Abstract
The onset of the knowledge era has affected all industries. Without exception, the Canadian financial services industry has transformed itself due to the knowledge-intensive structure it possesses. However, high competition and career-minded professionals have created a situation in which leading financial services firms are losing key human capital each day – capital that can and will be used against them in the modern fast-paced labour market. In the fight for the brightest senior executives, portfolio managers and fund administrators, human resource professionals must pay attention to the investments they are making in their employees through training and development, while monitoring reward and recognition programs so that loss of intellectual capital is kept to a minimum. This study examines 19 mutual fund companies within the Canadian financial services industry and their current human capital practices. Results show that while human resource managers are effectively managing the people in their organizations through: 1) training and development, 2) performance reviews and 3) the effective management of fluctuating workforce demands, this study highlights the need for greater attention to be paid to the leveraging of human capital that exists within their knowledge-intensive workforce. Furthermore, research findings strongly suggest the need to increase knowledge management behaviours such as the valuation and codification of organizational knowledge assets.

Keywords
human capital, knowledge management, turnover, financial services, training and development, contingent workers, mutual fund companies

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Introduction

Intense global competition powered by revolutionary technologies and dramatically changing markets is creating a turbulent environment in which Canadian financial service firms must operate and prosper. This competition is two-fold; new global industry competitors and more experienced domestic industry challengers are developing new products to compete with, while competition to attract and retain the strongest personnel is heightened by the fast-paced global marketplace. While the products and strategies of a competing company are uncontrollable external forces, the management of internal human capital may be the sole strategic advantage for a financial service company. Amit & Shoemaker (1993) define strategic assets as the set of difficult to trade and imitate scarce, appropriable, and specialized resources and capabilities that bestow the firm’s competitive advantage. Human capital can thus be defined as a key strategic advantage, stressing the importance of proper human capital management within the firm.

Employees are more important than ever due to the people-centric design of high-involvement organizations (Guthrie, 2001). Information is created and decisions are made at all levels of the organization, finding that greater responsibility is being dispersed throughout the company to enable stronger performance of the firm as a whole. This is creating both strong and fragile components to the corporate structure. Dispersed knowledge strengthens the organization by empowering employees to improvise at a faster-pace; however it also leaves the firm open to serious damage if an employee voluntarily leaves the organization.

This situation is specifically prevalent in Canadian financial service companies. While globalization is heightening competition, these firms must continue to develop intangible products based on strategies created by key personnel. These key personnel (termed knowledge workers) are extremely perilous since their value to the organization is essentially intangible and not easily replicated. Portfolio managers, credit analysts, and account managers are specifically at the heart of these intangible assets, continuously creating networks of relationships (relational capital) and re-inventing company products (structural capital) to provide a competitive advantage for the firm (Bontis, 1999). Managers must recognize that employees are major contributors to the efficient achievement of the organization’s success (Abassi & Holloman, 2000). This highlights the need for senior management to measure the impact and manage the value of each employee within the firm.

Research estimates indicate that hiring and training a replacement worker for a lost employee costs approximately 50% of the worker’s annual salary (Johnson et al. 2000; Gemignani, 1998) - but the costs do not stop there. Each time an employee is replaced, it is presumed that productivity drops due to the learning curve involved in understanding the job and the organization. Furthermore, the loss of
intellectual capital adds to this cost, since firms not only lose the ideas and networks of the lost employee, but competitors are also potentially gaining these assets. Therefore, HR professionals must not address these situations lightly. Training and development practices, combined with other HR activity such as performance reviews, enable senior management to better understand the needs of their employees. Even if such programs are implemented, employees may still choose to leave the firm for other external reasons. This is where senior management must protect further loss of their assets with the implementation of a knowledge management strategy.

By implementing a knowledge management strategy, the organization can protect themselves from knowledge attrition, while leveraging previous experience for strategic advantage.

The outcomes of this research will allow senior management to understand some proven determinants of voluntary turnover, while recognizing the hypothesized association between internal human capital management and the overall success of a firm. Furthermore, survey results will exhibit the extent of knowledge management strategies within Canadian financial services companies.

**Literature Review**

This section reviews the literature available on turnover, human resource practices, and knowledge management strategy.

**Turnover**

Turnover is the rotation of workers around the labour market; between firms, jobs, and occupations; and between the states of employment and unemployment (Abassi & Hollman, 2000). This workforce activity can be divided into two categories, voluntary and involuntary. Involuntary turnover refers to the dismissal of employees, whereas voluntary turnover occurs when employees resign. While many studies have clustered these two distinct classifications, this study is aiming to examine voluntary turnover specifically. Since voluntary turnover is out of the direct control of management, this creates grounds for fertile research to examine the implications of this phenomenon, and to examine the need to establish preventative measures for minimizing collateral damage.

Voluntary turnover often results in departing employees migrating to competing firms, creating an even more critical situation since this knowledge can now be used against the organization. Furthermore, voluntary turnover has been accelerating over the past decade as recent studies have shown that employees on average switch employers every six years (Kransdorff, 1996). This situation demands senior management to consider the repercussions of voluntary turnover, and immediately create
contingency planning strategies. Otherwise, senior management may be caught unprepared if, and when, their best performers leave.

While functional turnover (i.e., bad performers leave, good performers stay) can help reduce sub-optimal organizational performance (Johnson et al., 2000), excessive turnover can be of great consequence on the firm’s productivity. This can result in the loss of business and relationships, and can even jeopardize the realization of the firm’s objectives. To compound the negative side effects of turnover, not all of the departing employees are considered sub-optimal performers. Dysfunctional turnover (i.e., good performers leave, bad performers stay) damages the organization by generating decreased innovation, delays in services, lethargic implementation of new programs, and propagates decreased productivity (Abassi & Hollman, 2000). Such activity can radically affect the firm’s ability to prosper in today’s competitive economy; leaving even the most ambitious firms unable to succeed due to the inability to retain key employees. If it is presumed that the smartest and most talented employees are often the most upwardly mobile, then strong organizations may become unable to actualize strategies and complete key business transactions if they do not proactively manage their turnover.

Employee loyalty is the underpinning of customer satisfaction in the organization (Abassi & Hollman, 2000). While employee loyalty has often enabled firms to retain strong employees, senior management can no longer rely on relationships to incent good workers to stay. Eroding employee loyalty is highlighting the importance of attracting and maintaining good people as the key to strategic staffing in the modern workplace (Abassi & Hollman, 2000). This is forcing organizations to revisit their HR practices, recognizing the need to meet the diverse needs of the workforce in an effort to retain strong employees.

Abassi and Hollman (2000) highlight five reasons for employee turnover in the organization: 1) hiring practices, 2) managerial style, 3) lack of recognition, 4) lack of competitive compensation systems, and 5) toxic workplace environments. While all of these reasons have attracted some attention in academic research, the correlation between compensation systems and turnover has been the cause for much study in the past. Johnston and Futrell’s (1989) study concluded that higher salary and role expectations were the best predictors of turnover. Furthermore, skill-based pay systems have found to improve employee retention, whereas group incentive plans have been associated with high turnover (Guthrie, 2000). Finally, economics research has proven that investing in pay and benefits reduces voluntary turnover (Shaw et al, 1998; Osterman, 1987). The effect of pay systems on employee retention depends greatly on the intrinsic needs of the specific employee, creating greater ambiguity in the development of effective
HR practices. This does not, however, mean that HR professions should discount the importance of aligning pay with standardized performance.

Abassi and Hollman (2000) further their discussion by highlighting hiring practices, managerial style, recognition, and workplace environments as stimulus for turnover within the organization. However, turnover can be combated through the implementation of “high performance work practices”. These HR practices include internal promotions, performance- (versus seniority-) based promotions, skill-based pay, group-based (gain sharing, profit-sharing) pay, employee stock ownership, employee participatory programs, information sharing, attitude surveys, teams, cross-training or cross-utilization, and training focussed on future skill requirements (Guthrie, 2001). Many studies (Arthur, 1994; Huselid, 1995; Kock & McGrath, 1996; Kochan & Osterman, 1994; Lawler, 1992; Levine, 1995; MacDuffie, 1995; Pfeffer, 1998; Guthrie, 2001) have proven that utilizing “high-involvement work practices” can enhance firm competitiveness. However, these practices require a significant amount of time and money devoted to training, thus amplifying the loss when an employee leaves the company. Therefore, employee retention is especially critical when investments into “high involvement work practices” are significant.

Another contributing factor to employee satisfaction is consistent and impartial performance reviews. Kavanagh’s (1997) study suggests that employees want to know how they are performing as this aids in career path planning. Performance appraisal also allows the company to ensure that the employee is performing and improving with respect to their job description. Performance reviews allow the company to recognize growing talent within the firm for “hire from within” policies, which have also proven to increase employee satisfaction because they encourage employees to upgrade job knowledge in order to make a greater contribution to the firm. Finally, such reviews create an environment for employees to resolve difficulties in co-worker relationships (Messmer, 2000).

The total quality management (TQM) movement, emphasizing quality and customer satisfaction, was a driving force for the development of 360 degree feedback programs (McCarthy & Garavan, 2001; Grote, 1996; Edwards & Ewen, 1996). This performance review technique has enabled a more accurate performance appraisal system (McCarthy & Garavan, 2001; Tornow & London, 1998) since feedback is provided from other reviewers such as subordinates and peers to develop a holistic illustration of employee performance. Furthermore, allowing feedback from both internal and external sources can enable the firm to adjust to ever-changing business environments, creating a more dynamic and trusting organization.
While the aforesaid predictors have remained fairly constant across several studies, the “hobo phenomenon” aims to classify the unexplainable reasons for voluntary turnover (Hartman & Yrle, 1996). In this case, employees leave their jobs even when they seem to be satisfied. Potential reasons include a lack of challenging work, promotional opportunities elsewhere, peers leaving the firm, geographic relocation, or merely the desire to try something new. Although employers can not often predict this behaviour, it is important for them to understand why an employee voluntarily leaves when he/she does. Such information can be gained from exit interviews, or predicted from answers given during staff surveys and annual reviews.

Finally, market conditions can greatly affect the prevalence of turnover in the marketplace. Researchers studying voluntary turnover suggest that the two primary factors affecting employees are the attractiveness of the current job and the availability of other opportunities (Shaw et al. 1998; Hulin et al. 1985). Corporate downsizing and the burst of the Internet bubble have limited the booming job market, restraining the availability of other opportunities. Although these poor market conditions will limit the amount of voluntary turnover in organizations, senior managers must still understand what drives their employees to perform at work. If employees are only staying with the firm due to a lack of other opportunities, the company will suffer from decreased quality in job performance.

**Training and Development**

Continuous training of the workforce is necessary to ensure that employees are continuously updating their skills. Fitz-enz (2000) argues that human capital is unique in that it is the only asset that can be developed. This unique attribute of human capital highlights why American industry spends over $62 billion annually on employee development (Fitz-enz, 2000). The magnitude of this expense emphasizes how senior managers must effectively plan and utilize training and development practices to ensure that their investments are yielding high returns.

Employee training can be conducted through either on-the-job or off-the-job training practices (Williams, 2001). On-the-job training allows employees to work within the firm while learning about their job and the company, while off-the-job training removes the employee from the company. Off-the-job training can include technology driven e-learning programs, formal classroom training, and external training conducted by suppliers or formal educational institutions. The results of employee training include higher productivity, enhanced creativity, and increased employee confidence. Furthermore, this investment ensures qualified applicants for “hire from within” policies. Fitz-enz (2000) suggests that training employees can create a superior return-on-investment beyond enhanced productivity in the workplace.
Training employees increases employee loyalty, as many workers will recognize that the firm is working to help them attain their career goals.

**Contract/Contingent Workers**

Employing a contingent work force allows the organization be flexible enough to address fluctuations in demand caused by seasonal or cyclical demand for a product (MacDougall & Hurst, 2001; Booth, 1997). This is specifically noted in the Canadian financial services sector due to heightened business during the first two months of the calendar year, commonly referred to as “RRSP season”. There are many benefits to hiring a contingent worker; reduced fixed employee pay and benefit costs, reallocation of regular staff toward value-adding functions, and reduced hiring and layoffs. However, such a decision can also create a split workforce and can limit the selection pool for “promote from within” practices. Furthermore, contingency hiring does not engender loyalty and motivation among the workforce (Fitz-enz, 2000), which can limit innovation and creativity within the firm. Senior management must consider these advantages and disadvantages when electing to employ a contingent worker, recognizing the impact such effects will have on the firm as a whole. Although contingent workers allow the company to meet the demands of fluctuating markets, the investment of hiring and training the employee is lost each time the contract expires (Fitz-enz, 2000). Therefore, one must seriously weigh the costs of training versus added value from the contingent worker each time they utilize contingent workers in their company.

**Knowledge Management and Intellectual Capital**

Knowledge management initiatives result in amplified business value, heightened organizational success, and increased competitive edge (Silver, 2000). Furthermore, Bontis (1998) advocates that present and future success in the marketplace will be based less on effective distribution of physical and financial resources and more on the strategic management of intellectual capital within the firm. The concept of knowledge management is not a new idea. Infact, as of 2001 industry watchdog Gartner Group reports 25% of Fortune 500 companies have Chief Knowledge Officers, 52% have knowledge management staff, while 80% have begun some level of knowledge management initiatives. The importance of knowledge management is staggering, leading IDC to report that in fiscal 2000 approximately $12 billion was spent by Fortune 500 companies on duplicated work. If these firms were better able to manage their knowledge and information, the amount of money and time that could be saved is astounding.
Knowledge management is defined as the effective codification, development, and dissemination of the organization's intellectual capital for strategic advantage. Intellectual capital is divided into three component categories; human capital, structural capital, and customer capital.

Human capital the cumulative tacit knowledge of employees within a firm (Bontis, 1996, 1998, 1999, 2001, 2002). The essence of human capital is the individual intellect of the employee, and is therefore a function of the employee's ability to thrive within the industry on behalf of the organization. Hudson (1993) suggests that human capital is a combination of four factors; genetic inheritance, education, experience, and attitudes about life and business. Therefore, such capital can suggest the economic potential of the employee within the firm, and possibly the level of benefit the employee will receive from further training and experience within the organization.

Structural capital is the support mechanism for employees to achieve optimum job performance and overall organizational performance (Bontis, 1998). Such information includes firm processes, operations, and internal corporate expertise.

Relational capital is the intangible rapport and synergies created interpersonally both within the organization and externally. Such capital is paramount to maintaining current processes conducted by employees and internal departments. This capital is founded in common “understandings” that are hard to codify and are even difficult to pass on to successors.

Knowledge management within firms is the heart of succession planning. Firms that proactively manage the transition of new employees replacing old ones enable job and industry specific information to be passed through the organization to ensure that such particulars are not lost when employees leave either voluntarily or otherwise. However, the Institute for Intellectual Capital Research (IICR) reports that only 5% of Canadian firms institutionalize succession planning. Although exit interviews are a reactive approach to succession planning, they at least enable an organization to gather information about the relationships and responsibilities associated with the job that are not otherwise noted in formal job descriptions. However, the IICR reports that only 5% of Canadian firms perform effective third-party exit interviews. These figures show that not only is information not often being managed within firm, it is not being leveraged or protected either.

Byrne (2001) warns that senior managers must begin to recognize their employees as critical ingredients of the firm’s overall intellectual capital, not merely as commodities. Silver’s (2000) study highlights the importance of managing corporate memory and intellectual assets, suggesting that companies compete on their ability to manage knowledge capital just as fiercely as they do on the quality of products and
services. While this increased competition is magnifying the need for knowledge management practices in all firms, it is highlighting their importance in firms where intellectual property is voluntarily leaving due to a myriad of human resource issues. If they have not done so already, senior managers must implement knowledge management strategies to ensure that monies they have spent on training and operation of departments is not wasted when voluntary turnover occurs within the firm.

**Methodology**

Stewart (1997) suggests that financial service organizations in Canada represent some of the leading human capital measurement companies in the world. In light of Stewart's comment, mutual fund companies were chosen as the focus of this study. While many sectors within the finance industry are comprised of mostly knowledge workers, the research was confined to mutual fund companies to eliminate sectoral effects (i.e., comparing banks vs. credit unions). The objective of this research was to collect and code qualitative information on all the human capital metrics currently being measured in leading mutual fund companies in Canada.

The Investment Funds Institute of Canada (IFIC) publishes the relative position of its current members with respect to assets under management. In an effort to ensure an effective representation of the entire industry, the IFIC list was divided into three tiers and a stratified sample was targeted (Exhibit 1). The first tier represents the top ten companies represented in the IFIC listing by assets under management. Due to the impact of these leading companies in the Canadian mutual funds industry, 90% participation of these firms was targeted. These firms, who are the highest ranking with respect to both assets under management and employee count, undoubtedly have the most impact on the future direction of the Canadian mutual funds industry. The second tier of companies surveyed for these studies were ranked between eleven and thirty with respect to assets under management. These companies are smaller in employee size and thus are more agile in adopting new HR practices. Ten companies from this tier were randomly selected, yielding a 70% response rate. Finally, the third tier included any Canadian mutual fund company that had not already been consulted in the top two tiers. Ten more companies from this ‘open’ category were approached, yielding a meagre 30% response rate. The nineteen companies represented in this study represent 78.41% of all assets under management as reported by IFIC in July 2001.

**Exhibit 1. Stratification of Industry Sample**

The data was collected through semi-structured interviews on location at the company site. The interview protocol (Appendix 2) consisted of five sections; turnover, contract/contingency workers, training and
development, and performance review and knowledge management practices. Due to the semi-structured nature of the research, the quantity and quality of data varied greatly between respondents.

Individual respondents consisted of high level personnel including vice presidents of human resources, senior staffing consultants, human resource business partners, and many other high-level HR personnel. It is believed that such personnel would effectively be able to comment upon the HR practices and outcomes, ensuring quality data was being considered for this study.

Analysis was conducted on the research data, utilizing a cognition versus behaviour investigation (Crossan et al., 1999). This method was used to understand at what point of organizational learning the represented companies are at with respect to the HR practices under scrutiny. It is assumed in this study that cognition of certain HR practices precedes implementation of practices (behaviour), thus companies experiencing high cognition and low behaviour are late adopters of the practices under review. However, companies experiencing high cognition and high behaviour have fully understood and implemented the HR programme under enquiry.

**Data Interpretation**

Results are reported in five sections: turnover, training and development, contract/contingent workers, performance reviews, and knowledge management.

**Turnover**

Total turnover may be used as an indicator of the amount of intellectual capital that is leaving the firm. The industry average presented by the Saratoga Institute for the non-banking financial sector (including financial services, consumer finance, loans, leasing, credit card services, and brokerage services) indicates an average total turnover rate of 18.7% (Saratoga, 2001). In this study of solely Canadian financial services firms, 63% (12 of 19) of interviewed representatives were able to report their turnover figures for year 2000. The range of responses for total turnover was from 3.4-22%, yielding an average of 10.7% for total turnover and 8.3% for involuntary turnover. While this average does not closely parallel the average reported by Saratoga, it is important to recognize several factors that may have affected the findings of this study.

The range of total department time devoted to voluntary turnover issues as reported in the interviews ranged from 15-55%. Most respondents could not quantify the time to fill vacant jobs due to voluntary turnover. However, almost all respondents identified their turnover performance to be either “inline” or
“below” the industry average. These disparities indicate a lack of clear understanding among the respondents about the average turnover levels within the industry.

Although respondents between companies disagreed on average levels and department time to be turnover issues, almost all respondents recognized the high levels of turnover within the industry. One manager noted that “it is a very young industry – we can’t keep up with where young professionals want to go in their careers”, acknowledging that high turnover is characteristic of this industry. Another manager stated that “sometimes [recruiters] know that [they] are only hiring them for one year”.

In situations where voluntary turnover did occur within participating firms, the direct supervisor of the departing employee and the HR department generally became involved in the situation. In some companies, participation of superiors included positions all the up to and including the CEO. This demonstrates that voluntary turnover issues impact the firm by utilizing the precious time of senior managers. This is in addition to other expenses including loss of training time, loss of human and relational capital, and other explicit and implicit costs.

Several managers indicated that HR departments often conducted exit interviews in an attempt to prevent future attrition. However, such interviews were not used to gather knowledge about the job or the department in which the departing employee worked. Plus, open and honest testimony was not guaranteed as internal personnel often conducted them.

Finally, managers recognizing the high levels of turnover within the industry discussed the key measures taken by firms to combat turnover (Exhibit 2). Research indicated that the most commonly used methods of combating turnover were Independent Development Programs (i.e., complete career path design, including mentoring and training curriculum) and modifications to total compensation.

Exhibit 2. Methods of Combating Turnover

Training and Development

Due to the highly regulated nature of the financial services industry within Canada, training and development of lower level employees is mandatory to ensure all employees hold proper certifications. These include Canadian Securities Course certifications (CSC), and other mandated licenses required for selling mutual funds. Results indicate that human resource managers recognize this trend, and that these regulations cause more training time to be spent for employees at lower levels who are satisfying these introductory requirements. However, due to the cost of training at higher levels of the organization, more
money was spent in training higher level employees due to the specific and specialized training necessary for senior executives.

Analysis of training and development procedures utilized the cognition versus behaviour method in an effort to measure how much comprehension opposed to activity is occurring within the industry in the area of training and development. The classification system for grading training and development programs is outlined in Exhibit 3.

Exhibit 3: Classification of Training and Development Programs

The recognition of the need for training and development is a discrete variable, whereas the behaviour associated with implementing such programs is not as definite. While low behaviour clearly demonstrates that training occurs within the organization, it is also recognized that the company is only training to meet the standard of the industry. Companies in these circumstances do not necessarily view training and development practices as tools to develop the organization and the employee. Medium behaviour organizations recognize the benefits of developing employees beyond industry standards, but do not necessarily encourage employees to upgrade skills and qualifications. An example of such behaviour is when training funds are awarded in a “case by case” scenario only when requested and proposed by employees. High behaviour organizations clearly recognize the long term benefits of developing employees beyond current skill sets, and highly encourage employees to do this as part of performance evaluation systems or job mandates. Two examples of such behaviour include tuition reimbursement packages and journal/magazine subscription compensation. Overall performance of firms in the area of training and development is depicted in Exhibit 4.

Exhibit 4. Performance of Firms in Training and Development Practices

The role of training and development practices within industry is not a new phenomenon, thus yielding strong cognitive performance of firms. Our results show that all the professionals interviewed understood the use and need for training and development within the financial services industry. However, levels of training and development behaviour differed. While some firms maintained a reactive approach to education by leaving training and development practices to be employee or industry driven, a remarkable 42% of firms ensured that development expenditures were company driven by associating training practices with job description and independent development programme structures.

Different methods of training instruction are being used across the Canadian financial services industry. While industry standard qualifications are often external (i.e., Canadian Securities Course), structured
internal training is done both by in-house professionals and outsourced specialists. Internal training often covers software applications and basic job and company orientations, while more comprehensive in-house training includes availability to company libraries, hosting external speakers, and cross-training with other employees. Outsourced training includes training in “hard skills”, and is often facilitated by consultants.

Finally, research results show very little use of computer based learning (CBL). While CBL has not proven to be the most effective form of training (Bontis, 1996), it is often the style of choice in high-turnover industries such as financial services. However, 15% of interviewed firms are currently using e-learning technology and/or are presently developing initiatives.

**Contract/Contingent Workers**

Consistent fluctuations in workforce demand within the financial services industry forces firms to utilize contract/contingent workers during the first two months of the calendar year (commonly referred to as RRSP season). Research results show that firms increase their employee pool by anywhere from 0-30% during RRSP season, yielding and average increase of 8% during the period. This represents an average increase of anywhere from 0-535 workers within the Canadian mutual fund firms represented in this study, while one firm reported hiring at least 600 contingent workers each year during RRSP season. The difficulty with contract/contingent workers is that temporary employees require training in the operations and products of the company. However, when RRSP season is over, these employees leave the firm and such knowledge and experience is often not retained and leveraged by the firm. Furthermore, these knowledgeable employees can leave to work for the competition taking valuable insight and information to industry rivals.

Due to variance in corporate structure, some companies do not need to increase their employee pool during RRSP season. In some circumstances, larger companies are able to draw on their human resources from other departments of the firm that experience slow-downs during the first two months of the calendar year, thus experiencing only increased implicit costs during this high volume period. Others consistently outsource their back office staff, and thus do not experience fluctuations in call-centre demand during the period. Instead, they incur increases in outsourcing costs during the period. Furthermore, some firms require the use of independent search firms and other professional service organizations to aid in managing workforce fluctuations (explicit costs), as they do not leverage contingent workforce succession planning, nor work to manage their workforce via proactive methods.
With respect to benefit, several considerations are examined in the use of contract/contingent workers. The ratio of cost per hire versus experience must be optimized to ensure that companies are not continuing to pay for introductory training if it is not necessary. Furthermore, the use of institutionalized succession plans would indicate that the firm has recognized the importance of leveraging past experience in minimizing explicit and implicit costs, thus proactively managing workforce fluctuations. The classification for analyzing contract/contingent worker practices is displayed in Exhibit 5.

*Exhibit 5. Classification of Contract/Contingent Worker Programs*

Performance of firms in contract/contingent worker policies is quite similar when plotted on a 2x2 matrix comparing cost versus benefit. (See Exhibit 6) While 42% of firms are able to control explicit costs associated with contract/contingent workers, only 10.5% of firms leverage the experience and knowledge of workers used during previous years.

This brings to light the need for HR managers to begin to strategize ways to leverage experience and knowledge of previous contract workers either by contracting workers for future years from their current pool of contingent workers, or by attempting to draw on internal human resources during peak periods.

*Exhibit 6. Performance of Firms in Contract/Contingent Worker Practices*

**Performance Review**

Performance reviews were accepted as general practice across all companies interviewed in this study. While the implementation of such practices differed slightly, there were several consistencies across respondents that gave interesting insight into the role of performance review systems in the Canadian financial services industry.

1. 94% of firms conduct standardized performance reviews throughout the company. Only 6% of firms utilize department specific review systems.

2. The mean frequency of performance reviews is 1.5 times per year, while the mode is once per year. Performance reviews most often occurred at fiscal year end.

3. 89.4% of companies examine previous behaviour, while 36.8% of companies focus on objectives for the future. Only 31.5% cover both previous behaviour and future objectives for the upcoming review period.

4. Performance reviews are often tied to compensation, either salaries or bonuses or both. 68% of companies tie performance to bonuses, while 47.4% tie performance to salary. While performance often represents the employee’s individual performance, corporate performance is frequently factored into final bonus calculations. (%age from results)
Behaviour of companies with respect to performance reviews was fairly consistent. All companies understood the importance of, and utilized appraisal systems on a consistent basis.

**Knowledge Management Practices**

While the development and management of human resources has proven to be the key element to HR planning in the past, the management of the knowledge resources within the employees is proving to be the key to leveraging human capital within the firm. Workforces that experience fluctuations in labour force demand create a classic example of where effective knowledge management practices must be utilized. Oddly enough, 47% of interviewed managers had not heard of the terms knowledge management or intellectual capital. Furthermore, 21% had heard of the term but did not know what it meant or the implications of research within this area. However, several companies have already recognized the need for such strategies, and have begun to implement knowledge management strategies without even knowing.

The cognition/behaviour model was used once again in this circumstance. However, in this area of HR planning, results across the industry were not as common as found in the aforesaid human management issues. The framework for analysis is presented in Exhibit 7.

**Exhibit 7. Classification of Knowledge Management Programs**

The examination of this area of HR management was of particular interest due to the disparities exhibited in the data. See Exhibit 8 for a visual representation of the results.

**Exhibit 8. Performance of Firms in Knowledge Management Programs**

While 35% of HR professionals interviewed in this study had heard of the term, and were knowledgeable in the area, research shows that knowledge and practice in this area is still in its introductory stages. While several firms exhibit medium behaviour, most firms in this grouping only have document management software within their companies. However, this research does not include information about if or how this software is being utilized; therefore actual knowledge management implementation is not assumed.

With respect to succession planning as a method of capturing knowledge, several firms have begun to job-shadow key positions, hiring “second in command” personnel to become knowledgeable on current situations and job tasks in case of voluntary turnover. However, this is not consistent throughout the industry. One manager described how much succession planning is needed, explaining that when a key person does resign, oftentimes her department spends the two notice weeks following the person around
attempting to “soak-up” everything they can before the person leaves. In an effort to prevent this situation, some companies “tag-team” certain employees (such as portfolio managers, etc.) since one of the two will invariably stay in case of a voluntary turnover situation.

While some firms have implemented document management initiatives, 36% of companies state that there is “some use” of technology within their firm for the dissemination of information. Some knowledge management applications currently being used are Lotus Notes, corporate Intranets, Peoplesoft, client databases, FMC, and Unitrax.

Conclusions

The use of standard HR practices in Canadian financial service firms is strong. The managers interviewed in this study reported strong performance review, training & development, and contract/contingency worker policies. However, the long term leverage of HR depends on whether or not employees will still be around when the skills and experience they possess can be applied in the firm. Unfortunately, while the managers often recognized the negative effects of voluntary turnover, they were fairly unclear about average industry voluntary turnover figures and the actions of competing firms with respect to minimizing turnover. Furthermore, they did not seem concerned about the implications of losing valuable employees to the competition, nor were they sufficiently motivated to minimize the effects of this turnover. The current situations in the market of high levels of employee mobility and job disruption are unavoidable (Krandsorff, 1996). Therefore, senior management must be prepared to minimize the effects on productivity and competitiveness utilizing turnover contingency planning and knowledge management strategies. Senior managers who fail to recognize this need will almost assuredly be left behind, while firms with knowledge management strategies will have the opportunity to leverage past experience to create strong future business plans.

While Stewart (1997) suggests that financial service organizations in Canada represent some of the leading intellectual capital measurement companies in the world, this study proves that knowledge assets are not being effectively managed and leveraged by HR professionals in Canadian financial service firms. Although CIBC was originally cited by Stewart (1997) as a leading best practice, this study reveals a darker side to the Canadian financial services industry in terms of its knowledge management behaviours. Such an observation is quite shocking given that the industry suffers from structural turnover and contractual employee demands on a seasonal basis. It is our contention that in the case of the Canadian financial services industry, voluntary turnover is in fact a foe of knowledge management.
Exhibit 1. Stratification of Industry Sample

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<tr>
<td>3</td>
<td>31 and up</td>
<td>10</td>
<td>30%</td>
<td>3</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Total Response</td>
</tr>
</tbody>
</table>

Exhibit 2. Methods of Combating Turnover

- **Cognition**
  - **High**
    - Company recognizes the need for employee skill development
    - *Training Focussed*: Practices are aimed at complying with industry standards only
  - **Low**
    - Company does not recognize the need for development of employees
    - *Training Focussed*: Practices are aimed at complying with industry standards only

- **Behavior**
  - **High**
    - Company recognizes the need for employee skill development
    - *Development Focussed*: Company drives employees to develop their knowledge and skills
  - **Low**
    - Company does not recognize the need for employee skill development
    - *Development Focussed*: Company drives employees to develop their knowledge and skills

Exhibit 3. Classification of Training and Development Programs

- **Positive Work Environment**: 16%
- **Quality of Leadership**: 5%
- **Internal Surveys**: 5%
- **Training and Development**: 16%
- **Internal Job Shadow**: 3%
- **Independent Development Program**: 24%
- **Total Compensation**: 31%
Exhibit 4. Performance of Firms in Training and Development Practices

Exhibit 5. Classification of Contract/Contingent Worker Programs

- Organization leverages past experience (i.e., re-use of previous contract workers from both internal and long-term external sources)
- Relatively lower implicit or internal costs

- Organization that utilizes customized contractual pooling from placement firm
- Organization that institutionalizes succession planning of contractual workers

- Organization that manages headcount reactively as opposed to proactively
- Relatively lower implicit or internal costs (i.e., learning curve, administration costs regarding re-assignment of workers, orientation time and resources, internal recruitment website)

- Organization that regularly uses multiple external services simultaneously
- Relatively higher explicit or external costs (i.e., finder’s fees for placement services, executive search firms and external talent websites)
Exhibit 6. Performance of Firms in Contract/Contingent Worker Practices

Exhibit 7. Classification of Knowledge Management Programs

<table>
<thead>
<tr>
<th></th>
<th>Cognition</th>
<th>Behaviour</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nothing</td>
<td>Have never heard of the term Knowledge Management</td>
<td>Nothing In Firm: No methods of codifying or sharing information are in place within the organization</td>
</tr>
<tr>
<td>Low</td>
<td>Have heard of the term Knowledge Management: Do not know what it means</td>
<td>Corporate Intranet: Sharing information and general communication is actively encouraged</td>
</tr>
<tr>
<td>Medium</td>
<td>Have heard of the term Knowledge Management: Knowledgeable in the area</td>
<td>Some KM: Succession planning in place, document software, KM is used at only higher levels of the organization</td>
</tr>
<tr>
<td>High</td>
<td>KM Strategists Were well aware of KM best practices and research</td>
<td>Formal KM Strategy: Knowledge Managers exist (i.e. CKO, etc.), Knowledge sharing is linked to job performance, etc.</td>
</tr>
</tbody>
</table>

Exhibit 8. Performance of Firms in Knowledge Management Programs
## Appendix 1: IFIC Report of Represented Companies July 2001

### Relative Position of Members - Mutual Fund Assets

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Investors Group</td>
<td>43,647,801</td>
<td>43,817,541</td>
<td>43,641,385</td>
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<td>1</td>
</tr>
<tr>
<td>Royal Mutual Funds Inc.</td>
<td>34,060,323</td>
<td>33,944,006</td>
<td>33,975,383</td>
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<td>2</td>
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<tr>
<td>AIM Funds Management Inc.</td>
<td>33,239,822</td>
<td>33,545,007</td>
<td>10,112,956</td>
<td>3</td>
<td>13</td>
</tr>
<tr>
<td>Fidelity Investments Canada Limited</td>
<td>31,974,476</td>
<td>32,187,848</td>
<td>32,955,882</td>
<td>4</td>
<td>1</td>
</tr>
<tr>
<td>Mackenzie Financial Corporation</td>
<td>30,410,879</td>
<td>30,510,416</td>
<td>32,768,730</td>
<td>5</td>
<td>4</td>
</tr>
<tr>
<td>TD Asset Management</td>
<td>30,314,925</td>
<td>30,159,280</td>
<td>29,165,092</td>
<td>6</td>
<td>5</td>
</tr>
<tr>
<td>AGF Management Limited</td>
<td>29,108,098</td>
<td>29,213,870</td>
<td>22,825,509</td>
<td>7</td>
<td>9</td>
</tr>
<tr>
<td>CI Financial Securities Inc.</td>
<td>24,444,662</td>
<td>24,322,424</td>
<td>23,338,008</td>
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<tr>
<td>CI Mutual Funds</td>
<td>21,188,790</td>
<td>21,569,147</td>
<td>23,820,123</td>
<td>9</td>
<td>7</td>
</tr>
<tr>
<td>A.I.C Limited</td>
<td>14,295,183</td>
<td>14,284,844</td>
<td>13,349,366</td>
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<td>11</td>
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<tr>
<td>Scotia Securities Inc.</td>
<td>11,293,017</td>
<td>11,041,593</td>
<td>9,976,483</td>
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<td>14</td>
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<tr>
<td>Altamira Investment Services Inc.</td>
<td>5,344,922</td>
<td>5,518,706</td>
<td>7,032,276</td>
<td>17</td>
<td>18</td>
</tr>
<tr>
<td>Merrill Lynch Investment Managers Inc.</td>
<td>4,669,127</td>
<td>4,626,177</td>
<td>4,036,782</td>
<td>19</td>
<td>24</td>
</tr>
<tr>
<td>Talvest Fund Management Inc.</td>
<td>4,147,329</td>
<td>4,161,370</td>
<td>4,406,356</td>
<td>22</td>
<td>22</td>
</tr>
<tr>
<td>Elliott &amp; Page Limited</td>
<td>2,077,663</td>
<td>2,082,529</td>
<td>2,021,607</td>
<td>26</td>
<td>30</td>
</tr>
<tr>
<td>Guardian Group of Funds Ltd.</td>
<td>2,030,349</td>
<td>2,020,474</td>
<td>2,024,644</td>
<td>27</td>
<td>29</td>
</tr>
<tr>
<td>Sentry Select Capital Corp.</td>
<td>77,094</td>
<td>83,934</td>
<td>49,376</td>
<td>49</td>
<td>56</td>
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<tr>
<td>YMG Asset Management</td>
<td>N/A</td>
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<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
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<tr>
<td>Maxxum Financial Services</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
</tbody>
</table>

### Notes

1. AIM Funds Management Inc. and Trimark Investment Management merge to form AIM Funds Management Inc. - Aug 2000.
2. Relative Position Report Does Not Include TD ETF assets.
4. C.I. Mutual Fund assets exclude Insight Pools.
5. C.I. Mutual Fund assets exclude Insight Pools.
7. Non-reporting member.
Appendix 2: Interview Format

Company Information

Contact Name
Assets under Management
Number of Employees

Voluntary Turnover (VT)

How much of your time is devoted to VT issues?
Do you believe that VT is a problem with your company?
Who gets involved in VT situations? What levels of management?
How do you rate your VT performance relative to industry standards?
Does VT frequency differ through varying levels of the organization?
How do you combat VT? (i.e. T&D, compensation, etc.)

Training & Development (T&D)

What are your T&D policies? Budget or time per employee? Is T&D mandatory?
How do your T&D policies rate relative to other companies in the industry?
What is the budget per capita? Is it equal at different levels of the organization?
How do you perform T&D? Online?

Contract/Contingency Workers

What percentage of your workers are contract based?
What percentage increase of contract workers do you hire during RRSP season?
Where do you recruit your contract workers from?

Performance Review

Do you have a formal performance review system?
How are employees evaluated? (i.e. percentile, scoring, etc.)
Are performance review scored tied to money?

Knowledge Management (KM)

Do you have a formal KM strategy? What is involved in it?
What role does technology play in KM with your organization?


Byrne, Roger “Employees: capital or commodity? (2001)” The Learning Organization 8; no. 1


Hartman, Sandra, and Yrle, Augusta. (1996) “Can the hobo phenomenon help explain voluntary turnover?” International Journal of Contemporary Hospitality Management 8; no. 4, 11-16


Kransdorff, Arnold (1996) “Succession planning in a fast-changing world.” Management Decision 34; 2, 30-34


