SOBEY SCHOOL OF BUSINESS
SAINT MARY'S UNIVERSITY

the workplace review

SEPTEMBER 2004
VOLUME 1 ISSUE 1

DISCOVER, SHARE, TRANSFORM

HTML: The Core Principles of Managing People

Can Employers Spy on their Employees?

International Trade – Atlantic Canada's Past, Present and Future

Better Workplaces

Better Workplaces **is a research initiative of the Sobey School of Business. It is a key focus in our ongoing effort to produce research that has a meaningful impact on the way we do business. The *Better Workplaces* research agenda is aimed at developing insights into the balance of factors that encourage positive organizational outcomes, including improved organizational performance and customer care, employee health and safety, good community-workplace relations, and ethical business practices.**

One of the initiatives under the Better Workplaces umbrella is the introduction of this new electronic journal – *The Workplace Review.*

Mission

The mission of *The Workplace Review* is to become a regional forum where people can explore different perspectives of work. *The Workplace Review* will emphasize research that is current and relevant, with a high potential for immediate application and impact.

Scope of the eJournal

The Workplace Review **showcases the strength of our diverse, international faculty who are in touch with day-to-day workplace challenges. Drawing upon our diverse community of researchers, the journal will reflect developing issues in the functional specialties of marketing, finance, operations, information systems, economics, accounting, and management. It will address issues such as personnel staffing and selection, human resource management, leadership and coaching, occupational health, industrial relations, spirituality, diversity management, corporate governance and business ethics. The journal will remain flexible enough to incorporate future or emerging issues. All articles will focus on the central theme of the challenges and opportunities surrounding work, working and the workplace, but will not necessarily reflect the views of Saint Mary's University and the Sobey School of Business.**

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Letter *from* the Editor

BY ALBERT J. MILLS

Welcome to an exciting new venture from the Sobey School of Business – *The Workplace Review*, an on-line electronic journal designed to promote better workplaces through the interface between business educators and the business community.

Our goal is allow business practitioners and educators to share their ideas and information on best practices at work, workplace challenges, and the host of issues that affect how we do business.

In particular we want to promote research, discussion and commentary that encourage the development of better workplaces. We see better workplaces as an all-encompassing aim designed to encourage research and dialogue that has a meaningful impact on the way we do business. By this we include contributions on everything from improved organizational performance and customer care to ethical business practices and concern for the health and well being of the employee.

Aside from providing a meaningful interchange between educators and practitioners, we hope *The Workplace Review* can act as a forum for encouraging collaborative research ventures, attracting funding for developing research projects, serving as a designated site where the business community throughout the region can turn for guidance and practical advice.

We are looking for articles – or story ideas – to be contributed by practitioners in the private, not-for-profit and government sectors, and from educators across all disciplines including accounting, behaviour at work, business ethics, computing, economics, e-commerce, entrepreneurship, finance, health and safety, industrial relations, marketing, small business, strategy, etc.

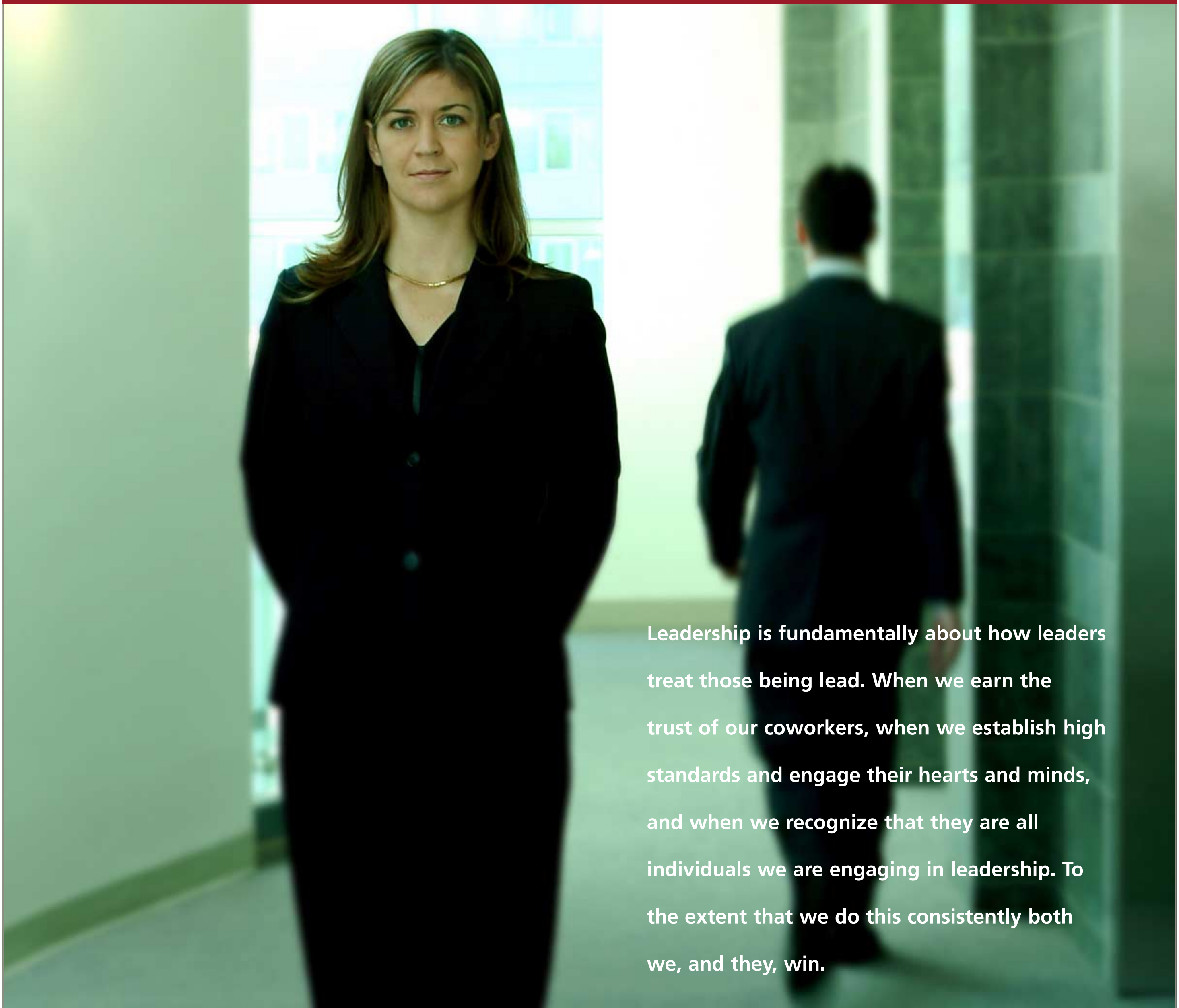
We encourage submissions that are written in a clear and precise fashion, and use language that makes sense to practitioners and educators alike. In accepting contributions for publication we will be guided by a few simple principles. Does the piece contribute to better workplaces? Is it based on sound research or, in the case of commentary, does it present a reasoned argument? Above all, is it likely to stimulate interest among the region's business practitioners and educators?

If you have something you want to say, research or information you want to share, or comments or reactions to articles you've read in this issue, please write to us at the **workplacereview@smu.ca**.

Profile:

Albert J. Mills, Ph.D., is the Director of the Sobey Ph.D. in Management.

He left school at the age of 15 and worked at a variety of jobs – including clerical worker, machine operator, electrician, window cleaner, and railway guard – before entering university in his mid-20s. His research interests include employment equity, organizational culture, and the impact of societal influences on management thinking. He has published nearly 140 books, articles, book chapters, and conference proceedings and has presented his research in 17 countries worldwide.



Leadership is fundamentally about how leaders treat those being lead. When we earn the trust of our coworkers, when we establish high standards and engage their hearts and minds, and when we recognize that they are all individuals we are engaging in leadership. To the extent that we do this consistently both we, and they, win.

HTML: The Core Principles of Managing People

BY E. KEVIN KELLOWAY

As every manager knows, the field of human resources is the favorite hunting ground of charlatans and snake oil distributors of all descriptions. Each carries a magic elixir of "colors", "types" and "brain science" touted to make your organization more effective and your employees happier. As most discover to their sorrow, the only ones happier at the end of the day are the hucksters who sold the program. In organization after organization, we hear employees tell us that they are tired of the endless procession of "whiz bang" ideas trotted out as management innovation.

The marketing of human resource "solutions" stands in stark contrast to the empirical literature on human resource management. An increasingly large body of literature provides evidence that, when managed correctly, human resources are indeed the company's most valuable assets. In his classic study of high commitment work practices in U.S. mini-steel mills, Jefferey Arthur [1] showed that productivity and turnover were linked to management style. Steel mills that adopted a high commitment work system had higher productivity, and lower scrap rates than did mills that operated under the traditional "command and control" system. Although Arthur's results were limited to one industry, Mark Huselid [2] studied HR practices across a broad sample of U.S. based companies. He found that a one standard deviation increase in the use of effective HR practices was associated with an increase in shareholder value of $18,000 U.S. *per employee*. Since these early studies, the impact of HR has been replicated across many industries and nations. Simply put, there are now overwhelming data supporting the suggestion that "getting it right" in the management of human resources is critical to organizational survival and growth.

So what does it mean to "get it right" when it comes to managing human resources? Essentially getting it right means that the job of managers is to create the conditions under which employees can optimally perform. With a colleague at Queen's University [3] I have previously suggested that these conditions can be expressed by the fundamental equation:

$$\left(\text{Performance} = \text{Ability} \times \text{Motivation} \times \text{Opportunity}\right)$$

We emphasize that the equation is multiplicative and, as a result, non-compensatory. That is – all the motivation in the world does not make up for a lack of ability. Similarly, hiring highly skilled employees and then not affording them the opportunity to contribute is a recipe for failure. Seen in this light, the job of effective people management comes down to three central tasks:

a) ensure that your employees have the ability to do the job

b) ensure that your employees are motivated to use their ability to improve their job performance; and

c) ensure that your employees have the opportunity to contribute to the organization

There are a variety of views on how best to make these three goals happen. The Gallup organization has identified 12 items used on their employee survey (i.e., the "Gallup 12") that are associated with better overall organizational performance using a variety of criteria. Organizational scholars such as Jeffrey Pfeffer [4] have proposed 14 distinct aspects of a high performance work system. Other researchers have focused on deriving bundles of best practices in HR or have focused on the contingencies under which HR practices are more or less effective. While researchers still debate the optimal combination of human resource tactics and continue to focus on the mechanisms through which HR management is translated into corporate profit, my review of the empirical literature suggests that four key practices underlie effective human resource management.

I refer to these practices using the acronym HTML. As the computer literate will recognize, HTML is the acronym for Hyper Text Markup Language. HTML was originally conceived as a programming language that would work with all operating systems and allow universal access to web pages. In a similar manner, the HR practices summarized below have been shown to work in all types and sizes of organizations, in a wide variety of settings. The four elements of effective HR summarized in this view are to Hire the Best, Treat them Well, Manage Performance and to provide Leadership.→

Hire the Best

Perhaps the most fundamental building block of success in HR management is to hire individuals with the right skills, abilities, and competencies for the job. Establishing a rigorous selection procedure has two fundamental benefits. First, rigorous selection means that only individuals with the appropriate skills are hired. Second, as Jeffrey Pfeffer [4] notes, implementing rigorous selection sends a message throughout the organization. From the moment a job candidate makes contact with your organization, he/she gets the message that individuals and their qualifications are critical to organizational success.

How important is hiring the best? In his analysis of good companies that became great (i.e., achieved exceptional financial returns for a 15 year period), Jim Collins [5] puts effective hiring decisions ahead of strategy or any other managerial action. In brief he argues that great companies first answer “who” and then addressed the question of “what”. Effective organizational leaders studied by Collins focused first and foremost on hiring outstanding people. Indeed, the companies would hire excellent candidates even if “the right” position was not available. Conversely, they steadfastly refused to hire until the right person was found to fill the vacancy.

> “Effective organizational leaders...focused first and foremost on hiring outstanding people. Indeed, the companies would hire excellent candidates even if “the right” position was not available”

Rigorous selection can, of course, mean different things to different organizations and a whole host of consultants will be more than willing to sell you their own selection instruments assessing personality, cognitive ability or other personal characteristics. Indeed, the available data suggest that some of these measures, especially measures of cognitive ability, are good predictors of job performance. However, using such measures is a costly strategy that may not add value to more traditional means of selection. Organizations throughout the world have increasingly focused on three central elements that are critical to hiring the best; job analysis, screening, and behavioral interviewing.

JOB ANALYSIS

Perhaps the most fundamental truth in hiring the best is the need to first know yourself and your requirements. An effective tool for accomplishing this is through job analysis. Although numerous methods of job analysis exist, the essence of doing a job analysis is to define, the [a] duties of the job, and the [b] characteristics of job candidates that are necessary for the effective performance of that job. Commonly referred to as the Knowledge, Skills, Abilities and Other characteristics (KSAOs) of the job, the purpose of job analysis is to establish the criteria by which we will select applicants. We can think of these KSAOs as representing either “hard” or “soft” criteria. Hard criteria are things like required education, experience, licenses/certificates and skills. Typically, these can be objectively assessed and easily verified. For example, if a job requires the individual to hold an accounting designation, candidates can be asked to provide proof that they hold the designation. Some jobs require →

specific skills (e.g., keyboarding, welding) and individuals can be asked to provide proof of specific training in these areas and/or establish their competency in these areas by doing a job-related test (e.g., a keyboarding test)[1].

SCREENING

Because they can be objectively assessed and verified, hard criteria like these should be used primarily for screening your applicants. That is, the "hard" criteria should be used up front in the hiring process and only those individuals who can demonstrably meet these requirements should progress any further in the selection procedure. Screening applicants in this way is a low cost strategy that helps to prevent mistakes from occurring later in the selection process. It is entirely possible, of course, that you might screen out somebody who could have done the job perfectly well. However this type of mistake (known as a false negative) has minimal costs for the organization. The costs of the opposite mistake (a false positive – hiring somebody who cannot do the job) can be extremely high. In essence, the goal of screening is to make sure that any individual progressing to the interview stage has the skills and qualifications necessary to do the job.

BEHAVIORAL INTERVIEWING

No aspect of selection has been subject to more research than the employment interview. Although the interview is used in almost every hiring situation, the research data clearly show that employment interviews are subject to a number of biases and errors. Even highly skilled interviewers frequently cannot identify individuals likely to do well on a given job based on the interview and candidates may have the ability to "fake" their way through the typical interview. Indeed there is a whole industry of career counselors and re-employment specialists who focus on coaching job applicants through the most common interview questions (e.g., "Where do you want to be five years from now?" "What is your greatest strength? Your greatest weakness?").

[1] Commonly known as a job sample, tests of this nature are generally highly predictive of actual job performance.ws

While the research clearly documents the problems with employment interviews, it has also identified some solutions. Structured interviews (in which all applicants are asked the same questions and answers are scored according to pre-determined criteria) have been shown to predict job performance and substantially reduce the influence of rater error. One particular form of structured interview, referred to as "behavioral" or "behavioral descriptive" interviewing has proven to be so successful it is now implemented in over 80% of Canadian organizations.

As originally described by Tom Janz [6], the basis of behavioral interviewing is the notion that the best predictor of future behavior is past behaviour. So if we want to know if an individual has customer service skills we might ask them to "tell me about a time when you had to deal with a difficult customer" or "tell me about a time when you provided exceptional customer service". By asking applicants to give specific examples of the skills we are interested in, we are, in effect, asking them to demonstrate that they do indeed possess these skills. Moreover, behavioral interviews also have proven more difficult to fake – candidates without the required experience or skills are often left tongue tied and stammering trying to respond to more pointed and precise questioning.

Treat them well

Some studies of employees suggest that only 24% of those in the workplace are really engaged in their job. A cynic might say that this indicates a 76% efficiency rate for many of our organizational practices – too often practices intended to improve organizational functioning in one way, but only serve to alienate employees, to "beat them down" and, ultimately, to destroy motivation and engagement in another. There are many aspects to treating employees well – perhaps too many to be covered within the limits of this article. However, perhaps the most fundamental concern we should have is whether or not we treat our employees fairly.→

FAIRNESS

Fair is the new four-letter 'F' word in organizations. In a growing litigious environment, employees are increasingly attuned to organizational practices that violate the basic tenets of fairness. For example, the decision by some local employers to penalize employees for not coming to work during the largest blizzard in recorded history was seen by many employees to be unfair. While this decision may have been clearly justified by employment law and the language of collective agreements, such justifications do not create the perceptions that the decision was fair.

"Fair is the new four-letter 'F' word in organizations. In a growing litigious environment, employees are increasingly attuned to organizational practices that violate the basic tenets of fairness."

What constitutes fair dealing in organizations? There are at least three elements of fairness or justice that have been identified by organizational justice researchers; distributive, procedural and interactional justice. Distributive justice focuses on the fairness of the outcomes we receive. As Adams noted in his formulation of equity theory, employees have a basic expectation that the rewards or consideration they receive will be proportionate to their contribution. When we see others receiving underserved bonuses or promotions, or when employers do not recognize our contributions we feel that we are being treated unfairly.

Beyond the outcomes received by employees, we can also consider the rules and mechanisms through which these outcomes are determined. Aspects of procedural justice include whether or not clear rules were followed, whether individuals had a say in determining the allocation of these rewards and whether they have a mechanism to appeal decisions with which they did not agree.

A final component of organizational justice is the notion of interactional justice. Interactional justice refers to how we deal with employees on a one to one basis. We can make a distributively fair decision following well established procedures and then destroy this work by not communicating the decision to employees in an appropriate way.

A study by Jerald Greenberg [7] vividly illustrates the impact of interactional injustice. Greenberg worked with a company in the United States that was implementing a 15% pay cut in each of two plants. The magnitude of the pay cut (i.e., the distributive outcome) was the same in both plants. Moreover, management was using the same decision policies (i.e., procedural justice) in both plants. The only difference was the way in which employees were told about the layoff. In one of these plants, employees were given an adequate explanation about the need for pay cuts – the reason for the cuts was explained and the manager expressed remorse for the decision. The employees in the other plant were given neither a reason nor an apology – they were simply told that the manager had decided on a 15% pay cut in response to recent business conditions. Strikingly, employee theft or "shrinkage" increased in this plant!

Treating them well – ensuring distributive, procedural and interactional justice is a critical component of people management. Clearly it makes no sense →

whatsoever to hire the best and then treat them poorly. Yet this is precisely what we do in organizations day after day. Whether through neglect or intent, organizations seem to ignore the truism that "the best" must be treated as "the best".

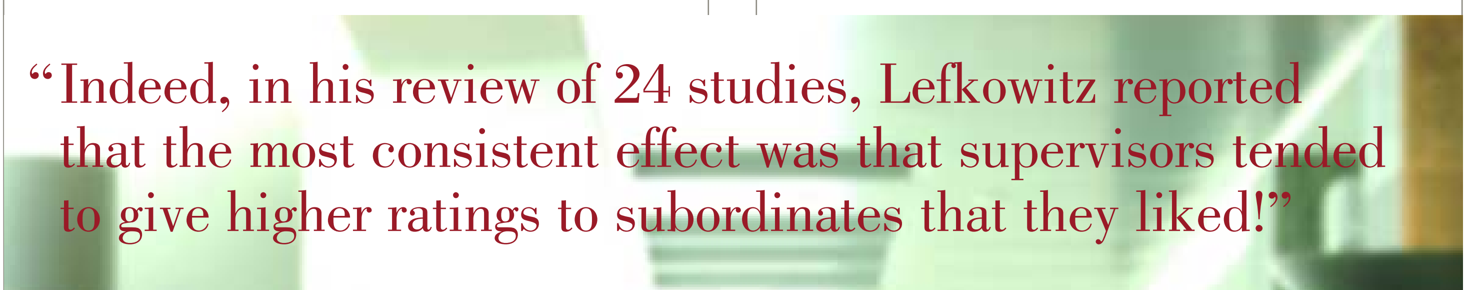
Manage Performance

Perhaps no element of people management is as contentious as the area of performance management. Following Peter Drucker's dictum that you "can't manage what you can't measure" there has been an incredible amount of research and organizational resources devoted to the question of performance measurement. To a large extent, the end result of this focus has been the annual performance appraisal. As one of the most ubiquitous human resource practices, the practice of performance appraisal is reviled by both managers and employees alike. Indeed, Bowman [8] defined performance appraisal as something "given by someone who does not want to give it to someone who does not want to get it". Perhaps not surprisingly, Longnecker and Goff [9] reported that over 90% of companies are dissatisfied with their current performance appraisal process. Based on these concerns, Coens and Jenkins [10] have advocated the abolition of performance appraisals.

The problems of measuring performance through an annual appraisal are well known. Score inflation whereby all individuals receive high performance ratings is endemic. A vast literature documents various forms of rater errors and studies typically suggest that over 50% of the variance in performance scores is attributable to "idiosyncratic rater effects". Indeed, in his review of 24 studies, Lefkowitz [11] reported that the most consistent effect was that supervisors tended to give higher ratings to subordinates that they liked!

In reaction to these concerns, organizations have increasingly moved in the direction of performance management over performance appraisal. Das [12] defines performance management as an "ongoing process that articulates organizational vision and objectives, identifies and installs organizational and individual performance standards in light of these objectives, and takes corrective action to ensure accomplishment of these standards using systems and procedures that are well-integrated with organizational culture and practices." Performance management systems focus on performance improvement through collecting, analyzing, and communicating information in a timely fashion. Performance management systems integrate performance planning, support for high performance, performance development and performance appraisal. Performance management identifies strategic organizational objectives and sets performance standards related to those objectives. Those standards involve both individual and team (or unit) performance. In this way, individual performance is evaluated in an organizational context and not in isolation.

Perhaps one of the most fundamental elements of performance management is the notion of goal setting as articulated by Ed Locke and Gary Latham [13]. Goal setting is one of the most effective performance →



"Indeed, in his review of 24 studies, Lefkowitz reported that the most consistent effect was that supervisors tended to give higher ratings to subordinates that they liked!"

management tools available to managers. In essence goal setting theory suggests that effective goals are challenging and specific. Coupled with timely feedback that focuses on behavior and individual performance approval (as opposed to comparison with others), goal setting continues to be the basis for effective performance management in organizations.

THE ROLE OF REWARDS

The observation that individuals obtain an income from employment has lead many to believe that people work solely (or most importantly) for money. In what is now considered a classic Harvard Business Review article, Jeffrey Pfeffer [14] identifies this as one of the dangerous myths about pay. The myth is dangerous because it seems so self-evident. If we want people to work harder, we should simply reward extra or exceptional effort.

There are at least two problems with this line of logic. First, as noted above, it is not at all clear that we can measure performance accurately in many jobs. As a result, tying compensation directly to performance evaluations makes an already suspect process even worse! Employees who are already cynical about a process that is seen as inaccurate, and perhaps arbitrary – based on whether the supervisor likes them – do not accept the proposition that these ratings should be the basis for compensation decisions.

Second, accepting for the moment that money can motivate, you would need to consider how much money must be devoted to performance improvement. In a world where employers may devote 1-2% of their salary budget for performance based merit awards, employees tell us that they expect a reward for performance to be somewhere in the range of 7% to 15% of salary. What is the motivational result of expecting a 10% raise and getting a 1% raise?

Managing performance does not require elaborate measurement or compensation systems designed by, and for, high priced consultants. Rather, what has proven to be effective in managing performance is the combination of goal setting and feedback.

Leadership

Think of the best leader you ever had, or you have ever met elsewhere. It could be a supervisor, a teacher, a sports coach or anyone that stands out in your mind as a leader. Take a few minutes and note down what is that this individual did that made him/her a truly effective "leader". If you are like the hundreds of individuals that we have had complete this exercise, it is likely that the behaviors that you identify as being characteristic of effective leadership fall into the four dimensions that comprise the theory of transformational leadership.

Transformational leadership is the most widely studied leadership theory in recent years. In the last 10 years, there have been more studies of transformational leadership theory than on all other leadership theories combined. The result of this intensive research effort is twofold. The data suggest that transformational leadership [a] works and [b] can be taught.

The theory works in the sense that transformational leadership has been consistently associated with a broad array of desired outcomes including improved employee attitudes, improved performance, improved safety outcomes, and financial outcomes. Moreover, the research has been based on traditional correlational designs as well as both laboratory and field experiments that identify transformational leadership as the causes of improved performance.

In a study reported in the *Journal of Applied Psychology*, [15] we addressed both questions (e.g. does it work?, and can it be taught?). The design of our initial research was quite simple. Working with a major financial institution in Canada we identified twenty bank (i.e., branch) managers operating within the same geographic region. Managers were randomly assigned to either an experimental group or a control group. Members of the experimental group initially participated in a one-day workshop on transformational leadership, and subsequently attended four →

individual counseling sessions in which subordinate ratings of transformational leadership were presented for each leader, and specific goals were developed and monitored. Members of the control group received neither the training nor the counseling sessions.

Consistent with our goals, the effectiveness of the training intervention was assessed with two types of measures. First, we thought that the intervention could only be judged a success if the subordinates saw an increase in the transformational leadership behaviors displayed by their leaders. In fact, the data showed that subordinates of trained leaders reported significantly more positive perceptions of their behaviors than did subordinates of the untrained managers.

Second, while these data speak to the ability of training to increase leadership behavior, we were also interested in whether increasing leadership behaviors resulted in increases in outcomes of interest to the organization, that is better performance!. Our results showed that subordinates of trained leaders became more committed (i.e., loyal) to the organization than were subordinates of untrained leaders.

Perhaps more importantly, branch-level credit card sales and personal loan sales (adjusted for branch size) increased in branches where the manager was leadership trained. These results are particularly important because [a] they show the impact of leadership training on bottom line outcomes and [b] the individuals that were trained (i.e., the leaders) were not personally engaged in credit card and personal loan sales. This latter observation shows that an increase in transformational leadership "trickles down" throughout the organization raising performance at all levels.

> "...common sense is not always that common and the H T M L mnemonic helps us to remember what truly matters in managing people"

So what is transformational leadership? One of the main proponents of the theory, Bernie Bass [16], suggests that there are four central components that define transformational leadership, namely idealized influence, inspirational motivation, intellectual stimulation and individualized consideration.

Idealized influence occurs when leaders engender the trust and respect of their followers. Leaders who engage in *inspirational motivation* "raise the bar" for their employees, encouraging them to achieve levels of performance beyond their own expectations. *Intellectual stimulation* involves engaging the rationality of subordinates, getting them to challenge their assumptions and to think about old problems in new ways. Lastly, *individualized consideration* deals with treating employees as individuals and helping them to meet their needs.

Leadership is fundamentally about how leaders treat those being lead. When we earn the trust of our coworkers, when we establish high standards and engage their hearts and minds, and when we recognize that they are all individuals we are engaging in leadership. To the extent that we do this consistently both we, and they, win.→

Summary: Core Principles for Managing People

The principles presented here – Hire the Best, Treat Them Well, Manage Performance, and Leadership – are not rocket science. Nor do they require personality assessments or the obligatory two-day workshop to master and implement them effectively. Many of you may dismiss these principles as being just common sense. However, common sense is not always that common and the HTML mnemonic helps us to remember what truly matters in managing people. Hiring the best, treating them well, managing performance and leadership are the principles that work in organizations of all shapes and sizes, in all industries and at all levels. Truly, these principles are the best practices of managing people.

Profile: E. Kevin Kelloway is a member of the faculty of the Sobey School of Business, where he holds an appointment as Professor of Management and Psychology. He also serves as the Chair of the Department of Management. Dr. Kelloway was the founding Ph.D. Program Director for the Sobey School of Business (2000 - 2003) and is the founding Director of the CN Centre for Occupational Health and Safety and a founding principal of the Centre for Leadership Excellence. Dr. Kelloway is a prolific researcher having published over 90 articles, book chapters, and technical reports. His research interests include occupational health psychology, leadership, the development and measurement of work attitudes/values, unionization, and the management of knowledge workers. As a consultant, Dr. Kelloway maintains an active practice consulting to private and public sector organizations on issues related to leadership, performance management and measurement of employee attitudes/performance.

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International Trade – Atlantic Canada's Past, Present and Future

According to the Department of Foreign Affairs and International Trade, every day Canada imports and exports several billion dollars worth of goods and services. One side effect of all this trading activity is that now one in four Canadian jobs relies on international trade. To help our readers gain a better understanding of some of the opportunities and challenges presented by this growing segment of our economy, members of our editorial team put together a list of questions for **Steven Poloz**, Senior Economist with Export Development Canada (EDC). The answers highlight that there are good opportunities for Atlantic Canadian businesses with the right products and services, the right business strategies and the right mindset.

Q

CAN YOU GIVE US A SENSE OF THE IMPORTANCE OF INTERNATIONAL TRADE AND FOREIGN INVESTMENT TO CANADA OVERALL, AND THE ATLANTIC CANADIAN REGION IN PARTICULAR?

A

Canada has always been a trading nation. There are many reasons for this, but the most fundamental reason of all is that Canada is a small economy. It is simply not feasible for a small economy like Canada to produce the array of goods and services that its citizens demand, at least not at a reasonable cost. Instead, Canada has traditionally specialised on a range of goods and services, producing more than it needs, selling the excess to the world, and using the income so generated to purchase all the other things it needs internationally. Bigger economies, like the U.S., are traditionally far less dependent on international trade for this reason.

If Canada is a small economy, then Atlantic Canada must be classified as a very small economy, and its need to engage the world in trade (including, of course, the rest of Canada) is even more compelling.

For Canada as a whole, total international trade (exports plus imports) represents about 77% of GDP. The figure for Atlantic Canada is slightly lower, at 69%. Both figures are very high by world standards – trade penetration in the U.S. economy is about 27%, and Mexico is 52%. Putting some dollar perspective into the picture, Canada exports some $462 billion in goods and services per year, and imports $414 billion; for the Atlantic region the figures are $19 billion and $14 billion, respectively. →

Q

WHAT KINDS OF GOODS AND SERVICES ARE WE TRADING INTERNATIONALLY – BOTH AS A COUNTRY OVERALL AND AS THE ATLANTIC REGION IN PARTICULAR?

A

Canada has traditionally been seen as a resource exporter, and raw materials and resource-based manufactured products still constitute nearly 50% of our exports. This would include the full gamut, from crude oil, to iron ore, to logs, lumber, pulp and paper, to agri-food products, whether raw or processed. Autos and parts, and machinery and equipment (aerospace, telecommunications, rail transportation and other machinery) make up well over 30% of our exports. The remainder consists of services (tourism, engineering and professional services) and consumer goods.

In contrast with Canada taken as a whole, Atlantic Canada is a resource-intensive economy – energy, agri-food, metals and minerals, and pulp and paper make up more than 80% of the region's exports. Various manufacturing sectors and services make up the rest.

Q

HOW IS INTERNATIONAL TRADE DIFFERENT FROM DOMESTIC TRADING ACTIVITY?

A

It's traditional to think of international trade as a sales process. One country makes widgets, another country makes gadgets, and they sell their wares one to the other so everyone has both widgets and gadgets in their marketplace. But today, international trade is increasingly a procurement process, where companies globalise supply, as well as sales. Companies in Canada and abroad see the entire world as their workshop. Final products today contain components from multiple countries, and are assembled at the most convenient point. Then, the goods are sold to a global marketplace. In short, geography matters much less to business these days, and foreign investment – whether inbound to Canada or outbound to other countries – has become a crucial element in the international trade equation, as companies set up their global supply chains.

Q

WE'RE HEARING A LOT LATELY ABOUT INTERNATIONAL TRADING AND INVESTMENT OPPORTUNITIES IN RAPIDLY GROWING DEVELOPING ECONOMIES SUCH AS CHINA AND INDIA, AND TRANSITION ECONOMIES LIKE POLAND AND OTHER LIBERALIZED EASTERN EUROPEAN COUNTRIES. JUST HOW MUCH TRADE AND INVESTMENT POTENTIAL IS THERE AND IN WHAT SECTORS? AND HOW HAS CANADA AS A WHOLE FARED IN CAPITALIZING ON EMERGING TRADE AND INVESTMENT OPPORTUNITIES IN THESE ECONOMIES?

A

The globalisation process is leading gradually to increased diversification in Canada's trade – in supply trade, especially. It is still the case that more than 80% of Canada's exports go to the U.S. But that partly reflects the fact that 1997-2003 was a difficult period for many developing economies, and the U.S. was the epicentre of world economic growth. Now, in 2004, most of the developing world is getting back on track, global economic growth is more synchronised, and Canada's exports to developing economies are growing much faster than sales to the U.S.

For example, China now imports nearly $500 billion in goods annually from the rest of the world. Machinery and equipment is the leading category, but China also imports a lot of resource-based →

products such as pulp and paper, metals, oil, food, chemicals, plastics and services. Canada sold $4.5 billion in exports to China last year, touching on all export categories. China's consumer class will expand very rapidly in the next few years, and Canada's exports to China are likely to grow by over 25% in 2004,and a further 15% in 2005.

Meanwhile, our imports from China are also growing very rapidly – in fact, while our exports to China have nearly doubled in the past 10 years, our imports have risen nearly four-fold. Much of this growth is in final manufactured goods, but there is also a considerable degree of supply chain development going on. In that model, trade becomes triangular – Canada imports components from China, incorporates them in Canadian products, and then exports those products to the world. Accordingly, Canada has a large trade surplus overall, but this is mostly due to trade with the U.S .– we have trade deficits with most of our other trading partners. Bilateral trade balances have very little meaning in a globalised world, because so much trade is now within companies. Nearly half of all U.S. imports today represent American companies buying from their own foreign affiliates, and more than half of China's exports are from multinational companies operating in China.

Another significant emerging market for Canadian exports is India, which spends about $70 billion on imports per year. Canada's share of this market today stands at just under $1 billion, but rapid growth is expected in the next couple of years. Brazil is another key market, of similar size, which together with the rest of South America contributes over $2 billion in annual Canadian export sales. Eastern Europe and Russia are also developing strongly. Canada's sales there so far are only on the order of $1 billion per year, but the major investments in infrastructure being made there in the next few years – energy, water, transportation – are areas of traditional Canadian expertise.

And then there is Mexico, which, as part of NAFTA, enjoys a particularly prominent place in Canada's supply chains. Our exports to Mexico have risen dramatically since NAFTA was put in place, and now exceed $2 billion annually. And, as is the case with China, our imports from Mexico have risen even more – further evidence of supply chains in action.

Q HOW HAVE ATLANTIC CANADIAN COMPANIES PERFORMED?

A Atlantic Canadian companies are seeing the same trade diversification trend developing. The region's exports to China have been growing by over 25% per year, on average, for the past 10 years, and now stand at $370 million. Brazil also typically buys over $100 million in Atlantic exports per year. And other countries like Mexico and India are not far behind this pace. In all cases, we can expect these markets to grow at rates well above those of our traditional U.S. sales. →

Q

DO YOU SEE POTENTIAL FOR ATLANTIC CANADIAN COMPANIES TO IMPROVE ON THEIR PERFORMANCE, AND FOR THE REGIONAL ECONOMIES TO ATTRACT FOREIGN INVESTMENT? WHAT ARE SOME OF THE ASSOCIATED CHALLENGES? WHAT CAN REGIONAL AND LOCAL GOVERNMENTS DO TO HELP?

A

Capitalising further on all this international activity is a strategic preoccupation of almost all governments, whether national or sub-national. However, the globalisation of the basic trade equation is changing the lens through which governments must examine their trade policies. For example, a Canadian company that has an opportunity to grow its business may need to make an investment in a foreign country, and dramatically increase imports of inputs in order to do so, yet this strategy can seem strangely anti-Canadian to some as it seems to export jobs. What governments must understand is that trade and international investment are tools for improving the competitiveness of Canadian companies – the means to an end, not the end in itself. Generally speaking, governments should do everything they can to facilitate international trade and investment, in all directions, to permit Canadian companies to expand and create sustainable employment and profits here in Canada.

Further globalisation of supply and sales will mean increased specialisation in the actual manufacturing or service activities performed in Canada. Companies will have components made or other services performed in other countries, import them, incorporate them in their supply chain, and then export the final product. Or, they may simply choose to deliver services directly to the customer in a foreign country by investing in a foreign office. Indeed, this model is becoming increasingly popular. Although the statistics on foreign affiliates are published slowly and infrequently, we know that foreign sales by Canadian foreign affiliates are of the same order of magnitude each year as Canada's total exports. Such foreign sales are conceptually very similar to exports, but are counted very differently by the statisticians. But all such activity is ultimately beneficial to the Canadian economy.

There is one further, very important, implication of this rationalised, or globalised production model. What is happening is that small is becoming beautiful once again, as companies increasingly focus on their particular niche in the global supply chain. Particularly when the value added to the chain takes the form of a service, these companies can be very small, yet be very big contributors to the chain.

Q

GIVEN THE NATURE OF THE ECONOMIES OF THE ATLANTIC REGION, WHERE DO YOU SEE THE GREATEST POTENTIAL FOR ATLANTIC CANADIAN COMPANIES IN TERMS OF COMPETITIVE ADVANTAGE? SHOULD ATLANTIC CANADA CONCENTRATE ON NATURAL RESOURCES, MANUFACTURING OR SERVICES OR SHOULD A MORE BALANCED APPROACH BE TAKEN?

A

In Atlantic Canada, those niches may be found in many sectors of the economy, but key examples are in the periphery of the marine, forestry, energy or mining sectors. These are areas of traditional economic strength in the region, and the ability of a Canadian company to become world-class in its area depends mainly on its ability to specialise and then market its brand. Often the expertise is developed by serving a local resource industry and then the product or service can be adapted to the broader global market. A great deal of the growth in the global economy during the next 20 years will be in the service sector, and much of the growth in trade will also be centred there. Engineering services, environmental services, marine equipment maintenance, and, of course, tourism, are likely to be major contributors to economic growth in the Atlantic region. →

Q

WHAT DO YOU SEE AS THE BIGGEST CHALLENGES OR RISK FACING AN ATLANTIC COMPANY INTERESTED IN PURSUING TRADE AND/OR INVESTMENT OPPORTUNITIES IN CHINA OR INDIA, OR ONE OF THE OTHER EMERGING MARKETS? WHERE CAN COMPANIES GO TO GET INFORMATION OR ASSISTANCE?

A

Once companies begin making foreign sales or investments, they will face a variety of risks, including exchange rate volatility, regulatory changes, legal issues, political risks, and the risk of non-payment.

Managers and business owners interested in understanding foreign markets will find a wealth of information available on the web, including from the Trade Commissioner Service of International Trade Canada. They'll also find that financial institutions such as banks and insurance companies, and government agencies like EDC, are ready to help manage these risks for exporters. Receivables can be insured, political risks can be taken off the table, foreign buyer financing can be arranged, bonding requirements can be handled, and foreign investments can be financed. Small companies should generally leave such things to the experts.

Q

ANY CLOSING WORDS OF ADVICE FOR AN ATLANTIC COMPANY WANTING TO PURSUE INTERNATIONAL TRADE AND/OR INVESTMENT OPPORTUNITIES?

A

The bottom line is that international trade and investment have been and remain the key to rising prosperity in Canada, and even more so in Atlantic Canada. Global competition is fierce, forcing companies the world over to focus on their key areas of strength, to the exclusion of all others, and to contract out the remainder. Atlantic Canada offers a superb environment in which to start and grow such businesses.

The views expressed here are those of the author, and not necessarily of Export Development Canada.

profile: Steven Poloz joined EDC in September 1999 as Chief Economist. He leads a diverse group of professionals responsible for assessing economic, political, environmental and technical performance risk, conducting EDC's international relations, and managing the corporation's information centre.

technology notes

Back to the Future: Surfing the Tech Waves

BY TERRANCE WEATHERBEE

Trying to forecast the future of business technology is a daunting task. It's a lot like the challenge faced by a surfer trying to read the ocean's waves. Looking out from shore, you can see many little waves, but it's not necessarily easy to predict when the really 'big one' will roll in. The impact of these waves is also difficult to gauge. The effects may be small and incremental, or they may radically alter the shoreline itself. One thing is certain though and that is that change is inevitable.

As with these waves, we may not be able to accurately predict what exact information technologies will be in use or what their effect will be, but we can still see trends in groups or areas of technology. Many of these are not new, having already been 'foretold' sometime during the last decade - but nonetheless they are worth repeating. An example of this was 'convergence' would happen. Convergence was (still is) the concept of different technologies eventually converging into one. Think telephone through cable lines, or TV through the Internet, etc. Other more recent predictions may or may not unfold as expected. For example, the promise of Radio Frequency Identification or RFID implementation. With RFID, microchips can be encoded with data. When a transmitter broadcasts a signal it can 'read' the data. These chips are becoming so inexpensive that there are literally hundreds of uses. Think inventory control, shipping tracking, security etc. What we can see, when we're trying to forecast one, two, three or five years out, is that the synergies from mobility and autonomy technologies will continue to be the major themes present on the horizon. Let's look at a few of these in greater detail.

Communicating has always been the backbone of business. Today, it is increasingly becoming a truly critical piece of modern commerce, as every function in business finds that they need more, faster, and better ways to communicate, share, and manage their information and data. Wireless and cellular technologies (examples include Wi-Fi and Bluetooth); and the forthcoming ultra-high speed cellular networks now under construction, will begin to seriously provide these capabilities.

While cellular communications are a staple of business they have been primarily limited to voice. (Note for example the growth in Voice Over Internet Protocol or VoIP, a technology that allows a cellular or phone employee/customer to 'speak' and give commands to a →

computer!). With the new and rapid growth in cellular capability for high bandwidth data transfer and real-time video streams, new avenues for communications and information management and sharing become possible. Multimedia capabilities will change how people share and exchange information. The use of digital text, graphics, audio and video will rapidly become the norm.

Along with increasing network and cellular capabilities a complementary push in this direction will be driven by the increasing power and performance capability of laptops. The performance to price gap between desktop stations and laptops is rapidly eroding. As wireless technology becomes more prevalent, the advantages inherent in mobile computing become even greater. Combined with the growing capabilities of high bandwidth networks it is becoming apparent that laptops and connectivity will grow in importance. As cellular phones take on characteristics of Personal Digital Assistants (PDAs) and vice-versa, these technologies will start to complement one another and form another layer of connectivity. Imagine a WiFi enabled laptop, using multi-site video conferencing in real time between cell phones, PDA's, other desktops and even full video conferencing systems suites! This will enable the interactive exchange of text, graphics and real time video between offices and mobile employees worldwide. While these technologies will never replace face-to-face engagement, in today's complicated and sometimes risky travel environment they will be used, saving companies time and money.

As the next generation of students enters the workforce, the pressures to adopt and use these newer technologies will be even greater. This generation will have grown up with an Internet and World Wide Web as part of their social lives.

As the next generation of students enters the workforce, the pressures to adopt and use these newer technologies will be even greater. This generation will have grown up with an Internet and World Wide Web as part of their social lives. High school students are already using cellular and PDA enabled devices to create and maintain their social groups. This trend has a number of implications for business. For example, while email is now the corporate staple it can be expected that technologies for instant messaging or chat will become just as important.

As we increase our ability to communicate through mobile or wireless devices, and as we continue to share more and more information of different types through these networks, information and data management will become critical. We are already seeing a trend towards more 'meta' concepts and capabilities on the Internet, such as search engines for search engines, and sites that aggregate and filter information from other sites (e.g. shopping sites, travel sites etc.) Very soon we will need this type of personal assistance (sometimes referred to as a 'bot', a 'soft-assistant' or an 'agent') in order to manage our information, our data, and to enable ourselves to make better choices. Autonomous agents, i.e. small programs that are tailored to our personal or business needs, are now being developed and tested. These programs will be designed to find, →

filter, store and manage our information for use. They will be used for a range of tasks, from ensuring that our email is spam filtered, that our calendars are up to date, that our contact lists are current and that we are finding products and services at the best price point or by availability. Employees will use them to manage both personal and business affairs. They will exist both within our personal and business systems as well as out on the internet or on corporate networks.

We know that on a daily basis network and wireless technology is growing. We know that computing devices, from laptops to PDA-like technologies, are getting smaller, faster and cheaper. We know that people want them, want to use them, and now are beginning to expect different products or services to include them. This means that in business these technologies will be needed to manage the information demands of customers, partnered businesses, and employees. Mobility and autonomy will drive technological design for the immediate future. Businesses must be prepared to ride this incoming set of waves. Management and employees will no longer be able to avoid or restrict their use of these devices – both the hardware and the software. Those businesses that prepare for these new technology waves, or those that adopt them first, will ultimately have the advantage. After all, life is about communicating, creating and sharing information, for fun or profit.

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workplace benchmarks

Aligning Individual and Organizational Goals Through Performance Management: Key to Organizational Excellence

BY HARI DAS

Why did Eaton's, once dominant in the Canadian retail industry, declare bankruptcy? How did Laidlaw, a darling of many Canadian investors until mid 1990s, lose over 90% of its market value in less than seven months and face bankruptcy? Why did Nortel, once considered the leader among Canadian technology firms, become a mere shadow of its past in a matter of two years?

There are no simple answers. No single factor can explain the success or failure of organizations, but it has been suggested that a key factor differentiates the not-so-successful firms from the successful ones: *a failure to reflect*. Many firms are so caught up in carrying out their day-to-day work that they rarely, if ever, stop to think objectively about themselves and their businesses. The link between organizational strategies and employee performance becomes tenuous and the organization's goals become socially irrelevant or unattainable. When a firm's competitors are offering more innovative and value-adding alternatives, the not-so-successful firm fails to re-evaluate its mission. The resulting downward spiral brings in lower organizational resources that, in turn, lower capabilities of performance.

While the above argument provides an important insight, it should be noted that organizational success is often also influenced by external factors. Global and domestic competition and rapid changes in technology are just a few factors that continuously pose challenges to organizations. The organization may become unsuccessful over time unless there is a correct fit between the environment and the organization's strategies and systems. Errors happen. Policies become outdated. These factors may cause a downward spiral of organizational performance and success.

Whatever the explanation, it underscores the importance of continuous review and linking of individual and organizational performance to survive in today's global business world. Globalization, and the resultant push for productivity, has made it imperative to better integrate individual and organizational goals and activities. This focus is all the more important for a nation like Canada whose fortunes are tied to international trade outcomes. Today, exports amount to approximately 40% of Canada's GDP linking our economic well-being to global competitiveness more than ever before.

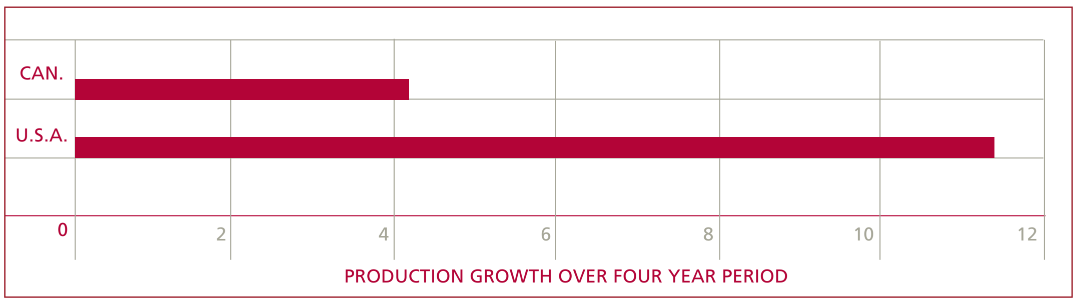
PRODUCTIVITY GROWTH IS KEY

Expanding globalization has been a mixed blessing. On the one hand, it has ushered in an era of increasing prosperity to Canadians. On the other hand, as customers are exposed to many products and services, their expectations for better quality, service, and value increase. →

These higher expectations have to be met by improved performance. Further, the emergence of several low-cost trading nations, such as Thailand, China, and India, has caused Canada to lose its market shares in traditional strongholds. Unless Canadian firms are able to add value, to own products or reduce the costs of production, they will not survive in the new market place.

Unfortunately, our record of productivity growth, especially when compared to our biggest trading partner, namely the U.S., raises concerns [see Figure 1]. What is even more disturbing is the fact that according to Statistics Canada figures, the unit labour cost [that is, labour productivity minus hourly compensation] in Canada during 1999-2003 increased in three of the last five years [see Figure 2]

FIGURE 1: PRODUCTIVITY GROWTH IN CANADA AND THE U.S. IN RECENT PAST



Source: Chart prepared by the author based on statistics reported in "U.S. Pulls ahead in Productivity" *The Globe and Mail*, 15 February, 2001, B-3

FIGURE 2. LABOUR PRODUCTIVITY, HOURLY COMPENSATION AND UNIT LABOUR COST IN CANADA

Source: *Chart prepared by the author based on Statistics Canada figures reported in* www.statcan.ca/English/Pgdb/econ78.htm

According to a report released in August 2001 by Canadian Manufacturers and Exporters, Canada is last among the G-7 industrialized countries in terms of competitiveness. Such statistics underscore the urgency of improving Canadian productivity through changing our management practices.

PERFORMANCE MANAGEMENT SYSTEMS CAN HELP

Performance management is an ongoing process that articulates organizational vision and objectives, installs performance standards in light of these objectives, and continuously reviews internal procedures to integrate them with organizational philosophy and culture.

It has emerged as a key to organizational success. The introduction of performance management systems has both direct and indirect effects on productivity. Directly, operations become better and more efficient, while indirectly the introduction of these systems improves the quality of work life for employees. These in turn improve employee morale and work outcomes. To be effective, performance management systems should, however, possess several attributes.

1. IT SHOULD BE AN ONGOING PROCESS.

A sound performance management system should be a planned, ongoing process, not an isolated or one-time exercise. It should be an integral part of an organization's overall plan to compete in the market place.

2. IT SHOULD FOCUS ON ORGANIZATIONAL GOALS.

The performance management system should be driven by an overall organizational philosophy and aimed to achieve organizational strategies that are translated into clear plans, objectives, targets, and standards of performance. The system should not only focus on organizational strategy but also recognize the core values of the firm.

Avoiding layoffs is part of the managerial philosophy at Regina based SaskTel, historically rated as one of the best employers in Canada. By diversifying its services, SaskTel has been able to retain most of its business and employees and avoid layoffs since its inception in 1908. In return, the firm enjoys one of the most loyal workforces and is the employer of choice for most local residents.

3. CLEAR PERFORMANCE STANDARDS SHOULD DRIVE ALL ACTIONS.

Individual and institutional actions should be driven by specific, time-bound, and realistic performance goals that are accepted by employees. When performance is below standard, factors inhibiting high performance should be identified and reviewed. Superior performance should be related, whenever feasible, to the career and self-development of the employee concerned. The focus is always on improving future performance rather than dwelling on past mistakes. →

Maritime Life [recently acquired by Manulife] provided each of its 1900 employees with a Career Investment Account; an annual stipend that employees could use to purchase career development materials ranging from business journals to home Internet accounts. Employees could also use the funds to pay tuition for university courses. The focus of Maritime Life was on upgrading employee skills so that they are able to anticipate challenges and take on higher responsibilities.

4. PERFORMANCE MANAGEMENT ACTIVITIES SHOULD BE WELL INTEGRATED. To maintain high performance levels, four activities are needed: performance planning, fostering high performance, performance review, and performance development. Performance planning involves the identification of clear performance expectations that are understood by the employees. *Fostering high performance* is attempted through effective job design, improved working conditions, and the introduction of appropriate reward systems. *The performance review system* ensures that performance deficiencies are identified on a timely basis and that employees who perform at or above expectations are recognized on a consistent basis. *Performance development* is attempted through a variety of training and coaching techniques, and other employee development and organizational improvement programs. Each of these components should be consistent in scope and demands on the others.

While performance management systems show considerable variation across organizations, most carry out several common activities. In all instances, such systems attempt to integrate individual, team, and departmental goals with corporate objectives and strategies. They start with a clear definition of what the organization is attempting to do, how it plans to get there, and the time frame in which it has to work. Performance management systems force management to ask questions such as:

Are our assumptions realistic?

Do we have the competencies and resources to make this strategy viable?

Is this strategy consistent internally so that various elements "hang together"?

What are the risks? Can we afford them?

What actions have to be taken to make the strategy viable and by whom?

How do we establish performance-reward linkages to bring out the best from each employee?

How much workplace autonomy is desirable and feasible?

How do we provide valid performance feedback and training to employees? →

In summary, performance management systems attempt to integrate individual, departmental and organizational performance and continuously improve them. While performance management is closely related to strategic and human resource management, it also requires a deep commitment to continuous improvement looking at various organizational activities in an integrative fashion. Such a philosophy is yet to emerge in many Canadian organizations that have loosely connected human resource management procedures. Only a select few have well integrated performance management systems, such as the one described below:

> *In a major bank, performance standards and expectations are conveyed to the staff at the beginning of each financial year. What constitutes success and how it is measured are discussed and agreed upon at this time. During quarterly performance reviews, actual performance is compared to these standards and expectations. Wherever feasible, work outcomes and facts are used to assess performance, which are then rated on the predetermined criteria. The results are discussed in a two-way problem-solving meeting at which time future actions such as training and education are also considered. Basic career counselling is also offered at this point along with information on changes in organizational direction or priorities for the future. The human resource department offers detailed career counselling or refers employees to outside counsellors where necessary. Reward systems are continually reviewed to strengthen the performance-reward linkage and encourage knowledge acquisition by employees.*

Progressive firms such as the above bank recognize that in today's world, financial and technical resources alone do not provide competitive advantage to a business. These traditional factors are widely available to all competitors in an industry. Having more money and advanced technology does not by default increase productivity. It is the employees, who effectively and creatively use these resources with their knowledge and skills, who generate value. Well-planned performance management systems recognize this and capitalize on their human resources.

Profile Hari Das is a Professor of Management at Sobey School of Business teaching graduate and doctoral level courses in human resource management, performance management, and research methodology. He has written over 100 articles and papers in management and related areas and is the author of *Organizational Theory with Canadian Applications*, the first Canadian text on organizational design and change. His co-authored work, *Canadian Human Resource Management: A Strategic Approach*, now in 7th edition, is the market leader in the field. This article is based on his latest book, *Performance Management* [Prentice-Hall, Toronto, 2003] and draws extensively from his consulting experience.

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Ethics in Business Education: Core or "Accessory"?

BY CATHY DRISCOLL AND LINDA VAN ESCH

" Business decisions, by their nature, involve ethical considerations because (1) most economic decisions are choices where the decision maker could have done otherwise; (2) every such decision or action affects people, and an alternative act or inaction would affect them differently; and (3) every decision or set of decisions is embedded in a belief system that presupposes some basic values or their abrogation." Patricia Werhane, 1994

" There is no ethically neutral teaching. Everything in the classroom communicates an ethical position. The only difference between business ethics courses and all others is truth in advertising: ethics courses state explicitly when value propositions are communicated; the regular curriculum embodies hidden assumptions of which even the professor may be unaware." Amitai Etzioni, 1989

THE CALL TO ACTION

Ethical conduct and social responsibility continue to be hot topics. Society's expectations of business continue to increase – and it is much less tolerant of questionable behaviour. At the same time, ethical considerations in general are growing in number, diversity, and complexity in part due to a global, hypercompetitive, hyperlinked, multicultural, and increasingly deregulated business environment and in part due to systemic problems in the private and public sectors.

In response, there have been loud calls from employers, professional associations, accrediting bodies, students, and other stakeholders demanding greater emphasis on business ethics education. AACSB International (The Association to Advance Collegiate Schools of Business), business schools' premier accrediting body, has called for business programs to include basic ethics education since 1976. [1] AACSB now insists that "the time has come for business schools ... to renew their commitment to the centrality of ethical responsibility at both the individual and the corporate levels in preparing business leaders for the 21st century". [2] A new program initiated by the Canadian Centre for Philanthropy emphasizes the importance of teaching corporate social responsibility to better prepare Canadian business students. [3] For the second year in a row, *Corporate Knights* magazine has surveyed Canadian business schools' progress in integrating ethics and social responsibility into their programs and events. Business schools are not alone: Junior Achievement has also launched a new program, the Ethics Continuum, emphasizing integrity and personal responsibility in the workplace.

Not surprisingly, the list of academics joining those who have long argued that ethics education must be a significant part of business education is also rapidly growing. [4] Students, too, are increasingly vocal in their concerns that traditional programs aren't preparing them adequately.

All are agreed on the goal – to better equip students for their future roles by first increasing their awareness of ethical considerations and then helping them develop practical skills in moral analysis and reasoning.

THE SOLUTION

Although many business schools are still debating whether to offer a stand-alone course or to integrate ethics throughout the curriculum, experts recommend both. Without a stand-alone course, there is no assurance that ethics will be covered adequately: to develop sensitivity to the ethical implications of decisions/actions and the skills needed to analyze difficult situations, students need some familiarity with moral reasoning theories/models plus opportunities to examine their relevance to personal and organizational decisions. Students also need exposure to the kinds of ethical dilemmas encountered in business and to case studies highlighting both exemplary and questionable behaviour – hopefully paralleling the real world of decision making in "messiness", i.e., ambiguity, incomplete information, conflicting responsibilities, and multiple viewpoints. They also need potential role models.

All of this is difficult to do without a dedicated course. In addition, reducing the coverage of ethics to a seminar or module risks sending the message that the topic doesn't warrant a course credit. For this reason, Harvard, after many years of requiring non-credit ethics modules, has now introduced a mandatory first-year course, *Corporate Leadership and Accountability.* Another solution, outsourcing to the philosophy department, solves the problem of ensuring exposure to moral standards/rules and procedures for ethical decision making, but can provide only limited exposure to practical applications in the wide range of business contexts. It also makes integration of ethics across the curriculum more difficult, and signals that ethical issues are somehow outside day-to-day business decisions.

While requiring a stand-alone ethics course highlights the importance of ethical debate, it is also important to integrate ethics into all courses. As with all subjects, a genuinely integrative and interdisciplinary approach, which exposes students to increasingly sophisticated ethical dilemmas throughout their educational →

experience, is far better than a single stand-alone course or a little integration somewhere along the way. [5] Transformative learning, which encourages students to challenge personal assumptions and explore their connectedness to other human beings and the natural environment, is also highly recommended. In addition, the diversity of students in most business programs provides an opportunity to explore different ethical perspectives, including individual and cultural differences. [6]

THE RESPONSE

Not surprisingly, for the most part, business schools' response – which typically consists of tacked on courses or topics – has been judged insufficient to the task and, even so, weakly implemented. Many programs have added required or elective courses in business ethics, but few have adopted a comprehensive approach. Although a recent study of Canadian MBA programs found that most schools are at least espousing an increased emphasis on the integration of social responsibility into their MBA curriculum, [7] surveys of MBA students show their concern that business programs are doing little to prepare them for the ethical issues that will confront them. [8]

The challenge is to implement a comprehensive approach. Too many business educators remain reluctant to integrate ethical issues into their courses. Few have formal training in ethics, and misperceptions and feelings of inadequacy abound. Some see teaching ethics as preaching. Some, who equate ethics education with "values training", argue that since university students' morals and values are already set, ethics training is pointless. Some feel that teaching ethics is not their responsibility; for instance, some don't distinguish between ethics and legal or policy compliance. Some believe that their technical or quantitative disciplines are exempt from ethical considerations. Some argue that ethical concerns are always relative – to individuals, cultures, industries, and situations – and consequently that, again, teaching ethics is pointless. Others are unsure as to how ethics should be taught and have misgivings about whether they are qualified to teach it. All worry that, in the time available in a single semester, they're challenged to achieve the existing learning objectives. As a result, faculty argue that doing nothing, whether because they don't feel qualified, don't have the time, or don't see the value in it, is better than attempting something that they cannot do well.

> "Some see teaching ethics as preaching. Some, who equate ethics education with "values training", argue that since university students' morals and values are already set, ethics training is pointless."

Another major barrier is the availability of resources. Since faculty members themselves have different levels of ethical awareness and likely rely on one or two preferred types of ethical reasoning, an integrated approach to ethics education would first require faculty training. Seemingly simple, this means competing successfully for scarce university funds and even scarcer faculty time.

"BUSINESS AS USUAL"

In the meantime, not discussing ethical concerns, or giving them only limited attention, inadvertently signals to students that ethical issues aren't important – in the classroom or in business practice. Worse, it reinforces the dominance of one particular ethical model – the "enlightened self-interest" notion of Milton Freidman and other neo-classicists who argue that business' primary moral responsibility is to maximize shareholder wealth. →

A long list of scholars, including Marjorie Kelly, editor of *Business Ethics Magazine*, and Sandra Waddock, Senior Research Fellow at The Center for Corporate Citizenship at Boston College, are concerned that business education programs still emphasize a short-term focus on maximizing shareholder value and finding ways for organizations and individuals to 'win' in today's hypercompetitive business environment. [9] The focus on ever improving financial performance and market growth, and its underlying theme of self-interest, continues, with little or no attention to ethical, ecological, or social concerns.

"...not discussing ethical concerns, or giving them only limited attention, inadvertently signals to students that ethical issues aren't important – in the classroom or in business practice."

The results are predictable. In a recent study of 2000 North American MBA students from dozens of business schools, students reported, over the term of the MBA programs, a weakening of their own moral character, a diminished view of the importance of social values, and an increase in the belief that their main responsibility as business people is to the company's shareholders. [10]

RECOMMENDATIONS

As Etzioni points out, all courses, either implicitly or explicitly, invoke particular ethics and all instructors, whether consciously or not, are ethical agents. Program directors and course instructors must begin to question the pre-eminence of other material that is currently prioritized in business programs and teaching approaches that fail to genuinely and experientially integrate ethics into existing course content. At the same time, discussions at the program level must develop clear and shared understandings of "ethics integration". Program and course learning outcome objectives must include both knowledge of ethical principles and relevant issues and development of practical skills sets.

Resources must be provided in order to "train the trainers". Individual instructors should not be overwhelmed by the task – nor should they address ethics in idiosyncratic ways. However, never before have all faculty members been asked to pursue training in another discipline. For this to succeed, the training must be seen as valued and not as an activity that takes time away from research productivity and other criteria on which faculty are evaluated.

Appointing an Ethics Coordinator would also be helpful. All universities have Ethics Review Boards or Officers, to ensure the ethical integrity of all academic research. However, very few business schools assign an individual to coordinate ethics instruction. The Ethics Coordinator would offer suggestions on how to integrate ethics into the curriculum, act as a liaison to coordinate ethical content across courses, deliver faculty training workshops, and stockpile cases and other pedagogical materials.

Robert Solomon, author of *A Better Way to Think about Business: How Personal Integrity Leads to Corporate Success*, has said that "[t]he problems of business today are, first and foremost, profoundly ethical and philosophical problems." [11] Like businesses, business schools face the real danger of mimicking Enron's much touted but little followed code of conduct – having an accreditation-satisfying and stakeholder-pacifying stance that treats ethics education as an accessory rather than core to their purpose.

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Do Women Actually Have Higher Rates of Turnover?

BY KELLY DYE

Employee turnover, a pervasive problem for many organizations, has garnered a lot of attention by researchers in the last three decades. Attempts have been made to find out why and how people leave their jobs, and what attributes such people might have, in an effort to discover the key to retaining valued employees. It is a serious area of inquiry and conclusive results could prove valuable for organizations and employees alike. However, we must first interpret the research results carefully so that we can avoid sweeping generalizations that may, in fact, hinder the Human Resource (HR) process.

In 1986, Cotton and Tuttle, well-known authors in the field of HR, conducted a major statistical study, including all past research studies pertaining to employee turnover, and drew significant conclusions. One of the most notable, and perhaps problematic, findings was the positive correlation between gender (women) and turnover. In this 1986 study, Cotton and Tuttle concluded that women were more likely to leave their jobs than their male counterparts. This was generally readily accepted by HR practitioners of the time as marriage, childbirth, and childcare were acknowledged as major reasons for this difference in turnover rates. Excuse the pun, but a myth was born.

Clearly, times have changed and holding on to this myth may not only serve to hinder effective hiring, but could potentially unfairly disadvantage female applicants. That is why it is essential to revisit Cotton and Tuttle's study.

Careful scrutiny of the studies analyzed by Cotton and Tuttle reveals significant limitations such as small sample sizes, failure to differentiate between voluntary and involuntary turnover, and failure to control for other important variables (i.e. age, tenure, position, education level). To complicate the issue even further, studies conducted since the 1986 publication of Cotton and Tuttle's work have shown just the opposite effect. In some studies women have been found to be more committed to their jobs than their male counterparts. As well, when age, tenure, occupation level, and education level are considered, the myth that women leave their jobs more frequently than men do no longer holds true.

So, what can we conclude? We cannot conclude that women leave their jobs more often than men, nor can we conclude the reverse. There is simply little evidence to support either claim. What we can conclude is that researchers and HR practitioners alike must be careful not to rely on small, homogeneous research samples and industry specific statistics to generalize about gender differences in turnover. Finally, it is important not to promote dangerous generalizations resulting from such studies, which can be used to discriminate against groups, disadvantaged or otherwise.

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History Shows It's Folly to Ban Strikes

BY LARRY HAIVEN AND JUDY HAIVEN

Recently two provincial governments used the power of the state to suppress public sector strikes. Not only did British Columbia and Newfoundland and Labrador make legal strikes illegal, they also dictated terms of settlement on the workers through legislation. Such actions are part of a remarkably short-sighted and even dangerous trend.

Plus ça change, plus c'est la même chose, as they say. Since long before trade unions, workers have fought to improve their wages and working conditions – and employers and governments have tried to keep them from doing so. Inevitably, and too late, the powers that be learn that it is more sensible and prudent to regulate industrial conflict than to prevent it. For example...

The year is 1351. England has emerged from the Black Death plague with a third of its population depleted and a serious labour shortage. Following the laws of supply and demand, labourers try to press their advantage, demanding a boost in their miserable wages. King Edward III bows to the demands of landlords and issues a *Statute of Labourers* because "servants...will not serve unless they may receive excessive wages." The Statute declares that:

→ Wages are frozen to pre-plague levels

→ Any worker leaving the service of his lord will go to prison

→ Employers who pay more will be fined heavily

→ Anyone giving alms to the poor will be imprisoned

In 1380, Edwards's successor, Richard II not only continues the hated Statute but imposes a "poll tax" (a flat tax that hits the rich and the poor equally.) As a result of these provocations, the famed Peasants' Revolt breaks out. Workers march through the south of England and eventually on London, destroying property, killing many rich people and capturing the Tower of London. They force the King to promise that peasants will no longer have to work for their landlords and that all rebels will be pardoned.

Though the ringleaders are later rounded up and executed and the immediate promises are revoked, landowners and rulers have received a very unpleasant shock and the regime changes. The poll tax is removed, wages are allowed to rise and many more peasants become free labourers. Indeed, this marks the beginning of the end for feudalism in England. But memories fade quickly and the lessons of the past need to be learned over and over again.

Just last May, impending back to work legislation forced 20,000 Newfoundland and Labrador public service workers to end a 27-day strike. But the Government still imposed its settlement on them in a four-year collective agreement with a wage freeze in the first two years and a cut to their sick-leave plan.

The Campbell government in BC went even further, rolling hospital employees wages back by 15%, lengthening the work week and allowing contracting-out of jobs to the private sector. For the second time in twenty years, the province was on the brink of a general strike. Even a last minute "agreement" could not mask the Draconian nature of this government's actions and the bitter pill the workers had to swallow.

Both governments threatened massive punishments, including dismissals and huge fines for the unions and their members, for those who defied the edicts. →

The governments have sent a powerful message to trade unions, one which will have ominous future repercussions: You can negotiate all you want, but when push comes to shove, unless you agree to what employers want, we will bring the full force of the state against you and impose what employers want.

Although the BC's settlement terms are especially vindictive and nasty, the governments of BC and Newfoundland and Labrador are by no means the first in Canada to use these methods. Since 1999, the governments of New Brunswick, Nova Scotia, Quebec and Saskatchewan, across the political spectrum from Conservative, through Liberal and NDP, have done the same. (The Saskatchewan government seems to have learned its lesson in 1999 and has since patiently weathered two large health care strikes without intervening.)

when governments beat up on health care workers in order to pay for tax cuts to the rich.

Traditionally there have been three models of handling industrial conflict in health care. A few governments have no special legislation banning strikes or imposing emergency service provisions. Some others allow strikes but impose stringent controls on how many workers can be off the job (sometimes foolishly insisting on more coverage during a strike than in normal times.) Still other provinces ban strikes in health care entirely and substitute binding arbitration to resolve disputes.

Historically, even in jurisdictions where strikes are not illegal, governments have occasionally become impatient or convinced themselves prematurely that a

> "As much as they deny it, when this happens again and again, Canadian governments are, for all intents and purposes, rendering collective bargaining dead."

public emergency exists. They have used their powers to pass ad hoc legislation to ban the strike. Up until recently, such strike ban legislation has substituted arbitration, which means a third-party decides on a fair settlement.

Health care workers across the country have good cause to rebel. Their real wages (after inflation) have often declined. Their employment security has eroded or disappeared and they have watched their cohorts shrink. Their work has intensified as the needs of in-hospital patients have become more acute.

Those in less skilled positions are especially vulnerable as employers move from a hospital model of employment to a hospitality model, treating employees not as members of a health care team but like seasonal hotel and restaurant help. In addition, more and more union members are rejecting agreements that their unions have negotiated.

Worker rebellion taps into deep public unease about the future of Canadian health care and can elicit great sympathy. People are increasingly suspicious

What makes recent cases so different and so dangerous is that governments are bypassing the arbitration route and writing the terms of settlement into the legislation. As much as they deny it, when this happens again and again, Canadian governments are, for all intents and purposes, rendering collective bargaining dead.

Canada and other industrialized countries introduced modern collective bargaining legislation in the mid 20th century because they had learned from history that, given appropriate conditions, workers would →

strike whether or not they were "allowed" to by law. Even when unions themselves were illegal and strikes were met by troops and machine guns, workers would still resist. Modern governments figured it better to legalize strikes and institutionalize collective bargaining, tolerating and even encouraging occasional strikes rather than bottle up worker resentment until it bursts forth in even greater measure.

For a while, some sort of industrial democracy prevailed. But for the past decade at least, Canadian governments have favoured a program of tax cuts, program cuts, and wage cuts. These governments do not have the requisite patience to allow collective bargaining to work and are once more resorting to the rule of force to compel public sector employees to move backwards.

But health care and public service workers have shown in more recent years that they will defy strike bans if sufficiently angry and frustrated. To mention just a few cases: Ontario health care workers walked picket lines for eight days in 1981 despite fines, dismissals and the jailing of their leaders. Saskatchewan nurses stayed on strike illegally for ten days in 1999. Alberta licensed practical nurses and others did so in 2000 until they achieved a better settlement. Nova Scotia and British Columbia nurses threatened mass resignations in 2001.

To take history as our guide, even a decision by workers to back down under massive pressure does not guarantee that mass civil disobedience will not break out at another time and another place, just as it did in 1381.

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Commentary

When I first met Sobey School of Business Dean Al Miciak in November 2003 he was trying to convince a small group of businessmen to enter into a partnership with the School.

With the government retreating from the full funding of post secondary education, he said it was inevitable the role of the private sector would grow in importance. He wasn't looking for a cash hand out, he insisted, but a new relationship with the business community that would benefit both parties. "A business community will only support a business school when it sees benefits in return," he told them correctly. With a new logo, a new brand, and new partnerships with the province's accounting and professional management organizations in hand, he pledged the Sobey School would continue to revamp the way it worked, ensuring faculty and research would be responsive to the needs of business.

I'm uncertain how many of the business partnerships were created as a result of the meeting, but I used it as an opportunity to evaluate *The Chronicle Herald's* relationship with the school. Surprise! We didn't have one. A check of our news archive for 2002 turned up just ONE story with a Sobey school connection. And it was a brief. That has changed. Since that November meeting our reporters have tapped into the expertise of the department on numerous occasions and in numerous ways. The two most obvious ways are the monthly Sobey School of Business column and dean Miciak's participation in The Apprentice, a column that helped lay out the lessons from the television show by the same name.

The Sobey column has brought our readers valuable information on topics ranging from organizational change and dealing with technology to coping with spam and the appropriateness of spirituality in the workplace. My hope is it has offered the various authors profile with the community and some satisfaction in knowing their work is being shared with a wider audience than it might normally be.

The column connection has had spin-off benefits. It has shown my news staff the kinds of things Sobey professors are working on and as a result we have sought out comments on day-to-day news stories about labour disruptions, employment law and the commercialization of data collection. EMBA Director Harvey Silverstein told me recently one article helped some of his students find businesses to work with on an export project.

So far in 2004 there have been 37 articles with a Sobey connection, but the new relationship has stretched beyond the printed pages. When we needed some specialized training staff for the business staff we turned to the Sobey School of Business.

Beyond *The Chronicle Herald*, I know some of the school research is used by Progress magazine and I've seen the occasional opinion article by professors in national newspapers. Just this week I heard a trio of Sobey students interviewed on CBC radio about an advertising project.

So the Sobey School is making a name for itself. Reporters are calling looking for comment. The School auditorium has become a focal point for discussions on business topics like immigration and access to capital. There is more that can be done to let people know what you have to offer – creating an experts list for example – but setting up this new electronic journal is another step in the right direction. Good luck with it.

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Putting the Relationship in CRM

BY GORDON FULLERTON

Customer relationship management (CRM) programs are currently in vogue. A CRM program is any formal mechanism that the firm introduces with the goal of increasing customer retention rates. The points-based program is the most popular form of CRM program, although as we shall see, there are others. Organizations adopt these programs because they believe that they facilitate the development and enhancement of relationships with their customers.

But why do organizations want to develop relationships with their customers? As many researchers and practitioners have pointed out, relationship marketing has emerged because it is easier and more profitable to retain existing customers than it is to acquire new ones [1]. In addition, in an era where new products and services are being developed at an accelerating rate, it is usually easier to sell these offerings to customers who already buy one or more of the businesses existing products than to customers who have not bought any of the firm's products before.

However, it should be obvious that an organization can't build an effective CRM program without the foundation created by a relationship between the business and the consumer. So what are the cornerstones of an effective business-consumer relationship? Research has shown that trust and commitment are central to marketing relationships [2]. If the customer does not trust and feel committed to their business partners, then all efforts by the business to manage and enhance the relationship with CRM will be entirely fruitless. Trust and commitment are built when the organization proves that it is reliable, genuinely interested in satisfying the needs of the customers, and provides products and services that create value for the customer. Good CRM programs must serve their purpose by building customer commitment and enhancing the relationship between the consumer and the organization by providing value to customers. One way to assess a CRM program is on the extent to which it has a commitment orientation, thus providing value to customers.

At the same time, CRM programs must provide value to the firm. Does the CRM program provide sufficient value to customers to promote customer retention? Does the CRM program provide meaningful data on consumer behaviour that can be used by the business to improve its practices in the areas of segmentation, target-marketing, and one-to-one marketing. In essence, does the CRM program create opportunities for the firm to influence and control certain aspects of customer behavior? Although, "control" may seem to be a strange term to use in describing what should be a customer-friendly process, control-based CRM processes are designed to provide benefits to the program sponsor first, while benefits received by →

the customer area secondary concern. Effective CRM programs offer significant benefits to the firm beyond customer retention. Thus, the second way to assess a CRM program is in terms of its orientation toward the enhancement of customer control.

As the basis for CRM programs, commitment and control should not be regarded as mutually exclusive variables. Some CRM programs may be based entirely on the development of trust and customer commitment while other CRM programs will be entirely based on control, primarily serving the firm rather than customers. However, the reality of CRM programs is that many will contain some elements that are indicative of both commitment and control-based mechanisms. It is also possible that some CRM efforts could be weak and ineffective because they are based in neither commitment nor control based mechanisms. Figure 1 presents some exemplar CRM programs that are based on the various combinations of commitment and control orientations (Subway Sub-Club, Columbia House Club, Air Canada Aeroplan, Jeep Jamboree). These exemplar programs will now be discussed in some detail.

FIGURE 1
Commitment & Control Based CRM Programs

SUBWAY: WEAK EFFORTS-WEAK RESULTS

A CRM program that is based on neither commitment nor control is likely to have limited effect on the consumer's relationship with the sponsoring business. Yet, many firms build CRM programs that offer consumers little in the way of benefit, create few meaningful switching costs and provide little information to the marketer. It is common for coffee shops to issue stamp cards to customers where, after nine coffees have been purchased, the tenth one is free. There are no doubt millions of consumers wandering around with cards in their wallets in various stages of completion. From the service provider's perspective, this is an easy CRM program to set up because it is relatively cheap to get some wallet-sized cards printed and a custom stamp pad manufactured. In addition, the variable costs associated with giving away the reward are relatively small. From the consumer's perspective, the prospect of one free coffee with every nine purchased is not so great a reward that they feel bound to the coffee merchant by the cost of forgoing a potential free coffee if they switch service providers. At the same time, the coffee vendor is learning nothing about their customers through this CRM program.

This relatively simple scheme is the basic CRM program employed by Subway. One of the leaders in the global fast food industry, Subway has over 18,000 locations in over 70 countries, although more than 90% of these are in the United States and Canada. Subway's Sub-Club program offers customers the opportunity to collect stamps that can be pasted on a simple card that the customer keeps in his or her wallet. For every ten submarine sandwiches purchased, the customer can redeem the completed card for a free sandwich. The program offers a relatively modest reward in absolute terms because the consumer receives a free sandwich, which may have a value of between $3 and $4 after sending between $30 and $40 with Subway. At a base level, this loyalty program has a reward that is both valuable and attainable. Yet, it must be recognized that this CRM program provides little value to the customer beyond the core reward of a "free" sandwich with every ten purchases.

Subway is not using the CRM program to collect information on consumer purchase habits or preferences that can be used to develop a customer or segment-specific offering. The problem with CRM programs of this nature is that they produce virtually no data that can be used in any fashion by the marketer. As a result, stamp-card based programs cannot be used →

in any manner that can enhance customer commitment with customer-centric offerings. At the same time, the modest value proposition offered to the consumer is not sufficient to create any serious impediment to switching. If the holder of Subway Sub-club card stops patronizing the chain midway through the completion of a card, they only lose something of minimal value. While Subway is a very successful international franchise, the Sub-club loyalty program offers little benefit to the franchise as a mechanism of customer relationship management.

> "While marketing organizations may find some value in data mining, direct mail and related activities, these efforts should not be confused with effective customer relationship management."

COLUMBIA HOUSE: BONDAGE AS A FORM OF RELATIONSHIP

A large number of CRM programs are substantially rooted in customer control mechanisms. Programs based in customer control are primarily designed to deliver value to the marketing organization without providing much in the way of value to the consumer. This is frequently regarded as a critical mistake in the management of customer relationships. Control-based CRM programs efficiently collect data on customer spending patterns but fail to use this information to develop offerings that provide value to their consumers. While marketing organizations may find some value in data mining, direct mail and related activities, these efforts should not be confused with effective customer relationship management.

Many firms may also use contractual mechanisms as the basis for creating and maintaining the relationship. This type of process is also typical in a business that has a strong control orientation to the management of customer relationships. Cellular telephone companies and direct-marketing clubs are two exemplars of contractually based relationship management programs. Contractual mechanisms create a relationship by bonding the consumer to the partner. For example, Columbia House is a successful, international direct marketer of CDs, videos and DVDs. Columbia House delivers value to the consumer by offering free initial selections but charge higher prices on subsequent selections required until the terms of the contract (usually between four and eight purchases) have been fulfilled.

For the most part, Columbia House uses a data driven CRM strategy. They collect information on customer purchase history and are adept at using direct mail techniques to attract new customers and rekindle lapsed relationships. Yet, from the consumer's perspective, it is not clear that the vast data collected has been used to provide services that have been tailored to meet individual needs. Nor is it clear that Columbia House is using its CRM program to offer the customer a reason to stay in the relationship beyond the contractually mandated period. If customers do not find that the relationship management activities of their relational partner provide value, they will stray from the relationship at the first opportunity. The result is that Columbia House, like many direct marketers, has a significant customer attrition rate. This causes the organization to devote significant resources to the task of capturing new customers. This result is the antithesis of current CRM philosophy, which is that the revenue benefits of retaining current customers often outweigh the revenue benefits of attracting new customers. The conclusion is that customer control processes by themselves do not lead to long lasting relationships. →

AIR CANADA AEROPLAN: LOYALTY TO THE LOYALTY PROGRAM

Many CRM programs are built on both commitment and control to varying degrees. In fact an effective CRM program must serve both customers and the business sponsor. On one hand, the CRM program builds consumer loyalty because it creates value for the customer and provides the marketer with the opportunity to use the consumer data derived from the program to build customer-specific offerings. These CRM programs also collect rich information that provides considerable value to the sponsor. On the other hand, the CRM program often serves as a mechanism through which the consumer is bound to the organization. A large number of CRM programs, even if they do a good job in providing consumer value, also work to undermine this value through rules and regulations which are solid artifacts of a control orientation. Many airline, hotel and rental car loyalty programs have a dual emphasis on both commitment and control.

Air Canada is the dominant player in Canada's airline industry and like many national flag-carrier airlines it has undergone financial hardship in recent years. Although it continues to be well regarded by international travelers, domestic consumers have been increasingly critical of the airline and its service. However, its Aeroplan rewards program continues to impress consumers. Like many rewards programs, Aeroplan awards points on the basis of cumulative previous airline patronage (and patronage of its partners) that can be redeemed for future travel on the airline or for the services of some of its partners. It also awards consumers a status level on the basis of their patronage in the previous year. Higher status levels offer consumers fringe benefits in the relationship such as special check-in lines, the opportunity to use the executive/prestige class lounges hosted by Air Canada and its partner airlines in the Star-Alliance program, and certificates that the consumer can use to upgrade from "coach" to "executive class". These are perks in the relationship that bond the customer to their relationship partner because they represent something that may have some considerable value to the air traveler, which become lost in the event that the consumer switches airlines. While the consumer has the opportunity to get these or similar benefits back as a member of a new airline's loyalty program, it will usually take some time to get to the appropriate level. Accordingly, Aeroplan and similar programs have some procedures that are artifacts of a control based consumer relationship culture.

However, points-based CRM programs, like Aeroplan, are not entirely rooted in customer control. The success of points-based programs demonstrates that consumers genuinely like programs that offer them understandable rewards for continued patronage. There are two basic mechanisms through which points based programs meet and deliver consumer value. First, points-based loyalty programs like Aeroplan offer value because the reward for continued purchase is well defined, achievable, and objectively worth something of monetary value to the customer. Second, the value of the program is greater than the mere opportunity to earn free travel. Points-based loyalty programs give marketers the opportunity to create a data-set of customer preferences so that when the customer books air travel on-line or by phone, the airline can deliver a service that efficiently meets those preferences by using the information it has on file. The proper development and use of the data set created by the loyalty program enhances the reliability and responsiveness of the organization that leads to better customer service quality. Despite the fact that Canadian consumers are increasingly frustrated with the overall quality of service they receive from their national airline, they continue to be somewhat attached to the Aeroplan program even though seat black-out periods and limits on the availability of Aeroplan seats is frustrating for consumers. Once again, the complex rules surrounding the availability of airline seats that can be booked through Aeroplan rewards is a clear artifact of a control based CRM system. This likely explains the ambivalent feelings many consumers have about their experiences as members of points-based customer loyalty programs. →

JEEP JAMBOREE: CREATING A COMMITTED COMMUNITY

Few organizations are building relationships with primarily commitment-based CRM programs. Commitment based programs are difficult to develop because the psychological states of trust and commitment take time to develop. They cannot be manufactured out of thin air through marketing activities. So, in order for commitment based practices to be effective, the organization must have a long-term perspective and patiently wait for the CRM tree to bear fruit. It has been noted that a frequent cause of CRM failure is that management expects a quick payoff and is unprepared for the reality that it often takes a long time for CRM investments to deliver a return [3].

> "Commitment based programs are difficult to develop because the psychological states of trust and commitment take time to develop. They cannot be manufactured out of thin air through marketing activities."

Jeep is a division of the Daimler-Chrysler automobile company. The original Jeep was an all-wheel drive utility vehicle that made its mark as a piece of WWII vintage military equipment. Today a number of distinct products are manufactured under the Jeep brand but they are all variations of sport utility vehicles (SUVs). For over 50 years, consumers had a quirky appreciation and interest in the original SUV. Many Jeep owners have a strong attachment to the brand such that they are members of a brand community with a shared identification with the product. To increase consumer sense of community, Chrysler developed a program exclusively for Jeep owners where they can participate in weekend-long touring events and they can drive their Jeeps in severe off-road conditions with a group of like-minded individuals. The act of sharing the ownership experience is an important aspect of this brand community. Jeep has been running its "Jeep Jamborees" for over 50 years and they have been so successful that they now run more than 40 events throughout North America every year. Jeep has fostered a community that is highly affectively committed to the product and the brand, and where they share a common brand-oriented bond with other consumers. It should also be noted that Jeep Jamboree is a Jeep sponsored event so that the marketer becomes a key part of the interaction between the consumers and the brand.

It may seem strange to regard this type of relationship as a CRM program, yet it is clear that Jeep Jamboree participants are highly committed to the brand. Jeep can use and manage the database of Jeep Jamboree participants to enhance connections between the marketer and the consumer. The Jeep Jamboree serves as a classic example of a CRM program that provides considerable value to both the customers and the firm. Marketers should recognize that it is not easy to proceed down this road. Jeep has been actively building its brand community for over 50 years. Although it is difficult to develop an effective points-based loyalty program, it is even more difficult to develop a brand community rooted in customer commitment.

CONCLUSION:

It is frequently said that an organization's employees are critical to the development and maintenance of an effective relationship between the firm and its customers [4]. While it is true that the actions of employees are significant determinants of a customer's evaluation of the organization, the formal CRM program is an enabler of employee action. The basic orientation of the CRM system plays a significant role in determining the effectiveness of the relationship. If the CRM system has a commitment orientation, →

employees will be enabled to engage in behaviours that enhance customer commitment. Although many customers experience frustration with airline services, their CRM systems are particularly good at enabling service personnel to discriminate among customers in terms of service level. A high-mileage customer will likely receive preferential treatment and greater compensation in the event of a flight cancellation than an occasional customer. In providing both value to the customer and value to the firm, the CRM program is built on the premise that not all customers are created equal.

If the CRM system is primarily designed from a customer control perspective, employees are unlikely to engage in behaviors that would enhance customer commitment. CRM efforts rooted primarily in customer control may offer some basic benefits in customer retention. Club type direct marketers and cellular telephone companies both use contractual mechanisms as the basic means of enforcing customer loyalty for the period of the contract. To the extent that customers remain loyal for the period of the contract suggests that these mechanism have some positive effect on customer loyalty. However, the real test of the effectiveness of control-based mechanisms comes at the end of the contract when the customer is now free to exit the relationship. Since it is known that both club based direct marketers and cellular telephone companies have significant customer churn, this suggests that control based mechanisms are not particularly effective at creating long-term customer retention. In the final analysis, consumer loyalty cannot be coerced.

> "CRM efforts rooted primarily in customer control may offer some basic benefits in customer retention."

Most points-based loyalty programs, such as those offered by airlines, hotels, car rental agencies and retailers, have artifacts of both a commitment and control orientation. On the one hand, they offer the opportunity for customer commitment because the consumer appreciates the value delivered by the loyalty program rewards as well as the opportunity for customization presented by the marketer's use of the data contained in the customer's profile. On the other hand, consumers frequently complain that the firm is either not using or misusing the customer profile information and they feel trapped in the relationship. The interaction between the twin forces of commitment and control may well explain the mixed effectiveness of many points-based loyalty management programs.

Thus, commitment based CRM practices emerge as being superior to either control based programs or those with a dual emphasis on both commitment and control. Surprisingly, many commitment based CRM programs are successful because there is frequently an absence of a formal data based CRM or loyalty program. Firms like Jeep, Harley-Davidson, Wal-mart, and Starbucks are building an enduring affect based relationship with their customers despite their lack of obvious efforts to manage customer relationships through the use of CRM tools. For many of these firms, the challenge is not to build the relationship but to build a tool that can leverage the strong affect-based relationship. Marketing scholars have recognized that customer commitment is a central concept to the development of an effective organizational-consumer relationship. CRM tools and loyalty programs are no substitute for the development of trust, attachment and commitment because in the absence of these variables there is no meaningful relationship between the consumer and the organization. However, too much technology wrongly applied, with the wrong motivations, may significantly undermine a positive relationship. →

CRM Program "DOs and DON'Ts"

DOs:

→ LOOK FOR OPPORTUNITIES TO DELIVER PRODUCTS AND SERVICES THAT ARE CUSTOMIZED WITH THE CRM.

→ IN USING THE INFORMATION GATHERED BY THE CRM, REMEMBER THAT NOT ALL CUSTOMERS ARE CREATED EQUAL: SOME ARE MORE PROFITABLE THAN OTHERS.

→ THE BEST RELATIONSHIP IS BUILT ON A SOLID FOUNDATION CREATED BY CUSTOMER SATISFACTION WITH PRODUCTS, BRANDS AND SERVICES.

DON'Ts:

→ DO NOT ASSUME THAT MORE TECHNOLOGY LEADS TO A MORE EFFECTIVE CRM PROGRAM.

→ DO NOT BUILD A RELATIONSHIP ON CONTRACTS, SWITCHING COSTS OR DEPENDENCE BECAUSE CONSUMERS WILL FLEE WHEN GIVEN AN OPPORTUNITY.

→ DO NOT MAKE IT DIFFICULT FOR CONSUMERS TO GAIN THE REWARDS FROM CRM PROGRAMS.

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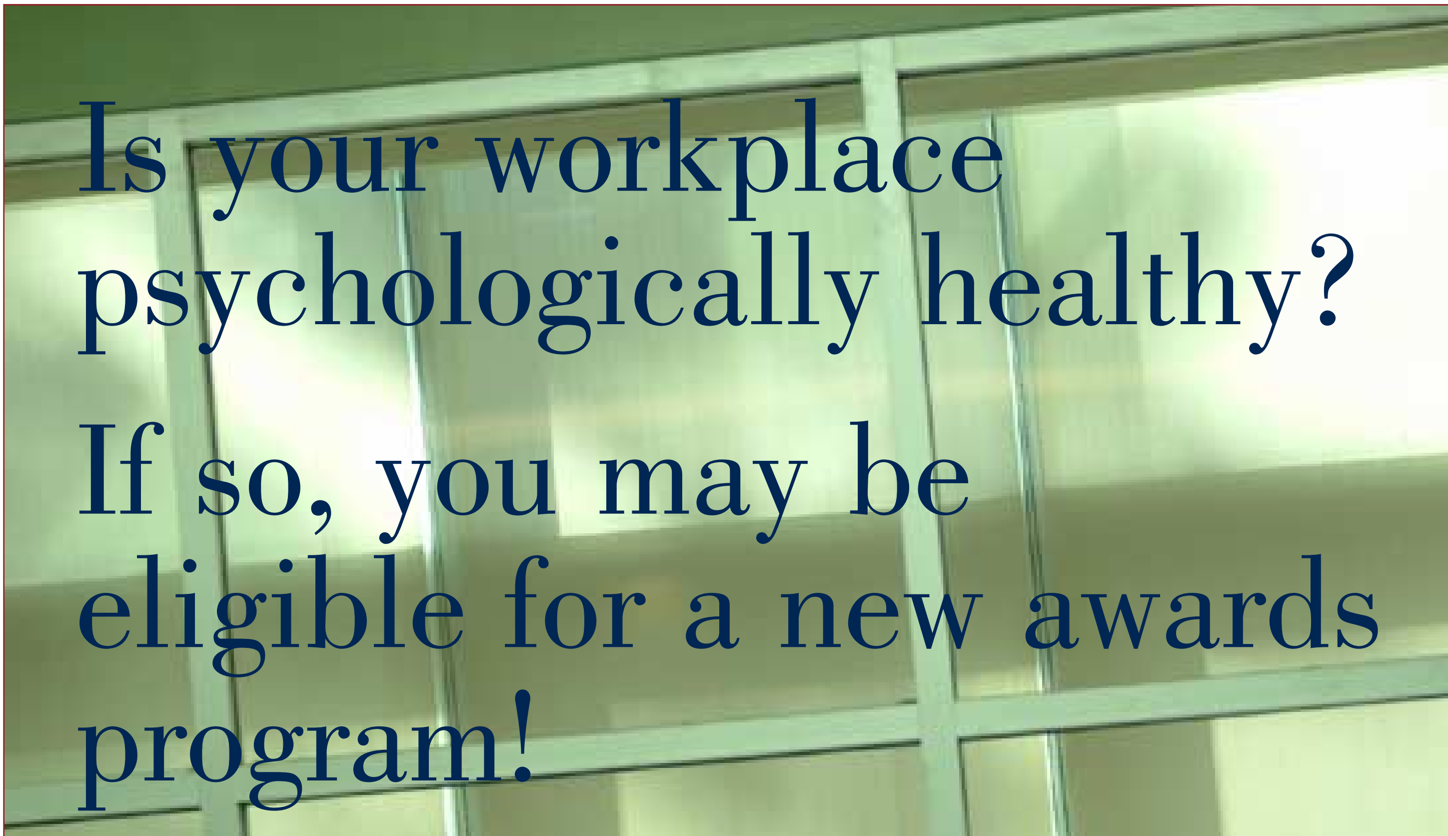

Is your workplace psychologically healthy?

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– Giving employees a role in decision-making

– Maintaining programs that monitor and evaluate job satisfaction

– Promoting health and wellness

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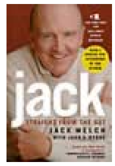
reviewing what's HOT what's NOT

BY HERMANN SCHWIND



REVIEW OF JACK WELCH'S BOOK: "JACK: STRAIGHT FROM THE GUT", WITH JOHN BYRNE, PUBLISHED BY WARNER BOOKS, 2003.

Available at Chapters/Indigo $19.96

Jack Welch was the legendary CEO of General Electric for 21 years, retiring in 2001 after 41 years of service with the company. Variously dubbed "Neutron Jack" by Newsweek or "Greatest Executive of the 20th Century" by the *Wall Street Journal*, there can be no doubt that Welch was a charismatic leader, inspiring thousands of GE managers and hundreds of thousands of GE employees "to be the best in their field".

Jack Welch joined GE at the age of 24 as an engineer with a Ph.D. in chemical engineering from the University of Massachusetts. The first major "organizational experience" he had was after one year when he received his first... and in his opinion well-deserved... pay raise of $1,000, and found out that everybody in the team had received the same raise. Since his complaint to his supervisor had no results he quit. Luckily for Jack, his boss' boss did not want to let him go. It took some persuasion over a nice dinner and an additional $2,000 to change Jack's mind, but it taught him an important lesson, something he always remembered: the importance of differentiation. As he says in the book: "...differentiation is all about being extreme, rewarding the best and weeding out the ineffective. Rigorous differentiation delivers great stars – and stars build great businesses." He continues: "... I learned that the game is all about fielding the best athletes. Whoever fielded the best team there won," a conviction he always kept.

One result was his "Vitality Curve", a skewed normal curve depicting his view of the GE employees: the top 20%, the vital 70%, and the bottom 10%, or the As, Bs, and Cs, as he liked to call them. The As were the people with passion, committed to make things happen, open to ideas from anywhere, with the ability to energize not only themselves, but everyone who comes in contact with them. They make business productive and fun at the same time. All share four characteristics, the four Es of GE leadership: high Energy level, the ability to Energize others, the Edge to make tough yes-no decisions, and the ability to consistently Execute and deliver on their promises. In his view it was the passion which separated the As from the Bs. He saw the Bs as the heart of the company and vital to its operational success. It was a manager's job to help the Bs to become As. The C player is someone who cannot get the job done. Welch: "Cs are likely to enervate rather than energize... they procrastinate rather then deliver."

To him it was essential to reward the As generously with salary increases, stock options, and promotions. Bs should also be rewarded generously, but the Cs should get nothing and, after a warning, let go. That, according to Welch, was the toughest job for managers. The first time it was relatively easy for managers to name their weakest players. The second year was more difficult and in the third year it was war. To imagine that year after year every manager had to decide who belonged into the bottom 10% of his/her team and then fire them is probably unfathomable for most HR managers. However, as Welch points out, this policy was extremely successful for GE. He also emphasized that no one was surprised if they were asked to leave. Everyone would have been given several chances to turn things around.

Many of Welch's basic management beliefs he learned from his mother, whom he described as the most influential person in his life. She taught him to compete hard to win, facing reality, motivating people by alternately hugging and kicking them, setting stretch goals, and relentlessly following up on people to make sure things get done. From early on in school she instilled in him the need to excel. And that he did. →

Perhaps the greatest gift she gave him, as he points out, was self-confidence, which was something he tried to develop in every GE executive. Welch grew up with a speech impediment, a stammer he never lost. He tells of some comical and embarrassing incidents, one of which was that when he ordered tuna sandwiches in the cafeteria the waitress invariably would bring two, having heard: "Tu-tuna sandwiches."

Welch felt that his background as a chemical engineer was the best for a manager: he learned that there are no final, or black and white, answers to most questions. Another of his philosophies was that one had to allow taking risks and, with that, failures. As an example he mentioned the development of a revolutionary light bulb called Halarc, lasting ten times longer than a regular bulb at a fraction of the energy. But it cost $10.95 and nobody wanted to pay that much for a single light bulb, so the project failed. Instead of "punishing" those involved in the Halarc effort Welch organized a big celebration and handed out cash awards and promotions. As he put it: "We wanted everyone in the company to know that taking a big swing and missing was okay."

What frustrated endlessly him in the beginning was the huge GE bureaucracy, which tended to slow down managerial decision making. He vowed that this was one of the first things he wanted to change "when he was in charge", a goal he had set himself very early. And he succeeded with both objectives. In his early days GE had 29 title ranks and 12 layers between the CEO and the plant floor and 25,000 managers with an average of seven people reporting to them. More than 130 executives held the title of vice president or above. After Welch took over and increased the company six fold GE had fewer managers, with an average of 15 direct reports and six layers between CEO and shop floor, and the number of VPs had increased by only 25%, to 160.

He compared an organization with a house. Floors represent layers and the walls functional barriers. To make the organization work these floors and walls "had to be blown away, creating an open space where ideas flow freely, independent of rank or function." He liked to "throw hand grenades" to blow up traditions and rituals. One he tossed in the middle of the Elfun Society (Electrical Funds, a mutual fund for GE managers) an elitist group as he saw it. When he was invited to speak to this group as the new CEO he was expected to deliver the usual "pat-on-the-back" speech. Instead, he gave his more typical "stick-in-the-eye" tongue-lashing. Here are some excerpts.

"Thank you for asking me to speak. Tonight I'd like to be candid, and I'll start by letting you reflect on the fact that I have serious reservations about your organization.... I can't find any value to what you're doing. You're a hierarchical society and political club. I'm not going to tell you what you should do or be. It's your job to figure out a role that makes sense for you and GE."

There was stunned silence after the speech. It did not help that he stuck around for an hour, mingling with the group, but no one was in the mood to cheer up. But his speech had a dramatic effect. Within a month the society's executive came up with a plan to change its objectives to be a volunteer organization. Today Elfun has more than 42,000 members, including retirees. They volunteer their time in communities where GE has plants or offices, providing mentoring programs for high school students, assist in building parks, playgrounds, and libraries, and membership is entirely determined by willingness to give back. Welch: "Elfun's self-engineered turnaround became a very important symbol. It was just what I was looking for."

One of Welch's early obsessions was to be the No.1 or No.2 in GE's fields, not an easy task when a company has 42 business units. He found the answer on a cocktail napkin in January of 1983. In three circles he identified Core, Service, and High Tech Business, where he could see GE flourishing. The other units had to be fixed, sold, or closed. When *Forbes Magazine* presented his model in a cover story it had very different reactions in the various GE units. Those listed in the three circles were naturally elated and proud, but in the others fear and panic developed, creating a serious morale problem. But Welch's vision prevailed. Within two years 71 businesses and production lines were sold and 118 other deals were completed, including acquisitions, joint ventures, and minority investments. It was a →

turbulent time for GE. Over the next five years 118,000 people, one in four, would leave GE. It was the time when Newsweek magazine coined the term "Neutron Jack" for him, a moniker he hated. During that time IBM launched an ad campaign, touting its no layoff policies, saying: "...jobs may come and go. But people shouldn't." Well, it took only a few more years and IBM was laying off people. One statement described quite clearly Welch's view: "Any organization that thinks it can guarantee job security is going down a dead end. Only satisfied customers can give people job security, not companies."

Another *Forbes* article put Welch into the "Top Ten Toughest Bosses in America." Former employees described his treatment of staff as: criticizing, demeaning, ridiculing, humiliating, what he actually saw as: candid, challenging, and demanding. So much for differences in perception. In fairness, one former employee felt that Walsh was the most creative executive he ever worked for and another credited him with "bringing to GE the passion and dedication that characterize the best Silicon Valley start-ups."

Welch saw as one of his best management moves the change of the role of the auditing staff from controllers (the green eyeshade "gotsha" role, as he described it) to be business partners for managers, "relentlessly transferring best practices from one GE business to another around the globe." A similar success story was his transformation of the GE legal department. It changed from an "organization at the wrong end of the Rolodex to the best legal firm in the world" (his opinion). He accomplished both objectives by hiring the best people in their respective field, no matter the cost.

Perhaps Welch's greatest impact on the GE culture was his investment in Crotonville, GE's 52 acre management development centre in Ossining, NY. His first priority was a US$46 million makeover of the run-down facility to make it a "first-class place to reach the hearts and minds of the company's best people." He hired the best business professors to run the centre and to instruct GE managers. There were three courses that focused on leadership: the EDC (executive development course) for the highest potential managers; the BMC (business management course) for midlevel managers; and the MDC management development course) for fast-trackers early in their careers. The leadership courses at Crotonville became so famous that many GE customers began to ask permission to participate, which of course was granted. By 1988 over 5,000 GE employees would come to Crotonville every year.

Evidently, the stock market was on Welch's side. When he took office in 1981 option gains for everyone at GE totaled only $6 million. It jumped to $38 million the next year and to $52 million in 1985.

One of his last major accomplishments was the introduction of the Six Sigma program to GE. Quality had become a sincere concern for many of its employees. Most manufacturing companies at that time averaged about 35,000 defects per million operations. A Six Sigma quality level meant fewer than 3.4 defects per million operations, 99.99966 percent perfection. Welch's analysis showed that GE would save about $7 to $10 billion. The big myth about Six Sigma is that it is about quality control. That it is, but in Welch's view it was even more about more effective leadership in managers and a better customer focus. By 1998 savings through Six Sigma reached $750 million and $1.5 billion by 2000.

What did Welch accomplish in terms of profitability for GE? In 1995 GE had revenues of $70 billion; by 2000 it had surpassed $130 billion, with $13 billion in net income. Its operating margin had increased from 11.5 percent in 1992 to a record 18.9 percent in 2000.

Was Jack Welch a successful CEO? Most business people think so. Critiques say that he made GE the fifth largest company in the world in terms of revenues (from 10th when he became CEO), but at a price: driving hard, dismissing 120,000 people on his way to success. Was it worth it? Current GE employees say yes. Isn't that what counts?

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Video Surveillance in the Workplace:

Can employers spy on their employees?

BY ANNE UTECK AND BRUCE ANDERSON

Today surveillance in the workplace is sophisticated and pervasive. It ranges from visual surveillance, telephone and computer monitoring, electronic tracking devices in motor vehicles and cell phones, to biometric identification. Factories, offices, banks, retail outlets and restaurants commonly use cameras to watch workplaces and workers. And video surveillance of employees can even be utilized outside the workplace.

Employers claim they have legitimate business interests to protect that require surveillance of the workplace and their employees. They argue that surveillance is required to deal with theft, security, safety, property protection, productivity, and liability issues. These concerns have prompted more employers to take advantage of increasingly sophisticated forms of video surveillance.

Employees have, until recently, been complacent about being watched. Presumably, they have accepted that the employment relationship comes with some level of observation, monitoring and supervision. Today, video surveillance can be carried out without an employee's knowledge and/or consent. For employees, such surveillance is problematic. One, they claim that such secret invasions into personal space are a violation of privacy. Two, video surveillance can also be used to collect and store personal information about an employee. Here the violation of privacy is the use and disclosure of personal information for purposes other than what an employee would reasonably expect.

The question we want to tackle in this article is: To what extent can employers use video surveillance to monitor employees?

UNIONIZED AND PRIVATE SECTOR EMPLOYEES

Let's begin with unionized employees. They can negotiate privacy rights through the collective bargaining process. In general, in the absence of an express privacy clause, labour arbitrators have approached privacy issues in workplace surveillance situations by determining the reasonableness of the surveillance with regards to the scope of management's rights under the collective agreement and by balancing management's interests with employees' expectations of privacy. A hierarchy of workplace privacy rights has evolved that considers the extent of an employer's right to initiate surveillance. There is, for example, an important distinction between the constant surveillance of employees for all purposes and surveillance for specific reasons such as employee training or the elimination of a recurring problem with fraud or theft. Arbitrators have also distinguished between →

situations in which employees are aware of the surveillance and situations in which it is covert. When the surveillance is covert employers must show reasonable grounds for resorting to surveillance and justify its scope and location.

By contrast, non-unionized private sector employees are vulnerable to privacy violations as most employers are not regulated in how they use video surveillance.

PERSONAL INFORMATION AND CONSENT UNDER PIPEDA

Since the *Personal Information Protection and Electronic Documents Act* (PIPEDA) came into effect on January 1, 2001 the regulation of video surveillance in the workplace has become more complicated. The Act applies to private sector organizations that process personal information in the course of commercial activity. Likely, you are familiar with the moves organizations have recently made to protect personal information about their customers. Broadly speaking, the *Act* permits the collection, use and disclosure of the personal information of an identifiable individual when knowledge and consent are obtained in advance.

> "What is personal information? Personal information is any factual or subjective information, recorded or not, about an identifiable individual."

There are two very interesting things about this legislation that affect employer- employee privacy. One, *PIPEDA* does not deal explicitly with the issue of surveillance in the workplace. However, it has been applied in disputes between employers and employees over the appropriateness of video surveillance. Two, *PIPEDA* applies to all employees engaged in federal works, undertakings or businesses. That means all employees working for Crown corporations or in *federally* regulated industries such as banking, telecommunications, inter-provincial transport and broadcasting. Only the provinces of British Columbia and Alberta have passed privacy legislation that covers private sector employees in *provincially* regulated organizations such as local grocery stores, restaurants, etc.

PIPEDA does three things for employees of federally regulated organizations: (1) It protects their "personal information." (2) It requires that employers have the consent of employees in order to collect and use personal information. (3) It specifies when an employee's consent is not required. Let's take each of these topics in turn.

What is personal information? Personal information is any factual or subjective information, recorded or not, about an identifiable individual. The definition expressly excludes the name, title, business address or telephone number of an employee. Information about an employee's age, income, race, blood type or about that employee's opinions, evaluations, comments, disciplinary records, credit records, medical records and other related files would be encompassed within the definition of personal information. But personal information does not have to be private, confidential, sensitive or even significant to be protected. The language used seems to capture information in almost any form: video surveillance tapes, drug test results, biometric identifiers, information collected from internet and e-mail monitoring. The personal information collected can be factual or subjective, recorded or live.

When is an employee's consent to video surveillance required? According to *PIPEDA*, organizations must identify, document, and inform an individual of the →

reasons for collecting personal information before or at the time of collection. Employees have the right to know how surveillance and monitoring activities are being used and why certain information obtained from these measures is being collected and used.

Also, organizations are required to obtain consent from individuals before handling their personal information. The *Act* requires that consent be informed, meaning that the individual giving consent has full knowledge about the scope of the consent given and the purpose for which the information will be used. Under s.5(3) of the *Act*, an organization may handle personal information only for purposes that a *reasonable person* would consider appropriate in the circumstances. If the purpose of the collection, use or disclosure is not appropriate, s.5(3) can override express consent. This provision is particularly significant in circumstances where there is an imbalance of power and the consent given may not be truly voluntary, such as in the case of employees who could be concerned about negative employment consequences if they withhold their consent.

The consent provisions appear to shift the locus of power away from employers to employees. However, the question remains, "Is an employee actually free to refuse consent with no adverse consequences in light of the peculiar power dynamic existing within employment relationships?" As long as an employer proposes to collect, use or disclose employee personal information for purposes that a reasonable person would consider appropriate, and that collection is part of or becomes part of the term of employment, an employee may have little choice but to consent or face employment discipline or loss of employment.

When is an employee's consent to video surveillance not required? Section 7 of *PIPEDA* sets out the circumstances in which personal information may be collected, used or disclosed *without* the individual's consent. Section 7(1)(b) eliminates the consent requirement for the collection of information when obtaining consent would compromise the availability or accuracy of the information and the collection is for purposes relating to investigating a breach of an agreement or contravention of law. An employer may be permitted to monitor an employee by video surveillance without her knowledge and consent, and obtain personal information if the suspicion of theft or some other breach of the employment contract is reasonable.

> "An employer may even be permitted to extend surveillance to an employee's conduct or activity during off-duty hours or a home office."

An employer may even be permitted to extend surveillance to an employee's conduct or activity during off-duty hours or a home office. Surveillance outside the workplace revolves around investigating an employee's conduct in order to verify the existence of an activity harmful to the employer's interests or a fraudulent claim for disability or insurance. In these situations, surreptitious video surveillance evidence may be required to support the imposition of discipline against an employee. Prior knowledge and consent on the part of the employee being investigated would, obviously, defeat the purpose for which the information is being obtained and, in any event, provided the surveillance was found to be reasonable in the circumstances, detecting fraud or harmful activity to →

employer interests would likely be legitimate justifications for the surveillance.

More broadly, organizations cannot collect information indiscriminately. Compliance with this principle on the part of employers prevents employees from being subject to wholesale surveillance throughout the workplace. This has the potential to alleviate employee concerns about the relevance of the information sought by an employer, minimize perceptions by employees that their privacy is being threatened, and prevent employees from feeling that they cannot be trusted.

ERWIN EASTMOND V CANADIAN PACIFIC RAILWAY

A complaint by an employee, Erwin Eastmond, over the use of video surveillance by his employer, Canadian Pacific Railway, illustrates the application of the criteria above. This case was investigated originally by the Privacy Commissioner of Canada,[1] and subsequently reviewed by a judge in the Federal Court of Canada.[2] The role of the Privacy Commissioner is to make a finding whether or not *PIPEDA* has been violated and to make recommendations regarding compliance with the *Act*. By contrast, the judgments and orders of the Federal Court of Canada are legally binding.

Canadian Pacific Railway, a federally regulated organization, installed six digital video cameras in the maintenance and repair section of its main rail yard near Toronto. A notice had been posted in the yard by CPR indicating when the cameras would begin taping, where the cameras were located, and what the purpose of the taping was. The purpose of the system was "to protect against theft, vandalism, unauthorized personnel and incidents related." The notice also indicated that only authorized managers and CP police would view the tapes, and that the information would not be used to monitor employee performance. All entrances to the areas had signs installed, which indicated that the area was protected by video surveillance.

This move provoked Erwin Eastwood to complain to the Privacy Commissioner that such video surveillance was inappropriate under the *PIPEDA*. Mr. Eastwood claimed that the installation of the cameras was done in secrecy, was unwarranted in relation to any security problems, and that it could be used to monitor the performance of employees in a manner that "would be an affront to human dignity."

The Privacy Commissioner made a finding that the complaint was well-founded. CPR's purposes in collecting the information were not appropriate. He recommended that the cameras be removed because there was insufficient evidence of a real security problem at the CPR rail yard.

Erwin Eastwood then made an application to the Federal Court for an order confirming the Privacy Commissioner's finding, and telling CP to remove the cameras.

However, Justice Lemieux, in a decision released in June 2004, ruled that the video surveillance was appropriate. He reached his conclusion after considering the following questions: "Is camera surveillance and recording necessary to meet a specific CP need? Is camera surveillance and recording likely to be effective in meeting that need? Is the loss of privacy proportional to the benefit gained? Is there a less privacy-invasive way of achieving the same end?"

Justice Lemieux concluded that "a reasonable person would consider CP's purposes for collecting information by recording the images of CP employees and others on video camera appropriate in the circumstances." The reasons for his decision included the fact that notice was given through warning signs, the collection was not limited to CP employees, the collection was brief and not continuous, the recordings were not used to monitor work performance, the recordings →

[1] PIPEDA Case Summary #114: Employee Objects to Company's Use of Digital Video Surveillance Cameras (23 January 2003), Privacy Commissioner's Findings under PIPEDA, online: http://www.privcom.gc.ca/cf-dc/2003/cf-dc_030123_e.asp.

[2] 2004 FC 852.

were kept under lock and key, and were only accessed if an incident was reported. Further, the judge rejected the employees' view that the appropriateness of the method used to collect information could only be assessed using past events. On the contrary, he concluded that it was legitimate to envisage and consider future incidents when assessing the appropriateness of video surveillance.

Finally, Lemieux ruled that in this situation consent was not required to collect the information pursuant to s.7(1)(b) of *PIPEDA*. That provision allows for collection without knowledge or consent where to do otherwise would "compromise the availability or the accuracy of the information and the collection is reasonable for purposes related to investigating a breach of an agreement or a contravention of the laws of Canada or a province."

CONCLUSION

If the *Eastmond v CPR* case arisen in the arbitral context, the employer likely would have had no difficulty establishing that the surveillance was *reasonable* under arbitral analysis. Now, in addition to workplace privacy considerations in the arbitral context, the application of *PIPEDA* adds the test of whether the imposition of surveillance technology constitutes an improper collection of personal information and whether consent is required. This case illustrates how the application of *PIPEDA* imposes additional obligations on employers by adding elements to established arbitral principles that have addressed privacy issues arising from workplace surveillance.

PIPEDA also adds "whistleblower" protection, guaranteeing that a complainant's identity is kept confidential. Employees of an organization that contravenes *PIPEDA* are protected from dismissal, suspension, demotion, harassment or other disadvantage if they report the violation to the Commissioner.

To conclude, the short answer to our key question, "Can employers spy on their employees?" is "Yes, so long as it is reasonable."

"...the short answer to our key question, "Can employers spy on their employees?" is "Yes, so long as it is reasonable." "

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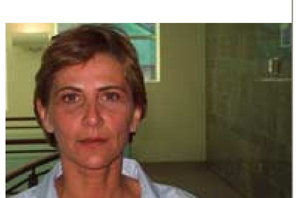

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insights

DISCUSSION WITH THE SOBEY SCHOOL OF BUSINESS DEAN DR. ALAN R. MICIAK

The forces of change in the world of business can be sudden and profound, and many times, our organizational response is too little, too late. How does an organization deal with the "global economy", the "digital economy," the "moral economy," and the "experience economy?"

Individually, each of the forces poses a formidable challenge and collectively they represent a potentially overwhelming set to reckon with in the workplace. The world has changed and organizations of all types are struggling to meet the demands of customers, shareholders, employees, communities, and a variety of other stakeholders. Formulating strategy that addresses these demands is the primary challenge for executive management. Developing the ideas, attracting resources to those ideas, and leading people in the execution of those ideas is the daily work of executives and managers.

Our intent for The Workplace Review is to provide research-based analysis and comment on selected pieces of the jigsaw puzzle of strategy development. In this issue our contributors guide us through the daily challenges of aligning the goals of management, employees and customers to maximize organizational performance. They tackle the technology beast, how ethics in the classroom reflects ethics in the workplace, and the global imperative for Atlantic companies. You'd think that most organizations could master "four" principles for managing people, yet, how closely do our practices mirror the "HTML" advice provided? You'd think that building rich, value-laden customer relationships would be the priority of every organization. Could it be that our "CRM" efforts are having a negative impact on customer loyalty? The gap between understanding what needs to be done and doing it remains wide. This knowing – doing gap is ageless and boundless. All of the answers are before us if we could only we knew what problems to apply them to.

I hope that you will follow the Workplace Review and let us know how it might evolve to meet the demands of the today's management challenges. It is a key focus in our ongoing effort to produce research that has a meaningful impact on organizational performance.

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