Lēad™

Issue 19

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Industry Disruption

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"exhibit a curious mind...to help us foster an environment for rapid progress."

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The companies on today's Fortune **500** list employ close to **30 million** people. Some have predicted that within **10 years**, nearly **half** of these companies will no longer exist.[1] Industry disruption has begun. **Millions** of people will need a new job because of it. Yet only 13% of Canadian companies are well prepared for it.[2] If we want our businesses to have a longer shelf-life, we need to start paying attention.

Market disruption became widely discussed with the dawn of the digital age. Centuries-old companies were being challenged by exciting digital technologies and dot-coms; consumers, investors and analysts took notice. Harvard Business School professor Clayton Christensen introduced the concept of "Disruptive Innovation" in 1997 to describe a process whereby a smaller company with fewer resources is able to upend an established market leader by targeting segments that were previously overlooked – and eventually appeals to the broader customer base. Once the new service provider gains this scale of traction, disruption occurs.

We do not yet know if the fallout from the approaching fresh wave of technologies will constitute "Disruptive Innovation" in its truest sense. Nonetheless, executives are acknowledging that massive digital disruptions are continuing to hit their industries, decades after Christensen's theory was published.[3] In this edition of *Lēad*, we're featuring perspectives from industries slated to be some of the most impacted by the coming disruption. SaskEnergy addresses the advanced gas exploration starting to take place and its impact on a global economy, while Sun Life predicts how gamification and millennial workers are reshaping health insurance and retirement saving. We also feature Yellow Pages' success story on how it survived the digital disruption, restructured its strategy and acquired over 30,000 new customers last year.

The Staffing Industry has seen its share of technological advancements in recent years as well. E-service models have allowed new lower cost entrants into the industry, focusing on segments of the workforce previously untapped by traditional vendors, such as freelancers. More recently, there are players creating virtual recruitment teams to service temporary help requirements in specific industries like hospitality. These developments – along with continuous process improvements from the inside of traditional firms and changing client requirements – are shaking up conventional business models and driving innovative change.

Adecco is a forward-thinking organization and has innovative traits embedded right into its operating principles. Every Adecco leader, colleague and associate is encouraged to exhibit a curious mind and entrepreneurial spirit to help us foster an environment for rapid progress. We have also championed virtual recruitment centres, implemented centralized management models and adopted leading edge technology to search for and attract top talent. Our traditional bricks and mortar branches still exist but are fewer in number and operate differently than in the past, augmented by centralized virtual Centres of Excellence. To go even further, we created an internal division – Ignite – to lead our own disruptive innovations and better support our clients. Ignite's ground-breaking creations, approach to innovation, and remedies for disruption are featured in this edition.

We hope that this issue on Industry Disruption will help you see opportunity differently for your company, engage your top talent in new business models and work toward being among the prepared 13%. ▬

1. *Salim Ismail, Exponential Organizations (New York: Diversion Books, 2014) as reported in "Age of Disruption | Are Canadian Firms Prepared?" Deloitte Future of Canada Series, 2015.*
2. *http://www2.deloitte.com/ca/en/pages/insights-and-issues/articles/future-of-productivity-2015.html*
3. *https://hbr.org/2016/03/the-industries-that-are-being-disrupted-the-most-by-digital*

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Peter Andersen is an independent consulting economist specializing in applied economic forecasting. He obtained his doctorate in economics from Harvard University. Peter provides strategic economic advice to management through boardroom meetings, video conferencing, economic reports, email commentary, and telephone calls. He is a regular keynote speaker at industry conferences in Canada and the United States. In addition, Peter taught financial economics as well as money and banking at the University of Texas at Austin from 2001 to 2010.

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Jon Bosworth is the Strategist for Ignite – Adecco's innovation lab. In addition to being an award-winning writer, an experienced content strategist, and a passionate experience designer, he also manages agile marketing strategies for Ignite's products. He regularly speaks at conferences across the US on various topics ranging from human rights to digital branding in the social era.

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Adrian Ishak's practice at Rubin Thomlinson focuses on all aspects of employment law including employee relations, terminations, wrongful dismissals, employment contracts, and employment policies. He provides strategic counselling on a number of human resources, privacy and human rights issues. With a joint Ontario and Québec call and with experience in both jurisdictions, Adrian guides his clients through employment standards matters, pay and employment equity, and human rights obligations in Canadian common law and Québec's civil law jurisdiction. Adrian represents clients in both English and French. In 2015, Adrian was recognized as a Lexpert "Rising Star", an award that honours Canada's leading lawyers under 40.

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For nearly 15 years, Kenton Olson has been helping teams find simple ways to explain complex topics. In his current role at SaskEnergy, he creates engaging content for internal and external audiences, plays a key role in the company's business planning processes, and looks for ways to connect the dots wherever he can. He holds a Bachelor of Arts (Honours) degree in English from the University of Regina, and has training in such areas as change management, media relations, crisis communications and social media.

SUN LIFE FINANCIAL

The featured article is a collaboration piece between Sun Life's Group Benefits and Group Retirement Services. Sun Life Financial is a leading international financial services organization with deep roots in Canada dating back over 150 years. They provide a diverse range of protection and wealth accumulation products and services to individuals and corporate customers, with the goal on helping Canadians achieve lifetime financial security.

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Fiona joined Yellow Pages in 2010 and is currently the supervisor of teams responsible for Public Relations, Media Relations, Corporate Communications, Government Relations and the company's social programs. Fiona is a disciplined professional with 15 years of experience in various fields of communication including special expertise in strategic communication, crisis management and communication with stakeholders. Ms. Story holds a bachelor's degree in journalism from Carleton University.

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The Economic Impact of Disruptive Technology

Peter R. Andersen, PhD

Disruptive innovations have the potential to profoundly impact society by creating new markets and value systems. They also often challenge, and ultimately replace, the existing technology's support networks such as its servicing and maintenance suppliers. Even existing, off-the-shelf technology can be disruptive, if it is applied in a new way or to a new set of customers.

Clayton Christensen's case studies[1] show how disruptive technologies can destroy even successful, well-managed companies – including those who listen to their customers, invest in new technology, and allocate resources to both high returns and large markets. He presents many examples of such businesses – including Kodak, Xerox, and Sears Roebuck – and faults their myopic focus on innovations exclusively within their existing markets.

Christensen's disruption theory, however, may possibly be outdated now. Competition today is happening between completely different industries, not just different markets. For example, it is Tesla's *Powerwall* that can now provide affordable energy storage to solar homes. Homeowners can disconnect from the power grid and be energy independent courtesy of technology realized by a car company. Apple is another example. After disrupting computing and music, it is now turning to health care (by way of its fitness tracking apps, *CareKit,* heartrate monitoring, and medical ID software) and finance (*Apple Pay* is already accepted by an ever-expanding network of retailers and is rumored to be coming to the web). We appear to be in a new era of innovation which takes place across industries.

Stagnating Innovation?

In the past, disruptive innovations have appeared in intermittent clusters. Economist Joseph Shumpeter coined the term "creative destruction" in the 1940s, believing technology and innovation to operate on long-wave economic cycles. However the pace of change is now speeding up. Each new technology wave is now shorter than its predecessor.

"...disruptive technologies can destroy even successful, well-managed companies – including those who listen to their customers, invest in new technology, and allocate resources to both high returns and large markets."

Gordon Moore, co-founder of Intel, predicted in 1965 that the number of transistors that can be put on a microchip doubles every two years, thereby doubling its performance and allowing for exponential growth. While Moore's Law has held up for the last 50 years, silicon can only be shrunk so far. Skeptics question whether innovative progress over the next 20 years can surpass the achievements of the 1980s, 1990s and 2000s – the decades that gave us PCs and the Internet. Even those achievements are arguably dwarfed by historic milestones like splitting the atom and landing on the moon. Nonetheless, today's technology and innovation may break this pattern of diminishing returns.

It is yet to be seen whether diamond semiconductors and carbon nanotubes – alternatives to silicon – can take Moore's Law to the next level and continue the pattern in some form. Quantum mechanics also have important applications in semiconductor physics and technology. These breakthroughs beyond the realm of classical physics into the quantum-mechanical model will likely provide core support to exponential technology growth. In fact, the next 20-year innovation cycle could come from this particular disruption.

Associated infrastructure is vitally important for the new tech cycle as well. It allows innovation to reach the payoff stage, where real world applications catch on. Cloud computing, for example, has been an infrastructure utility that continues to accelerate innovation.

Innovation and the Economy

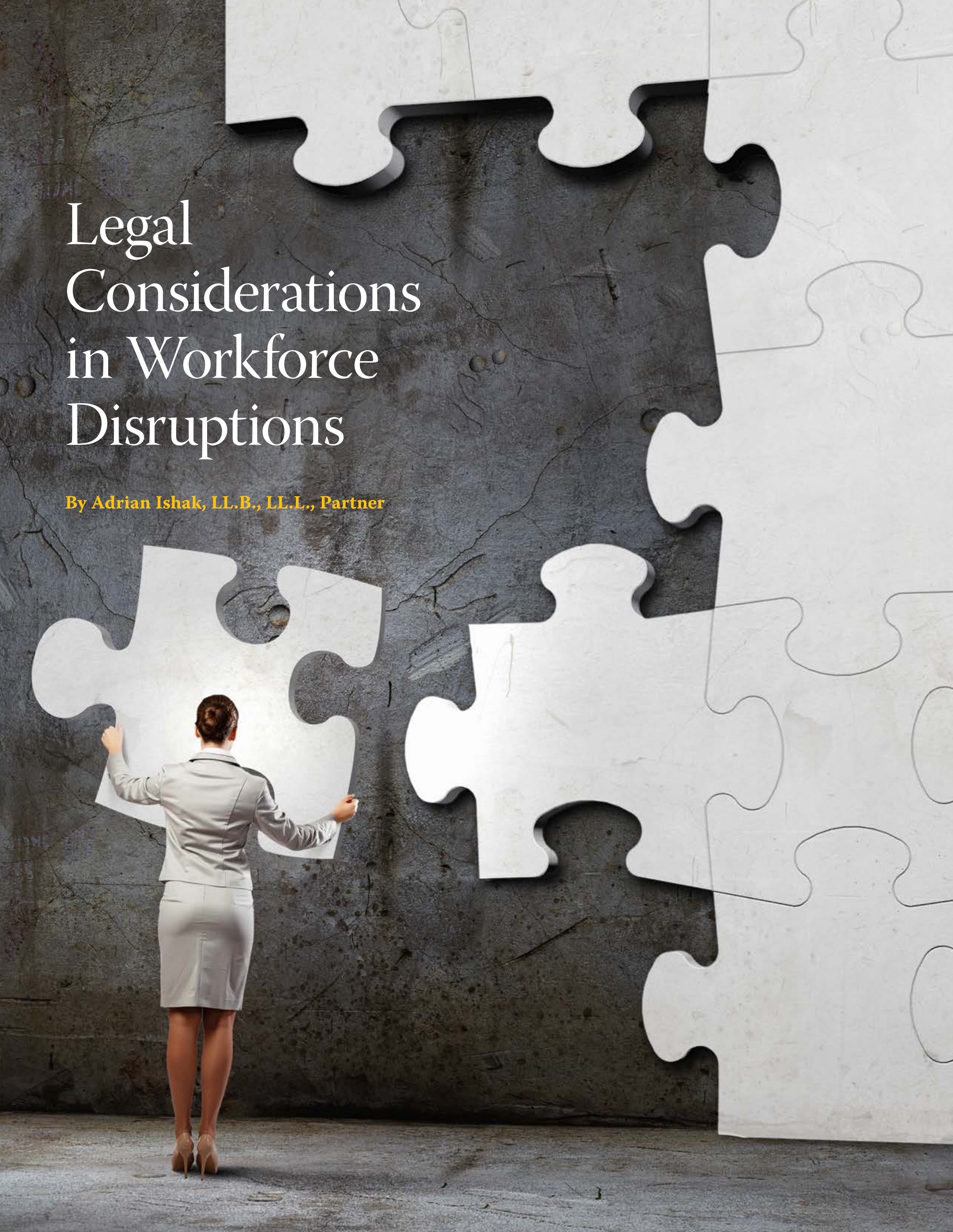
The economy is massively affected by disruption, but also drives it. The NASDAQ composite index, a bellwether for technology, finally surpassed its dot-com peak (5,046.86 set on March 9, 2000) last year. The U.S. economy and the tech cycle are again accelerating. Feedback interaction effects are taking place, both within tech, and also between the economy and tech. The innovation cycle that was interrupted by the financial crisis is beginning to speed up again.

Measuring the Disruptive Impact

It is not easy to measure the effect of innovation on the economy. New industries are often created, but there are also significant losses caused by the disruption of infrastructure associated with the old technology. The benefits of the new technology may not be evenly distributed and might even contribute to widening income inequality. There can also be unwanted side effects such as security risks, hacks, dangerous organisms and terrorism. Interestingly, wars often coincide with technological progress as well. Nonetheless, advances in technology have continuously propelled economic growth since the Industrial Revolution. Each new wave of technology has been associated with surges in productivity and economic advancement.

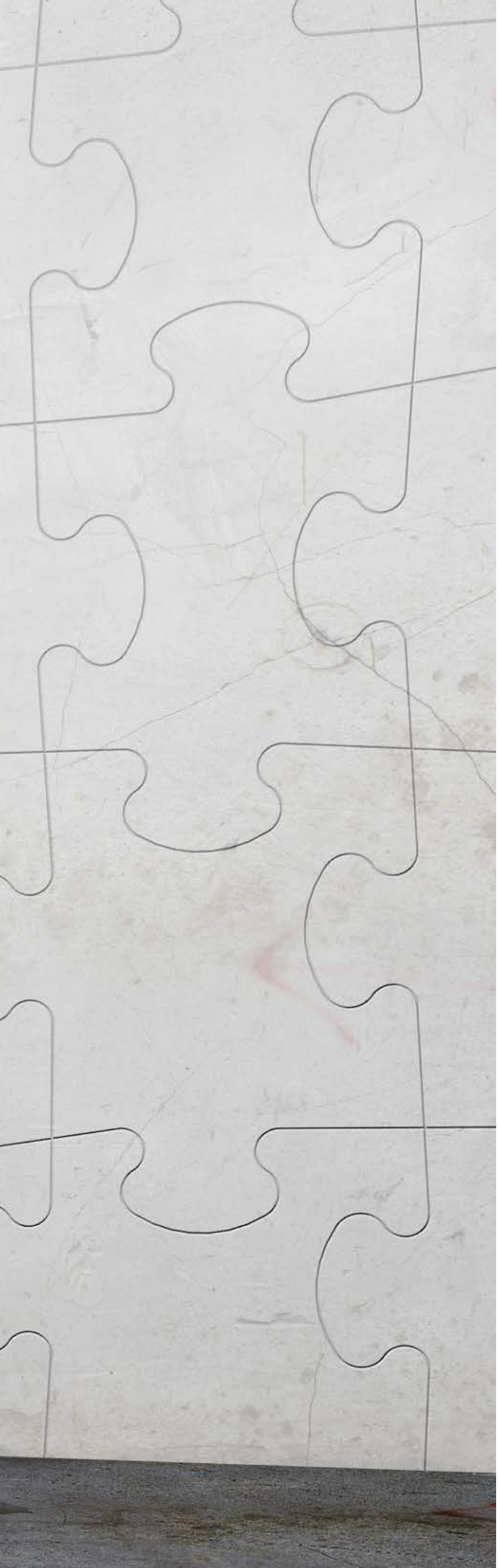
Due to these considerations, gross domestic product is clearly an inadequate metric of quantifying the real impact of technology. GDP measures monetary transactions, not welfare. It is not good enough to say that there will be an estimated direct economic impact of more than $10 trillion over the next 10 years. A better measure of total benefit is needed. We need to measure the net improvements in quality and other benefits that the new technologies are expected to provide. ▬

1. *Christensen, Clayton M. The Innovator's Dilemma. Harvard Business Review Press, 1997.*



Legal Considerations in Workforce Disruptions

By Adrian Ishak, LL.B., LL.L., Partner



FROM ECONOMIC DOWNTURNS TO TECHNOLOGICAL CHANGES, the competitive landscape is shifting dramatically across the country. Many businesses are feeling the brunt of these changes and scrambling to adapt. Disruption is certainly upon us – is your company prepared?

When responding to market conditions or industry disruption, Canadian businesses have a number of ways to adapt their workforces. Some of these will have significant legal implications. These consequences should be considered and addressed *prior* to the implementation of any changes to your workforce. Outlined below are some of the more common risks and opportunities of which employers should be aware.

Workforce Repurposing

One of the common responses to a market disruption is to change the “ways of working” in order to address the change. Often this will result in the “repurposing” of human resources. Job content is reviewed and reassigned to increase efficiencies. This may be part of a broader corporate reorganization or simply a review of a specific department or workforce.

From the law’s perspective, employees do not typically possess a proprietary interest in their job duties and responsibilities. As a result, these types of changes will often be permissible. Employers should be cautious, however, as certain changes could potentially result in exposure to constructive dismissal claims.

Briefly, employees can claim constructive dismissal where the employer (1) unilaterally, (2) makes material changes, (3) to fundamental terms of employment. This is a three-part test; all three criteria must be met before an employee can successfully claim to have been constructively dismissed.

In the context of workforce repurposing, the spectre of a constructive dismissal will arise where an employee can claim that the changes to her duties and responsibilities objectively result in a demotion. Accordingly, changes in reporting relationships, as well as changes to the very character of employment duties, should be considered carefully before implementation. Further, to the extent that employee consent to the changes can be obtained, it is always recommended.

Doing More with Less

Hiring employees can be an expensive proposition. Between training, compensation and benefits, many employers choose to leverage their existing workforce to meet changing needs. Whether through the process of attrition resulting in increased workloads for existing staff, or through increased performance expectations without concomitant additional resources, an increasing number of employees are working more and longer hours.

These types of environments can expose employers to significant liability. First, every jurisdiction in Canada imposes maximum hours of work and mandatory rest periods, which apply to the vast majority of Canadian workers. By way of example, an employer in Ontario cannot permit an employee to work more than eight hours per day (or such other hours that comprise the employer's regular workday) without the employee's express written consent. Similarly, an employer cannot permit an employee to work more than 48 hours a week without the employee's express written consent.

In all cases, the employer is obliged to provide the employee with a copy of the Ontario Ministry of Labour's most recent "Information Sheet for Employees About Hours of Work and Overtime Pay". Further, an employer must obtain approval of the Director of Employment Standards in order to permit the employee to work more than 48 hours per week. In addition to maximum hours of work, an employer is obliged to pay employees overtime at time-and-a-half for all hours worked over 44 hours in any given week. In all the cases above, employers must keep records of all hours worked.

The fact that your employees are salaried does not relieve you of these obligations. Similarly, "work" is very broadly interpreted under applicable legislation so all hours of work will need to be accounted for – including times when employees are working remotely or have access to work e-mail through smartphones, etc. There are extremely few exceptions to these rules and they should be reviewed in detail to ensure compliance. Failure to do so can result in very expensive claims for unpaid hours of work and/or overtime.

Workforce Reductions

The circumstances of an employer's workplace or industry will sometimes require "right-sizing" of its workforce. Workforce reductions will come with a host of considerations, some of which have been outlined below.

It is important for an employer to determine the basis on which employees will be selected during a workforce reduction. It is strongly recommended that an employer adopt objective criteria for making these determinations, such as: performance evaluations over a period of time (usually three to five years), specialized skills, seniority, disciplinary record, etc. Employers should develop "scorecards" and determine which employees will be impacted based on the results. This selection method will insulate employers against human rights complaints (and reprisal complaints under workers' compensation or other legislation), given that the selection process is objective and not based on any improper considerations.

The "mass termination" provisions of applicable employment standards legislation will be another consideration in the case of significant workforce reductions. Each jurisdiction has established thresholds over which additional obligations will be imposed on employers in the event of a workforce reduction. These thresholds vary widely by jurisdiction: for instance, in Ontario they will apply where an employer terminates 50 or more employees in the same four-week period, whereas in Quebec they apply where ten or more employees are impacted in any two-month period. Care should be taken to determine whether these thresholds are tripped in the jurisdiction in which the employer operates.

Generally speaking, a "mass termination" will require increased notice periods and notification to the regulator (in Ontario, the Director of Employment Standards) – sometimes in a specific form (Form 1 in Ontario). Further, there may be certain workplace posting requirements and other obligations that will need to be met. These should all be considered carefully prior to proceeding with a workforce reduction as failure to comply can result in fines and penalties.

Work-Sharing Program

An important alternative to workforce reductions that is often overlooked by employers is the work-sharing program under the Employment Insurance regime. The work-sharing program was established to assist employers and employees in finding alternatives to layoffs. This is particularly useful where an employer has a highly skilled workforce, which will be difficult to replace once a temporary slowdown in business has passed.

If an employer can demonstrate that a shortage of work is temporary and beyond its control, it can apply to the program. Participation in the program requires employee consent and must be approved by Service Canada. As part of the application process, the employer must also submit a recovery plan.

Where an employer is approved under the program, it can implement a reduction in hours to its workforce anywhere from 10% (one half-day) to 60% (three days). The shortfall will be made up by employment insurance benefits. Work-sharing agreements have a minimum duration of six weeks and can be extended up to 26 weeks (with a possible extension of 12 weeks).

Adapting the workforce during challenging business periods is never an easy decision but is often a necessary one to help a company prevail through instability. The considerations above should guide employers on the risks of restructuring and provide creative alternatives to support the business and its employees through disruptive times. ▬

Nurturing a culture of innovation

Interview with Jon Bosworth