment, compensation, and training will significantly improve overall employee satisfaction as well as retention of casino employees in both Macau and Singapore.

The five issues we identify are systemic in their functioning. This dynamics has been explained in Figure 1. As can be seen from this diagram, top management turnover, culturally misaligned management make-up, and the exploding demand for casino services have all contributed to the lack of a strong service culture in most casino properties. The Chief Executive of Macau has made a pronouncement that other than arrangements already approved by the SAR government, no further expansion of casino services in Macau will be permitted in the foreseeable future. This freezing of capacity should hopefully encourage top management at Macau's casino properties to focus on internal as well as external marketing issues.

With regard to Singapore, currently over 80 percent of the integrated resorts' revenues are derived from casino operations. In assessing both employee as well as customer satisfaction, the casino division deserves greater attention compared to others such as hotel, food and beverage, and entertainment. Both MBS and RWS need to address each of the elements depicted in Figure 1 which have a demonstrable impact on employee satisfaction and retention. Despite the obvious benefits of operating in a duopoly, both RWS and MBS, if badly managed, could see both their customers and employees desert them as the casino novelty wears off with time.

As of now, issues such as corporate culture or service culture do not seem to dominate the agenda of casinos' top management in either Macau or Singapore. This neglect may come to haunt casino operators at a not-so-distant future point in time when competition gets intense and demand for casino services starts to stagnate. By then, thanks to early years of neglect, a dysfunctional service culture will become readily apparent. Unfortunately, undoing of this negative culture will be expensive, time-consuming, and even improbable. It therefore behoves top management in Macau and Singapore casinos to address cultural issues sooner rather than later.

**Figure 1: Antecedents and Consequences of Internal Marketing in Macau and Singapore Casino Enterprises**



Gu and Siu (2009) have indicated that over 70 percent of casino employees in Macau have received no formal training whatsoever. At a time when many casino operators in Macau are reporting record profits, funds allocated to training should be substantially increased. Training of employees enhances employee satisfaction and loyalty to the employer, and it has a demonstrated impact on the bottom line.

Casino employees in Macau as well as Singapore need to be trained with three overriding objectives: (1) adjusting attitudes so all employees understand and accept the fact that service marketing requires the involvement of everyone (as seen reflected in way Zappos operates); (2) realizing the role each person plays in creating the desired customer experience; and (3) improving the job related skills of employees. As mentioned earlier, previous research suggests that a sizeable proportion of Macau's frontline casino employees do not believe that service even matters. A significant shift in attitude should therefore be the primary goal of training. When each employee realizes the role s/he performs in delivering the customer experience, they begin to identify better with the casino's service strategy. This sense of identity enhances motivation and engenders loyalty on the part of employees. Training to enhance job-related skills within both casino jurisdictions should include training in cross-cultural communication as well as language skills, especially Mandarin and English. A lot of frontline employees believe that not knowing how to communicate in English seriously hampers their chances of promotion. Providing training in basic English language will put this anxiety to rest.

In formulating this article, we are cognizant of the fact that casino operators in Macau as well as Singapore are under a lot of external pressure to expand their capacity and increase their market share. Consequently, their attention to issues such as internal marketing and market segmentation could be less than desired. With increasing competition and continuing labor shortages, however, these issues demand greater attention right now. Investment in internal marketing should assume greater priority than investment in external marketing.

### **Summary**

The demand for casino services in Asia seems to be on an upward spiral. With 33 casinos currently in operation in Macau, and more to open in the next couple of years, the competition for employees as well as customers will intensify. Singapore will also face shortages of qualified employees to staff its two integrated casino resorts.

The new normal for the nascent casino industry in Asia will be characterized by competition based on service, and not by the heretofore “build it and they will come” premise. This scenario will require focused attention to issues related to internal marketing as well as external marketing. With internal marketing as the spotlight, this article has identified key issues related to the casino industry’s service culture, service climate, recruitment, employee compensation, and training. Forward-thinking operators will be well advised to focus on these issues now so that they are well prepared to face the impending war for talented employees and increased competitive pressures.

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