The current issue and full text archive of this journal is available at
http://www.emeraldinsight.com/1469-1930.htm



# Voluntary turnover: knowledge management – friend or foe?

Meaghan Stovel and Nick Bontis
*DeGroote School of Business, McMaster University, Hamilton, Ontario, Canada*

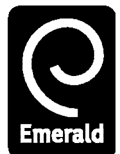
***Keywords*** *Knowledge management, Staff turnover, Financial services, Training, Employee development, Workforce*

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

## Introduction

> The crucial issue in analyzing turnover ... is not how many employees leave but rather the performance and replaceability of those who leave versus those who stay (Wayne F. Cascio).

Powered by revolutionary technologies and dramatically changing markets, intense global competition is creating a turbulent environment in which Canadian financial service firms must operate and prosper. This competition is twofold; new global industry competitors, coupled with experienced domestic industry challengers, are developing new products, while simultaneously trying to attract and retain the strongest personnel. This competition heightens in the fast-paced global marketplace, as the products and strategies of competing firms are uncontrollable external forces, leaving the internal management of strategic assets as the only medium to create sustained competitive advantage. Amit and Shoemaker (1993) define strategic assets as the set of capabilities and resources that are scarce, appropriable, specialized,



The authors would like to acknowledge the financial support of a grant sponsored by York University's Schulich School of Business National Research Program in Financial Services and Public Policy.

Journal of Intellectual Capital,
Vol. 3 No. 3, 2002, pp. 303-322.
© MCB UP Limited, 1469-1930
DOI 10.1108/14691930210435633

and difficult to trade and imitate. Management of internal human capital may therefore be the sole strategic advantage for a financial service company, as in this industry it is these assets that bestow the firm's competitive advantage. Human capital is therefore a key strategic advantage in the Canadian financial service industry, stressing the importance of effective and efficient management of these precious assets.

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

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

Research estimates indicate that hiring and training a replacement worker for a lost employee costs approximately 50 percent of the worker's annual salary (Johnson *et al.*, 2000) – but the costs do not stop there. Each time an employee leaves the firm, we presume that productivity drops due to the learning curve involved in understanding the job and the organization. Furthermore, the loss of intellectual capital adds to this cost, since not only do firms lose the human capital and relational capital of the departing employee, but also competitors are potentially gaining these assets. Therefore, HR professionals must not address these situations lightly. Training and development practices, combined with other HR activity such as performance reviews, enable senior management to better understand the needs of their employees. Even if such programs are implemented, employees may still choose to leave the firm for other external reasons. This is why senior management must prevent further loss by codifying intellectual assets in a strategically designed knowledge management system.

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

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

## Literature review

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

### *Turnover*

Turnover is the rotation of workers around the labour market; between firms, jobs and occupations; and between the states of employment and unemployment (Abassi and Hollman, 2000). This workforce activity segments into two categories, voluntary and involuntary. Involuntary turnover refers to the dismissal of employees, whereas voluntary turnover occurs when employees resign. While many studies have clustered these two distinct classifications, this study is aiming to examine voluntary turnover specifically. Since management cannot control voluntary turnover, these are fertile grounds for research and, by examining the implications of this phenomenon, such research asserts the need to establish preventive measures for minimizing collateral damage.

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

While functional turnover (i.e. bad performers leave, good performers stay) can help reduce sub-optimal organizational performance (Johnson *et al.*, 2000), excessive turnover can be detrimental to the firm's productivity. This can result in the loss of business and relationships, and can even jeopardize the realization of the firm's objectives. To compound the negative side-effects of turnover, not all of the departing employees are considered sub-optimal performers. Dysfunctional turnover (i.e. good performers leave, bad performers stay) damages the organization through decreased innovation, delayed services, lethargic implementation of new programs, and degenerated productivity (Abassi and Hollman, 2000). Such activity can radically affect the

firm's ability to prosper in today's competitive economy; leaving even the most ambitious firms unable to succeed due to the inability to retain the right employees. If it is presumed that the smartest and most talented employees are often the most upwardly mobile, then strong organizations may become unable to actualize strategies and complete key business transactions, if they do not proactively manage their turnover.

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

Abassi and Hollman (2000) highlight five reasons for employee turnover in the organization:

(1) hiring practices;

(2) managerial style;

(3) lack of recognition;

(4) lack of competitive compensation systems; and

(5) toxic workplace environments.

While all these reasons have attracted some attention in academic research, the correlation between compensation systems and turnover has been the cause of much study in the past. Johnston and Futrell's (1989) study concluded that higher salary and role expectations were the best predictors of turnover. Furthermore, skill-based pay systems have been found to improve employee retention, whereas group incentive plans have been associated with high turnover (Guthrie, 2000). Finally, economics research has proven that investing in pay and benefits reduces voluntary turnover (Shaw *et al.*, 1998). The effect of pay systems on employee retention depends greatly on the intrinsic needs of the specific employee, sometimes making the development of effective HR practices initially ambiguous and/or difficult. This does not, however, mean that HR professionals should discount the importance of aligning pay with standardized performance.

Abassi and Hollman (2000) further their discussion by highlighting hiring practices, managerial style, recognition and workplace environments as a stimulus for turnover within the organization. However, turnover can be combated through the implementation of "high performance work practices". These HR practices include internal promotions, performance- (versus seniority-) based promotions, skill-based pay, group-based (gain sharing, profit-sharing) pay, employee stock ownership, employee participatory programs, information sharing, attitude surveys, teams, cross-training or

cross-utilization, and training focused on future skill requirements (Guthrie, 2001). Some studies (Arthur, 1994; Huselid, 1995; Kochan and Osterman, 1994; Lawler, 1992; Levine, 1995; Guthrie, 2001) have proven that utilizing "high-involvement work practices" can enhance firm competitiveness. However, these practices require a significant amount of time and money to be devoted to training, thus amplifying the loss when an employee leaves the company. Therefore, employee retention is especially critical when investments into "high involvement work practices" are significant.

Another factor contributing to employee satisfaction is a consistent and impartial performance review. Hedge and Kavanagh's (1988) study suggests that employees want to know how they are performing, as this aids in career path planning. Performance appraisal also allows the company to ensure that the employee is performing and improving with respect to their job description. Performance reviews allow the company to recognize growing talent within the firm for "hire from within" policies, which have also been proven to increase employee satisfaction, because they encourage employees to upgrade job knowledge in order to make a greater contribution to the firm. As an added bonus, such reviews create an environment for employees to resolve difficulties in co-worker relationships (Messmer, 2000).

The total quality management (TQM) movement, emphasizing quality and customer satisfaction, was a driving force for the development of 360-degree feedback programs (McCarthy and Garavan, 2001). This performance review technique has enabled a more accurate performance appraisal system (McCarthy and Garavan, 2001; Tornow and London, 1998), since feedback is provided from other reviewers such as subordinates and peers to develop a holistic illustration of employee performance. Furthermore, allowing feedback from both internal and external sources can enable the firm to adjust to ever-changing business environments, creating a more dynamic and trusting organization.

While the aforesaid predictors have remained fairly constant across several studies, the "hobo phenomenon" aims to classify the unexplainable reasons for voluntary turnover (Hartman and Yrle, 1996). In this case, employees leave their jobs, even when they seem to be satisfied. Potential reasons include a lack of challenging work, promotional opportunities elsewhere, peers leaving the firm, geographic relocation, or merely the desire to try something new. Although employers cannot often predict this behaviour, it is important for them to understand why an employee voluntarily leaves when they do. Such information is gained from exit interviews, or predicted from answers given during staff surveys and annual reviews.

Finally, market conditions can greatly affect the prevalence of turnover in the marketplace. Researchers studying voluntary turnover suggest that the two primary factors affecting employees are the attractiveness of the current job and the availability of other opportunities (Shaw *et al.*, 1998; Hulin *et al.*, 1985). Corporate downsizing and the burst of the Internet bubble have limited the booming job market, restraining the availability of other opportunities.

Although these poor market conditions will limit the amount of voluntary turnover in organizations, senior managers must still understand what drives their employees to perform at work. If employees are only staying with the firm due to a lack of other opportunities, the company will suffer from decreased quality in job performance.

*Training and development*

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

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

*Contract/contingent workers*

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

of fluctuating markets, the investment of hiring and training the employee is lost each time the contract expires (Fitz-enz, 2000). Therefore, one must seriously weigh the costs of training versus added value from the contingent worker each time they utilize contingent workers in their company.

*Knowledge management and intellectual capital*

Knowledge management initiatives result in amplified business value, heightened organizational success and increased competitive edge (Silver, 2000). Furthermore, Bontis (1998) advocates that present and future success in the marketplace will be based less on effective distribution of physical and financial resources and more on the strategic management of intellectual capital within the firm. The concept of knowledge management is not a new idea. In fact, industry watchdog Gartner Group reports that 25 percent of *Fortune* 500 companies have chief knowledge officers, 52 percent have knowledge management staff, while 80 percent have begun some level of knowledge management initiatives. The importance of knowledge management is staggering, leading IDC to report that in fiscal 2000 approximately $12 billion was spent by *Fortune* 500 companies on duplicated work. If these firms were better able to manage their knowledge and information, the amount of money and time that could be saved is astounding.

Knowledge management is defined as the effective codification, development and dissemination of the organization's intellectual capital for strategic advantage. Intellectual capital is divided into three component categories; human capital, structural capital, and customer capital.

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

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

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

Knowledge management within firms is the heart of succession planning. Firms that proactively manage the transition of new employees replacing old enable job- and industry-specific information to be passed through the

organization to ensure that such particulars are not lost when employees leave, either voluntarily or otherwise. However, the Institute for Intellectual Capital Research (IICR) reports that only 5 percent of Canadian firms institutionalize succession planning. Although exit interviews are a reactive approach to succession planning, they at least enable an organization to gather information about the relationships and responsibilities associated with the job that are not otherwise noted in formal job descriptions. However, the IICR reports that only 5 percent of Canadian firms perform effective third-party exit interviews. These figures show that not only is information not often being managed within the firm, it is not being leveraged nor protected either.

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

## Methodology

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

The Investment Funds Institute of Canada (IFIC) publishes the relative position of its current members with respect to assets under management. In an effort to ensure an effective representation of the entire industry, the IFIC list was divided into three tiers and a stratified sample was targeted (Figure 1). The first tier represents the top ten companies represented in the IFIC report ranked by assets under management. Owing to the impact of these leading companies in the Canadian mutual funds industry, 90 percent participation of these firms was targeted. These firms, which are the highest ranking with respect to both assets under management and employee count, undoubtedly have the most impact on the future direction of the Canadian mutual funds industry. The second tier of companies surveyed for these studies was ranked between 11 and

THE INVESTMENT FUNDS INSTITUTE OF CANADA
FUND COMPANIES REPRESENTED IN STUDY
Relative Position of Members - Mutual Fund Assets $(000)s

| Stratified Industry | | Company | July 2001 Assets | July 2000 Assets | July 2000 Rank |
|---|---|---|---|---|---|
| Tier 1: IFIC Ranked 1-10 90% Response of Target | 1 | Investors Group | 43,647,801 | 43,641,385 | 1 |
| | 2 | Royal Mutual Funds Inc. | 34,060,323 | 33,975,383 | 2 |
| | 3 | AIM Funds Management Inc.[1] | 33,239,822 | 10,112,956 | 13 |
| | 4 | Fidelity Investments Canada Limited | 31,974,476 | 32,955,882 | 3 |
| | 5 | Mackenzie Financial Corporation | 30,410,879 | 32,768,730 | 4 |
| | 6 | TD Asset Management[2] | 30,314,925 | 29,165,092 | 5 |
| | 7 | AGF Management Limited[3] | 29,108,098 | 22,825,509 | 9 |
| | 8 | CIBC Securities Inc. | 24,444,662 | 23,338,008 | 8 |
| | 9 | CI Mutual Funds[4] | 21,188,790 | 23,820,123 | 7 |
| Tier 2: IFIC Ranked 11-30 70% of Response of Target | 11 | A.I.C Limited | 14,295,183 | 13,349,346 | 11 |
| | 13 | Scotia Securities Inc. | 11,293,017 | 9,976,483 | 14 |
| | 18 | Altamira Investment Services Inc. | 5,344,922 | 7,032,276 | 18 |
| | 19 | Merrill Lynch Investment Managers Inc.[5] | 4,669,127 | 4,035,782 | 24 |
| | 22 | Talvest Fund Management Inc. | 4,147,329 | 4,406,356 | 22 |
| | 26 | Elliott & Page Limited | 2,077,663 | 2,021,607 | 30 |
| | 27 | Guardian Group of Funds Ltd. | 2,030,349 | 2,024,644 | 29 |
| Tier 3: Open 35% Response of Target | 49 | Sentry Select Capital Corp. | 77,094 | 49,376 | 56 |
| | n/a | YMG Asset Management[x] | N/A | N/A | N/A |
| | n/a | Maxxum Financial Services[xx] | N/A | N/A | N/A |
| | | TOTAL ASSETS REPRESENTED BY POOL | 322,324,460 | 295,498,938 | |
| | | TOTAL INDUSTRY ASSETS REPORTED BY IFIC | 411,062,828 | 419,341,841 | |
| | | PERCENTAGE OF INDUSTRY ASSETS REPRESENTED | 78.41% | 70.47% | |

Notes
[1] AIM Funds Mgmt. Inc. and Trimark Investment Mgmt. merge to form AIM Funds Management Inc. - August 2000
[2] Relative position report does not include TD ETF assets
[3] AGF Acquired Global Strategy - November 2000
[4] C.I. Mutual Fund assets exclude Insight Pools
[5] Atlas Asset Management Inc. Re-named Merrill Lynch Investment Managers Inc. - October 2000
[x] Non-reporting member
[xx] Maxxum Financial Services managed by Mackenzie Investment under Great West Life Insurance - October, 2001

**Figure 1.** Stratification of industry sample

30 with respect to assets under management. These companies are smaller in employee population and thus are more agile in adopting new HR practices. From this tier ten companies were randomly selected, yielding a 70 percent response rate. Finally, the third tier included any Canadian mutual fund company that had not already been consulted in the top two tiers. From this "open" category ten more companies were approached, yielding a meagre 30 percent response rate. The 19 companies represented in this study represent 78.41 percent of all assets under management, as reported by IFIC (2001).

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

Individual respondents consisted of high level personnel including vice-presidents of human resources, senior staffing consultants, human resource business partners, and many other high-level HR personnel. It is

believed that such personnel would effectively be able to comment upon the HR practices and outcomes, ensuring that quality data were being considered for this study.

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

## Data interpretation

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

### *Turnover*

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

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

Although respondents between companies disagreed on average levels of and department time to be devoted to turnover issues, almost all respondents recognized the high levels of turnover within the industry. One manager noted that "it is a very young industry – we can't keep up with where young professionals want to go in their careers", acknowledging that high turnover is

characteristic of this industry. Another manager stated that "sometimes [recruiters] know that [they] are only hiring them for one year".

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

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

Finally, managers recognizing the high levels of turnover within the industry discussed the key measures taken by firms to combat turnover. Research indicated that the most commonly used methods of combating turnover were offering independent development programs (i.e. complete career path design, including mentoring and training curriculum), creating a positive work environment, and offering competitive total compensation packages.

*Training and development*

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

Analysis of training and development procedures utilized the cognition versus behaviour method in an effort to measure how much comprehension opposed to activity is occurring within the industry in the area of training and development. The classification system for grading training and development programs is outlined in Figure 2.

The recognition of the need for training and development is a discrete variable, whereas the behaviour associated with implementing such programs is not as definite. While low behaviour clearly demonstrates that training occurs within the organization, it is also recognized that the company is only training to meet the standard of the industry. Companies in these circumstances do not necessarily view training and development practices as

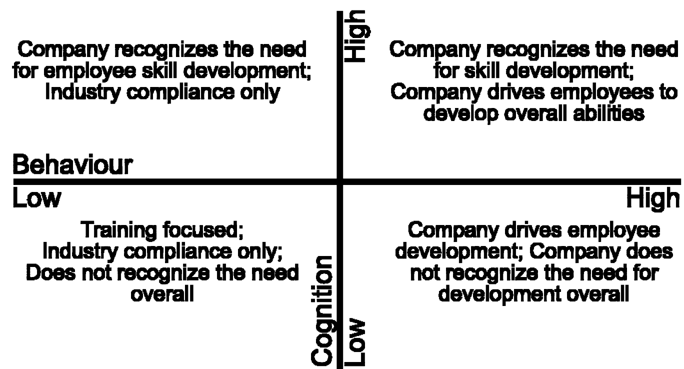



**Figure 2.**
Analysis matrix for training and development practices

tools to develop the organization and the employee. Medium behaviour organizations recognize the benefits of developing employees beyond industry standards, but do not necessarily encourage employees to upgrade skills and qualifications. An example of such behaviour is when training funds are awarded in a "case by case" scenario, only when requested and proposed by employees. High behaviour organizations clearly recognize the long-term benefits of developing employees beyond current skill sets, and highly encourage employees to do this as part of performance evaluation systems or job mandates. Two examples of such behaviour include tuition reimbursement packages and journal/magazine subscription compensation. Overall performance of firms in the area of training and development is depicted in Figure 3.

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

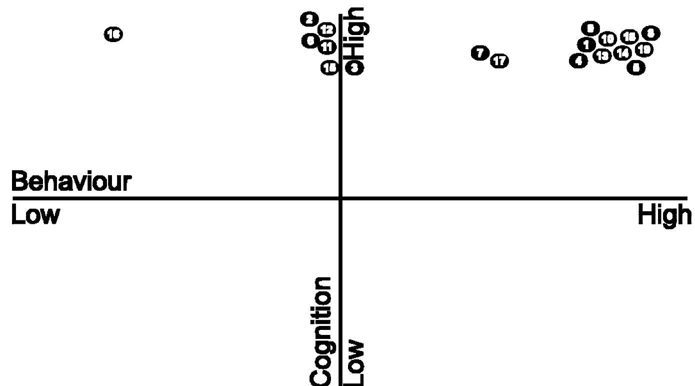



**Figure 3.**
Performance of training and development practices

percent of firms ensured that development expenditures were company-driven by associating training practices with job description and independent development program structures.

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

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

*Contract/contingent workers*

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

Owing to variance in corporate structure, some companies do not need to increase their employee pool during the RRSP season. In some circumstances, larger companies are able to draw on their human resources from other departments of the firm that experience slow-downs during the first two months of the calendar year, thus experiencing only increased implicit costs during this high volume period. Others consistently outsource their back office staff, and thus do not experience fluctuations in call-centre demand during the period. Instead, they incur increases in outsourcing costs during the period. Furthermore, some firms require the use of independent search firms and other professional service organizations to aid in managing workforce fluctuations (explicit costs), as they do not leverage contingent workforce succession planning, nor work to manage their workforce via proactive methods.

With respect to benefit, several considerations are examined in the use of contract/contingency workers. The ratio of cost per hire versus experience must be optimized, to ensure that companies are not continuing to pay for introductory training if it is not necessary. Furthermore, the use of institutionalized succession plans would indicate that the firm has recognized the importance of leveraging past experience in minimizing explicit and implicit costs, thus proactively managing workforce fluctuations. The classification for analyzing contract/contingency worker practices is displayed in Figure 4.

Performance of firms in contract/contingent worker policies is quite similar, when plotted on a $2 \times 2$ matrix comparing cost versus benefit (see Figure 5). While 42 percent of firms are able to control explicit costs associated with contract/contingent workers, only 10.5 percent of firms leverage the experience and knowledge of workers used during previous years.

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

*Performance review*

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

- Standardized performance reviews are conducted by 94 percent of firms throughout the company. Only 6 percent of firms utilize department-specific review systems.
- The mean frequency of performance reviews is 1.5 times per year, while the mode is once per year. Performance reviews most often occurred at fiscal year end.

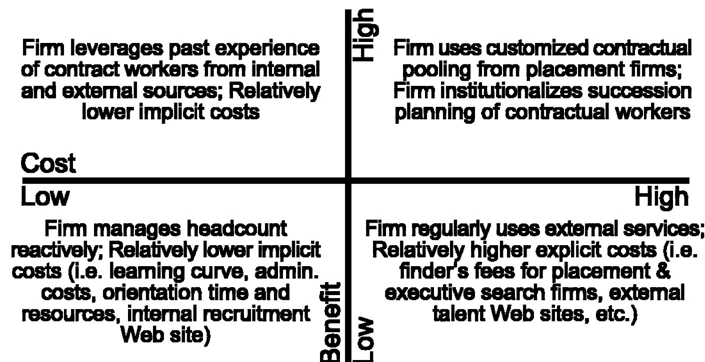



**Figure 4.**
Analysis matrix for contingency worker practices

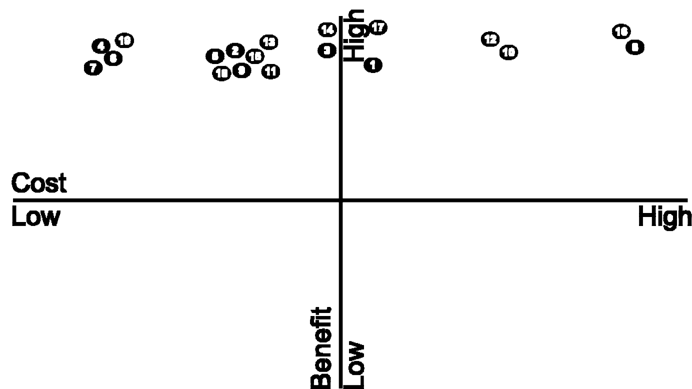



**Figure 5.** Performance of contingent worker practices

- Previous behaviour is examined by 89.4 percent of companies, while 36.8 percent of companies focus on objectives for the future. Only 31.5 percent cover both previous behaviour and future objectives for the upcoming review period.
- Performance reviews are often tied to compensation, salaries or bonuses or both. A total of 68 percent of companies tie performance to bonuses, while 47.4 percent tie performance to salary. While performance often represents the employee's individual performance, corporate performance is frequently factored into final bonus calculations (as a percentage of results).

Behaviour of companies with respect to performance reviews was fairly consistent. All companies understood the importance of, and utilized, appraisal systems on a consistent basis.

*Knowledge management practices*

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

The cognition/behaviour model was used once again in this circumstance. However, in this area of HR planning, results across the industry were not as common as those found in the aforesaid human management issues. The framework for analysis is presented in Figure 6.

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

**Figure 6.**
Analysis matrix for knowledge management practices

The examination of this area of HR management was of particular interest due to the disparities exhibited in the data. See Figure 7 for a visual representation of the results.

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

With respect to succession planning as a method of capturing knowledge, several firms have begun to job-shadow key positions, hiring "second in command" personnel to become knowledgeable on current situations and job tasks in case of voluntary turnover. However, this is not consistent throughout the industry. One manager described how much succession planning is needed, explaining that, when a key person does resign, often her department spends the two notice weeks following the person around, attempting to "soak up" everything they can before the person leaves. In an effort to prevent this

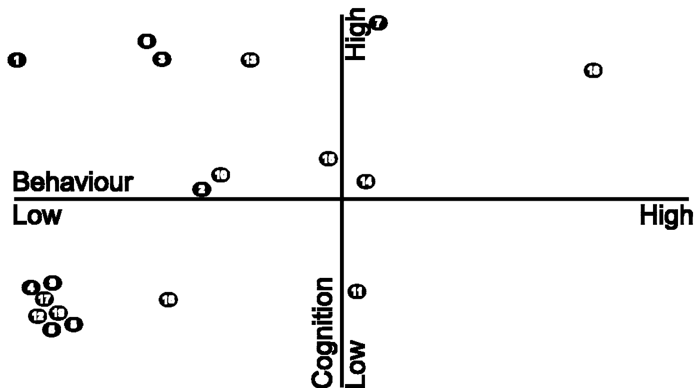



**Figure 7.**
Performance of knowledge management practices

situation, some companies "tag-team" certain employees (such as portfolio managers, etc.), since one of the two will invariably stay in case of a voluntary turnover situation.

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

*Cross-functional performance*

While Canadian financial service firms demonstrate overall effectiveness in standard human resource practice, we must also recognize the insufficient use of knowledge management within the industry. Figure 8 identifies several firms involved in the study, and illustrates their cross-functional human resource performance. Immediately we notice firms 19, 17, and 15. These three firms are classic examples of effective human resource investment that is not leveraged to the fullest extent by the firm. For example, firm 19 reported devoting 55 percent of human resource department time to turnover issues, while concurrently spending a significant amount of time and money in training and development. This indicates that a significant portion of the monies spent in developing the human capital of the firm is wasted, as denoted by the high levels of turnover. However, this may be beyond the control of the firm. What is not beyond its control, however, is how effectively the firm is codifying this information and knowledge before the human capital departs through turnover. Unfortunately, this firm ranked in the low/low quadrant when analyzing its knowledge management practices, signifying that it is not effectively managing its human capital at all.

We then examine firm 18, which scored well across all functional analyses by providing beneficial training and development programs, effective knowledge management systems, and concurrent leveraging of the past experience of their contingency workforce. This firm proves that effective

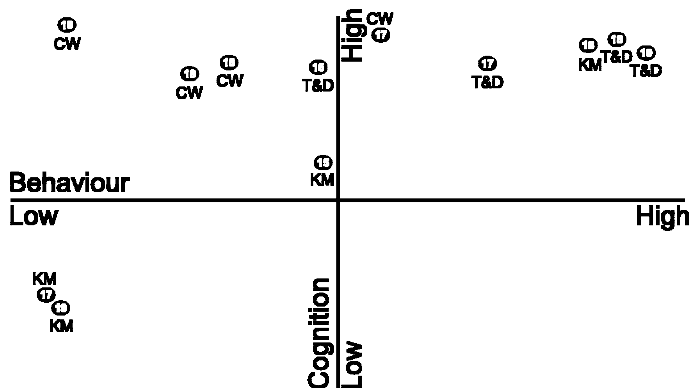



**Figure 8.**
Selected cross-functional performance of HR practices

management of human capital, even in a high turnover and fast-paced industry such as financial services, is indeed possible.

## Conclusions

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

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

### References

Abassi, S.M. and Hollman, K.W. (2000), "Turnover: the real bottom line", *Public Personnel Management*, Vol. 2 No. 3, pp. 333-42.

Amit, R. and Shoemaker, P.J.H. (1993), "Strategic assets and organizational rent", *Strategic Management Journal*, Vol. 14, pp. 33-46.

Arthur, J. (1994), "Effects of human resource systems on manufacturing performance and turnover", *Academy of Management Journal*, Vol. 37, pp. 670-87.

Bontis, N. (1996), "There's a price on your head: managing intellectual capital strategically", *Business Quarterly*, Summer, pp. 40-47.

Bontis, N. (1998), "Intellectual capital: an exploratory study that develops measures and models", *Management Decision*, Vol. 36 No. 2, pp. 63-76.

Bontis, N. (1999), "Managing organizational knowledge by diagnosing intellectual capital: framing and advancing the state of the field", *International Journal of Technology Management*, Vol. 18 No. 5-8, pp. 433-62.

Bontis, N. (2001a), "Assessing Knowledge Assets: A review of the models used to measure intellectual capital", *International Journal of Management Reviews*, Vol. 3 No. 1, pp. 41-60.

Bontis, N. (2001b), "CKO wanted – evangelical skills necessary: s review of the chief knowledge officer position", *Knowledge and Process Management*, Vol. 8 No. 1, pp. 29-38.

Bontis, N. (2002a), "The rising star of the chief knowledge officer", *Ivey Business Journal*, Vol. 66 No. 4, pp. 20-25.

Bontis, N. (2002b), *World Congress of Intellectual Capital Readings*, Butterworth-Heinemann KMCI, Boston, MA.

Byrne, R. (2001), "Employees: capital or commodity?", *The Learning Organization*, Vol. 8 No. 1, pp. 44-50.

Choo, C.W. and Bontis, N. (2002), *The Strategic Management of Intellectual Capital and Organizational Knowledge*, Oxford University Press, New York, NY.

Crossan, M., Lane, H.W. and White, R.E. (1999), "An organizational learning framework: from intuition to institution", *Academy of Management Review*, Vol. 24 No. 3, pp. 522-37.

Fitz-enz, J. (2000), *The ROI of Human Capital*, Amacom Books, New York, NY.

Guthrie, J. (2000), "Alternative pay practices and employee turnover", *Group and Organization Management*, Vol. 25 No. 4, pp. 419-39.

Guthrie, J. (2001), "High-involvement work practices, turnover, and productivity: evidence from New Zealand", *Academy of Management Journal*, Vol. 44 No. 1, pp. 180-90.

Hartman, S. and Yrle, A. (1996), "Can the hobo phenomenon help explain voluntary turnover?", *International Journal of Contemporary Hospitality Management*, Vol. 8 No. 4, pp. 11-16.

Hedge, J.W. and Kavanagh, M.J. (1988), "Improving the accuracy of performance evaluations: Comparisons of three methods of performance appraiser training", *Journal of Applied Psychology*, Vol. 73. pp. 68-73.

Hudson, W. I. (1993), *Intellectual Capital*, John Wiley & Sons, New York, NY.

Hulin, C.L., Roznowski, M. and Hachiya, D. (1985), "Alternative opportunities and withdrawal decisions: empirical and theoretical discrepancies and an integration", *Psychological Bulletin*, Vol. 97, pp. 233-50.

Huselid, M.A. (1995), "The impact of human resource management practices on turnover, productivity, and corporate financial performance", *Academy of Management Journal*, Vol. 38 No. 3, pp. 635-72.

IFIC (2001), Investment Funds Institute of Canada, available at: http://live.ificmembers.ca/eng/01/reports/2001/07/public/relativepos.xls (accessed 5 July).

Johnson, J, Griffeth, R.W., and Griffin, M. (2000), "Factors discrimination functional and dysfunctional sales force turnover", *Journal of Business & Industrial Marketing*, Vol. 15 No. 6, pp. 399-415.

Johnston, M.W. and Futrell, C.M. (1989), "Functional salesforce turnover: an empirical investigation into the positive effects of turnover", *Journal of Business Research*, Vol. 18, March, pp. 141-57.

Kochan, T.A. and Osterman, P. (1994), *The Mutual Gains Enterprise*, Harvard Business School Press, Boston, MA.

Kransdorff, A. (1996), "Succession planning in a fast-changing world", *Management Decision*, Vol. 34 No. 2, pp. 30-34.

Lawler, E.E. (1992), *The Ultimate Advantage*, Jossey-Bass, San-Francisco, CA.

Levine, D. (1995), *Reinventing the Workplace: How Business and Employees Can Both Win*, Brookings Institute, Washington, DC.

McCarthy, A. and Garavan, T. (2001), "360O feedback process: performance, improvement and employee career development", *Journal of European Industrial Training*, Vol. 25 No. 1, pp. 5-32.

MacDougall, S.L. and Hurst, D. (2001), "For better or worse? Assessing the costs and benefits of contracting the contingency knowledge worker", paper presented at the 4th World Congress on Intellectual Capital, Hamilton.

Messmer, M. (2000), "Performance reviews", *Strategic Finance*, Vol. 82 No. 6, December, pp. 10-12.

Saratoga (2001), *Human Resource Financial Report*, Saratoga Institute, Santa Clara, CA.

Shaw, J.D., Delery, J., and Gupta, N. (1998), "An organization-level analysis of voluntary and involuntary turnover", *Academy of Management Journal*, Vol. 41 No. 5, pp. 511-25.

Silver, C.A. (2000), "Where technology and knowledge meet", *The Journal of Business Strategy*, Vol. 21 No. 6, pp. 28-33

Stewart, T. (1997), *Intellectual Capital: The New Wealth of Organizations*, Currency Doubleday, New York, NY.

Tornow, W.W. and London, M. (1998), *Maximizing the Value of 360° Feedback*, Jossey-Bass, San Fransisco, CA.

**Further reading**

Becker, B. and Gerhart, B. (1996), "The impact of human resource management on organizational performance: progress and prospects", *Academy of Management Journal*, Vol. 39 No. 4, pp. 770-801.

Bontis, N., Chua, W. and Richardson, S. (2000), "Intellectual capital and the nature of business in Malaysia", *Journal of Intellectual Capital*, Vol. 1 No. 1, pp. 85-100.

Bontis, N., Dragonetti, N., Jacobsen, K. and Roos, G. (1999), "The knowledge toolbox: a review of the tools available to measure and manage intangible resources", *European Management Journal*, Vol. 17 No. 4, pp. 391-402.

Fox, S. (1994), "Empowerment as a catalyst for change: an example from the food industry", *Supply Chain Management*, Vol. 2 No. 3, pp. 29-33.

Zaffane, R.M. (1994), "Understanding employee turnover: the need for a contingency approach", *International Journal of Manpower*, Vol. 15 No. 9/10, pp. 22-37.