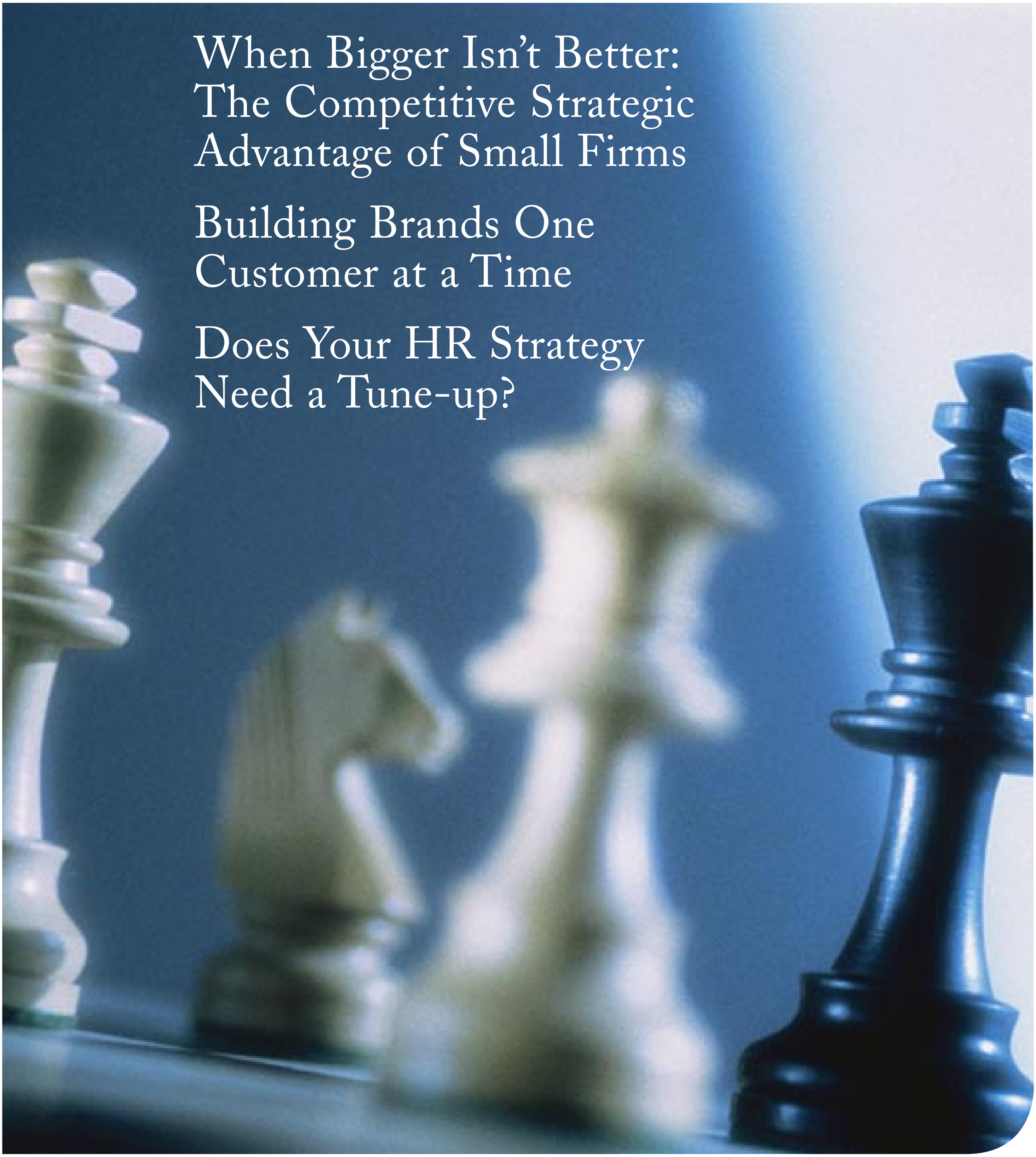
SOBEY SCHOOL OF BUSINESS

the workplace review

OCTOBER 2005
VOLUME 2 ISSUE 2

DISCOVER, SHARE, TRANSFORM



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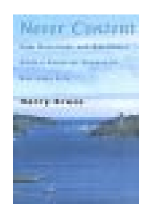

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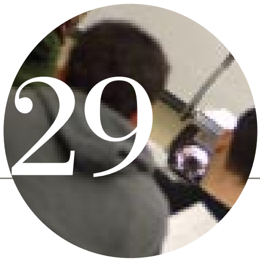

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Letter *from* the Editor

BY ALBERT J. MILLS

Welcome to the third issue of the Workplace Review. In this issue we focus on strategy. Simply put, strategy is about developing a consistent plan of action for the company, based on an assessment of its strengths, weaknesses, opportunities and threats. All companies have a strategy but it is not always a conscious one. Some companies create a strategy by going through the motions so often that it becomes the firm's strategy, whether they like it or not. In such cases it can be the luck of the draw whether the strategy is successful or not, and it is certainly difficult to pass on to employees.

The successful strategies that led to the development and success of Maritime Life are the subject of a book by Harry Bruce that is reviewed in our book column by Hermann Schwind: the review complements an interview with Bill Black that appeared in our previous issue. But as David Wicks, in our lead article, reminds us, strategy is not just for large corporations. Wicks argues that there are several successful strategies that small companies can pursue, specifically when dealing with the small business decision to grow. In related articles Ramesh Venkat and Hari Das remind us that people are the key ingredients of any successful strategy. In our second lead article Venkat contends that companies need to build customer commitment by building brands one customer at a time. In our Reports and Returns column, Das examines the role of human resources and explains how corporate strategy can unravel if we don't pay sufficient attention to effective human resources management; that-an "absence of a good performance management system and poor employee relations practices" can spell disaster. We shift gears again when Tom Webb, in our Business Education feature, provides an overview of the co-operative economy in Canada and highlights the focus of business education in this area.

In our other regular sections Karen Lightstone takes on the issue of derivatives and asks whether risk is a management tool of a financial hazard (see Myths), and Shymala Sivakumar offers practical advice to organizations about how to select commercial off-the shelf software and considerations for successful implementation (see Workplace Benchmarks).

We hope that this issue of the Workplace Review will give you some understanding of the challenges of developing an appropriate strategy and you will stay with us for our forthcoming Spring 2006 issue.

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**.

FEATURE

When Bigger Isn't Better: The Strategic Competitive Advantage of Small Firms

BY DAVID WICKS

Canada is a small, open economy in which a wide range of firms have achieved considerable success both domestically and internationally. Historically this success has come from a seemingly endless supply of natural resources, and to somewhat a lesser extent the processing of these resources into finished or semi-finished products. More recently success has come in the telecommunications and financial services sectors as the Canadian economy slowly reduces its dependence on the low value-added industries that contributed so greatly to our nation's wealth and the resulting high standard of living we enjoy. In fact, Canada is evolving quickly into a knowledge-based economy with service industries employing three of four Canadians.

At a recent conference in Toronto, one session I attended presented a rather pessimistic view of Canadian businesses, one overtly fixated on failures. It was presented as if we expect Canadian businesses to fail (like Eaton's did and the Hudson's Bay Company probably will very soon) and are therefore surprised by success stories. More troubling to me, however, was the subtext of the presentation, more specifically, what constitutes "success" and "failure." Beyond the most obvious type of failure, bankruptcy, the presenter gave examples of Canadian firms merging or being acquired with foreign firms as well as Canadian firms, failing to thrive and not rising to the challenge of competing globally. Implicit in these views of "failure" are two assumptions, both likely widely shared by the business community. The first is that a Canadian firm will fail when it loses its Canadian ownership and identity. This is an ideological privileging of ownership and control perhaps poorly suited to today's increasingly global economy and the emergence of multi-national firms that have less of a clear foundation in any particular country. The second, and perhaps more interesting from the perspective of strategic management and organizational theory, is that firms must continue to grow to be viewed as "successful." In this article I explore the second issue by outlining the basis for this assumption in the academic discourses on organizing and subsequently challenge this privileging of organizational size as a prime determinant of firm performance.

Most theories of organization explicitly or implicitly privilege large organizations. These theories are the foundation of business school curricula and popular press writings that shape notions of "common sense" business practices in ways that help form the assumptions I just described. Before challenging these assumptions, however, I will first explain where they come from and identify the circumstances under which they are correct. To do this, I will focus here on three distinct theories of organization: resource dependence, transaction cost theory and population ecology.

Resource dependence theory [1] is premised on the view that organizations are largely externally constrained. In other words, no organizations are internally self-sufficient but rely on resources from their environment for survival. Therefore, they are interdependent with the elements of the environment in which they interact. This theory explains that is based on its ability to acquire and maintain resources, an activity made problematic by the inevitable interdependence of an organization and its environment. The "problem" is that the environment is not dependable. Environments can change in many ways, for example as new organizations enter and exit an industry, or the supply of resources changes in terms of location, price or quality. An organization is therefore driven by its external dependencies, most notably by sources of resources necessary for and important to its continued survival. The two elements to resource dependence theory important to this discussion are: first, organizations must respond more to the demands of those organizations in the environment that control critical resources; and second, that organizations must manage critical dependencies to ensure survival and acquire more autonomy and freedom from external constraint. In light of these observations, larger firms logically should have an advantage in terms of minimizing the power imbalances between themselves and those who supply critical resources. →

An organization's desire for uncertainty reduction and autonomy is intuitively appealing and reflects the inherently competitive nature of most industries but larger organization can better reduce or stabilize the interdependencies that could threaten its survival by reducing power asymmetries and securing a more reliable supply of resources on more favorable terms.

Transaction cost theory [2], sometimes referred to as organizational economics or agency theory, is centrally concerned with the transactions firms engage in as they exchange goods and services with other people/organizations. This theory has a somewhat unique focus. Rather than examining the bases for effective production, it directs attention to the exchange of goods and services, in particular the structures that govern these exchanges. In a "market" system, exchanges are based on contractual arrangements. This system works under conditions in which all parties act competitively (that is governed by self-interest), and the price system signals what goods and services in what quantities are desired and, therefore, profitably produced. The logic of this theory is clearly rooted in Adam Smith's notion of the invisible hand of competition [3], a foundational concept in economics. As Smith pointed out so long ago, one does not need to know much about the participants in any transaction as long as individuals know their own preferences and base decisions on price. In reality, however, complexity and uncertainty make it difficult to create contracts that cover all possible contingencies. This gives rise to the "organization" as an alternative to market-mediated transactions. In the context of less than perfect information and opportunism of exchange partners, exchanges may be inefficient due to cheating and misrepresentation. Organizations put these exchanges under a hierarchical structure to better monitor them and also discourage opportunism through incentives. Organizations can also minimize transaction costs by introducing employment contracts that create relatively diffuse, open-ended contracts between parties. This theoretical perspective is therefore clearly efficiency seeking, with the firm choosing a governance structure that is best "in terms of their capacities to economize on transaction costs" [4]. Organizations exist only as a result of market failures – a simplistic argument but one that makes complete sense. This is seen on a practical level in the make/buy decisions of firms, with the preference being for the latter only to the extent to which transaction costs associated with monitoring performance exceed the costs of internalizing the transaction. Larger organizations should have an advantage due to their ability to internalize more and more varied exchanges. Whether they do reflects their choice, something small firms are often unable to do. A smaller firm, due to its limited financial and human resources, is often able to choose only between possible contractual partners rather than provide an alternative to market exchanges that would minimize transaction costs.

> "As a tool for assessing industry attractiveness, this framework draws heavily on notions of power. In other words, in a competitive industry, the powerful will exploit the powerless to their advantage in the relentless pursuit of self-interest."

Population ecology [5] focuses on the study of organizational diversity, using an ecological metaphor to →

explain how environmental conditions influence the creation of new organizations and organizational forms, their subsequent rates of demise, and the rates of change in organizational forms. By emphasizing the evolutionary dynamics of the process influencing organizational diversity, this theory directs attention to the role of selection processes. This theory also uses populations of organizations, to explain why certain organizations or types of organizations do or do not survive. Central to this theory is the notion that the environment differentially selects organizations for survival. For this to happen requires a variety in organizational forms, the selection of some forms over others, and the preservation of those forms. In other words, this theory tries to account for the births and deaths of organizations. One such explanation is the "liability of smallness" [6] thesis. The principal tenet of population ecology is that once founded, organizations are subject to strong inertial pressures. Because inert organizations have lower mortality rates, selection processes provide survival advantages to larger organizations. Some reasons for this include the difficulty of raising money, the relatively high costs of complying with regulations, and an inability to compete in a labor market for highly skilled workers.

As the preceding discussion shows, the "bigger is better" logic is firmly embedded in management thought. This is perhaps most clearly seen in Michael Porter's treatment of industry competitive forces in his famous five-forces analysis [7]. As a tool for assessing industry attractiveness, this framework draws heavily on notions of power. In other words, in a competitive industry, the powerful will exploit the powerless to their advantage in the relentless pursuit of self-interest. Buyers exert power through their ability to switch suppliers and/or demand more favorable terms and conditions of their transactions. Suppliers exert power by virtue of their control of important resources, and the resulting ability to raise prices or reduce quality. Although power is not synonymous with size, it is highly correlated with it. This leaves many organizations in a rather precarious position. Most Canadian organizations are not large by any standard, so what strategies can they employ to be successful in the long run? More interestingly, new organizations invariably start off quite small, so how can they survive in an increasingly competitive industry that in so many ways favors large organizations?

Strategic Advantages of Small Firms

The discipline of strategic management primarily focuses on firm performance. In other words, how a company becomes and stays successful? In the introductory chapter of *Concepts in Strategic Management* [8], I address this by first questioning what it means to be successful and then categorizing environmental and organizational factors that directly influence firm performance. This article reorients this discussion to the size-performance relationship, paying particular attention to the competitive advantages that smaller firms are more likely to possess. These come from (i) developing and implementing strategies of restricted scope, (ii) building capacities for innovation and change, and (iii) resisting the temptation to make growth a strategic priority.

A good place to start is with the firm's strategy itself. Michael Porter introduced the notion of "generic competitive strategies" and despite the inherent problems associated with creating any sort of typology, his ideas still influence ideas about how firm choose to compete. The smaller organization invariably adopts a focus strategy, concentrates on "a particular buyer group, segment of the product line, or geographic market" [9]. The success of this strategy rests on serving a relatively small segment of the market particularly well (and the concomitant inability of larger firms who compete more broadly to do so). This is a common strategy for new firms, especially those not particularly well resourced. Because the market opportunity they seek is relatively small, a focus strategy can be implemented with minimal investment in resources and at the same time not pose a significant competitive threat to established rivals. →

A firm that has done this exceptionally well is Nautel Limited of Hackett's Cove, Nova Scotia. Specializing in high power radio frequency equipment, Nautel has earned an international reputation in the design and manufacturing of exclusively solid state radio transmitters. Since 1969, customers have put Nautel's transmitters in the field for AM broadcast, FM broadcast, and navigation assistance applications. In fact, Nautel products can be found in more than 160 countries, on every continent, and in climates ranging from arctic to desert to jungle. When I first heard of Nautel and toured its production facility, I was intrigued by the way this firm could use very mature technologies (AM and FM broadcasting) and using them in relative narrow market segments (Aeronautical/Marine Navigation) in which it gradually established dominance. It also used this technology in many parts of the world affected by civil wars and political conflict to provide temporary mass communication. Nautel strategy has consistently been to use an established technology in a limited number of market segments to establish its reputation and help build a leadership position. Any focus strategy creates an upper limit on overall market share and sales – the consequence of focusing is to forego sales volume in the pursuit of superior need satisfaction and profitability.

A second type of advantage smaller firms can use to offset the various benefits of size rests on building capacities for innovation and change. Although smaller firms have no monopoly on these capacities, their less complex organizational structures and more informal procedures allow them to adapt to changing environments and develop strategic flexibility. This approach demands a commitment to developing and nurturing organizational capabilities that facilitate change both in response to exogenous events and in the ways work is currently performed. In other words, by becoming a "learning organization" [10] skilled at creating, acquiring and transferring knowledge and at modifying its behavior to reflect new knowledge and insights, organizations can more successfully compete in competitive environments characterized by more intense rivalry, changing customer tastes, and rapid technological change. To gain these advantages, firms need to foster organizational cultures that reward innovation and risk-taking as well as normalize continuous learning and change. At an operational level, this could involve the manifestation of a core value in continual self-examination and experimentation in decision-making processes, employee training and development, staffing decisions and communication processes. This process should not be all that daunting because it builds on people's inherent commitment and capacity to learn.

"A second type of advantage smaller firms can use to offset the various benefits of size rests on building capacities for innovation and change."

A relatively new management ideology that attempts to capture the benefits of innovation thinking at the production level is "lean thinking" [11], a production strategy that identifies and eliminates waste (non-value-added activities) through continuous improvement. Developed in Japan by Toyota, this strategy involves not only manufacturing processes, but also organizational culture. In a lean environment, products are made just-in-time, and quality management is embedded into all processes. Hermes Electronics Maritime Systems (UEMS) of Dartmouth, Nova Scotia is a leader in the development and manufacture of advanced electronic and electromechanical systems. It has earned this reputation over a fifty-year period →

of success fully designing and producing products for critical applications in extreme environments. UEMS is wholly owned by Ultra Electronics Holdings plc, UK, an internationally based group of businesses specializing in aerospace and defense electronics. A modern 150,000 square foot facility in Dartmouth houses a skilled staff of engineers, technologists, and production personnel. The company's strengths include product and systems engineering, the design and development of electronics and mechanical piece parts, and expertise in packaging of electro-mechanical assemblies. In the past twenty years, UEMS has developed and produced more than 1.5 million sonobuoys and is currently recognized as a market leader in the field of passive acoustic sensors. Lean manufacturing was originally introduced to UEMS in 1999, however, the real benefit to the organization was not realized until 2001 when senior managers began mapping current and future state value streams and implementing continuous flow cells. This has been fully supported by a comprehensive TQM (Total Quality Management) program, with production personnel being empowered to identify and implement areas for continuous improvement.

The third component of this discussion takes a different look at the way small firms can succeed. Whereas the previous advice suggested ways to successfully choose restricted scope strategies and develop capacities for innovation and change, I now turn to perhaps a more controversial piece of advice -resisting the temptation to make growth a strategic priority. In other words, managers should think about the "bigger is better" logic very closely before attempting to turn a successful smaller firm into a successful bigger one. The point here is that growth will naturally follow from an organization's success but should not be a goal or objective that determines major strategic decisions. Michael Porter's more recent work highlights the role of "strategic positioning" [12] in achieving superior performance. This requires performing different activities from those of rivals or performing similar activities in different ways whichever way we look at it, firms need to be different and not simply copy the bases for operational efficiencies that lead to temporary advantages because it leads to relative improvement for no one in the long-run. Successful strategies therefore rest on doing something unique and being prepared to make the trade-offs necessary to capture the advantages of being unique. This requires choices to be made, ones that purposefully limit what a company offers and where it chooses to compete. We can see this very clearly in the strategy of CanJet Airlines, a division of I.M.P. Group International Inc. of Halifax, Nova Scotia. As a national discount carrier, CanJet's strategy illustrates a willingness to choose and the refusal to imitate everything about its rivals. In order to improve its cost structure and optimally serve its market niche (price-sensitive customers) it foregoes the potentially lucrative trans-Atlantic routes and upper-class seating. These choices reflect a willingness to sacrifice top-line sales growth for bottom-line profitability. Porter highlights the tendency for firms to be uncomfortable making these decisions because they appear to constrain growth – a decision-maker knows that an increase in sales has the potential to increase profitability and the value of a firm, but the exact amount cannot be identified as easily. Managers are therefore tempted to make incremental changes to its strategy to capture these opportunities, but this often occurs at the cost of eroding the firm's original competitive advantage. Rather than fall into this "growth trap," a focus on profitable growth is crucial, one that does not compromise competitive advantage, destroy firm value, or create inconsistencies among a firm's activities.

Conclusions

The relationship between size and firm performance is by no means simple, as I have attempted to show in this article. Many theories of organization are quite explicit about the advantages of large firms, but today's economy with all its environmental uncertainty is presenting new possibilities for successful smaller organizations. Richard D'Aveni's popular book *Hypercompetition* describes a new competitive reality in which change, rather than stability, is the norm [13]. Under such conditions, "market stability is threatened →

by short product life cycles, short product design cycles, new technologies, frequent entry by unexpected outsiders, repositioning by incumbents and tactical redefinitions of market boundaries as diverse industries merge" [13]. Regardless whether industries ever evolve to this extreme form of competition, the competitive landscape many firms face is now one of much more uncertainty and instability than ever before.

The three strategic advantages of small firms I described in this article represent generic bases of success that are available to any organization. Because they are more easily obtained by smaller firms, they therefore represent a competitive strength that can offset the many benefits of size discussed in the first section of this article. In showing both sides of the size-performance relationship, however, my purpose is to show that any strategic decisions involve tradeoffs and that only very rarely are optimal solutions present themselves in a straightforward way. When teaching strategy I encourage students to recognize the trade-offs inherent in any strategy and, rather than making these uncritically (as unfortunately many organizations do), to make them consciously so they will more likely result in consistent and reinforcing activities within the organization that strengthen rather than weaken the company's competitive position by creating, for example, an inconsistent image of a firm's products or by sending mixed signals within an organization with respect to its strategic priorities. The organizations featured in this article are examples of strategically sound and inarguably successful companies that each display at least one important characteristic that portends an organization's success. I hope this discussion begins to challenge the "common sense" notion that a successful business is necessarily a large or global business. If that were the case, most businesses (in Canada or elsewhere) would have to be considered unsuccessful. In the current economic environment, rather than privileging size among the determinants of firm performance, we should be more alert to the capabilities that more flexible and responsive smaller organizations can develop and exploit more easily than larger ones. In other words, bigger isn't necessarily better when it comes to business.

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Profile:

David Wicks came to Saint Mary's in September 1996 after completing his MBA and PhD at the Schulich School of Business in Toronto. In his time at Saint Mary's he has been the Chairperson of the Department of Management (2000-2003) and has received the Award of Teaching Excellence by the MBA Student Society (2003) and the Full-Time Professor of the Year Award at the Saint Mary's University Commerce Society (2002). He is also actively involved with the Sobey MBA's case competition team that represents Saint Mary's at the MBA Games and the John Molson International MBA Case Competition. David is currently the Acting Dean of the Sobey School of Business.

david.wicks@smu.ca

Derivatives: Risk management tool or financial hazard?

BY KAREN TOUCHE-LIGHTSTONE

From the biggest corporation involved in foreign markets to the smallest company, exposure to financial risk cannot be avoided and managing that risk is vital to the financial viability of the firm. Derivatives typically fall under the category of risk management. However risk can also be increased with the use of derivatives. One might ask if some of these losses are because of poor risk management. The subject of derivatives is currently a topic of interest in both finance and accounting. The volume of derivatives has increased enormously in recent years, and there have been a number of high-profile company failures or large losses arising from derivatives trading. Examples include Enron, Barings Bank, Volkswagen Inc., Proctor and Gamble, and Sears, just to mention a few. In simple terms, derivatives are financial instruments most often offered by banks to assist companies in managing their exposures to certain market fluctuations. The most common is a forward contract which enables one to lock in a currency exchange rate ahead of when the foreign funds are needed.

No organization can escape exposure to risk which is present in the general environment in which the firm operates. For instance, border tariffs imposed by the Canadian government on goods entering this country affect the prices corporations charge to consumers for products. Risk is also present in specific industries. For instance, fishing industry firms are exposed to the risk of quotas set by federal programs to protecting dwindling fish stocks. These quotas can be unpredictable and affect revenue significantly. Increasing the prices to consumers is not always an effective means of recuperating lost revenue due to the probable presence of substitutes.

The Occupational Health and Safety regulations imposed by government to protect workers that can result in increased costs to firms trying to meet the standards are another example. In addition, corporations are exposed to such financial risks as the effect of changing prices on imported raw materials paid for in foreign currencies. Financial risks also arise in the form of interest rate fluctuations when firms need financing. Corporate managers need to decide if fixed interest rate debt better meets their financing needs over floating interest rates, and whether changes in future interest rates are going to pose a problem.

Although all risks identified above are largely beyond the control of corporations, various strategies can help offset their impact. However, in managing financial risk, managers responsible may actually increase firm's risks. The problem is that managers may not simply engage in one hedge against one isolated exposure to an identified risk, but rather must engage in an ongoing practice of hedging against some risks while increasing another risk in the hope that the market will perform as they predict. For instance, managers may hedge when they feel the market is going to move in an unfavourable direction and exchange a lower risk for a higher one when they feel the market is going to react more favourably. →

Such behaviour underlines the difficulty in distinguishing between hedging and speculation. If all exposed financial risks were hedged using either a derivative or natural hedging, one would argue that no speculation is taking place. If the company policy is to hedge 50% of all exposures, does this mean they are speculating on the 50% unhedged? Some independent auditors might call this speculation while others would disagree; arguing that following company policy is not speculation. Moosa [1] and Millman [2] suggest that hedgers and speculators are basing their decisions on the same variables, namely, the trade-off between risk and return. Millman blames the derivative-related catastrophes in the past on managers who "ignored the fundamental principle of investing: There is no return without risk." [2, p. 33]. The bottom line is that any exposed risk is subject to the fluctuations of the market regardless of whether company policies dictate whether hedging be undertaken or not.

In terms of hedging instruments, managers typically have two choices. They can use a derivative product, such as a forward, future, option or swap, or they can hedge naturally. Natural hedging involves the alignment of purchases and sales in the same currency. For example, being able to sell products in the foreign country where supplies are also available enables a manager to finance the expenses with revenue in the same currency, thus removing the risk of fluctuating exchange rates with the home currency. This is not always a viable option. With respect to using a derivative product, corporate managers' attitudes towards derivatives range from fear to over confidence. One manager, in an interview with me, stated, "The guy before me used derivatives and we lost a bundle. My job is to manage this company, not to play with derivatives." On the other end of the spectrum, another manager interviewed said responsibility for the company's risk management rested with "two guys in the back room who don't even use a computer!"

"Risk managers should be rewarded for their ability to do exactly that – manage risk. Their skill at carrying out the intended strategy of the organization should be more important than what might have been."

Joyce [3, p. 3] suggests, "speculation is foolish unless you have good reason to believe that the odds are stacked in your favour. If you are not better informed than the highly paid professionals in banks and other institutions, you should use derivatives for hedging and not for speculation."

How well these, and other companies, manage their risk is often determined by the evaluation of the managers' performance. Unfortunately, many organizations reward performance based on some form of accounting net income and research has documented the pitfalls of this practice. Mutual fund managers were found to be increasing their use of derivatives shortly before performance evaluations in the hope of driving up potential bonuses. Lynch-Koski and Pontiff [4], Healy [5] found managers were using discretionary accruals to influence the bottom line. For example, estimating warranties, product returns, and other outstanding liabilities can be quite subjective with a low estimation resulting in a higher net income figure. (External auditors will typically identify gross over/underestimations, but their focus tends to be on the financial statements as a whole, not just accruals.) →

Risk managers should be rewarded for their ability to do exactly that – manage risk. Their skill at carrying out the intended strategy of the organization should be more important than what might have been. For example, suppose a firm needs to purchase $1 million worth of raw materials from the U.S. in three months time. Let us say the current exchange rate is $1.24 Cdn. for each U.S. dollar and the rate available for a three-month forward derivative contract is 1.2375. Prudent risk management would dictate the purchase of a three-month forward for $1 million U.S. at that rate. This enables the organization to plan for the required cash flow and remove the risk of exchange rate fluctuations. The risk manager should be evaluated based on his/her ability to match the timing of raw material requirements with hedging instruments and organize the cash flow to avoid surprises due to changing market rates. Unfortunately, what tends to happen is the manager is evaluated on the market rate three months down the road. So if, for example, the rate dropped to 1.22, the manager would be penalized for locking the company into the 1.2375 rate even though the purpose was to manage the timing and cash flow implications. Congratulating a manager for locking in the rate at 1.2375 if the rate in three months time climbs to 1.25 sends the message that it is okay to speculate on the future rate and rewards will be given for guessing correctly.

New accounting recommendations for derivatives may help because the accounting for hedging instruments effectively highlights where risk managers have not completely matched risk exposures to hedging instruments. Let us hope that senior management focus the reward system on the type of risk management job being done.

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Profile:

Karen Lightstone is an assistant professor of accounting with the Sobey School of Business, where she teaches primarily managerial accounting and financial statement reporting and analysis. Her Ph.D. dissertation comprised an investigation into the use of financial reporting of derivative financial instruments by Canadian companies.

karen.lightstone@smu.ca

workplace benchmarks

Critical 'Human' Success Factors for Purchasing Commercial Off the Shelf Software (COTS)

BY VENKATESH THYAGARAJAN & SHYAMALA C. SIVAKUMAR

One of the biggest challenges presented by a continually changing business environment is the need to update information systems (IS) to meet the changing needs of an organization. Information systems are key to an organization's success, and effectively managing the replacment process is vital to meeting business requirements. Typically, a business replaces its information systems in one of two ways: custom development or commercial off the shelf (COTS) system selection. When an application is custom developed by an organization, all the bells and whistles of the existing processes can be incorporated into the new development. Custom software package development is not favoured, however, as it is expensive, and an organization may not have the required competency to go about it.

A number of COTS software packages are available for almost any business application. However, when selecting a COTS package, an organization needs to understand its functionalities and be able to map these to its business requirements. That typically happens in a short time frame and adds to the challenge of selecting an appropriate COTS package, especially when replacing a core business application. Business processes need to be prioritized and during initial implementation only 60-80% of those requirements may be met by the selected COTS system.

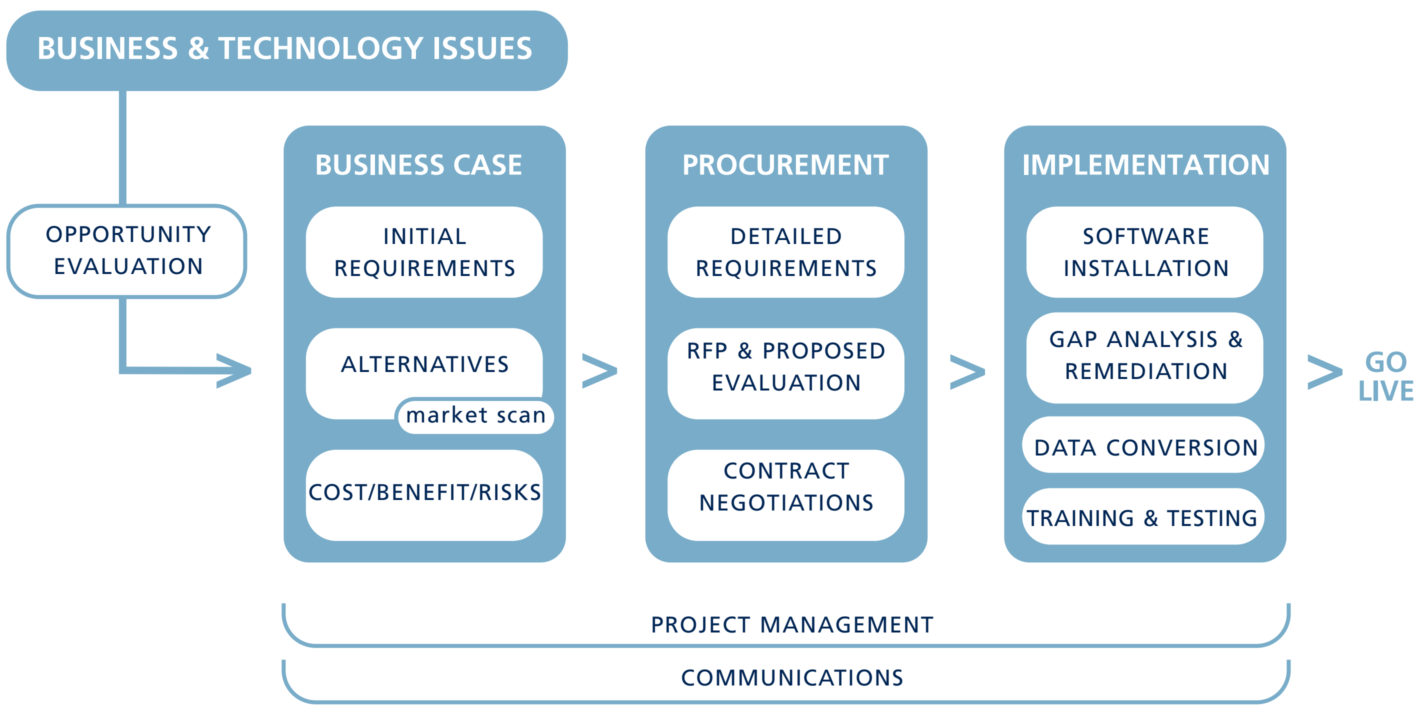
This article identifies ten critical human factor issues associated with a COTS software package selection process. We discuss how these factors affect the success of the selection process, thereby impacting the long-term business and strategic objectives of an organization. These ten critical success factors were identified through discussions with local software industry experts. However, before discussing the critical success factors, we will review a typical COTS process.

A CLOSER LOOK AT A TYPICAL COTS SOFTWARE SELECTION PROCESS

Figure 1 shows a commonly used COTS software selection process model. Typically, the requirement for a new information system arises as a result of changes in business practices or issues with technology. An analysis of these issues then leads to the opportunity evaluation stage, in which an organization conducts an initial feasibility study to see whether the problem calls for an IS system replacement. Based on the results of this stage, the organization may then decide to explore this option. →

The COTS software selection process can now be broadly divided into three phases: preparing a business case; procurement; and implementation. Project management and communications tie together all three phases. While the three high-level phases shown in Figure 1 imply a logical separation, actual implementation of these phases may involve an overlap of activities. The first phase of the COTS software selection process consists of preparing the business case for the project. During this phase, initial requirements are gathered and a market scan is performed to generate an initial list of possible software packages. Next a cost-benefit analysis is performed to ensure the viability of the project. At the end of the first phase, the organization makes a decision regarding IS replacement.

FIG 1 – A TYPICAL COTS SOFTWARE SELECTION PROCESS MODEL[1]



The procurement (second) phase of the COTS software selection process consists of documenting the detailed requirements of the project, preparing a request for proposal (RFP) and negotiating a contract. The detailed requirements together with the additional criteria of cost, technology infrastructure and implementation time frames form the crux of the RFP released by the organization. To evaluate vendor proposals consistently, the RFP must specify the format for all submissions, so having all proposals in a similar format improves the efficiency of the evaluation process. Based on the evaluation process an organization chooses a preferred vendor and negotiates a contract.

During the implementation (third) phase, of the process, detailed demonstrations of the product are requested, and when the actual software is installed, users are trained on the new system. Critical to the success of this phase is identifying any gaps between the new and the existing IS system, which can be resolved through customization or a change in business processes. →

1 The model is adapted from a discussion held with Mr. John Snow, Sierra Systems

CRITICAL SUCCESS FACTORS FOR COTS SOFTWARE SELECTION PROCESS

The ten factors vital to the success of a COTS software selection are as follows:

1. EVALUATING OPPORTUNITY During the opportunity evaluation phase, an organization must align the project with its strategic objectives. Aligning the information system with organizational strategy is important as it helps senior management realize how such a project would help to meet the strategic goals of the organization.

2. PERFORMING A FORMAL BUSINESS CASE The COTS software selection process is an opportunity for an organization to create a formal business case addressing the feasibility and validity of undertaking such a project and to look for alternative solutions, such as considering whether an older business process can be retrofitted to meet the new needs of the business. The business case is also needed to convince senior management to allocate the necessary resources to the project.

3. USING A PROJECT MANAGEMENT METHODOLOGY Once an organization decides to select an appropriate COTS package it has to establish a project management methodology to complete the project. This could include setting up a separate project management office with a dedicated project manager, especially in medium and large enterprises, where the extra work of a major IS system upgrade, when combined with regular business operations, may overload the IT manager.

4. BENCHMARKING FOR MEASURING SUCCESS Measuring the success of a project can be difficult so establishing a baseline of key indicators of success for business activities allows for objective comparisons at the end of the project. Examples of benchmarking to measure success include measures of customer satisfaction, employee productivity, and time taken to produce certain outputs. In many cases when implementing an IS upgrade, end users are unable to perceive the efficiencies of the new IS system during the initial learning phase. Hence, while performing benchmarking, business areas where performance improvements are expected need to be identified for measurements at specific time periods.

5. UNDERSTANDING BUSINESS REQUIREMENTS It is vital to thoroughly understand the business needs of the organization, as multiple solutions often may address a particular business need. Hence, the COTS evaluation team needs to use levelling factors, including cost, time and percentage fit to business needs, to evaluate and rank these solutions. Typically, even the best COTS package may meet only about 80% of the business requirements. Therefore, a plan on how to approach the remaining 20% of the business requirements needs to be worked out. Often, these requirements are unique to the organization so expecting a COTS package to meet them is counterproductive. Customizing the software package may be the solution, but its high costs may also defeat the purpose of an "off the shelf" solution.

6. EVALUATION OF ORGANIZATIONAL IMPACT Evaluating the impact on the organization of an IS system replacement or change must be precede the COTS project. For example, converting existing or legacy data to standard data formats required by the new IS system, replacing or augmenting existing user interfaces, and verifying the functionality of new IS applications are some critical aspects of any COTS project. Additional human resource issues include managing change, building consensus and exemplifying the benefits of the project. Typically, organizations are subject to the "butterfly effect", meaning that a change in one IS system may affect efficiencies in different parts of the organization differently. In other words, while some see the benefits of the proposed change, others see the impediments. Thus, it is important to →

communicate these changes to stakeholders such as government agencies, third party contractors, shareholders, users, customers and suppliers by employing information sessions at various stages of the project. Besides informing stakeholders about changes and how these changes may impact them, it is vital that the project manager bring together disparate stakeholders to build consensus. Often, stakeholders have suggestions that may improve upon existing situations. Lastly, the benefits realized from the project must also be presented to senior management so they can announce to the entire organization the decision to undertake the project.

7. ALIGNING RESOURCE AVAILABILITY While key business users must be involved in selecting, training, and testing the new application, support from top management is vital in acquiring the resources needed to implement the project successfully. Business managers "buy in" to the project is critical for them to view it as a top priority and ensure that they lend or utilize their best human resources to it. Ultimately, both the business unit managers and the information technology (IT) managers are responsible for the success of the project. Even though IT expertise is required to select, install, configure, troubleshoot and maintain the COTS software package, its implementation benefits the whole organization, so business managers should be educated on this aspect to ensure their continued support.

8. SUPPORT FROM TOP MANAGEMENT AND "BUY IN" FROM END USERS Support from top management and buy in from end users to make sure the project progresses at the desired pace is essential for project success. While support from the CEO or CIO, who is usually the COTS project sponsor, is very important, even more critical is the commitment at lower levels of the organization. Top management can free up the resources required to undertake the project but end users must be convinced about the need for and feasibility of the project. Strategies such as implementing a prototype of the system to demonstrate its features before proceeding with the complete implementation of the IS system can promote end-user buy-in and involve key users at every stage of the COTS software process helps build a sense of ownership in the proposed system.

9. PLANNING FOR COMMUNICATION One area often neglected is effectively communicating about the project, which is important because of the impact IS replacement has on the daily routines of end users. For example, group information sessions are an effective way to notify participants and resolve their doubts about the project and upcoming changes. Also, media such as the organizational newsletter and email can be used to reach employees who are in different geographic locations.

10. MANAGING EXPECTATIONS Feedback from target groups is a critical component of the communication plan in managing the expectations of stakeholders about the project and its outcomes. Those expectations of the user groups should be documented and managed during the lifecycle of the project. For example, some user groups may expect a fully automated system, which may not be in the scope of the project so information must be communicated to all end user groups. Further, all end user groups must be included in the communication cycle even those the IT department thinks are not going to be impacted by the change. Such groups may have a number of interesting suggestions simply because they are least impacted! →

These ten critical factors may be overlooked in the desire to obtain a quick solution. These issues address the "human" factors involved in the COTS software selection project and bring together the concerns of the stakeholders in the organization, including those of top management, business end users, and IT managers when selecting a COTS software package for the organization's information system. This list of critical success factors is not comprehensive but when used in conjunction with an accepted project management methodology and proper due diligence, it will ensure the success of the software selection process, thereby ensuring that the organization meets its long-term business and strategic objectives.

ACKNOWLEDGEMENTS

The authors wish to acknowledge industry experts Mr. John Snow (Sierra Systems), Mr. Jim Nicoll (Halifax Port Authority), Mr. Ron Singer (xwave Consulting), and Mr. Chris Henkelmann (Sierra Systems) for consenting to be interviewed in the course of preparing this article.

Profile:

Venkatesh Thyagarajan has several years of IT consulting experience and is currently a Business Analyst with the Halifax Port Authority. He is a graduate student of the Sobey MBA program at Saint Mary's University, Canada. His research interests include project management, COTS software selection processes and financial information systems.

vthyagarajan@portofhalifax.ca

Profile:

Shyamala C. Sivakumar is an Associate Professor of Computing and Information Systems at the Sobey School of Business, Saint Mary's University, Canada. Her research interests include design of multi-modal biometric authentication systems and the use of internetworking technology for innovative applications in e-education and e-commerce. She has authored or coauthored in excess of 35 papers in leading journals and conference proceedings sponsored by the Institute of Electrical and Electronic Engineers (IEEE) and the Association for Information Systems. She is a member of the Association of Professional Engineers of Nova Scotia and the IEEE.

ssivakumar@smu.ca

reviewing what's HOT what's NOT

BY HERMANN SCHWIND

REVIEW OF HARRY BRUCE'S: "NEVER CONTENT" (HOW MAVERICKS AND OUTSIDERS MADE A SURPRISE WINNER OF MARITIME LIFE)

Key Porter Books, Toronto, 2002, 256 pages, HC

Available at Indigo $20.96

Harry Bruce's book is a fascinating description of a success story in an industrial field not known for its innovativeness and high efficiency: Insurance; more specifically, life insurance[1]. He interviewed many of the former CEOs, employees, shareholders, and customers to gain insights from different angles into the history of Maritime Life.

Bruce begins his narrative with the founding of the company in 1922 in the aftermath of the Halifax explosion, which killed more than 1,900 Haligonians, the mining disasters in New Waterford and Stellarton that left 153 dead, and the influenza epidemic, which caused the death of 1,250 Nova Scotians. Nine men, all from Nova Scotia, launched the Maritime Life Assurance Company, which shortly afterwards was incorporated by a special act of the NS legislature. Only two had extensive experience in the insurance field, but all nine had one strong feeling in common: a resentment of big companies that sucked capital out of Nova Scotia but returned little of their profits.

In 1923 the fledging company was housed in the downtown Dennis Building, had a president and managing director (annual salary $8,000), an actuary ($3,250), and two stenographers ($936 each). The company was desperate for capital, but purchasing stocks in an insurance company was not popular with Nova Scotians, so the executives looked for investors in New England, Bermuda, and West Indies, with surprising success. By 1929 ML had assets of $760,000 but it was a pigmy compared with the assets of its major competitor, Sun Life, of $2.4 billion. The depression years hurt all industries badly, but ML did amazingly well. It paid off that ML had a reputation as a "stingy" company, with low expenses on "postage, advertising, and office furniture, as well as legal, medical, and inspection fees." As one staff member recalled: "At one point, for use as memo and scratch pads, we had these unused labels from a baked bean company that had folded."

Its other positive characteristic ML had was that it developed from very early on a sense of community in its staff, the "we" feeling and a sharing of the feeling of success. Especially one president, W.H. Schwartz, whom many called a benevolent dictator, succeeded in "infecting" office staff, sales agents, and executives with his driving passion for growth. He partied with his employees, but also backed them at work, encouraged them, and got to know them. Under his leadership, ML's assets grew from $46 million in 1955 to $1 billion in 1969 while new sales grew from $4 million to $200 million.

A major shift in the development and growth of ML resulted from the 1956 hiring of Fred Richardson, who had gained his experience in the insurance industry with Empire Life, where he had started as an actuary student. At that time the bookkeeping system in the industry was grossly inefficient because separate systems were kept for premiums, commissions, loans, evaluations, and every other accounting function. As a result, insurance companies knew only until February →

1 Strictly speaking, insurance is coverage against something that may never happen, such as fire, while assurance is coverage against the death no one can escape, but many companies do not make this distinction.

of the following year what their accounts were. Richardson, who had a mathematics degree from Queen's University, introduced a system which used the Univac computer to integrate all accounts, using punch cards. When he approached the Empire's comptroller with his idea, the comptroller called his colleagues in other big insurance companies and said: "None of them do that, so we won't either." Frustrated, he left Empire and joined ML, where he was given the opportunity to put his system into practice. Richardson's new approach instantly freed ML's staff from the weeks of overtime, drudgery, and tensions that everyone endured while preparing annual statements for federal regulators. It also gave the company the lowest unit costs for policy administration in the industry and exceptionally accurate monthly financial reports.

ML's success attracted some big suitors, among them John Hancock Life Insurance Company of Boston. With assets of $9.3 billion U.S. and life insurance contracts worth $53 billion U.S. Hancock was among North America's five biggest life insurance companies. It alone had 81 vice presidents, more then the entire staff at ML's head office. Hancock's executives liked what they saw as ML's greatest assets: flexibility, innovativeness, and lack of groupthink. In 1969 Hancock paid $6.85 million for ML and assumed control of its new Canadian subsidiary. Very fortunately for ML, Hancock left ML management largely independent in its decision making, while putting up more capital and sharing its computer and training expertise. Hancock's experience in group insurance, not a ML product, helped to secure the biggest insurance deal in Canadian history: selling group life insurances to the Canadian armed services, which had over 96,000 personnel.

Then another bold move by ML rattled the industry and gained it great advantages: it abandoned the industry custom of selling through its own agents and chose to deal instead with independent general agents, allowing it to sell insurance contracts at much lower prices than other companies. The rest of the industry, as Bruce put it: "still sold in a way that seemed stupendously clumsy." ML was also much more innovative than the competition. While competitors averaged one or two new products every three or four years, ML developed several new products every year. ML's growth rate was unparalleled. By1986, ML was fifty times bigger than in 1969. Its growth rate had ranged between 25% and 30% per year while its assets had risen from $32 million to nearly $17 billion.

In the early 1990s, Total Quality Management (TQM) became the management mantra and ML was no exception. Its president at that time, Bill Black, visited many of the big players in the TQM field and found one thing they had in common: Each had its own set of well-articulated values, and all company employees supported and accepted them. His conclusion: A company must change its corporate culture before it could change its processes. Black's TQM campaign at ML involved all employees, from the top down. The final document, known as the Odyssey, spelled out in detail its corporate objectives. It contained one purpose: "helping Canadians achieve financial security"; three goals, "to satisfy every customer," "to satisfy every employee," and " to achieve superior profitability and growth"; and four values, "to conduct our business according to the highest standards of ethics and integrity," "to foster innovation, initiative, trust, and mutual respect," "to encourage balance between corporate and personal goals," "to contribution to the communities where we live and work," and "to maintain financial soundness." The essence of this exercise was captured in one statement, which came out of one group and was filtered out: "If it is good for your customer and you know it makes sense, then do it."

In the 1990s, management at ML felt strong enough to increase the company's market share growth by strategic acquisition. A number of competitors were in bad shape because of bad real estate investments. When the real estate market collapsed, several insurance companies went with it and many others were hurting badly. One of the latter was Confederation Life which sunk 74% of its assets into real estate, far →

more than any of its rivals. In 1992 a large part of its holdings went sour when the company could not survive on its own; it went looking for a suitable partner and found several. However, negotiations with a consortium of a number of companies failed and Confed went bankrupt. ML made a bid for what was left of Confed and, against major competitors, won, to the great surprise of the insurance and financial industry. ML thereby gained access to $500 million worth of assets, tens of thousands of customers, a dozen independent general agencies, and more than 500 agents. It also doubled its individual life business; increased its assets from $3.36 billion to $4.26 billion; markedly strengthened its Ontario operation; enabled it to diversify assets and achieve economies of scale and pushed it from sixteenth to twelfth place among Canada's life insurance corporations.

The next "victim" was Aetna Canada, subsidiary of the U.S. giant Aetna Life and Casualty in Hartford, Conn. Aetna Life wanted to concentrate its insurance business on more lucrative products than individual life contracts. It sold the U.S. part of this business to Lincoln National for $1 billion and tried to find parties interested in its Canadian subsidiary. Among the many suitors, ML was not considered a major contender. The front runner was Manulife whose bid Aetna eventually accepted. ML executives were greatly disappointed, however, the final negotiations between Aetna Life and Manulife did not go smoothly and, on short notice, Aetna reopened its talks with ML and struck a deal to the consternation of Manulife's executives, who thought that they had bagged the competitor.

recommended READ for all managers

While the integration of the remnants of Confed worked out well for both parties, the purchase of Aetna Canada resulted in a more difficult assimilation process. The cultural differences were larger than anticipated. All but one Aetna executive left the company within a short period and it took two years of hard efforts by ML managers to integrate the Aetna Canada staff. It was practically a remake of the earlier TQM effort: every employee participated in developing new objectives, setting new values, and creating a desirable workplace. That year ML was again included in the Globe & Mail's Report on Business as one of the best 100 Canadian companies to work for.

ML was the fifth largest insurance company in Canada, a significant jump from its sixteenth place 30 years ago, and living proof that even a small company, if well and efficiently managed and, with a strong commitment from its employees and innovative products, can outmuscle much larger competitors who continue plodding along. Harry Bruce put together an impressive documentation of a success story among Canadian companies. A recommended reading for any manager.

Addendum: In December 2004 John Hancock Insurance was acquired by Manulife. As a consequence, both company's Canadian subsidiaries were merged.

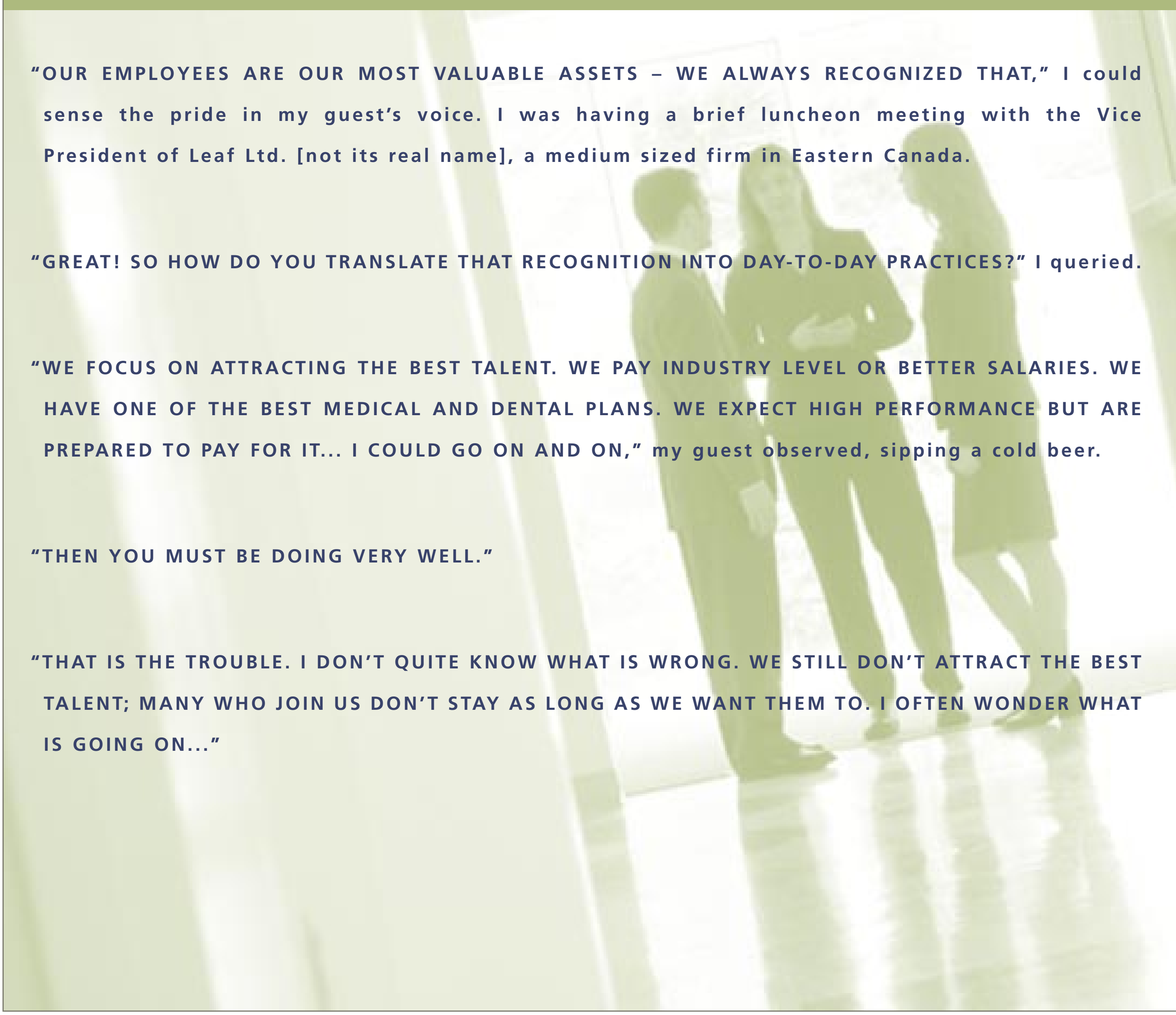
Profile:

Dr. Hermann Schwind is Professor Emeritus with the Sobey School of Business and has taught Human Resource Management and International Business for 25 years in the Department of Management. He is the principal author of *Canadian Human Resource Management*, McGraw-Hill, now in its 7th edition, has published over 80 articles and papers, and contributed chapters to seven books.

hermann.schwind@smu.ca

Does your Human Resource Strategy Need a Tune-up?

BY HARI DAS



"OUR EMPLOYEES ARE OUR MOST VALUABLE ASSETS – WE ALWAYS RECOGNIZED THAT," I could sense the pride in my guest's voice. I was having a brief luncheon meeting with the Vice President of Leaf Ltd. [not its real name], a medium sized firm in Eastern Canada.

"GREAT! SO HOW DO YOU TRANSLATE THAT RECOGNITION INTO DAY-TO-DAY PRACTICES?" I queried.

"WE FOCUS ON ATTRACTING THE BEST TALENT. WE PAY INDUSTRY LEVEL OR BETTER SALARIES. WE HAVE ONE OF THE BEST MEDICAL AND DENTAL PLANS. WE EXPECT HIGH PERFORMANCE BUT ARE PREPARED TO PAY FOR IT... I COULD GO ON AND ON," my guest observed, sipping a cold beer.

"THEN YOU MUST BE DOING VERY WELL."

"THAT IS THE TROUBLE. I DON'T QUITE KNOW WHAT IS WRONG. WE STILL DON'T ATTRACT THE BEST TALENT; MANY WHO JOIN US DON'T STAY AS LONG AS WE WANT THEM TO. I OFTEN WONDER WHAT IS GOING ON..."

It did not take me too long to identify some of the reasons for the firm's predicament. Even a cursory look at Leaf Ltd disclosed significant strategic and systemic deficiencies, including a lack of linkage between its corporate and human resource strategies, absence of a good performance management system and poor employee relations practices. While every single manager in the firm paid lip service to the importance of human resources, this rarely was followed up in practice.

Leaf Ltd. is not an isolated example of poor linkage between corporate and human resource strategies. According to a 2005 study by Drake International of over 5,000 employees, 4% of new hires had such a disastrous first day they never went back [1]. According to a 2004/2005 Work Canada study overall employee satisfaction in Canada is declining [see Figure 1].

Poor HR strategies lower employee morale and bring down productivity. When this occurs, the entire country suffers. Consider these figures: every year for the past 40, Canada has lagged behind our biggest trading partner, the United States. While we are busy proudly pointing out our good school system, generous national pension plan and superior health care, Canadians have consistently trailed Americans by about half a percentage point a year in our productivity gains, which has major implications for our standard of living. In the 1980s, our real personal per capital income was 87% of that of Americans; by 1990s, this had dropped to 78 % of the same. If this trend continues, Canadians will earn only 50 per cent as much as Americans within the next 25 years [2]. While productivity depends on many factors other than good human resource management, any fundamental breakthroughs in productivity growth are impossible without major shifts in our view of human capital.

FIGURE 1 DECLINE OF EMPLOYEE SATISFACTION IN CANADA

	2002	2004
Employer a good place to work for	55	43
Recommend employer to others	67	57
Prefer to stay with present employer	63	54

Source: *WorkCanada 2004/2005*, Survey conducted by Watson Wyatt.

The result is a decline in our global competitiveness. In a major study, Canada's competitiveness earned 62 points out of a possible rating of 100 compared to 94 for the U.S. (which was in the first place). Japan was second with 82 points, while the European members of the G7 ranked in the 70s. Canada was last, a full ten points behind sixth-place France, for the second year in a row [3].

WORRISOME? YOU BET!

There are, of course, no simple solutions. No single factor can explain the above mentioned challenges. Yet a common thread in many poorly functioning organizational settings is the disregard for their most important asset – human capital. Even among firms that strive to become the best clear human resource strategies are conspicuous by their absence. Organizations that focus on attracting the best talent often have no clear plans to keep them; others that retain their human resources are not successful in inspiring them to excel. →

In a large international survey (including Canada), 40.5% of the respondents said their supervisors belittled people in front of others; 31.5% reported condescending or demeaning behaviours by bosses; of those who quit 23.9% cited humiliation or embarrassment in front of others was the primary reason for decision to leave [4].

Formulating human resource strategies that fit tightly with corporate mission and plans is a must to succeed in today's global market place. A strategy can be compared to a "game plan" in a football or volleyball game. Before a team enters the field, the coach looks at the team's strengths and weaknesses and those of its competitors. He or she carefully studies the two teams' past successes, failures and performance on the field. The objective is to win the game with minimal risk and injuries to the players, and the coach may not use all the team's best players if it is not warranted (they may be kept in reserve for future games or to maintain an element of surprise). Also, the game plan itself might be modified to recognize new realities (perhaps, for example, the opponent will come out playing more aggressively than in the past).

> "To be effective, a human resource strategy should be formulated after considering an organization's environment, mission and objectives, strategic posture and internal strengths and weaknesses, including its culture."

An organization's strategy is much more than a game plan, however. A game plan covers only one game and one opponent, whereas a strategy deals with a wealth of basic issues such as technological advancements, changes in customer preferences and new government regulations, and is oriented toward many elements of a firm's environment such as competitors, government and employees. A strategy, then, is a comprehensive and integrated plan with relatively long-term implications designed to achieve the basic objectives of an organization.

Strategic human resource management (SHRM) links the human resource management practices to the strategic needs of an organization and aims to provide it with an effective workforce while meeting the needs of its members and other constituents of the society. To be effective, a human resource strategy should be formulated after considering an organization's environment, mission and objectives, strategic posture and internal strengths and weaknesses, including its culture. [Figure 2].

ENVIRONMENTAL ANALYSIS

Through continuous monitoring of economic, legal, social and labour market trends, human resource managers can identify environmental threats and opportunities. These, in turn, help formulate new strategies and tactics. Some important environmental trends with implications for the human resource function include technological innovation, productivity growth levels, immigration and labour market conditions, internal and international migration patterns, demographic and cultural shifts, and legal changes. →

ORGANIZATIONAL MISSION AND GOALS ANALYSIS

Even similar organizations often pursue different goals; a thorough organizational analysis of the organization's overall mission and goals is a second integral aspect of identifying human resource strategies. All organizations exist to accomplish something in their larger environments. The mission – the purpose of an organization's existence – should guide its strategic thinking.

FIGURE 2: THE LINK BETWEEN HUMAN RESOURCE STRATEGY AND ORGANIZATIONAL STRATEGY

For example, two similar electronics manufacturers may have varying missions. One may want to "be a successful organization in the entertainment business," while the other may define its mission as "occupying a technological leadership position in the industry." The associated strategies are likely to show significant differences. Apart from manufacturing electronic goods used for home entertainment, the former firm may acquire video and film production firms and get into the music industry (e.g., producing CDs); while the second firm may be more committed to innovative electronic products through research and development. The associated human resource strategies will also show variation. For example, excellence in customer service may be a guiding principle in the former firm's employment strategies; hiring high-caliber technical personnel who can come out with innovative products may be a top priority of the second organization.

ANALYSIS OF ORGANIZATIONAL STRENGTHS AND CULTURE

Human resource strategies should be formed only after a careful look at the strengths, weaknesses, opportunities and threats (SWOT) of the organization concerned. Organizational goals that cannot be attained within the firm's human resource capabilities should be avoided unless the organization has adequate resources to remove such deficiencies. →

Consider the following example:

> *Calgary Electronics [not its real name], which employs twelve salespeople and seven service and repair personnel, was concerned about the growing competition in the electronics equipment market. Historically, the firm had sold and repaired all makes of electronic and electrical equipment (ranging from blenders to large-screen TV and complex security alarm systems). To meet the competition, the firm initially decided to implement an aggressive advertising and personal selling strategy. However, a detailed investigation into the company's past performance indicated that the strength of the firm lay in its prompt and cost effective repair service. A review of the employee skills and training also indicated that several of the salespeople did not have any formal sales training. Based on the results of the internal analysis, Calgary Electronics decided to focus on repairs and after-sales service in its advertising campaigns.*

Every organization is unique. Similarities between two organizations can be found among their parts, but each has a unique character. Organization character is the product of all the organization's features: employees, objectives, technology, size, age, unions, policies, successes, and failures and reflects its past and shapes the future [5]. Some organizations have a very strong culture which acts as a driving force behind most of its actions. Human resource strategies should recognize these and, in the short run, work within the constraints imposed by them. In the longer term, organizational culture not consistent with organizational mission and strategy has to be changed. Even here, the human resource department has to take a lead position.

ANALYSIS OF ORGANIZATIONAL STRATEGIES

Organization and human resource strategies are intricately intertwined. Although many believe that HR strategy must be formulated on the basis of organizational strategy, more recently, many managers increasingly recognize that organizational strategy should take into account the firm's HR strategy and constraints [6}. Each organization has a unique set of skills and capabilities. Organizational *core competencies* are skills or capabilities in value–creating activities-such as manufacturing, marketing or research and development–that allow an organization to achieve superior quality, product innovation, low cost or better customer responsiveness, thus outperforming its competitors. Core competencies permit an organization to enter new market segments faster than its rivals through strategies that capitalize on those strengths.

> *Gillette applied its marketing competence in selling razor blades to selling other products such as toiletries.*

HR strategies should recognize and respond to these core competencies. Any given organization tends to have a dominant HR strategy [7] or HR system architecture; however, it is not uncommon to find the same organization adopting somewhat different employment practices for different employee groups or for different regions [8]. In choosing its dominant HR strategy, an organization has four typical choices [9]: commitment, paternalistic, compliance and collaborative.

COMMITMENT STRATEGY A commitment strategy attempts to forge a commonality of interest between the organization (often symbolized by the management) and the employees. To develop that commonality of interest requires heavy emphasis on employee training and development, internal staffing and career development and compensation levels formulated on the basis of internal equity norms rather than market rates. →

COMPLIANCE A compliance strategy focuses on achieving labour efficiencies through control over labour costs, use of temporary or contingent workforce and maximum control over processes as a key competitive weapon. Jobs are designed to be simple to ensure a constant and stable supply of employees and reduce training costs. To ensure uninterrupted production and eliminate all uncertainties, employees are expected to behave in a prescribed manner. Close monitoring of their work by supervisors is common [10]. In many instances, the employer may also attempt to seek efficiencies by shifting production infrastructures to areas in which trade unions and government regulations pose fewer constraints on management.

PATERNALISTIC In a paternalistic human resource strategy, some minimal training and competency building through training, job rotation is done to achieve flexible staffing and task assignments and maintain workforce stability. Management typically provides some employment guarantees as well as a system of internal staffing, typically based on seniority. Adequate rewards are offered to maintain stability of workforce. The organization does achieve a limited degree of learning capability that is not available in a compliance strategy.

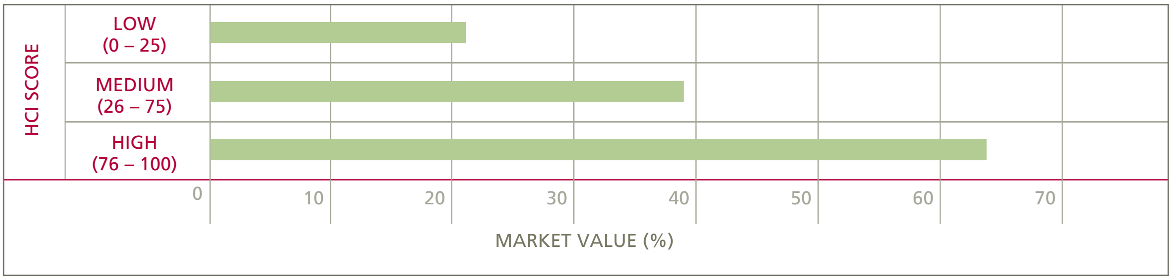
COLLABORATIVE An organization using a collaborative strategy relies on highly skilled contract labour to meet the specialized needs, hiring personnel on an "as-needed" basis or retaining them "on call" basis. These highly skilled and specialized "crafts" people [11] are most often evaluated solely on the basis of their performance outcomes. "Because they are employed to provide certain outputs or "deliverables" but engage in processes that are often well beyond the ability of the employer to comprehend, contingent pay (rather than in-house socialization or employee development) is often used to align their interests with those of their employer and to ensure that organizational objectives are met." [12] Often, this is a strategy of choice by "virtual organizations."

No single organization may neatly or fully fall into any single category above; however, this schema has been found to be relatively stable across industries, types of organizations and geographic regions.

In summary, HR strategies should be formulated after considering an organization's strategic posture, the nature of its environments and technology and its character. Human capital is now firmly acknowledged as a strategic source of value creation; however, developing human capital takes time and concerted efforts and, often, significant additional investments into HR systems. Such investments, however, provide high return to the employer as Watson-Wyatt's study found:

> *Watson-Wyatt (WW), a management consulting firm developed the Human Capital Index (HCI)* [13], *a measure which links investments in HC with shareholder values. HCI is a single measure that quantifies human resource practices closely linked to shareholder value and the HCI scores are expressed on a scale from 1 to 100, 1 being an example of the poorest HC management, while 100 is an ideal example. The results of a study involving over 400 publicly traded companies showed that improvement in 30 key HR practices was associated with a 30 per cent increase in market value of the firm (see Figure 4). The HCI is highly predictive of financial success as well. Watson-Wyatt split companies in the sample into high-, medium- and low-HCI groups, and found that there was a relationship between HCI and five-year total return to shareholders (TRS). The higher the company's HCI score, the higher the TRS.* →

FIGURE 4: RELATIONSHIP BETWEEN HR PRACTICES AND COMPANY MARKET VALUE



Source: Watson-Wyatt Website

As the Watson-Wyatt study shows, investments in improving human capital pays off in higher returns. This is because even the best-laid organizational strategies need sound human resource programs to succeed. Strategic HRM is important for organizations to differentiate themselves from their competitors and achieve a sustainable advantage. It is high time that Canadian organizations critically examine the linkage between their HR function and organizational strategy.

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Profile:

Dr. Hari Das is Professor of Management in the Sobey Business School, Halifax. He is the author of *Performance Management* (Pearson: 2003) and *Strategic Organization Design: For Canadian Firms in Global Economy* (Pearson; 1998) and a co-author of the best selling text, *Strategic Human Resource Management* (McGraw-Hill Ryerson, 2004).

hari.das@smu.ca

Where is the Co-operative Economy, and Why Does it Need Education Programs?

BY TOM WEBB

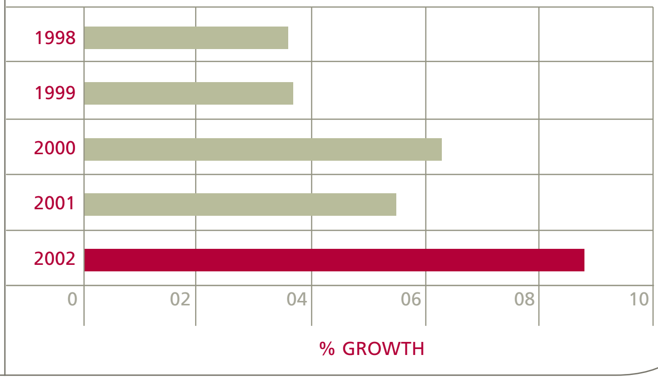
The Master of Management Co-operatives and Credit Unions (MMCCU) program at Saint Mary's has been set up to serve businesses in the co-operative economy. That begs the question, "What are the dimensions of that economy and how significant is it in today's global economy?" Many view the co-operative economy as having the same kind of visibility as an iceberg.

For many people, even in our own business school, co-operative business is not considered a very big player in the economy. Few Canadians would know, for example, that globally, "ranging from small-scale to multi-million dollar businesses across the globe, cooperatives are estimated to employ more than 100 million women and men have more than 800 million individual members [1].

Co-operatives in Canada are involved in a wide range of economic activities including: recreation; health care; childcare, natural gas, telephones, water and electricity; student supply; agriculture; consumer retail and wholesale, transportation; community development; and worker co-ops. Across Canada, according to Agriculture Canada's Co-operative Secretariat, there were 5,719 non-financial co-operatives at the end of 2003, over 5.1 million members, revenue of $26.1 billion, and $16.8 billion in assets and some 83,000 employees. Their report also lists 971 agricultural co-operatives with revenues of $14.5 billion owned by some 386,000 farmers and also 2,156 housing co-operatives with assets of $5.7 billion owned by 112,000 families providing themselves with homes.

In addition, a significant number of co-operatives provide a full range of financial services from insurance to personal and business finance, all owned by the people they serve. The financial co-operatives' assets exceed $140 billion with revenues of $25.7 billion. Just under 40,000 Canadians work in co-operative financial institutions, bringing the total number working for financial and non-financial co-operatives to 123,000. These co-operative businesses continue to grow as the record of the credit unions (excluding Caisse Populaires) below shows [2]. →

CANADIAN CREDIT UNION ASSET GROWTH 1998 – 2002



Atlantic Canada

Co-operatives play a strong role in the Atlantic Canadian economy, with thirteen of the largest 101 businesses in the region being co-operatives according to *Progress* magazine [3]. In that Top 101 group are five agricultural co-ops, four credit unions, two consumer co-ops, one fishery co-op, one co-operative wholesale and two mutual insurance companies owned by their policyholders. In regional terms, the list misses the role played by The Co-operators Group in the region, which counts among its owners most of the large co-operative businesses in the region.

Nova Scotia

Our Province is home to four of the Top 101 cooperatives. At the end of 2004, Nova Scotia had 37 credit unions, with branches in 84 locations and assets of $1.3 billion. These 37 credit unions are owned by 168,000 Nova Scotians, who elect their boards of directors. The local credit unions in turn own the Credit Union Central of Nova Scotia and its subsidiaries, including League Mortgage. Significantly, by working together, they have ensured that no Nova Scotian has ever lost a deposit in a credit union.

The Province also has its share of non-financial co-operatives involved in housing, investment, retail, services, agriculture, crafts, fishery, timber and worker-owned co-operatives. At the end of 2003, 256 co-ops, owned by more than 36,000 members, were providing about 2,500 person years of employment. With about $328 million in assets, they enjoyed sales of just over $657 million.

Innovation and Creativity

Few Canadians realize that Canada's first automated tellers were located in credit unions and variable mortgage payment options were a credit union innovation. Also, *MacLean's* Magazine's list of the top 100 places to work in Canada in 2004 included four co-operative businesses, among them VanCity Credit Union, judged Canada's best place to work. VanCity was also honoured by the American Psychological Association (APA) to innovative programs that help create healthy workplaces: it was the first award ever given by the APA for a Canadian business organization [4, 5]. The Globe & Mail Report on Business also included four co-operatives in its 2005 report of the top 50 places to work [6]. Nova Scotia's Credit Union Atlantic was one of the Ten Best places to work according to an anonymous survey of hundreds of Atlantic Canadian workers [7]. Globally, the United Nations has honoured the Co-operative Financial Services (UK) Partnership for producing the world's best social accountability report for the past two years running.

This being said, co-operatives in Canada and around the world are not immune to the challenges of making their way in a global economy dominated by investor-owned companies. From building societies in the UK to Canada's Saskatchewan Wheat Pool and Farmland industries, inadequate provision for capital needs has driven some co-op businesses to convert to investor ownership. Yet as shown in Figure 1 the failure rates of co-operatives in Quebec has been significantly lower than that of investor-owned firms. →

FIGURE 1: CO-OPERATIVE DURABILITY [8]

	% over 5 years	% over 10 years
Survival rate of cooperatives	64	46
Average survival rate in the private sector (all companies)	36	20

Source: StatsCan - Manufacturing sector – Institut de recherche sur les PME (UQTR)

Co-operatives also face the problems confronted by their investor-owned counter parts and must deal with a number of special 'co-op business' problems. Their largely consumer roots and bottom up ownership have left them mostly isolated from each other and lacking in the business synergy that diversification provides.

As cooperatives have grown, the lack of university-level education courses and programs have left their managers without access to the learning and skills needed to manage sophisticated businesses and they are often obliged to 'import managers from investor owned firms who have little understanding of co-operative business [9]. They also suffer from a dearth of business research and business textbooks that fail to acknowledge their existence. The result is that co-operative business innovations and analysis are difficult to access and share [10].

The Basque Country and Emilia Romagna Light the Way

Even if Canada's co-operatives, and those in most English-speaking countries, can be rated as significant economic players, they are far from the benchmark set by the co-operative business experiences in the Basque Country of Spain or the Emilia Romagna region of Italy. The Mondragon Co-operative Corporation is owned by a network of co-operatives that together are Spain's largest manufacturer of car parts, machine tools, and forged metal products and also Spain's largest retailer. Business failure is almost unheard of in the co-operative group. Worker-owned and co-operative businesses account for just under 30% of the gross regional product of the Basque Country, a percentage only surpassed by the co-operative contribution to the regional economy in the Emilia Romagna region of Northern Italy at 40%. A unique study that looked at the impact of co-operative business on communities in Northern Italy concluded that the higher the percentage of co-operative business in a community, the better the community scored on a series of indicators of social wellbeing [11].

As the above suggests, cooperatives:

- are a significant player in not just the Canadian but also the global economy;
- experience, as all forms of business do, severe challenges and risks in the rapidly emerging global economy;
- face unique challenges and opportunities related to their co-operative nature; and
- can perform as well or better than investor owned businesses. →

Saint Mary's Contribution

The MMCCU program is based on the premise that co-operative businesses have significant differences that make them distinct from investor-based firms. But how are co-operative businesses different?

In a paper presented at the Mondragon Research Conference in June 2005, the difference is described as follows:

> "The core reason is that the purpose of a co-operative business is different from its investor-owned counterparts. Regardless of their business specifics, investor-owned firms share a common, simple and core purpose - the highest possible return on capital for the investors that created them. Co-operatives, on the other hand, are created by groups of people or businesses to meet their needs and who have chosen, by adopting the co-operative form, to adopt a set of values and principles. Those values and principles create a linked set of differences including a commitment to make decisions in a democratic manner based on one member, one vote rather than one share, one vote. The co-operative principles also include limiting the return on capital. In a co-operative business the "surplus" remaining from revenue, after costs and capital formation are accounted for, is divided among members according to their use of the business they own."
> [12, pg 4]

The paper goes on to explain the impact of that difference:

> "The result is that managers of co-operative businesses face expectations to deliver on a series of "co-equal bottom lines". In recent years, these bottom lines have included having a light negative impact on the ecology, treating employees better than other businesses, contributing to the health of communities, providing healthy and safe products, adding to social cohesion, and creating more economic and social justice. In investor-owned businesses, managers are expected to ensure that operations do not generate bad public relations around such issues and operate in way that will not harm their "bottom line". In co-operatives these issues are bottom lines."
> [12, pg 5] →

The challenge for managers of co-operatives is to be able to work with their boards of directors to create a significant co-operative difference in the business. The result is a program in which each business issue and skill is explored with students with a view to examining its contribution to the difference that co-op members expect. For example, it is the combination of their integrated co-operative development and economic leadership in the general economy that underlie the decision by the Master of Management Co-operatives and Credit Unions program at Saint Mary's to bring students to visit Basque Country or Emilia Romagna as part of the program.

The Saint Mary's program offers managers in co-operative businesses a way to combine hard business issues and skills with co-operative values and principles to create significantly different successful co-operative businesses. Every module of every course, from accounting to marketing, from globalization to personnel, business strategy and organizational development is adapted from a co-operative perspective. The international Symposium on Co-operative Accounting held in early June of this year saw scholars and practitioners from New Zealand, Spain, the USA, the UK, and Canada agree that a unique co-operative approach was essential. The thinking about 'people management' also clearly needs to be recast conceptually. "In a co-operative, the objective is to use resources to serve people. Having people reduced to the status of raw materials does not fit the co-operative paradigm. In a co-operative business, the work is not maximizing the contribution of human capital to the bottom line, but rather fostering co-operative relationship management that enhances the dignity of people and their ability to contribute to community well being" [13, p. 21].

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Profile:

Tom Webb has enjoyed a varied career in government, business and education, including a stint as a Special Advisor to a Prime Minister, 25 years of involvement on the boards of co-operatives and as a senior co-operative manager, 12 years as a successful consultant to co-operative businesses and six years as Director of the St. F.X. Extension Department, where he was responsible for distance education and community outreach. He is currently engaged in the creation of the Master of Management – Co-operatives and Credit Unions Program in the Management Program in the Department of Management. The MMCCU is the only program of its kind in the world and has put St. Mary's on the map of co-operative business with more than 800 million members around the globe.

tom.webb@smu.ca

technology notes

Tech Choices of Small Businesses:

Examining the Role of Technology in Nova Scotia's Small Businesses.

BY TERRY WAGAR, WENDY R. CARROLL AND SHAUN CAHILL

The evolution of technology over the past 20 years has posed both an internal opportunity and an external threat to small and medium size enterprises (SMEs) as businesses connect across the globe to compete in new and different ways [1]. It has long been understood that small businesses have unique characteristics and features given the entrepreneurial beginnings from which they develop [2]. But while extensive research has focused on understanding the role of technology in large firms, much less focus has been placed on documenting technology use in SMEs. Recognizing these challenges and differences therefore, draws our attention to the need for a closer examination of small business technology adoption.

As a result, we surveyed small to medium size businesses in Nova Scotia. Our data were collected by visiting a number of firms, explaining the purpose of the study, and asking the businesses to complete a questionnaire. Three to five days later, we picked up the surveys. A total of 145 SMEs participated in the study of which 34% of the firms had 10 or fewer employees, 42% had 11 to 25 employees, and 24% had 25 to 100 employees.

So, according to survey results, what matters to Nova Scotian small businesses when it comes to technology adoption is simplicity, connectedness and functionality.

Size matters. The bigger the SME, the greater the use of technology.

One set of questions on the survey asked participants to indicate the extent to which their firm used 12 different types of technology using a six-point scale (1 = never used and 6 = used a lot). We calculated an overall average use score and then compared the results based on the size of the business[1]. The results are presented in Figure 1.

As expected, the larger the SME, the greater the reliance on technology. This may be explained in several ways. First, given the need for an organization to control and maintain its processes, products and services as the firm expands, communicating with a growing workforce becomes increasingly important [3]. As new employees join the organization, providing information about the way the firm does business is essential to sustaining a →

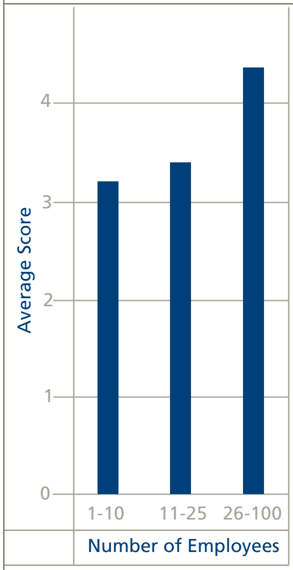
1 SMEs with 1 to 10, 11 to 25, and 26 to 100 employees

quality product and a solid customer relationship. Second, the ability to process larger volumes of business requests and information is central to ensuring proper billing and invoicing for services. In short, as small businesses expand and grow, they begin to focus on ways to improve such organizational outcomes as productivity and efficiency.

We also asked participants to report the extent to which their firm had invested in new technology over the past two years (again using a six-point scale, with 6 indicating a substantial investment). Consistent with our earlier analysis, we found that size was clearly associated with technology investment.

1 to 10 employees	score of 3.49
11 to 25	3.64
26 to 100	4.34

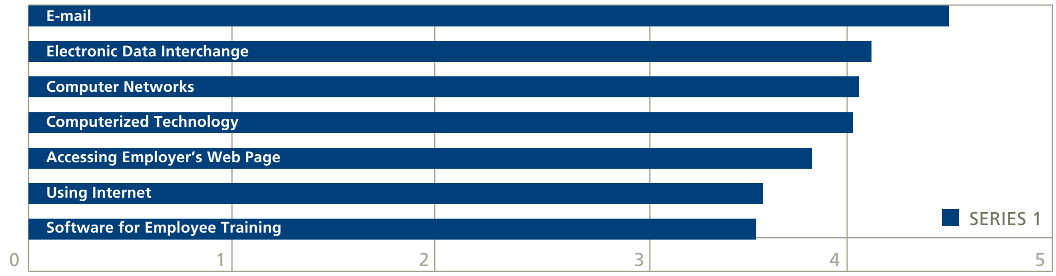
FIGURE 1: THE RELATIONSHIP BETWEEN EMPLOYER SIZE AND TECHNOLOGY USE



SMEs rely most heavily on simple technologies.

A shown in Figure 2, SMEs relied most heavily on technologies related to communicating both internally and externally. For example, it was no surprise to learn that small businesses use the electronic channels and capabilities that enhance their ability to connect with customers and employees both locally and remotely [4]. Technologies such as email and internet access topped the list of those most used, followed closely by those technologies that enhanced productivity, such as word processing and spreadsheet accounting. In other words, most important to small businesses is simple technology that has practical functionality and application for the business.

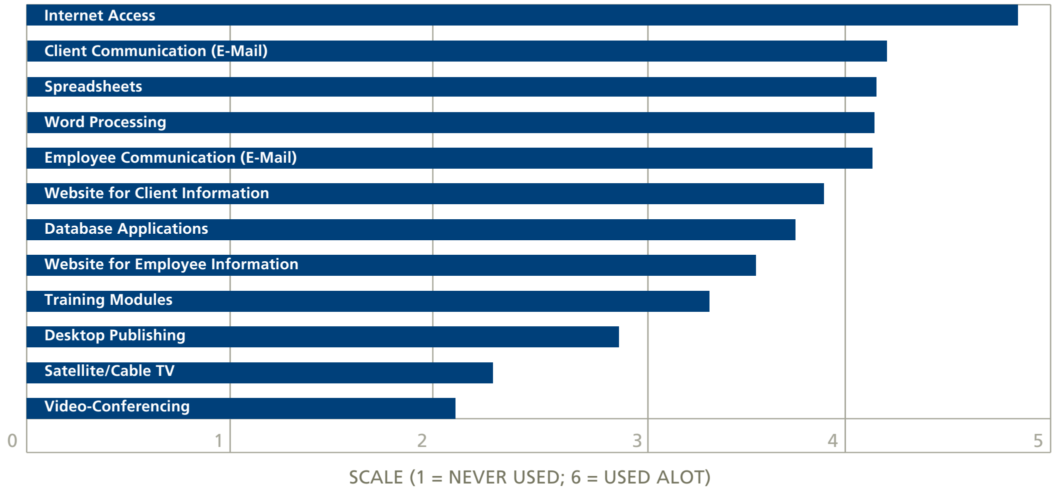
FIGURE 2: SMEs TECHNOLOGY USE



Communications and infrastructure are most important.

Another part of the survey asked participants to consider the importance of different technology applications (1 = very low importance and 6 = very high importance). As shown in Figure 3, email tops the list of the technologies most important to SMEs. In other words, keeping connected and having all critical systems up and running are essential. Like all businesses, small businesses can't afford to be out of communication with either their existing and potential customers, or employees. →

FIGURE 3: SME RATINGS OF TECHNOLOGY IMPORTANCE



Is the use of technology related with other characteristics?

> In other words, keeping connected and having all critical systems up and running are essential. Like all businesses, small businesses can't afford to be out of communication with either their existing and potential customers, or employees.

We compared firms with high and low scores on the technology use and technology importance scales and found that those with higher scores were more likely to:

- Report greater use of participative decision-making by employees.
- Emphasize certain aspects of human resource management, including investment in employee training and attention to the selection of new employees.
- Restructure the organization.
- See technology use as a source of competitive advantage.

What's next for SMEs?

Given the nature of small businesses and the challenges they face, it is not unusual, and, in fact, is essential that they focus on the basics. Accordingly, as some of these businesses confront the next level of growth, they may form strategic alliances with other small businesses to generate the necessary investments to compete in the future [5]. Capital investments of technologies for billing, procurement, customer care and service delivery systems can be costly and difficult to implement. Therefore, networks and strategic alliances with other small businesses offer a way to grow the business without overextending the firm's financial resources.

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profiles:

Terry Wagar is a Professor of Industrial Relations and Human Resource Management at Saint Mary's University. He is also co-author of Canadian Human Resource Management: A Strategic Approach, a top-selling human resource management textbook.

terry.wagar@smu.ca

Wendy Carroll teaches management at the F. C. Manning School of Business at Acadia University. Wendy is in the process of completing her PhD at Saint Mary's University. Her research interests are in the area of global workforces, technology and strategic human resource management.

wendy.carroll@acadiau.ca

Shawn Cahill has more than 20 years of sales, marketing, management and leadership experience with top-tier companies. Shawn currently manages the direct sales operations in Canada for a leading global technology company. Shawn is in the final stages of completing his MBA at St. Mary's University, Halifax, Nova Scotia.

Building Brands One Customer at a Time

BY RAMESH VENKAT

> "A brand for a company is like a reputation for a person. You earn reputation by trying to do hard things well."
>
> JEFF BEZOS, FOUNDER/CEO, AMAZON.COM

Leading brands are worth a lot to the companies that own them. Coca-Cola's brand was ranked the most valuable global brand in 2004 at $65 billion. In Canada, Royal Bank ($4.4 billion), Bell Canada ($3.0 billion) and Loblaws ($2.9 billion) are ranked among the most valued brands. Brands are assets. Firms make significant investments to build brands, and historically, advertising has been pivotal in the brand building process.

In 2004, the top 100 advertisers in the U.S. spent nearly $100 billion, and Canadian advertisers spent $12 billion. General Motors alone spent over $3 billion in 2004 on brand advertising and promotion. Yet at the same time, average customer satisfaction with GM brands declined, according to the American Customer Satisfaction Index (ACSI).[1] Among the seven GM brands studied, satisfaction scores declined for four brands, with only one brand showing improvement compared to 2003 results. Today, consumer interest in GM brands continues to be sluggish, leading to second quarter losses of over $1 billion in 2005.

Advertising can bring customers in once, but a superior value proposition and an outstanding customer experience are needed to retain them. For example, customer dissatisfaction was at the root of the collapse of many Internet firms. Average ACSI satisfaction scores for online firms in 2000 and 2001, when many online firms collapsed, were 74 and 73.3, respectively. The firms that survived seemed to have figured out the importance of customer satisfaction, however, in 2002 and 2003, because average satisfaction scores improved to 77.5 and 78.8, respectively. Best brands such as Southwest Airlines, Ritz Carleton, Starbucks, and Lexus consistently deliver customer value and experience. Southwest Airlines, for instance, focuses on low fares and great service, a value proposition that is easy to understand. Southwest (ACSI rating of 74) consistently outperforms its rivals Continental (70), Delta Airlines (65), American Airlines (64), and United Airlines (61) on satisfaction ratings.

1 ACSI conducts national surveys each year to develop satisfaction indices at the brand, firm, industry and national levels. Over 200 firms are studied. Maximum score in 100. See www.theacsi.org for details.

Unfortunately, firms like Southwest are not the norm. According to McKinsey & Company, between 30 and 79% of consumers, depending on the product or service category, are always seeking new alternatives to the current product or service they use [1]. Gallup's "customer engagement" scale, which measures the emotional bond between customers and brands, shows weak emotional bonding. Emotionally engaged customers ranged from 19% (airlines) to 37% (consumer banking). In most categories, however, over two-thirds of consumers do not have an emotional attachment to the brand they buy [2]. In fact, loyalty to brands, in general, is weak.

In a survey of 500 CEOs conducted by the Conference Board in 2004, customer loyalty and retention was ranked as the third most important business challenge globally and the second most important challenge in the United States [3]. Investing heavily in customer acquisition when a brand performance is weak is therefore akin to pouring water into a leaky bucket - customers will continue to drop off, leading to further customer acquisition costs. Brands that fail to deliver consistent value and experience, keys to customer satisfaction and loyalty, will struggle, no matter the advertising budget and spend.

A holistic and customer-centric approach to brand building is required in which building brands and building customer relationships are integral ingredients. This paper presents such a framework. But first, let us examine the flaws in CRM programs and brand management.and brand management.

Saving Customers from CRM

Reichheld (1996) demonstrated that a 5% increase in customer loyalty can lead to a 25 to 95% increase in customer profitability [3]. Therefore, prompted by a desire to retain customers, firms have turned to Customer Relationship Management (CRM) programs. Worldwide, IT investments in CRM software are expected to exceed $14 billion in 2005. This spending seems to be largely misdirected, however, and if brand advertising is increasingly producing diminishing →

returns, CRM investments will be even worse. Gartner Group estimates that 50% of all CRM initiatives are considered failures from a customer's point of view, while Meta Group places CRM failure rates at 70%.

Many firms embracing technology as the answer to their customer churn problems are learning some tough lessons. Most CRM software applications are sales oriented, focusing on managing leads, customizing email sales messages, and selling because central focus is on getting the maximum share of wallet from customers and not on creating value for customers. Issues of customer dissatisfaction and defection are seldom answered by implementing such systems. Further, these IT-driven solutions place little emphasis on branding. Building customer relationships and brands is less about technology and more about consistent delivery of a superior and clearly articulated brand promise.

This problem is further complicated by functional silos within companies. Marketing is seen as "owning" the customer, and CRM applications are seen as the domain of IT or sales departments. Marketing can bring them in and sales can close the deal, but product design, operations, accounts payable, shipping and everyone else who touches the customer at some point can shape the customer's view of the brand. Such an organization-wide approach is critical to building brands and retaining customers.

What Ails Brand Management?

If CRM has been a spectacular failure in most cases, conventional brand management has gradually lost its impact due to a variety of reasons.

ROLE OF ADVERTISING Traditionally, brand managers have considered brand salience or top-of-mind awareness as critical to building brands. In an increasingly fragmented media market, with hundreds of digital cable channels, satellite radio channels and countless magazines, focus on brand salience has led to bulging advertising budgets and declining ROI. Growing diversity in consumer preferences has made the one-size-fits-all messages delivered through impersonal mass media less effective. Further, easy access to independent product and service ratings such as ConsumerGuide.com and the ability to tap into other consumers' experiences online through websites such as Epinions.com means that consumers are less influenced by advertising. Also, brands that fail are exposed online.

At the same time, brands like Starbucks (created a unique experience), Häagen-Dazs (opened post ice-cream parlours to establish the premium image), Body Shop (linked itself to social causes) and Southwest Airlines (created a new category by combining low fares with great service) have demonstrated how to build brands with very little mass media advertising [5]. They each offer a unique value proposition and focus on the customer experience.

CUSTOMER-CENTRICITY The responsibility for brand performance does not belong to the marketing department but to the entire organization. In many firms, the different parts of the organization are not aligned to serve the customer, which results in a gap between brand promise and brand performance.

In 2003, when Telus ads were claiming "the future is friendly" and exhorting customers to "join the movement", the company eliminated 7,000 jobs as a cost cutting measure. As a result service levels dropped significantly, with customers having to wait up to 30 minutes before their calls were answered. Thousands of angry customers complained to the Canadian Radio-television and Telecommunications Commission (CRTC). In 2004, Telus was back in the news for having double-billed customers since 2002 due to computer glitches. The incongruity between the brand promise and brand performance was striking.

DIMINISHING DIFFERENTIATION In many categories firms match each other's offerings and promises quickly. Harris Interactive's EquiTrend, an annual brand equity rating with over 1,000 brands based on a national survey, shows that in most categories, the top tier brands have minor quality differences (see Table 1).[2] →

TABLE 1: QUALITY RATINGS OF TOP 3 BRANDS IN FOUR CATEGORIES

BRAND RANK	RETAIL	ONLINE	FINANCIAL	TELCO
3rd Rank	7.07	7.2	6.87	6.67
2nd Rank	7.08	7.2	6.97	6.75
1st Rank	7.24	7.43	7	6.83
Average	7.13	7.28	6.95	6.75
Std. Deviation	0.09	0.13	0.06	0.08

Source: Spring 2004 EquiTrend Brand Study, www.HarrisInteractive.com.

Quality differences are not discernable to the average consumer and competing brands often make similar claims in their ads.

UNDERSTANDING CONSUMER BEHAVIOUR

Consumer behaviour is more complex today than ever before. Simple segmentation of markets along income lines is no longer appropriate. The less affluent often splurge while the affluent often pinch pennies [6]. Consumers traverse marketing channels by using one channel such as the Web for information searching another such as the store for purchasing, and yet another such as the call centre for service, making it hard to predict behaviour. Growing choices in every category have made consumers more fickle, so being closely engaged with the customer is no longer optional, and understanding what drives customer value is crucial.

Branded Customer Experience Management

As brand building faces its challenges and CRM programs offer the wrong answer to the right question, some fresh thinking is required. Given little difference among brands in terms of quality and features, customer experience is poised to become the next battleground for competitive advantage leading to a framework called Branded Customer Experience Management (BCEM).

As the economy becomes increasingly service oriented and as markets mature, consumers are now placing more emphasis on the consumption experience rather than the ownership of product alone [7]. Customer experience is something that the customer observes first hand or lives through. It is an emotional response by the customer to the interactions between the firm's brand and the customer. Experiences actually create value for customers. At the end of the day, it is the customer experience that defines a brand.

Customer experience management (CEM) is about creating a consistent approach to how a customer is treated across a variety of situations and contacts with the firm. It is about understanding not just the functional, but more importantly the emotional, expectations of the customer. Not all consumers may want an "experience", and not all industries offer rich possibilities for delivering experiences. In most situations, however, mundane tasks can be transformed into positive experiences. A Tim Horton's employee at a location I frequent knows my coffee preference and has it ready when she sees me. The experience provided by this employee, more than the mediocre coffee, is the reason I go back. Home Depot offers how-to clinics for several do-it-yourself projects by simplifying a challenging home improvement project and enhances customer experience. These customer interactions are not about selling just products but rather solutions to customer problems. →

2 EquiTrend brand ratings are based on consumer ratings of brand familiarity, quality, purchase intent, brand expectations and distinctiveness. Only the quality ratings are presented in Table 1 (on a 10-point scale). For details see www.harrisinteractive.com .

Customer experience may mean different things for different firms. Coca-Cola's Red Lounges, which are experiential spaces for teens, are filled with digital entertainment and gaming, where the company's products are served. Coke's strategy is to link its brands with fun. For companies like Sony or Research in Motion, it is about functionality, ease of use and integrating technology into the daily lives of their customers. For Web-based firms, ease of navigation, online security, and the ability to find and buy products easily are critical determinants of customer experience. For services like banks, orchestrating and delivering a consistent customer experience across multiple channels and touchpoints will be the key to building brands.

Throughout the customer cycle (i.e., pre-purchase, purchase and post-purchase stages), the customer comes in contact with a variety of touchpoints. Some involve interaction with technology such as the use of a company Web site to find brand information while others involve human contact, such as a discussion with a salesperson or a service agent. The customer has an experience during each interaction, and offers an opportunity to create a positive customer experience and a favourable brand image.

Firms often fail to exploit these opportunities. How many times have you called a toll-free number for service and had to go through an endless maze of menu options or hang up after an unacceptably long wait? How often have you come across a grumpy flight attendant in an airplane? How often have you come across an employee who didn't know the company's policies? How often have you been oversold and under-serviced? The answer for most of us is "too often". A customer has an experience with the brand he/she purchases, regardless of whether the firm manages that experience or not. Therefore, proactive customer experience management will ensure stronger customer relationships.

THE CUSTOMER EXPERIENCE MINDSET Merely satisfying or marginally exceeding customer expectations does not guarantee loyalty. Satisfied customers often defect. In competitive industries such defection is even more profound [8]. Satisfaction measures tend to focus mostly on whether the firm meets the functional expectations of the customer but fails to capture the emotional reaction to the consumption experience. As Gallup's research shows, an experience can be satisfying without leading to an emotional engagement [2].

Firms need to develop a customer experience mindset, which is a different way of thinking about the firm's interactions and relationship with customers (see Table 2). →

TABLE 2: CUSTOMER EXPERIENCE MINDSET

THE OLD MINDSET	CUSTOMER EXPERIENCE MINDSET
Satisfaction	Customer Delight
No shared view of customer	Single view of customer
Follow the rules strictly	Treat each customer/situation as needed
Efficiency	Innovation
Service	Experience
Politeness	Empathy
Customer as an account	Customer as a person
Automate customer interaction	Automate, but offer human touch as well
Focus on rational customer response	Focus on rational and emotional response

For some organizations this means a cultural change, which is not easy to achieve because commitment to customer experience from top management is necessary. Therefore, if it is a broader CRM program or a focused customer experience improvement initiative, it does not make sense for a company to embark on a project without clearly defined business goals. Desired outcomes of customer experience management should be specified upfront.

SETTING GOALS FOR TOUCHPOINTS There may be an overall goal or set of goals for the branded customer experience management program. There may also be specific goals for touchpoints at different stages of the customer cycle. In the pre-purchase stage, creating brand awareness and interest are important so messages from different touchpoints at this stage should be consistent. What is said in an advertisement must be consistent with what is on the web site or what one hears from a sales representative. In the purchase stage, the challenge is to convert a potential customer into a real paying customer. Providing the consumer with a clear understanding of the value proposition and gaining the consumer's trust are two possible goals at this stage. In the post-purchase stage, delivering value to the customer and turning customer delight into advocacy (where customer voluntarily promotes the brand to others) are relevant goals. At each stage of the customer cycle, there are opportunities to manage the customer experience in a manner that is consistent with the brand (see Figure 1).

> "At each stage of the customer cycle there are good opportunities to manage the customer experience in a manner that is consistent with the brand."

WHAT SHOULD THE EXPERIENCE BE? A good place to start is the definition of the experience the firm wants the customer to have at specific moments and throughout the relationship with the firm. Use terms that are vivid and convey emotions. Ritz Carlton, Hewlett-Packard (HP) and Disney are among firms with clearly defined customer experience standards. HP's customer experience standards include learning and remembering customer needs and preferences, and respecting customer privacy through responsible stewardship of customer information. Such standards guide employee actions.

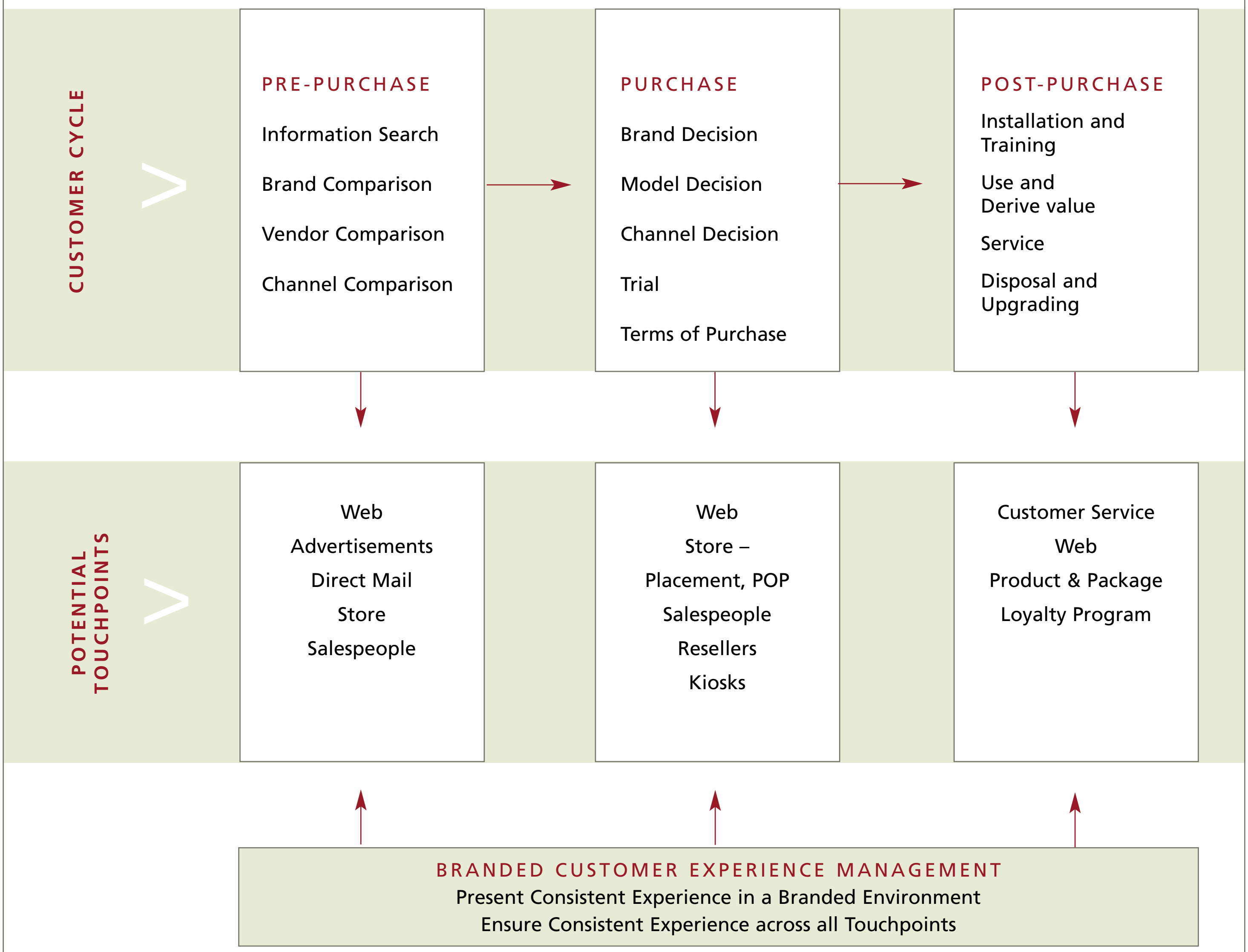
MAPPING TOUCHPOINTS For each business and industry, drivers of customer experience may be different. In each case, touchpoints critical to the customer experience can be identified. Not all touch points may be hotspots. Customers may not care about certain interactions with the firm, while others may make or break the relationship. Regardless, firms need to identify these hotspots and invest human and technical resources in such areas.

HARMONIZING, IMPLEMENTING AND MANAGING TOUCHPOINTS A knowledgeable and friendly sales-person may get the sale. If this salesperson is later followed by a service technician who arrives late, is not communicative and does not fix the problem, however, what does this say about the brand? Customers should know what to expect from the firm in any given situation. Pleasant surprises are good; unpleasant surprises diminish the experience. →

Given the goals of customer experience and specific touchpoint goals, systems, processes, employee training and rewards must be addressed. Depending on the state of customer experience in a firm, it may be necessary to make investments in these areas to improve customer experience.

Managing touchpoints requires attention to three major areas. First, what is the experience at each critical touchpoint, and is it consistent with brand identity and promise? If a brand is positioned as innovative or user-friendly, then the various touchpoints should convey such an image. Second, what feelings and emotions are evoked at each touchpoint? Are they positive and favourable to the brand? Are they the feelings that the company wants to evoke? Third, when a touch point fails, what service recovery plans are in place? How can service failures be avoided in future? →

FIGURE 1: MANAGING CUSTOMER'S BRAND EXPERIENCE ACROSS TOUCHPOINTS



TECHNOLOGY VERSUS HUMAN TOUCH

Technology can certainly play a role in managing customer experience across multiple channels. Banks use technology to allow access to the same services offered across different channels such as branch, online and ATM banking. Retailers like Loblaws have installed self-service checkouts to add convenience and reduce wait times for customers, while saving money for the company. This technology has the potential to reduce the tedium of waiting, although I have seen consumers struggle at these self-service checkouts.

When technology works well, it can certainly enhance customer experience. National Semiconductor has a feature called Webench on its web site, which allows engineers to design and analyze systems for different applications such as power, audio, and wireless systems. Prototypes can be designed and their performance tested. All of this is free. The system can then be used to generate an order for parts. This capability moves National from a vendor to a partner, actively supporting its customers and solving their problems. The site is a big hit with product and design engineers, leading to a conversion of 7%, against the industry average of 2%. National has taken the experience of ordering parts online to a new level.

Technology is rarely the complete answer to customer experience however, and importance of human touch cannot be underestimated. Lewis Carbone and Stephan Haeckel, who pioneered the concept of "experience engineering", view customer experience in terms of both functional and emotional benefits [9]. Competitors can more easily achieve parity on functional benefits, which are often based on technology. Experiences created through human touch, which lead to an emotional bond between the customer and the firm, are harder to duplicate.

Interestingly, many online firms which completely embraced automated web-based customer service with the hope of cost savings are now adding a human touch by offering "live person" support. On many sites, by clicking on a web link or icon, customers can chat with a salesperson or service agent via the web.

MEASURING AND TRACKING CUSTOMER EXPERIENCE

Once the firm establishes customer experience goals and has a program in place to deliver the experience, ongoing monitoring is necessary to ensure that customer experience is consistent with the brand values. Customer feedback can be solicited from customer interactions such as brief conversations, short surveys, and focus groups. Mystery shoppers and observational research can also be employed to get a sense of what the customers actually go through. Periodic fine-tuning, employee training or even further experience innovations also may be needed from time to time.

Linking Business, Brand and Customer Strategy

Firms can begin to integrate brand management and customer relationship management efforts if they focus on customer experience. Five areas need attention – brand strategy, customer strategy, processes, human resources and technology.

Both brand strategy and customer strategy should be developed based on the overall business strategy. *Brand strategy* includes brand identity (public image that the strategists in the firm hope to create) and brand positioning (part of the brand value and brand identity communicated to the target audience, which explains the competitive advantages of the brand). Brand strategy should be based on a deep understanding of customers (their needs, motivations and behaviour), competition, and the market [10]. *Customer strategy* deals with customer/target market selection and value proposition for each target market.

Business processes should not only be efficient, but also ensure superior customer experience. Building sustainable brand-customer relationships requires breaking down functional silos and creating an organization-wide customer focus. Even if a firm invests in CRM or brand programs, processes that make it difficult for the customer to do business with the firm will lead to dissatisfaction. →

A focus on *people* – training, empowering and rewarding employees appropriately can make all the difference to a firm's successful CRM implementation. Positive employee engagement and experience will lead to better customer experience. Ritz-Carleton, a benchmark organization in customer service excellence, authorizes all its employees to spend up to $2,000 to solve customer problems or address customer complaints without getting a supervisor involved. Its legendary service recovery training program and employee empowerment has ensured that no employee has had to spend that much so far. Harrah's has remained profitable in the troubled casino industry by rewarding its employees based on customer satisfaction and not on revenues or profits.

Lastly, *Technology* should be selected to complement strategy and facilitate customer experience and relationship building. In general, technology selection should happen after brand strategy, customer strategy, processes, and people are addressed.

Integrating CRM, Customer Experience and Brand Management

BRAND MANAGEMENT SYSTEM In addition to articulating the brand identity and brand position, a shared view of the brand within the organization should be created. The brand should be revitalized when needed and its relevance to the target market maintained at all times. Marketing, sales, operations, service and all functions that provide value to the customer should be consistent with the brand strategy (Figure 2).

CRM SYSTEM A CRM program can provide insights into customer behaviour and identify profitable market segments. In such a system, marketing communication, pricing and products can all be tailored for each segment or customer. CRM can ensure consistency in customer experience across channels and facilitate cross-functional integration and knowledge management leading to synergy between marketing, sales and service.[3]

Attracting, developing and retaining customers are three areas that fall within the domain of the CRM system. These three areas can be aligned with the stages in the customer cycle (pre-purchase, purchase and post-purchase). The typical CRM software programs are designed to facilitate efficient execution of marketing, sales and service functions, which correspond to the stages in the customer cycle. A key goal of CRM system should be the consistent presentation of the brand and customer experience as the customer moves through the customer cycle. CRM can provide a unified view of the customer to employees and a consistent view of the brand to customers.

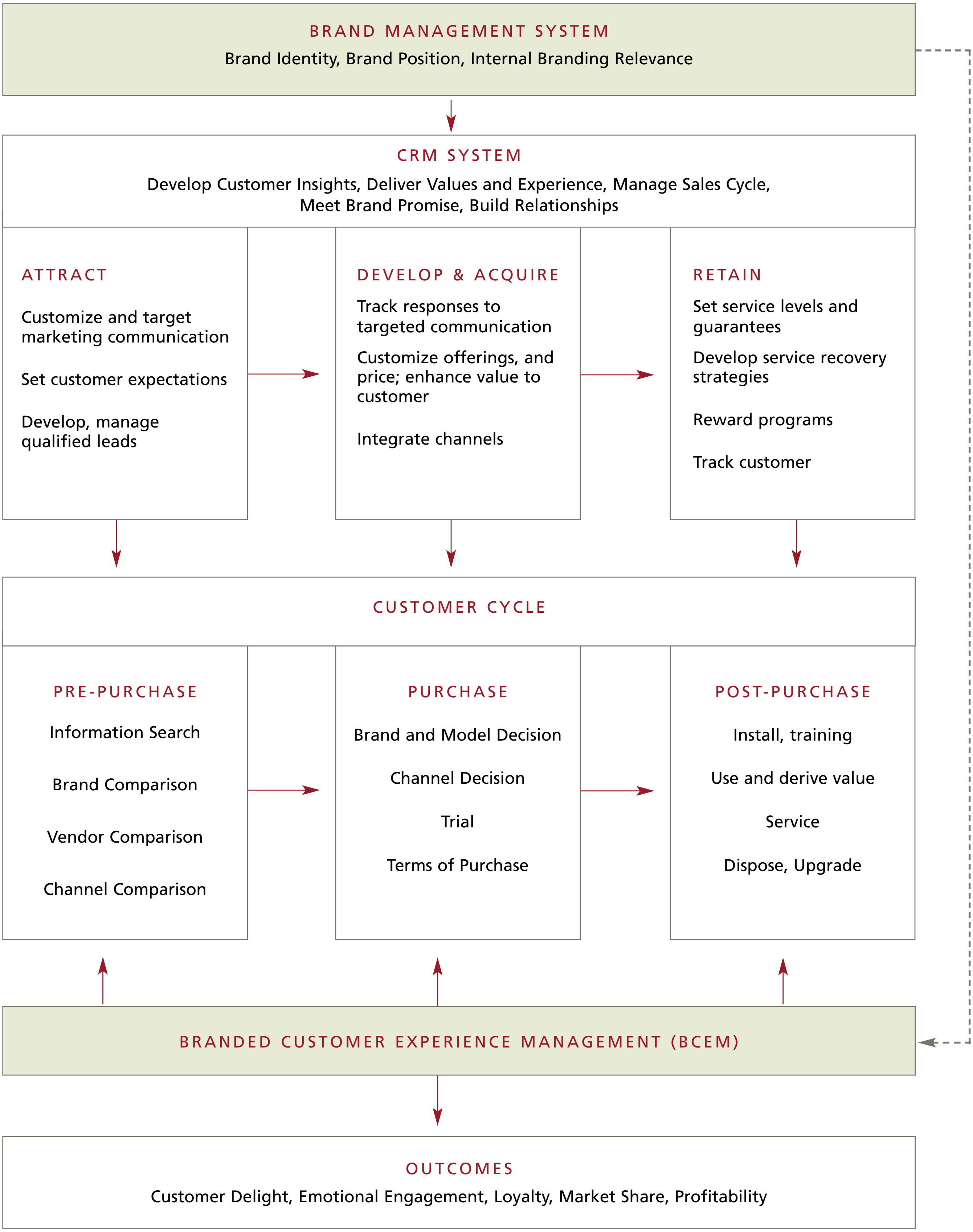
What next?

Product or service innovation is still important but is often copied or improved on by competitors. Experience innovations, which require alignment of business processes, human resources and the organizational culture, are harder to emulate. Competitive advantage in the future will come from innovating experiences that add value and emotionally engage customers. CEM is central to both building brands and customer relationships.

An organizational structure that brings together CRM and brand management is a logical next step for most firms. Vodafone, a leader in mobile communications, recently appointed a director of brand and CRM in its Portugal office. Vodafone's press release states, "The new Directorate is responsible for the whole of the Brand Management area, covering both Marketing and CRM strategy. It has been created to provide →

3 The term CRM in this paper refers to a way of doing business as opposed to a software program. Analytical CRM involves data mining and can be used to identify profitable market segments, calculate customer profitability, predict churn propensity and develop customer-focused strategies. Operational CRM deals with enhancing customer value and experience through greater efficiencies in marketing, communication, sales and service functions by providing a unified view of the customer to entire organization.

FIGURE 2: INTEGRATING BRAND MANAGEMENT AND CRM



overall management of the Vodafone Brand, and to ensure its consistent application in line with the company's vision, values and positioning in all its interfaces with customers"[11]. Such organizational change is not easy, but Vodafone is among the trend setters.

Unfortunately, too many companies are still behind the curve. As these firms try to grapple with their CRM failures and diminishing returns on their advertising dollars, they will hopefully follow benchmark firms like Southwest Airlines, Ritz Carlton, Vodafone, ING Direct and Starbucks. Managing customers and brands in unison makes sense for all firms regardless of their size or industry. Brand value and equity increases when customers value the brand.

TABLE 3: SIX STEPS TO SUCCESSFUL BRAND-CUSTOMER RELATIONSHIP

step1	*Develop deep customer insight.* Analyze customer attitudes and behavioural data. Use surveys and focus groups to understand the market, customer needs and trends. Develop insights into customer needs, rational and emotional benefits they seek, as well as market trends and gaps in offerings.
step2	*Develop brand value proposition, identity and positioning.* Create a compelling value proposition for each target market that will differentiate the brand.
step3	*Internal branding.* Communicate the brand identity, brand promise and brand position internally to employees. Ensure brand values are consistent with organizational values. Ensure employees are trained, motivated and empowered to "live the brand."
step4	*Customer Experience Management.* Manage the customer experience across all touchpoints throughout the customer cycle. Experience should be engineered and managed to address both functional and emotional benefits that customers may seek.
step5	*CRM.* Deploy technology after strategy, process and people are in place. Ensure that the brand is presented consistently as the customer moves through the customer cycle. Relationship building takes consistent delivery, superior value and experience.
step6	*Metrics that Matter.* Use a dashboard of relevant metrics to track performance, fine-tune strategies and address shortcomings. Brand equity [10], retention and churn rates, customer profitability and lifetime value, cost of acquisition, ROI for marketing activities, complaints and service recovery rates as well as periodic customer experience audits are relevant. Analyze metrics to develop greater customer insights (Step 1).

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Profile:

Ramesh Venkat is an Associate Professor of Marketing at the Sobey School of Business, Saint Mary's University. Previously, he was the MBA Program Director (1998-2004) and Associate Dean (2004-05). Ramesh Venkat has an MBA in Marketing from Simon Fraser University and a Ph.D. in Marketing from The University of British Columbia.

Ramesh has published extensively on social influences on consumers and consumer satisfaction. He is an authority on Internet marketing and e-commerce. Ramesh is the author of the first and leading Canadian textbook entitled, "E-Marketing: A Strategic Approach" published by McGraw-Hill (2001). He has also contributed chapters and essays on Internet Marketing to two other books. He conducted the first benchmark study on the use and impact of e-commerce in Canadian firms with funding from the Purchasing Management Association of Canada. His research on adoption and impact of e-commerce and e-marketing in SMEs was funded by Industry Canada. His current research program focuses on customer satisfaction modeling, customer experience, customer relationship management (CRM) and online branding strategies. Ramesh offers consulting to SMEs on e-marketing, customer satisfaction and branding strategies. Ramesh currently teaches brand management and CRM at the MBA level.

rvenkat@smu.ca

insights

DISCUSSION WITH THE ACTING DEAN OF THE SOBEY SCHOOL OF BUSINESS, DAVID WICKS

Strategic planning and managing has been prominent in business school curricula and the popular press for the past 40 years. This school of thought is represented by the knowledge and understanding of academics and practitioners alike, which consists of guiding directions for what businesses should do to plot a course for the future.

The competitive reality over time has changed from one of relative stability and predictability to one of rapid change and growth. Does this mean that the discipline and practice of strategic management are at the end of their useful lives? In other words, is strategic planning dead?

The articles in this issue of The Workplace Review speak to the importance of strategy in today's organizations. Far from being dead, I believe strategy is more important today than it ever has been. More traditional models of strategic planning were developed in times and conditions that simply no longer exist. The fact that businesses today must operate in far more unstable and dynamic environments than those of the 1960s and 1970s, when strategic management emerged as a discipline, means that strategic planning is more important than ever.

What makes today's strategic planning different from that of the past is that it is more dynamic, participative, and focused. Gone are the days where a firm can achieve success gradually, growing to market dominance by erecting barriers to entry to vigorously defend its position. Dynamic strategies that embody frequent, bold and aggressive moves create a competitive landscape where change is constant. This is easier to accomplish when strategic processes are more participative. Introducing new people and ideas into the strategic decision making process not only enhances creativity and innovation but also secures the commitment of a broader cross-section of the organization. With these fundamentals in hand, businesses can focus their organizational efforts to achieve higher returns. One of the negative consequences of trade liberalization and globalization is the temptation for businesses to broaden the scope of their operations. Companies like Wal-Mart and General Motors are good examples of exactly this. As their experience shows, however, competitive advantages are more difficult to build and maintain in very large markets, especially across national borders. Therefore, keeping it focused on their markets or products may well be the best way for businesses to successfully execute strategies.