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Cost Effectiveness of Substance-Abuse Treatment in Casino Hotels

An employer's investment in substance-abuse treatment programs for employees can be paid for in part by the savings gained by retaining successfully treated workers and increasing their productivity

by **Andrew M. Klebanow**
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ONE OF TODAY'S business realities is the prevalence of employee substance abuse—a particularly acute problem for the hospitality industry. Merely getting rid of substance-abusing employees is, at best, a cosmetic solution. Faced with labor shortages, growing "wrongful termination" litigation, and legislative mandates that promote a drug-free workplace and prohibit employee discrimination of recovering substance abusers, employers are investing in employee-assistance programs (EAPs) that provide substance-abuse treatment and permit the employer to retain an otherwise productive employee. Like any investment, a cost-benefit analysis such as that described in this article can provide a framework for evaluating the relative advantages of various types of EAPs.[1]

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[1]Our model uses the costing guidelines described by Wayne Cascio, *Costing Human Resources: The Financial Impact of Behavior in Organizations,* third edition (Boston: PWS-Kent Publishing Company, 1991).

Among the more tangible benefits of treating substance-abusing employees is reduced turnover and absenteeism: expensive problems that otherwise might go unchecked. As a way of presenting our cost-benefit analysis, we compare the EAPs at two casino hotels which have quite different substance-abuse programs: the Mirage, in Las Vegas, and Merv Griffin's Resorts International Hotel-Casino, in Atlantic City. In this article, we focus only on the programs' effects on absenteeism and turnover, recognizing full well that there are many other benefits, both tangible and intangible, that accrue when employee substance-abuse problems are addressed by managers.

Substance Abuse in the Workplace

A 1990 Gallop survey conducted for the Institute for a Drug Free Workplace revealed that 22 percent of employees nationwide believed that illegal drug use was at least "somewhat widespread" in their workplace, while 49 percent said that illegal drug use "occurs" in the workplace. Moreover, 32 percent of the respondents indicated that the selling of drugs also took place at work.[2] Drugs in the workplace pose significant problems for the employer. A survey conducted by the National Council on Alcoholism revealed that between 15 and 20 percent of restaurant employees use illicit drugs and alcohol while on the job (Exhibit 1).

Furthermore, according to data gathered by the drug-use forecasting program of the National Institute of Justice, as many as 67 percent of males and 86 percent of females who were arrested *and* who had full- or part-time jobs tested positive for at least one drug at the time of their arrest.[3]

Abuse in the hospitality industry. For the hotel-casino industry, it is the "sociology of the environment" that lends itself to abuse, according to William N. Thompson, professor of public administration at the University of Nevada at Las Vegas. Casinos are open and running 24 hours a day—Nevada's bars never close, while New Jersey's close at 4:00 AM. And since most employees receive a majority of their compensation in the form of tips, this combination of circumstances fuels the compulsive behavior that's so often characteristic of substance abusers. Finally, people predisposed to substance-abuse problems are more likely to gravitate to occupations where abuse easily occurs.[4]

High stakes. The financial risk of employee substance abuse is considerable in the labor-intensive and lucrative hotel-casino industry. New Jersey's casinos have approximately 45,000 employees while Nevada gaming employs close to 152,000 workers.[5] Gross gaming revenues for New Jersey's 12 casinos totaled $2.95 billion in 1990, while Nevada's 351 casinos grossed $5.24 billion. Two casino hotels owned by Hilton Hotels Corporation—the Las Vegas Hilton and the Flamingo Hilton—contributed nearly 50 percent to the entire hotel company's profit in the late 1980s. The Mirage, one of Las Vegas's newest gaming properties, grossed $650 million in 1990 with a gross operating profit of $185 million.

Management Response

The typical management response to substance abuse is to dismiss the employee. Since the vast majority of casinos find drug-screening of new applicants too costly and impractical,[6] the chances of hiring another substance abuser to replace the one just fired appears high. Moreover, replacing employees who abuse drugs may not be in the casinos' best interests since substance abuse tends to be significantly higher among the transient and unemployed than those currently working.[7]

Employers are beginning to see that the only alternative is to educate their work force, create work environments that do not promote abuse, and encourage abusing employees to seek treatment. Often treatment is coordinated within the property's employee-assistance program (EAP). Employee self-referral is encouraged, but supervisors will often intervene and refer an employee to an EAP counselor when job performance deteriorates or becomes erratic.[8] Overall, substance abuse continues to be the leading category of company-initiated EAP referrals in most organizations.[9]

In-house aid. Within the hospitality industry, progress has been modest in responding to employee substance-abuse prob-

[2] "A Costly Problem for Corporate America," *Substance Abuse Issues*, Winter 1990, Marsh and McLennan Companies, p. 1.

[3] "Drugs, Crime and Workers," *Substance Abuse Issues*, Summer 1990, Marsh and McLennan Companies, p. 4.

[4] R.C. Quick, "Alcohol: In The Dishroom and The Boardroom," monograph (Ithaca, N.Y.: The School of Hotel Administration, Cornell University, January 1, 1989), p. 8.

[5] Neil Barsky, "New Jersey Relaxes Its Grip on Casinos," *The Wall Street Journal*, March 19, 1991, p. B1.

[6] Regarding the pre-screening of job applicants, the Americans with Disabilities Act of 1990 imposes strict limitations and specifically outlines what procedures and techniques are and are not allowable. For information about the Americans with Disabilities Act of 1990, see the two articles elsewhere in this issue entitled, "Here Comes the ADA—Are You Ready? (Part I)," and "The ADA, Part II—Implications for Managers."

[7] "After the Baby Boomers," *Substance Abuse Issues*, Winter 1990, Marsh and McLennan Companies, p. 1.

[8] Walter F. Scanlon, *Alcoholism and Drug Abuse in the Workplace: Employee Assistance Programs*, (New York, NY: Praeger Publishers, 1986), p. 20.

[9] Joseph F. Madonia, "Employee Assistance Programs: Their Impact on Health Insurance and Other Company Benefits," Report 85-3, July 1985, International Foundation of Employee Benefit Plans.

lems. (EAPs in the hotel industry are still a fairly new phenomenon and research has focused mainly on the availability of EAPs.) Lazarus and Adler's survey indicated that 80 percent of hotel corporations did not have any form of company-wide policy statement or any other method to deal with employee substance-abuse problems other than a statement prohibiting such abuse. Those researchers recommended that the industry would benefit from further study "to establish the long-term benefits of having an EAP."[10]

More recently, however, hotel companies are beginning to see the correlation between personal problems off the job and work performance on the job, and the role employee-assistance programs can play in reducing labor costs while enhancing service quality.[11] For example, when Ramada Corporation introduced an EAP into its hotels and restaurants, absenteeism among those participating in the EAP was reduced 50 percent and the accident rate was reduced by 82 percent.[12]

Cost-Benefit Analysis

In the Ramada example just cited, the success of the EAP was measured by factors related to safety and attendance. How else may an EAP be evaluated? Cayer and Perry proposed four criteria against which to examine EAP performance,[13] as follows:

- *Effort.* The number and levels of personnel involved in managing the EAP. This includes those people in the organization involved in establishing and running the EAP as well as any outside vendor.
- *Program penetration.* The percentage of the work force that uses the program.
- *Cost efficiency.* The extent to which the same level of service or greater can be delivered at the lowest cost per employee.
- *Performance.* Did the employees' performance improve?

Not much research exists regarding cost-benefit approaches to assessing EAPs.[14] Nevertheless, claims that an EAP reduces labor costs have been consistently reported. In one study, the work records of 700 substance abusers were examined.[15] The study sample included only those who had worked full time for at least a year *before* treatment, and for a full year *after* treatment. In addition to measuring whether the employees who received treatment remained free from drugs, the study examined on-the-job injuries, tardiness, absenteeism, job errors, completion of assigned tasks, and problems with supervisors. The tangible results were startling.

- Job injuries fell from 9 percent to 5 percent;
- Tardiness was reduced from 39 percent to 7 percent;
- Absenteeism fell from 42 percent to 5 percent;
- Job errors were reduced from 32 percent to 6 percent;
- Failure to complete assigned tasks fell from 23 percent to 5 percent; and
- Problems with supervisors were reduced from 24 percent to 14 percent.

Benefits that are inherently intangible are measurable to a degree, though with considerable difficulty. Such accrued benefits as greater job satisfaction, improved workplace relationships, increased morale, and attention to wellness are not monetary in nature, but are real nonetheless.

EXHIBIT 1
Substance abuse and restaurant employees

In a restaurant environment, substance abuse costs the operation $7,500 per abusing employee through internal theft, lost productivity, absenteeism, and on-the-job injury. Furthermore, a study of food-service workers found that restaurant employees who also are on-the-job substance abusers:

- Are 3 times more likely to be late for work than non-using employees;
- Have an absenteeism rate 16 times higher than the national norm and have 3.5 absences of eight days or longer;
- Are 2.2 times more likely to request time off;
- Are 6 times more likely to use medical benefits or unemployment insurance;
- Are 3.6 times more likely to be injured on the job; and
- Work approximately 25 percent less efficiently than non-using employees.

SOURCE: Robert Plotkin, "Are There Signs of Drug Abuse in Your Business?," *Nation's Restaurant News,* November 26, 1990, p. 44.

[10] Bruce I. Lazarus and Howard Adler, "A Study of Workplace Substance Abuse Programs in the Hotel and Motel Industry," *Hospitality Education and Research Journal* (annual conference proceedings), 13, No. 3 (The Council on Hotel, Restaurant and Institutional Education, 1989), pp. 457–462.

[11] Leslie Nan Super, "Employee Assistance Programs: The Benefits," *Hotel and Resort Industry,* March 1987, p. 79.

[12] Quick, p. 20.

[13] N. Joseph Cayer and Ronald W. Perry, "A Framework for Evaluating Employee Assistance Programs," *Evaluation of Employee Assistance Programs,* ed. Michael J. Holosko and Marvin D. Feit (New York, NY: The Hayworth Press, 1988), pp. 169–185.

[14] See: Dong Koo Sim, "Assessing Employment Assistance Programs: Evaluation Typology and Models," *Evaluation of Employee Assistance Programs,* ed. Michael J. Holosko and Marvin D. Felt (New York, NY: The Hawthorne Press, 1988); and Cayer and Perry, op. cit.

[15] "An Executive Report on Drug and Alcohol Abuse Affecting the Workplace," *Substance Abuse Issues,* 1, No. 4 (Fall 1990), Marsh & McLennan Companies.

EXHIBIT 2

Comparison of 1990 substance-abuse programs at Resorts International and the Mirage

General	Resorts Int'l	Mirage
Location	Atlantic City	Las Vegas
Property self-insured?	No	Yes
Type of EAP	In-house staff plus outside-provider services	Outside-provider services only
Number of employees who qualify for EAP services	2,800	6,400
Number of employees who used the EAP at least once	308 (11%)	300 (4.7%)
Number of employees referred for ongoing treatment of any sort	137 (4.9%)	50 (0.8%)
Number of employees using different types of treatment	59 Inpatient (43%) 78 Outpatient (57%)	18 Inpatient (36%) 32 Outpatient (64%)
1990 EAP Costs		
Program costs		
Start-up	$6,000	$5,000
Annual maintenance	$52,000	$50,000
Value of supervisors' time spent in training	$10,000	$25,000
Employees' education and orientation	$8,000	$12,000
Treatment costs		
Weighted average cost of treatment per employee	$2,100	$1,000
Treated employees *x* weighted-average cost	$287,700	$50,000
Total cost		
Treatment costs + program costs	$363,700	$142,000
Changes in Turnover and Absenteeism		
Reported annual turnover rate	60%	32%
Weighted average turnover cost per employee as reported by each property	$3,000	$1,000
Employees still "clean" six months after treatment	95%	80%
Treated employees still employed at the property one year after treatment	85%	NA
Absenteeism reduced?	Yes	Yes
Absenteeism reduction measured?	No	No
Cost-Benefit Analysis		
Savings from reduced absenteeism	$71,500	$22,000
Savings from reduced turnover	$219,000	$11,000
Total savings	$290,500	$33,000
Percentage of total costs recovered through savings from reduced absenteeism and turnover	80%	23%
Percentage of substance-abuse treatment costs recovered through savings from reduced absenteeism and turnover	100%	66%

Two Cases: Casino Hotels

As a way of working up examples of cost-benefit analyses for EAPs, we looked at the existing EAPs at Resorts casino and at the Mirage casino. A comparison of those programs and the analyses are described below and illustrated in Exhibits 2 and 3.

Resorts International. Prior to the arrival of the current executive team from Harrah's Marina property in Atlantic City, Resorts had a fully internal EAP, relying exclusively on an in-house EAP counselor. Although the counselor's presence was well-intentioned, the employee-use rate (i.e., penetration) of the EAP was very low. There was a general belief that confidentiality in this system was being breached and many employees feared they would lose their jobs if they went for help.

The then-existing EAP was restructured along the lines of Harrah's program, which was among the first and most-comprehensive EAP programs to operate in Atlantic City. Resorts now maintains two internal EAP positions, called employee-relations counselors. Those two counselors have offices on the property and handle such situations as: supervisor-employee conflicts, pay disputes, problems with working conditions, problems with morale, and employees' complaints about services directly related to work. The counselors also handle psychological problems if they are work or environment related. In addition, Resorts contracted with an outside provider to supply more extensive EAP services. Using a well-publicized toll-free telephone number, a Resorts employee can anonymously contact the EAP provider 24 hours a day for counseling. Off-premises office visits can be arranged at two locations in the southern New Jersey area, and the EAP provider posts a counselor on the property two days a week for consultations. On-site visits are not charged to the employees who use them; the provider bills Resorts a flat monthly rate for those services.

In 1990, 59 Resorts employees were admitted for inpatient treatment. Of those, 15 had 80 percent of the cost of their treatment paid for by employment-benefit services (insurance); 36 had their treatment paid for by Local 54 (the union representing a portion of Resorts' employees); and the remaining 8 paid for their own treatment. In addition, a total of 78 employees were referred for outpatient treatment. The employee who visits the EAP provider off-property pays a nominal fee after the first consultation.

Inpatient treatment is typically several weeks of closely supervised medical treatment and counseling, often including detoxification. Outpatient treatment involves individual, family, and group-therapy sessions on a daily basis during off-work time. After several weeks of intensive counseling, aftercare is continued on a weekly contact basis.

Resorts maintains a strong internal marketing program to promote the availability of EAP services for its employees. Employee newsletters, Resorts's internal TV station (broadcast in employee break areas), as well as posters and signs promote the availability of both the 800 number for EAP services and in-house consultation. Of the nearly 2,800 eligible employees (full-time, non-probationary), approximately 11

EXHIBIT 3

Calculation of turnover savings

Assuming 15 percent of the work force are substance abusers, and assuming substance abusers have twice the rate of turnover as non-abusers, here's how to calculate the number of turnovers that may be eliminated by successfully treating 30 percent of substance-abusing employees.

	Resorts	Mirage
Total employees	2,800	6,400
Before treatment:		
Number of non-abusing employees	2,380	5,440
Number of abusing employees	420	960
Reported average turnover rate	60%	32%
Annual turnovers	1,680	2,048
Turnover rate of non-abusing employees	52%	28%
Turnover rate of abusing employees	104%	56%
After treatment:		
Number of successfully treated employees	130	40
New number of abusing employees	290	920
New number of non-abusing employees	2,510	5,480
Annual turnovers after treatment:	1,607	2,037
Reduction in turnovers	73	11
Turnover savings:		
Reported turnover cost per employee	$3,000	$1,000
Turnovers eliminated	x 73	x 11
Savings	$219,000	$11,000

Numbers may not appear to multiply correctly due to rounding.

If substance-abusing employees (15 percent of the work force) have twice the turnover rate of non-substance-abusing employees and the overall turnover rate (T) is known, then the turnover rate for non-abusers (R) may be calculated as follows: $(2R \times .15) + (.85R) = T$.

percent avail themselves of EAP services each year. Over half of those seeking EAP assistance had substance-abuse concerns.

The Mirage. The Mirage is the flagship hotel-casino property of Mirage Resorts. Located on the Las Vegas strip, the hotel boasts over 3,000 hotel rooms, a 120,000-square-foot casino, and a labor force of some 6,400 people. Mirage offers its employees wages that are comparable to other hotels in the city but has developed a competitive advantage in the labor market through its list of employee benefits and its commitment to human resources.[16] Among those benefits is a comprehensive employee-assistance program that includes substance-abuse treatment provisions.

The employee-assistance program in place at the Mirage was first introduced at Mirage Resorts's Golden Nugget property in Atlantic City in 1985. That EAP is modeled after similar programs developed at Campbell Soups Company and Xerox Corporation.

Mirage retains an outside EAP provider for its employee-assistance services. An employee in need of help may obtain treatment by contacting the outside provider. Strong internal marketing coupled with supervisor training assists employees in knowing that help is available. All contact with the EAP provider is conducted off-premises. EAP counselors determine appropriate treatment strategies, including counseling, intensive outpatient treatment, or inpatient services. Mirage stresses outpatient services as the preferred treatment approach.

Employee monitoring during and after treatment is performed in-house on a probable-cause basis only. If a supervisor, trained in recognizing aberrant behavior, observes such behavior in an employee who is undergoing or has undergone treatment, the supervisor is required to call in another supervisor as well as a security supervisor for further observation. If all agree that a problem exists, the employee is remanded for testing. A determination of substance abuse after treatment results in immediate termination. A negative test does not go on the employee's record.

Mirage informally provides its employees aftercare by offering meeting space for Alcoholics Anonymous and Narcotics Anonymous meetings on the property. There is no charge incurred by the groups and the company encourages employees to participate in such programs.

Mandatory tests? Neither Mirage nor Resorts screens applicants or new employees for substance abuse on either a mandatory or random basis. Both properties do, however, maintain a clear policy that any employee may be required to submit to immediate medical screening should there be reasonable cause for suspecting substance abuse based on aberrant work behavior. A positive indication of substance abuse can result in immediate dismissal. However, at the employer's option, the employee may be given the one-time chance to enroll in the company's rehabilitation program. Naturally, employees' self-referral is encouraged for substance-abuse treatment before management detects a behavioral problem.

Comparison of 1990 costs. Each company's EAP covers more than substance-abuse problems. EAPs also deal with marriage and family conflicts, stress and anxiety, depression, gambling problems, and financial troubles. Based on our research and interviews, however, substance abuse accounts for more than half of all EAP referrals. Therefore, in the accompanying comparison chart (Exhibit 2), 50 percent of all EAP costs are assumed to relate to substance abuse.

The cost of establishing an EAP at both properties was virtually the same. (While not significantly different, the cost of establishing the program at Resorts was slightly higher.) Start-up costs include research involved in finding an EAP provider, contract negotiations, setting up an 800 telephone number (at Resorts only), and the initial marketing of the program within the organization.

At Resorts, the cost of maintaining two employee-relations counselors to handle a variety of employee-related problems is $80,000. In addition, Resorts was billed $24,000 by its EAP provider for on-property consultation services and employee seminars. Those seminars include sessions regarding supervisor training, smoking cessation, wellness, and handling of job stress. Due to its 1990 operating results, Resorts was forced to cut back those services and subscribed for only $12,000 of EAP services in 1991. Allocating 50 percent of EAP costs to substance abuse, Resorts paid a total of $52,000 in 1990 for substance-abuse treatment ([$80,000 + $24,000] ÷ 2).

On a yearly basis, Mirage spends as much as $5,000 on administrative fees to maintain the EAP system as well as an average of $15.00 per employee for EAP services. Total yearly expenditures for the EAP exceed $100,000, half of which we may assume is for substance-abuse treatment.

The total cost of training and development for Resorts is $500,000 a year. Rather than dealing only with drug- and

[16] Robert W. Eder, "Opening The Mirage: The Human-Resources Challenge," *The Cornell Hotel and Restaurant Administration Quarterly*, 31, No. 2 (August 1990), pp. 24–31.

alcohol-related problems, Resorts conducts training aimed at overcoming a wide variety of unwanted employee behaviors (such as absenteeism), of which drug and alcohol abuse is only one facet. Because many supervisors in the organization fear confronting the substance-abusing employee, Resorts trains its supervisors to recognize aberrant behavior and to inform an employee-relations counselor of such behavior. It is the counselor, then, who makes the diagnosis. The supervisors are trained to base their findings on observations of performance: slurred speech and erratic body movements, for example. In addition, managers are trained to spot other employee problems, such as sexual harassment. Managers need only identify the problem; afterward, the counselors intervene. We estimated that $10,000 per year is spent on supervisors' training expenses for the identification of employee substance abuse.

There is also the cost of employee orientation and additional supervisor training. New employees go through an orientation program that may take from one to two hours, for which the employees are paid at their regular pay rate. The supervisor is required to attend one to two hours of EAP training each year, resulting in a hidden cost of having those people off the floor during their training. We estimated those costs at $8,000 per year.

Mirage puts each supervisor through a two-and-one-half-hour training session that teaches skills in handling the substance abuser. Costs for that training are $50 per supervisor for the casino's staff of 500 supervisors. That allocation, then, is $25,000.

In addition, Mirage spends approximately $80,000 a year on internal marketing (brochures, posters) that promotes the availability of its EAP as well as other benefits. We estimated the cost for substance-abuse-related literature at $12,000.

The costs of treatment vary depending on the type of treatment and the number of people needing those services. At Resorts, outpatient procedures cost $70 per employee visit. Treatment typically consists of four weeks of intensive counseling followed by one year of follow-up care. On average, outpatient referrals make four visits at a cost of $280. Inpatient procedures average $7,000 per employee. The inpatient figure includes follow-up care provided by the EAP provider and the monitoring of employees upon their return to work.

Under co-payment provisions, the actual cost to the employer is 80 percent, with the employee picking up the remaining 20 percent after the employee has paid the $200 annual deductible.[17] Therefore, employer costs averaged $224 for outpatient treatment and $5,600 for inpatient services (less $100 of the employee-paid deductible, as explained in footnote 17).

At Resorts, the EAP provider referred 78 employees to treatment for outpatient procedures and 59 for inpatient care. In eight of the 59 cases of inpatient treatment, the employees' union paid for treatment rather than the casino. That leaves only 51 inpatient referrals that were paid by the casino. The weighted average treatment cost at Resorts for the 137 substance abusers in 1990 was approximately $2,100.[18]

[17]Typically, the $200 deductible applies to all of an employee's medical expenses for any given year. Since some employees would reach the deductible with eligible medical expenses other than their substance-abuse treatment bills, and whereas some employees have few medical expenses aside from those related to substance-abuse treatment, we estimated that, on average, employees undergoing EAP treatment for substance abuse are spending $100 of their deductible on those treatments, thereby reducing the employer's liability by $100.

[18]Calculation: $2,100 = {[(51 x $5,600) + (78 x $224)] ÷ 137} - $100.

At Mirage, separate figures by inpatient versus outpatient treatment were not available, in part due to the more simplified record-keeping system of Mirage's self-insured health-and-insurance benefits program. We can determine total treatment costs, however, which in 1990 for 50 substance-abuse referrals was approximately $50,000, or $1,000 per treated employee. This lower-than-Resorts's treatment cost is the result of two factors. First, Mirage has a higher preference for outpatient treatment than does Resorts. Secondly, the first three outpatient visits are included in the maintenance cost and are not directly billed to the property. After the third visit, the employee pays 20 percent of the outpatient costs.

Limits. Both organizations maintain financial limits on the amount of money they will spend to rehabilitate employees, yet those limits are rarely reached. Treatment for substance abuse is a one-time-only offer. An employee identified as having a problem, either through a supervisor's intervention or by voluntarily seeking help, is provided assistance only once.

Of the Mirage's 6,400 employees, 250 employees were identified as having a substance-abuse problem during the hotel's first year of operation. Of those 250 employees who made initial contact with the EAP provider, approximately 50 were referred for further treatment. Finally, 18 of the 50 were sent to an inpatient facility for treatment while the remaining 32 used outpatient services only.

Total treatment costs for substance abuse are higher for Resorts, in part due to Resorts's program's higher penetration rate (5 percent of the work force versus 1 percent) and its greater reliance on more-expensive inpatient treatment. While Resorts's work force is half the size of the Mirage's (2,800 versus 6,400), Resorts spent two-and-one-half times as much as Mirage in addressing substance abuse ($363,700 versus $142,000). Assuming that substance abuse has similar dimensions in both Las Vegas and Atlantic City, one might expect the penetration rate and total substance-abuse costs to increase substantially for the Mirage as that property moves into its second full year of operation.

The Benefits

Maintaining an employee-assistance program and being committed to effective substance-abuse treatment is not inexpensive. Fortunately, there are tangible benefits to be realized, particularly those benefits related to reduced employee turnover and reduced absenteeism.

Turnover. Turnover is a sizable cost at both Resorts International and Mirage. In 1989, the cost of employee turnover at Resorts was $6 million and the weighted average cost of turning over a single employee was $3,000. This figure is higher than the traditional estimates of hotel and restaurant turnover costs, which are frequently in the $1,200–$1,800 range,[19] because licensing expenses and required employee training as specified by the New Jersey Casino Control Commission increase turnover costs for casino operations in Atlantic City.

Atlantic City casinos spend anywhere from $500 to $5,000 for licensing for each new employee hired. Resorts's turnover rate is 60 percent (according to Michelle Perna, Resorts's vice president of human resources), a rate that is lower than the average hotel casino in Atlantic City and lower than the hotel industry in general, which averages nearly 100 percent per year. In part, this lower rate is due to downsizing, as Resorts moved from a work force of 3,200 to a targeted work force of 2,500. More importantly, the low rate is also attributable to the generally positive reputation Resorts enjoys as one of the preferred employers on the boardwalk.

At Mirage, the weighted average cost of employee turnover is $1,000 per person. The turnover rate was 32 percent in the first full year of operation, which is quite low by Las Vegas standards. Like Resorts, the Mirage has cultivated a preferred-employer reputation, mostly due to its emphasis on training and employee relations.

The calculation of weighted turnover costs is composed of four parts: separation costs, replacement costs, training costs, and difference-in-performance costs.[20]

Separation costs consist of exit interviews, administrative functions related to employee termination (processing costs), unemployment tax, and separation pay (if any).

Replacement costs consist of advertising the job opening, pre-employment administration (screening, calling for references), entrance interviews, testing, staff meetings, moving expenses (if any), initial record keeping (benefits, payroll files, personnel records), and medical exams. All employees need to be introduced to and trained for their new positions.

The costs of training include: manuals, formal training, and any additional instruction by an assigned employee.[21] The final component is what Cascio refers to as differences between "leavers" and their replacements—that is, the difference in performance.

In general, each new employee performs at a lower initial efficiency level than the replaced employee. This factor must be accounted for when examining the total cost of turnover. Based on interviews with officials at both properties, their turnover-cost calculations appear to consider all four components.

Turnover savings. Treatment success has always been a difficult concept to measure accurately. Since it appears that an employee treated successfully for substance abuse has a much lower turnover rate than the non-abusing employee, a good, practical definition of success is a treated employee who is still clean six months later. Of the 137 Resorts employees and 50 Mirage employees who were referred for substance-abuse treatment, 95 percent at Resorts and 80 percent at the Mirage were "clean" six months after treatment. At Resorts, 85 percent of treated employees were still employed one year after enrolling in treatment. A corresponding figure cannot be calculated for the Mirage, which has just completed its first full year of operation.

A conservative estimate of the reduced turnover benefit for just those employees who are successfully treated for substance abuse can be calculated as shown in Exhibit 3.

The estimated direct labor-cost reduction of successfully treating 130 Resorts employees is a savings from reduced turnover of $219,000. At Mirage, successful treatment of 40 employees results in a savings from reduced turnover of $11,000. Those are conservative estimates that assume **(1)** the incidence of substance abuse is not particularly higher in the hotel-casino sector than elsewhere in the hospitality industry, **(2)** treated employees simply

[19] See: John J. Hogan, "Turnover and What to Do About It," in this issue of *The Quarterly*.

[20] Cascio, pp. 22–24.

[21] Cascio, p. 34.

reduce their probable turnover rate to the average of non-abusers, and **(3)** there is no tangible effect on worker productivity or level of guest services delivered. Even with that conservative approach, however, the savings generated as a result of reduced turnover are substantial.

Absenteeism. Cascio identifies various components of absenteeism costs.[22] While an hourly employee is not paid for the time missed at work, salaried personnel often are. Also, employer contributions to employee benefits are made whether the employee works a 40-hour week or a 33-hour week. Often the real cost of absenteeism is the cost of intentional overstaffing in anticipation of employee no-shows, which is a difficult cost to estimate. Another cost is the supervisor's time to respond to each employee absence. This includes the time and effort of bringing in a replacement employee, instructing and monitoring the replacement worker, and, finally, counseling and disciplining the problem employee. There are also the additional overtime premiums that the organization occasionally incurs when replacing an absent worker. Cascio found one study that showed the typical employee absenteeism costs the employer $144.50 per employee per day.[23] Again, a more-conservative estimate of $50 per employee per day absent is used in this benefit calculation.

Neither Resorts nor Mirage could provide a reliable measure of absenteeism, though the human-resources managers at both properties were convinced that employees enrolled in the EAP substance-abuse program substantially reduced their absenteeism.

In the absence of precise absenteeism figures for our two subject properties, an average absenteeism rate of 3 percent is used to calculate reduced-absenteeism savings. Three percent is reasonable given **(1)** the relatively high turnover rate among hospitality employees in general, and **(2)** casinos' 24-hour, seven-days-a-week operation. According to *National Affairs* quarterly statistics, large non-manufacturing firms averaged nearly 2 percent absenteeism per day in 1990. And as noted earlier, absenteeism is three times greater for substance-abusing employees than for non-abusing employees.

Using the same logic as in Exhibit 3, if 15 percent of the work force at Resorts and Mirage are substance abusers, then substance abusers account for roughly 35 percent of the absenteeism problem. Looked at in another way, 1 percent of the work force is absent each day due to substance abuse, at a daily cost of $3,350 at Mirage and $1,400 at Resorts (figuring a cost of $50 per absence).

Without substance abusers in the work-force population, the absenteeism rate would drop from 3 percent to 2.3 percent. The 130 successfully treated employees at Resorts and the 40 at the Mirage would drop their absenteeism as a group from 7 percent to 2.3 percent. In other words, on average, successfully treated substance abusers would be present for their scheduled shift 244 versus 233 days out of a 250-day work year, at a savings per employee of $550. The total annual absenteeism savings for the successful treatment of 130 Resorts employees is $71,500 and for Mirage's 40 employees the savings is $22,000.

Cost-Benefit Analysis

The estimated savings from reduced absenteeism and turnover alone of successfully treated employees indicates that a sub-

One study found that the typical employee absenteeism costs the employer $144.50 per employee per day.

[22]Cascio, p. 60.
[23]Cascio, p. 110.

stantial portion of total costs of EAP substance-abuse treatment and prevention may be recovered in the first year (80 percent at Resorts and 23 percent at Mirage). This labor-cost benefit does not include any savings associated with reduced employee theft, accidents, or errors, or savings derived from greater morale, enhanced productivity, or improved customer relations. Clearly, those savings may be substantial, though more difficult to estimate than that associated with reduced absenteeism and turnover. Also, we have not extended the benefits beyond the first year for a treated employee. Successfully treated employees appear to exhibit higher levels of company loyalty and longer job tenure than is typical for the hospitality industry.

Another way to analyze the cost-benefit relationship of investing in an EAP substance-abuse program is to separate out the incremental costs from the fixed overhead costs of setting up an EAP. At Resorts, the average employee treatment cost of $2,100 is less than the savings from reduced turnover and absenteeism among successfully treated employees. Resorts's incremental costs were *entirely* recovered by savings derived only from reduced absenteeism and reduced turnover. At Mirage, two out of every three dollars spent on treatment are recovered by similar reductions. From a cost-benefit-analysis perspective, a higher penetration rate at Mirage in referring employees to its EAP substance-abuse program would likely result in a more cost-effective program.

In terms of dealing with substance abuse, the Resorts program has a very high success rate. The number of employees who have been treated for substance abuse and are still in Resorts's employment after one year is 85 percent. The employees who failed to overcome their substance-abuse problems (3 percent) were dismissed. The balance of the treated employees left Resorts on their own accord after treatment. Nonetheless, when compared with the turnover rate of 52 percent for the rest of its work force, a 15-percent turnover rate is a considerable improvement.

Resorts does not track either the reduction of absenteeism among workers who entered treatment or of any measures of productivity. Furthermore, there was no reduction in workers'-compensation payments with the advent of Resorts's EAP program. Also, there has been no reduction in health-insurance costs. In fact, a health program that includes treatment for substance abuse generally increases health-insurance costs, but those figures were not available.

Making the Decision

It is possible to construct a cost-benefit analysis of EAP substance-abuse programs just as outlined here, as most of the key information is either readily available or can be conservatively estimated. Estimates of savings from reduced-absenteeism and reduced-turnover costs alone can begin to justify an EAP substance-abuse program within a cost-benefit framework.

In this study, the investment in the substance-abuse component of the EAP is considerable. Collectively, Mirage and Resorts are spending nearly $55 per employee per year, and realizing in reduced absenteeism and turnover benefits over $35 per employee per year. Our analysis does not address other benefits such as increased productivity, reductions in on-the-job accidents and tardiness, diminution of theft, and improvement in customer relations. Each of those work-place dynamics isaffected by substance abuse and may cost an employer a great deal of money if the substance abuse is left untreated.

In our search throughout the casino-hotel segment, we found few company-paid employee substance-abuse programs, despite the high propensity for substance abuse in that segment of the industry. Consider what is spent each year for employee uniforms, company newsletters, employee meals, recognition programs, and employee perquisites and discounts. It's not likely a mere coincidence that two of the more successful casino hotels in the United States are also properties with substantial commitments to employee substance-abuse education and treatment. Neither Resorts nor Mirage established an EAP program solely to reduce labor costs. They did it as a way of improving the quality of life for their employees and to ensure the level of guest services employees are expected to provide. The hard-dollar benefits that the EAPs generate in reduced turnover and absenteeism should not, however, be underestimated.

One of the advantages of an EAP-managed substance-abuse program is that it actively seeks out problem employees through supervisors' intervention training, internal marketing, and education. Traditional health-insurance packages often include coverage for substance-abuse treatment, but do not promote "wellness" by encouraging treatment or providing education. As a consequence, the number of employees who seek treatment is traditionally low, giving hotel-casino operators the false impression that their organizations do not have a substance-abuse problem. The problem exists, in varying degrees, in all hospitality properties. Denial of the problem is a major hurdle for the substance abuser as well as the employer.

The EAP approach offers a managed-intervention strategy that is not only cost effective but also offers employees counseling for a wide variety of problems for the same costs as those of the substance-abuse program. The EAP approach trains supervisors to intervene and to help the troubled employee. Without an EAP, supervisors rarely have any options other than to dismiss the abusing employee.

Establishing an EAP

Human-resources managers at Resorts and Mirage attribute the success of their programs to several factors, as outlined below.

Support of senior management. Critical to the success of an EAP is the cooperation of senior management. The EAP needs its support, which is achieved through management's understanding of the problems to be covered.

Availability of EAP services. What EAP rehabilitation services are available locally? An evaluation of the available treatment centers is necessary to gauge the caliber of services provided and their probable costs. Caution is advised when choosing providers. There are a lot of EAP providers that are not qualified.

Type of EAP. A decision must be made whether an EAP will be managed in house or out of house. The EAP at the Mirage is an out-of-house program. With an external program, employee confidentiality is more readily assured, yet the employer may not be perceived as an active agent in referring employees for treatment. That may explain the relatively low penetration rate of Mirage's EAP program at this time. A conscious effort must be given to employee education, internal marketing, and supervisor training to encourage the abusing employee to seek help.

Management of the Resorts program is a hybrid system that evolved from general dissatisfaction with a purely in-house EAP. On-site counseling with total confidentiality is simply impractical. However, with the employee's option of seeing the EAP counselor on site or during off-work hours, Resorts is able to ensure confidentiality while visibly promoting EAP services throughout its workplace. This setup makes the Resorts program more expensive, but at the same time there's a high number of employee referrals, an indication that employees are actually using the EAP. For the best success, it seems clear that a substantial portion of a substance-abuse program needs to be offered out of house.

Marketing the program. The organization must promote EAP services to its employees. Supervisors and co-workers need to be alerted to the indications and problems created by the substance-abusing employee, and to be encouraged to persuade the abusing employee to seek help. The best program promotion often comes from successfully treated employees who are willing to reach out to others.

Monitoring use and benefits. One item that should be included in EAP development is utilization review. An EAP is of little value if employees do not use it. Coupled with a utilization review should be the monitoring of cost-effectiveness and of *all* measurable benefits. When on the down side of a business cycle, the survival of EAPs may depend on the results of a cost-benefit analysis.

An effective EAP demonstrates to the work force that the job site is more than a place to work and get a paycheck. It sends a message to employees that they are, indeed, stakeholders in the organization—and that the welfare of the organization depends on the welfare of its constituents. Since the nature of this hospitality industry is to require that employees work long and odd hours, including holidays, then it must address the underlying problems that are, in part, a result of that requirement.

We did not try to quantify the "soft" benefits that substance-abuse treatments offer. When an organization displays that it is an employer that cares, the employees give a lot more. They tend to go the extra mile to see to it that the guests are satisfied. They become the organization's greatest advocates. Such soft benefits translate into guest satisfaction and repeat business.

High employee turnover and absenteeism within the hospitality industry offers to those who can effectively manage those significant labor costs the opportunity to gain a competitive advantage. Confronted with a tight labor supply and the need to enhance service quality, today's hospitality manager looks to invest in human resources rather than just minimizing labor costs. Investing in an EAP substance-abuse program is both an investment in human talent and a labor-cost-reduction strategy. Lower labor costs will always be an advantage in a competitive environment. Achieving lower labor costs often requires investment strategies in human-resource programs that yield financial benefits beyond program costs. EAP substance-abuse programs such as the two described in this study are exemplary of a wise investment in human resources. Such an investment creates a win-win-win situation where the guest, the employee, and the hotel all come out ahead. CQ


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