THE INFLUENCE OF IDENTITY AND IMAGE ON ORGANIZATIONAL LEGISLATIVE MANAGEMENT PROCESSES

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ABSTRACT

This thesis uses a qualitative approach to explore the relationship between organizational identity, image, reputation and how organizations adapt to their legislative environment. It examines how the Canadian banking industry association and two member banks met legislative challenges in their credit card business from 1986 to 1997. Findings suggest that industry characteristics (e.g., size, turbulence, profitability) affect organizational identity, and correspondingly, organizational strategies and actions. Organizational identity, in turn, can act as a strong inertial force in handicapping an organization's ability to adapt to its legislative environment. When identity acts as an inertial force, only a series of external events that are meaningful in terms of the organization's identity catalyze change in strategies and actions. Finally, the nature of the interaction between individuals and an organization on a personal level may be an important driver of reputation or image for industries or organizations that the public may characterize as a utility or as a quasi-utility.

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1 INTRODUCTION

This thesis was motivated by a desire to understand how organizations managed their regulatory environment, and equally importantly, why they chose to manage it in a given fashion. Implicit in this desire is the positivist notion that if we understand the "hows and whys" of our actions, we can then manipulate, modify or otherwise alter them to improve organizational outcomes. This research distinguishes itself from other research on the topic of regulation by making no assumptions about the rationality of management behavior and decision-making; rather, it explores how the constructs of organizational identity and image may affect this particular management process. Organizational identity has been increasingly cited in recent years as a construct that may offer superior explanatory power (Bouchiki, Fiol et al. 1998, Gioia, 1998). The related construct of organizational image intuitively appears to have significant meaning for managing regulation in that an organization's reputation may have a powerful impact on the attitudes and actions of external stakeholders (including regulators) who are in a position to affect its future. The concepts of organizational identity and image are in the relatively early stages of empirical research and the relationship between these two constructs and the process of managing the regulatory environment has received little research attention.

In searching for a suitable question through which to narrow and frame this research, I set up three specific criteria. First, I wanted to specify a question that would lend itself to a qualitative approach, in the spirit that a qualitative approach would provide the greatest and most genuine insights into these relatively unexplored phenomena. Second, although qualitative research does not lend itself to meeting the quantitative research standards of generalizability (McGrath 1982), I wanted to use an industry or organizational setting that would offer future researchers the opportunity to extend this research in a meaningful fashion. Third, I wanted to find a regulatory issue or situation that offered the opportunity to understand the management of regulation over a period of time, in order to better understand what causes organizations to adapt or to resist adapting to the regulatory environment. The application of these criteria led to the development of the specific question that is the focus of this dissertation; that is "How have banks' organizational identity and image affected their management of the legislative challenges facing their credit card business?"

The banking industry in Canada offered particularly fertile ground for an exploration of how and why organizations manage their regulatory environment in a given fashion. The industry and the particular question that is the focus of this thesis clearly meet the three criteria outlined above. First, the industry is a major driver of the Canadian economy, is highly regulated and offers a wealth of data in the form of publicly available materials such as media reports and proceedings from Parliamentary inquiries. Industry observers also suggest that the image management challenges and risks faced by banks parallel those faced by companies in similarly regulated industries who provide what may be thought of as an essential service, such as the cable industry (Marketing, 1998). The breadth of businesses in which banks operate necessitated focusing on a particular area. The credit card business was chosen because of its high public visibility and its importance as a product line for most banks' consumer operations. The credit card business is both understandable and important to most Canadians. The global nature of the credit card business also suggests that using this aspect of the payments industry as a lens may increase the usefulness of this study's findings beyond the Canadian borders and the banking industry. These characteristics suggest that this particular question will yield grounded, meaningful insights.

The Canadian banking industry has also endured an unprecedented series of regulatory challenges to its business practices over the past 15 years. The following remarks by Member of Parliament Scott Thorkelson, made during a Standing Committee on Consumer Affairs and Government Operations Parliamentary hearing, highlight the nature of these challenges.

> *I guess my criticism is that you should be explaining to Canadians the financial picture a little better. You have to enter the ideological debate... Believe me, my constituents don't see banks as being very credible. I think that unless you do that, unless you explain your profit situation, there will be a consensus developed that the large corporations' tax was the first step. There may be floating caps. There may be a national consensus developed, and that could be detrimental to our competitiveness as a nation, credit availability and so on. (MP Thorkelson, November 6, 1991)*

Throughout the last two decades the Canadian banking industry's public approval ratings have steadily declined. Industry informants and internal industry documents suggest the decline may be as steep as 40 points (on a 100 point scale). During the same period legislators' interest in and scrutiny of banking industry practices have risen exponentially. For example, between 1970 and 1985 the Canadian banking industry appeared in front of Parliamentary committees on three separate issues. In contrast, in the subsequent eight years (between 1986 and 1994) it was called to appear on 11 different issues. The credit card business, in particular, was an area of business that came under intense regulatory and media scrutiny, resulting in four parliamentary inquiries into credit card practices during the period. In essence, the nature and importance of the industry and the particular legislative challenges facing it also suggest that we may gain meaningful insights into how and why organizations manage the regulatory environment in a given manner. Additionally, these insights may enable organizations to interact with the regulatory environment in a more effective manner. As MP Thorkelson's remarks suggest, mismanagement of the regulatory environment can have dire consequences for an organization, an industry and the country as a whole.

This thesis is organized into a series of chapters that fulfill three basic purposes – providing the reader with background information, describing and explaining the key data and analyses, and synthesizing the findings. *Chapters 2* through *4* provide background and contextual information for the reader including a review of the relevant literature, discussion of the methodology, and some contextual information on the financial services industry in Canada. *Chapters 5* through *10* lay out the data and analyses that comprise the core of this thesis. *Chapters 11* and *12* discuss the conclusions that can be drawn from this research, and offer observations on the limitations of the research design, the implications of the findings for both practitioners and academics, and suggestions for future research.

Chapter 2, Literature Review, provides a literature review that covers the recent research undertaken in the areas of organizational identity and image, impression management, public affairs management and organizational legitimacy. Each of these literatures is in a fairly embryonic stage of empirical research, and individually and collectively are characterized by a number of gaps. The question posed in this thesis would address some of these gaps by focusing on a specific set of organizations to further explore the nature of organizational identity, how organizational identity is linked to organizational image, and how organizational identity may be linked to efforts to manage the legislative environment (i.e., a further view of organizational adaptation).

Chapter 3, Methodology, lays out the methodology I employed. This is a qualitative thesis that explores how large, highly regulated organizations managed a process that was critical to their ongoing survival. This chapter provides additional information on the genesis of the research question and describes how I obtained site access for interviews. It gives a description of the sources of data, how they were collected and organized, and their magnitude. In summary, 20 interviews with senior bank officials and industry observers (i.e., lobbyists, journalists), over 1200 pages of public testimony given during public hearings, close to 100 newspaper articles, over 60 citations in the Hansard (i.e., the public record of Parliamentary proceedings) and supplementary data such as interest rate time series data were collected. The major analytical method was coding and thematic analysis of the interviews and the public testimony. Themes were then supplemented with historical data from the newspaper articles, the Hansard and the supplementary data. The nature, depth and diversity of these data sources ensures that the research is grounded and the findings have been triangulated.

Chapter 4, Financial Services Sector in Canada, provides background information on the industry. It offers an overview on the size and importance of the industry in the Canadian economy and in Canadians' daily lives, reviews how the credit card business operates and offers highlights on the kind of regulation the banking industry faces. Canada's oligopolistic banking industry accounts for 2% of the country's GDP and close to 50% of the financial service sector's assets. It remains one of the most highly regulated industries in the country and despite the broadening of its business powers since 1980 has been subjected to an ever-increasing regulatory burden (Saunders and Thomas 1997). The banks face a regulatory regime in which the ability to manage complexity is a requirement for survival and the cost of doing so is high.

Chapter 5, Legislative Challenges to Credit Cards: A Brief History, offers a history of legislative and public interest in credit card issues between 1986 and 1997. During this 11 year period, four Parliamentary committee hearings into credit card issuer practices were convened, eight private members bills aimed at regulating issuer practices were introduced in the House of Commons, and hundreds of articles in the popular press drew attention to issuer practices. This history recounts the chronology of these events, and suggests what broader phenomena occurred during this period that impacted legislative interest in this issue. These phenomena include the persistent appearance of excessively high credit card pricing, the increasing importance of credit cards as a payment mechanism for consumers, and a recession–driven rise in consumer bankruptcies that heightened the public's sensitivity to financial practices. This history indicates that despite the persistent attention on credit card practices the industry did not suffer any explicit onerous regulation such as the imposition of interest rate caps. It did, however, experience increased disclosure requirements, sporadic short term pressure to reduce credit card interest rates and consequently profit margins, and relentless legislative scrutiny.

Chapter 6, Industry Responsiveness to Legislative Challenges, offers a detailed analysis of how the banking industry responded to the legislative challenges posed by this unrelenting round of Parliamentary committee hearings and private members' bills. Using the public testimony data it analyzes how each Committee perceived its role, and, correspondingly, its major concerns. Across time, the issue for the Committees was consistently one of fair and equitable treatment for the consumer. The specific issue that most prominently figured in these hearings was the perception of excessively high credit card interest rates. The chapter goes on to explore how the industry chose to respond to the Committee in terms of the arguments it proposed, and the choice of techniques it adopted to persuade the Committee to accept its arguments. (This analysis is conducted at the industry level, since responses were made by industry representatives. In the public forum, banks typically did not respond individually.)

The banking industry responsiveness over the period clearly showed signs of adaptation to the legislative environment, both in terms of its choice of arguments and in how it responded to the nature of the Committees. In the early years, the industry chose to frame all its arguments in terms of economic theory and it dogmatically adhered to the position that since Canadian banks operated in a free market, market forces could be relied on to regulate the industry. By 1992, this reliance on baldly economic, academic arguments was absent, and although the major argument was still economic in nature, it was couched in a manner that suggested a consideration of consumer needs. This shift in legislative responsiveness in the early 1990s was also evident in how the industry chose to respond to the nature of the Committee. Its earlier approach could be described as combative, argumentative, and secretive. The industry was emphatic in its position that Parliament had no right to interfere with market forces and by espousing this position it directly challenged the legitimacy of the proceedings. In the later hearings, the industry explicitly acknowledged the good work of the committees, and was relatively more forthcoming with information. At the same time as the industry adapted to the legislative environment, however, there were several aspects of its approach that remained the same. It pursued the same generic strategy of educating stakeholders, continually declared itself to be a superior system (e.g., vis a vis the United States or the United Kingdom) and tended to give unclear testimony.

Chapter 7, Industry Identity and Image analyzed interview data from individuals who were responsible for the industry association's (the Canadian Bankers Association) efforts in managing the industry's response to legislative interest in credit card issues. This chapter outlines the role of the Canadian Bankers Association (the "CBA"), describes how it managed the industry's image, how it conceptualized the industry's image and its perception of external stakeholders, and changes in its legislative strategy and its image management strategy over the period.

Most significantly, the industry clearly viewed itself as a collection of private sector companies, not as utilities, and placed a very high value on a rational, analytical approach to management. Interviewees described the industry's image as being comprised of large, powerful, and potentially abusive organizations, as making mistakes in customer service and as not being particularly good at getting its message across to outsiders. Without exception, however, they characterized these images as being a function of a phenomenon they referred to as "bank bashing", that is the practice of criticizing the banks in a manner they described as vitriolic, often cavalier, and almost always without empirical substantiation. This practice in turn, led to another prominent industry identity attribute, that of being a victim. Interview informants generally regarded external stakeholders as variously self-serving, uninformed and unintelligent. They characterized their legislative and image management strategies as being a broad attempt to educate these stakeholders.

Chapter 8, Industry Reputation provides an assessment of the content of the industry's reputation and how its reputation is created. In other words, while *Chapter 7* offers insights into how industry members believed external stakeholders perceived the industry, *Chapter 8* offers insights into how external stakeholders actually did perceive the industry (i.e., in their own words). Findings are based on interviews with two leading journalists who covered the banking sector for a national newspaper from 1990 to the present, data derived from the public testimony and the results of a public opinion survey commissioned by the Task Force on the Future of the Canadian Financial Services Sector in 1998. Clearly, the data from these three sources all suggest that the banking industry has suffered and continues to suffer from a reputation that can be characterized along three broad dimensions – 1) a tendency to abuse its power, 2) a lack of responsiveness to external stakeholders, and 3) an identity that is in conflict with external stakeholders' expectations of the banks' core function (i.e., external stakeholders view banks as being similar to utilities). All three stakeholder groups cited some form of personal interaction as the basis for these perceptions of the banking industry. These perceptions did not evolve from being subjected to bank advertising campaigns, or out of an academic debate around economic theory or the proper regulatory framework. Rather, as individuals spontaneously responded to the topic of banks, they framed their understanding in very personal, individual terms.

Chapter 9, Organizational Responsiveness: Metcalfe Bank, analyzed data from interviews with senior management at a large Canadian bank, code-named Metcalfe Bank. The interviews were conducted with individuals at the senior vice president level who had responsibility for framing and executing the bank's regulatory and image management strategies surrounding its credit card business. The chapter describes the bank's values and culture, its strategy for managing the regulatory environment and its image, its reasoning underlying those strategies and its perceptions of external stakeholders. Metcalfe viewed itself as bottom-line oriented and shareholder driven. It placed a premium on being smart and on employing rational, objective decision-making management tools. It shared the views of its counterparts at the CBA regarding the banking industry's image (which it felt was synonymous with its own). It also perceived itself as a victim of bank bashing and evidenced a similar disdain for external stakeholders. Metcalfe's legislative management strategy could be described as that of a free rider[1]. It had no explicit image management strategy, and claimed to devote minimal resources to image management.

Chapter 10, Organizational Responsiveness: Atwater Bank, conducts the same analysis on a second Canadian bank, based on interviews of senior management with similar decision-making powers and responsibility. Again, this chapter describes the bank's values and culture, its strategy for managing the regulatory environment and its image, its reasoning underlying those strategies and its perceptions of external stakeholders. Atwater's identity is underpinned by multiple values including a belief in stewardship, respect for others and the importance of creativity and initiative. Like its counterparts at the CBA and Metcalfe, however, Atwater also valued superior intelligence and believed that economics and free markets were ultimately the most prudent force governing their actions. Atwater shared the CBA and Metcalfe perceptions of a negative image, believed that it was a victim of bank bashing, and held external stakeholders in low regard. It devoted considerable resources to managing its legislative environment and described itself as a leader in this regard. Atwater periodically devoted considerable resources to managing its image, but appeared unable to do so consistently.

Chapter 11, Emerging Themes and Issues, synthesizes the findings in *Chapters*

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[1] A free rider follows the industry strategy in managing legislation and contributes little to the industry effort because its resources are limited and it perceives political issues as having relatively low salience.

5 through *10*. The data and analyses laid out in the preceding chapters suggest five major groups of findings, specifically – 1) the impact of industry identity attributes on an organization's identity, 2) the affect of identity on an organization's perceptions of external stakeholders and its image, 3) the affect of identity on an organization's strategies, 4) the affect of external events as a counterbalance to the affect of identity on organizational strategies, and finally, 5) given the specific characteristics of this industry, how the nature of its reputation may increase organizational members' vulnerability to increased legislative pressures. At their broadest level, findings suggest four themes around identity, image, reputation and managing the legislative environment. First, for industries that share at least some of the characteristics exhibited by the Canadian banking industry, attributes of industry identity will constitute a major portion of organizational identity, and correspondingly, will dominate the industry's and individual members' approach to the legislative environment. Second, identity can act as an inertial force hindering an organization's ability to adapt to its legislative environment. The stronger and more deeply rooted the identity attributes, the more difficult it will be for an industry, or an individual organization, to modify the core aspects of its approach. Third, the inertial force of identity, for industries and organizations bearing these characteristics, can only be counteracted by a series of external events, and these events must be meaningful in terms of the industry or organizations' identities. Essentially, the stronger the inertial force exerted by the industry or organization's identity, the greater the number of external events needed for change, the slower the adaptation to the environment and the more superficial the adaptation. Fourth, and finally, a negative reputation arising out of personal interactions (i.e., between stakeholders and organizations), increases the likelihood of reduced legitimacy.

This chapter then lays out a model and a corresponding series of propositions based on these emerging themes. The model graphically displays the processes through which organizations affect legislative outcomes along with the conditions or factors that modify these processes.

This thesis concludes with *Chapter 12, Discussion and Conclusions*, which provides a summary of the findings of this research, acknowledges the limitations of the research design, discusses the contribution this research makes to the various areas of literature reviewed earlier, lays out the implications for practitioners and suggests directions for future research.

2 LITERATURE REVIEW

Once again, this thesis seeks to provide insight into how organizations manage their regulatory environment, and why they make these management choices, by addressing the specific question: "How have banks' organizational identity and image affected their management of the legislative challenges facing their credit card business?". In order to provide context for this research this literature review summarizes recent findings in the following four research areas – organizational identity and image, organizational impression management, public affairs management, and organizational legitimacy. This chapter concludes with a discussion of the gaps that occur individually and collectively in these literatures, as they pertain to the research question under study.

2.1 Organizational Identity and Image

While organizational identity, image and the related concept of reputation all revolve around internal and external perceptions of organizations, academics have developed a set of distinct meanings for each. Broadly speaking, organizational identity can be defined as how individual members in organizations perceive the organization, organizational image can be defined as how individual members in organizations believe others see them, and reputation can be defined how others actually do see them. Understanding the links between these concepts has been challenging for researchers since they are each rooted in different intellectual traditions, and our collective understanding of each is at different stages of development. While these differences have made for fertile research opportunities, it has also muddied efforts to make explicit the linkages between these constructs.

In the past 15 years researchers have become increasingly interested in organizational identity because they perceive that it may be a significant driving force behind organizational action. In contrast to theories and research that suggest that management behavior and decision-making results from a rational assessment of costs and benefits, strengths and weaknesses, opportunities and threats, Albert (1998) suggests that: *"How one acts may depend more on who one is, who others think one is, and who one aspires to be than any objective assessment of the opportunities and costs associated with a given direction" (p.10).* Academics have suggested that organizational identity shapes the organization's perceptions of the consequences of its performance and acts as a cognitive lens through which management makes choices (Dutton and Dukerich 1991, Bouchikhi, 1998). Strategy researchers have suggested that organizational identity is a potential source of competitive advantage and that it fulfills four functions. These functions include: 1) describing the essence of the organization, 2) focusing management attention on significant or important strategic issues, 3) influencing the resource allocation process, and 4) motivating employees (Stimpert, Gustafson et al. 1998). Organizational identity has also intrigued researchers since it is also a concept that links across levels of analysis. Because questions about identity can and have been posed at the individual, group or organizational level, it is one of the few conceptual tools for linking macro and micro-level research (Albert 1998). For example, the congruence or discontinuity between individual identity and organizational identity may explain the actions individuals undertake on the organization's behalf.

This rise in research interest in organizational identity can be dated to the 1985 publication of Albert and Whetten's path-breaking article on organizational identity in Research in Organizational Behavior (1985). Prior to this point in time, identity research had been largely confined to explorations around self-identity and group-identity. Albert and Whetten were the first to crystallize a working definition of organizational identity. They suggested that organizational identity was what organizational members perceived to be the essence of the organization, or who they are as an organization, and identified three features that distinguish organizational identity. These features include centrality (i.e., the identity attributes must be central to the organization), distinctiveness (i.e., the identity attributes must make the organization distinctive from other organizations) and endurance (i.e., the identity attributes must continue to help members link the organization's past to its future.) This view has been expanded upon, and elements of it continue to be explored and debated. For example, Bouchiki et al (1998) suggests defining identity as a set of interwoven and mutually sustained dimensions including people, core business, operating principles and organizational purpose. In their view, organizational identity incorporates both the "hard" and "soft" sides of an organization. Leveraging off the identity research in the individual and group literature, some theorists have suggested that organizational identity is also a relational and comparative concept, that organizations define themselves in relation to other organizations (Gioia 1998, Albert, 1998).

Indeed, the definition of organizational identity has been enriched by researchers who approach the concept of identity from different intellectual paradigms. It is functionalist or positivist researchers who believe that identity shapes cognition and action. According to positivist researchers, organizational identity reflects institutionalized beliefs or taken-for-granted assumptions about what the organization is, and observable dimensions such as those suggested by Bouchiki et al. (1998). For functionalists, identity is an observable fact and can be manipulated. These researchers seek to uncover, describe and measure identity in order to create more effective organizations. To achieve this end, they make inferences about identity based on organizational members' actions and statements, and rely on data such as psychometric instruments or demographic information to explore these issues. This thesis follows in the functionalist tradition.

Interpretive and post-modern academics take a different approach to the study of organizational identity. Interpretive researchers attempt to understand how organizations construct identity and they seek to uncover the meaning of identity for an organization's members. They assume that identity is a socially constructed phenomenon, and the meanings and meaning structures are negotiated among members. They attempt to understand the organization's symbols and the meaning schemes of members and researchers (Bouchiki, Fiol et al. 1998). Post-modernists seek to "*problematize identity, often with an eye toward disclosing and disrupting power relations*" (Bouchiki, Fiol et al. 1998) p.42. They assume identity is a serendipitous occurrence and often takes on paradoxical forms. In their efforts to understand the nature and role of organizational identity, they pay particular attention to language and discourse, and in particular, to silence and absences in the discourse (Bouchikhi, Fiol et al. 1998).

Clearly, there has been significant research interest and debate around the concept of organizational identity in the last 15 years. The recent empirical research that has been conducted in the arena of organizational identity and image, discussed below, has addressed some broader questions around the nature of identity and its impact on organizational actions. Specifically, a number of researchers have identified links between organizational identity and organizational image, and have suggested how these concepts may affect organizational change and environmental adaptation.

Organizational image is generally defined as "the way they (i.e., members) believe others see the organization" (Dutton and Dukerich 1991 p. 520) or "as construed external identity (i.e., what members think outsiders believe are the central, distinctive and enduring attributes of their organization)" (Elsbach and Kramer 1996 p. 443). It has also been suggested that image refers to characteristics that senior management would like to see ascribed to the organization (Whetten, Lewis and Mischel cited in Gioia, et al.1996, p. 372). The common theme in these definitions is that image, like identity, is a perceptual lens for organizational members. It refers to what insiders believe the world thinks of them, and as such, is the reference point around which they launch efforts to manage outsiders' impressions of their organization. Again, it is distinct from the concept of organizational identity which refers to what insiders, themselves, believe are the distinguishing and distinctive attributes of the organization.

Motivated by a desire to understand how individuals and organizations make sense of and act on emotional and strategic issues, Dutton and Dukerich (1991) conducted a study on how the Port Authority of New York and New Jersey had dealt with the issue of the homeless throughout the 1980s. They mapped the organization's struggle with how to deal with homeless people living on their properties onto five separate phases. Each successive phase resulted in actions that were increasingly proactive and positive in their treatment of the homeless, and also more consistent with how staff perceived the organization's core values (i.e., "first-class", "fixer", "doer", p. 543). Essentially, individual staff cared about how others perceived the organization because it reflected upon them and, therefore, acted in a way that would foster an improved organizational image. These researchers concluded that "an organization's image and identity guide and activate individuals' interpretations and motivations for action on it, and those interpretations and motivations affect patterns of organizational action over time" p. 517. Correspondingly, Dutton and Dukerich also suggest that the proposed linkage between identity and image, which translates into impression management efforts, is a major factor in how organizations adapt to their environments.

Gioia and Thomas (1996) support Dutton and Dukerich's (1991)'s view that identity and image are important factors in impression management and in organizational adaptation. These researchers conducted a two-phase study of how senior management teams in university settings make sense of issues when managing strategic change. In contrast to Dutton and Dukerich's study, however, the organizational members in this case study did not view the organization's identity as positive. The researchers concluded that if organizations want to make substantive changes, then the organization's identity must change to be consistent with the new, desired image of the organization. They suggested that the conceptualization of identity include dimensions that measure the organization's ability to learn and adapt quickly. They also suggested that richer information processing structures (i.e., more participation and less formality) were related to stronger identities and were influential mechanisms for institutionalizing the degree to which identity is maintained.

Elsbach and Kramer (1996) investigated the responses of business school administrators to the rankings published by Business Week magazine. In 1988, Business Week began ranking the Top 20 business schools in the US according to two primary criteria: 1) recent graduates' satisfaction, and 2) recruiters' satisfaction with recent graduates. These criteria usually did not coincide with the core identity attributes held by the various universities, and as the rankings gained public legitimacy, their existence caused consternation within this academic community. These researchers focused on how this biennial event that threatened core identity attributes of a university affected organizational members' sense-making abilities. Among their findings was the observation that organization members used selective categorizations to reemphasize positive perceptions of their identity, for both internal and external audiences. These findings suggest cross-level linkage (i.e., a psychological interdependence) between individual and organizational identity, which supports Dutton and Dukerich's findings regarding how individuals work to limit cognitive dissonance around organizational and individual identity. They also suggested that members may restore positive personal perceptions by highlighting alternative positive dimensions of the organization's identity (even if these dimensions were not given prominence in the formal rankings), by emphasizing the identity dimensions that they preferred, or by comparing themselves to alternate groups. Their findings suggest that managers can use such categorization processes to help focus attention, and to change or reshape organizational identities.

Fox-Wolfgramm, Boal and Hunt (1998) used the construct of organizational identity to help explain the process of adaptation to a strategic pressure, namely conforming with regulatory requirements. These researchers investigated how two US banks adapted their responses to the Community Reinvestment Act over a seven year period. The Community Reinvestment Act prohibits banks from discriminating against certain areas in their community with respect to extending credit. Findings suggested that banks acted to remedy any dissonance between organizational identity and image, but also raised the issue of dissonance between current identity and image and envisioned identity and image. Like Gioia and Thomas (1996), their findings suggest that successful strategic change is preceded by a change in identity. Furthermore, congruence between current identity and image and envisioned identity and image will positively influence whether the change is sustained.

As discussed, organizational identity and image are distinct from the concept of organizational reputation, which has been defined as *"..a set of attributes ascribed to a firm, inferred from the firm's past actions"* (Weigelt and Camerer 1988, p.443) or the *"..publics' cumulative judgments of firms over time"* (Fombrun and Shanley 1990, p. 235). Elsbach and Glynn (1996, p. 66) refine these definitions by suggesting that:

"...strategic reputation is an external audience's beliefs about an organization's central and distinctive traits (Dutton and Dukerich, 1991) that give it a competitive advantage over other organizations, particularly in incomplete information settings" (Weigelt & Camerer, 1988). In contrast to the constructs of organizational identity and image, the construct of reputation is rooted in the perception of outsiders. Also, unlike organizational identity and image which is rooted in the research traditions of cognitive and behavioral science, reputation research is rooted in the fields of economics and strategy. Although this thesis touches on the construct of reputation it is most concerned with the constructs of identity and image, since it is attempting to understand the activities and motivations of insiders.

2.2 Impression Management

Impression management is the process by which organizational members attempt to influence how outsiders perceive them, or in other words, the process through which they attempt to shape their image. Much of our understanding of the field of impression management comes from research conducted on the level of the individual from the perspective of social psychology. Goffman (1959) wrote: *"..impression management involves attempts to establish the meaning of or purpose of social interactions, and that it guides our actions, and helps us anticipate what to expect from others. Impression management is a sort of mutual ritual that helps to smooth and control social relations and to avoid embarrassment"* (cited in Rosenfeld, Giacalone et al, 1995, p. 4). Until more recently, much of the research in the field of impression management had been devoted to examining what drives individuals to manage the impression they make, describing various techniques of impression management or self-presentation, and understanding how to measure and monitor impression management on the part of individuals (Schlenker 1980; Giacalone and Rosenfeld 1989; Rosenfeld, Giacalone et al. 1995). What has been notably lacking is an understanding of how and why individuals and groups engage in impression management on an organization's behalf. Theorists have begun to note that this is an area which demands more consideration (Ginzel, Kramer et al. 1993; Rosenfeld, Giacalone et al. 1995).

Initial efforts to fill this gap in the literature have resulted in research that has tended to focus on how organizations manage their image in response to crises. Typically, researchers have extended the types of strategies individuals use for self-presentation to the organizational level. For example, Sutton and Callahan (1987), in a study of four computer companies who filed Chapter 11 in the mid-1980s, identified five kinds of impression management responses to the stigma caused by bankruptcy - concealing the event, defining its terms, denying responsibility for it, accepting responsibility or withdrawing from the situation. Similarly, Elsbach and Sutton (1992) studied the impression management tactics of two radical social movements in an attempt to understand how these organizations resolved "the legitimacy dilemmas" that resulted from illegitimate actions on their part. They discovered that impression management strategies of shifting the blame followed by efforts to accentuate positive outcomes were effective, if the organization had first decoupled its core activities from the parts of the organization that had undertaken the illegitimate action. Benoit (1995), in a series of case studies (including Exxon and the Valdez oil spill and Union Carbide and the Bhopal plant disaster) focused on how defensive strategies - such as denial, bolstering, shifting blame, attacking the accuser and apologizing - were effective in restoring the organization's image.

One exception to this trend towards focusing on crisis response is a recent study on how hospitals used anticipatory impression management tactics to reduce challenges to billing practices. Elsbach and Sutton (1998) studied how the impression management techniques used by staff in routine service encounters (i.e., answering questions about billing) were designed to avert challenges to the organization. These tactics included creating impressions of accommodation and legitimacy as well as intimidation and excessive bureaucracy, and were intended to divert patients' attention from problems and to prevent them from escalating their inquiries.

Historically, researchers in the area of game theory asserted that firms believe that reputations are an important intangible asset and accordingly, engage in reputation-building behavior that they believe will generate future rents. These researchers assumed that organizations operated in a universe where players had access to differing amounts of information and therefore, by engaging in reputation-building behavior, an organization could generate rents by credibly signaling information about its intentions to outsiders who lacked this information. The nature of reputation-building activities has been studied in a wide variety of situations, including attempts to strategically discourage new entrants in a market, attempts to signal product quality or service quality to consumers before they make a purchase decision, and attempts to rent other's reputations, (e.g. corporate directors, accounting firms), in an effort to signal the organization's credibility (Weigelt and Camerer 1988). Recently, there have been attempts to introduce a sociological perspective into this literature on reputation. Fombrun (1990) suggests that stakeholders respond to three kinds of signals when assessing an organization's reputation - market signals (e.g., accounting performance, dividend policy); institutional signals (e.g., institutional ownership, social responsibility, media visibility) and strategic signals (e.g., nature of firm diversification, advertising). Elsbach and Glynn (1996) build upon this strategic literature's understanding of how reputations are constructed by suggesting that involving employees in reputation-building activities will both enhance an organization's reputation and employee identification.

Interestingly, much of the organizational impression management research has tended to focus on senior management actions as a major determinant of impression management efforts, and ultimately, of organizational image and/or reputation. This is reflected in the methodological aspects of the research (i.e., a focus on senior management) and in the conclusions. The majority of Dutton and Dukerich's (1991) and Gioia and Thomas's (1996)'s informants were in senior management or had direct responsibility for image or issue management. One of Sutton and Callahan's (1987)'s conclusions is that the image of the organization and the leader are intertwined, and that the spoiled image of the leader contributed significantly to the spoiled image of the firm. Again, the exceptions to this preoccupation with senior management's role were Elsbach, Sutton et al (1998) who studied a number of customer service staff in addition to senior management in their study of hospital billing practices, and Elsbach and Glynn's (1998) focus on the activities of front line workers in their study of the interaction between organizational identification processes and strategic reputation-building activities.

2.3 Public Affairs Management

Public affairs can be defined as "*the function that is responsible for managing a company's external relations with relevant stakeholders in the public policy process*" (Fleisher 1993 p. 276). There is a widely held view that the organizational resources devoted to the public affairs function grew throughout the 1960s and 1970s in response to increasing government intervention in the economy (Maitland 1987; Marx 1987). The public affairs literature tends to be tactical in its descriptions and prescriptions, and focuses almost exclusively on the formal impression management or boundary spanning roles within an organization. The following review of the public affairs literature limits itself to discussing public affairs as it pertains to organizational efforts to directly influence the legislative or regulatory environment.

2.3.1 Strategies

Numerous researchers have attempted to categorize organizations' overall approach to public affairs management, and more specifically, how they manage regulatory affairs. Mahon and Post (1987) suggest that an organization's approach to political strategy can be classified as either resistance, collaboration, compromise or avoidance according to its stake in the status quo and its relations with stakeholders.

Similarly, Yoffie (1987) offers a typology that segments organizations' political strategies into five categories - free rider, follower, leadership, private goods, and entrepreneurship. The strategy an organization chooses depends on its competitive position, the strategic salience of the political environment, the resources it can allocate to the management of regulatory issues and the level of consensus on the importance of issues within the industry. Leone (1986) offers a series of guidelines to organizations regarding how to best manage the regulatory environment. He suggests that effective strategies are proactive, reflect a well-informed appreciation of the competitive implications of government policy, are not ideological and correspondingly acknowledge the political legitimacy of the issues the government is trying to address, and do not assume that the regulatory organizations mirror corporate hierarchies.

2.3.2 Tactics

Getz (1993) offers a model that suggests under what conditions a firm should use particular corporate political tactics. Tactics are broadly divided into lobbying, reporting research results, reporting survey results, testifying at governmental hearings, legal actions, personal service and constituency building. She suggests the optimum mix of tactics depends on the type of policy the organization is trying to influence (i.e., social, economic, political and technological), the issue life cycle stage (i.e., emergence, formulation or administration) and the target (the level and function of government at whom the tactics will be directed). Using a transactional cost framework, Kaufman, Englander et al (1993) suggest that an organization's decision to retain or outsource aspects of its public affairs management depends on the characteristics of the issue such as frequency and specificity (i.e., convergence from industry interests). Keim and Baysinger (1988) draw an analogy between business' attempts to influence political decision-making in both the legislature and regulatory agencies and effective product marketing. They suggest that in order for a strategy to be effective it must be actively formulated, must have value and must be difficult to imitate. Mahon (1993) suggests another effective method of shaping the political environment is through the use of manufactured agents. The organization can use agents to achieve its outcomes, but should stay out of the fray on "*hot*" issues (p. 190). Tactics that may increase the effectiveness of these agents include controlling the agenda and the timing of issues arising on the agenda and controlling the choice of arena. Sonnenfeld (1981, p. 27) suggested that to be effective in its management of public affairs, organizations must develop "*...expertise in discerning the issues and also in coordinating a response*". He argued that companies that were more culturally and structurally sensitive to their environment were perceived as more responsive by outside stakeholders, and correspondingly, were perceived as more effective.

2.4 Legitimacy

A fundamental tenet of organizational theory is the notion that organizations must possess "legitimacy" in order to survive and thrive (Pfeffer and Salancik 1978, Scott, 1992, Meyer, 1977). Suchman (1995), in a review of the large but diverse literature on organizational legitimacy offers a general definition: "*Legitimacy is a generalized perception or assumption that the actions of an entity are desirable, proper or appropriate within some socially constructed system of norms, values, beliefs and* *definitions"* (p. 574). He suggests that legitimacy confers upon organizations the dual benefits of stability and comprehensibility. In essence, organizations that are legitimate become "almost self-replicating." Furthermore, legitimacy also affects how people understand organizations. Stakeholders who perceive and accept organizational activities as legitimate will likely also perceive these organizations as more predictable and trustworthy. Suchman suggests that this broad definition of legitimacy can be further sub-divided into pragmatic legitimacy (i.e. based on audience self-interest), moral legitimacy (i.e., based on normative approval) and cognitive legitimacy (i.e. based on comprehensibility and taken-for-grantedness), each of which obviously rests on a different behavioral dynamic.

Bansal (1995) defines organizational legitimacy as *"the congruence between the firm's actions and the expectations of the constituents within the firm's organizational field."* (p.304). In keeping with this definition, Marcus, Kaufman and Bream (1987) suggest that legitimacy has become an increasing concern for corporations since the 1960s, and corresponds with rising government scrutiny of the private sector's business practices. They suggest that *"Legitimacy is political resource that is granted on a contingent basis and is subject to alteration as social demands are modified. Generally, managers can resort to the uses of ideology to try to build a social climate that is in business' long term interests"* (page 9). The acquisition and maintenance of legitimacy should confer upon an organization preferred treatment from regulatory entities, as well as favorable outcomes in the marketplace (Deephouse 1996, Dacin, 1997). At their heart, many of the impression management and public affairs management strategies discussed earlier represent managerial attempts to maintain or repair legitimacy. For example, when a corporation's legitimacy is challenged, the impression management technique that it employs (e.g., emphasizing right intentions, shifting blame, denying illegal gain) in an attempt to explain its behavior is not simply an act of conveying information, but rather, an attempt to preserve or regain social standing (Marcus, Kaufman et al. 1987).

In terms of this research, a bank would be said to possess legitimacy when there exists a general perception that it does business in a manner that is desirable, proper and appropriate in the context of our societal norms, values and beliefs. Therefore, broadly speaking, a bank's ability to achieve legitimacy could depend largely on how it is viewed by various stakeholders. In terms of regulatory stakeholders, whether a bank is viewed as possessing "legitimacy" may be a function of several factors, including but not limited to how it has managed the regulatory process, how it has managed its image with respect to the activity being regulated, how it is perceived by stakeholders outside the regulatory arena and/or the interaction of all of these factors.

2.5 Summary and Conclusions

Each of the preceding literatures is in a reasonably embryonic stage of empirical research, and individually and collectively are characterized by a number of gaps. In terms of our understanding of the construct of organizational identity there has not been an abundance of empirical research and some researchers suggest that it may be too early in our discussions to attempt to quantify and measure identity (Gioia 1998). In particular, there are a large number of questions still unanswered regarding the nature of organizational identity, and how identity relates to its sister concepts of image and reputation. A group of academics gathered in 1997 to explore the topics around organizational identity, and suggested the major issues that needed to be further explored include (among others) how organizational identity facilitates or hinders organizational change, the relationships between organizational identity and organizational performance, the relationships between identity, image and reputation, the implications of gaps or discontinuities between the constructs or between the perceptions of insiders and outsiders, and to what extent endurance is a key feature of organizational identity (e.g., can identity be simultaneously stable and changing) (Bouchikhi, Fiol et al. 1998)[2]. Early findings, however, do suggest that organizational identity, and the interplay between organizational identity and image play a significant role in organizational adaptation.

Understanding how an organization manages its image or its reputation also poses challenges for today's researcher in a number of ways. First, similar to the literature on organizational identity, the literature on organizational impression management is still fairly young. It has been informed by the literature on impression management at the level of the individual and by the literatures on the management of public affairs and corporate reputation, but it lacks a framework that integrates these literatures. Second, while this literature has focused heavily on understanding the processes (i.e., strategies and tactics) for managing outsiders' impressions of an

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[2] The outcome of this conference was the publication of the book *Identity in Organizations: Building Theory Through Conversations*, David A. Whetten and Paul C. Godfrey, editors, Sage Publications, 1998.

organization, it has provided only a weak understanding of the construct of organizational image, and correspondingly, organizational reputation, and on the motivating forces that drive an organization to manage its image. Specifically, it offers an incomplete picture of the attributes of organizational image, the dimensions along which these attributes can be measured, and the forces affecting these attributes. The concept of reputation appears to be only marginally more developed (Fombrun and Shanley 1990).

To summarize, the organizational identity literature suggests how identity might spur an organization to act in a particular manner with respect to its image and its external environment. The organizational impression management and public affairs literatures both address aspects of how organizational images (and reputations) are formed and managed. The public affairs literature suggests what broad macro-level strategies organizations may pursue (e.g., leader, free rider) in managing the regulatory or legislative environment and what specific tactics may be optimal (e.g., lobbying, advertising types of signals), while the impression management literature suggests what message may be conveyed (e.g., shifting the blame, accentuating the positive). Collectively, these literatures are characterized by several gaps. First, none of them do an adequate job of defining the construct of organizational identity or image. Second, with the exception of some very recent efforts (e.g., Elsbach and Glynn 1996; Elsbach, 1998), all of these literatures tend to neglect the possibility that organizational images are formed because of activities that take place as a result of an organization's daily operations and not only as a result of more formalized impression management activities or in response to crises. Third, there is no framework that integrates these literatures, or helps us to understand how to best combine strategies, messages and tactics. Fourth, and most importantly for this research, there is little research that specifically links organizational identity, image and the processes of image management and regulatory management.

The question posed in this thesis addresses some of these gaps by focusing on a specific set of organizations to further explore the nature of organizational identity, how organizational identity is linked to organizational image, and how organizational identity may be linked to efforts to manage the legislative environment.

3 METHODOLOGY

This thesis uses a qualitative approach to explore the relationship between the constructs of organizational identity, image, and reputation and the process of managing the regulatory environment. Qualitative methodology is particularly appropriate when little is known about a phenomenon, or when conveying intricate details about a phenomenon would be difficult to do quantitatively. It is an approach that can enable the researcher to focus on process and action, in an attempt to better understand and explain the nature of change within a phenomenon.

As discussed in the last chapter, *Literature Review*, we know little about the relationship between the related constructs of organizational identity, image and reputation and regulatory process. Few empirical studies have been conducted that focus specifically on the interaction of these phenomena, and very little literature exists that directly touches on the potential theoretical relationship between an organization's identity, impression management efforts and outcomes in its regulatory environment. Essentially, this research is highly exploratory in nature, and therefore, lent itself well to a qualitative approach. Interestingly, much of the research that has been conducted in the area of organizational impression management has used a qualitative approach (see Appendix A for details.) Accordingly, I elected to use a qualitative methodology to explore the relationship between organizational impression management efforts, the related constructs of identity, image and reputation and regulatory process.

This chapter describes how the groundwork for research was laid, how the data were collected and analyzed and concludes with a summary of the research methodology. The first section, *Laying the Groundwork*, describes how and why the research question was framed the way it was, and how site access was obtained. The second section, *Data Collection* describes the nature of the data, and how these data were sampled, collected and prepared for analysis. The third section, *Data Analysis* describes how these data were analyzed. The final section, *Summary and Discussion*, summarizes the data sets and analysis process and briefly lays out the strengths of this research methodology. The limitations of this research design are discussed in *Chapter 12, Discussions and Conclusions*.

3.1 Laying the Groundwork

At the beginning of a qualitative research project, the researcher must make a series of decisions, the outcomes of which have a critical impact on the quality, and potentially, the results of the research. These decisions surround the appropriate definition of the research question, the identification of some potential a priori constructs, the selection of sites, and the choice of data collection methods.

3.1.1 Focusing the Research Question

The original question – "How do organizations' identity and image affect their management of the regulatory process?" - was predicated on two notions – first, that favorable regulatory outcomes are critical to the organization's ability to survive and thrive; and second, that regulators' image of an organization may be a factor in how they treat it. As a starting point, this question was focused in its attempts to understand how specific organizational constructs influence a specific managerial process (i.e., managing the regulatory process). The initial research focus, suggested that the optimal type of organizations to be studied should be heavily regulated and have a high public profile. In addition, the lack of prior research on the connection between these phenomena suggested that a qualitative methodology was most appropriate. Consequently, commercial banks were considered a particularly appropriate empirical setting. As discussed under *Chapter 4, Financial Services Sector in Canada*, the commercial banking industry in Canada is one of the most heavily regulated industries in the country. There is an abundance of public archival data on their efforts in managing or responding to legislative challenges. In addition, the size of the five largest Canadian banks and their prevalence in the economic and daily life of our society have necessitated that they attend to their image on an ongoing basis. Consequently, they are the subjects of extensive media coverage. The magnitude of public archives and media reports suggested that there would be readily available data on identity, image and reputation, as well as documentation on how these organizations managed the legislative process.

As the research progressed, and in the spirit of qualitative research, the question was both narrowed and refined. First, it was narrowed to focus on a single regulatory issue. Early in the process of getting site access the sheer complexity and abundance of the regulatory issues facing the banking sector necessitated that a single regulatory issue be the focus of the research. Otherwise there was a danger of being overwhelmed by data. In collaboration with one of the sites described below, the issue of credit cards was defined as a suitable topic. The process of managing regulation around credit cards offered a particularly attractive lens through which to explore this question for three reasons. First, the credit card issue arose in 1986, at the beginning of the period when Canadian banks began to come under increased scrutiny from federal legislators. Second, and relatedly, it has been the only major regulatory issue that has resurfaced at regular intervals since its initial introduction. Despite environmental changes (e.g., changes to the economy, new product introductions) this issue has attracted the attention of federal legislators four times since the mid-1980s. This repeated attention provided the opportunity to examine how these phenomena have both contributed to change and to resistance in how organizations manage the regulatory process. Finally, this is a non-partisan issue. Throughout this period of time politicians from all parties have simultaneously expressed concern and sought to legislate activity in this area of banking business. The non-partisan nature of the issue suggests that its relentless reappearance on the legislative agenda is not the product of particular political ideology.

3.1.2 Site Access

Ultimately, I obtained site access at two of the five largest Canadian banks, code-named Metcalfe Bank and Atwater Bank. Any of these large banks would have made interesting and worthwhile sites. However, the resources available to this project necessarily limited the number of sites to two and certain alliances within the Canadian banking industry naturally predisposed certain pairs of banks to being studied together. These two offered a particularly interesting view on the research topic since one of them is reputed to be the market leader in credit cards in Canada, and the other has a long-standing reputation of defying industry convention in its approach to numerous business issues. I gained access by approaching a personal acquaintance at each site, explaining this research project and seeking a referral to the appropriate senior executive.

3.2 Data Collection

I collected and analyzed three major sets of data – (1) minutes from testimony given to a series of House of Commons Standing Committees (the "Committee Minutes") and accompanying reports, (2) newspaper articles, and (3) in-depth interviews with bank executives and industry observers. I also gathered supplementary data including selected minutes from the Hansard (i.e., the transcripts of Parliamentary debates), a series of bulletins published by Industry Canada called "Credit Card Costs", interest rate data from the Bank of Canada Review, indices from the Minutes of the House of Commons Standing Committees, a report based on a recent public opinion poll commissioned by the federally appointed Task Force on the Future of the Canadian Financial Services Sector, and industry archival materials (e.g., speeches, consultants' reports). Appendix B contains a detailed description of the archival sources including the Minutes of the House of Commons Standing Committee, associated reports, newspaper articles and entries from the Hansard. The remainder of this section will describe the nature of each data set and the kinds of sampling techniques that were employed.

3.2.1 House of Commons Standing Committee Minutes

The House of Commons Minutes of the Proceedings and Evidence of the Standing Committees are the verbatim transcripts of the audio recordings of all public House of Commons Standing Committee sessions involving witnesses and committee members. Clearly, appearances at these public hearings may not represent the total effort on the part of the banks to address legislative issues. However, in addition to data available from the in-depth interviews, the banks' (or their representative's) appearances in front of these Committees are illustrative of how they managed legislative challenges to their credit card business, and of aspects of the industry's identity and reputation.

There was no sampling involved in collecting this data. I photocopied every page of testimony that took place during each of the first three public hearings into credit card practices and downloaded the entire testimony from the fourth hearing from the Parliamentary web site. These hearings took place in 1986, 1989, 1992 and 1997 and for the purposes of this thesis are named after the chairman of the Committee at the time. The magnitude of this data set is quantified in Table 1.

Each photocopied page was fed into a scanner, and the scanned image was subjected to optical character recognition software and then converted into a Word file. Each Word file was then edited and pasted into a master Word file. One master Word file was set up for each session. Each session file was then prepared and loaded into a NUD*IST database. The downloaded testimony from the Walker hearing was prepared and loaded into NUD*IST. Appendix B contains bibliographic details on this data set.

Table 1 - Quantification of Data Set – Minutes of the Standing Committee Hearings

	Blenkarn Hearing 1986	Turner Hearing 1989	Holtmann Hearing 1992	Walker Hearing 1997
Number of sessions*	4	6	7	4
Number of witnesses	15 individuals, representing 6 organizations	16 individuals, representing 7 organizations	19 individuals, representing 8 organizations	20 individuals, representing 8 organizations
Length of hearing	381 minutes (6.35 hours)	616 minutes (10.27 hours)	772 minutes (12.87 hours)	507 minutes (8.45 hours)
Number of words in transcripts	54,667	84,866	96,608	72,708
Number of pages of transcripts**	219	339	386	291

* a session is a single meeting, generally held between one or two witnesses and the Committee

** the number of pages of transcripts is based on an assumption that there are 250 words per page.

3.2.2 Newspaper Articles

A second major source of data were newspaper articles that reported on the hearings and corresponding issues during the period 1986 to 1998. I had two objectives in gathering newspaper articles around the topic of legislative challenges to banks' credit card operations – first, to determine the series of events that took place, and second, to understand the banks' and external stakeholders' responses to these events. An ancillary motivation for using media reports was to develop an issue history that would be useful when conducting interviews, and second, to assess the banks' image around this issue. I used a stratified sampling procedure. I endeavored to gather enough articles to ensure that I captured all adequate historical detail while also providing a representative sample to mitigate against biases in the historical record. The sample was stratified in the sense that I ensured that media reports from all regions of the country, and all major newspapers were represented in the sample.

I began by broadly searching the CBCA (i.e., Canadian database of magazine and newspaper articles) for the period 1982 to the present for articles in which the term "credit cards" appeared. This search produced 2,447 hits. Given that my interest was in particular events and issues associated with credit cards, I narrowed this list by selecting any articles that might relate to credit card interest rates, how banks were perceived with respect to credit cards, anything relating to government inquiries around credit cards, and anything related to cost of credit cards to consumers. Specifically, I did not select any articles that focused on new credit card products or the marketing of credit cards, credit card crime, the size of credit card billings, and any articles whose titles indicated they were not about credit cards, even if the phrase appeared in the text. Applying these parameters enabled me to narrow the number of relevant articles to 440.

At this stage I dropped all articles prior to 1986, since 1986 was the year banks' practices with respect to credit cards came under increased scrutiny from Parliamentarians, as evidenced by the occurrence of the first Parliamentary inquiry. This reduced the number of relevant articles to 246, which I refer to in this discussion as the modified chronological database ("MCD"). The MCD is essentially a first cut at a sample. The proportional representation of newspaper articles in this database is as follows:

Table 2 - Proportional Representation of Newspapers in the MCD

Newspapers	MCD (# of articles)	Percentage of total
Calgary Herald	46	19
Globe and Mail	78	32
Montreal Gazette	31	13
Toronto Star	41	17
Vancouver Sun	26	11
Winnipeg Free Press	24	10
TOTAL	**246**	**100%**

Approximately one third of the articles came from the Globe and Mail, which is not surprising given that it is the national business newspaper, and therefore, is more likely to provide extra coverage on issues of national interest such as credit cards.

I then reduced the MDC to a sample that was a more manageable size. This sample is referred to as the final sample. In order to ensure that the sample was representative I focused my search around which articles in the MDC would yield the most data on historical events, and would enable me to develop a preliminary understanding of how the press, and those on whom they reported, viewed this issue of credit cards and credit card legislation. I arranged the 246 articles in chronological order and selected a sample of those that clearly dealt with government hearings, were clustered around the same date (presumably because of some newsworthy event) and appeared larger or near the front of the section (presumably there would be more "meat" in these reports). I was also mindful to ensure that all major newspapers across the country were represented. Based on these parameters I narrowed the number of relevant articles to 93. I then photocopied and read the selected 93 articles.

The following two tables indicate: (1) the proportional representation of newspapers in the final sample of articles used for analysis, and (2) a comparison of the newspaper representation in the MCD and the final sample.

Table 3 - Proportional Representation of Newspapers in Final Sample

Newspapers	# of articles selected	Percentage of total
Calgary Herald	16	17%
Globe and Mail	31	33%
Montreal Gazette	10	11%
Toronto Star	23	25%
Vancouver Sun	4	4%
Winnipeg Free Press	9	10%
TOTAL	**93**	**100%**

Table 4 - Comparison of MCD to Final Sample

% of articles selected

Newspapers	MCD	Final Sample
Calgary Herald	19%	17%
Globe and Mail	32%	33%
Montreal Gazette	13%	11%
Toronto Star	17%	25%
Vancouver Sun	11%	4%
Winnipeg Free Press	10%	10%
TOTAL	**100%**	**100%**

To recap, there were 246 newspaper articles in the MCD that dealt with legislative challenges to credit cards between 1986 and 1998. Based on the criteria described above (e.g., focus on government hearing, date and location in paper) I selected a final sample of 93 articles. Within the sample of 93 articles, the Globe and

Mail, the Calgary Herald, and the Montreal Gazette were represented in a proportion that is close to their proportional representation in the MCD. The Vancouver Sun and Winnipeg Free Press's proportionally lower representation can be explained by the fact that a large number of their articles were from the Canadian Newswire Service, and thus were duplicates which were not used in the final selection. The Toronto Star is represented more often as a data source largely because they tend to give coverage of the issue closer to the front of the newspaper. The consistency between the proportional representation of newspaper between the MCD and the final sample suggest that reduction in the size of the sample did not compromise its representativeness. In addition, the broad representation across six newspapers suggests that the analysis is not biased by any unique editorial positions that may influence some newspaper's coverage. Appendix B contains a complete listing of the articles.

3.2.3 In-depth Interviews

I interviewed a total of 20 individuals. At Metcalfe Bank, I interviewed six senior executives, who either currently or in a prior position, had been responsible for the credit card operations, public affairs, and marketing. All individuals had the rank of senior vice president or higher and could be described as decision-makers for their respective areas. These executives have penultimate authority for the performance of their units and reported directly to the highest executive level of the bank. At Atwater, I interviewed eight executives in the areas of credit cards, corporate communications, compliance and public affairs. These individuals had the ranks of executive vice president, senior vice president and vice president. Like their counterparts at Metcalfe, these individuals had been directly involved with managing the bank's response to credit cards challenges during the time period under investigation. At the Canadian Bankers Association (the "CBA'), the industry's lobbying association, I interviewed five senior executives who had been in decision-making positions and had been directly involved with member and legislative communities in the 1980s and 1990s. These individuals had held the ranks of Chairman, president and CEO, vice president and senior adviser. (One executive at one site also held a position at the CBA). At a major newspaper I interviewed the two reporters responsible for covering the banking industry from 1991 to the present. This sample of interviewees represented a high proportion of decision-makers in this field during this time period, and additional interviews would have likely have yielded little additional data.

This interview sample was identified using a snowball technique. Each interviewee was asked to identify which senior-level manager in their organization was involved with either managing the bank' image, its credit card operations or it regulatory affairs during the period under study, 1986 to 1997. Interviewees were contacted based on these recommendations. The interviews were restricted to senior-level individuals who had a direct and significant involvement in these issues, under the assumption that they would offer data in which industry and organizational data would be best grounded. Essentially, they made the decisions and had the direct contact, so their perspectives and experiences would shed the most light on the research question.

After completing a brief the history of the issues (based on the newspaper articles) I developed interview protocols around the topics of managing legislative challenges to credit cards and managing the institutions' images, as they pertained to credit cards and in general. I developed three specific protocols, one for individuals inside the banks, one for those who were associated with the CBA and one for the media. The protocols were designed with both specific and broad open-ended questions, and were designed to enable participants to share their views on the organization's image and identity, the industry's image and the regulatory process. As McCracken (1988) states: *"..the first objective of the qualitative interview is to allow respondents to tell their story in their own terms. The investigator seeks to keep as "low" and unobtrusive a profile as possible" (p. 34).* The protocols began with a series of specific questions regarding the participant (e.g., role in the organization, tenure in the organization) and their background. The majority of the questions, however, are best described as grand tour questions, otherwise defined as a *"type of descriptive question, [that] attempts to elicit a rich story that is completely directed by the informant"* (Gilchrist 1992, p. 81). The protocols were designed to allow informants to share their recollections of historical events dating back to the beginning of the period under study, 1986, as well as their current views. In addition to following the interview protocols, I noted any particularly interesting points as the discussion progressed, as well as my observations surrounding body language, the setting, interruptions to the interview, and so forth. The banker's protocol received minor adaptations after the first two interviews. All protocols, in their final form, are available in Appendix C.

All interviews were taped and professionally transcribed. The protocols were designed to take approximately one to two hours, and most ran from 45 minutes to one and a half hours. At the beginning of the interview I explained the purpose of the research, assured the participant that all data would be kept confidential and requested permission to tape the interview. Confidentiality was a sensitive issue for most interviewees. I responded to inquiries about confidentiality by assuring them that I would not be using the name of the organization or their name. Furthermore, the only people who would be listening to the tapes would be the transcriber and myself. To help ensure confidentiality, original and back-up tapes and transcripts were identified by a number, not by a name. As suggested by Miles and Huberman (1994) I filled in a contact summary sheet after every interview, as a way of capturing my immediate impressions, and my sense of the major issues raised in each interview. I usually performed this task immediately after each interview and not more than 24 hours later. Appendix D contains a copy of the contact summary sheet. The interview data set comprises approximately 24 hours of tape, 151,086 words or approximately 604 pages of transcripts (based on 250 words per page.)

3.2.4 Supplementary data

I also collected several discrete sources of supplementary data. These supplementary data were primarily used to provide historical detail and to answer questions that arose when analyzing the media and Committee Minutes data. The first supplementary source of data is a series of bulletins published by the Office of Consumer Affairs at Industry Canada, titled *Credit Card Costs*. These bulletins, published quarterly beginning in December, 1987, list the credit card interest rates posted by each of the major Canadian banks. I collected 35 out of the 40 issues published between December of 1987 and December of 1997. I was unable to locate the missing five issues at any of the public or university libraries in Toronto, nor did Industry Canada have these issues in their possession. I also collected the bank rate for the corresponding periods from the Bank of Canada's web site.

The second supplementary source of data is the Hansard, which is the publication that contains the proceedings of the House of Commons (i.e. including debates, motions, question period). I photocopied every entry that contained a reference to credit cards from 1986 to 1987. There were a total of 61 references including motions regarding bills, questions during Question Period, debates, and the tabling of reports.

The third supplementary source of data is the indices attached to the House of Commons Standing Committee minutes for the Committee on Finance and Economic affairs, from 1971 to 1994, and the Committee on Industry (and its predecessor) from 1986 to 1994. I noted instances from the indices when the CBA or individual banks attended hearings in Ottawa. I did not extend this search past 1994 due to difficulty accessing data. Records from 1994 forward are digitized and are not available in text format. The search engine on the Parliamentary web site does not facilitate a search of this nature (i.e., by witness appearance) and the CBA was unable to provide these data.

The fourth source of data is Public Opinion Research Relating to the Financial Services Sector, prepared by the Ekos Research Associates Inc. and published in September, 1998. This public opinion poll was commissioned by the Task Force on the Future of the Canadian Financial Services Sector (also known as the "Mackay task force"). The purpose of the report was to assess the attitudes of Canadians regarding the financial services sector. It was available on the Task Force's web site.

Finally, I also used various CBA speeches, and other factual data about the industry, available on the CBA web site.

3.3 Data Analysis

Throughout this project, I used NUD*IST 4.0 to code transcripts, record analytical memos and perform analyses. This software program allows the user to build a relational database that included all transcripts and field notes (e.g., contact summary sheets), assign codes to these documents; and as part of this database keep an ongoing log of analytical memos and associated memos with particular codes and/or documents. Analytical memos included those associated with each code or category, associated with each document, methodological issues, an ongoing to do list, emerging questions regarding data, and emerging ideas and concepts that are not yet associated with a specific category or document.

3.3.1 Thematic Analysis and Coding of Standing Committee Minutes

Miles and Huberman (1994) suggest beginning coding as early as possible and in keeping with this suggestion I began coding with the Blenkarn Committee minutes, refined those codes and conducted a preliminary analysis on these data before moving on to the remaining hearings. A number of useful frameworks exist that are helpful to qualitative researchers in organizing efforts to code data, including Strauss, Bogdan and Biklen and Lofland discussed in Miles and Huberman (1994). These frameworks, however, seem a better fit with interview, focus group or participant observation data, where the intent is to tell a story or describe an experience. Public testimony, by contrast is about arguing, explaining or defending one's position. Therefore, I relied on insights gleaned from the literature review around regulation and image management to guide my initial coding attempts. Accordingly, a first attempt at coding the Blenkarn hearings involved identifying themes that described both the content of the speech (e.g., what was the topic that the speaker was addressing, how did they position their statement or questions) and the process of the hearing (e.g., elements that described the interaction between the speakers.) In addition, I was mindful of the constructs that were identified in the literature search – identity, image and reputation - and form part of the research question, and coded for them, as warranted. Appendix E contains a first attempt at coding the Blenkarn Committee testimony. Upon examining the first set of codes, it was necessary to regroup and redefine the codes. This set of codes was modified slightly as coding of the subsequent hearings took place, and new categories emerged from the data. Appendix F contains the final coding scheme for the Committee Minutes.

Given NUD*IST 4.0's flexibility, I was able to name codes using real words that best described the meaning of the designated text (as opposed to abbreviations or acronyms), and to fit all codes onto one page. Each code was defined in the software database, and changes to the definitions were recorded as they occurred. As the process of coding produced questions and insights I recorded them in a time and date-stamped memo, that was automatically associated with the category to which the memo related.

After coding each hearing, I analyzed it using a matrix that allowed me to compare the testimony of the banking representatives with that of the other witnesses. Since the focus of the research question is on the banks' motivations and actions (and not on the committee process), my analytical efforts were directed at distinguishing how the banks handled each of these hearings, and whether any aspect of their interaction or their reputation in this forum changed over time.

3.3.2 Thematic Analysis and Coding of Interviews

As with the content analysis of the Committee Minutes I again heeded Miles and Huberman's suggestion to beginning coding early in the research process. I began coding after completing the first five interviews. This first cut at coding was an attempt to understand what was being described by participants, and used Strauss' framework (1987) that suggested segmenting codes into conditions, strategies and tactics, interaction with others and effects/outcomes. I extended this framework by adding a series of codes under the general heading of the constructs of identity, image and reputation, that enabled me to capture specific concepts that I had identified through the literature as potentially relevant. Appendix G contains this first set of codes. I then coded the next 10 transcripts and based on this exercise, revised the coding sheet and the coding on the first five transcripts. Appendix H contains the final set of codes. I followed the same procedures for assigning names to codes, defining codes, and changing definitions that was described earlier in this chapter under *Thematic Analysis and Coding – Committee Minutes*.

The next step in my analysis was to prepare matrices on each major code by interviewee in each site, in the same manner as I had analyzed the Committee Minutes. For example, for the code "construct/image" I prepared one matrix for Metcalfe and one matrix for Atwater. The column headings on each matrix were the individuals who were interviewed. The row headings were the codes under the heading "construct/matrix" of definition, politicians, media, activist, public, and government. This analytical technique allowed me to reduce the descriptive data to a summary form, and use these summary forms for three purposes - (1) to check for coding inconsistencies (e.g., do some codes seem emptier than they should be?); (2) to develop interim case descriptions for each site; and 3) to develop other conceptualizations of what is going on in the data.

3.3.3 Historical Analysis of Newspaper Articles

I reviewed the 93 articles with a view to understanding the following issues - history of events, types of allegations made against the banks, types of responses made by the banks, occurrences of emotionally loaded language that potentially contributed to a negative image for the banks, who's who in various stakeholders groups (e.g., sites, lobbying associations, Parliamentarians) and contextual factors (e.g., market factors, economic factors). These data provided the basis for the following chapter *Legislative Challenges to Credit Cards: A Brief History*, and were summarized in the milestone history, available in Appendix I. This milestone history was occasionally used during interviews to help jog participants' memories.

I did not undertake a formal quantitative content analysis of these articles for two reasons. First, the methodology of a formal media content analysis undermines the objective of this qualitative research design. Traditional media content analysis demands that you start with hypotheses and test for their validity, whereas this qualitative research design depends on the data themselves to give rise to hypotheses or propositions. Second, the other sources of data contribute to our understanding of the banking industry's reputation, as discussed in *Chapter 7, Industry Reputation*, and a traditional quantitative content analysis would add little to this discussion.

3.3.4 Analysis of Supplementary Data

Supplementary data were analyzed or summarized to address questions that arose out of the thematic analysis and coding of other data. The interest rate analysis was conducted by averaging the VISA interest rates of the four VISA issuing banks published by Industry Canada, and subtracting the bank rate published for the last week of the quarter. The resulting number equals the spread between VISA and the bank rate. The movement or lack of movement of this spread was often the focus of the Parliamentary committees. I then graphed this spread over the time period to explore the pattern of the movement of the spread.

3.4 Summary and Discussion

This section summarizes the nature of the data sets and the analytical process used in this thesis (see Table 5 below), and concludes by reflecting on the strengths of this methodology.

First, a well-defined topic and time frame enabled the capture of a diverse and abundant set of data. These data lend themselves extremely well to a qualitative approach since much of the data ensures that the findings reflect either what actually transpired, or the self-expressed motivations and actual behaviors of individuals who were responsible for actions. The Committee Minutes, the Hansard and the Credit Card Cost bulletins provide actual accounts of what was said and done.

Table 5 - Summary of Data Sets

	Committee Minutes	**Interviews**	**Newspaper Articles**	**The Hansard**	**Credit Card Costs (the bulletin)**
Time period	1986 –1997	*See Note 1 below*	1986 –1997	1986 –1997	1987-1997
Number of pages of transcripts	1,235 pages* (308,869 words)	604 pages* (151,086 words)	n.a.	n.a.	n.a.
Number of items	21 sessions	20 interviews	93 articles	62 citations	35 articles
Sampling technique	comprehensive (100% of data gathered)	snowball	stratified	comprehensive (100% of data gathered)	87.5% of data gathered
Primary analytical technique	thematic analysis and coding	thematic analysis and coding	historical summary	historical summary	historical summary

*assumes 250 words a page

Note 1: Interviews were conducted in 1998 and 1999; the protocol covered period from 1986 to the present.

Given their existence as historical fact, they offer valid representations of the actions of the banking industry. The seniority of all the interview informants, and the roles they played personally handling the legislative and image challenges to the organization and the industry, ensure that the findings reflect the thought processes, motivations and behaviors of decision-makers. The data derived from interviewing this type of informant would have more meaning for a qualitative approach than data derived from a third party observer, whose observations may be subject to all kinds of biases and misinformation.

Second, the diversity of the data set ensures that the findings are adequately triangulated. Each data set comes with its own set of weaknesses, but these weaknesses are offset by the strengths of another data set. For example, the Committee Minutes, the Hansard, and the Credit Card Cost bulletins do not suffer from the possibility of the kind of biases that may be present with interview data, such as retrospective bias or the desire to answer in a way that pleases the interviewer. Conversely, the interviews provide context and explanation around the findings in the Committee Minutes. Although interviews are subject to some of the weaknesses just mentioned, this particular set is strengthened by the fact that the informants were from three different sites – two banks and the industry lobbying association.

Third, the size of the data set further assures that the findings are valid. No sampling procedures were conducted on the major archival sources, thereby helping to ensure the comprehensiveness of the findings. Similarly, the interviews represent a very high proportion of decision-makers in credit card operations, and the areas of legislative and image management during the period under study. For example, at the lobbying association two of the three President and CEOs were interviewed; at Atwater Bank three different individuals led the credit card division from 1987 to the present and each was interviewed. Together, the Committee Minutes and the interviews comprised in excess of 459,000 words or 1,800 pages of transcripts.

Finally, the nature of the analytical method suggests that the findings are reliable. All Committee transcripts and interview transcripts were loaded into a sophisticated relational database program, that enabled a comprehensive coding exercise to be performed. The rigorous use of this sophisticated tool enabled me to create a paper trail of the research process and of how the findings developed, and to check for any biases that may have been developing. In addition, given the volume of these data, use of this tool and method ensured that I did not miss any major themes and allowed me to easily refine themes as the research progressed.

The following chapter, *Financial Services in Canada*, prefaces the subsequent chapters on data analysis by offering some background on the industry, the credit card business and the nature of banking regulation in Canada.

4 FINANCIAL SERVICES SECTOR IN CANADA

This section provides a brief overview of the role and size of the banking industry in Canada, its credit card business and the regulatory climate faced by the banks.

4.1 Overview

The financial services sector functions to facilitate economic activity, and consequently, is a major segment of the Canadian economy. Financial service providers act as a conduit between savers and investors, provide customers with products that help them manage financial risk and assure the timely settlement of financial transactions. The sector's importance is further underscored by the contribution it makes to the economy in its own right. It accounts for 7.5% of the nation's gross domestic product (GDP) and employs 500,000 Canadians (Bank of Montreal 1997). Financial service institutions differ widely in their size, the range of products they offer, and the markets they target. Broadly speaking, they include banks, credit unions, insurance companies, trust companies, securities firms, mutual funds, pension funds and non-bank financial companies (including finance and leasing companies). Over the past 15 years, globalization, improvements in technology and gradual deregulation have blurred the distinction between these different service providers and have heightened competition within the industry.

Despite the competitive forces recently at play, banks and their subsidiaries remain dominant players within the financial services sector, along almost every conceivable dimension. At the end of 1995, banks employed 1.5% of the country's workforce (i.e., 207,000 Canadians) in more than 8,000 branches with a payroll in excess of $11 billion dollars. They pay in excess of $5 billion in taxes and $2 billion in dividends to shareholders. They account for 2% of the GDP and 47% of the financial service sector's assets (Bank of Montreal 1997; Royal Bank 1997). The Canadian banking industry is highly concentrated with the bulk of banking activity undertaken by the Big Six - Bank of Montreal, Bank of Nova Scotia, CIBC, National Bank of Canada, Royal Bank of Canada and the Toronto-Dominion Bank. These six institutions alone employ 172,000 and account for 90% of the banking assets in the country.

4.2 Credit Card Business

The Big Six all issue either Visa or Mastercard credit cards. Since the mid-1980s, credit card operations have typically contributed both revenues and profits to most banks' consumer operations (Mandell 1990). In Canada, Visa dominates the market and accounted for 12% of all purchases made by consumers in 1996 (Visa 1998).

Visa and Mastercard are separate member-owned global associations who provide members with the support services required to issue a credit card to customers. Each association boasts in excess of 20,000 members, including banks and non-banks. Visa is governed by a series of regional boards, who are composed of member delegates. Visa issuers (i.e., members), such as the Big Six, remit annual dues plus a variety of transaction fees to the Visa association. In return, members receive three major benefits from the association. First, they are able to leverage off the powerful brand name equity associated with each card. Since they were founded 30 years ago, each card association has led a marketing drive to establish its brand as the credit card of choice around the world. According to Interbrand, a London-based brand consulting firm, Visa was ranked number 14 among the world's top 100 brands, and was the leading financial services brand (Visa 1998). Second, members are able to leverage off the existing number of merchants who accept the cards. More than 14 million locations in more than 240 countries around the world accept Visa, including 500,000 locations in Canada (Visa 1998). Third, the associations provide technological support by authorizing and settling payments and providing members with data processing related to the transactions. Visa processes more than a billion transactions a month at a peak rate of 2400 transactions a second (Visa 1998).

These factors have resulted in the development of a huge payments industry that is both an everyday feature in our lives and represents a significant aspect of banking operations. More than 600 million Visa cards have been issued worldwide, and consumers using Visa products purchased more than $1 trillion in goods and service in the 12 months ending March, 1997 (Visa 1998). In 1996, approximately 20 million Canadian Visa cards in circulation were used to purchase approximately $57.7 billion worth of goods and services (Visa 1998).

Although the associations set operating standards on a regional, national and global basis to ensure the consistency and quality of service associated with the brand name, each member determines the terms (e.g., fees and annual interest rates) that it will offer its customers and conducts its own marketing campaigns. In the late 1980s and throughout the 1990s in Canada, the Big Six came under heightened legislative and media scrutiny for the terms they set for their credit cards. Among the criticisms leveled against them was the charge of excessive interest rates. A series of Parliamentary hearings were held into the nature of bank practices in setting terms for their credit cards.

4.3 Regulation

Canadian banks are regulated at the federal level under the provisions of the Bank Act (the "Act"). This Act, first established in 1871, contains a "sunset clause" that requires it to be reviewed and updated every 10 years. The Act was most recently revised in 1980 and 1992, and is expected to be revised again in 1999 or 2000. The most recent revisions, in 1980 and 1992, and the period immediately preceding the 1992 revision, were substantively and procedurally significant. Substantively, the 1980 and 1992 Bank Acts extended the banks' ability to offer various financial services. The 1980 Bank Act extended foreign banks' operating latitude and allowed all banks to own factoring and leasing subsidiaries. The 1992 Act was even more significant in this regard in that it enabled Canadian banks to move to a "universal banking" system, whereby banks are allowed to own other financial service providers (e.g., trust companies, insurance companies, securities companies) and networking among these different holdings is allowed.

Procedurally, this last set of reviews was significant because consideration of the revisions began in 1987, well in advance of the actual amendments to the Act (1992). The regulations in the 355-page Bank Act cover broad areas such as ownership, corporate governance, capital adequacy, self-dealing, the role of supervisory institutions such as the Bank of Canada and the Office of the Superintendent of Financial Institutions, and business powers (i.e., what businesses banks may engage in and under what restrictions). Among the issues that received consideration by the legislative bodies involved in revising the Act and related acts was the nature of the Bank's credit card practices.

Despite its gradual deregulation, banking remains one of the most highly regulated industries in this country (Saunders and Thomas 1997). Two major factors have contributed to this situation. First, although banks are federally regulated, a number of their subsidiary businesses are provincially regulated (i.e., trust companies, securities companies). This increases the number of regulations and regulatory bodies with which they must deal. The CIBC estimates that it deals with approximately 85 government or quasi-government bodies in its Canadian operations (CIBC 1997). Second, although the scope of the banks' business powers has gradually expanded since the 1980 revision of the Act, suggesting that they are less restricted by government, the sheer number of regulations has increased. For example, in 1980 the Bank Act added many corporate law provisions from the Canada Business Corporations Act. The Bank of Montreal estimates that it now files 136 different returns to government entities to maintain compliance. And managing regulation is costly. The Conference Board estimated that regulatory compliance costs were $42 million for the deposit sector (i.e., banks and other deposit-taking institutions) in 1992 and internal costs were $153 million; in other words, an average of 2% of operating expenses of these financial institutions (cited in the Bank of Montreal, 1997). The net result is that banks face a regulatory regime in which the ability to manage complexity is a requirement for survival and the cost of doing so is high.

This observation, combined with the undeniable importance of banking to our economy and our daily lives, suggests that research which explores how a particular management practice affects outcomes in the regulatory arena should be of interest to both academics and practitioners. Credit card operations provides a particularly useful lens through which to examine this question since, as a business operation, they are also highly visible and vulnerable to outside scrutiny.

The following chapter provides a history of the legislative challenges to the industry's credit card business that occurred between 1986 and 1997.

5 LEGISLATIVE CHALLENGES TO CREDIT CARDS: A BRIEF HISTORY

This chapter provides a historical overview of legislative challenges credit card issuers faced from 1986 to 1997. As discussed in the prior chapter, the credit card industry was still in its embryonic stages in the 1970s and the early 1980s, and the usage of credit cards had yet to become the ubiquitous phenomenon that we know today. Not surprisingly, on the rare occasion when banking industry practices were questioned in Ottawa in the 1970s or early 1980s, credit cards had not emerged as a concern. In 1986, however, credit card issues erupted onto the political scene with a Parliamentary inquiry into issuer practices. In the subsequent 11 years, against a backdrop of considerable competitive and economic change, Parliamentary committees saw fit to convene three additional hearings. The occurrence of these hearings and their attendant public profile dictated the observation period used in this research – 1986-1997. The following description recounts events as they were described in the media and public archives, including the Committee Minutes and the House of Commons Debates. It concludes with a summary of these events and a discussion of the factors that may have caused the broader issue of credit card practices to remain on the legislative radar screen. (An analysis of these Committee Minutes appears in the *Chapter 6, Industry Responsiveness to Legislative Challenges.)*

5.1 1986 - The Blenkarn Committee

In early 1986 Conservative MP Reg Stackhouse, member of the governing party, expressed an interest in how interest rates were set on credit and charge cards and raised the matter in the House of Commons. Stackhouse was concerned that credit card interest rates were unreasonably high because these rates had not declined since 1983, despite the decline in other key interest rates. From 1983 to the date of the hearings, each of the Big Six Visa-issuing banks charged 18.6% per annum, levied a user fee (generally $1 per month) and had a grace period of 21 days. Between mid–1984 and mid–1986 the bank rate had decreased from approximately 12.4% to 8.8%. The Bank of Canada rate (the "bank rate") is generally regarded as a proxy for the banks' cost of funding. Therefore, there was a perception that if the bank rate decreased, and credit cards interest rates remained static, that the banks' profit margins on credit cards had correspondingly risen. Essentially, there was a suspicion that the banks had not passed on the savings they realized to customers. This phenomenon of credit card interest rates remaining static in the face of a declining bank rate is often referred to as "rate stickiness". By late 1986 there were 15.5 million credit cards in circulation in Canada, which had been used to pay for $23.6 billion in transactions. Table 6 contains data on the growth of the credit card industry from 1986 to 1998.

Table 6 - Credit Card Industry Data

Year	Number of Card in circulation (millions)	Net Dollar Volume ($ billions)	Outstanding Dollars ($ billions)
1986	15.5	23.6	5.8
1987	17.6	26.9	6.8
1988	19.4	31.2	7.8
1989	20.4	36.9	9.3
1990	23.2	42.5	10.8
1991	24.3	44.0	11.2
1992	24.4	46.9	11.4
1993	25.0	52.8	13.2
1994	27.5	61.1	15.4
1995	28.8	68.1	17.4
1996	30.2	75.1	18.7
1997	31.9	84.3	20.5
1998	35.3	93.9	23.9

Source: Canadian Bankers Association

On May 26, 1986 MP Stackhouse introduced a motion into the House that the Standing Committee on Finance and Economic Affairs ("the Finance Committee") be directed to investigate this issue. After some debate, the House of Commons passed an all-party motion ordering that the Finance Committee be empowered *"to study the present interest rates charged by the issuers of credit cards and charge cards"*. Stackhouse appeared in front of the Finance Committee, chaired by Conservative MP Don Blenkarn, on June 17 to explain the particular concerns he had regarding this issue and to reaffirm the need for a Parliamentary investigation into this matter. The Committee decided to wait for a report from its researchers on this matter and to convene public hearings in the fall.

On November 26 and 27 and December 3, 1986, the Finance Committee heard testimony from five other witnesses, including four credit card issuer witnesses (i.e., companies who issued credit cards, or industry associations representing companies who issued credit cards) and one consumer advocacy group. Throughout 1986, despite Parliamentary interest in this matter, bank Visa credit card interest rates remained unchanged at 18.6%. By January 1987, Stackhouse had clearly become frustrated with the lack of movement in bank credit card interest rates, and with the banks themselves. He told the Globe and Mail:

> *I think it is unconscionable that the lending institutions would not adjust their credit card rates when there has been such a dramatic fall in Canadian interest rates...I think the lending institutions are looking to squeeze out of the public every fraction of interest rate money they can get. (Globe and Mail, January 26, 1987)*

Minister of State (Finance), Thomas Hockin, responded to repeated inquiries in the House about the issue by stating that the government would wait for the Finance Committee's report and then decide how to respond to the issue. In mid-February, the Toronto-Dominion Bank lowered its rate by 3.0% to 14.5%.

On March 21, 1987 the Finance Committee released a report, titled *Credit Cards in Canada*, that listed seven recommendations. These recommendations revolved around better disclosure of rates and harmonization of federal and provincial regulations. In addition, it recommended that a formal investigation into anti-competitive behavior by the banks be conducted by the Ministry of Consumer and Corporate Affairs if the Schedule A banks (i.e., the domestic banks) did not voluntarily adjust rates downward. The Finance Committee suggested that the rate reduction be in the range of 3%, or in line with the Toronto-Dominion Bank's recent action. On March 21, 1987 the front page headline in the Globe and Mail read "*Banks told to cut credit-card rates*". Hockin told reporters:

> *I've spoken with the financial institutions in the last few weeks and told them that I feel that way, and they'd better come down. And if they don't come down, Parliament will act. (Globe and Mail, March 21, 1987)*

Hockin indicated that the banks had approximately four weeks to reduce rates.

During this period, the press reported that the banks were reviewing their credit card interest rates, and some reporters suggested that the banks were distressed at this turn of events. The Toronto Star stated:

> *Sources in the banking community are 'outraged'...Many believe Hockin had no right trying to use political muscle to bring about reductions and that the banks shouldn't respond to it. (Toronto Star, March 28, 1987)*

On April 2, the CIBC reduced it credit card rate to 15.9%, less than two weeks after the Finance Committee report was issued. On April 3, the Royal Bank followed suit and reduced its Visa credit card rate to 15.9%. On April 4, the Bank of Montreal reduced its Mastercard rate from 21% to 18.3%.

All remained quiet on the credit card front until late summer when the Royal Bank boosted its rate back up to 16.5%, citing a 50 basis-point rise (i.e., 0.50%) in the Bank of Canada rate as the impetus. The CIBC and the TD were reported in the press as considering following the Royal Bank's lead. Political reaction was mixed. Blenkarn was reported as not upset by the increase, given the increase in the bank rate. *"It's exactly what should happen. It's fair ball." (Toronto Star, August 1, 1987).* Stackhouse, however, was incensed and called the rate increase a "*commercial obscenity*" and continued to comment:

> *I think they (the banks) have acted with shocking haste to raise their rates in contrast to the scandalous slowness in lowering them last spring.*

.. don't they have any sense of fairness? Parliament must show that as big as these corporations are, the people are bigger still. (Calgary Herald, August 6, 1987)

On September 23, 1987 Stackhouse introduced a private member's bill, C-266, that aimed to place a floating cap on credit card interest rates. On September 30, 1987, the bill received a second reading, but was dropped to the bottom of the list of the order of precedence.

On December 15, 1987 Consumer and Corporate Affairs Minister Harvie Andre released the government's formal response to the Finance Committee's report on credit card interest rates. The government accepted many of the Finance Committee's recommendations, and decided not to subject credit card interest rates to a legislative cap, claiming a cap would be unworkable. Instead, it focused its action around improving disclosure for consumers. Andre announced that the Department of Consumer and Corporate Affairs would publish a regular bulletin on the credit card rates banks and retailers charged, along with tips on how to use credit cards wisely. He was quoted in the Toronto Star:

Our view at this point is that we're going to do everything we can to make the consumer as informed as possible (while) in the meantime working with our provincial counterparts to develop...common ways of expressing interests costs so that information will be there....Consumers are now going to have to be prepared to move in response to changes, and if they do, we'll have a competitive situation and we won't need regulation. (Toronto Star, December 16, 1987)

MP Stackhouse responded that it was a "*small step*" for consumers, and he intended to continue to fight for legislation by pursuing his private members bill.

In the first half of 1988, the Finance Committee, still under Blenkarn's chairmanship, conducted an inquiry into bank service charges. Consequently, legislators continued their focus on bank pricing practices, albeit in a different product area. Throughout 1988, interest rates rose and banks began to raise their credit card rates. In July, Blenkarn told the Toronto Star that this rise in credit card rates was pushing the limit on what the Finance Committee had felt was reasonable. He revealed that during their 1987 deliberations, the Finance Committee had developed a rule of thumb that concluded that the bank credit card interest rate should be about six percentage points above the prime rate. Bank credit card interest rates in the summer of 1988 were approximately one quarter of a point below this rule of thumb. Blenkarn suggested if an election was not called in the fall of 1988, the Finance Committee would revisit the issue of credit card rates. However, an election was held on November 21, 1988, and the Conservative Party was reelected with a majority of the vote.

5.2 1989 - The Turner Committee

In spring of 1989, Garth Turner, Conservative MP, and Chairman of the Standing Committee on Consumer and Corporate Affairs and Government Operations (the "Consumer Affairs Committee"), announced that the Consumer Affairs Committee would hold a series of hearings into credit card interest rates in June, pursuant to Standing Order 108.2. This Standing Order charged the Consumer Affairs Committee with examining the evolving role of credit cards in the Canadian economy. By late 1988, two years after the Blenkarn hearing, the number of credit cards in circulation had increased to 19.4 million, and the dollar volume of transactions had increased to $31.2

billion. This represented a 25% increase in the volume of cards in circulation, and a 33% increase in payment volumes during the two year period. The spread between credit card interest rates and the bank rate had edged back up to approximately 6.4%. Turner told the Globe & Mail that: *"The committee has decided unanimously that it wants to look further into this issue" (Globe and Mail, May 9, 1989).* Prior to the hearings, two private members bills were introduced in the House of Commons. On April 10, 1989, NDP MP John Rodriguez introduced Bill C-214 that would cap credit card interest rates on a floating basis. Rodriguez was also a member of the Consumer Affairs Committee. On May 8, Conservative MP Don Blenkarn introduced private members bill, C-238, in the House of Commons to amend the Interest Act, which would standardize the way all credit-card issuers calculated interest on outstanding balances.

On June 12, 13, 14, 15, 27 and 28 the Committee heard from seven witnesses including two politicians, a journalist, three credit card issuers and a consumer advocacy group. These hearings received ample coverage in the print media. The CBA session in particular was reported as being acrimonious. The Toronto Star wrote:

> *The session was punctuated with catcalls, yelling and snickers as the MPs pressed the bankers to explain how the interest on unpaid credit-card balances are calculated. 'The average consumer doesn't have a hope in hell of figuring all this out because it's too complex' Turner said. (Toronto Star, June 15, 1989)*

Conversely, some witnesses shared a belief that the hearings were merely a political maneuver to garner attention. Alisdair McKichan, President of the Retail Council of Canada asserted: *"This subject arises every year when interest rates are high...This is a* *politician's issue. It's not a public issue" (Toronto Star, June 4, 1989).* The Calgary Herald reported:

> *...that bank spokesmen are livid about the hearings. They maintain there is no new information to add to facts given to the Commons finance committee on the issues two years ago and that MPs are making political hay at the institutions' expense. (Calgary Herald, June 11, 1989)*

On October 30, 1989 the Consumer Affairs Committee issued its report, *Charge It, Credit Cards and The Canadian Consumer.* The report's most important recommendation was a call for a floating cap on credit card interest rates. Although Turner acknowledged that rates weren't currently excessive, he felt that a floating cap would ensure the spread between the bank rate and the credit card interest rate remained manageable. Turner claimed: *"This report is about protection and fairness for consumers, plus reasonable interest rates." (Toronto Star, October 31, 1989).* The recommendation on a floating cap, however, was not favorably received by the Minister of Consumer and Corporate Affairs, Harvie Andre.

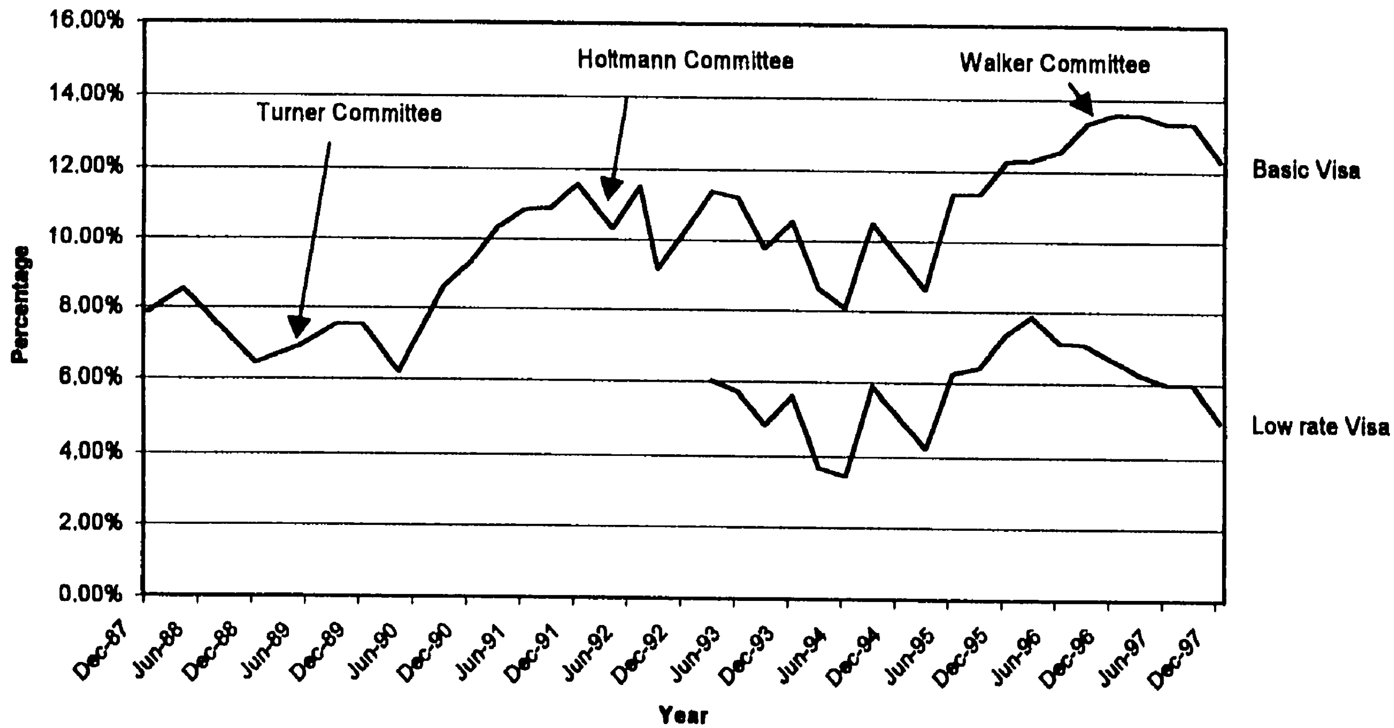
In March 1990, newly-appointed Consumer and Corporate Affairs Minister Pierre Blais responded formally and rejected the Consumer Affairs Committee recommendation on a floating interest rate cap, saying it would not be in consumers' best interest. He stated that imposing a cap on spreads would actually increase charges because: *"Regulated rates tend to become maximums." (Montreal Gazette, March 29, 1990).* Blais did accept the Consumer Affairs Committee's 12 other recommendations, most of which revolved around providing consumers with better information about credit cards.

5.3 1992 - The Holtmann Committee

Throughout 1991, as the bank rate steadily declined, there were sporadic mentions in the print press regarding the stickiness of credit card interest rates. Since the Turner hearing, the spread between credit card interest rates and the bank rate had increased from approximately 7.5% to slightly less than 12%. See Figure 1 for a graph of the spread from 1987 to 1997. By October of 1991, the number of cards in circulation had reached 24.3 million and the net dollar volume of transactions had reached 44.0 billion. By the middle of the year Parliamentarians were once again focused on the issue. On June 18, 1991, Conservative MP Don Blenkarn introduced Bill C-237, an act to amend the Interest Act, with respect to how credit card interest rates are calculated. The following day, June 19, 1991, NDP MP John Rodriguez introduced Bill C-265, an act to limit interest rates and fees in relation to credit cards. These bills were similar to the prior bills introduced by Blenkarn and Rodriguez in 1989 in the prior Parliament, neither of which had been selected for a second reading.

On October 29, 1991 in the House of Commons, Conservative MP Turner asked Minister of Consumer Affairs Blais whether the government would now consider

Figure 1 - Spread between Visa Interest Rate and the Bank Rate



implementing a floating cap on credit card interest rates as his Committee had recommended in 1989. He went on to suggest that the banks were "*gouging*" consumers. Blais responded that consumers should use "*their power to renegotiate their loans*" *(Toronto Star, October 30, 1991).* Parliamentarians were not as sanguine about consumers' ability to wield power. On October 30, 1991, Conservative MP Felix Holtmann, the new chair of the Consumer Affairs committee, told the Toronto Star: "*People are being hosed - so we are going to ask the banks what the hell is happening*". *(Toronto Star, October 30, 1991).* He stated that the Consumer Affairs Committee intended to hold hearings to "*raise a stink*" and to pressure the banks to adjust credit card rates to reflect cheaper borrowing costs *(Toronto Star, October 30, 1991).*

The economic backdrop to this Committee had changed dramatically since the prior two hearings. In early 1990 the country entered a severe recession, the effects of which rippled through all sectors of the economy. Throughout the early 1990s, alongside the increase in credit card usage, were numerous corporate downsizings and bankruptcies as well as a rise in personal bankruptcies. On November 6 and 11, 1991, February 11, 12, 18 and March 16 and 25, 1992 the Consumer Affairs Committee heard testimony from eleven witnesses, including two politicians, four credit card issuers, two consumer advocacy groups, a think tank and the Bureau of Competition. On November 15, CIBC announced it would lower its rate by 1.5% to 17.75%. Four days later, on November 19, the Royal Bank announced it would lower its credit card rate by 1.25% to 17.5% and asserted that it had been steadily reducing rates since last year. On December 2, Blenkarn's Bill C-237 received a second reading and was dropped from the Order Paper.

Minister Blais continued to advance the government's position on this contentious issue in response to questioning in the House and from reporters. He maintained that the government was concerned about credit card interest rate levels, and had spoken to the head of the CBA, the retailers' association and the trust companies' association regarding his concern. However, he felt that consumers should inform themselves and seek out the best credit alternative. He advocated improved disclosure, and continued to view any kind of cap negatively. Early in 1992, the Bank of Montreal became the first bank to introduce a credit card with an interest rate pegged to prime, which effectively provided consumers with a low interest rate credit card alternative in the marketplace.

On June 24, 1992 the Consumer Affairs Committee released its report, titled *Credit Cards in the Nineties.* The report recommended that the government adopt legislation around credit card disclosure (it included a draft Bill), issue the quarterly Consumers Affairs credit card report on a monthly basis, and investigate whether there were any barriers to entry in Canada for credit card issuers. The report also contained an explicit recommendation against capping credit card interest rates. Holtmann reasoned that a cap:

> *... would likely restrict credit to a good number of people, single mothers, others with low incomes (members of) minorities, young adults, immigrant and those with below average education. (Globe and Mail, July 25, 1992).*

The Committee, having explicitly rejected the concept of an interest rate cap, was perceived by some backbenchers and by the Consumer Association of Canada as having "*wimped out*" and as having given away "*the one-big stick - interest rate caps - which* *might have forced banks to lower interest rates." (Globe and Mail, June 24, 1992).* In addition, one of its own members, NDP MP Rodriguez, issued a dissenting minority report that, instead, confirmed the recommendations made in the 1989 Consumer Affairs report, titled *Charge It* (i.e., the Turner Committee report).

On December 15, 1992 Minister Blais responded formally to the Consumer Affairs Committee report. He stated that the government did not agree with mandatory credit card disclosure and felt that Consumer Affairs quarterly reports were adequate for assisting consumers to make informed choices. He also stated he agreed with the recommendation to reject capping credit card interest rates.

Throughout 1993, there were sporadic references to credit card interest rates in the House of Commons, and in the media. At this time a wave of new products emerged including co-branded-cards (i.e., an alliance between a card issuer and manufacturer offered consumers special benefits, such as a rebate on a car) and affinity cards (i.e., an alliance between a card issuer and an organization such as a charity offered benefits to the organization.) In keeping with the marketplace, the Canadian banks also introduced a variety of new cards, such as the Toronto Dominion's GM Visa card, and the CIBC's Ford Visa. Increased product proliferation led to numerous new and important choices for consumers in terms of credit card features. By the end of 1993, low interest rate cards, however, were still only offered by three of the Big Six banks. On June 25, 1993 a federal election was held and the Conservative party was reelected. On November 11, 1993 another federal election was held and the Liberal party emerged victorious.

5.4 1997 - The Walker Committee

On March 21, 1994, Bloc MP Pierre de Savoye introduced Bill C-227, an Act to amend the Interest Act. Similar to Conservative MP Blenkarn's previous bills, this bill aimed to standardize the calculation of interest, so that consumers could make better informed decisions. On April 11, 1994, Paul de Villiers introduced Bill C-233, an Act to provide for the limitation of interest rates, of the application of interest and fees in relation to credit card accounts. In essence, it would implement a floating cap, standardize the method of calculating interest charges and implement a mandatory grace period for partial payments on all types of credit cards. Bill C-233 received a second reading later that year, on June 11. At that time, it was withdrawn and the issue was referred to the Standing Committee on Industry[3] (the "Industry Committee") for further study and investigation. As of November of 1994, the Industry Committee had not yet decided if it would take the issue on. Throughout 1994 and 1995 the bank rate moved in a volatile fashion between slightly less than 4% to approximately 8.5%. The spread between the credit card interest rates and the bank rate was similarly volatile during the period, but never sank below 8%. Eight percent is two percent higher than the rule of thumb MP Blenkarn had suggested his Parliamentary committee felt was a reasonable spread in 1986. The banking community would argue, however, that their costs had also increased because of the rise in personal bankruptcies throughout this period. In December, 1995 the Industry Committee heard testimony from Department of Industry bureaucrats on this issue.

In 1996, however, credit card interest rates began to assume their former stickiness, and negative reports concerning excessively high credit card interest rate levels began to appear in the press once again. On April 17, 1996 Industry Minister Manley suggested that while Canadians should shop around for credit cards, and were responsible for making informed decisions, financial institutions should also be held accountable for their actions:

> *I think financial institutions ought to answer a few questions about why the rates don't seem to be as responsive on the down side as they are on the up side. The credit-card rates are too high. They (the banks) are obviously showing resistance to downward moves in rates." (Toronto Star, April 14, 1996)*

He suggested that the Finance Committee may investigate the matter. Manley was also reported as saying that the glare of the public spotlight should put pressure on the banks to lower credit-card rates. In May, 1996, the Bank of Montreal, the Royal Bank and the Bank of Nova Scotia lowered interest rates on some of their credit card products. By October of 1996, the number of credit cards in circulation had reached 30.2 million, and the dollar volume of transactions had reached $75.1 billion.

In November 1996, Liberal MP Paul Zed rallied his backbencher colleagues to push for (yet another) investigation into credit card interest rates. He and more than 50 MPs signed a letter addressed to the heads of the six major banks and five major retailers that called for them to cut rates by 50%. Zed called credit card interest rates "*immoral*" and threatened to introduce (yet another) private member's bill to cap them. In a letter to

[3] **Consumer and Corporate Affairs Canada was renamed Industry Canada, and the Standing Committee on Consumer and Corporate Affairs was renamed the Standing Committee on Industry.**

Mr. Zed, Royal Bank CEO, John Cleghorn, defended his bank's credit card practices. He concluded the letter by saying the Royal agreed with the finding of the Holtmann Committee that a floating cap would not benefit consumers. Although Zed was reported as disagreeing with Cleghorn's arguments, he appreciated the courteous gesture implicit in the act of responding. However, he also said that his previous encounter with banks, when he chaired a 1993 inquiry into small business lending, left him suspicious of the truthfulness of their remarks.

In December, 1996, this group of backbenchers felt that the response from the banks and retailers was inadequate and they pressed again for a Parliamentary investigation. The government maintained its lack of enthusiasm for this issue, with Industry Minister Manley stating he felt that there were ample low rate credit card options available and consumers should shop around.

Nevertheless, the Industry Committee, chaired by Liberal MP David Walker, held hearings into credit card interest rates on February 6, 11, 12 and 13, 1997. The Industry Committee heard testimony from eight witnesses including two credit card issuers, five consumer advocacy groups, and the Department of Industry. Unlike prior hearings, this hearing produced no report or formal, publicly available set of recommendations. On June 2, 1997 a federal election was held and the Liberal government was re-elected. Credit cards continued to be an issue with some parliamentarians. On December 10, 1997, Liberal MP de Villiers introduced Bill C-301, an act to provide for limitation of interest rates in relation to credit cards. Throughout 1998, and currently, concerns about credit cards appear to have abated, at least for the moment.

5.5 Summary and Discussion

Since 1986, four Parliamentary hearings into credit cards practices have been conducted and eight private members bills have been introduced. See Appendix J for a list of private members bills, and Appendix K for a list of bank appearances in front of the Finance and Industry Committees. These hearings and these bills have been supported and sponsored by a political cross-section of backbenchers but they have revolved around the same set of issues - the perception of excessively high interest rates, difficulty understanding how credit card interest is calculated and the suspicion that these factors combine to allow banks to reap excessive profits. Concern over the issues always returns to the same themes, fairness and equity for the consumers and a lingering suspicion around the probity of the banks' actions and intentions.

The persistence of this issue may have been caused by a combination of factors. First, as demonstrated throughout this chapter, the banks did appear to let their spreads run high. This behavior pattern suggests that the banks never made any substantive changes to address Parliamentarians' fundamental concerns. Without systemic change, Parliamentarians appeared to feel compelled to revisit the issue. Second, credit cards became an increasingly important payment mechanism for the general public. By the end of 1998, the number of credit cards in circulation had reached 35.3 million, and the net dollar volume had reached $93.9 billion. Since 1986, the number of cards in circulation and the net dollar volume had increased at a compound annual growth rate of 7.1% and 12.5% respectively. Third, at the same time as spreads between credit card interest rates and the bank rate were rising, and more and more people were relying on credit cards as a payment tool, the country entered a severe recession. Correspondingly, throughout the early 1990s, consumer bankruptcies escalated. Fourth, the initial credit card hearing ushered in an era of unprecedented legislative scrutiny for the banking industry. As indicated in Appendix K, in the 33rd and 34th Parliaments (1984-1993) the industry appeared before Parliamentary committees on nine different issues. By contrast, it appeared only five time throughout the preceding five Parliaments (28th through 32nd, 1970-1984). This pattern suggests that the industry was subject to a much higher and unprecedented level of legislative scrutiny, which in turn, may have simply heightened Parliamentarians' attention on all banking practices.

The question can be asked whether the unrelenting focus on credit card practices in Parliament and the media had any substantive impact on the banking industry. Indeed, the government throughout this entire period (be it Conservative or Liberal) has maintained that direct intervention in credit card pricing by way of a legislated cap would be a poor policy decision. To a greater or lesser degree, it has relied on remedying public concerns by advocating greater disclosure by the banks and diligence on the part of consumers. On only two occasions has it publicly admonished the banks regarding credit card interest rate levels (in 1986 and 1996), and on both occasions this tactic of moral suasion succeeded in lowering these rates. The net result is that the industry has not had to endure any punitive legislative measures, such as interest rate caps. Although it is difficult to discern from the public record why the government has been reluctant to intervene, two explanations can be offered. First, it may have genuinely believed that capping interest rates would be a bad policy decision. The United States' experience with credit card interest rate caps, legislated by certain states, has been mixed. Additionally, the number of low interest rate credit card products available by the mid-1990s would strongly argue that there was adequate competition to assuage its concerns around fair treatment for consumers.

To summarize, throughout this period issues around credit cards remained a continual concern for backbenchers. The banks' actions in their credit card practices (e.g., raising interest rates) coincided with a period of prolonged legislative scrutiny on credit card practices. The outcomes of the banks' actions and legislative strategy for managing this scrutiny can be summarized as the continued absence of a legislative cap on interest rates, increased disclosure requirements, sporadic short term pressure to reduce credit card interest rates and consequently profit margins, and relentless legislative scrutiny. The banking industry's practices and legislative strategy were modified by a series of contextual factors.

The outcomes were positively modified by the tremendous increase in the choice in credit cards and the fact that the government appeared disinclined to intervene. These positive factors, however, were not sufficient to ensure the industry enjoyed no regulatory outcomes. Although the risk of interest rate capping has never appeared to be a serious legislative threat to the banking industry, it has increased the industry's exposure to the public and forced it to continually explain and defend its actions. The tremendous increase in the use of credit cards, and a severe recession combined with a perception that their spreads were intractably increasing did lead to a series of non-legislative outcomes, such as improved requirements around disclosure. The next chapter will explore how the industry, and individual banks chose to respond to each of the four hearings, and how their responses may have contributed to the staying power of this issue.

6 INDUSTRY RESPONSIVENESS TO LEGISLATIVE CHALLENGES

This chapter reviews and analyzes how the banking industry chose to respond to each of the Committee hearings described in the last chapter, *Legislative Challenges to Credit Cards - A Brief History*. Clearly, the banks' strategy for managing legislative challenges around a particular issue may be executed using a variety of techniques such as lobbying behind closed doors, providing government officials with research, using grass roots coalitions, and as such, appearances at public hearings may constitute only one aspect of their regulatory strategy. Nevertheless, the very public and high profile nature of these appearances argues that they will be illustrative of how the banks managed legislative challenges to their credit card business, of aspects of the industry's identity and of external stakeholders' perceptions of this industry. This analysis takes place at the industry level for two reasons. First, in three out of the four hearings, the banks were represented by the CBA. Second, interview data revealed that the banking community has an informal agreement whereby they alternate representing the industry viewpoint with the government, whether behind closed doors sessions or in public. As described in the chapter on *Methodology*, the publicly available Committees Minutes and corresponding submissions and reports comprise the data used for the analysis contained in this chapter.

Using both an inductive and a prior-research driven approach, three broad areas of analytical interest emerged in the data from the Committee hearings. First, how did the Committee view its role? Each Committee had an objective or a perception of what it wanted to achieve that guided its questions and concerns. The Committee's objectives and self-perceptions constituted its essential or fundamental characteristics, in other words its nature. Since the hearings were held and witnesses were invited at the request of the Committee, understanding the nature of the Committees sheds light on the purpose and nature of this aspect of the regulatory environment. For example, what did the Committee see as its role or mission? What were the Committees' broad issues or concerns? And what requests did the Committees make of witnesses?

Second, what were the Committees' specific concerns and how did witnesses respond to these concerns? The questions summarized in the following table explore the issues the Committees raised, the lens through which the Committees may have viewed these issues and the witnesses' strategies for addressing the Committees' concerns.

Table 7 - Committee Concerns and Witness Responsiveness

Broad Questions	**Committee Concerns**	**Witness Responses**
What are the substantive concerns of the Committee?	What are the major issues the Committee raises? What is the nature of the questions posed by the Committee?	What explanations or arguments do witnesses offer in response to the major issues? How do witnesses position themselves or their explanations and arguments?
How does the Committee view issues?	What causes issues to become important? How do they frame issues?	Do witnesses frame their explanations or arguments in a way that is responsive to how the Committee sees the issues?

Third, how did witnesses convey their arguments or otherwise respond to the Committee. The way in which witnesses responded to the role of the Committee, its requests and its concerns reveals how they managed their regulatory environment. The questions in the following table explore the nature of the interaction between Committee members and witnesses.

Table 8 - Nature of the Committee and Witness Responsiveness

Broad Question	Committee Viewpoint	Witness Viewpoint
How do Committee members and witnesses interact?	What sentiments does the Committee express regarding witness testimony (i.e. frustration, appreciation)? Does the Committee admonish or praise the witness? Does the Committee understand the testimony?	How do witnesses respond to Committee requests? Are witnesses clear in their explanations and arguments? Do witnesses make personal remarks? Do witnesses acknowledge the Committee's role? Do witnesses validate the Committee's existence? Do witnesses have suggestions, or make demands of the Committee?

Collectively, these three areas of analytical interest shed light on the banking industry's approach to managing the regulatory environment, its identity, and its reputation. First, its choices of arguments and its manner in dealing with legislators revealed its strategy and tactics in managing the regulatory environment. Second, as suggested under *Literature Review*, organizational identity helps frame organizations' choices and actions, therefore how the banking industry chose to approach and respond to the nature of each Committee, reveals aspects of its identity. Finally, the Committees' and other external stakeholders' public testimony revealed their perceptions about witnesses, in other words they provide data on the banking industry's reputation. *Chapter 8, Industry Reputation* contains an analysis and discussion of this data. To summarize, each hearing is analyzed in terms of these three areas of interest – (1) the role of the Committee, (2) the Committee concerns and witness responsiveness, and (3) the nature of the Committee and witness responsiveness.

Each hearing involved two types of witnesses: (1) credit card issuers and (2) concerned external stakeholders (e.g., consumer groups, other politicians). The remainder of this chapter contains a thematic analysis on the responsiveness of all the "issuer" witnesses based on the above framework, and concludes with a comparison of banking industry responsiveness across time. I conducted a thematic analysis on all issuer witnesses, rather than solely the banking industry representatives, since comparison to other relevant groups helps to clarify and isolate distinctions in the banking industry's approach to regulation. I also conducted a thematic analysis on other witnesses in terms of how they framed the nature of the Committee hearing and the critical issues facing the Committees. These analyses shed light on factors that may influence how the Committees viewed themselves and framed their concerns. The across-time comparison of banking industry notes changes and lack of changes in its responsiveness around this issue of credit card regulation across the four hearings.

6.1 1986 - The Blenkarn Committee

On June 17, November 26 and 27 and December 3, the Finance Committee heard testimony from seven witnesses, in order of appearance – (1) Reg Stackhouse, MP; (2) the Retail Council of Canada (representing retailers who issued credit cards) accompanied by card issuer Sears Canada; (3) card issuer Air Canada (the EnRoute card); (4) the Canadian Bankers Association (the "CBA", representing Canadian banks); (5) card issuer Canada Trust; (6) Consumers' Association of Canada, a consumers' advocacy group; and (7) card issuer Petrocan.

6.1.1 Role of the Committee

In his June 17 presentation and accompanying brief to the Committee, MP Stackhouse framed the issue of examining the level of credit card interest rates in terms of equity and fairness to the general public. In his opening remarks, Stackhouse established the prevalence of credit card use in our society and then framed his concerns around the three themes. First, he questioned "*whether current interest rates are justified*" given the unmoving nature of these rates relative to the "*extraordinary volatility of the cost of money itself.*" (June 17, 1989). Second, he raised the issue of whether there was enough evidence to support industry's arguments to "*justify this impressive spread between the cost of money and the cost of credit*" (June 17, 1989). And third, he directly addressed "*whether it is acceptable for Parliament to interfere with the charges a company imposes in a free enterprise economy.*" (June 17, 1989). Stackhouse concluded his opening remarks by identifying options that would be open to the government after these hearings. He suggested these options included: 1) a "*raising of consciousness*" that would make consumers more aware of their choices'; 2) the industry itself may "*bring credit charges more in line with the cost of money*", and 3) Parliament may choose to legislate credit card interest rates.

With respect to each of the questions he raised, as they were debated and discussed by the Committee, Stackhouse repeatedly returned to the themes of equity and fairness to explain his concerns and to defend Parliament's decision to order the Committee to investigate this issue. Irrespective of whether Committee members challenged Stackhouse or supported him, they too framed the issue as one of 'fairness". Furthermore, they reiterated their right to ask these questions, and their need to obtain more information to better understand the issue. These concerns around equity and fairness and their need and right to ask questions were echoed in the other sessions throughout the hearing.

> *I think it would be legitimate for us to ask why these practices are being conducted. (MP Riis, June 17, 1986)*
>
> *We are not disputing your right to run at a profit or anything like that; it is the perceived fairness. (MP McCrossan, November 26, 1986)*

Committee members raised other issues that generally fell under the rubric of fairness, including whether consumers were making an informed choice, the ease with which consumers could obtain credit cards, how interest was calculated, and how ATM cards worked. Since there was general consensus that they did not have enough information regarding credit card industry practices, they directed Library of Parliament researchers to prepare a report into the costs of credit cards during the summer. After reviewing the report, the Committee decided what witnesses to call.

In summary, the Committee saw its role as one of investigating a business practice where there was a substantial consumer interest at stake and where, on the surface, there was at least an appearance of unfairness. In order to fulfill its role, it needed to gather information and understand that information, and to make recommendations based on its understanding of the information. Its overwhelming concern was one of fairness and equity for the general public. The notion of fairness also extended to card issuers, however, and it was noted that they should be treated in a fair and equitable manner.

6.1.2 Committee Concerns and Witness Responsiveness

Credit card interest rates had remained unchanged since 1983, even though other key interest rates such as the bank rate had dropped significantly. As suggested by MP Stackhouse's comments described in the last section, the major issue of concern for this Committee was whether credit card interest rates were excessively high. There was a perception that the savings that had accrued to issuers because of this drop in their cost of funding had not been passed along to the consumer. Furthermore, this lack of movement in rates raised the concern that a normal competitive market was not in place (i.e., otherwise competition would have driven rates down).

An analysis of the questions posed by the Committee to issuer witnesses reveals, first, an attempt to educate themselves about the credit card business, and second, a direct attempt to determine whether credit card interest rates could be justified in terms of the cost of cards and the profitability of the credit card operation. The Committee posed 99 questions, including requests for information, clarification of written submission or oral testimony, requests for opinions on policy options, and challenges to statements made by witnesses. Table 9 describes the subject nature of the questions.

Table 9 - Blenkarn Committee: Question Topics

Nature of question	*Retail Council*	*Air Canada*	*Petro-can*	*Canada Trust*	*CBA*
Business practices/trends	11	9	6	4	6
Portfolio characteristics	6	5	1	2	5
Cost of cards	5	1	0	0	5
Profitability	3	3	2	0	4
Level of interest rates	6	1	1	1	2
Competition	1	0	2	0	1
Other	2	1	0	2	3
Total	33	19	12	9	26

Clearly, the majority of the questions were in the area of business practices and portfolio characteristics. Questions on business practices focused on general topics such as credit limits, interest on credit balances, experience with different pricing scenarios (e.g., the tradeoff of a service fee versus a lower interest rate), and the use of mailing lists. Questions on portfolio characteristics focused on understanding the characteristics of the issuers' credit card portfolios in terms of parameters such as the distribution of outstanding balances, the number of cardholders, the average transaction size and the card usage. Questions on general business practices and portfolio characteristics appear to be, primarily, attempts by the Committee to generally educate themselves on how the credit card business functioned, and secondly, as a way to scan for other practices that might be unfair to the consumer.

The next group of questions - cost of cards, profitability and interest rate levels – directly addressed the major issue of concern facing the Committee – that is the issue of what is sometimes referred to as "sticky rates" (i.e., credit card interest rates were slow to follow the bank rate's downward trend). The Committee wanted to understand the cost of running a credit card operation (e.g., cost of funds versus operating costs), determine whether issuer profitability was at an acceptable level and identify any other factors that could explain the lack of movement in rates. Several questions were raised around whether there was adequate competition among issuers.

Other questions included topics that again, focused on other issues of concern that did not receive the same amount of attention as the major issue of sticky rates. These included how interest was calculated, disclosure of information to consumers, privacy concerns for consumers, whether consumers who were paying interest were in effect cross-subsidizing consumers who were not paying interest, access to credit, provincial regulations, and policy options. Each of these topics was raised by the Committee in a question format fewer than five times.

In response to the Committee's concerns there were clear differences between the CBA and the other witnesses in the types of arguments they used to defend or explain their practices and in the techniques they used to position those arguments. Table 10 summarizes those differences along three dimensions – major arguments, supporting arguments, and positioning tactics.

The Retail Council, Air Canada, and Petrocan emphasized that their respective credit card operations existed to support their core businesses. These operations were not regarded as significant profit centers, but rather were primarily a means of offering convenience to customers and of retaining customers. Profitability for their credit card operations was either minimal or non-existent. Canada Trust, which unlike the banks offered several different credit cards and whose credit card interest rate was lower than the rate offered by the banks, took advantage of its market positioning. It emphasized that it had already competed by lowering its interest rates and that it was able to do so because it had "*different profit expectations*". In addition, it noted that it made a number of credit card products available to consumers. Implicit in this claim is the notion that its wide array of choice benefited consumers. In summary, these issuers bolstered their major arguments with two broad types of assertions. First, that by offering services and benefits to the general public, they were being equitable; and second, their profits were not unreasonable.

By contrast, the CBA argued that the banking industry's practice in setting credit card interest rates was driven by market forces. It defended this explanation by arguing that consumers exercised absolute free choice in their use of credit cards. The underlying assumption was that price drives all consumer behavior, and therefore, no other considerations regarding consumer behavior need to be addressed. The CBA made this assertion regarding consumer behavior several times, even in the face of Committee

Table 10 - Blenkarn Committee - Committee Concerns and Witness Responsiveness

	Retail Council	Air Canada	Petro-Canada	Canada Trust	CBA
MAJOR ARGUMENT	**Supportive of core operations** *The experience of our members is that the availability of a credit facility is an important element of sustaining demand.*	**Supportive of core operations** *It establishes a relationship with our clientele. It gives the name and an address, somebody to whom we can speak.*	**Supportive of core operations** *In summary, for Petro-Canada the credit-card is a means of promoting our main business in product and service.*	**Competitive strategy** *In Canada Trust's case we have used a lower interest rate to compete directly with the banks.*	**Market forces and free choice** *So my first point is that the market determines the pricing and the use of the cards and people do not have to use them if they do not want to.*
SUPPORTING ARGUMENTS	**Increased costs** **Consumer benefits** *Customers-and I think this is a very important one-often value the immediacy of response they can get from retailers.*	**Covers costs** **Consumer benefits** *That is perhaps one of the more attractive features to our clientele.*	**Revenues don't cover costs** **Consumer benefits** *What it really does is allow our dealers to be responsive to consumer demands.*	**Different profit expectations** **Wide choice of products**	**Unclear explanations regarding profit** **Superior to US practices** *Canadian bank card issuers are charging 1.5% less than American banks. So much for the argument that, because there are a small number of issuers, there is not competition here.*

Table 10 - Blenkarn Committee - Committee Concerns and Witness Responsiveness

	Retail Council	Air Canada	Petro-Canada	Canada Trust	CBA
POSITIONING TECHNIQUES	**Different terminology** *We think it is wrong to describe the charge made periodically in these accounts as an interest cost because truly it is not an interest cost.(It's a service charge)*		**Position against banks** *We also believe that it is more than competitive with the bank card rates, since we do not charge transaction fees or annual fees and we have a longer grace period.*		**Elevate banking industry, denigrate other stakeholders** **Authoritative tone** **Confusing explanations**

members who asserted that their own behavior did not conform to this model. It attempted to bolster this argument by suggesting that the government should not be interfering in the marketplace. Both explicit and implicit in the CBA's line of defense was the notion that this Parliamentary hearing was not legitimate. Finally, the CBA tried to bolster its market forces and free choice arguments by demonstrating that the banks performed favorably against other competitors, primarily their American counterparts.

Witnesses used a series of techniques to position their arguments. For example, most of the witnesses referred to other stakeholders, and in some cases attempted to position themselves at a distance from others, or more favorably than others. With the exception of the CBA, however, they did so using language that was neutral or techniques that were neutral. For example, the Retail Council referred to a long-standing industry norm by which interest charges on their credit cards are referred to as service charges. In contrast, the CBA distinguished itself from other witnesses through the use of two positioning techniques that were suggestive of an entity that viewed itself as superior. First, there was a clear pattern of denigrating other stakeholders and of elevating themselves. Examples of this included suggesting that their presentation would be superior to other witnesses, that the Canadian banking system is superior to the American banking system, that tax discounters are disreputable (i.e., tax discounters' business practices had recently been under the Committee's review) and that their technology systems were superior to the retailers' technology systems.

> *The complaint look-up system is fantastic now...I wish the department stores could do that. From my experience, it is pretty frustrating trying to find out, when the goods are not right, where to get redress. But the*

redress systems in Visa and MasterCard, in my opinion, are just fantastic... (CBA, November 27, 1986)

The second positioning technique was an inclination to assume it knew, unequivocally, how others behaved or saw the world.

I do not believe Members of Parliament receive many letters on that sort of thing.. ...(CBA, November 27, 1986)

I would think it is extremely easy to move from card to card, because most people have two. If you want to, you can get two...I do not understand why you are suggesting there is a problem of taking one card rather than the other out of your wallet. ...(CBA, November 27, 1986)

I would have thought Parliament would prefer to leave market forces to work. ...(CBA, November 27, 1986)

Neither of these positioning techniques was apparent in the other witnesses' testimony.

Finally, unlike other witnesses, the CBA's arguments and explanations often seemed to confuse the Committee. Their explanations sometimes lacked clarity and were punctuated by the use of cumbersome metaphors and analogies. Committee members periodically expressed confusion and a lack of understanding regarding the CBA testimony.

Let me have another try at it. That block of assets is rolling over all the time: every 60 days for the amount that is borrowed. The assets, in fact, are a revolving amount. It is like comparing a stock and a flow. You have a river flowing into a lake and a river flowing out the other end of the lake. Therefore the volume of transactions is the stream flowing into the lake, and the lake could be a different size. The lake is the balance, some of which is earning interest and some not. Water is flowing into the lake and out the other end, and that is the pay-downs. Borrowings are flowing in one end, pay-downs down the other, but the water in the lake is turning *over constantly. It is attracting interest for 60-day periods on the average, but it is rolling over all the time. ...(CBA, November 27, 1986)*

In summary, the banking industry's responsiveness to the committee's concerns was to offer economic arguments to support its position, and to try to deflect attention on its actions by drawing attention to the other witnesses. These arguments were offered in a tone that could be described as superior and defiant.

6.1.3 Nature of the Committee and Witness Responsiveness

This section analyzes how witnesses responded to the nature of the Committee along four dimensions: (1) acknowledgment or validation of the Committee or the government, (2) responses to information requests from the Committee, (3) industry representation at the hearing, and (4) provision of background on the witness information at the hearing. Table 11 summarizes witness responses in these areas.

Acknowledgment of Committee

Acknowledgment of the Committee refers to whether the witness confirms to the Committee that it recognizes and accepts the Committee's purpose in holding the hearing, and correspondingly accepts the Committee's legitimacy. Positive acknowledgment of the Committee is illustrated by explicit statements saying so or by praising the Committee, and can be characterized as validating the nature of Committee. Conversely, negative acknowledgment or a lack of acknowledgment is indicative of an unwillingness to accept the legitimacy of the Committee, and is illustrated by questioning the Committee's purpose, its motives, its philosophy and its logic. This approach can be characterized as challenging the nature of the Committee.

All of the issuer witnesses, with the exception of the CBA, positively acknowledged the Committee's work or the government's work in investigating this subject. First, on at least one occasion (and usually more) all witnesses, except the CBA, praised the Committee. Some responded in an enthusiastic manner and projected an attitude of helpfulness and interest during their opening remarks. By contrast, throughout its testimony, the CBA never praised any government efforts and repeatedly questioned the purpose of the proceedings and the ability of the Committee to effect change. Unlike its discussions with the other witnesses, the Committee felt compelled to review for the CBA, its purpose in this investigation.

> *Surely, the purpose of our hearings is to investigate if the informed consumer is not doing what is logical or if it is not available in the marketplace, whether the committee should make recommendations which move the marketplace in the direction of more equity. (MP McCrossan, November 27, 1986)*

Requests for Information

Requests for information refers to how witnesses handled the Committee's request that it receive additional information. Responses to these kinds of requests depended on whether the information was available or whether the witness felt it was confidential. Witnesses who were positively responsive to requests for information either plainly or enthusiastically agreed to fulfill the Committee's requests, if at all possible. If the information was sensitive they requested that they provide it in confidence, if it was

Table 11 - Blenkarn Committee - Nature of the Committee and Witness Responsiveness

	Retail Council	Air Canada	Petro-Can	Canada Trust	CBA
Acknowledgment of Committee (or government work)	**Validates** *We would commend the recent decision by responsible provincial Ministers by which the disclosure requirement on consumer credits can be harmonized.*	**Validates** *As an aside, I think your committee did excellent research here.*	**Validates** *We have reviewed the research study and would compliment the research staff on their work.*	**Validates** *I think your committee is doing a worthwhile job investigating this.*	**Challenges** *I really do not think in the end Parliament can try to legislate people's behavior.*
Committee requests for additional information, and witness responses	**Accommodates** Three requests *We could do that.*	**Accommodates** Four requests *We have never published it publicly, and as I indicated to The chairman, we would be most willing to be forthcoming and provide it to this committee on a confidential basis.*	**Accommodates** One request *If you could write to us and let us know and I could understand it a little better. I do not in any way wish to appear to be not wanting to co-operate with your committee but we do have very serious competitive concerns. It is a very competitive business.*	**Accommodates** One request *...but I have some reference material here, and what I do not have you can pick up from our annual report or from me by phone.*	**Obstructs** Five requests *That is such proprietary data that I do not think anybody would be very keen ... Certainly, I am not qualified to produce that, and individual institutions probably would be very loathe to produce it*

Table 11 - Blenkarn Committee - Nature of the Committee and Witness Responsiveness

	Retail Council	Air Canada	Petro-Can	Canada Trust	CBA
Industry representation	Yes	Yes	Yes	Yes	No
Background Information offered	Yes	Yes	Yes	Yes	No

not available they explained, in a neutral tone, why they did not gather it or they apologized. This approach can be characterized as accommodating the nature of the Committee. Conversely, witnesses who were negatively responsive to Committee requests for information either refused to provide it, citing excessive confidentiality or questioned the Committee's need for the information. This approach can be characterized as obstructing the nature of the Committee.

The CBA adopted a unique stance with respect to its unwillingness to disclose information requested by the Committee. Each of the other issuer witnesses readily agreed to accommodate the Committee's request for additional information, albeit often on a confidential basis. A minor exception was Petro-Canada, who raised the issue of concern over releasing proprietary information during its opening remarks but softened its concern by reiterating its desire to be cooperative. These witnesses were rarely unable to provide information, and in some cases, they were apologetic if they could not meet the Committee's request. These kinds of responses met with a favorable reaction from the Committee. For example, in response to an apology from Air Canada regarding its inability to provide information:

> *No, no, no. As we have held hearings, people get an idea of the issues in which we are interested. You have the advantage of being a guinea pig today. (MP McCrossan, November 26, 1986)*

By contrast, the CBA's entire testimony was characterized by difficulties surrounding either the disclosure of information or the availability of information. In the CBA's opening remarks, it immediately informed the Committee that it had problems around confidentiality and its members were reluctant to provide information. One bank, in fact, refused to provide the CBA with any information for this hearing.

> *Some issuers are very reluctant to produce numbers which they feel would give away proprietary information on their costs and revenues. I have had a great deal of difficulty for that reason in pulling together some numbers, but we do have what I think are some very good and new numbers to present to you, and they are contained in our brief. (CBA, November 27, 1986)*

Although they stated that the numbers they have provided in their brief are useful, in the next breath they raised questions about those numbers.

> *There are important differences between the banks. They are not all the same. What I have done is average them. I have thrown them together and averaged them. But that does not mean that the averages are the way they all do it. That would be wrong. They are different from each other.. (CBA, November 27, 1986)*

This image of "*throwing them together*" and the accompanying disclaimer tended to undermine meaningfulness of these numbers by raising questions around their validity.

On numerous other issues, the CBA claimed that it could not provide information because the banks did not collect it (as opposed to the banks did not want to disclose it). Committee members became incredulous of the CBA's inability to provide information.

> *I am a bit surprised the banks, who know everything about everything, would not know anything about that. I suggest perhaps you do not want to know because you do not want to answer that particular question. (MP Cassidy, November 27, 1986)*

Twice during the session, the Committee admonished the CBA that it had the power to compel organizations to appear, and that its members may want to rethink their attitude towards cooperation. Another MP characterized the CBA's information as *"seat of the pants"*. The CBA responded to these criticisms by suggesting that to collect all the information the Committee wanted would lead to *"information pollution"*, and *"at some point you have to operate a business."* The implicit suggestion in this response is that the Committee requests are a nuisance to organizations who are trying to do business. Furthermore, the CBA suggested that these particular questions served *"no real purpose."* These kinds of contentious exchanges did not take place with other witnesses. One of the Committee's key roles was to gather information. It felt that as a representative of the people, it had the right and the obligation to access this information. By resisting the Committee's attempts to gather information, the CBA was directly assaulting the nature of the Committee and questioning its legitimacy.

Industry Representation

Industry representation refers to whether individuals directly from the industry made themselves available to the Committee. Individuals with current and direct operating experience should be able to provide better quality information to the Committee. It can be construed as a sign of respect and again, an acknowledgment of the legitimacy of the Committee, to send someone who is closer to the issue.

In contrast to the other witnesses, the banking industry, and by extension individual banks, elected to not send anyone to testify who actually was from the industry. This is in stark contrast to the only other issuer lobbying association to appear, the Retail Council of Canada, who appeared with the member of the association who acted as the chair of the Retail Council's committee on credit cards, and was also the vice president in charge of credit at Sears Canada. This individual was able to answer questions in greater detail than the trade association representatives. The other three witnesses were all from industry.

Provision of background information

Provision of background information refers to whether the witness provided the committee with an overview on their organization. Although this overview may be available in submissions, not all MPs read the submissions prior to the session, so a witness cannot assume that the Committee will know who they are based on their submission. By providing background information, or an introduction to the organization, the witness engages in a social ritual that helps set a positive tone for the encounter. They can also take the opportunity in the introduction to position themselves.

At some point during each session, all witnesses, except the CBA, gave some background information on their organization. The CBA never described the organization or its members. Implicit in the absence of introductions, is the assumption that no description is needed because all present would know the organization. Alternatively, the CBA may not have wanted to draw attention to the oligopolistic nature of the industry. That may or may not be the case. MPs may have different levels of understanding of the CBA and who it represents. By not taking the opportunity to create an image for the Committee it lost an opportunity to position the industry positively. The lack of background information also contributed to an image of the banking industry as monolithic, since no evidence to the contrary was presented.

In summary, the CBA's approach to the Committee stood in stark contrast to that of other witnesses. It repeatedly challenged the Committee's legitimacy, rebuffed its requests for information and did not make industry personnel available.

6.1.4 Summary and Discussion

The banking industry, represented by the CBA, took an extremely different approach to the Committee relative to the other four witnesses. Although there were differences in degree or in nuance between the other witnesses, they generally approached the Committee in the same manner. This approach can be described as cooperative, and is best illustrated in how they responded to Committee requests for more information, the degree to which they acknowledge the legitimacy of the Committee and the manner in which their arguments were tailored to address the Committee's concerns around equity and excessive profitability. For example, the other witnesses positively responded to the Committee's request for information, even when the confidential nature of that information was a threat to its competitive position. They downplayed the profitability of their credit card operations, but did not resist providing information on these operations and emphasized customer benefits in their arguments. Finally, although some of these witnesses attempted to distance themselves from the banks, they did so in a manner that did not disparage the banks.

By contrast, the CBA's approach could best be described as challenging, defensive and obstructive. All their arguments were rooted in rational economic theory and they refused to tolerate or consider any suggestions that customers may not behave in accordance with a rational economic model. Their references to other stakeholders can be described as arrogant. What is particularly interesting is the degree of difference between the CBA's responsiveness and the responsiveness of the other witnesses. They can be described as polar opposites in their responsiveness. While other issuers (including Canada Trust, a direct competitor) graciously accommodated Committee requests, they declined to give information. While other issuers validated the Committee's objectives, they repeatedly questioned the legitimacy of the hearings. While other witnesses carefully and neutrally positioned themselves as standing apart from the banks, they regularly denigrated others while correspondingly elevating themselves.

In this first set of hearings, the CBA's general approach to the Finance Committee functioned to erect walls instead of building bridges. The CBA, and by extension the banks it represented, chose to disregard the Committee concerns around equity and fairness. Their belief in the free market system, and the corresponding assumptions they made about consumer behavior (i.e., the general public), corresponded with a refusal to consider any other viewpoints. And finally, the lack of an industry representative and their unwillingness to disclose information can be interpreted as disrespect for the Committee and/or as a belief that the Committee was unable to materially effect its fortune.

6.2 1989 - The Turner Committee

On June 12, 13, 14, 15, 27 and 28, 1989 the Consumer Committee heard testimony from seven witnesses, in order of appearance – (1) Linda Leatherdale from the Ottawa Sun newspaper, (2) Don Blenkarn, MP, (3) Reg Stackhouse, former MP, (3) the CBA, (4) the Retail Council of Canada accompanied by card issuers Hudson Bay Company, Sears Canada, Canadian Tire, T. Eaton Company, (5) the Consumers Association of Canada, and (7) the Trust Companies Association of Canada (representing card issuing trust companies). None of the Committee members had served on the Blenkarn committee. At the time of this hearing there were two private members bills in the House on credit cards. Bill C-238, introduced by MP Don Blenkarn, aimed to standardize the method for calculating interest on credit cards using the retail industry's method as a model. Bill C-214 introduced by Committee member John Rodriguez, aimed to place a floating cap on credit card interest rates.

6.2.1 Role of Committee

Just as the Blenkarn Committee was concerned with the public welfare, this Committee's overriding concern was also that the public be treated by card issuers in a manner that was fair. Throughout each of the sessions the issue of fairness was raised both in questions asked by the Committee and in the statements they made.

> *Do you not think that is misleading toward the consumers? If it is not deliberate on the part of the banks, why do you not move and do away with that before we do it as a committee? Abolish it. It is unfair to the people. (Question posed to the CBA by MP Boudria, June 18, 1989)*

> *I am suggesting the public is getting gypped. (MP Rodriguez, June 15, 1989)*
>
> *The present system is in my view unfair and relatively complicated and results in an unfair calculation of interest. (MP Blenkarn, June 13, 1989)*

Similar to the Blenkarn Committee, this Committee saw itself as being the representative of the Canadian people, and saw its primary responsibility as investigating, and if necessary, helping to remedy unfair market practices. Members of Parliament conceptualized how the Committee might remedy these practices in different ways. Some members believed the government's primary responsibility as protecting the consumer, while others viewed its primary role as insuring equity in the marketplace.

> *It seems to me that government's job is to make sure that there is a fair level playing field and that people understand what they are buying, why they are buying it, what they are paying, and why they are paying it. (MP Blenkarn, June 13, 1989)*
>
> *But I submit to you the consumers are not always able to protect their interests in the same way. They do not have as many levers to pull, so they must look to Parliament to speak for them. For that reason I welcome this opportunity, for the lower income people of our country are especially vulnerable in this area. (former MP Stackhouse, June 13, 1989).*

There were subtle differences between the Blenkarn and Turner Committee members' responses towards witnesses. First, some Turner Committee members seemed to have pre-formed strong opinions prior to hearing from issuer witnesses regarding whether their practices were in fact fair. This may be explained by the fact that this Committee had had the opportunity to review prior testimony on the credit card industry, and had been exposed to the introduction of two private member's bills on this topic in the House of Commons, as well as considerable media coverage.

> *You pointed out, Mr. Blenkarn, how consumers are gouged. You pointed out that they charge a daily interest rate and not an annual rate of interest, and that you in fact end up paying considerably more on an annual basis. Given that reality, is there not a need to rein these monsters in and bring them to heel? (MP Rodriguez, June 13, 1989)*

Second, there was also some frustration on the part of this Committee around its ability to effect change. Some members questioned why the recommendations from the last Committee had had such little impact and there was sensitivity to a Globe and Mail editorial that had suggested the inquiry was '*political meddling*'. There was a specific suggestion that one aspect of the role of the Committee was to keep the spotlight on this issue. These two differences may have combined to make this Committee more challenging in its questioning of witnesses. Despite this difference in approach, this Committee, just as the Blenkarn Committee, operated under the assumption that the public has a right to fair treatment, and that it had the right and the responsibility to hold this inquiry.

6.2.2 Committee Concerns and Witness Responsiveness

The specific concerns of this Committee were very different from the concerns of the Blenkarn Committee. Whereas the central issue the Blenkarn Committee focused on was excessively high or "sticky" interest rates, the Turner Committee focused on whether particular issuer business practices were fair. Specifically, it focused substantial attention on whether financial institutions' method of calculating interest rates was fair and adequately disclosed, and whether retailers granted access to credit cards too easily (and thereby placed low income consumers at risk). Second, the Blenkarn Committee used its forum in part to educate itself by soliciting information from issuers on their business practices and the characteristics of their portfolios. In contrast, the Turner Committee used its forum to test out or gather opinions on the policy options open to it, and to clarify their understanding of and challenge issuers on these specific practices of concern.

The Committee posed 81 questions of issuer witnesses, including requests for information, clarification of written submission or oral testimony, requests for opinions on policy options, and challenges to statements made by witnesses. Unlike the Blenkarn committee, where questions were generally repeated for each witness, the distribution of questions varied among witnesses. Table 12 describes the subject nature of the questions.

Table 12 - Turner Committee: Question Topics

Question Topic	Retail Council of Canada	Trust Co. Association	CBA
Method of interest rate calculation	2	9	19
Disclosure	0	2	6
Ease of access	3	0	0
Level of interest rates	0	0	2
Competition	1	1	5
Business practices	7	1	5
Other	8	1	14
Total	21	14	51

Given that the Retail Council of Canada faced a fundamentally different set of concerns than the financial institutions, the remainder of this section is devoted exclusively to an analysis of the responses offered by the financial institutions. Table 13 summarizes the differences in the CBA and the Trust Companies Association responses to the Committee's concerns along three dimensions – major argument, supporting arguments and positioning tactics. Clearly, for the financial institutions the majority of interest lay in the topics of whether the method of calculating interest was fair, and relatedly, whether the method was adequately disclosed. The Committee explored the issue of the grace period, the date from which interest was computed, whether interest was compounded daily, and partial payments. To a far lesser degree, the Committee raised the issue of such as whether there was adequate competition in the market, and asked a variety of questions around portfolio characteristics, the cost of cards, profits and interest rate levels. Interestingly, although there was a private members bill in the House on capping interest rates, and its sponsor, John Rodriguez was a member of the Committee, the issue of interest rate levels received very little attention in this Committee. This lack of attention may have occurred because the issue was not a pressing one at this time for consumers, judging from the stories witnesses shared with the Committee, or the fact that the spread was only marginally higher than it was in the prior hearing.

Both the CBA and the Trust Companies Association took the position that the government should not advance legislation that mandated how interest should be calculated. That is, they disagreed with MP Blenkarn's private members bill that proposed mandating that all credit card issuers should calculate interest based on the method used by the retailing industry. However, they chose different arguments to

Table 13 - Turner Committee – Committee Concerns and Witness Responsiveness

	Trust Companies Association of Canada	CBA
Major argument	On the method of interest calculation **Will disadvantage consumers** *People who are taking advantage of the credit element are going to wind up paying higher interest than they would otherwise. Those people tend to be the people who cannot afford to pay off their bill every month.* On disclosure **Could be better** *On the back of each statement it is perfectly clear what is going to happen if I do this or that. We can agree that there is a need to make that information clearer, simpler and more straightforward so the consumer understands*	On the method of interest calculation **Market forces** *We do not believe it is appropriate or in the consumer's interest to try to define the nature of the product... That is a market phenomenon, and market competition will take care of the consumer.* On disclosure **Consumers are well informed** *There is a lot of literature out. And let me repeat, since the Bank Act of 1980 and the cost-of-borrowing disclosure regulations we have been required to produce all that information, in law. It is there.*
Supporting arguments	Legislation may not produce intended outcomes	Distinguish self from retailers Comparison to other instruments Correct wrong information that Committee had been given
Positioning techniques		Emphasize clarity and simplicity of their method Use of focus group data Meet and exceed disclosure requirements

support their positions. The CBA's position regarding the calculations of interest was fundamentally that the government should not intervene in "product design". Consistent with their argument before the Blenkarn Committee, they asserted that market forces would ensure that consumers were treated fairly. In contrast, the Trust Companies

Association framed their arguments directly in terms of fairness to consumers and helping the Committee achieve its objectives. They suggested that the method of interest calculation was one component that affected interest rates, and if this component was fixed, the rate itself might have to be raised so that the economics remained the same for issuers. This may disadvantage consumers. In addition, they argued that mandating such a feature may be dysfunctional as the market evolves. They cited the difficulty an individual has when calculating mortgage rates (which were legislated decades ago) as an illustration of what could transpire, and how the outcome may not be consistent with the Committee's objectives – that is to make the method of calculating interest transparent.

At a surface level, both the CBA and the Trust Companies Association offered that disclosure was very important and that more could be done to facilitate disclosure. The Trust Companies Association maintained throughout its testimony that it placed a premium on trying to meet consumer's needs for disclosure, that it was continually trying to improve disclosure and that it felt it could do a better job. It did not enter into any discussion on whether consumers understand the material, nor did it repeatedly defend its disclosure practices.

The CBA's position was somewhat more schizophrenic on this issue. Throughout the hearing they emphasized that they had always met disclosure requirements and at the very beginning and towards the end of the session they offered ways on how they had exceeded the legislative requirements. In addition, however, they repeated several times that their method of calculating interest was fair, simple and straightforward and that any consumer could understand it. They suggested perceived problems around disclosure arose because consumers were not interested in understanding the information, they were not financially motivated to do so, and they offered focus group data to support this assertion. They were wed to this line of reasoning even in the face of numerous committee members professing confusion over how interest was calculated and how it was disclosed. Their refusal to validate or acknowledge the members' personal views and experiences led to several angry exchanges.

> *MP. Bellemare- You are not answering my question. Did you not notice that there is a certain confusion in the minds of members of this committee and in the way they ask questions or receive answers?*
>
> *Mr. MacIntosh: That was not my reaction to how the members felt.*
>
> *MP. Bellemare: Well, I can tell you that it is quite clear for me, as a newly elected Member of Parliament, that all the members of the committee do not agree with you at all or are completely confused.*

Members expressed a general concern that the banks' practices were generally misleading in the area of the calculation of interest rates. The concept of the grace period and how it was handled is an example.

> *To put it differently, your so-called period of grace is not an unfettered period of grace. It is a period of grace that says you can have grace if you pay it all, but if you make the mistake of paying it all less 50 cents, we are going to sock it to you for interest on the whole amount from the date of purchase. And that is a con job. That is a con job. (MP Simmons, June 14, 1989)*

To summarize, in stark contrast to their direct competitor, the Trust Company Association of Canada, the banking industry once again chose to frame their primary response to legislator's concerns in terms of economic theory. Although in contrast to their performance during the Blenkarn hearing they did attempt to convey that they were sensitive to the issue of fairness to the consumer (e.g., by having exceeded regulatory requirements, offering to improve disclosure, use of focus groups) they undermined their own attempts at doing so because of their reliance on the central market forces argument, and in the general manner in which they approached the Committee, as discussed below.

6.2.3 Nature of Committee and Witness Responsiveness

The remainder of this section analyzes issuer witness responses to the nature of the committee along three dimensions: (1) acknowledgment or validation of the Committee or the government, (2) industry representation at the hearing, and (3) background information. The dimension – request for information - that was included in analyzing the Blenkarn hearing is not relevant in this hearing. The Committee made only two requests for additional information – information gathering in order to further understand the business did not appear to be a key issue for Committee members. Table 14 summarizes the differences in witness responsiveness to the nature of the Committee.

<u>Acknowledgment of Committee</u>

Acknowledgment of the Committee in this hearing can be defined as being forthcoming in responses to questions, answering questions directly, being respectful of the Committee process and Committee members, and recognizing the legitimacy of the proceedings. The Retail Council of Canada and the Trust Companies Association were both engaged in behavior that validated the Committee's role. For example, they

Table 14 - Turner Committee: Nature of the Committee and Witness Responsiveness

	Retail Council of Canada	Trust Companies Association of Canada	CBA
Acknowledgment of committee	**Validates** *We are glad to have the opportunity to appear before the Committee.*	**Validates** *There can be absolutely no doubt you have every right and every obligation to took into matters that are of concern to your constituents or constituencies at large.*	**Challenges** *Oh, no. I did not say it was not appropriate for Parliament to review this. Parliament has the right to do anything it wants, and certainly it has the right to took at credit cards or anything else. We are happy to be here. We do not question that. We are saying product design is not appropriate in the competitive marketplace.*
Industry representation	Yes	No, but CEO is a former MP and colleague	No
Background information	Yes	Yes	No

explicitly acknowledged the Committee's role. The CBA, in contrast, stated it accepted Parliament's authority to investigate these matters, but immediately qualified what it felt would be the legitimate outcomes of such an investigation. Further evidence of the Retail Council and the Trust Companies Association acknowledgment of the Committee is apparent in that they did not engage in personal debates with Committee members, and generally speaking, they acknowledged and directly answered the Committee's' questions.

In contrast, the CBA's interaction was fraught with tension, arguments and hostile exchanges. A comparative example is available in examining the Retail Council's response and the CBA's response to newspaper headlines that credited MP Blenkarn with accusing the banks' of charging usurious credit card interest rates of 1,000%. The CBA chose to directly address the issue by asserting that MP Blenkarn has offered erroneous information.

> *Mr. MacIntosh: Now I want to turn to the question of calculating interest rates, because this is part of the question of disclosure and it is part of the information-I should say, Mr. Chairman, serious misinformation-you received in this committee from Mr. Blenkarn yesterday. It was serious misinformation.. and I will show you how that is so.*
>
> *Mr. Rodriguez (Nickel Belt): On a point of order, the witness is calling into question evidence that the chairman of the Standing Committee on Finance of this House of Commons presented yesterday. Now, if he wants to have a spitting match with Mr. Blenkarn, he is in Room 308. I do not think he should come in here and make that kind of statement when Mr. Blenkarn is not present.*
>
> *Mr. MacIntosh: This is not China, Mr. Rodriguez.*
>
> *Mr. Rodriguez: Well, you are carrying on as if you have some God-like right to criticize people who are not here.*

The Retail Council, in contrast, raised the Committee's attention to this issue, but in a far less inflammatory manner.

> *The account system is based on averaging. If you make contrived calculations, from time to time you can show a very apparent, large interest or service charge being paid for a particular period of time. I would suggest, Mr. Chairman, that this kind of calculation is really misleading because it does not give a true picture of the costs the customer will experience over say a year's operation of the account. (Retail Council, June 15, 1989)*

Several times throughout the CBA's session, Committee members commented on the association's defensiveness and unwillingness to acknowledge the issues that concerned it.

> *Certainly I am not here, to attack the Canadian banking system. I am a supporter of the banking system. I am a free enterpriser. I believe in the profit motive, I believe in return on investment and all that. That is my view of what makes Canada go around. But I think the Canadian Bankers' Association, and you as their representative, are burying your heads in the sand if you do not think there are problems with the credit system to which Canadians are at present exposed. I really do not understand why you would be defensive about it. (MP Crosby, June 14, 1989)*

Finally, the CBA was also taken to task several times for not answering questions directly, and for providing confusing information.

> *That is not what I said, and you know darned well what I said! I did not talk about abolishing the period of grace. Every time we have asked a question here today, we have been misled. We cannot hear a straight answer. The chairman knows what I asked. I did not ask to abolish the period of grace. And you, Mr. MacIntosh, know what I asked here today. I have asked that the period of grace be just that-a period of grace with no strings attached. Do not twist my question around. (MP Boudria, June 14, 1989)*

In summary, the CBA appeared unwilling to engage in a dialogue with the Committee and the session appeared to significantly increase Committee members' frustration with the industry.

Industry Representation and Background Information

As in the prior hearing the Retail Council was accompanied by industry participants; this time four senior level executives. Unlike the Blenkarn hearing, the trust industry was represented by its industry association, with no industry representation. However, the CEO of the trust industry association was a former member of Parliament, and was well known to the Committee. The CBA, as in the case of the Blenkarn hearing, appeared with no industry representation. In addition, the CBA's primary representative, Robert MacIntosh had been involved in litigation with the Committee Chair, MP Turner. In his prior life, Turner had been an executive at a newspaper and his newspaper had sued MacIntosh over remarks MacIntosh had made about the media in a public setting. In light of this history, the industry's judgment in sending this particular emissary is questionable. It may signal either an ignorance of how to best manage the legislative environment, or alternatively, be an indication of the little importance it attached to this hearing.

Both the Retail Council and the Trust Company Association offered short descriptions of its membership. As in the Blenkarn hearing, the CBA offered no description. Again, this represents a lost opportunity to position themselves, and an implicit assumption that they are so well known, they don't need to introduce themselves.

6.2.4 *Summary and Discussion*

This hearing, like the Blenkarn hearing, can be viewed as a very negative experience for the banking industry. It came across as defensive and arrogant, and at least some Committee members clearly held a negative view of the industry. The industry appeared to feel compelled to defend its existing practices, even though they admitted they could be improved. As in the Blenkarn Committee, they espoused a view of the public that was rooted in the free choice argument, consumers could "choose" to be informed if they wished, they simply chose not to.

Nevertheless, it should be noted that while the industry tended to rely on the same kinds of arguments and tactics it had relied on it the Blenkarn hearing, it had modified some of its techniques. For example, it did not denigrate others, it did reach out to MPs with offers to visit facilities, and it did validate some of the Committee's concerns such as acknowledging a need for better disclosure. In this hearing it appears that they were attempting to be more moderate and conciliatory in their views by suggesting that disclosure could be improved, but they could not disregard a core aspect of their identity, that is a belief in the free market and a notion that consumers were rational and motivated solely by financial objectives. Even when directly confronted with evidence to the contrary they felt compelled to defend themselves. It was as if the industry representatives had been given advice on how to best manage in this kind of regulatory setting, but aspects of its identity prevented it from executing this advice. In the end, as in the case of the Blenkarn hearing, this episode served to build more barriers between the industry and Parliamentary backbenchers, and contributed to a negative public reputation.

6.3 1992 - The Holtmann Committee

On November 6, and 20, 1991, and February 6, 11, 12, 18 and March 16, 1992 the Consumer Committee heard testimony from ten witnesses – (1) Garth Turner, MP, (2) card issuer the Royal Bank of Canada, (3) card issuer the Bank of Montreal, (4) the Consumers Association of Canada, (5) card issuer Amex Bank of Canada, and (6) card issuer Canada Trust, (7) Don Blenkarn, MP, (8) the Bureau of Competition Policy, (9) the Fraser Institute (a Vancouver-based think tank). Three members who had served on the Turner Committee also served on this Committee – MP Don Boudria, MP Ron MacDonald and MP John Rodriguez. Prior to the beginning of this hearing, MP Blenkarn and MP Rodriguez had each reintroduced their private members bills aimed at legislating credit card practices. Blenkarn's bill, Bill C-237, introduced on June 18, 1991, once again aimed to standardize the method for calculating interest on credit cards using the retail industry's method as a model. Bill C-265, introduced by Committee member Rodriguez on June 19, 1991, once again aimed to place a floating cap on credit card interest rates. This Committee differed from previous ones in that it made a direct attempt to gather current information from the United States on credit card practices, and the outcomes of interest rate caps that had been legislated in certain states. Halfway through the hearing, on February 3, 1991, it embarked on a three day visit to the US to investigate credit card issues.

6.3.1 Role of Committee

As in the prior two hearings, the Committee was clearly concerned with addressing a business practice that they felt may be unfair to consumers. Frequently throughout the session they returned to the notion that they were acting in the interests of consumers and responding directly to constituent concerns. In this hearing they positioned themselves as acting as "*ombudsmen*" or as offering a "*voice*" for consumers. They viewed themselves as consumer advocates who could investigate the facts, make recommendations to the House of Commons and send a message to the financial community.

> *Consumers have raised a great deal of concern about the interest rate structures charged by banks, particularly on Visa and MasterCard and those types of bank cards, and we felt it was incumbent upon us, with our responsibilities, to try to address some of those concerns directly. (MP McDonald, February 12, 1992)*

> *It's very consistent with this committee's objectives to sit down, voice consumer concerns, and send a message. By doing that, I believe this committee can empower consumers. The committee can show that financial institutions are the servants of the marketplace, and not the masters. (MP Turner, November 6, 1991)*

In contrast to the last two hearings, the focus of this hearing was on financial institution practices, and in particular, bank practices. Non-financial institution card issuers were not called to testify, and members made it clear they were exploring bank practices.

> *We're here because we wanted to get a balanced picture of credit card owners and operators from the banks of Canada. (MP Holtmann, November 20, 1991)*

At the same time, members felt they had to explicitly assure bank witnesses that this was not a vendetta against the banks, and that the Committee's role was simply to investigate these business practices.

> *Mr. Cleghorn, all that we're trying to do here... This is a quick hearing. It's not a witch hunt. ... All we're trying to do is help the consumers. (MP MacDonald, November 6, 1991)*

In the last hearing members expressed some frustration that the Blenkarn hearing and the resulting report had not produced longer lasting reform. This frustration over the failure of the Parliamentary Committee to effect substantive change in credit card practices appeared to have intensified since the Turner hearing. Members who had been on both Committees were particularly distressed over the seeming lack of progress.

> *The finance committee undertook a study of this matter in 1987.... Then we noticed, because of all the jaw-boning... it appeared, you guys got embarrassed, and then the rates started to drop on the credit cards. Then we eased off. We took the pedal off the metal, or whatever they say. We went through this period, and again we had in 1989 the same scenario.... We saw the same thing happening starting last spring. And here we are again. it's all happening over again. I just don't think that consumers have to depend on this kind of jawboning to get fairness in the marketplace for consumers. (MP Rodriguez, February 12, 1992)*

In summary, this Committee, similar to its predecessors, was most concerned with whether consumers were being treated fairly. Unlike the last two Committees, however, this Committee explicitly focused on financial institutions and their practices. It saw its role as the defender of the general public, and as an advocate who could, and should, send a powerful message to the banking community.

6.3.2 *Committee Concerns and Witness Responsiveness*

The Holtmann Committee focused on investigating three specific credit card-related issues – (1) whether there should be an interest rate cap, (2) whether there was enough competition in the banking industry as related to the credit card business, and (3) whether there should be more disclosure of interest rates and other matters in the issuing of credit cards. While interest rate levels and disclosure had been the focus of prior committee hearings, this Committee departed from its predecessors by deciding to formally explore a specific policy option – an interest rate cap. This decision may have resulted from the level of frustration expressed by Committee members regarding their seeming lack of ability to permanently affect credit card interest rates, the presence of three members who were very experienced in these matters and had heard many of the arguments on these issues, or the existence of a private members bill advocating a cap. Although the policy option of a cap had been discussed at previous hearings, the placement of it on this Committee's formal agenda suggests that it may have become a more plausible and desirable option for Committee members. This, in turn, raised the regulatory risk for issuers.

The Committee posed 165 questions of issuer witnesses, including requests for information, clarification of written submissions or oral testimony, requests for opinions on policy options, and challenges to statements made by witnesses. Table 15 describes the subject nature and number of questions directed at each issuer witness.

Table 15 - Holtmann Committee: Question Topics

Question Topic	Canada Trust	Amex Bank of Canada	Bank of Montreal	Royal Bank
Level of interest rates	2	8	6	13
Profits	12	1	9	15
Competition	4	4	4	5
Business practices	5	7	5	0
Cost of cards	8	2	3	0
Interest rate cap	3	1	7	2
Disclosure	3	0	0	2
Other	7	3	14	8
Total	46	26	48	45

Table 16 summarizes the differences in issuer witnesses responses to the Committee's concerns along three dimensions – major argument, supporting arguments and positioning tactics. Clearly, the major focus of interest was in the level of interest rates, and correspondingly, whether the increase in rates represented excessive profitability for issuers. Closely related to the concern over credit card interest rate levels, was the issue of adequate competition in the financial services marketplace. Members operated with the assumption that adequate competition would ensure that interest rate levels were fair and reasonable. These concerns occupied the major portion of the testimony. Despite an explicit and articulated desire to explore disclosure and related practices, this topic received little attention compared to the related issues of rate levels, profits and competition.

All four issuer witnesses claimed that the rise in credit card interest rates could be largely attributed to their efforts to offset reduced profits that had resulted from the rise in the level of personal bankruptcies, caused by the early 1990s recession. Each witness claimed that credit card loan losses stemming from personal bankruptcies had doubled in the last one to two years, which in turn had caused severe erosion in their credit card profit margins, and in some cases, outright losses in their credit card operations. Each also claimed they were price leaders in maintaining lower interest rates. There were distinctions between the witnesses, however, in how they chose to position these arguments, and in the supporting arguments they advanced.

Amex Bank of Canada ("Amex") provided a breakdown of the costs of cards, including the impact of loan losses, and stated that it was currently experiencing a loss in its Optima credit card operations. (Its testimony referred to its credit card product, the Optima card, and not its charge card product, the American Express card.) This loss was partially due to the fact that it was a newcomer to the industry as well as prevailing market conditions (i.e., the bank rate, card losses). Amex also emphasized that it had been a leader in providing competitive rates since its entry to Canada, and cited a testimonial from the Consumers Association of Canada to this effect. It stated that its explicit strategy was to continue to be a price leader, to provide value to consumers and to underprice the bank cards. It also informed the Committee that it had announced a two percent drop in its rate the day prior to the hearing, to go into effect in three and a half months. Credit card interest rates were clustered in a very narrow band, and a two percent decrease clearly put Amex at the lower portion of the band.

Table 16 - Holtmann Committee: Committee Concerns and Witness Responsiveness

	Canada Trust	Amex Bank of Canada	Bank of Montreal	Royal Bank
MAJOR ARGUMENT	**Increase in credit card losses** **Price leader** *We like to think of ourselves as a price leader. I'm not sure I can stand here and say we are a leader in every instance, but we are certainly among the leaders in Canada... it would be nice to say that we run a tight ship and we like to offer our customers good value.*	**Increase in credit card losses** **Price leader** *This keeps the Optima rate of interest below those of large bank cards and demonstrates our commitment to provide value to the Canadian consumer.*	**Increase in credit card losses** **Price leader** *I would have to say that we have been the most aggressive rate reducer in all sectors of our business, because we believe in this economy. We are going to give our customers a break every time, as early as we can, and we have done it here too.*	**Increase in credit card losses** **Price leader** *You will also note that while the Royal Bank is sometimes, even frequently, the price leader-we've led for all of 1991-this is not always the case. About the best boast I can produce is that we are competitive with the other issuers, but as they will be quick to tell you, so are they.*
SUPPORTING ARGUMENT	**Losing money** **Access lower interest personal line of credit through Mastercard**	**Losing money** **Announced 2% drop in rate as demonstration of commitment to price leadership**	**Business is unsustainable under current conditions** **Launched low rate Mastercard**	**Managing the spread is extremely complex** *If it was possible to produce from market fluctuations a constant spread in a concentrated section of the portfolio like this, it really would be a no-brainer business. In fact, managing the spread is at the heart of the business, and it is intensely difficult.*

Table 16 - Holtmann Committee: Committee Concerns and Witness Responsiveness

	Canada Trust	Amex Bank of Canada	Bank of Montreal	Royal Bank
POSITIONING TECHNIQUES		**Reaffirm commitment to customers** **Offer a favorable alternative to the banks**	**Reaffirm commitment to customers**	**Educate about product differences and complexities** **Divert attention from questions and issues**

Canada Trust had appeared in front of the Blenkarn Committee and had established itself as a low cost provider at that time. It appeared to have a reputation as such with the Committee, and was perceived by at least one committee member as a leader in lower interest rates, particularly in comparison to the banks.

> *The reason I ask is that I am a holder of one of your cards and I use it because your services are generally less expensive. It's hard to figure out why some of the banks, particularly, seem to compete for who can be the highest charging, whereas others can offer the same service for less money. (MP Boudria, February 6, 1992)*

Canada Trust also employed some of the same supporting arguments as Amex. First, it focused on providing value to its customers. Second, it offered a breakdown of the components of the interest rate, including the impact of loan losses. Third, it too was sustaining a loss in its credit card operation. Fourth, just as Amex had announced a rate decrease, it offered some relief for consumers in a high rate environment. It allowed the consumer to access a personal line of credit (at a lower interest rate) through their Mastercard.

Amex and Canada Trust also enjoyed an advantage that was not shared by the banks – they were not the explicit focus of the hearing, and in the eyes of the Committee, they did not suffer, specifically, from an accumulation of public bad will and mistrust.

> *The reason we are here today is that our constituents feel that banks are charging too much interest on credit cards. My constituents feel that large corporations are not paying enough income tax. There is a mistrust of corporations, specifically banks. Banks have high profits in absolute terms. (MP Thorkelson, November 6, 1991)*

The two banks that appeared in front of the Committee emphasized that they were only representing themselves, and clearly, they differed in how they framed their arguments. Throughout its testimony, the Bank of Montreal returned again and again to the theme that it wanted to provide value and be fair to its customers. It began by emphasizing that it was a price leader in all product areas, including credit cards, and offered numerous examples of this leadership, including that it had reduced credit card interest rates nine times in the past 14 months. Additionally, similar to Canada Trust, it had launched a Prime Plus Mastercard, which offered a credit card interest rate at prime plus five percent. Finally, like Amex and Canada Trust, it conveyed information on the impact of loan losses on its credit card interest rate. It revealed that its credit card losses had more than doubled during the recession, and had increased by $36 million in the past year alone. This translated into an additional 2% in interest cost, and a 50% reduction in its operating profit margin.

The Royal Bank, similarly took the position that it was a price leader, but was somewhat less emphatic in its claim. Instead, it focused on trying to educate the Committee about the complexities and difficulties inherent in managing the interest rate spread (i.e., the difference between the bank rate and the credit card interest rate.) Unlike the other three witnesses, the Royal Bank had no product-related offering that would suggest evidence of an attempt to directly address Committee concerns. Several times throughout the session, the Royal Bank deflected members' questions or avoided answering them directly by reframing the question to divert attention from themselves or from the credit card product.

Mr. Edmonston-. I'm going to throw it back to you. I'm looking at your own bank card interest rates and I am seeing a pattern of about 20%, 19%.

Mr. Cleghorn: You have department stores on the side, at 28%; oil companies are 24%. (November 6, 1991)

Profitability was a sensitive issue for witnesses and a critical issue for Committee members. One of the Committee's key objectives was to determine what percentage of each organization's profits came from their credit card operations, and the order of magnitude of that profit. With the exception of the Royal Bank, which refused to provide data, the other three witnesses claimed they were sustaining losses or the business was unsustainable at current profit levels. Amex stated they had not yet realized a profit in their credit card operations. Canada Trust asserted that it was currently in a cumulative net loss position dating back to when it first entered the business. When pressed by members, it acknowledged that the cumulative net loss would be in the range of $25 million to $50 million. The Bank of Montreal, in contrast to the other witnesses, revealed that it made 40 to 50 cents per month on each Mastercard, loan losses had reduced its profit margin by 50% and credit cards contributed less than 3% to the Bank's earnings. Although it still made a profit on credit cards, it was unequivocal in telling the Committee that at these profit levels, its credit card business was unsustainable.

On the issue of competition, all witnesses claimed to be in favor of it, but they each framed their enthusiasm differently. The Committee focused on whether there was adequate competition in the marketplace, and how witnesses would "*compete with others in the area of reducing the interest rate?*" Members challenged the notion that there was real competition since the range of credit card interest rates was fairly narrow. Generally, witnesses responded by explaining a narrow band in a commodity product was not unusual, and that issuers compete on features other than price. Canada Trust was straightforward in its acknowledgment and acceptance of competition, and did not elaborate beyond simple statements. Amex and the Bank of Montreal, however, used the discussions on competition to reinforce their key arguments. Amex used its position on competition to align itself with the Committee, and to raise question about anti-competitive behavior by the banks. Later in its testimony, it expounded on difficulties accessing the payments system, because of barriers erected by the banking community.

> *First let me say that the Amex Bank of Canada shares the committee's view that vigorous competition in the financial market is very much in the best interest of Canadian consumers. It is for this reason that I have been a vocal advocate of reforms to the Canadian financial system, which would help to ensure that all Canadian financial institutions have competitive access to the electronic highways that define the rapidly evolving payments system. (Morris Perlis, President and CEO, Amex, November 20, 1991)*

The Bank of Montreal said it welcomed competition in credit cards and reminded the Committee that competition extended beyond price to other features. The Committee praised the Bank of Montreal for taking competitive action by introducing the Prime Plus card. Leveraging off this good will, it framed its comments on competition in terms of serving its customers.

> *I think it is a matter of all of us, if we are competing-and I can only speak for myself-to look for every possible competitive advantage we can find versus our competition, to serve Canadians better. That is what we do every hour of every day. (Alan McNally, Vice Chairman, Bank of Montreal, February 12, 1992)*

The Royal Bank's remarks on competition, however, were not as well received by the Committee. Again, it tended to avoid direct answers to the Committee's questions, and on occasion this frustrated members. For example, when one member posed a hypothetical question asking what the Royal Bank would do if the bank rate dropped, instead of responding directly to the hypothetical question, the Bank responded by asserting "*...but I think we have to look at what is likely to happen.*" It also offered less detailed testimony on competition than the Bank of Montreal. For example, the Bank of Montreal quantified the number of issuers and described the range of features, while the Royal Bank spoke in generalities.

On the issue of an interest rate cap, Amex, the Bank of Montreal and the Royal Bank explicitly argued against legislating such a cap. Again, how they framed their argument is consistent with how they positioned themselves to the Committee. Amex argued that competition would best serve the consumers. The Bank of Montreal repeatedly focused their responses on the negative impact that would result for consumers.

> *In short, the introduction of an interest rate cap could have significant adverse consequences from a consumer perspective: higher fees, shorter grace periods, less consumer choice, reduction in the availability of credit finance with the attendant risk of contraction in consumer purchasing power and retail sales. (Alan McNally, Vice Chairman, Bank of Montreal, February 12, 1992)*

The Royal Bank also referenced the negative outcomes for consumers, but did not do so with the single-mindedness of the Bank of Montreal. Unlike the Bank of

Montreal's repeated focus on fairness to consumers it choose to give more elaborate discussions of the difficulties associated with imposing a cap, including the challenge in choosing the right margin, the effect of creating a barrier to entry, and the punitive economic effect on issuers. Canada Trust's reaction to the issue of a cap was far less emphatic. They explained all the reasons a cap was problematic, but suggested that ultimately the industry would work with whatever regulations were in place, albeit in an altered marketplace.

To summarize, all four issuer witnesses adopted the same kind of arguments when presenting themselves to the Committee. They attributed the rise in rates as largely the outcome of extraordinary loan losses and a rising bank rate; they each claimed to be price leaders; they emphasized that the credit card industry was already extremely competitive and they welcomed more competition; and they argued against the imposition of an interest rate cap. But there were subtle differences between the witnesses, both in how they were treated and in how they positioned their arguments. Amex was a strong advocate for increased competition, positioning itself as a consumer-oriented alternative to the banks. Canada Trust gave straightforward testimony that emphasized its historic strategy of giving value to consumers. Both of these organizations were able to assuage the Committee's concerns about excess profitability by claiming to be sustaining losses in their credit card operations.

The banks, by contrast, were clearly on the firing line, and therefore, there was a greater onus on them to be responsive to the Committee's concerns. Although both banks offered the same kinds of arguments, the Bank of Montreal's were more focused on framing their arguments in terms of what is fair and responsive to consumers. Although the Royal Bank also made reference to consumer interests its strategy seemed to be to educate Committee members on the intricacies of the business. An example of its strategy of conveying its viewpoint in thorough detail is evident in the length of its opening remarks – they lasted 30 minutes, compared to 15 minutes for the Bank of Montreal, 10 minutes for Amex and four minutes for Canada Trust. It often offered lengthy, comprehensive and educational responses to Committee members' questions or statements. It also attempted to deflect the attention on its practices by reframing a question or an issue in a way that was more favorable to it.

6.3.3 Nature of Committee and Witness Responsiveness

The remainder of this section analyzes issuer witness responses to the nature of the committee along three dimensions: (1) acknowledgment or validation of the Committee or the government, (2) information requests, (3) industry representation at the hearing, and (4) background information. Table 17 summarizes witness responses.

Acknowledgment of Committee

Acknowledgment of the Committee in this hearing can be defined as being forthcoming in responses to questions, answering questions directly, being respectful of the Committee process and Committee members, and recognizing the legitimacy of the proceedings. For the most part all four witnesses engaged in behavior that validated the Committee's role. Amex, explicitly acknowledged the Committee's purpose, and actively aligned itself with the Committee. Canada Trust was less explicit in its endorsement of the committee. Instead, its endorsement of the Committee was revealed in its responses to concerns of the Committee, including possible legislation. For example, unlike the other witnesses, it stated that it would be able to adapt to an interest rate cap. It also chose to remind the Committee that it had appeared before, and had adopted practices that prior Committees had cited as beneficial for the consumer.

Although the Royal Bank and the Bank of Montreal were not as explicit as Amex in their validation nor as amenable as Canada Trust to Committee suggestions, they did make significant effort to convey to the Committee that they understood its concerns, and were making an honest effort to address these concerns. For example, they often took the opportunity to comment on the wisdom of Committee members' questions, or to convey an understanding of why the hearings were being held. This pattern of behavior is the opposite of the approach the industry assumed in the prior two hearings.

> *Sir, I could respond with three points. I certainly understand how it would appear, in the fluctuations that you describe ... how the perception could have occurred. (Alan McNally, Vice Chairman, Bank of Montreal, February 12, 1992)*

> *It's easy to understand why people without a detailed knowledge of the credit card industry would be concerned. I hope we can answer those concerns tonight. (John Cleghorn, President and COO, Royal Bank, November 6, 1991)*

Also, unlike their approach in the two prior hearings, the banking industry never questioned why the government was engaging in this process, nor whether the

Table 17 - Holtmann Committee: Nature of the Committee and Witness Responsiveness

	Canada Trust	Amex Bank of Canada	Bank of Montreal	Royal Bank
Acknowledgment of Committee (or government work)	**Validate** *We're certainly in favor of full disclosure. We have a sheet that is available to our customers that explains in great detail the features of our cards. In fact, I believe it was cited as a model of disclosure in Committee hearings a couple of years ago.*	**Validate** *In closing, let me repeat that American Express shares and applauds your concern that Canadian consumers of financial services receive the full benefit of competition.*	**Validate** *We have no slides, but as Canada's largest MasterCard issuer we certainly appreciate this opportunity to provide our views on the credit card interest rate subject. We sincerely hope they will contribute constructively to the committee's deliberations.*	**Validate** *I want to refer briefly to disclosure. We are in absolute agreement with Members of Parliament on its value.*
Information requests	**Accommodates reluctantly** *I would prefer not to answer the question "how much" because I think that's information that certainly our competitors do not share with us. This being a public hearing, I'd be sharing information with them I'd prefer not to.*	**Accommodates reluctantly** *It is a very competitive world, and that is information we obviously don't want to have to put on record, because it is confidential information. I don't know how else to answer you. I mean, if we were compelled to come, of course we would come.*	**Accommodates** *Indeed, at Bank of Montreal, our MasterCard business represented but a small part of our 1991 earnings: less than 3%.*	**Obstructs** *First of all, we don't make that information available to anybody. That's not public information.*

Table 17 - Holtmann Committee: Nature of the Committee and Witness Responsiveness

	Canada Trust	Amex Bank of Canada	Bank of Montreal	Royal Bank
Industry representation	Senior industry representation	Senior industry representation	Senior industry representation	Senior industry representation
Background information	Yes	Yes	Yes	Yes

government had a right to conduct these hearings. The only difficulty that arose was the tendency on the part of the Royal Bank to be less than direct in its responses, as discussed in the last section.

Information Requests

Committee members did not request specific information regarding business practices, but did make repeated and pointed inquiries into the profitability of credit card operations. As in the prior two hearings, witnesses perceived this information as confidential and were reluctant to part with it in a public setting. Amex and Canada Trust both disclosed they were losing money, and when pressed, Canada Trust revealed the magnitude of its net losses.

The Royal Bank did not divulge the impact of loan losses on credit card interest rates, and refused to reveal numbers concerning profitability, also citing confidentiality concerns. Initially, it attempted to address the Committee's concerns by giving a general discussion on the relative nature of credit card losses to mortgage loan losses. According to the Royal Bank, its mortgage portfolio was ten times the size of its credit card portfolio, and credit card losses were five to ten times that of its mortgage losses. This description did not appease the Committee, however, and in the end, the Royal Bank offered to have the CBA compile industry information that would protect the confidentiality of industry participants. The Bank of Montreal, as discussed earlier, was the most forthcoming and revealed specific details regarding its profitability. It was the only witness to directly address the Committee's concerns in this area, and that was noted during the session.

> *I would like to compliment you on your frankness. I feel comfortable with some of the figures you have given, the kind of figures we were looking for, in a general sense what you are making as profit, what you expected your profits to be, and the losses in your credit card operations. (MP Edmonston, November 6, 1991)*

Despite the Bank of Montreal's efforts at more complete disclosure, members expressed a great deal of frustration regarding the lack of cooperation in this area. What is particularly striking, is that this frustration was pointedly directed at the banks, again, despite the Bank of Montreal's efforts at being open. Although the Bank of Montreal was complimented for these efforts during its session (as noted above), in subsequent sessions members referred to "the Canadian banks" (in toto) as being obdurate and secretive.

> *Why do you think the Canadian banks steadfastly, absolutely refuse, on the grounds of confidentiality and competitiveness, to give us information? (MP McDonald, November 20, 1991)*

> *I can't understand why, if the banks and financial institutions have nothing to hide in this area, they won't have full and open disclosure with respect to some measure of profitability without destroying their competitive advantage or getting into any kind of a price competitive thing. (MP Simpson, November 20, 1991)*

Industry Representation and Background Information

Senior members of industry represented all witnesses. For the banking industry this was a stark departure from the earlier credit card hearings, when only the CBA appeared on its behalf. Each witness, in its opening statement, described the magnitude of its credit card operations, and in some cases, provided additional information on its overall operations. Again, for the banking industry, this was a departure from prior hearings, where the industry association was silent on background information. The willingness to send representatives from the most senior echelons of the industry, combined with opening statements that appear designed to remind members that they were hearing from individuals who are knowledgeable, signaled a new approach. This approach could be characterized as one that is more respectful or at least more cognizant of the public ramifications of industry representation at these hearings.

To summarize, the banks' acknowledgment of the Committee's work, and willingness to validate the Committee's work, marks a dramatic departure from the industry's approach in the prior two hearings. Each bank made demonstrable efforts to address committee concerns, to acknowledge the legitimacy of the Committee, and to demonstrate respect for the Committee. Although tension remained between Committee members and bank witnesses regarding disclosure of information on profitability, the level of antagonism was palpably less in this hearing than in the Blenkarn and Turner hearings.

6.3.4 Summary and Discussion

In the Holtmann hearing, in contrast to the prior two hearings, there was much greater similarity between the issuer witnesses in terms of the nature of the arguments they presented and their approach to the Committee. All witnesses attributed the rise in credit card interest rates to the occurrence of external economic circumstances (i.e., the rise in bankruptcies) and each attempted to position themselves as a price leader in the market. For the banks, in contrast to their stance in prior committee hearings, arguments about the free market, and freedom of choice for consumers were noticeably absent. To a greater or lesser degree, each witness repeatedly claimed to be a friend of the consumer, and to be pursuing a strategy that was designed to deliver the greatest value to the consumer. All witnesses were respectful of the Committee, acknowledged its legitimacy, and with the exception of the Royal Bank, were forthcoming with information, albeit somewhat reluctantly.

The interesting observation about this session is the difference in the approach between the two banks. Although both banks' testimony represents a departure from prior industry efforts in this area, the Royal Bank's performance is somewhat reminiscent of the CBA performance along a number of dimensions. Specifically, like the CBA its central strategy was to educate the Committee, it tended to give answers that were not direct, and it refused to furnish the Committee with information. Although it claimed price leadership, and spoke of cutting its rates in the past, unlike the other witnesses it did not offer any immediate, concrete remedies such as a significant rate cut or a low rate card. However, it should be remembered that unlike the prior industry testimony the arguments used here were different, far greater recognition of the Committee and its concerns were evident, and there was no outright hostility between the Royal Bank and members. There was one tense interchange, when members accused the Royal Bank of being unnecessarily defensive, but the Bank quickly modified its tone.

Although both made reference to the consumers, it was more apparent as a theme in the Bank of Montreal's testimony. It came through as its central message to the Committee. The Royal Bank had several messages, including an attempt to educate the Committee on the complexity of business, the difficulties of the marketplace, and the attempt to convey multiple message in a relatively short time frame may have caused their message about consumers to be diluted. Interestingly, however, despite the Bank of Montreal's clearer message regarding the importance of consumers, its willingness to reveal sensitive information, and its offering of a low interest rate credit card, members still seemed to perceive the banks as a singular, unresponsive entity.

6.4 1997 - The Walker Committee

On February 6, 11, 12, and 13, 1997, the Standing Committee on Industry heard testimony from eight witnesses, in order of appearance – (1) the Department of Industry, (2) the CBA, accompanied by card issuers the Bank of Montreal, the CIBC, the Royal Bank, and the Toronto-Dominion Bank, (3) Association Cooperative d'Economie Familiale de l'Outanouais, a consumer advocacy group, (4) Consumer Aid Services of Shawnigan, a consumer advocacy group, (5) Consumers' Association of Canada, a consumer advocacy group, (6) Democracy Watch, a consumer advocacy group, (7) Federation of co-operative Family Economics Associations of Quebec, a consumer advocacy group, and (8) Retail Council of Canada, accompanied by card issuers Canadian Tire, Sears Canada, Eaton Credit Corporation, and Hudson's Bay Company. None of the members had served on prior Committees. At the time of this hearing there were no private members' bill in the house on matters related to credit cards, although one was introduced later in the year by one of the members, MP de Savoye.

6.4.1 Role of Committee

This Committee was cognizant of the fact that it was conducting the fourth hearing in ten years on the same topic. Its stated objective was not to *"simply restate earlier positions but to move the agenda along in dealing with the issues of credit cards..." (MP Walker, February 6, 1997).* As in prior hearings, the Committee conceptualized its role along a number of dimensions. First, it believed it had a role as a gatherer of information, in order to make recommendations to the government, and to ensure that consumers were adequately informed.

> *From my perspective, I will be working within the committee to try to get quarterly reports from the banks and the retail outlets so we can try to figure out how to get at this problem so Canadians are not left with the disadvantage they have right now under these circumstances. (MP Ianno, February 12, 1997)*

> *I'm concerned about that because in the end the innocent consumer loses, and our objective has been, first, to try to make sure that consumers know exactly what they're getting when they get their cards. (MP Lastewka, February 13, 1997)*

Second, the Committee saw itself as the "*protector of the people*". Similar to the Holtmann Committee, whose members expressed a desire to be a "voice" for the people, this Committee clearly asserted its desire to ensure that card issuers were not unfairly disadvantaging its constituents. There was an underlying assumption that large card issuing institutions, especially banks, were profiting at the expenses of member's constituents.

> *People must have cards, so they're being controlled by businesses to some extent. They're being controlled by banks, and the banks enjoy a privileged position here in Canada, to some degree, by virtue of the government. So the consumer is really desperate, and feeling trapped. Who is speaking on behalf of the consumers here? (MP Harper, February 11, 1997)*

> *That's what governments are all about. They act as referees between the people and their institutions. But I don't think there's a referee here. (MP Shephard, February 6, 1997)*

The Committee questioned how witnesses viewed their responsibility to consumers. As opposed to prior committees, the notion of fairness was implicit, rather than explicit, and there was clearly an assumption on the part of Committee members that card issuers had a moral and social responsibility to deal with consumers in a manner that was reasonable and did not unfairly exploit consumers' lack of power.

> *Do banks have a moral conscience? I understand that you want to promote your products, that you are in competition, but are there not limits on how you obtain market shares when you know very well that the least well-to-do in our society are bearing the brunt of your profit hunt? (MP de Savoye, February 11, 1997)*

> *I really want to ask you what responsibility you have as retailers and as a retail council to the prevention ... That's really at the heart of this. I don't think it's really in your interest to have people load themselves to that point. It's not in the interest of society, and it's not in the interest of family life, it's not in the interest of building communities to do this. (MP Schmidt, February 13, 1997)*

In summary, as in the three prior hearings, this Committee saw itself as a protector of the public and wanted to insure that large institutions, especially the banks, practiced their business in a manner that ensured fair treatment for all.

6.4.2 Committee Concerns and Witness Responsiveness

The Walker Committee's concerns also paralleled that of its predecessors. It was very concerned over the lack of movement in the level of credit card interest rates, despite a decrease in the bank rate, and correspondingly, whether issuers were reaping excessive profits from their credit card operations. It also expressed concern that issuers, in their zeal to build market share, may be granting credit too easily to disadvantaged elements of society. Numerous questions focused on whether easy access to credit cards imperiled this group of constituents. In contrast to the last hearing, the issues of competition and interest rate caps did not have a significant place on the agenda. In addition, there were a number of general questions around credit card business practices that may reflect the relative newness of Committee members to this topic.

The Committee posed 72 questions of the two issuer witnesses, including requests for information, clarification of written submissions or oral testimony, requests for opinions on policy options, and challenges to statements made by witnesses. Table 18 describes the subject nature and number of questions directed at each issuer witness.

Table 18 - Walker Committee: Question Topics

Question Topic	Retail Council	CBA
Level of interest rates	4	9
Profits	8	3
Cost of cards	6	1
Importance of cards to retailers	5	0
Business practices	4	6
Access	8	5
Other	6	6
Total	41	31

As stated above, the vast majority of questions concerned interest rate levels, profitability and access. More questions were directed at the Retail Council, but this may reflect some confusion over a particular aspect of their written submission regarding cost of cards, on which members repeatedly asked questions. The general questions around business practices touched on merchant fees, credit checks, the method of calculating interest and comparisons to American practices. Questions grouped under the category Other focused on topics such as disclosure, portfolio characteristics, interest rate caps, and cross-subsidization.

Table 19 summarizes the differences in issuer witnesses responses to the Committee's concerns along three dimensions – major argument, supporting arguments and positioning tactics.

Table 19 - Walker Committee – Committee Concerns and Witness Responsiveness

	Retail Council of Canada	CBA
Major argument	**Supportive of core operations** *We also want to stress that this card is offered primarily as a service to customers. It's an adjunct to the primary business of retailers, which is selling merchandise.*	**Provide low rate interest rate cards** *As we tried to demonstrate earlier in our presentation, the answer to the question is of course that banks have indeed responded... For those who want to make sure that in their outstanding balances they minimize their interest carrying charges, Canada's chartered banks do offer the low rate alternative in the market.*
Supporting arguments	**Abundance of choice for consumers**	**Availability of low interest rate credit cards adequately disclosed, emphasis on consumer education** **Abundance of choice for consumers**
Positioning techniques	**Differentiate from banks**	**Better than US**

The CBA and its accompanying industry witnesses were unwavering in their response to Committee members' accusations of interest rate stickiness. They emphasized the argument that the banking industry, over the last four years, had responded to this historic concern with the introduction of low interest rate credit cards. They characterized the product choice facing consumers as "*staggering*" and asserted that they were leaders in offering low rate cards. They drew the Committee's attention to the fact that, as a result of this product innovation, rates available to consumers were at their lowest since 1980. This line of reasoning represented a far more sophisticated version of the market forces/free choice argument the industry had been making ten years earlier, and was far more compelling simply because there truly were alternative choices. The

Committee still took the industry to task, however, by pointing out that only 7% of the credit card holders possessed low rate cards, and questioned whether banks adequately advised the general public of the availability of the cards. The witnesses assured the Committee that the cards were advertised widely and that the achievement of a 7% market share, in the time span of four years, was "*huge*". They emphasized their efforts at providing consumer education. Witnesses also took the opportunity to observe that they felt the Committee was seeking a simple, single card solution that did not fit with the reality of the current marketplace. As of the mid-1990s the credit card market had exploded with the introduction of co-branded cards, affinity cards, and cards that were differentiated by features such as a low interest rate. The industry contended that not everyone wanted a low interest rate card, and it was now pursuing a much more sophisticated segmented marketing strategy that aimed to meet the needs of a wide variety of consumers. Finally, the banking industry once again emphasized that the credit card market in this county was superior to the US in terms of value for money.

> *There's generally more value for less money in Canada, if you weigh out the whole equation. (Jane Fershko, Senior Vice President, Royal Bank of Canada, February 11, 1997)*

Canadian retailers' interest rates had remained at 28.8% (or close to this number) since the early 1980s. The Retail Council of Canada, and accompanying witnesses returned to the same major argument they employed ten years earlier in the Blenkarn hearing to defend their interest rates and industry practices. Throughout their testimony they maintained that retailers offer their credit cards as a supplement to their main line of business, that is selling merchandise. Their credit cards are essentially a benefit they provide to customers, and a means for them to enhance customer loyalty. When asked why rates were consistent amongst major retailers, witnesses answered that they had similar cost structures, made similar profits and that 28.8% was a mathematically convenient number (as opposed to, say, 25.6%). In this hearing the retailers also went to greater lengths to differentiate themselves from the banks. The Retail Council reminded the Committee that retail credit card outstandings were 1/8 the size of bank card outstandings, and that most of their customers generally held a bank card and could always opt to use it. Overall, the Committee was less concerned with the level of interest rates displayed by the retailers, and more concerned with the issues of easy access and excessive profitability. The size of the outstandings, some understanding of the different economic structure that retailers faced in the credit card operations may have contributed to less intense scrutiny on this issue.

Both the Retail Council and the CBA handled the other major issue of concern for the Committee, that of excessive profitability (and the related issue of credit card costs) in a straightforward manner. As in prior hearings, members were interested in understanding the revenues, expenses and correspondingly the profitability of the credit card operation. The CBA adopted a summary approach to this information by repeatedly listing, and sometimes explaining, each cost component. It was common for members to try to calculate profitability on the spot, and banking industry witnesses responded by reframing the calculation. Only one bank however, offered direct information on the profitability of the credit card operation. The Bank of Montreal disclosed that each of its

5,000,000 Mastercards in circulation generated approximately $8.00 per card, and contributed 3.6% to the Bank's overall profits. In revealing its numbers, it emphasized that it was a leader in disclosure, and reminded the Committee that it had made similar disclosure at the Holtmann hearing.

> *We're out in front on disclosure. We've been a gold medal award winner for the last two years with the Canadian Institute of Chartered Accountants and The Financial Post survey of disclosure. We're out in front. (Rob Pearce, Senior Vice President, Bank of Montreal, February 11, 1997)*

None of the other banks were directly asked or pressed on this issue. Although the issue of overall bank profitability was raised, witnesses were quick to point out that credit card operations were not a major driver of overall bank profits.

The Retail Council made disclosure in a manner similar to the Bank of Montreal, however, it encountered a great deal of difficulty in explaining how it measured profitability. The Council disclosed that the retail industry experienced an average 3.6% return on capital employed in its credit card business. It maintained that this was a relatively low return, and did not represent excessive profitability. This disclosure led to numerous questions regarding how it raised capital and how this number reconciled with overall profitability. Committee members expressed disbelief that this return on capital truly represented profitability and engaged in an extended debate with witnesses regarding the veracity of the 3.6%. Towards the end of the session, the Retail Council expressed dismay over having made what they thought was more than adequate disclosure in this regard.

We're certainly not trying to mislead anyone with this information in any way. On the contrary, in terms of opening our books to the way in which the economics of our business works, we felt it was certainly a higher level of detail than what has been presented by other credit card managers. (Alan Goddard, VP, Canadian Tire Limited, February 13, 1997)

On the final issue of major concern to the Committee, that of easy access, both the Retail Council and the CBA argued that they behaved responsibly, although they adopted slightly different arguments, that were consistent with their major and supporting arguments regarding interest rate levels. The CBA was specifically questioned on whether they granted access too easily to students. It responded that the banks' products were designed to limit problems by offering students only a small amount of credit and the validity of this approach was confirmed in low student loan loss rates. In addition, it suggested that obtaining a credit card early in life afforded students an opportunity to educate themselves on the proper use of credit, and the Canadian banking industry's loan loss rates were superior to those experienced by the US banking industry. The Retail Council emphasized that retailers had recently tightened up access to credit and in response to Committee inquiries, elaborated on how retailers screened potential applicants.

To summarize, both witnesses adopted arguments that were consistent with the strategic role the credit card business played in their operation. As in the prior hearing during which they appeared, the Retail Council emphasized that credit cards were ancillary to its business. The CBA emphasized that its members had already been responsive to these concerns as evidenced by the existence of low interest rate cards, and the banking industry was actively promoting consumer education and disclosure. Each witness attempted to bolster its position by differentiating itself from other credit card entities. Similar to the Bank of Montreal's performance in Holtmann hearing, and in contrast to prior hearings, the CBA's arguments were rooted in what they actually did, with less of a focus on using general economic explanations to educate the Committee.

6.4.3 Nature of Committee and Witness Responsiveness

The remainder of this section analyzes issuer witness responses to the nature of the committee along four dimensions: (1) acknowledgment or validation of the Committee or the government, (2) information requests, (3) industry representation at the hearing, and (4) background information. Table 20 summarizes witness responses.

<u>Acknowledgment of Committee</u>

Acknowledgment of the Committee in this hearing can be defined as being forthcoming in responses to questions, answering questions directly, being respectful of the Committee process and Committee members, and recognizing the legitimacy of the proceedings. Both witnesses could be described as accommodating the committee and as being respectful of its intentions. The Retail Council expressly praised the Committee's efforts and explicitly offered to work with the Committee on any suggestions they might have. Although the CBA was not as effusive in their validation of the Committee and its efforts, it did recognize the positive efforts of previous Parliamentary committees on the

Table 20 - Walker Committee: Nature of the Committee and Witness Responsiveness

	Retail Council of Canada	CBA
Acknowledgment of committee	*VALIDATE* *We think these are very useful hearings you are having. The question of credit is one that does need an airing from time to time, and think the hearings themselves serve an educational purpose for Canadians, for industry, and for members of Parliament.*	*VALIDATE* *Now most of us here at this table do, and the industry is moving to that game specifically to address the trapped individuals that you rightfully are supporting here today.*
Information requests	**Accommodates**	**Accommodates**
Industry representation	Senior industry representation	Senior industry representation
Background information	No	No

subject, were respectful in their responses to the Committee, and were more direct in their answers than in previous hearings.

<u>Information Requests</u>

Both witnesses were forthcoming with information and offered to respond with written answers when they were not able to reply spontaneously. From the banking industry's perspective, uncomfortable questions about profitability may have been avoided by the Bank of Montreal's willingness to speak frankly on the issue. Nevertheless, unlike all prior hearings there was a marked lack of tension between Committee members and bank witnesses regarding the availability of information.

Industry Representation and Background Information

Their industry association, accompanied by senior industry representatives represented both industries. While the retail industry had chosen this approach ten years earlier, this was the first credit card hearing in which the banking industry had chosen to be represented in this manner. In his opening remarks, Ray Protti, president of the CBA, explained:

> *I should point out before I turn this over to Mr. Weseluck that issues relating to pricing and product design are individual bank matters that the CBA is not in a position to address. For this purpose, the bank representatives are here to address any questions on these matters from the perspectives of their own separate institutions. (February 11, 1997)*

This is a marked departure from earlier hearings. It is unknown whether this choice of representation was initiated at the request of the Committee or at the industry's initiative, but in either case it seemed to enable the banking industry to respond more effectively to members' questions. Although there were a few minor tense exchanges between members and banking witnesses, this hearing, like the Holtmann hearing, lacked the acrimonious and combative tone of the first two hearings. At the same time, however, this type of representation also seemed to result in two other effects. First, it seemed to afford individual banks the opportunity to promote their own particular efforts, at the expense of competitors. An example is the Bank of Montreal's claim at being at the forefront in terms of meeting disclosure. Second, because of time constraints, (each member was limited to five minutes of questioning at a time, and witnesses tended to give lengthy individual answers) it may have contributed to less persistent questioning than in prior hearings. For example, while the Bank of Montreal disclosed profits, none of the other institutions were directly questioned on that point.

Neither industry offered any background information during the hearing. This choice may have occurred simply because they had already made numerous appearances in front of Parliamentary committees and submissions, and may have felt it unnecessary. Alternatively, time constraints may have led them to believe that offering this information would not be a prudent use of time.

6.4.4 Summary and Discussion

Two factors suggest that relative to prior Committees, the Walker Committee appeared to feel the credit card issue was of less overall concern to the public welfare. First, the hearing was shorter in duration and the Committee invited fewer issuer witnesses than prior Committees. Second, this was the only hearing where a report was not issued, which further suggests that this was not a major issue for the Committee, or at least, not one where it felt the issues warranted spending more resources to develop formal recommendations. Although there were some initially fractious exchanges as members pushed witnesses for clarity on their comments, the hearings were considerably less volatile than previous ones.

Overall, the banking industry appeared to fare better in this hearing. As in the Holtmann hearing the banking witnesses were accommodating of the Committee and its requests. And unlike prior hearings, the industry could point to substantive competitive product options available to the public that may have alleviated the scrutiny.

6.5 Summary and Discussion

Over the course of the 11 years from 1986-1997, it is apparent that the banking industry spent considerable resources responding to Parliamentary pressures regarding its practices in its credit card business. This concluding section summarizes the legislative concerns throughout the period, and reflects on how and why the banks' responses to these concerns both evolved and remained unchanging. Table 21 contains a summary of the industry's responsiveness across the hearings.

6.5.1 Nature of Legislative Concerns

Throughout the entire period, despite the high turnover of membership in Committees and the change in governments, the major concern of each of the four Committees was always one of fair treatment for consumers. Whether their concerns were expressed explicitly or implicitly all Committee members were focused, first and foremost, on the welfare of their constituents. They saw themselves as consumer advocates of the people, as offering the public a "voice", and as a force that had the responsibility to persuade offending parties, such as the banks, to temper their practices.

The issue that most prominently figured in these hearings was the perception of excessively high credit card interest rates. Typically, these hearings were held against a backdrop of a bank rate that had steadily declined over a sustained period of time juxtaposed against credit card interest rates that had remained unchanged in the face of that decline. To recap, the bank rate represented a proxy for the banking industry's costs of funds. Committee members assumed that the cost of funds for credit card operations represented a significant portion of the overall operating costs of the banks' credit card operations. Consequently, members' reasoning was that if a major cost element of running a credit card operation declined for the banks, and banks did not reduce the pricing (i.e., the interest rate) on credit cards accordingly, they were generating larger profits, at the expense of consumers. Much of the discussion on the issue of sticky rates focused on attempts by members to understand the cost structure of the credit card business so they could ascertain whether profits were excessive. An issue that repeatedly surfaced at these hearings was whether the banks were disclosing information in a manner that was useful to consumer, or were their practices so convoluted and misleading that the average person did not have a hope of understanding the fundamental terms of the business relationship. The emphasis on any of these particular issues may have shifted slightly from hearing to hearing, but their presence was apparent in each hearing.

As suggested in the last chapter, the reoccurrence of the sticky rate phenomenon ensured that the issue continued to reappear on Parliamentarians' radar screens. The Committees seemed to tread over old ground each time, with little satisfaction, and watched with frustration, as the spread between credit card interest rates seemed to begin to climb within months after a hearing. The exception may be the last Committee, where

Table 21 - Summary of Banking Industry Responsiveness Across Hearings

	Blenkarn Hearing (1986)	Turner Hearing (1989)	Holtmann Hearing (1992)	Walker Hearing (1997)
Committee concerns	Fairness and equity	Fairness and equity	Fairness and consumer protection	fairness and consumer protection
Major issues	Excessively high interest rates	Method of calculating interest, adequacy of disclosure	Excessively high interest rates	Excessively high interest rates
Response to major issues	**Market forces; consumers can exercise free choice** Elevate banking industry, denigrate other stakeholders Educate about the business Authoritative tone	**Market forces; customers adequately informed** Emphasize clarity and simplicity of their method Use of focus group data Educate about the business Meet and exceed disclosure requirements Compare favorably to US	**Increase in operating losses; price leader** Bank of Montreal – reaffirm commitment to customers Royal Bank – educate Committee about the complexities of the business Compare favorably to US	**Offer a low interest rate credit card** Strongly promote consumer education and disclosure Compare favorably to US
Response to Committee's nature	**Challenges legitimacy** Refusal to provide information Confusing attempts to educate Committee, indirect response to questions No representation from senior industry executives	**Challenges legitimacy** Few visible attempts to address Committee concerns with respect to disclosure Confusing explanations, indirect response to questions No representation from senior industry executives	**Validates legitimacy** Bank of Montreal disclosed information Royal Bank refused to disclose information; Royal Bank did not answer questions directly Senior industry representation	**Validates legitimacy** Only Bank of Montreal would disclose information, not an issue for others Direct responses to questions Senior industry representation

Table 21 - Summary of Banking Industry Responsiveness Across Hearings

	Blenkarn Hearing (1986)	**Turner Hearing (1989)**	**Holtmann Hearing (1992)**	**Walker Hearing (1997)**
Outcomes (between time of hearing and following hearing)	Industry reduces spread in short term Improved disclosure Government commence tracking rates in a public document Private members bill introduced	Industry reduces spread in short term Private members bill introduced	Industry reduces spread in short term Introduction of new credit cards Private members bill introduced	Industry reduces spread in short term Introduction of new credit cards Private members bill introduced

lack of serious concern may be evidenced by a lack of Committee recommendations. And in this case, the fact that there are low interest rate alternatives may have played a role in allaying Committee concerns.

Despite Committee members' frustrations and the relentless reappearance of credit card issues on the Parliamentary scene, the visible outcomes for the banking industry did not change across time. The industry suffered from no punitive legislation in that credit card interest rates were never subjected to a legislative cap. However, there were also outcomes that were less visible, but could be equally disadvantageous for the industry. First, the industry came under increasing demands for disclosure around credit cards, and increased disclosure costs additional resources. Second, it appeared to feel compelled to reduce its margin at least for a short period of time after the hearing. Third, it was subject to periodic scrutiny on this matter over the 11 year period, as evidenced by the repeated occurrence of these hearings and the relentless series of private members bills. This scrutiny would generally be accompanied by negative press coverage. Every time the industry had to address the issue represents a risk that they could alienate or offend external stakeholders regarding this issue. These two phenomena suggest that handling of these credit card issues may have contributed to an exacerbated negative image for the banking industry.

6.5.2 Changes in Responsiveness Across Time

The banking industry responsiveness over the period clearly showed signs of adaptation to the legislative environment, both in terms of their choice of arguments and in how they responded to the nature of the Committees. In the Blenkarn hearing, the

CBA chose to frame all its arguments in terms of economic theory and it dogmatically adhered to the position that since Canadian banks operated in a free market, market forces could be relied on to regulate the industry. Consumers, as independent rational entities, could exercise their free choice within that market. It demonstrated no explicit concern for the welfare of consumers. In the Turner hearing, the CBA clung to the same arguments about market forces and this time insisted that consumers were adequately informed, even in the face of Committee members who claimed they, as consumers, did not feel informed. Again, this is an argument that is predicated on a belief and acceptance of a world view that assumes all human activity is guided by economic rationality. These arguments did not allow for consideration of any alternative views or opinions. Although in the Turner hearing, the CBA tried to highlight some positive aspects of its dealings with consumers, it did so haphazardly and this message was drowned out by its incessant refrain that the free market must rule.

A change in this choice of arguments was apparent in the Holtmann and Walker hearings. In the Holtmann hearing, this reliance on baldly economic, academic arguments was absent, and although the major argument was still economic in nature, it was couched in a manner that suggested a consideration of consumer needs. The banks suggested that although they were suffering setbacks in their credit card business because of the rise in personal bankruptcies, they were still attempting to offer benefits to consumer, each by being price leaders. The Bank of Montreal, and to a lesser degree the Royal Bank, bolstered this argument repeatedly throughout its testimony by referring to its commitment to customers. In the Walker hearing, similar to the Holtmann hearing, there was no mention of free market forces, rather the major argument was to explain to the Committee that there were low-interest rate alternatives in the market for customers. The Holtmann and Walker hearing represents a major departure from the prior two hearings with respect to their choice of argument and how they chose to frame their arguments. The industry appeared to have become cognizant that arguments about market forces are less compelling to politicians who are concerned about the welfare of their constituents, than they are to economists. The industry's arguments were still economic in nature, but they were offered with a clearer acknowledgment and sympathy for the issues facing consumers, and by extension, Committee members. This shift in approach was even more apparent in the Walker hearing where the industry actually could offer a demonstrable relief for consumers, in the form of numerous offerings of low-interest rate credit cards.

This shift in legislative responsiveness at the time of the Holtmann hearing was also evident in how the industry chose to respond to the nature of the Committee. The industry's approach in the Blenkarn and Turner hearings could be described as combative, argumentative, and secretive. The industry was emphatic in its position that Parliament had no right to interfere with market forces and by espousing this position it directly challenged the legitimacy of the proceedings. The industry also indirectly challenged the legitimacy of the proceedings when it refused to acquiesce to requests for information and in the noticeable absence of senior level industry executives. These challenges to the Committees were far less apparent in the Holtmann and Walker hearings. In these hearings, the industry explicitly acknowledged the good work of the

Committee, was relatively more forthcoming with information (more so in the Walker hearing), and tended to give clearer responses (also more apparent in the Walker hearing). In both of the latter hearings senior industry representatives were present and very vocal.

Essentially, these changes over time suggest that the industry increased its responsiveness to its legislative environment and therefore, began to adapt to its legislative environment. As suggested in the last chapter the reasons underlying this adaptation may be found in the combination of external events that were buffeting the industry. By the early 1990s, the industry had been subjected to an unprecedented level of legislative scrutiny, with some negative outcomes. In the words of one interviewee, the banking industry was facing a veritable "*hit parade*" of issues. Although the industry had been the beneficiary of some positive pieces of legislation, such as the ability to enter the securities industry, the trust industry and the insurance industry, it had also not won all the legislative approvals it had hoped for. For example, although banks were allowed to sell insurance, banks are not allowed to sell it in a branch and there are limitations on their ability to cross sell to existing customers. This limitation affects their ability to achieve synergies and capitalize on their strategic strengths. In the early 1990s the banks were also subject to punitive legislation in the form of a newly instituted large corporations tax. This tax was levied only on banks, (not on any other financial service providers) and was estimated to cost the industry millions of dollars. Interviewees suggested that there was no fiscal rationale for this tax, rather, it was a punishment for the banks. In summary, the cumulative effect of unrelenting legislative pressure may have contributed to the banks' visible change in approach to the legislative environment.

6.5.3 *Lack of Change in Responsiveness Across Time*

At the same time as the industry adapted to the legislative environment, there were several aspects of its approach that remained the same. First, it clearly had a devotion to educating members in these hearings. Second, it repeatedly used the technique of declaring the Canadian system as superior to other countries' systems, particularly the United States. Third, it exhibited a tendency not to answer questions directly, or to give testimony that was confusing or unclear. Although all of these strategies and tactics were apparent in each hearing, they lessened somewhat by the time of the Walker Hearing. Fourth, there was a continual refusal or reluctance to share information with the Committees.

In the Blenkarn hearing, the CBA bolstered its market forces argument by elevating the industry's practices and simultaneously denigrating others. It attempted to convey its arguments by educating Committee members about its business, but often the mini-lessons came across as confusing and opaque. Similarly, in the Turner hearing, the CBA attempted to educate the Committee about its business and the marketplace, and tried to bolster its own standing by favorably comparing itself to the American banking system. During the Holtmann hearing, the Royal Bank gave lip service to concerns around consumer welfare, but appeared to be more comfortable in attempting to educate the Committee around the complexities of its business and the difficulties inherent in managing the spread. And again, there were references to the superiority of the Canadian banking system vis a vis the American banking system. The Royal Bank continually tried to avoid or reframe Committee members' questions or concerns. These three techniques were less pronounced in the Walker hearing, but they were still apparent.

Each of these three tactics suggests a strong sense of superiority on the part of the banking industry. When we educate people, we assume they know less than we do. When we avoid or try to reframe people's questions or concerns we imply they are incorrect in how they view the issue or that we believe they won't notice that we have avoided answering them. And finally, the continual comparisons to other banking systems are explicit in their assumptions of superiority.

This notion of superiority, and its enduring nature is rooted in the industry's identity. The following chapter explores the industry's identity and how it believes external stakeholders view it. The issue of identity and its ramifications for how the industry chose to manage its legislative environment are also explored in Chapters 9 and 10 on organizational responsiveness. On a final note, Table 22 summarizes the industry's responsiveness in the pre and post-Holtmann eras.

Table 22 - Pre and Post-Holtmann Responsiveness

	Pre-Holtmann era	Post-Holtmann era
	CHANGES IN RESPONSIVENESS	
Choice of argument	Economic arguments – market forces; no concern for consumers	Business arguments couched with a concern for consumers
Acknowledgment of legitimacy	Parliament has no right to interfere	Concerns are understandable
	CONSISTENT ASPECTS OF RESPONSIVENESS	
Strategy and tactics	Educate members	
	Stress superiority of Canadian banking system	
	Refusal/reluctance to provide information	
	Redirect/reframe questions and concerns	

7 INDUSTRY IDENTITY AND IMAGE

As the industry lobbying association, the CBA has played an important role in helping the industry manage its legislative environment. The CBA forged strategies for responding to regulatory challenges, provided public testimony on behalf of the industry (as demonstrated in the last chapter), engaged in behind-the-scenes lobbying with politicians and the Department of Finance, and undertook research to support the industry's positions. The following chapter discusses the CBA's multi-faceted role from the perspective of its senior management (i.e., based on five interviews conducted at the senior advisor, vice president, president and chairman level) in terms of its mission, how it carried out its mission and the challenges it faced. It describes the CBA's overall approach to managing the legislative challenges faced by the industry, and the influence of industry CEOs on the association. It also incorporates data from interviews at the Atwater Bank and the Metcalfe Bank (the two banks selected for this study) that pertain to these aspects of the role of the CBA. These data and analyses offer insights into how the industry defines itself, and what it perceives to be some of its core attributes. The chapter goes on to explore how the CBA attempted to manage the industry's image, how its senior managers perceived the industry's image, and how they perceived the industry's external stakeholders. It concludes with a summary and discussion of these findings on the industry's identity and image.

7.1 Role of the CBA

In its written material, the CBA describes itself as *"a professional industry association that provides its members – the chartered banks of Canada – with information, research, advocacy and operational support services. Established in 1891, the CBA is the main representative body for banks in Canada and today represents over 50 domestic and foreign-chartered banks in Canada."* (CBA web site) Headquartered in Toronto, with six regional offices and over 100 employees, it ranks as one of the largest professional associations in the country. From 1980 to 1989, Robert MacIntosh, a former executive vice president with the Bank of Nova Scotia led the CBA. Trained as an economist and armed with a Ph.D., he joined the Bank of Nova Scotia in 1953 and worked in a wide variety of areas. The candidate of his choice, Helen Sinclair, succeeded MacIntosh in 1990. Sinclair, also educated as an economist, had worked for MacIntosh at the Bank of Nova Scotia earlier in her career. She acted as President and CEO from 1990 until 1996, when she was succeeded by Ray Protti. Protti, in contrast to his two predecessors, brought a professional political perspective to the role of President and CEO. As a former civil servant in the federal government, having most recently occupied the position of Deputy Minister in the Ministry of Agriculture, he was widely regarded as adept at navigating the corridors of Parliament.

7.1.1 CBA's Mission

CBA management and their counterparts at the Metcalfe Bank and Atwater Bank all agreed that the primary mission of the association was to advance the collective interests of the industry and to communicate effectively with public stakeholders.

> *The mission was very much to try to manage issues that were common to the banks vis-à-vis the government, primarily. But that also takes into account the relations with the public. And I always took the view that managing relations with the government - with MPs - was really managing relations with the public.*

The CBA relied on a series of committees to interact with individual banks and to ensure that it represented members' interests. The Executive Committee composed of senior banking executives acted as the Board of Directors and formally set the association's broad direction, while dozens of individual committees were struck to respond to various specific issues (e.g., credit cards, service charges). By the late 1980s, the CBA had 129 individual committees in existence. During the 1980s, the head of the CBA most often represented the industry in public forums such as interviews, speeches, and Parliamentary hearings; it was rare for individual banks to represent the industry in these forums. There was a sense that one of the roles of the CBA was to buffer individual banks, and bank CEOs, from unpleasant reactions that may occur in response to their position on various issues.

> *In some ways, I would say, [the CBA] wore the black hat or were the ones to take a stand that the individual banks themselves may not want... the individual banks may collectively have wanted them or definitely wanted them to take the position. But rather than have an individual bank tarnished with the particular policy they had the CBA.*

Towards the end of the decade, however, this mode of representation proved problematic, when the issues under discussion were of a competitive nature. For example, as noted in the last chapter, the CBA had difficulty commenting on pricing of credit cards, since this was a matter individual banks deemed to be of competitive importance. At that time individual banks did not want to reveal this information as they considered it to be strategic in nature.

Throughout the 1980s and 1990s the CBA's ability to execute its mission of representing the collective interests of the industry was often complicated by the increasingly competitive nature of the Big Six, who more and more often found it difficult to come to agreement on issues. In the view of some informants, the fractious nature of the largest members made it difficult for the CBA to be effective.

> *But, in the kind of trade association you would run in this country, a significant member believing one should not do, or engage in a given activity, is a mighty hurdle, in terms of what you need to make it go forward.*

> *But the problem CBA faces is that the banks are so bloody competitive with each other...the reason it took so long to get an image campaign is because every bank thinks that they are different. Somehow their customers like them; it's really all those other bad banks that are causing this terrible industry problem. They are not allowed to take a position on anything unless there is consensus; and there is never consensus.*

> *You know, 15 years ago we were all pretty well the same in that we were all domestic banks, we would all have an agency in New York, and maybe an office in London, but that was it. Today you have banks with significantly different strategies.*

The increasingly competitive nature of the industry, and the elaborate committee structure, may have contributed to an industry tendency to react slowly to issues that arose. Some in management felt that because of this tendency, the industry was often viewed as capitulating on a position or as unwilling to listen. This tendency to be slow to react, on the part of the industry, was a source of frustration for some management and was cited as a factor that may have contributed to the association's lack of effectiveness in executing its mission.

7.1.2 Evolution of the CBA's Role

The CBA's lobbying activities were typical of an industry association. Senior management regularly called on MPs and civil servants in Ottawa, assessed the environment from a public affairs perspective, and funneled this information back to its members. When a Parliamentary committee convened a hearing which affected the banks, the CBA attempted to meet with every member of the committee privately in order to better understand their concerns. The association continued to undertake significant research projects around policy issues, and to regularly release reports, position papers and publications of interest on banking issues. It met with activist groups and other concerned stakeholders on a regular basis. However, as the 1990s progressed, the individual banks became more active in lobbying and in presenting their positions publicly. Senior CBA management during this period described their role as sensitizing the industry to the political realities of their environment, and enabling the industry to collectively forge strategies that were responsive to the environment.

> *So there was always a range of views. But when the rubber hit the road and we had to go and say, "Wait a minute. We've got to do something here. I appreciate you feel that way. Gee, it would be really satisfying to go up and tell them to 'Go to hell' but that's just going to make matters worse. So now let's get realistic. What are we going to do." And they'd come into line.. It was always a debate.*

In essence the CBA acted as intermediary between individual banks, as well as between the banks and its public stakeholders.

7.1.3 Legislative Strategy

The major thrust of the CBA's approach to managing the legislative environment (and consequently the industry's approach) can be summed up in one word – education. Irrespective of the legislative issue, a core feature of the industry's strategy was its attempt to educate the politicians and the civil servants of the wisdom of its position. It took the viewpoint that it could best make its case by explaining the banking business, the marketplace and any other issues under consideration with carefully collected and rigorously analyzed data. It held an underlying assumption that rational discussion and careful research were, or should be, the most persuasive tools in its lobbying arsenal. As an organization, it took tremendous pride in its ability to undertake comprehensive, meaningful research and saw its focus on research as a key attribute that distinguished it from other lobbying organizations.

> *... we worked with the politicians to explain the fallacy of their assumptions that, a high interest rate is not the problem, it's the way that the product is being used. And we did some research, primarily capping research.*

> *I always had the view - and still do -that good research was very fundamental to our position. That we had to have good numbers. Credible numbers. Never make a mistake in your data. So they couldn't trip you up.*

The association's devotion to education and superior research manifested itself in two explicit sub-strategies. First, it extended this strategy of educating government officials into its outreach efforts. Throughout the 1990s it has expended considerable resources on educating the general public on banking and economic issues. For example, with respect to credit card issues, it publishes a booklet call "Credit Wise", on how to use credit wisely, and produces a one-page information sheet on credit card issues every six months that is sent to approximately 2,000 media outlets. It also has an extensive education program aimed at schools, which includes monthly newsletters on banking issues (including material on credit cards) that is sent to approximately 20,000 teachers.

> *But the other piece we actually also did was, we took to heart the fact that consumers were overextending themselves and we also had an educational strategy, that is, we tried to explain we try to encourage people not to - curiously enough, obviously, it's a product the Banks wanted to sell - they ought to think twice about putting things on credit, they ought to be careful where they spent their money.*

Second, it devoted considerable research efforts to documenting the claim that the Canadian banking system was one of the best in the world, and was certainly superior to the US system.

> *What we were able to do, and I think it was quite effective, is we were able to compare Canadian rates with American. The presumption was always that this was a much less competitive banking system in Canada with this oligopoly than in the US where they had these thousands and thousands of banks. And yet you were able to show across a huge range of products that your spreads were narrower. In fact, the efficiencies were a lot greater.*

Although the association gathered qualitative data through public opinion polling and focus group research, the CBA management throughout this time period appeared to express a preference for framing their arguments in terms of quantitative data. There was a tendency to view stories or anecdotes as having less value, and as being a specious way of reasoning. They described the industry as being "*rich in anecdote*"; for example, many people have a story about bad service in the banking industry; but from the CBA's perspective, these anecdotes tended to distort the facts of its arguments and unfairly sway MPs or the media. There was an underlying assumption that because individual anecdotes only comprised a small portion of all the customers and all the transactions, and mistakes were inevitable given the size of the industry, these anecdotes were not meaningful. Therefore, they believed that according these anecdotes equal status with cold hard facts and statistics in the process of policy-making was an error on the part of policy-makers and the media. This perceived pattern of behavior on the part of policy-makers was a source of great frustration for the association.

> *While we would fight with logic and reason and empirical evidence, others would fight with anecdotes and outlandish claims and yet that's what was perceived as winning the day.*

7.1.4 Influence of the CEOs

A major influence on the general approach the industry adopted to legislative scrutiny was attributed to the particular attitudes and actions of the CEOs of the largest domestic banks. As a generalization, banks can be described as hierarchical in nature and as possessing traditional command and control cultures. As such, individuals at the senior-most levels of the organizations exert considerable influence on the organizations' direction, in framing its values and in setting its priorities.

> *Because, the tone is set, not always, but I think the tone is often set in the culture by the top. For example, our current Chairman has issued... was very strong on values and the goals of the Bank. ... He's issued a whole lot of material on the Bank's values...I can tell you personally that when you met him on individual issues and when he spoke to the staff, he constantly*

returned to the values as guiding the institution.. So I think that this comes from the top.

In the late 1980s, it appeared that the CEOs generally put a low priority on addressing legislative challenges and attending to the heightened public attention that accompanied these challenges. Interviewees told stories of difficulty getting budget allocations for research to support the industry position, a lack of interest by banks in the executive succession plan of the association, and of a general lack of consensus and cooperation amongst the senior management ranks of the Big Six. It was perceived that senior bank management felt that their attention (and correspondingly the attention and resources of their organizations) should be devoted to managing the operating business of the banks. In addition, each CEO was reputed to have an opinion on which way the association should be heading, and these opinions could differ.

But if you had asked them they would have said, "Oh yeah, regulatory environment is a high priority. We want to be able to sell life insurance in our branches and all that good stuff." But, in fact, if you looked at, did they walk-the-talk, how much of their personal time did they devote to either dealing with image or the regulatory environment, I don't think it was very much.

They are very senior people whose primary missions are to run their own organizations. They compete like crazy in the day-to-day. The time availability for this kind of exercise, even given the will and the belief that it needs to be done is limited. And, of course, as I've already said there was not a common will between them.

Despite the fact that banks operated under the powers granted to them by the Bank Act, and as such, were subject to decennial reviews of their activities, they were not perceived as according much importance to the possible ramifications of such legislation.

At best, public affairs appeared to be regarded as a tertiary issue, perhaps meriting the same level of executive attention that one would give to corporate charitable donations or community involvement.

> *In my opinion, the banks never really understood that in the priorities... a lot of the CEOs and high ranking officers had no use for the CBA at all, and couldn't understand that their business was contingent on the kind of legal powers they had. And that those legal powers could constrain their ability to make money. They couldn't understand that priority. And a lot of them still can't.*

> *I saw my job as making them a lot more sensitive to politics and to the fact that as a large regulated industry it didn't have the luxury of being able to act like a true private company, like they had to act like a quasi public organization.*

Informants recalled that in the late 1980s this attitude was compounded by a general belief amongst senior management that the government had no business interfering in the bank's operations. Senior industry management expressed an anger and a deep sense of offense that Parliamentarians were questioning their management practices. Interviewees suggested that, historically, legislative challenges had been handled quietly by a phone call between the Minister of Finance and the bank CEO. Never before had the banks and their senior management been called to account for their actions in a public forum. Informants reported that the industry's CEOs fundamentally did not believe they should have to answer for their actions in a public forum, and they believed that the government had no right to interfere with their operations. Informants who witnessed senior management's reactions in both private and public often described them as arrogant, and in hindsight, suggested that senior bank management had a poor grasp of the importance of managing the legislative environment and in actively managing public stakeholder relationships.

> *He would only talk to God.*

> *I think because they're arrogant and complacent. And I credit not the Public Affairs group, I credit not anyone. I have to put the blame directly on the shoulders of the five CEOs. They must have known this, but it wasn't told. They weren't serious about it. They didn't believe it. We didn't present it strong enough. We didn't believe that one out of three Canadians could really dislike us.*

General comments on the industry's overall approach to legislative challenges, seemed to be consistent with the CEOs' sensitivity to external criticism, combativeness and defensiveness.

> *But typically, the industry's reaction to our problems is first to fight it and deny it, and sort of say, "Hey wait a minute, there's not a problem here. What's the big deal?" So, "Relax, we shouldn't have to change anything." Then gradually as comprehension sinks in and the reality which is, "Hey this isn't going to go away." Then we sort of get into gear and start doing something.*

To summarize, the attitudes and actions of the CBA can be regarded as a mirror of the industry as a whole, and as such, highlight at least some core aspects of the industry's identity. First, the association was heavily influenced by the desires of the senior management of the large domestic banks. This reflects an industry that is comfortable with top-down decisions and chain of command as a control principle. This principle would directly contrast with the proceedings of a Parliamentary committee that is convened in response to constituent concerns and reflects a more democratic, participative and political decision-making process.

Second, when facing a legislative challenge, the industry's instinctive reaction was to be combative and argumentative, particularly in the late 1980s and early 1990s. These reactions were consistent with observations of the CEOs' reactions, and their sense that their performance as a private sector profit-seeking industry was being irrationally and unbelievably challenged. This suggests that the industry possessed an insular view that the only legitimate views on banking issues were their own.

Third, the cornerstone of the CBA's legislative strategy has consistently been to educate policy-makers regarding its industry and in doing so persuade them to accede to its wishes. This approach is rooted in a world view that prizes rational, analytical thinking based on quantitative data and simultaneously devalues the personal and the anecdotal. Not surprisingly, the first two CBA presidents of this period were trained economists, who would likely have been schooled in a paradigm that prizes rational, economic analysis. The personal issues that arise in the external environment essentially fuel the political process, and up until the mid 1990s, the CBA and the industry displayed limited appreciation for this aspect of the environment.

7.2 CBA's Management of the Industry's Image

Historically, the CBA has had mixed success in proactively addressing industry image issues. It has had a public relations committee (at least sporadically since the early 1980s) and in the early 1980s attempted to engage in a public relations program on the behalf of the industry. In the early 1980s public opinion polling revealed that the industry's ratings on an index known as the favorability rating (i.e., how much the public liked them) had declined from greater than 90% during the seventies to the 75% to 80% level. Consequently, the CBA launched a campaign called "*Share of Mind/Share of Market*", which involved films and printed material designed for general public dissemination with the objective of improving this rating. Some informants suggested the campaign was not driven by a sense of urgency, was handicapped by a bureaucratic committee structure, and eventually petered out.

Throughout the remainder of the decade and into the 1990s, the CBA did not engage in a formal public relations or advertising campaign. Throughout this period however, industry favorability ratings steadily declined. Several explanations may account for this lack of activity. First, as discussed earlier, the industry was becoming increasingly competitive and members had difficulty coming to agreement on many issues, including whether there should be an image campaign. An anonymous banker, quoted in the Financial Post suggested:

> *You have an information video you want to get out to the public. You know that Matt Barrett would like it to be produced by Cecil B. De Mille. The Royal wants to call in Hugh Grant and CIBC wants Alan Ladd. Meanwhile, TD and Scotiabank don't even want the movie to be made." (Financial Post Magazine, July/August 1996)*

Essentially, the banks were split on whether image was a collective or an individual concern. Banks who felt it was an individual concern embarked on their own image campaigns (i.e., largely advertising campaigns) and would not support an industry effort.

Secondly, the CBA itself did not recognize or place a premium on managing its public image. Despite the fact that improving the industry's public image was one of President and CEO Helen Sinclair's three primary goals when she took office in 1990, she admitted in a 1996 Financial Post profile on her that she should have handled the issue of image much more assertively.

> *"More than anyone, I am aware of what I could have done differently," she says. What she particularly wishes she had done otherwise was focus her efforts on the issue of image... "More than once, I found myself talking on the phone with snowbirds who had called the CBA to complain about their difficulties with Florida banks." .... What Sinclair believes these days is that she would have done better to put part-time expat seniors on hold and turn her attention to devising a comprehensive public-relations strategy to promote Canada's banking industry, an entity she insists is a "national treasure". (Financial Post, July/August, 1996)*

In 1997, the CBA finally gained industry consensus to launch an image campaign. The Campaign, known as *Building a Better Understanding*, is estimated to cost the industry approximately $20 million over five years. The campaign was crafted as a response to market research that indicated the general public did not believe that the banking industry listened to customers, and in addition, desired more information about banking and the economy. It employed a two-phase approach to remedying the banks' image. The first phase was to send the message that the banks are listening to consumers. The second phase was to educate consumers about the banks' business by providing information on the economy, banking and today's changing financial world. This campaign is a variation on the industry's historic approach of educating outsiders.

And again, I think they're right, touch their hearts open their minds, and then you can start having a rational discussion about. You know, trying to explain to people that an ROE of 15% is not a great number. It's really not. Now, we're huge, so that means we made a billion dollars, but it ain't a terrific rate of return. If you have a lot of our stock in your retirement savings, that's okay, but we're not blowing the doors off for you. Those are very sophisticated concepts and if people are feeling emotional they are not listening to that kind of message.

Therefore, the thrust of the program, whose aim is to remedy the industry's poor reputation, was to help Canadians boost their economic literacy, and while doing so convince them it cared. Accordingly, the CBA has developed booklets on timely topics such as getting started in small business and managing money, offered seminars on topics such as preparing for the year 2000, created an information-rich web site and engaged in limited advertising.

Informants suggest that a series of factors changed the industry's outlook on the collective importance of image and enabled the CBA to develop consensus around this issue. First, by 1997 public opinion polls were at an all-time low. Political experts suggested that low ratings effectively now meant there would be no support for bank-driven initiatives in Ottawa. Second, as discussed, the CBA had a new President and CEO, Ray Protti, a former federal government bureaucrat. This was the first time the association had had a non-banker in charge, and there was a suggestion that his former status made his advice more credible with the industry's senior management. Third, some banks had launched individual image campaigns, and ultimately, had evaluated these campaigns to be ineffective in counteracting the prevailing negative image associated with the industry. Fourth, in 1995, in the course of its regular public opinion polling with bank customers, the association had added a group of employee respondents. The results were a wake-up call for the industry. Employees expressed the same kind of negative views as consumers. They held the banking industry in the same kind of contempt as the general public.

> *And there were just some stunning comments from some of the employees. Like, there was one employee I remember in the tape-replay who said - this was the summer of '95 - I dread the barbecue circuit. The viewpoint would be, "I hate going to these neighborhood events where all that happens to me is I get attacked because I'm a banker." So, you know, it's a sense that first of all that people who've worked in the organizations felt the same positive and negative views as the public as large. And secondly that they really felt under siege in their own communities.*

In summary, a series of events took place over a period of years and the combination of these events had finally culminated in the industry's willingness to engage in more proactive and collective image management efforts.

7.3 Industry Image and Perceptions of External Stakeholders

CBA management described the industry's image, or what they believed various stakeholder groups – the general public, politicians, the media and activist groups – thought of the industry, in generally negative terms. Conversely, their perceptions of these groups tended to be negative. CBA management conceptualized image as a "soft" management issue. In other words, they believed that external stakeholders' perceptions of the industry resulted from a series of events, observations and practices that attracted a negative perception based on the external stakeholders' particular value systems or particular idiosyncratic view of the world. From the CBA management's point of view, the traditional weapons in the industry's arsenal for persuading external stakeholders of the wisdom of its position were not very effective in combating a "soft" management issue such as negative image. For example, some of the public opinion polling revealed the public did not approve of the high salaries that bank CEOs garnered. The public felt that salaries in the millions of dollars were excessive, and this perception contributed to a negative image for banks. The industry (or individual banks) could not provide an economic rationale or hard data to justify or explain the level of compensation, and therefore, were at a loss for how to combat this negative image. In essence, CBA management perceived the construct of image and generally spoke of managing the industry's image in terms of undertaking advertising, or trying to manage perceptions around issues where the response could not be quantified with hard data.

Similarly, while CBA management recognized that the banks could always make improvements in service areas such as small business' access to credit, they did not regard business practices, per se, as determinants of image, or as significant contributors to the industry's image problems.

> *So, but my point is that, of the indicators that were being tracked, one could noticeably split them into ones which clearly are image-related, and others which one would tend, as a thinking person, to say are more service and performance related.*

The implication of this line of reasoning, obviously, is that only non-thinking, stupid people would conceptualize image as anything other than the by-product of amorphous ideas that could not be battled with facts and figures.

7.3.1 The General Public

Management perceived that although public opinion polls and market research indicated that Canadians felt strong loyalty to their banks they also expressed considerable antipathy. Informants rarely felt they were supported in their activities by public opinion. Furthermore, they felt the public greatly underestimated the strengths of the Canadian banking system, particularly in comparison to the systems in other countries.

> *Well, Canadians have a love/hate relationship with the banks. I always found solace in the fact that when I looked at our trend data - public opinion data - that, in fact, what we had was a very strong attachment to the banks in Canada and a fierce loyalty. And a real appreciation and security and the soundness of the system. We've got a great system. But we have the right to slap them around when we feel like it.*

Management speculated that this antipathy might have its roots in several phenomena. First, it may simply be part of our national character to dislike large institutions, and banks in particular. One informant, however, was quick to point out that the negative view of banking, was equally apparent in other countries and other periods in history. Second, they perceived it may occur because we, as a population, resent the power imbalance between a large institution and the individual customer. Banks are places, unlike other commercial establishments, where the public is told "no", you may not receive that service. The prospect of being turned down, or of actually being turned down, is a very negative experience for people and the result is that they view the banks harshly.

> *Well I think no one, especially in small town Canada, likes going into the bank, because you're generally going in looking for something and you're very nervous...And so it was always a difficult, humbling experience, in some ways I think, for people to go into the bank to look for credit. So I think partially, because of that people, like to see the banks humble themselves, ... It's sort of the inequality of power between the customer and the bank generally. And so the bank being the Goliath and the customer being the David.*

Third, there was a sense that the public's expectations were out of line with the industry's abilities to deliver services, and as such consumers were continually disappointed. This viewpoint suggested that, inevitably, the industry would make "*millions of mistakes*" each year, and would be perceived as making millions of mistakes. This disappointment, in turn, was translated into negative image attributes such as uncaring and unresponsive to consumer concerns.

CBA management viewed the bias against banks as deeply entrenched, and suggested that the negative image held by the public was inevitable. Although some expressed hope that the industry's image could be improved, they felt that in reality "bank bashing" was a phenomenon that the industry would never be able to impact.

> *I just think when you come from this industry in a very sophisticated market, which is what we're in, and one which has tended to have a very, very overlay of government service and public utility, and where there's a mixed view among the public as to whether that banking system really is private or public sector, that it's very, very difficult. It's probably impossible to really move image in a sustained way. You might get lucky with an ad.*

Despite this viewpoint, they also believed that a poor image had a substantive impact on the banking industry. For example, one manager cited taxes as an area where the banking industry's image has been costly. They contended that the government has raised bank taxes, irrespective of the fiscal wisdom of doing so, just to appease public opinion on the banks.

> *And you'd look at the revenue numbers that these surplus taxes would generate and you'd think, this is bizarre because it doesn't really get at their fiscal problem. At the time we were into deficit reduction. It doesn't really help, it's a drop in the bucket. The cost of administering this thing is going to dissipate a huge amount of the supposed gain. Then you'd have to realize that the agenda was not really to raise revenues it was to send out a message that you were hitting the bank.*

In the view of management, bank bashing or the practice of disparaging banks, was common among all stakeholder groups.

7.3.2 Politicians

Management was somewhat mixed in how they believe politicians viewed the industry. Viewpoints ranged from believing that, as a group, politicians believed the banks could do no right, to a sense that the political stakeholder group also included those who were more reasoned in their approach, and appeared to have fewer preconceived notions. All CBA informants, however, generally expressed the view that politicians perceived that the banks were ineffective in conveying their message, and that the banks were not always believable. Furthermore, they suggested that most politicians engaged in some form of bank bashing, even the politicians who were willing to give the banks a fair hearing.

> *The other challenge on the government side, is that there is a real skepticism about banks. There's almost... They relish beating banks up*

because they're big. And there is really no negative. On the political side, you never get chastised for beating on the banks. You might get chastised for beating up Bell Canada, maybe, and I'm not sure about that, maybe not.... But with banking, no one ever comes to the defense of banks, because the view is "Hey they're big enough. They can take care of themselves." Well, maybe we've gone overboard a little bit, because in private they would say, "Yeah, I've got to do this."

They suggested two reasons for this behavior. First, and primarily, bank bashing was an activity that was perceived to be politically advantageous. Second, there was a minority view that they also engaged in this activity, and held a negative image of the banking industry because they did not understand the issues, either because of an inability to understand or an unwillingness.

MPs would swallow anything...And they wouldn't listen to the facts. They didn't want to hear them.

... most of the MPs would tend to be lawyers, teachers....I think we have a big problem because they have no grasp, often, when they make legal decisions of the economic consequences of what they're doing. And even worse, are these human rights people.

However, another viewpoint was raised that suggested that politicians were also motivated by legitimate concerns regarding their constituents' welfare. Correspondingly, the manager who held this viewpoint suggested that when presented with the facts, and in particular, a possible solution, politicians would listen and not be swayed by a negative industry image.

7.3.3 The Media

Generally, CBA management expressed disappointment in the industry's treatment by the media. They felt that the media fed into the public perception that banks were big and bad and abusive, and generally ignored any good news that came out of the banking industry. They attributed this negative image to either incompetence on the part of journalist, or an ideological stand taken by the newspapers that they would not support the banking industry.

> *In fact, one thing about this - in journalism - the journalists never go to the House of Commons Committee or very, very few do. They are not hard workers, you know. Most of them are lazy as hell.*

> *The Star has just a negative view of things. And it wasn't just our imagination because we actually had an Editorial Board meeting. Many Editorial Board meetings that we had were very antagonistic. Strange questions. And I've had reporters tell me that their stories were changed when they were too positive towards the banks.*

One manager expressed an exception to this viewpoint, in that they felt that the image held by the journalist depended on that individual journalist and how they personally viewed the industry.

7.3.4 Activist Groups

Management felt that activist groups also held a negative view of the industry and were generally critical of industry practices. However, they rationalized this image as being understandable since the activist groups' reason for existence is to improve the lot of consumers. They also felt that although some consumer groups might acknowledge the positive aspects of the banking industry, they were generally self-serving.

> *They might say, "But, you know, our job is not to harp on what's right because our mandate is to improve on what's wrong."*

CBA management also questioned the ability of these groups to undertake research to support their criticisms or to understand the facts that were presented to them.

> *It's very easy, I think, to make broad statements, but it's very difficult to prove them and I don't think they're ever held to proving a lot of the things that they say. And so I think they are effective because the media picks them up very quickly and they don't question them.*

To summarize, CBA management believed that the industry suffered from a negative image, and that the practice of criticizing, disparaging and heaping venom on the banks, commonly referred to as bank bashing, was prevalent throughout all stakeholder groups. At the same time, however, they appeared to rationalize the existence of a negative image. They viewed stakeholder groups of politicians, the media and activist groups as self serving and, at times, lacking the intellectual ability to understand and appreciate their business. Furthermore, they characterized the negative image as an inevitable outcome of the nature of the banking business, and possibly the Canadian culture, and as such, the industry was powerless to substantively affect it.

7.4 Summary and Discussion

This final section summarizes the attributes of the industry's identity, discusses how it conceptualized its image, and reflects on how and why it changed the way it managed the legislative environment and its collective image.

7.4.1 Identity Attributes

Based on the data in this chapter, three major attributes characterize the industry's identity. First, it values a rational, analytical approach in its endeavors, including the management of external stakeholders. This is illustrated in the pride industry association officials took in producing superior research. This mode of perceiving the external environment appears to preclude the consideration of other viewpoints. These findings are consistent with the way the industry chose to manage the Committee hearings, as described in the last chapter. It is also consistent with the manner in which the banking industry placed a premium on educating external stakeholders in its quest for acceptance. Its efforts to educate legislators regarding their "*fallacious assumptions*", and to satisfy what it perceived to be the public desire for education is suggestive of an entity that viewed itself as possessing superior knowledge.

Second, the dominant role of the Big Six CEOs in directing the industry's activities suggest that it places a premium on control from the top, and values a hierarchical culture.

Third, there is also a view that the industry represents private companies, and the banks do not view themselves as utilities or quasi-public companies, despite the legislative framework within which they operate. This identity attribute was recently confirmed by the Chairman of the CBA in a 1999 speech to the Ottawa Carleton Board of Trade on the role of regulatory reform in the Canadian financial services sector:

> *Is there a clear drive to ensure maximized Canadian benefits from this central, strategic economic function? To the contrary, three fundamental contradictions stand out in the debate about future financial services regulatory policy. The first is that the chartered banks, alone among financial institutions, continue to be considered as if they were public utilities, instead of the shareholder-owned, competitive businesses they actually are. (Leon Courville, June, 1999)*

Correspondingly, there has been a historic sense on the part of the industry, since it perceives itself as a collection of private enterprises, that they should be subjected to regulation in the same manner as other private sector companies. The CEOs' umbrage at being called to account for the banks' actions in the late 1980s is evidence of this sentiment. This sentiment sporadically appeared in interviews; however, not with the same vehemence as it appeared in the early hearings. As discussed below and in the last chapter, the industry had become more sophisticated in managing its legislative environment. Therefore, a strong and continuing belief that it is not a utility, this sense that it shouldn't be regulated and the market should govern its actions may still be lurking under the surface.

Finally, it regards itself as a victim of bank bashing.

7.4.2 Image Attributes

Interviewees at the CBA all described the industry's image as being large, powerful, as being potentially abusive, as making mistakes in customer service and as not being particularly good at getting its message across to outsiders. Without exception, however, they characterized these images as being a function of a phenomenon they referred to as bank bashing, that is the practice of criticizing the banks in a manner they described as vitriolic, often cavalier, and almost always without empirical substantiation. They also rationalized that bank bashing is more an outcome of either the nature of the service the industry provides, its large size, or may simply be an inherent feature of Canadian culture. There was only a limited, indirect acknowledgment that the industry may contribute to the phenomenon of bank bashing through its activities. Given their perception that the causes of bank bashing are systemic in nature and not of their own doing, all doubted that the industry could substantively affect its image.

The interviewees also had a narrow concept of what image was, and how it could be impacted. They tended to view image as the outcome of what they thought of as "soft" factors, or perceptions that were difficult to combat with empirical evidence. For example, they felt that the public viewed bank profits or CEO salaries negatively. Since a negative view of these issues may amount to a value judgment on the part of the public and could not be combated or justified with data, they were at a loss about how to affect it. There was an underlying perception that the industry managed its "image" by collecting marketing research and public opinion polling data, and engaging in advertising. There was only a limited sense that image may be an outcome of other factors such as personal interaction between the customer and the bank, or the by-product of business policies. Finally, although there were some exceptions, there was a strong tendency to view stakeholder groups who they believed held these images variously, as uninformed, unintelligent and self-serving. To summarize, a narrow conceptualization of image and its causes, and the general disparagement of those who held these images, may help to minimize the importance of the construct in the view of the industry.

7.4.3 Changes in Legislative Strategy

Despite the consistency in the CBA's strategy of educating politicians and their reliance on rationality as a way of appealing to this stakeholder group, there were signs that the CBA and the industry adapted to the outside environment throughout this period. The most significant change for the CBA during this period was the transition in the choice of CEO and President. The banking industry moved from choosing industry insiders, who also happened to be economists, to an outsider – a seasoned civil servant well acquainted with the political realm. This move signaled a willingness by the industry to recognize and adapt to the political aspects of the environment. It was suggested that this switch in the type of CEO and President reflected an acknowledgment that the industry was failing in the political arena. In other words, external pressures prompted this change.

7.4.4 Changes in Image Management

Similarly, after many years of a steadily deteriorating public image external pressures prompted the industry to address its image. The combination of falling public opinion ratings, legislative actions that appeared to be designed to appease the public's anger with the banks and recognition of employee distress prompted industry members to overcome their differences and take action. In keeping with the industry's notions around the best ways to convince external stakeholders, and it conceptualization of the construct of image, it is relying on a strategy of education, delivered through a combination of advertising, and publicly-disseminated educational material.

The following chapter addresses the related construct of reputation. It explores how external stakeholders actually do view the industry, and suggests why they may hold these images.

8 INDUSTRY REPUTATION

As discussed in *Chapter 2, Literature Review*, the constructs of image and reputation are closely related. To recap, image can be broadly defined as what an individual believes others think of them while reputation can be broadly defined as what others actually do think. Image offers a cognitive lens through which an individual can interpret the values, behaviors and motivations of external stakeholders with regard to how those values, behavior and motivations pertain to them. Reputation, however, can serve as a check on whether the individual's cognitive lens is accurate. In other words, is the individual's perception of how others view them realistic and truly reflective of the perceptions of others? Although the major focus of this thesis is the effect of identity and image on an organizational management process, the inter-relatedness of the constructs of image and reputation suggested that an understanding of the industry's reputation would be helpful in understanding the role of image. In addition, reviewing external stakeholders' perceptions of the industry, its characteristics, its attitudes and its behaviors broadens our understanding of the stakeholder environment in which the industry operated.

Therefore, this chapter provides an assessment of the content of the industry's reputation and how its reputation was created. Findings are based on interviews with two leading journalists who covered the banking sector for a national newspaper from 1990 to the present, data derived from the House of Commons Committee minutes and data from a public opinion survey commissioned by the Task Force on the Future of the Canadian

Financial Services Sector in 1998. This chapter concludes with a summary and discussion of these findings on the industry's reputation.

8.1 Findings of a Recent Public Opinion Survey

In 1998, the Task Force on the Future of the Canadian Financial Services Sector published the results of public opinion research it had commissioned to help it better understand how Canadians interacted with the financial services sector, and to assess the Canadian public's attitudes on a range of core issues facing the sector. The research, conducted by Ottawa-based Ekos Research Associates Inc., comprised a representative telephone survey of 1,800 Canadians from the general public and a series of focus groups and triads with 95 individuals who had participated in the telephone survey. The research was conducted earlier in 1998 and used a sample of Canadians from across the country. The sample was selected from every telephone book in Canada using a random generation method. The survey was pretested and administered by experienced interviewers who had also undergone a training session. The moderator's guide for the qualitative component was designed to complement the telephone survey and assist in general interpretation of survey results.

The research focused on how Canadians used financial services, their perceptions of the adequacy of their access to financial services, their level of satisfaction with these services, their perceptions around the adequacy of industry competition and their concerns around the use of technology, privacy and industry practices involving disclosure, tied selling and the sale of insurance by the banks. The researchers also asked respondents a number of questions about their images of banks, and it is the findings based on those responses that are the focus of this section. (It should be noted that this research report uses the term "image" in the manner in which the academic literature defines "reputation" – that is, respondents' "images" of the banking industry refer to what respondents actually said they believed or perceived about banks.)

Overall, respondents expressed mixed perceptions of the banks. According to the report:

> *When it comes to trust, confidence, performance and satisfaction, Canadians' outlooks are relatively high, particularly compared to other sectors such as government. By contrast, service fees, profits, the perceived power and influence of banks, and the view that banks have public responsibilities that other business do not have appear to be at the root of the poor images of banks. (Ekos Research Associates Inc., 1998)*

Indeed, although 46% of respondents viewed the banks as responsible employers and 44% viewed them as good corporate citizens, the public's perception of the industry's concern for customers was extremely low. Approximately 44% viewed the banks as heartless and 28% viewed them as neither heartless nor caring, suggesting that only one in four Canadians felt that banks were concerned about the welfare of their customers. The report suggested that respondents held the image of heartlessness as a result of personal experiences they had encountered with the bank, such as waiting for cheques to clear or encountering a serious problem at their primary financial institution. It also suggested the perceptions of tied selling contributed to this image. (Tied selling refers to the practice of forcing a customer to purchase multiple products from one institution; for example if a customer wants a mortgage, they would have to place your chequing and savings accounts with the same bank, if that bank was engaging in tied selling. It was a very topical issue in 1998, as Parliament convened a hearing on this issue, and ultimately passed legislation prohibiting the banks from engaging in tied selling.)

The researchers attempted to discern the root causes of these images by posing a series of Likert statements around issues that had attracted considerable negative attention to the industry throughout the decade, including the perceptions that the banks were too powerful, were quasi-public institutions, charged service fees that were excessive, and made excessive profits. Generally, respondents felt that banks wielded too much influence and power in Canada (59%) and that banks had more public responsibilities than other businesses (58%). 55% of respondents felt that the service provided by the banks did not justify the service fees charged. On the issue of whether the banks made excessive profits, respondents were less dramatically divided with 47% disagreeing with the statement that the banks' profits were fair and reasonable and 40% agreeing with the statement.

The research report attempted to identify the types of individuals who were most likely to share in the majority of these perceptions and found it difficult to do so. It reported correlations between negative image of banks and individuals who shared the following characteristics – 1) university educated, 2) self-employed, 3) used the Internet, 4) perceived that banks engaged in tied selling, 5) had a serious problem in the past year, 6) used multiple financial institutions, and 7) were required to wait for cheques to clear – were more dissatisfied. (It is unclear from the report whether all or only some of these socio-demographic variables must be present.)

We can conclude from the above section that the public does hold a significant number of negative images of the banking industry, and to some degree that negative image is rooted in their personal experience with the industry. In particular, there appears to be public sensitivity around the concern that banks are too powerful and do, in fact, have greater responsibilities to the general public than the average private sector company.

8.2 Attributes of the Industry's Reputation: Journalists' Perspective

Although the journalists interviewed made some positive comments about the banking industry, their comments generally focused on the industry's shortcomings and were negative in nature. The positive comments they shared included a recognition that the banks were good corporate citizens, often pursued interesting and carefully considered corporate strategies and did have many smart people working for them. Neither of these journalists had any apparent bias that could be characterized as left-wing or anti-business.

The journalist's misgivings could be grouped around three themes. First, there was a sense that the banks, by virtue of their enormous size and importance to the economy, were powerful and had a tendency to abuse that power. Second, they found the banks were difficult to report on because they offered only limited access to the media community. Third, they observed that if the banks wanted to change the way the public perceives them, they need to make substantive changes, not simply tinker with their image. They perceived that the banks' notion of who they are and how they could impact their image seemed to be misguided.

8.2.1 Abuse of Power

Both journalists felt that the domestic banks were powerful and wielded a great deal of influence in society because of their size and overall importance in the economy. Both expressed a distaste with the way the banks had dealt with them professionally, as well as how they had dealt with other smaller stakeholders, such as individuals or small businesses. They reported that this abuse of power manifested itself in two ways. First, they felt that the banks had a tendency to be combative in their dealings with outsiders, and to unfairly use their considerable resources to vanquish anybody they perceived to be acting against their best interests.

> *I think the most frustrating thing is their belief that if they have been wronged, they will get their pound of flesh. They're on the phone to my publisher once a week, to try and have the story stopped. These aren't things that poor people... or not even poor people, but just average citizens would do. And average citizens aren't afforded that sort of time, Or that sort of power. And it's just sort of this feeling that they have that they're owed something by us. Or that they can control the message. (Journalist A)*

> *They have a very firm view of their place in the universe and their entitlements. Come hell or high water. They proceeded some court cases, which certainly didn't do them any good in terms of image. You know, small business guy allegedly gets screwed by the Bank. They take him to court. It would have been easier to settle. But they fight it right down to the... they're entitled to every cent. (Journalist B)*

Second, the banks acted in a manner that suggested they possessed superior knowledge and knew more or knew better that external stakeholders. One journalist described a general sense of arrogance that emanated from many individuals they dealt with in the banking community.

But I also think that there is, and they'd never admit to it, but there's sort of a kind of a divine right of bankers as being the font of all wisdom and truth. (Journalist B)

Interestingly, both journalists also commented on what they perceived to be hypersensitivity on the part of banks to any perceived criticism, no matter how slight. They suggested that while the banks were very sensitive to stories around public policy issues, and this was understandable, they were inordinately sensitive to news items that should, at best, be perceived as small slights.

Just how influential they think they are, and how... but on the other hand how sensitive they are. Mr. B was very upset at a story that ran in another paper about mentioning the fact that he was remarried. These guys are mentioned daily in the newspapers, but it's these little things that get to them. (Journalist A)

I did the story about some meetings that were going on in New York, and the head of the PR department at the Bank told me that the Bank had not been invited to a particular meeting in New York. So I reported that duly. And was summoned to the Bank the day the story ran, to talk to the head of their Latin American operations, who tore a strip off me for 20 minutes about this terrible slight. The PR person had the wrong information, and I was castigated for this. (Journalist B)

In summary, the journalists perceived the banks' actions and attitudes towards external stakeholders to be disturbing because the banks unfairly used their greater resources to their advantage. Correspondingly, this behavior made it appear that the banks knew they had greater resources and suggested they held an underlying assumption that they deserved special treatment.

8.2.2 Limited Access

Although most of the banks have sizable public relations departments, and produced reams of press releases and other material for the media community on an almost daily basis, these journalists found getting access to senior management very difficult. Relative to other industries they had covered, they described the industry as close-mouthed and, often, very circumspect about its true intentions. These traits seemed to be best personified by a strong reluctance on the part of CEOs to not speak with the press. For example, one journalist mentioned that in a five-year period, he had conducted only one interview with the CEO and Chairman of the Metcalfe Bank.

> *Part of the problem with the banks, it's funny how the Chairman never has time to speak to you until he wants to, and then he's on the phone for an hour and a half. That really makes me laugh. The access to senior people is often really really difficult to get when you need it on things that aren't contentious. (Journalist A)*

> *At all costs, you protect the Chairman from embarrassment. You protect the Chairman from any chance that he might embarrass himself. If you give an interview, you probably make damn sure that there's somebody from the PR department there. (Journalist B)*

The only exception to this observation was the Atwater Bank, who both journalists applauded as providing plenty of access to senior executives, including the chairman. They also commented that the industry was generally loath to release information that was meaningful, and could sometimes be deceptive about its strategies.

> *Because I just find the CBA completely ineffective. They're a lobby group... I called them once on something just completely innocuous. They won't give me the data. I actually did call them yesterday for the first time*

in a year. I got the information before they called me back. Sometimes they'll call back a week later. I work for a daily newspaper. They're just useless. (Journalist A)

The Bank and a consumer products company got together for a credit card. I went to the news conference and I asked some hard business questions. How much are you investing in it? How's the revenue going to be split between the bank and the company? You know, obvious, basic stuff like that. Which, to my delight, nobody else bothered to ask. They wouldn't answer. When you don't answer something, any reporter is going to just damn well get the information somewhere. (Journalist B)

The media is a clearly defined and important stakeholder group for business, and the suggestions of these journalists was that the banking industry has done a reasonably poor job of being meaningfully responsive to them.

8.2.3 The Construct of Image

In the course of the interviews, each of these reporters spontaneously recounted negative personal experiences with the banks, as customers, to support some of their statements. These observations would suggest that their personal experiences with the industry, as well as their exposure to the industry in a professional capacity, influenced how they viewed it. There was an underlying sense that the banks were very reactive when dealing with consumers. One journalist raised the argument that banks are, in effect, a utility and consequently need to be more responsive and accountable to external stakeholders.

I think their biggest problem is, and maybe it's the same for any large organization, is that the only time that they would change things, like small business lending policies or service fees, or whatever, is when they're pushed. (Journalist B)

But they also forget that they are government-regulated and they are financial institutions. They're not financial publicly traded companies. They are institutions that carry a responsibility that they, I don't think, want. But they fight that every step of the way and instead of giving some lip service to that, they just keep saying, "We have shareholders. We're public companies." Yes, you are public companies and you're afforded the right to do what you do by an Act of Parliament, and they always forget that side of it. They're never sensitive to that. (Journalist A)

To conclude, these journalists viewed the banking industry as being powerful and at the same time as being prone to abusing its power. Commensurately, they perceived that despite the industry's devotion of considerable resources to public relations, it did not disclose information that was meaningful, and for the most part, did not make attempts to interact with the media in a way that was meaningful (i.e., access to senior management). Similarly, they felt that the banking industry was slow to react to external pressures, particularly customer pressures largely because of its size and how it viewed itself.

8.3 Attributes of the Industry's Reputation: Politicians' Perspective

Throughout the four hearings it is apparent that the banking industry suffered from a negative reputation. In contrast to the journalists, who made some positive comments, Committee members' comments revealed that the number of positive utterances about the industry were few, and relative to the overwhelming negative perceptions, insignificant. Generally speaking, consumer activist groups that appeared in front of the Committees echoed these sentiments. The negative reputation can be summarized around five dimensions, of which two revolve around characteristics of the industry. First, the industry enjoys numerous benefits because it is highly protected by government regulation. Second, the industry is, above all, profit-oriented and the magnitude of these profits may be excessive. The three remaining dimensions revolved around the industry's behavior. It was most often viewed as self-serving, generally unresponsive to external stakeholder concerns, and deceptive. The remainder of this section elaborates on the behaviors and characteristics Parliamentarians associated with each of these dimensions.

8.3.1 Quasi-public

As discussed under *Chapter 4, Financial Service Sector in Canada*, the Canadian banking industry is highly regulated. Much of this regulation has worked in the industry's favor by allowing it to retain control over the payments system, stem the flow of foreign competition, and engage in a myriad of new financial ventures (e.g., insurance, securities underwriting), albeit through subsidiaries. By the time of the Holtmann Committee, these benefits were widely recognized by Parliamentarians, as well as other observers.

> *Canadian banks are highly regulated, some of the best protected banks in the world, and they make big profits. (MP McDonald, November 20, 1991, Holtmann Hearing)*
>
> *You take risks on behalf of your bank, not too many, because you're pretty well protected by the Canadian charter. People suggest that the banks are an arm of government almost, you can't go wrong. (MP Holtmann, November 6, 1991, Holtmann Committee)*

It appeared to be an unquestioned assumption that banks enjoyed the benefits of their regulatory environment, and as such, are quasi-public entities.

8.3.2 Excessive Profits

Members and witnesses observed that banks were in the business to make money, and in and of itself, this was a legitimate business aim. Some members occasionally stressed that they were ardent supporters of the capitalist system, and had no problem with the banks making a profit.

> *Having said that, it is normal for banks to make a profit. It is even a good thing, because it allows them to pay taxes and contribute to the tax base. (MP de Savoye, February 11, 1997, Walker Committee)*

In the latter two hearings, however, the notion that bank profits were excessive began to enter the discussion.

> *If indeed there is a fast-track investigation and if it finds that the big banks and trust companies have made obscene and unwarranted profits because they did not drop their rates, do you think we should seek a remedy through some type of a special windfall profits tax on the banks for that amount? They have been doing it for years. (MP McDonald, November 20, 1991, Holtmann Committee)*

Making profits in and of themselves did not present a problem for the Committees, rather it was the juxtaposition of large profits against practices whose fairness they questioned. There was also a perception that these profits may be particularly excessive in light of the special treatment the industry received by virtue of government regulation.

8.3.3 Self-serving

Throughout each hearing, there was a perception that the banking industry's activities were largely self-serving. Although it was widely accepted that banks were in business to make money, and that this was reasonable and legitimate aim, there was an underlying perception that their business practices reflected a willingness to make money at the expense of consumers, and with no regard to consumer welfare. Given the regulatory benefits it enjoyed, these practices were regarded as questionable at best, and repugnant at worst.

> *I remember we all agreed at one time, particularly going back a few years, that the banks almost pushed money onto people during the heyday of the boom years. It was so easy to get money. You just walked in and people at the bank shoveled it out. (MP Riis, June 17, 1986, Blenkarn Committee)*

> *Well, we have a dualistic posture by the banks on credit card interest. They talk about responsibility, but in fact their marketing departments are very aggressively flogging cards to a lot of people who probably should not have them. (MP Simpson, November 20, 1991, Holtmann Committee)*

> *If there was even a slim chance that they could be made to opt for socially moral stand over corporate profits, if there was even a glimmer of hope that there was still something that could be done, I would be tempted to speak less harshly. (MP de Savoye, February 12, 1997, Walker Committee)*

8.3.4 Unresponsive

This perception of self-serving behavior seems to be exacerbated over the period by a corresponding perception that the industry was not listening to criticisms, was at best reactive in their responses, and was often insincere in these responses. For example, the industry's attempts to disclose information on credit card statements was questioned because of the advanced level of language used. Critics pointed out that simple language would be in the spirit of full disclosure since much of the population suffers from weak literacy skills. Other perceptions included a sense that the industry only responded to concerns when bludgeoned with the cudgel of moral suasion or unflattering press.

> *We don't see competition on the bottom-line price. Why is it? I think it's because the banks and FIs [financial institutions] have been able to get away with it. When the spotlight is on and the heat is on, boy those rates will dip. (MP Simpson, November 20, 1991, Holtmann Committee)*

> *Certainly the Consumers' Association has been putting forth very concrete recommendations for the last eleven years. Certainly the industry isn't listening. (Ms. Todd, Consumers Association of Canada, February 12, 1997, Walker Committee)*

From the politicians' viewpoint, the industry seemed frustratingly slow to respond to criticisms, and worse than that, they seemed to feel it was all right to ignore these criticisms.

8.3.5 Deceptive

The perceptions of self-serving and unresponsive behavior were further underscored by a perception that banks were deceptive in their practices. The industry's reluctance to provide information, or to not directly answer questions, compounded this perception.

> *I think that this is a very insidious way of getting significantly increased borrowing by this bank. (MP Jepson, June 17, 1986, Blenkarn Committee)*

> *People borrow money from banking institutions, but when we think about your method of computing interest charges, it is a bit like looking at a*

Mississippi gambler on a steamboat playing the shell game. (MP Bellemare, June 14, 1989, Turner Committee)

These negative perceptions were consistent throughout the entire period, and varied only in that they became more refined in the latter two hearings, and members and witnesses became more articulate.

In conclusion, these hearings into credit card practices were conducted within a climate where the banking industry was generally regarded as privileged, rich and powerful, and as generally abusive in their practices and uncaring when it came to consumers. Politicians appeared to find these practices to be a particular affront to their sense of fairness, because of the government protection the government provided the industry. These underlying themes underscore the image challenges the industry, and individual banks, faced. They also speak eloquently to the unease and discomfort external stakeholders felt concerning large institutions in their midst.

8.4 Legislators' Framing of the Issues

In the discussion of the preceding two stakeholder groups – the general public and the media – it is apparent that many of their perceptions about the banking industry were formed as a result of their personal interaction with a bank (or banks). This section analyzes how Committee members framed their views of the banking industry. The findings confirm that personal experience with the banking industry was a powerful determinate of the industry's reputation. This tendency to perceive the industry in personal terms is further evident in some of the ways Committee members chose to attempt to understand the industry. They often framed questions or assertions about the industry in personal terms.

As discussed in *Chapter 6, Industry Responsiveness to Legislative Challenges*, it is obvious that legislative interest in credit card issues was, in a general sense, a response to constituent complaints. Accordingly, in each of these four hearings, members claimed to be responding to constituent concerns and complaints, and periodically they referred to discussions with constituents or letters from constituents to support their claims.

> *We heard from a witness from one of the newspapers, who had brought information to us about consumer complaints about credit cards. As Members of Parliament, we get letters of complaint from people concerning credit cards. (MP Taylor, June 27, 1989, Turner Committee)*

Similarly, the testimony from advocacy groups usually encompassed generalizations about how consumers felt about these issues, or in some cases, specific constituent stories.

> *I think probably the majority of complaints would be along the line of not knowing the amount of interest charged. There also seems to be a great deal of concern over figuring out what it actually says on the back, particularly the bank card statements. (Ms Hall, Consumers Association of Canada, December 3, 1986, Blenkarn Committee)*

> *We are continually receiving telephone calls and letters from people, and a rule of thumb is that if we receive a telephone call then that person is ostensibly speaking for at least 100 other people. By that we mean that if someone takes the time to pick up the phone and call us on something then at least 100 other people out there are concerned about it. If someone takes the time to sit down and write a letter then we feel there are at least 1,000 other people out there who have the same concern but have not sat down to write us a letter. (Mr. Murray, Consumers Association of Canada, June 27, 1989, Turner Committee)*

While constituents' stories, and outside observers' commentary on consumers' experiences, clearly impacted how Committee members framed the issues, it is clear that members also personalized these issues. In each of the four hearings the Committee commentary consistently revealed a tendency to use their personal experiences, or the specific experiences of their constituents, as guidelines for asking questions, raising challenges and generally framing the issues. Often, they did not engage in the dialogue with witnesses on a theoretical level, but rather sought to understand card issuer practices and the corresponding ramifications of these practices in terms of their daily life and the lives of their constituents. For them, the debate did not center on macroeconomic theory, or the philosophical principles of capitalism, but rather on how the reality of these practices affected the welfare of their constituents. Their challenges to issuer testimony were often couched in terms of their personal experiences with credit cards, as well as stories from their constituents. The manner in which the Committees tended to personalize the issues can be summarized in four dimensions – personal or constituent experiences, personal practices, hypothetical situations and analogies.

8.4.1 Personal or Constituent Experiences

The most common type of personal commentary was that of relating their personal experiences with the credit card industry, or specific experiences of their constituents. Usually, these experiences revolved around some type of poor service, or business practice that was deemed to be questionable. These experiences were often recounted in an attempt to challenge the witnesses' testimony.

I think I grew up in the days when I was always terrified of changing banks. I thought somehow the roof would come in on me. It may be a bit different now, but you would agree the cost to the individual of shifting from one card to another is quite substantial? (MP Cassidy, November 27, 1986, Blenkarn Committee)

I would like to ask each one of us here to pull out their credit cards and tell us whether they are paying interest from the due date or from the purchase date or the statement date on each one of their credit cards. I will bet you no one in this room knows. I will know, because I am looking at the statement in front of me right now. But five minutes ago I did not know how I pay interest .... So how could you say the consumers know what they are paying and how it is charged, when I would venture to say 95% of people have no idea how it works, not even those of us around the table here? (MP Boudria, June 14, 1989, Turner Committee)

Who is your customer? Am I your customer when I get a credit card, or is the dealer from whom I get immediate credit, in the sense of goods and services, your customer? My experience has been that the chartered banks of Canada do not treat me as their customer; they treat the retailer as their customer. (MP Crosbie, June 14, 1989, Turner Committee)

That's also the kind of card I own personally and your toll free phone number isn't on it, sir. I tried using it yesterday because my bill went by mistake to another MP. It was Derek Lee. (MP Boudria, November 6, 1991, Holtmann Committee)

Often personal comments were delivered with an undertone of passion or vehemence. The Turner and Holtmann hearings contained considerably more personal and constituent experience commentary that the Blenkarn and Walker hearings. There are three other ways in which personal experiences were framed – members offered examples of personal practices, hypothetical situations, and analogies. Theses were used less frequently throughout the hearings, but were still apparent. Personal practices as a way of dialoguing was used most often in the Blenkarn hearing.

8.4.2 Personal Practices, Hypothetical Experiences and Analogies

Personal practices refer to the tendency on the part of the member to frame a question or comment in terms of how they (or their family) handle credit cards.

> *I look at it as something with which I can make $50 purchases fairly conveniently, and if I do not have the cash I do not have to get loan for it. (MP Warner, June 17, 1986, Blenkarn Committee)*

> *My personal loans, other than my mortgage and the loan for my car, really aren't secured at the banks (MP MacDonald, November 6, 1991, Holtmann Committee)*

In trying to understand testimony, or to make a point members developed hypothetical scenarios in which they depicted themselves as the credit card customer.

> *When I was going through some thought before our presentation I came up with a question that I asked myself: if I bought a new microwave for $800 on my Visa, and paid $799 on the bill by the due date, then I would pay interest on the full $800 from the date on which it appeared on my bill until, the actual due date. (MP Riis, June 17, 1986, Blenkarn Committee)*

> *You should understand where I am coming from. If I have $1 million in cash in my pocket, I still cannot rent a car from the airport without a major credit card. If I want to order something over the telephone, then I have to give my credit card number. If I want to send flowers to my wife on Valentine's Day, I need to use a credit card. So you and your colleagues have captured the market. (MP Gray, November 12, 1991, Holtmann Committee)*

Finally, some members drew on their business experience to try and understand witness testimony. They used a business practice that they were familiar with as a lens through which to understand issuer practices.

> *I know when my company sells stuff to Simpsons or Sears, Sears does not pay us interest from the day we ship the goods. They pay us 30 days later*

or sometimes 60 days later. We do not charge them interest. Would you normally figure on charging your customers who did not pay you right on the nose interest the moment you sold them the goods? (MP Blenkarn, November 26, 1986, Blenkarn Committee)

When I was in business, my customers had 30 days to pay even though, like you, I had to pay my employees every week and also pay the rent. I had a line of credit at the bank on which I was paying quite a high interest rate at the time. If my customer didn't pay me after 30 days, I also charged him administrative costs to offset my own credit administrative charges. (MP de Savoye, February 13, 1997, Walker Committee)

To summarize, to some degree, legislators viewed banking industry practices through a personal lens. Their perceptions of the industry resulted either from their direct personal or professional interaction with the banks. These ways of framing the issues also suggests that effective counter-arguments should contain at least some acknowledgment of the human dimension of these concerns.

8.5 Summary and Discussion

This section summarizes the banking industry's reputation with these stakeholders and discusses how these groups have come to hold these images of the industry.

8.5.1 Reputation Attributes

Table 23 summarizes how these external stakeholders have described the banking industry. Clearly, the data from these three sources (i.e., the public opinion survey, interviews with journalists and the Committee Minutes) all suggest that the banking industry has suffered and continues to suffer from a reputation that can be characterized along three broad dimensions – 1) a tendency to abuse its power, 2) a lack of responsiveness to external stakeholders, and 3) an identity that is in conflict with external stakeholders' expectations of the banks' core function.

Table 23 - Summary of Reputation Attributes from Different Stakeholder Groups

	Public Opinion Survey (% of survey respondents)	Journalists	Politicians
Power	Banks have too much influence and power (59%) Banks make unfair and excessive profits (44%)	Abuse power Arrogant	Self-serving Deceptive Excessive profiteering
Responsiveness	Banks are heartless (44%)	Limited access to senior management (CEOs in particular)	Unresponsive practices Unresponsive to legislative concerns
Identity	Banks have more responsibilities than other businesses (58%)	Are legislated like a utility	Quasi-public

<u>Power</u>

All three stakeholder groups referred to patterns of behavior by the banks that suggested the industry held too much power. These patterns were evident in its business practices, its refusal to give information, and the perception that its profits were excessive. In addition, journalists and politicians suggested that the banking industry's behavior was underscored by a general attitude of arrogance, a feeling that it knew better than external stakeholders, or that it deserved special privileges.

Responsiveness

All stakeholder groups held an image of the banks as being interested, first and foremost, in the welfare of the banks. Correspondingly, they perceived that the banking industry did a poor job of fundamentally understanding and responding to the needs and expectations of external stakeholder groups. In the case of the journalists, this behavior manifested itself as difficulty getting access to senior management. From the legislators' perspective, banks engaged in a series of business practices that could be described as self-serving. In addition, they perceived that the industry tacitly conveyed the attitude that the deliberations and recommendations of the Committees were unimportant.

Identity

Stakeholder groups were generally unanimous in their view that banks were fundamentally quasi-public institutions. They regarded the banks as providing an essential service to members of society, similar to the power and telecommunications utilities, and perceived that the industry was subject to a similar regulatory burden. Stakeholders felt that an obvious extension of these observations is that banks should behave in a manner that is commensurate with the expectations that our society holds for a public utility. The expectation that the banks should behave in a manner that is consistent with the primary objective of serving the public, makes the prior dimension of lack of responsiveness, particularly negative.

8.5.2 Drivers of Reputation

All three stakeholder groups cited some form of personal interaction as the basis for these perceptions of the banking industry. These perceptions did not evolve from being subjected to bank advertising campaigns, or out of an academic debate around economic theory or the proper regulatory framework. Rather, as individuals spontaneously responded to the topic of banks, they framed their understanding in very personal, individual terms. The data from the Committee Minutes revealed that politicians perceived and framed their concerns through a personal (or micro) lens. Issues came to their attention by virtue of constituent complaints or negative media coverage, and the complaints appeared to resonate with their personal and professional interactions with the banks. Similarly, an analysis of interview data from the journalists also suggests that the three perceived attributes developed as a result of personal and professional interaction with these institutions. The public opinion poll similarly suggested that individuals who held negative images of the banking industry may do so because of a prior negative interaction with their primary financial institution.

This finding directly contrasts with the industry's perception that major drivers of image are negative public opinions on issues such as excessive profits or CEO salaries. The public's negative opinions on these issues are value-based and do not lend themselves to being altered by facts and figures. Consequently, the industry sometimes thinks of these drivers of image as being "soft". Although so-called "soft" drivers of image are one of many contributors to image, a clearly significant factor is personal interaction. Negative personal interactions, (e.g., complaints about service, fairness of treatment), are rooted in external stakeholders' actual personal experience with the organization, as opposed to their opinions on the appropriateness of CEO salary levels. This finding, that an industry's reputation is rooted to some degree in external stakeholders' personal experience with that industry, also calls into question the notions that the industry holds regarding the phenomenon of bank bashing. The suggestions that bank bashing is an inherent feature of Canadian culture, a broad sociological dislike of banks, or results solely because the banks have to say no to customers lose resonance in the face of these findings.

The following two chapters, *Organizational Responsiveness: Metcalfe Bank*, and *Organizational Responsiveness: Atwater Bank*, review the issues of identity, image and legislative and image management processes from an organizational perspective.

9 ORGANIZATIONAL RESPONSIVENESS: METCALFE BANK

Metcalfe is an organization whose identity is underscored by an intense bottom line orientation. This orientation shapes its approaches to managing both legislative and image management challenges and has a profound impact on how organizational members view the world beyond its boundaries. This chapter uses data from interviews with six senior vice presidents, each of whom has responsibility for their business unit. The informants included the current and former heads of the credit card operations, public affairs and marketing for the period under study. This chapter begins with a description of the organization in terms of its values and cultural attributes. Next, it describes how the organization manages the legislative environment and its image. It then goes on to describe how these organizational members view external stakeholders and how they explain the world around them. Finally, it concludes by with summary and discussion of these findings.

9.1 Objectives and Identity: The Shareholder's Bank

Metcalfe management painted a picture of a bank whose primary objective has been, and continues to be, the maximum creation of shareholder value. In keeping with a focus on shareholder value, they described the organization as extremely cost conscious, lean and entrepreneurial. A majority of them noted that the bank's smaller size relative to its competitors was a defining characteristic and added that the bank had a "collegial" feel. They also suggested that these core values were held very strongly throughout the organization. Metcalfe management uniformly described the current organizational structure as highly decentralized with maximum autonomy being awarded to business unit heads.

> *I think I would describe this bank as small in feel and therefore more agile than it's larger competitors - more entrepreneurial. Managed from the middle rather than the top. This is in an interesting way a kind of... a management by consensus sort of culture although that allows for each of the business units to kind of very aggressively pursue their own strategies. (Senior Vice President)*

> *I think we are a very cost conscious, we are very entrepreneurial, as entrepreneurial as an organization can be and we believe in that people that own businesses, or run businesses, they should feel like it is their business and give them a lot of autonomy and authority to be able to run them like it was their business and we run with a premium flat structure ...we're very shareholder focused, very return on investment focused. (Senior Vice President)*

These individuals also described the organization as being "*smarter*" than its competitors. They characterized this superiority in terms of the caliber of their senior management, their historic profitability (at least until the early 1990s according to one informant) and the generally higher intellectual caliber of their staff.

> *The feeling was that we didn't want to be a " me too" institution, and the tone was set, I think, really very well by Mr. A and Mr. B who were are two leaders who had combined brain wattage that exceeds anyone.... (Senior Vice President)*

> *Certainly I would describe Metcalfe as a cost culture, a cost-control culture; that's a core value. It's entrepreneurial. It's a smart bank. (Senior Vice President)*

There was general consensus that the values of maximizing shareholder value and cost containment had not changed over the years. There was a suggestion that there had been a gradual and steady shift towards increased decentralization and increased autonomy over the last ten years. This shift, in the view of management who had observed it, was due to market factors that had diminished the organization's profitability and resulted in a need to restructure to meet market demands. Within this time period, a new CEO and COO were appointed (they were internal promotions) and they were supportive of this corporate emphasis on decentralization and managerial autonomy.

9.2 A Free Rider Approach to Managing the Legislative Environment

The first part of this section focuses on how management perceived the legislative challenges to credit cards. What did they think were the major challenges? Why did they think these challenges emerged? How important did they perceive these challenges to be? The second part of this section focuses on how the organization dealt with these issues. How did these issues get identified internally? What was the organization's legislative strategy? What lobbying tactics did it use? And, what changes to the operation took place as a result of these challenges?

9.2.1 Perceptions of the Legislative Environment

Profitability in the credit card operation had been somewhat erratic in the late 1980s, but throughout this decade management suggested that the credit card business has been and continues to be regarded by the bank as an important business because it generates profits. However, they did assert that it was not important from a strategic standpoint, meaning it did not provide the bank with any other revenue generating possibilities, nor did it allow it to gain a strategic advantage over competitors.

From a strategy point of view I would say it had no importance whatsoever. I think it was strictly recognized as a business that made a lot of money - it's very profitable. So, it's a cash engine thing for the organization. (Senior Vice President)

All management agreed that the primary credit card issue that attracted legislative attention throughout the 1980s and 1990s was the perception that credit card interest rates were excessively high. They also recalled that legislators focused on disclosure and privacy concerns, but believed that this focus was of a lesser concern. Management had different perspectives on what caused the issue of credit card interest rates to become important to legislators. One perspective suggested that this issue provided politicians with a popular platform, and the popularity of the issue with the public insured that it would always attract legislative attention. This explanation does not consider economic conditions, nor whether there may be a legitimate concern that this is an issue where the public is unfairly treated.

Because it played very well in their constituencies. It played well with their colleagues in Caucus. (Senior Vice President)

Another perspective suggested that this issue emerged as important to legislators as a function of changes in the environment including rising real interest rates, the occurrence of recessions, and a rise in bankruptcies. This explanation does not consider political self-interest or legitimacy as possible explanations for the emergence of these challenges.

> *I think especially, it happens during economic downturns is that when interest rates become a real factor for consumers is when we are in a recession, when they are threatened with unemployment, when the economy is already bad, it looks like we are beating up on them by also charging them high interest rates, when the level of bankruptcy is high... (Senior Vice President)*

Finally, one manager suggested that the two preceding perspectives, combined with a genuine interest and concern about these issues on the part of lawmakers, come together to make the issue a populist one.

> *It's a populist issue. Here's a large institution that makes a lot of money. Whether economic times are good or bad, they make a lot of money. You were starting to have customers - and Parliamentarians who were also customers at the banks - experiencing service charges for the first time. So there's a kind of an interest in, "Is this fair? Is this right? Does this industry need to be governed a little more tightly?" (Senior Vice President)*

Metcalfe management all agreed that within the pantheon of legislative issues facing the bank, this was an important issue, but they qualified what they meant by important. There was an acknowledgment that the issue took on high profile during the hearings and the attendant media attention, but there was not an internal sense that it was a true legislative threat.

> *But if I recall the attitude we took was, "It'll blow over." Because you have to recall it was being driven at the Committee level. I don't think anything ever reached the floor of the House of Commons. It didn't have any sort of Ministerial support. (Senior Vice President)*

This perspective disregards the importance of the eight private members bills that occurred during the period, or the potential negative effects of relentless and repeated scrutiny around these practices. It speaks to a perception that backbenchers are a relatively unimportant factor in the legislative environment.

9.2.2 Management of the Legislative Environment

Metcalfe adopted a free rider approach to managing the legislative or regulatory environment. Yoffie (1987) suggests that firms adopt a free rider approach to managing regulation when political issues have relatively low salience and their resources are limited. Free riders, in this context, typically follow the industry strategy and contribute little to the industry effort in the way of resources. Metcalfe has historically taken the viewpoint that most regulatory issues affect the banks equally, therefore, it believes it does not make sense to invest capital to try to affect regulatory issues on an individual basis. In keeping with a free rider approach, it has never maintained an office in Ottawa, and for the vast majority of regulatory challenges it has faced, it has never retained a lobbyist. The organization, for the period under study, has also never engaged in grass roots lobbying of Parliamentary officials by its bank officials in the community. According to some managers, senior management historically held the viewpoint that potential regulatory or legislative challenges that arose to face the banking industry could be most effectively dealt with by direct and private interaction between bank CEOs and the Minister of Finance.

Some management also suggested that the senior management's reaction to the increased government scrutiny around banking operations that began in the late 1980s could be characterized as hostile and defensive. They described bank management as angry that the government had the temerity to question how the banks did business and raised the possibility that some managers took it as a personal offense.

> *...somebody suggesting that "We don't like the way you do your knitting." You might do your knitting fine. It might generate a good return for shareholders. But I want more from you. And I think there was kind of a defensiveness about, "Well, too bad. That's none of your business, frankly." And a free-market attitude. If you don't like my cars, go elsewhere. That's the approach that people take. (Senior Vice President)*
>
> *I would guess [senior management] thought that the Bank was very well managed. We operated, in those days - and still today - on very small margins. And the reason for our financial performance is management, I think, how we manage those margins operationally and financially. And maybe [senior management] considered it a personal affront that they [i.e. politicians] would question us on our service charges. (Senior Vice President)*

For all four hearings - 1987, 1989, 1992 and 1997- the organization's broad response reflected its free rider strategy. In 1986 and 1989 it allowed the CBA to represent it in the public hearings. In the first two hearings, no one from the organization attended any private sessions with Parliamentarians or the committees, although at the 1989 hearing they did attend the CBA presentation. In 1997 the head of credit card operations appeared at the hearing along with representatives from the other banks and the CBA. The CBA made a formal presentation and the banks responded to questions. No preparation was undertaken for this presentation.

Metcalfe management described the CBA's strategy as one of education. As discussed in *Chapter 7* the association's objective was to adequately educate outsiders, in the belief that doing so would convince them that the business was being run in a manner that did not disenfranchise the general public. Metcalfe concurred with the CBA that embarking on a strategy of education was the most effective way to change how external stakeholders think. For its part, the organization has never been, and continues not to be favorably disposed to meeting any requests from external stakeholders that would result in less money for its shareholders. This view suggests that it would rather fight legislative challenges that accommodate them, since accommodation may cost money.

Management reported that they made no major changes to operations as a result of legislative challenges they faced over the years. They did note some minor changes made as a result of the attention focused on the issue in the early 1990s and as a result of the most recent set of hearings in 1997. In the late 1980s they improved disclosure on terms and conditions of credit cards. In the case of the most recent hearings, they introduced a new low interest rate credit card to address the criticisms they faced. No one made any mention of adjusting interest rates or the spread in responses to legislative pressures.

Metcalfe management perceives that the industry's legislative strategy of education is the best way to convince politicians to leave business to operate on its own. They characterized this strategy as a success since no legislation to cap interest rates was enacted. Again, they did not consider the broader ramifications of repeated scrutiny in terms of their image or their perceived legitimacy.

9.3 A Minimalist Approach to Image Management

Historically, the organization has never had an explicit strategy around managing its image. Its public affairs department (which is in charge of relations with all external stakeholders including media, investors, and the government) was and is significantly smaller than that of its competitors. Management of this department sees themselves as providing a service to senior managers, and managing the public relations process, as opposed to managing the organization's public relations themselves. When asked open-ended questions about image, management generally spoke about how they handled the media or advertising. The heads of the business units dealt directly with any substantive media requests about the organization, and management believes that this strategy has resulted in more credibility for the organization with the media. Their philosophy was that it was better to be more open rather than less open, and more accessible rather than less accessible.

Historically, the organization has undertaken no advertising. It has viewed advertising as an unnecessary expense that detracts from shareholder wealth.

> *In fact, we were proud of the fact that we hadn't done television advertising for many years....There was no value in it. But it was considered to be corporate puffery - no return on the dollars. We couldn't compete with the bigger financial institutions, so why try. For us, our big advertising was newspaper advertising. And if we were really brave we would do a little radio on a tactical basis. (Senior Vice President)*

Management, however, believed that the banking industry has done a poor job of managing its image. They recognized that the industry's public polling rating had been steadily dropping for the last 20 years and acknowledged that senior industry executives had been unwilling to believe that this decline in ratings mattered. There was a perception that unless a phenomenon resulted in a financial impact, it was difficult to get consensus (both internally and within the industry) that it was a phenomenon worth addressing.

One of the difficulties in this industry is getting internal support for non-bottom line items. So to say I want to spend $10 million on an image campaign or on image advertising or anything of the kind, you'll get sort of heads cocked to one side, "To what end?". There's kind of "Hey, we're a bank. People hate us. Twas ever thus." (Senior Vice President)

Many of them, most of them at the banking executive level, have been with the institution and/or the industry for 30-40 years. They have seen things come and go. And always in the back of their minds, I suspect, is "In a good year, 840. In a bad year, 800. Not a bad business over all." And whether I spend $10 million of shareholders' money on telling people why we make the money we do or how we make our money, it doesn't mean a lot. (Senior Vice President)

Despite their criticism of how the industry has managed its image, and their own hands-off approach to image management, management shared a perception that how an organization manages its image has a substantive impact including making it difficult to achieve its goals, and causing a bottom line financial impact. For example, in 1993 the federal government levied a capital tax on the banks which political advisers believe was the outcome of the banks' poor image. This tax, estimated to cost the industry millions of dollars, was not levied on any other financial service provider. Another commonly cited example of a barrier that arose because the bank and the industry suffer from a poor image was the government's decision to prohibit the merger of four of the Big Six.

When asked what challenges lay ahead for the bank in terms of managing its image, responses revolved around the theme of helping people to understand its business better, and to leave consumers with the impression that the banks care about their welfare. (In the immediate term, for some interviewees the most pressing image concern was what to do in response to prohibition against mergers.)

But I think going forward, we need and we have an opportunity to do a better job explaining our business in broad terms: Where do we make our money? How do we make our money? Why do we make it that way? To all of our audiences. I think there's a greater interest in business (in us?). There's more people investing in banks and in the stock market. And I think there's a desire and a necessity on our part to say, "Service charges constitute 4% of our profits. (Senior Vice President)

In summary, Metcalfe had no formal image management strategy, but nevertheless recognized the importance and impact of image on its operation.

9.4 Metcalfe's Image and Perceptions of External Stakeholders

One of the most interesting aspects of these interviews was how management described its image and then how they described its external stakeholders who held those images - the general public, politicians, the media, and activist groups.

9.4.1 The General Public

All management uniformly described banks as being the victims of public antipathy, as being members of an industry that was routinely despised by the general public.

I think banks have traditionally been the fire hydrant for this country... (Senior Vice President)

We are organizations that Canadians love to hate... (Senior Vice President)

They generally attributed this phenomenon to two factors. First, the general public's propensity for hating banks was described by the majority as the "Canadian way", suggesting that it is inherent in our national character to decry institutions or industries that are perceived as too big, too powerful, and/or too profitable.

> *I think it's the Canadian way. No one likes winners. No one likes big, and no one likes power. It's always good to kind of compromise towards the mean. (Senior Vice President)*

> *I think that the automatic assumption would be that we're trying to screw people somehow or, too often the overriding assumption is that this is being done for the bank, not being done for the good of customers, or for the people. (Senior Vice President)*

> *Canadians, I think, um, generally, have a, it's not a fear, it's a distaste or something for big institutions. It's sort of a case of getting too powerful and it's a perception that there are, sort of, insiders and outsiders, and the general public feels like there's an elite that is " smarty pants" you know, they're just too big for their britches and banks are huge institutions, they really are. (Senior Vice President)*

Only one informant suggested that from a historical perspective, however, Canadians had only begun questioning the authority of institutions in the late 1980s.

Secondly, participants suggested that there were characteristics that were inherent in the nature of the business that made them vulnerable to this kind of public reaction. Specifically, banks are one of the few organizations with whom everyone deals on a very regular basis and interacting with banks is a necessity for most people. At the same time, banks feel that they must say no to individuals on occasion (e.g., turn down a loan).

> *I think it is, probably the closest I can come in summary form is that it's like a parent to a child, in that we are in a position where we can say, when we sometimes have to say "no" to them about something that they really badly want... In our case, because we're in, lending is a big part of what we do, sometimes we have to say "no", and that ability to say no and that ability, or the inclination that we have to sometimes withdraw service*

or do things that are disadvantageous to customers or that don't happen to suit them is what they want makes them angry. (Senior Vice President)

Some management also expressed a belief that the public was not able to understand that they were being well served – the public were not able to link pricing with value and were not giving recognition to the vast number of transactions that were properly executed. Metcalfe management was mixed in its views regarding whether the individual banks or the banking industry were responsible for their poor public image. Most, however, shared a perception that the "bank bashing" phenomenon was not a product of either their (or the industry's) making. They viewed the necessity of turning down some business, and their omnipresence in society as being a part of their natural order. Similarly, they spoke of the "Canadian way" in a manner that suggested it was part of the cosmic order, and far beyond their scope of activity. Correspondingly, those in management shared this belief and also believed that neither the industry nor individual banks are able to meaningfully alter this phenomenon.

Management perceived that politicians, the media, and activist groups shared some form of this propensity to "bank bash" displayed by the general public. It was perceived that this propensity, along with vested self-interests and a general lack of stakeholder knowledge contributed to the banks' generally poor images.

9.4.2 Politicians

The politicians to whom management referred were federal backbenchers. Metcalfe management believed that politicians would characterize banks in a generally negative fashion, particularly in terms of the politician's relationship with the banks. They believed that politicians would use adjectives such as uncooperative, confrontational, untrustworthy, and defensive to characterize them. One informant described the politicians' views in the late 1980s, when scrutiny of the industry began to intensify.

> *The Parliamentarians, I think, were quite stunned by the industry's... they call it in the Police Department "the blue wall of silence". I think what they were stunned by was the industry's ability to sit in front of them and have very angry Parliamentarians, feeling quite powerful and up on their hind legs, poking Bank chairmen with a short stick and having those Bank chairmen say, "I'm not revealing that. That's a commercial, competitive piece of information and I will not cross that line. I'm happy to describe to you how this business works in general terms. (Senior Vice President)*

They reasoned that politicians' perceptions of them extended the general phenomenon of "bank bashing". They characterized this group as generally not understanding the banks' business and as not being interested in understanding it. They perceived that politicians' interests and concerns were generally guided by a self-serving quest for public profile, and this quest, combined with the nation's predisposition to bash banks, naturally caused them to be unfairly critical.

> *That they, especially with the legislators, that they are not objective, they are inclined to think that we're wrong and that because it is popular sport to bash the banks that we get a lot of that without, it almost doesn't matter what we say. (Senior Vice President)*

I remember going up to Ottawa and sitting through my first public hearing. It was a fellow from the CBA, a fellow called MacIntosh, who did the presentation to the Finance Committee, and it was a real awakening for me in terms of how politicians treat business people in a public environment... They weren't prepared to listen to what he had to say, they had already made up their minds, in my view. They didn't care what the rationale for the rates were or the level of rates and how we compared to the retail business, the retail credit cards. (Senior Vice President)

....my experience in dealing with politicians generally is they don't know that much... (Senior Vice President)

There was only one informant who believed there was some legitimacy to politicians' inquiries or interests in the banks' business. Some participants described frustration at this kind of automatic bank bashing reaction to banks, pointing out that it was irrational since the Canadian banking system was in fact, very strong and well run. Some respondents expressed surprise at the lack of willingness on the part of politicians to listen and to appreciate them.

It surprises me that people that are MPs for the GTA for instance, don't have more supportive views. We're a huge employer here, and you'd think that if something happened that negatively effected us, even if we perceived it could negatively affect us, they would be worried about it. (Senior Vice President)

In summary, they viewed politicians as being self-serving, lacking in knowledge and frustrating to deal with.

9.4.3 The Media

None in the management group were unequivocally critical of the media and most were careful to say that they believed that there were differences in the quality of coverage between newspapers. However, they did share a belief that the press generally did not fairly represent them. They felt the press viewed them negatively, in much the same way as the public. Some characterized the majority of the press as possessing a left wing political orientation that predisposed them to reporting negatively on the banks. Others believed that the reporter's need for a story, and in particular a story that was consistent with the reporter's ideological view, drove out consideration of facts that may paint the banks in a good light.

> *I do think of course there's differences from newspaper, to newspaper, to newspaper, depending on whether they're right or left. But broadly they don't. And it's understandable. We're big, we're profitable, and we appear to be and have been, arrogant as hell. So we're easy fodder, I think. (Senior Vice President)*

> *So I accept that's their core function; that the vast majority of the popular daily press is... "we are the advocate of our customers". Our readers. (Senior Vice President)*

> *I would say that the press does not fairly represent many and so I would say, in comparison with others, it's as good or as bad as others. (Senior Vice President)*

On balance, however, they seemed almost accepting of this tension between the banks and the press, and despite being misrepresented, did not express much negative emotion towards or frustration with the press.

9.4.4 Activist Groups

Management assumed activist groups would generally view them very negatively, again, much as the general public does. Bank management recognized that these lobby groups were a stakeholder, but they didn't seem to feel they were an important one.

They recognized that activist groups could potentially draw media or political attention, but they were not particularly concerned. They viewed them as generally uninformed and unimportant, and the ones they mentioned as effective they seemed to view as irritants.

9.5 Summary and Discussion

This final section summarizes the attributes of the organization's identity and discusses how it conceptualized its image and managed the legislative and image management process.

9.5.1 Identity Attributes

Metcalfe viewed itself as bottom-line oriented and shareholder-driven. Shareholder concerns (which theoretically are synonymous with maximizing the bottom line) took precedence over all other stakeholder concerns. Metcalfe also placed a premium on being smarter than other banks, or on having smart employees. Management described their decision-making process as being rational and objective, again, with a focus on the economics of every decision. Finally, it perceives itself as a victim of bank bashing.

9.5.2 Image Attributes

Metcalfe management believed that the bank's image and the banking industry's image, in general terms, were synonymous. It believed that it had a poor public image and suggested that all stakeholders viewed the banks as too big and too powerful. They recognized that they were variously perceived as deceptive, self-serving and unresponsive. Management's perception of their image tracks very consistently with the findings of *Chapter 8* on industry reputation, which suggests that they have a very clear understanding of how their external stakeholders perceive them.

Like their counterparts at the CBA, they referred to these negative attributes as an outcome of the phenomenon of bank bashing. It believed bank bashing may be the result of a cultural propensity on the part of Canadians to dislike large institutions, particularly banks. Alternatively, it may be the result of the nature of their business, that is having to turn down customers' requests for a product or a service. Similar to the findings in *Chapter 7, Industry Identity and Image*, there was limited recognition that bank bashing may also be a result of other general behaviors on the part of the bank (e.g., poor customer service, a tendency to be secretive, an undertone of arrogance in their dealings with external stakeholders.) Like their CBA counterparts, Metcalfe management tended to cast the challenge of managing their image as an advertising or marketing challenge. A final similarity between the CBA management and Metcalfe management was a tendency to view external stakeholders as variously uninformed, unintelligent or self-serving. Metcalfe also expressed the sentiment that, in the final analysis, the views of some stakeholders, such as activist groups or on occasion politicians, did not matter.

9.5.3 Legislative Strategy

Metcalfe adhered to a classic free rider strategy with respect to managing the legislative environment. It endorsed the CBA's strategy of educating external stakeholders as the most effective means of positive regulatory outcomes. This strategy is consistent with its explicit disregard of external stakeholders, its perceptions that it had fewer resources to harness than some of its competitors and that banking issues are collective in nature.

9.5.4 Image Management

The organization had no cohesive image management strategy. This non-strategy also reflected its identity and how it conceptualized its image. Given that external stakeholders, other than shareholders, are perceived as unimportant, and that substantive business issues are construed as those that generate an easily demonstrable bottom line impact, it is not surprising that the organization has placed a low priority on this management process. What is surprising, however, is the disconnect between the recognition of its negative image and the long-term, albeit indirect, regulatory cost of that image, and the apparent lack of will to do anything other than engage in the industry campaign.

The following chapter, *Organizational Responsiveness: Atwater Bank*, presents data on how another Big Six bank perceived its identity, its image and how it chose to manage the legislative process and its image. There are both clear similarities between Metcalfe and Atwater, but also some interesting differences.

10 ORGANIZATIONAL RESPONSIVENESS: ATWATER BANK

Atwater is an organization whose identity is characterized by seemingly conflicting values. These values, or core attributes of its identity, singularly and in combination, impact how it perceives the world around it and how it chooses to act and react to that world. This chapter is based on interviews with eight senior executives – three vice presidents, four senior vice presidents, and one divisional president. In the case of the vice presidents, all had direct contact with public affairs in a supporting role. The remaining senior executives were all actively involved in shaping and delivering the bank's message to Ottawa. This chapter begins with a description of the organization in terms of how its members perceived its core attributes. Next, it describes how the organization managed the legislative environment and its image. It then goes on to describe how these organizational members believed external stakeholders viewed them, and conversely, how they perceived their external stakeholders. Finally, it concludes with a summary and discussion of these findings.

10.1 Objectives and Identity: Stewards and Innovators

Atwater Bank has articulated its values and regularly publishes them in its public financial documents, and since 1994, in a separate booklet. The stated values include a commitment to stewardship, respect for individuals, encouragement of initiative and creativity and excellence. To a large degree, management confirmed that these values were indeed lived throughout the organization and suggested that stewardship was generally regarded as the driving value.

So I think their number one driver for them is that they're making money and they're doing it with a lot of security and integrity around how they handle that money. So whether you think banks have integrity overall, is maybe another question, but in actuality how they take care of money and don't lose track of money and all of that, I think that's what they take very seriously... I think actually stewardship is the overriding number one driver, and has been for a long time, and then the other stuff depends on the times. (Vice President)

I think they're very committed to - they call it stewardship - but sort of doing the right thing. Making sure the people and the customers are treated fairly. And I honestly believe, even though maybe sometimes that doesn't happen, that is the goal. (Senior Vice President)

Management also placed a lot of emphasis on being innovative and creative, particularly in terms of product development. They prided themselves on developing products and services that were at the leading edge of their industry, and that were often copied by competitors. They repeatedly described themselves as "*innovative*", and as being populated by creative people.

Well you know, we're introducing, we introduce a lot of new products. We bring a lot of services to customers, we have, I'd say, broken a lot of new ground in this card business with the types of products, developed new features, we've been very creative and helped really establish markets for certain kinds of businesses and benefits for consumers, so we're, I think that's something we are proud of. (Vice President)

Correspondingly, management also placed a premium on intelligence and generally believed that their staff possessed greater intellectual acumen than their competitors. It also exhibited a tendency to value rational, logical quantitative analysis and research as a necessary part of the decision-making process.

I think there are very creative people at the bank. When I meet my peers, or other people whose peers I know back at Atwater who are in some of the other banks, I have a theory that they [i.e. Atwater] actually hire a higher caliber intellectually, ... I think that it's got very high caliber people and there's excellent ideas, abilities to anticipate market movements. So I would say it's a good strategizing bank intellectually. (Vice President)

I always say that I think that you know, and I believe this, that I would be the second most knowledgeable person on credit cards in this country. Which I do believe. And I believe [my boss] is the most knowledgeable. I mean I just think he has tremendous, tremendous knowledge. (Senior Vice President)

Well I never saw any research which would show... those kinds of things are anecdotal. I'm always suspicious until somebody can prove it to me. (Senior Vice President)

When asked questions that elicited a comparison to their competitors, respondents always framed their responses as a discussion of the difference between themselves and the other Big Six banks. Typically, they characterized themselves more favorably than their peers. Examples of observations included the notion that their culture was more democratic and participative and that their legislative strategy was more reasonable and balanced. The exception was a comparison to a particular bank that they felt had done a clearly superior job in managing its image.

A final theme that was consistent across interviews was the notion that the organization periodically had difficulty operationalizing core values and strategies. There was a unanimous recognition that they regularly had difficulty executing strategies, or implementing their values with 100% accuracy.

I think the bank wants to find the right balance between really respecting people's privacy and their needs and also giving them what they want, which is a broad range of services to meet their needs. And I think there *are challenges in executing this well in such a big multi-faceted organization, ... you know, do we always reflect in everything we do this value? We try to, we aren't always successful, sometimes we're not, many times we are. (Vice President)*

I have a theory that they actually hire higher caliber intellectually, it doesn't mean that you can execute, it doesn't mean that you can sort of stop the navel gazing and get on with it, but I think that it's very high caliber people and there's excellent ideas, abilities to anticipate market movements. (Vice President)

Some management referred to a pendulum affect that seemed to exist in the bank with respect to focusing the organization's efforts. For example, the bank's customer service rankings, relative to its competitors have fallen in the past year. Correspondingly, management's current focus is now on achieving its goals with respect to customer service targets, possibly at the expense of its financial objectives. This, however, is subject to change, if financial results are not up to expectations.

When I first came here in the '90s it was very, very customer focused, we had the best customer service numbers in the industry. We had the worst profitability in the industry. We call it the pendulum. The pendulum started swinging back towards profitability in line businesses, in other words, focusing on products like, Visa, Mortgages, whatever, as opposed to a customer like you and what do you need. And profitability went way up, however, the customer service went way down, and as a result profitability has started to swing down again with the worst customer service. Now there's again a big push on customer service, that is the number one goal in 1999. (Senior Vice President)

Another manager identified a similar pendulum phenomenon when they described the organization's public relations strategy.

I think Atwater has been a little schizophrenic about the value of corporate communications and advertising and public relations initiatives, *and I think we do a blitz and then, for a year or two, and then we pull back and do nothing. And then we go back out and we have a new story because the people who used to do it left because they didn't have work to do anymore, and then you hire a new whack of people, they want their own thing, and so then we have a new message. (Vice President)*

Over the years, despite this pendulum phenomenon, the values of stewardship and innovation have prevailed and have guided the organization's actions. These core attributes are bolstered by the belief that it possesses superior intellectual abilities. In addition, there is both an explicit and implicit recognition of a broad group of stakeholders including shareholders, customers and employees. This recognition is implicit in whom they reference in their discussion of the values and the behaviors that are important to them, and is explicit in their written value statements.

10.2 A Leadership Approach to Managing the Legislative Environment

The first part of this section focuses on how management perceived the legislative challenges to credit cards. What did they think were the major challenges? Why do they think these challenges emerged? How important did they perceive these challenges to be? The second part of this section focuses on how the organization dealt with these issues. What was the organization's legislative strategy? How was this strategy developed and implemented? And, what changes to the operation took place as a result of these challenges?

10.2.1 Perceptions of the Legislative Environment

The credit card operation is a very visible and important part of the bank's overall operations. As one of the country's leading issuers of VISA the operation makes a significant contribution to the organization's overall profitability.

> *The credit card business is an incredibly profitable part of Atwater. It is also a part of the business where I think we like to consider ourselves an industry leader. Certainly in innovation. (Vice President)*

Atwater management generally recalled that the primary credit card issue that attracted legislative attention throughout the 1980s and 1990s was the perception that credit card interest rates were excessively high. Some management also framed the issue of adequate competition, but acknowledged that this is related to the issue of interest rate levels. Generally speaking, management believed that this issue arose as a result of public pressure. Some managers described this public pressure as coinciding with pure political self-interest on the part of politicians.

> *You know, I think every few years you'll have some backbenchers, put this on the table and see how they're, how the public responds to them. And if the public likes it, yep this is a big issue for us, they'll do more with it. This is my sense. (Vice President)*

> *A sense, I think a strong sense in the industry that this was a government committee in search of a relatively high profile issue that would put the Committee and its members on the front page. So a real sense that it was far more politically motivated [i.e. the 1992 hearings]. (Vice President)*

Generally, there was no perception that there was any legitimacy to these inquiries. Only one manager suggested that although political self-interest did play a role in the emergence of this issue there were other factors at play. These factors include broad economic changes (e.g., changes in interest rates), as well as a legitimate interest on the part of politicians to serve their constituents.

Management believed that the challenges to credit cards have been regarded as important, and the bank consistently devoted internal resources to developing a response strategy and implementing it.

> *You didn't need an army, you needed to know this was going to be addressed and looked after and, you know what, I'm sure this became my life for a couple of months, you know, in making sure we were well prepared for it, so, do I know it was important? Yes, I know ...In fact I was a pretty senior person at the time. You know, you're putting your senior resource on it, and if you have to take other things off your plate you do it because you've got to be ready when the time comes. (Vice President)*

There was a suggestion that management's attitude towards managing the legislative environment changed between the time of the first credit card inquiry held in 1986 and the one held in 1992. The change was characterized as a growing sophistication in managing these challenges, and a greater appreciation of the political process.

> *The banks' initial response was a variation on: "None of your damn business. This is our business, these are our customers. Our governments have no business to be mucking about, if you will, with the price mechanism." ... And so it was just a general unwillingness to understand the political process as one vehicle for customer response and reaction. So when MPs stood up on their hind legs and said, "We're hearing from customers," there was a general unwillingness to believe that this was part of the process. (Vice President)*

I think, again, the overall capacity of the industry in '92 was far better, far more sophisticated...more sensitive to the political process and more capable of discerning real consumer concerns from pure politics. (Vice President)

Several reasons were offered for this change in attitude and increased sophistication. The most prevalent reason was a change in management, both at Atwater and at the CBA. And there was a perception that management changed its approach as a response to persistent political pressure and a perceived lack of success in being effective in the political realm.

It was one of many things that he was trying to do to change and modernize the Bank...We brought MPs in. We had them come and spend two or three days with us. And we'd take them around and start them with the Chairman and bring them down through the organization and show them around. Spend two or three hours with this person and wandering in this business. (Senior Vice President)

We were a fairly arrogant bunch up until, maybe, five years ago. And I think it's only recently that, quite recently in the last five years, that we realized that, "Hey, we are getting beaten by the insurance brokers and we're getting beaten by the car dealers and that, we better do something about it." (Senior Vice President)

10.2.2 Management of the Legislative Environment

Atwater perceives itself as generally taking a leadership position within the industry in terms of managing the legislative environment. Organizationally, it devoted resources to issues that arose at both the federal and provincial levels. It maintained six regional public affairs offices, which attended to provincial government issues, and was one of the few banks that had historically maintained an office in Ottawa. In addition to staff that specializes in government relations, it employs two individuals who focus on working with special interest groups. The typical reaction to legislative challenges, including the challenges to credit cards, was to shape a response through the collective efforts of the relevant business area staff, the relevant senior management, and staff from the corporate communications and government relations area. This response would focus on understanding the nature of the challenge, and making senior management available to explain the issue to the relevant parties in government. Senior management presentations may occur in front of House committees, or in closed-door private sessions.

> *You know, I'd say cards has to make it happen but with a lot of advice from integration with the other areas. You know, and I bet if you asked Mr. A he'd say we were responsible for making sure the right messages got communicated, Mr. B would say we were responsible for how we relate to Ottawa. You know, there would be a lot of responsibility everywhere, and I'd say appropriately so. (Vice President)*

> *We have government specialists within the bank. We talk about who's driving this. Who are the people behind this? What are the public's impressions behind this? Why do they think they need this? What can we do about it? Why are we "nicer" people, for want of a better word, than the government is portraying us, or the people are portraying us? And we go down and make fairly strong arguments to a number of people even before the Committees. (Vice President)*

Management emphasized that they try to be open when the government requests information, and sensitive to government concerns. At the same time, however, they indicated that they felt there were limits to how open or accommodating they should be, given their status as a private corporation.

> *Standard practice on our part would be to say: "This is a relatively complex issue. We think you would benefit from having a better*

understanding of this. Why don't we come up and talk to you. In a partisan non-political, quieter environment, walk you through what these things are." That would be, for Atwater certainly, the kind of thing that we would absolutely undertake to do. (Vice President)

We go right to the government. We're very open. Obviously we don't want to show them profit numbers. Not because we want to hide them or anything but we don't feel that we should have to show, I mean, "Here's how much we make on a mortgage, here's how much we make on a..." It's our private business. It's what we do. We go right to the government, we cooperate. We talk to everyone we can in it. We ask them the questions, we address them. (Senior Vice President)

Atwater management confirmed that with respect to the credit card hearings, the CBA led the charge and represented the industry. It does appear, however, that senior Atwater management made an appearance behind closed doors in 1992, which is consistent with their view that they were, and are, an industry leader. In addition, it appeared as one of the witnesses in the 1997 hearing, along with its competitors. The manager in charge of government relations could not remember a specific closed-door appearance, but other management recalled developing presentation material for senior management. The bank's strategy for meeting these challenges was consistent with the CBA approach to legislators on this issue – that is to educate legislators about the business and to defend the bank's right to price its products without government interference. There was a concern and a belief that those in a decision-making position in government needed to understand the consequences of any regulation of the business, and the potential negative impact on consumers.

And there were a couple of things this time though, one was education but the other was "You guys seriously need to understand that if you're going to cap rates this business is going to get more restricted. And properly so *because you're now reducing the margins on this business and while that is what you want to do, understand who it's going to impact." (Vice President)*

I think particularly in '92 they... we were willing to communicate the nature of the credit of the credit card business. So this was let's try and raise the collective understanding of the Committee from "it's plastic and there's an interest rate associated with it", to "who uses credit? What percentage of the customer base uses credit, who abuses credit cards? How interest rates are determined? Why are interest rates set where they are? The nature of credit cards as an unsecured loan." (Vice President)

Like the CBA, their organizational initiatives were focused on educating the stakeholders about the nature of its business, the challenges it faced in the credit card business, and to generally defend its practices on the basis of the business' economics. Management also expressed a concern that the message not simply be a recounting of the facts of the business, but be crafted in a manner that is compelling for listeners and not handicap any potential future business objectives. In addition, despite the professed desire to be open with the government and to educate external stakeholders, Atwater still regarded itself as a profit-making business, with a primary objective of making money.

So the strategy is, to defend the business based on economics, and therefore, when the bank is trying to price, it calculates how it's pricing is linked to it's story, and you can't let your pricing get too far away from what your story is, or you won't be able to defend yourself the next time. You can't sort of say to the government "no, no, we, you know, we're, we move in lock step with the cost of funds" and some other things, and then go from being a thousand basis points above your cost to two thousand basis points above the cost. So you end up having to be loyal to your story line. (Vice President)

Sure. I mean, credit cards are a very profitable business, there's not question. You know, at 18%... so there's no question. It's still very profitable. You could still make a lot of money at 2 points less. But if you can get it, why wouldn't you get it? (Senior Vice President)

Management reported that they made no major changes to operations as a result of legislative challenges they faced over the years. They did acknowledge making changes around disclosure on the terms and conditions of credit cards and the introduction of low rate credit cards. No one interviewed mentioned adjusting interest rates in response to Parliamentary pressures. Overall, they perceived the strategy of educating federal backbenchers as successful, since they were not subject to any significant new regulation, such as a legislative cap on the interest rate.

10.3 An Ambivalent Approach to Image Management

Although all managers conceptualized "image management" as a function of formal efforts such as public relations and advertising, some extended that definition to suggest that image was also a byproduct of other points of interaction with outsiders.

> *We have people talking on the phone to customers, we're going to get questions, you have, in an organization like this people are socializing on the weekends, getting asked all kinds of questions. It's important that they know the philosophies and the principles that we're operating with. I mean, everybody, you have your spokespeople, but everybody represents the business in one form or another, to one person or another. (Vice President)*

> *First, the primary mover of Atwater's corporate reputation is customer service. If we want to improve, significantly improve corporate reputation, then customer service generally has to improve. One of the other significant factors of corporate reputation is our relationship in the communities where we work. One of the things that our branch network committed to last year was an understanding that they have a significant impact on corporate reputation and therefore have a real role to play in helping to enhance it. (Vice President)*

Managers' descriptions and evaluations of Atwater's efforts at managing outsider's impressions differed. Managers gave mixed accounts of how the organization managed its image. It appears that the organization regularly engages in advertising and public relations activities. When an issue arises in the media such as the challenges to credit cards, it would issue public relations kits and corporate communications staff, and possibly, the head of the business unit would respond to journalists' requests. The organization also periodically issues press kits on such topics. This increased responsiveness was described as a more recent phenomenon.

> *Absolutely one of the things that has changed between '88 and '98 is the development of a far more sophisticated understanding certainly on the part of Atwater of the importance of reputation and image across the organization, of the negative implications of one part of our business mismanaging image and reputation. (Vice President)*

> *But I'd say, yeah, how well it [i.e. impression management strategy] was understood, communicated, this is not something that people spent their time communicating or talking about where, on the business today you'd make sure people understood "this is our strategy and here's why". (Vice President)*

Despite an allegedly greater organizational understanding of the importance of impression management, some managers expressed concern that the organization's overall strategy was reactive and not particularly effective. For example, in describing their efforts, some management referenced a competitor whom they believed did an outstanding job in securing favorable press, in comparison to their own efforts.

> *I don't know how many new messages we've had, and I don't think there's any build that we've created whereas when you're with the [major competitor] they're "leaders", like, "leader, leader, leaders", is all they ever put in their communications, and they've been doing it for a decade*

now. So, you know, you get great build-up off of that. So I think that's one piece of it, that we don't see the value in it. I've also been told that, at the [major competitor] there's a president of one of their main SBUs who apparently is extremely charismatic and courts them [i.e. the press]. (Vice President)

In summary, although Atwater management, like its counterparts at the CBA and the Metcalfe bank believed advertising and marketing were important drivers of image, it also conceptualized image as an outcome of personal interaction and customer service. Unfortunately, its commitment to actively managing its image either through advertising or improved customer service was erratic.

10.4 Atwater's Image and Perceptions of External Stakeholders

Management described their image with various stakeholder groups - the general public, politicians and the media in - generally negative terms. Conversely, they tended to evaluate these stakeholders in negative terms.

10.4.1 The General Public

Management believed that the Canadian public generally viewed banks in a harsh light. They described their image as one of being maligned as too large, too profitable and as generally being a place where Canadians have bad experiences.

Because everyone loves to hate the banks...Like a utility, it's a Canadian psyche, it's unusual, given that we're all heavily invested as mutual fund holders, whatever, employees, and related to employees, and all of that jazz, but there is a sense that they are big and bad and making too much money off the small guy. (Senior Vice President)

They also believed the public viewed all banks in the same light. One manager did hypothesize that if individuals had good experiences with banking at their local branch, they may be more positive in their view of the banks.

When espousing the belief that the public engages in bank bashing, management suggested several reasons might be at the root of this phenomenon. First, they suggested it may simply be the "Canadian way" to dislike large, seemingly profitable organizations.

> *... so partly the Canadian psyche I guess. Well, a professor at the University of Chicago taught me that, "There ain't no free lunch!" And I think the Canadian public, or a big chunk of it, thinks there is. (Divisional President)*

Others suggested that disliking banks had always been a part of human history, and was similarly prevalent in other countries. They believed that as wealthy institutions, banks would always be perceived as having too much power. Consequently, it would be difficult, if not impossible, to positively impact the bank's image.

> *I used to use the analogy that the banks in many ways were sort of like "Blacks" in the South 20 or 30 years ago. It didn't matter what you did, you were just a "dumb nigger". Don't tell me no information, you're just a bunch... Preconceived, just stereotyped. It didn't matter what you did, there's a certain element of society that has just got its mind made up that there's nothing you can do as a bank that's ever going to redeem you for... You're just a terrible, nasty, low life person. (Senior Vice President)*

Some in management suggested that a large part of the public dissatisfaction with banks stemmed from concern that service charges are excessively high, and that customers fundamentally feel that banks do not listen to them, and do not appreciate them.

If you're summing up in one line what was the problem, that the customers don't feel that the banks appreciate them. That their business is valuable. Then everything else kind of builds on that. That's the kind of core issue. Their business is not valued, they're not appreciated, not treated well. That's the underlying problem. (Senior Vice President)

At the same time, however, there was a strong feeling that the general public was not able to accurately assess how value should correspond with pricing. In fact, some managers believed that the general public's lack of understanding of the business of banking may be an explanation for this dislike of the banks.

The public's perception of large organizations generally - government, big business, the unions - has declined over that same period of time. But banks have fallen more dramatically than that general downward trend or drift on the public's perspective generally. It has in part been driven by concerns over service fees, more specifically it's been driven by a disconnect between value and price.... Whether service fee driven or driven by other issues, customers believe that they are being charged more for products and services than the value that they're receiving. (Senior Vice President)

A final series of observations on the root of the public's displeasure revolved around the problems with implementation, or difficulties customer encounter in their daily banking. Managers suggested that customers' expectations around service were out of sync with the service levels the banks were able to provide. These implementation issues fall into two camps - situations where the bank must deny service to a customer, and situations where the bank makes a mistake.

There's no question the Bank sometimes hurt individuals unknowingly. I mean, you know, everything is done statistically. Whether it's a credit card or not, I mean you are approved or not approved based on statistics. In *other words, nine of them are good, and one of them are bad. But none of them get a credit card. So those nine people who would be good, don't get a credit card, and they can't understand that... They get told no, but they have a problem with that. And there's no other way you can manage that. (Senior Vice President).*

In the latter situation where customers get frustrated because of the bank's mistakes, management suggested that it was inevitable that the bank makes mistakes and that customers sometimes overreact.

Ah, they give us more credit than we should have for having knowledge about them, and a game plan about them, you know, they think they're being toyed with sometimes when actually it's just the right hand doesn't know what the left hand is doing inside the bank. (Vice President)

Everybody's had a bad bank experience, bank employees have had bad bank experiences. (Senior Vice President)

Almost without fail, 99 times out of the 100 the customer is wrong, but you know, the customer's always right, type thing. We always err on the side of giving the customer of the benefit of the doubt. But the systems and everything are so sophisticated that are in-place, that lots of times a customer will forget - doesn't' remember they did it - didn't do it correctly, or whatever, but they want someone shot, and "the banks are bad." (Senior Vice President)

Among the greatest frustrations for management, was the lack of recognition from the public around what they perceived to be the strength and stability of the Canadian banking system.

They don't get recognition for who they are, what all's been done with us, wealth they have elsewhere, because we've done such a bad job of putting the data together on them, and we're inconsistent with interface too, so you'd phone the bank and you'd get one reaction, you go walk into one kind of branch and get another reaction, so I'd say that what they say is that we don't treat them consistently, we're not fast enough, we're *not competitive enough on some of the prices. I think when it comes to pricing, actually Canadians do pretty well. (Senior Vice President)*

In summary, Atwater management offered a wide variety of reasons for the phenomenon of bank bashing, all of which allowed them to minimize or eliminate any responsibility they may have in creating or fostering the phenomenon. They perceived it as a the result of sociological factors outside their control (e.g., the nature of the Canadian psyche), or as a result of the systemic nature of the business.

10.4.2 Politicians

According to one manager, in the earlier hearings, in particular, the politicians uniformly regarded the banks with deep suspicion and distaste.

It was, the banks are in the wrong, the banks are messing around with their customers. They are absolutely usurious. They're all of these very nasty and negative things. (Vice President)

Although this manager believed this image had softened somewhat over the last ten years, others in management generally believed that politicians would describe the bank (or the banks) as variously, reactive, manipulative, and as attempting to conceal information.

As discussed earlier, management generally ascribed self-serving motives to politicians' interest in examining credit card interest rates. They suggested that politicians' interest, and in particular their repeated interest in this issue, resulted from a desire to augment their public profile. In keeping with the search for public profile, they suggested that politicians and media often fed off each other, in attempts to generate interest in these issues. Finally, they suggested that politicians were often uninformed, or had difficulty grasping concepts around credit cards.

> *... I think the bank has become cynical that these are backbenchers that are trying to make names for themselves, because it has been investigated to death, and there is a rationale for what it costs, and now all sorts of alternatives to the consumer who doesn't like it... that if it weren't for them, consumers would be in a much worse state. But, you know, they have to justify their own existence. (Vice President)*

> *But again, to try and differentiate price from value in the credit card business is something that's extraordinarily difficult to communicate to politicians because they have a tendency to equate low price with high value. It's tough to get them beyond that. (Vice President)*

> *So, you can have a great discussion with them and they can be very supportive and then, that night on the news you see them trashing you. That's politics. They say a politician's first duty is to get elected. (Senior Vice President)*

Only one manager suggested that at least in the initial set of hearings, there was a legitimate concern into these issues from a consumer standpoint.

Management's biggest frustrations with this stakeholder group included the perception that it did not seem to respond to the "logic" of their arguments, and that it resisted being educated.

> *I think probably the most frustrating piece was the lack of information on the part of the committee. At one level, the lack of interest in being educated. (Vice President)*

> *I guess, the biggest, biggest frustration is kind of looking at having them do things which seem to make decisions and take positions which are contrary to the best interests of the country and the economy and long term job creation and all those kinds of things for political reasons. (Senior Vice President)*

Well I think the single biggest frustration for the industry, or this bank, is that no matter what sense anything makes, they have an agenda, and for some reason they just don't like the big banks. They don't like the big Canadian banks and they are going out of their way to let foreign players come in and cherry-pick products. (Senior Vice President)

Management generally believed that politicians held a negative view of the banks, and conversely, they held a negative view of politicians.

10.4.3 The Media

Management had mixed reactions to their image with the media. Some felt their image ran the gamut from "*good and progressive*" to "*big and bad*", while others felt the banks were generally easy targets for negative press. Management expressed the belief that they often felt misrepresented by the media, although some acknowledged that certain print newspapers or certain journalists were better at fair reporting than others. Those who were not perceived as fair in their reporting were described as chasing headlines, and as disregarding the facts the bank gave them. Most management believed the media were generally not knowledgeable about their business.

Particularly credit card reporting tends to fall into two broad camps - a consumer or a political issue, as this issue has waxed and waned in Ottawa, so you have political reporters writing about it. Or it's a retail consumer product and you get the consumer press writing about it, neither of whom are necessarily all that well informed about financial services generally. (Vice President)

I believe that the media sometimes twists stuff. We had a media person who twisted something I said earlier this year. And I've since seen the person on TV, and they just annoy me tremendously. (Senior Vice President)

I just don't think the media is very critical. I think the media... and part of it is laziness, part of it is resources, a whole bunch of factors. But generally the media don't very often look behind the people that they quote so regularly on issues of so-called experts. (Senior Vice President)

In general, management believed that the media, through lack of knowledge, contributed to a negative image of the banks.

10.5 Summary and Discussion

This section summarizes the attributes of the organization's identity and discusses how it conceptualized its image and managed the legislative and image management processes.

10.5.1 Identity Attributes

To recap, Atwater's identity is underpinned by multiple values – both explicit and implicit. Explicit values are those that they publicly espoused, including a belief in stewardship, respect for others and the importance of creativity and initiative. These core values set it apart from Metcalfe. Two of these explicit core values, however, stewardship and innovation, may potentially conflict. If you consider these values in terms of the amount of risk they suggest an organization should assume, they could be interpreted as resting at opposite ends of the risk spectrum. Stewardship suggests that an organization be risk averse and conservative in its actions, while implicit in the concept of innovation is the assumption of considerable risk – such as taking a chance on a new venture and being willing to fail. The tension between the two values may drive the bank simultaneously in different directions, and consequently, may explain the pendulum effect and the difficulty it sometimes experiences in implementing its plans.

Atwater's implicit values include a belief in their superior intelligence and that economics and free markets are ultimately the most prudent force governing their actions. These values resonate with many of the values held by their counterparts at the CBA and at the Metcalfe Bank. In addition, they view themselves as being large and dominant in their industry and in many respects s a leader. Finally, also similar to Metcalfe Bank and the CBA, it sees itself as a victim of bank bashing.

10.5.2 Image Attributes

Similar to management at Metcalfe and the CBA, Atwater management believed that the bank's image and the banking industry's image, in general terms, were synonymous. It recognized that external stakeholders often expressed antipathy towards the banks, and perceived banks as being too big, too powerful, and too wealthy. A comparison of these findings to the findings in *Chapter 8* suggests that also like their counterparts at Metcalfe and the CBA, Atwater management has a very clear picture of how external stakeholders view them.

Again, similar to their counterparts at Metcalfe and the CBA, Atwater attributed bank bashing to a series of factors. They suggested it may be an inherent feature of Canadian culture, or may be the inevitable result of how the banks must conduct their business. Also similarly, they tended to view external stakeholders as variously uninformed, unintelligent or self-serving. Unlike their counterparts at Metcalfe and the

CBA, there was some recognition among Atwater management that their reputation, to some degree, was affected by how they interact with external stakeholders, either personally or in a customer setting. At the same time, however, they expressed dismay over how difficult it is to effectively manage customer service.

10.5.3 Legislative Strategy

Atwater adopted a leadership strategy with respect to managing its legislative environment. It devoted considerable resources to managing its relationship with government, as is evidenced by its presence in Ottawa and its regional public affairs offices. It also paid lip service to the notion of being open and responsive. This philosophy of being open, however, was always tempered by the notion that it was a private company, for whom limits in openness should apply. The strategy of being a leader and attempting to be open is consistent with their publicly-espoused values that recognize the existence of external stakeholders.

10.5.4 Image Management

Atwater periodically devoted considerable resources around image management, but the effective application of these resources appeared to be questionable. Its conceptualization of image included a mix of drivers including advertising and marketing and customer service, and it was unclear about which of these drivers should have priority. In essence, the organization had a sense that image was important but seemed unable to consistently address its image concerns over a period of time.

11 EMERGING THEMES AND MODEL

This chapter synthesizes the data and analyses offered in the preceding chapters. For purposes of triangulation, it lays out similarities between the data derived from different sources, and extends the analyses so that conclusions can be drawn about the relationship between the constructs of organizational identity and image and the processes of managing an organization's legislative environment and image. The chapter begins by discussing the key findings arising out of the data and analyses. The findings primarily explain how organizational identity affects organizational adaptation to environmental change (specifically, increased legislative pressures), and secondarily, it offers some insights into the nature of reputation, particularly as the construct pertains to legislative pressures. The chapter goes on to summarize the key findings and reduce them to four emerging themes. These themes provide the foundation for a model that suggests how organizations approach managing their legislative environment and makes the links between identity, image, reputation, legislative management and image management explicit. The chapter concludes by laying out the model and offering a corresponding series of propositions.

11.1 Discussion of Key Findings

The data and analyses laid out in the preceding chapters suggest five major groups of findings, specifically – 1) the impact of industry identity attributes on an organization's identity, 2) the affect of identity on an organization's perceptions of external stakeholders and its image, 3) the affect of identity on an organization's strategies, 4) the affect of external events as a counterbalance to the affect of identity on organizational strategies, and finally, 5) given the specific characteristics of this industry, how the nature of its reputation may increase organizational members' vulnerability to increased legislative pressures. The section offers a discussion of each of these groups of findings, accompanied by a table that lays out the analytical conclusions from the preceding chapters and links these conclusions to the key findings.

11.1.1 Industry Identity Versus Organizational Identity

Two key findings emerged around the issues of industry identity and organizational identity. First, the data and analyses suggest that industry identity attributes cut across member organizations; and second, specific industry characteristics may be associated with specific industry identity attributes. Table 24 summarizes industry characteristics, organizational identity attributes, and the key findings that arise from these data.

Clearly, despite the avowed cultural differences between the banks, it is evident that they share a number of similar identity attributes. To recap, Metcalfe characterized itself as an institution operating with a very strong mental model that defined the primary responsibility of management as the maximization of returns to shareholders. It also viewed itself as entrepreneurial, as somewhat of a maverick in the industry and believed that senior management should run each business as they saw fit. By contrast, Atwater viewed itself as valuing its role as a financial steward, explicitly respecting external stakeholders and as being a place of creativity and industry innovation. As opposed to

Table 24 - Key Findings: Industry Identity Versus Organizational Identity

DATA				KEY FINDINGS
Banking Industry Characteristics	Identity Attributes			
	Industry	*Metcalfe*	*Atwater*	
• Large (in terms of economic significance) • Oligopoly • Limited turbulence • Limited senior management turnover • Profitable • Utility-like	Prizes rational, logical analyses and high quality research Private sector CEO-driven Victim of bank bashing Superiority of Canadian banking system	Intellectually superior Private sector bottom-line oriented, shareholder driven Command and control culture Victim of bank bashing	Intellectually superior Private sector, profit-oriented Command and control culture Victim of bank bashing	• Industry identity attributes cut across organizations • Industry characteristics associated with specific identity attributes. • A homogenous industry structure leads to shared values and beliefs about what constitutes appropriate structures (e.g. command and control) and styles (e.g. logical, rational approach) of management.
		Entrepreneurial Decentralized	Stewardship Innovative, creative Cognizant of external stakeholders	

Metcalfe's identity as a maverick, it saw itself as occupying an elder statesman role in the industry.

Despite these differences in identity, both banks along with the CBA, expressed a number of very similar identity attributes. First, all informants placed a very high premium on being intellectually superior. It was important to them to be "*smart*" and they took pride in activities or ways of approaching business that could be characterized as rational, objective and analytical. Second, all viewed themselves as private enterprises and not as public utilities. To a greater or lesser degree, they were all explicitly profit-oriented. Although Metcalfe expressed a concern for external stakeholders, it was still clear that its most compelling raison d'etre was to make a profit. Third, despite a corporate structure that was predicated on giving autonomy to senior operating managers in the case of Atwater, and the ostensible collaboration among departments in the case of Metcalfe, they, like the CBA, all recognized and accepted the most senior levels of the bank and the banking industry (i.e., the CEO) as being a primary driver of strategy. This can be described as evidence of a command and control culture. Fourth, all informants unwaveringly described the banks as being the victims of a phenomenon colloquially referred to as bank bashing (i.e., a propensity on the part of external stakeholders to unfairly criticize and chastise the industry.)

The number of dominant identity attributes shared by different organizations that profess themselves to be fierce competitors and culturally unique suggests that the nature of the industry, as well as organizational values, plays an important role in determining organizational identity. The interplay between organizational identity and industry identity was also revealed throughout the interview process in the way informants chose to answer questions. Many times interviewees would spontaneously answer questions using an industry perspective. For example, both Atwater and Metcalfe informants tended to switch back and forth between answering on the basis of their industry or on the basis of their individual organization when they were discussing image issues or describing what outsiders thought of them.

The common identity attributes – a belief in their intellectual superiority, the elevation of profit-seeking as a primary objective and the comfort with leadership at the top - that characterize the industry and its members is rooted in a classic, US business model. In the post world War II era, this approach to managing business became idealized and entrenched as the preferred way to manage an organization. Correspondingly, the role of the manager has been efficiency-oriented and rational. This business governance model places a premium on logic, rationality, and objectivity in both thought and action. It is aligned with a style of management that is synonymous with a desire to quantify all business decisions and that prizes measurement as a means of control.

Certain characteristics may explain why the industry has adopted this approach to the external environment, along with the corresponding industry attributes. A number of factors may have combined to ensure this approach would be regarded as most suitable for the banking business and would continue to dominate. First, senior management has historically been dominated by a homogenous group of individuals who came of age in the business community when this world-view of prizing rationality and shareholder maximization (exclusive of other objectives), as discussed above, was popular. There has been reasonably limited turnover at the senior levels of the banking industry, and executive tenure tends to be long. Second, much of senior management has worked in banking during long periods of industry stability. The changes wrought by globalization, the increasing use of technology and deregulation are relatively recent. Individuals who entered the industry in the fifties and sixties have spent much of their careers in a banking environment that experienced limited turbulence in terms of markets, technology or competition. Third, this industry has historically been profitable. Fourth, in this country, this industry is very large in terms of its economic contribution and can be characterized as an oligopoly. As such, it enjoys the power that comes with concentrated resources. All these factors combine to suggest that until recently, the industry has had little reason to move from these core attributes. In addition, although it cannot be ascertained from this study of a single industry and its member organizations, it may be that industries that are characterized by this combination of factors may inevitably exhibit these identity attributes, and this view of the external environment.

It is impossible to tell from the data in this thesis how long the identity attribute of being a victim has been rooted in the industry and organizational members' psyche. However, we can hypothesize that it may be the result of a clash between external stakeholders' image of them as being, fundamentally, a utility and their enduring and deeply rooted notion that they are primarily private sector profit-seeking enterprises. If so, this clash suggests that when industry characteristics are not in line with external stakeholders' expectations, new organizational identity attributes (e.g., identity attribute of being a victim) may emerge.

11.1.2 Identity Influences Perceptions of Image and Stakeholders

The data and analysis suggest that organizational identity is a key influence on how organizations conceptualize the construct of image and how they view external stakeholders. Simply put, the banks held a very narrow definition of the construct of image that was consistent with a mechanistic, rational approach to the world that places higher focus on phenomena that are easily measurable. Secondly, they tended to disparage external stakeholders by characterizing them as lacking in the attributes that the industry valued (i.e., intelligence, objectivity). The combination of a narrow view of image, and the ability to discount the views of stakeholders may have enabled the industry and its members to minimize the attention it paid to its image. Table 26 summarizes how the industry and Atwater and Metcalfe and industry representatives viewed their identities, their image, and how they explained the nature of their image.

The banking industry's image was entirely consistent with its reputation. As discussed in *Chapters 7, 8, 9* and *10*, the industry and its members understood that it was regarded as being too big, too powerful, too profitable, potentially abusive and self-serving in its practices. Years of public opinion polling, focus groups and reams of marketing research had ensured that all interviewees had a clear picture of the negative attributes of its reputation. Although interviewees also noted positive aspects of its reputation (e.g., customer loyalty to branches), the negative aspects appeared to dominate the perception of image.

Given the consistency between image and reputation, it is most interesting to examine the industry and banks' individual beliefs on what contributed to their

Table 25 - Key Findings: Role of Identity in Influencing Perceptions

<table>
<tr><th colspan="3">DATA</th><th rowspan="2">KEY FINDINGS</th></tr>
<tr><th>Industry</th><th>Metcalfe</th><th>Atwater</th></tr>
<tr><td colspan="3">Identity attributes</td><td rowspan="8">• Identity influences organizations' perceptions of image and stakeholders.

<u>Corollary Findings</u>

• Image management is not always strongly related to customer service.

• Image management does not always lead to actions to correct image.

• Negative attributions of external stakeholders allow the focal organization to dismiss the validity of its negative reputation.</td></tr>
<tr><td>Prizes rational, logical analyses and high quality research

Private sector

CEO-driven

Victim of bank bashing

Superiority of Canadian banking system</td><td>Intellectually superior

Private sector bottom-line oriented, shareholder driven

Command and control culture

Victim of bank bashing

Entrepreneurial

Decentralized</td><td>Intellectually superior

Private sector, profit-oriented

Command and control culture

Victim of bank bashing

Cognizant of external stakeholders

Stewardship

Innovative, creative</td></tr>
<tr><td colspan="3">Image attributes</td></tr>
<tr><td>Large

Excessively powerful, abusive, profitable

Poor communicator

Consistent with reputation</td><td>Large

Excessively powerful, abusive, profitable

Self-serving, deceptive, unresponsive

Consistent with reputation</td><td>Large

Excessively powerful, abusive, profitable

Self-serving, deceptive, unresponsive

Consistent with reputation</td></tr>
<tr><td colspan="3">Drivers of image</td></tr>
<tr><td>Advertising, media campaign, outreach efforts

Soft issues such as profits, CEO salaries critical

Outcome of bank bashing

Unable to affect image</td><td>Advertising, media campaign

Outcome of bank bashing

Limited ability to affect image</td><td>Advertising, media campaign

Limited recognition that personal interaction a factor in image creation

Outcome of bank bashing

Limited ability to affect image</td></tr>
<tr><td colspan="3">View of stakeholders</td></tr>
<tr><td>Uninformed, unintelligent, self-serving</td><td>Uninformed, unintelligent, self-serving</td><td>Uninformed, unintelligent, self-serving</td></tr>
</table>

increasingly negative image over the years. It is clear that they conceptualize image as the product of efforts made by formal boundary spanners, such as the public affairs department, the marketing department or the heads of its operating divisions. Most informants asserted that to the degree that the industry or the individual bank attempted to shape its image, it did so by sending explicit messages to external stakeholders. The vehicles most often cited for conveying these messages were advertising, media campaigns or discussions with the media. This conceptualization of image is consistent with a world view that suggests that management can impact the organization's outcomes through the execution of rational, analytically conceived programs and procedures. The idea that image may be a messier construct, or image management a more complex process that is not as easily reduced to a clean clear set of management initiatives was generally not evident in informants' thinking, with limited exception.

The notion that image may also be a by-product of customer service or of a series of one-on-one encounters (e.g., between bankers and Parliamentarians) was limited to Atwater, and was not prevalent in all interviews at that site. The degree to which some informants recognized that customer service, or personal interaction with the institution may be a factor in determining the organization's image is consistent with one of Atwater's identity attributes, that is a regard for external stakeholders.

Informants' reactions to their negative image also revealed how identity affects how they cope with a negative image. First, the industry and its members held a very disparaging view of external stakeholders. They tended to describe external stakeholders in terms of attributes that they valued and were an integral part of their identity, and inevitably, stakeholders fell short. The banks', as discussed, placed a very high premium on raw intelligence and objectivity in analysis. Conversely, they generally viewed the media and politicians as self-serving, and as lacking in the ability or the desire to inform themselves properly about the banks. Similarly, management believed that the general public, while not self-serving, lacked the ability to understand their complex business or weren't interested in understanding it. Therefore, in their mechanistic and rational view of the world that prizes knowledge and objectivity, the views of external stakeholders were easily discounted.

These implicit values that enabled it to disregard or discount the negative feedback it received regarding its image, were also commensurate with an arrogance regarding external stakeholders. The perception that stakeholders were inferior in their abilities was reflected in their descriptions. For example, informants from different sites referred to politicians as "*getting up on their hind legs*", a pejorative phrase that suggests politicians are primitive beings of lesser intelligence who need to be taught or tamed. Alternatively, when informants spoke of stakeholders they used the phrase "*you must understand*", which has a condescending tone.

> *And there were a couple of things this time though, one was education but the other was <u>"You guys seriously need to understand</u> that if you're going to cap rates this business is going to get more restricted. And properly so because you're now reducing the margins on this business <u>and while that is what you want to do</u>, understand who it's going to impact." (Vice President, Atwater Bank, emphasis added)*

Secondly, on a personal level, many informants seemed detached from the negative image. They were not in denial of the banks' negative image or reputation, but rather offered responses or attitudes that suggested they were unable to affect it. Given the level of the hostility towards the bank that they perceived to be emanating from some stakeholders, their lack of emotional response around the issue was surprising. The detachment, or lack of emotion, manifested itself in the contradiction between what managers reported as an industry-wide hate session and in how they described their personal experiences. For example, a number of seasoned managers said they never personally encountered negative feedback regarding the bank or the industry. Managers who were relative newcomers to the bank also spoke with a detachment, and while they acknowledged the negative image they distanced themselves from it by explicitly assigning the responsibility for creation of this negative image to senior management.

There may be several explanations for this reaction of detachment. First, the nature of the negative images may not be contradicting core attributes of their identity, so they do not feel threatened or personally disturbed by them. Being perceived as large, potentially powerful, deceptive, and self-serving may be unpleasant but does not directly contradict their view of themselves as profit-oriented and smart. Second, their detachment may be intensified because they can explain the negative image in terms of phenomena that are outside their control – i.e., that is the phenomenon of bank bashing. If management believes it can't affect its image, a rational response would be to distance themselves from it. Alternatively, it may be that identity attributes allow management to detach themselves from the negative aspects of their image, and therefore, they are more inclined to believe they can't materially affect the industry's image.

In essence, the industry and members' identity limits their ability to conceptualize image and how they can affect their image. Additionally, it provides them with a cognitive and affective means for rationalizing a negative image. The by-product of this rationalization process is a tone of arrogance and superiority in dealing with external stakeholders, which as indicated in *Chapter 8*, has been noted by external stakeholders.

11.1.3 Identity Influences Organizations' Strategies

The data and analysis suggest that organizational identity is a key influence on the types of strategies organizations choose and on how they execute those strategies. For example, on an industry level, the dominant strategy for persuading stakeholders was one of education. This strategy is consistent with an identity that values research and careful analysis, and believes in the power of the intellect to persuade. Additionally, the combination of a narrow conceptualization of the construct of image, and the ability to discount the views of stakeholders, as discussed in the last section, may have enabled the industry and its members to minimize the attention it paid to its image. At individual banks, the differences in their identities may explain the distinctions in their particular approaches to managing the legislative environment and their image. Table 26 summarizes how the industry and Atwater and Metcalfe and industry representatives viewed their identities, and their approach to managing their legislative environment and their image.

Consistent with their rational, mechanistic view of the world, the banking industry believed that the most effective strategy for swaying both public opinion and legislators' criticisms was to educate these stakeholders about the banking business. The underlying

Table 26 - Key Findings: Identity Influences Organizations' Strategies and Action

DATA			KEY FINDINGS
Industry	**Metcalfe**	**Atwater**	
Identity attributes			• Identity influences organizations' strategies and actions *Corollary Findings* • A narrow definition of image coincides with a justification for minimizing attention to it. • A rationalistic, efficiency-oriented identity tends to generate a rationalistically-oriented and education-based strategy of image management.
Prizes rational, logical analyses and high quality research Private sector CEO-driven Victim of bank bashing Superiority of Canadian banking system	Intellectually superior Private sector bottom-line oriented, shareholder driven Command and control culture Victim of bank bashing Entrepreneurial Decentralized	Intellectually superior Private sector, profit-oriented Command and control culture Victim of bank bashing Cognizant of external stakeholders Stewardship Innovative, creative	
Legislative Strategy (consistent aspects)			
Educate stakeholders Reach out to legislative stakeholders Arguments economic in nature	Educate stakeholders Arguments economic in nature	Educate stakeholders Reach out to legislative stakeholders Arguments economic in nature	
	Free rider	Leader	
Image Management			
Secondary concern until recently Difficulty gaining consensus Strategy of education and outreach, limited advertising	No cohesive image management strategy Deemed irrelevant because outcome difficult to measure	Ambivalent approach Lip service to customer service, but will be sacrificed for profit Difficulty executing	

assumption was that education or a rational, objective rendition of the facts and corresponding analysis would persuade external stakeholders. This reasoning assumed that most outsiders also viewed the world in rational, objective terms, and shared the industry's beliefs that an organization's primary responsibility was to its shareholders. The strength of this aspect of the industry identity, and the nature of these core attributes, rooted as they are in an efficiency-oriented view of the world, did not seem to allow for any recognition that other viewpoints may exist, and that these other viewpoints may not be swayed by an improved understanding of the business. The assumption underlying this strategy of '*educate and persuade*' is that if people understood the business, they would not be critical of it, they would view the business and judge it according to the same values and criteria as the banking industry.

Although the industry was in agreement regarding the general thrust of its legislative strategy, there were differences in how they individually chose to manage the legislative environment and their image. These differences reflected the differences in their identities. For example, Metcalfe, who perceived itself as a shareholder's bank, did not perceive managing the legislative environment or its image to be important. It's identity as a "shareholder bank", which was cost conscious and devoted to getting a payback on its investments, made its choice of a free rider strategy with respect to legislation almost inevitable. Neither of these phenomena (i.e., managing image or legislation) generated an immediately quantifiable financial return, and addressing them would be entirely inconsistent with its view of the world and how to manage its business. Essentially, it had a view of managing the legislative process that was rooted in the concept of efficiency, and there was no recognition of the concept of equity that often typifies these legislative challenges. Metcalfe management, even more than its industry association colleagues, felt that equity concerns could be dispelled if everyone understood the facts of the business.

Despite the regulatory setbacks over the years that the industry had faced, there were still signs that regulatory matters were not a priority for Metcalfe. For example, no interviewee (including the head of the business unit who is in charge of executing responses to regulatory challenges) mentioned that a bill to cap interest rates was given a first reading in the House of Commons in December 1997. In another instance, one manager had difficulty remembering the name of the CEO of the CBA. In terms of the importance of image, the organization is slowly coming around to viewing it as a matter of more importance, but as one member of management put it, convincing senior management of its importance is "*like wading through concrete*."

In contrast, Atwater's explicit values enabled it to recognize the legitimacy of outside stakeholders and to allocate resources to managing these stakeholder relationships. Its identity contained an aspect of connectedness with the outside environment and its strategies reflected attempts to take into account these connections. Atwater assumed a leadership strategy in managing legislation that reflected its beliefs that it possessed superior intelligence, and that it should be respectful of external stakeholders. Its proactive approach included maintaining a presence in Ottawa and a large public relations staff. Correspondingly, it also had a somewhat broader conception of how its image was created – which is as a by-product of customer and personal interaction and not simply the outcome of an advertising campaign or newspaper articles.

There was evidence, however, of value conflict in Atwater's identity, and at the same time, evidence of conflict in some of the strategies the bank pursued. For example, Atwater wanted to give the government the information it required, but it needed to make sure the "spin" was correct. It suggested that it wanted to be open in its communication with the government, but at the same time it defended its right to keep profit information private. In other words, its belief in its right to defend itself on the basis of a free market philosophy (i.e., a core identity attribute shared by other industry members) overrode its desire to accommodate and be sensitive to external stakeholder needs.

Over the period under study, the core attributes of the industry's identity and individual members' organizational identity remained unchanging. These self-perceptions of being smart, profit-oriented, rational and analytical, shareholder-driven, sensitive to stakeholders, creative and innovative have been rooted in the respective organizations' psyches as long as informants could remember. At the same time, the core strategies for managing image and legislation have changed little over the years (i.e., educate outside stakeholders, advertise to modify image, engage in formal public relations with the media). The juxtaposition of these two observations suggests that identity has a significant impact on how organizations frame issues, how they prioritize issues and how they choose to respond to issues.

Identity also shapes what stimuli are necessary to bring about changes in strategies or action. The next section suggests that incremental changes in strategies occurred only as a result of a series of events that the industry perceived as meaningful. The industry only perceives an event as meaningful if it is characterized in values that resonate with its own identity (i.e., financial impact more important than external stakeholder scrutiny).

11.1.4 Changes in Strategies

The data and analysis suggested three findings around the impetus for changes to the industry's strategies for managing the legislative environment and its image. First, although as discussed in the last section the fundamental approach to managing these phenomena did not change, there were changes at the margin over time. Specific actions and changes in tone suggest that at least a superficial increase in responsiveness took place over the period, particularly to the legislative community. Second, multiple external events were associated with these changes in legislative and image management strategy. And third, specific external events were cited most often as catalyst for change. Table 27 summarizes some critical external events that occurred over the period and the corresponding changes in the industry's legislative strategy and approach to image management.

It is apparent that several aspects of the industry's strategy for dealing with the legislative environment did not change over the period. As Table 23 indicated, throughout this entire period, the industry's central strategy was to educate and persuade external stakeholders of the wisdom of their business case, based on an economic and efficiency–oriented approach to management. Its major tactics also remained consistent, and reflected aspects of its identity. For example, it continually stressed the superiority

Table 27 - Key Findings: Changes in Strategies

DATA			KEY FINDINGS
External Events	**Changes in Legislative Strategy**	**Changes in Image Management**	
Throughout the period 1986-1997			• Legislative strategy changes over time and organization becomes increasingly responsive to legislative environment. • Multiple external events are associated with change in legislative and image management strategy. • Specific external events are cited most often as catalyst for change
Unrelenting legislative scrutiny			
Steadily declining public opinion poll ratings			
Early 1990s			
Insurance lobby successfully thwarts bank efforts to expand in insurance	Increased senior level industry involvement		
Punitive legislation directed only at banks (i.e., large corporations tax)	Reduced reliance on pure economic arguments, argument couched in consumer concern		
	Change in CBA CEO		
	Increased acknowledgment of political legitimacy		
Mid-1990s			
Negative employee perceptions	Change in CBA CEO	Launch image campaign	
Punitive legislation directed only at banks (i.e., tied selling)			

of the Canadian banking system. Consistent with its strong self-perception that the organizations were private enterprises (as opposed to utilities) it consistently refused to provide information around issues it deemed to be strategically sensitive. Finally, in a manner that was not always sensitive or respectful of legislators, the industry chose to reframe or redirect their questions or concerns, in order to deflect attention from its own practices. Nevertheless, it did make some modifications to how it managed the legislative environment over the period. These modifications can be described as becoming more responsive to its external environment. The data on the credit card hearings reveal that by the early 1990s, senior management were far more visible in dealing directly with legislators. Furthermore, it reduced its reliance on arguments rooted in the free market, and attempted to acknowledge the concerns around equity and fairness in its business practices that were raised by external stakeholders. Perhaps most significantly, it made changes in its key lobbyist (i.e., CEO of the CBA) that reflected a move towards greater sensitivity towards the external environment. The industry moved from retaining an economist who could be described as combative in approach, to an economist who could be described as more conciliatory in approach, to a seasoned civil servant who was well versed in managing politicians.

These changes, however, can be characterized as relatively superficial. The industry did not alter its core approach of educating and fundamentally relying on economic arguments to sway legislators. It maintained that it was superior to other banking systems. Some members were very slow to respond with concrete alternatives (i.e. offering a low rate credit card). And even currently, interview data suggested that the industry appears to continue to regard legislative challenges as an intrusion that it should not have to suffer. Rather, the changes in responsiveness were limited to its public approach. It adapted its tone in these hearings to be more conciliatory, and gave evidence of new respect for the proceedings and the members.

Nevertheless, why did the industry even make these minor modifications in its approach? The data and analyses suggest a two-fold answer. First, a series of external events occurred over the course of time, and second, the industry considered at least a number of these events to be meaningful. Over the period, the industry appeared on a regular basis before parliamentary committees and was subjected to unrelenting legislative scrutiny. At the same time, it was well known that its public opinion ratings were steadily dropping. These two phenomena, suggest that the industry's legitimacy (i.e., the perception that it carried on its business in a fair and reasonable manner) was steadily declining. These two phenomena, in and of themselves, however, were not sufficient to produce changes in responsiveness for two identity-related reasons. First, neither of these phenomena directly translated into an observable impact. Given the industry's identity as profit-driven and its corresponding orientation towards achieving measurable results, it is not surprising that these trends would fail to register as serious enough to merit collective and significant action. Second, the industry's identity was strongly rooted in a perception that they were private sector corporations, not utilities. As private sector corporations that did not exist for the benefit of the general public, it perceived that it did not have to be as attentive to concerns of the general public. The industry's identity did not allow it to view legitimacy as a resource to be accumulated and conserved, as it would with resources such as say cash, human assets, and customers. Consequently, these trends alone did not act as catalysts for change.

It was not until the 1990s, when a series of events occurred that were clearly punitive and directly translatable into immediate and negative outcomes, that changes around the margin of its strategies can be observed. Informants always related specific events when discussing changes in the industry's responsiveness over time. For example, the industry had been unsuccessful at winning regulatory approval to enter other business arenas, and had been subjected to instances of punitive legislation, that affected only them, no other financial service providers. These failures were highly visible, and had an immediate and directly measurable impact on the banks. They reduced profits either directly through the levy of a tax (e.g., large corporations tax), or indirectly through increased costs of meeting regulatory requirements and by foregone profit since they were not allowed to engage in new business activities (e.g., sale of insurance through branches). The specificity of events and the types of events cited suggest that the events must be credible and meaningful in terms of the industry's or the organizations' world view, in order to cause a reaction or a change in strategy.

11.1.5 Nature of Reputation

Two key findings emerged around the construct of reputation. First, the data and analyses suggest that the reputation of an industry exhibiting the aforementioned characteristics is, to some degree, the cumulative effect of personal interactions between the stakeholder and the industry (or industry member) over a period of time. Second, perceptions of anti-social behavior may increase the industry's (or industry member's) vulnerability to the negative effects of a poor reputation.

Industries that are large, profitable, powerful, and quasi-public in nature, may find the importance of the personal interaction element in determining their reputation to be magnified. This research in no way suggests that advertising, marketing, or public relations activities are not factors in building organizational reputations or images; rather, it suggests that when the general public relies on an industry in a way that is unique, the dimension of personal interaction should be given equally careful consideration when determining the drivers of reputation. Essentially, the nature of the public's dependence on the banking industry makes their personal experiences with the industry a very salient predictor of reputation. This unique interaction between the public and the banks may be described as containing the elements of frequency, necessity and captivity, and may be best illustrated by comparing the public's interaction with other industries versus its interactions with the banks. For example, consumers may purchase a car every few years, but they interact with a bank far more frequently (i.e., often on a daily, weekly or monthly basis). If an individual has a bad experience with a car dealer, this experience may have faded from memory before they interact with the dealer again. This lapse of time mitigates the risk of personal experience contributing to a negative reputation for a particular brand of car. Also, unlike purchasing a car or an impulse item, purchasing financial services is a necessity for most segments of our society. Finally, although other purchases can also be described as necessities for consumers, such as food, there is considerably more competition in those industries than in the Canadian banking industry. Purchasing a service that is a necessity from a limited number of providers reduces the ability of individuals' to exercise their power to ensure they are fairly treated. Consequently, they may become more sensitive to the attitudes and behaviors of those providers. The data and analyses around the banking industry's reputation suggest that reputations for industries that share these characteristics are not only the by-product of advertising and other deliberate outreach activities, but also the by-product of personal interaction between the organization and its stakeholders.

These data also indirectly suggest that image or reputation (i.e., others' perceptions) derives from a series of cumulative interactions over a period of years and this accumulation is difficult to reverse. Repeated negative experiences on the part of individuals, steady negative press and steadily increasing public scrutiny may lead to a generally poor reputation that becomes difficult to reverse. For example, the data indicated that legislators often held negative perceptions of the banks, prior to the banks even beginning to offer their arguments and their education programs. These perceptions, to some degree, clearly resulted from personal interactions with the industry.

11.2 Emerging Themes

The key findings offered in the preceding section can be reduced to the four emerging themes summarized below in Table 28. At their broadest level, these findings suggest four themes around identity, image, reputation and managing the legislative environment. First, for industries that share at least some of the characteristics exhibited by the banking industry, attributes of industry identity will constitute a major portion of organizational identity, and correspondingly, will dominate the industry's and individual members' approach to the legislative environment. The sheer size of the industry, its oligopolistic nature, its concentration of resources and correspondingly, its power, the lack of turbulence in its markets and senior management turnover, may all suggest that organizations will share more rather than fewer common identity attributes. These identity attributes tend to be a belief in the profit motive as the driving force behind its existence, a strong sense of its own superiority, and a devotion to rational analytical tools as a means for making sense of its environment and managing its environment.

Second, identity can act as an inertial force hindering an organization's ability to adapt to its legislative environment. The stronger and more deeply rooted the identity attributes, the more difficult it will be for an industry, or an individual organization, to modify the core aspects of its approach. Its identity will limit how it frames issues and perceives stakeholders so that its framing and perceptions are consistent with its identity. For the banking industry, its identity inhibited it from viscerally grasping the consequences of deteriorating legitimacy, and from clearly understanding the concerns of stakeholders. It consistently attributed a lack of intelligence and unreasonableness to the motives and actions of external stakeholders, and was largely unable to seriously consider the validity of stakeholder concerns on their own merits. Its identity also appeared to lead to an attitude of arrogance that exacerbated the difficulties it experienced in managing stakeholder relationships.

Third, the inertial force of identity, for industries and member organizations bearing these characteristics, can only be counteracted by a series of external events, and these events must be meaningful in terms of the industry or organizations' identities. Essentially, the stronger the inertial force exerted by the industry or organization's identity, the greater the number of external events needed for change, the slower the adaptation to the environment and the more superficial the adaptation. The banking industry, and its members, were slow to adapt to threats in the legislative environment surrounding credit cards, and it appears that the adaptation they made focused on non-core aspects of their strategy.

Fourth, and finally, a negative reputation arising out of personal interactions increases the likelihood of reduced legitimacy. As Marcus, Kaufman and Bream (1987) suggest, legitimacy is a "*political resource*" that organizations must acquire and maintain in order to secure preferred regulatory treatment. An organization's reputation is one element that contributes to perceptions of legitimacy in the regulatory or legislative context. Other elements may include factors such as the prevailing social climate or documented activities on the part of the organization. Although this research does not focus directly on the outcomes that result from reduced legitimacy, the literature would suggest that reduced legitimacy would increased the likelihood of negative legislative outcomes. The data presented in this research around outcomes (e.g., punitive legislation, denial of regulatory approval) would support this suggestion.

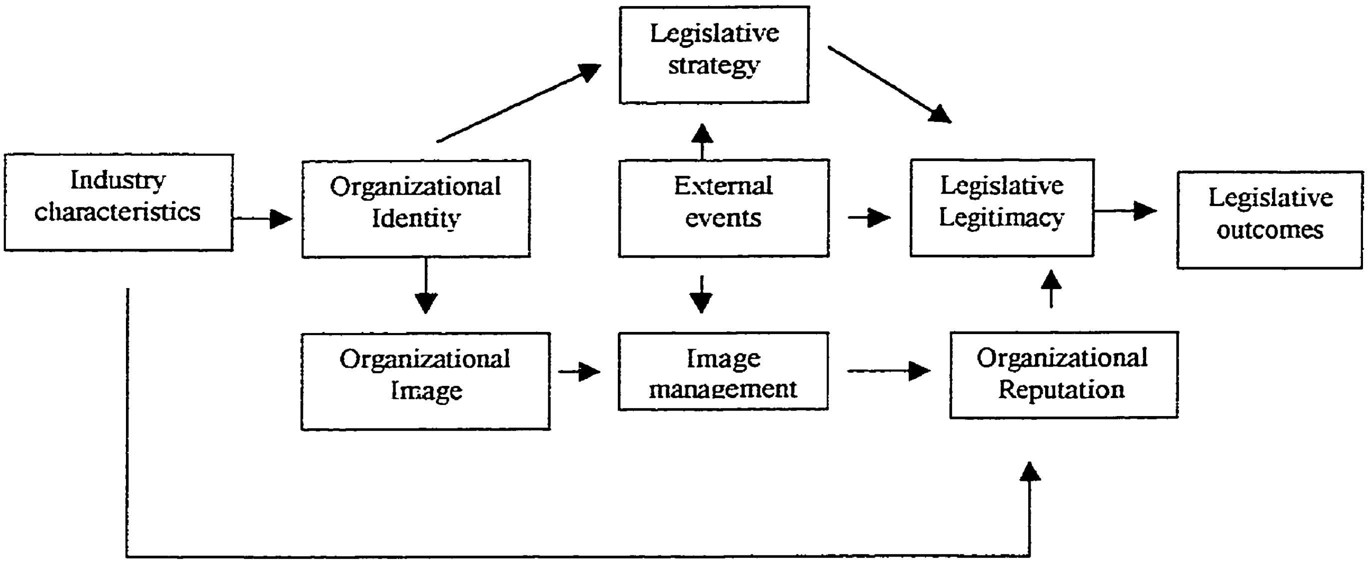
Table 28 - Summary of Key Findings and Emerging Themes

KEY FINDINGS	EMERGING THEMES
• Industry identity attributes cut across organizations • Nature of industry associated with specific identity attributes.	• Industry identity dominates legislative approach for a particular industry profile
• Identity shapes organizations' perceptions of image and stakeholders • Identity shapes organizations' strategies and actions.	• Identity can act as an inertial force hindering an organization's ability to adapt to its legislative environment
• Legislative strategy changes over time and organization becomes increasingly responsive to legislative environment. • Multiple external events are associated with change in legislative and image management strategy. • Specific external events are cited most often as catalyst for change	• Consistent with an industry's or an organization's identity, external events can act as a catalytic force facilitating an organization's ability to adapt to its legislative environment
• Reputation is the culmination of personal interactions over a period of time • Perceptions of anti-social behavior lead to increased vulnerability of a negative reputation	• Negative reputation increases the likelihood of decreased legitimacy

11.3 Model and Propositions

The preceding four themes give rise to a series of hypothetical relationships between a series of variables that are illustrated in the model contained in Figure 2. Given the qualitative nature of the research methodology we cannot assume causality between these variables, or in the nature of these relationships, however, the findings are suggestive of these potential linkages and the following theoretical model. Accordingly, this section also offers a series of propositions based on this model that would allow for the refinement and testing of these hypothetical relationships.

Figure 2 - Legislative Adaptation Model



Broadly speaking, this model attempts to lay out how organizations affect legislative outcomes through their management strategies. It begins by suggesting that part of their response is immediately constrained by the nature of the industry in which they operate, since it suggests that industry characteristics affect organizational identity and the nature of organizational reputation. Organizational identity affects how organizations manage their legislative environment, and through the construct of image, how they manage their image. Although this research illustrates how identity can act as an inertial force limiting changes in strategies and adaptability to the environment, it is theoretically possible for it to act as a force promoting change. The data and analyses also revealed that the other major forces affecting organizational image management and legislative strategies were external events. The organization's image management strategy has an impact on the nature of the organization's reputation, as do the industry characteristics. The industry characteristics may predict the general public's expectations for the organization, and how it chooses to manage its image will affect how they ultimately perceive the organization. Both legislative strategy and image management strategy will impact on the organization's legislative legitimacy, or how acceptable its actions are to stakeholders and decision-makers that can affect it in the political realm. Although this research does not directly touch upon the link between legislative legitimacy and legislative outcomes, there is literature to suggest a direct correlation between the two constructs (Marcus, 1987). In addition, this research does offer indirect evidence that for the Canadian banking community, declining legislative legitimacy led to a series of legislative disappointments, include the failure of the two proposed industry mergers.

management tools and analysis as a means of managing their environment.

1i. The less turbulent the environment, the more likely member organizations are to value rational management tools and analysis as a means of managing their environment.

1j. The lower the senior management turnover, the more likely member organizations are to value rational management tools and analysis as a means of managing their environment.

1k. The more profitable the industry, the more likely member organizations are to value rational management tools and analysis as a means of managing their environment.

1l. The more utility-like the industry, the more likely member organizations are to value rational management tools and analysis as a means of managing their environment.

Identity attribute: internal sense of superiority

1m. The larger the industry, the greater the member organizations' internal sense of superiority.

1n. The greater the industry concentration, the greater the member organizations' internal sense of superiority.

1o. The less turbulent the environment, the greater the member organizations' internal sense of superiority.

1p. The lower the senior management turnover, the greater the member organizations' internal sense of superiority.

1q. The more profitable the industry, the greater the member organizations' internal sense of superiority.

1r. The more utility-like the industry, the greater the member organizations' internal sense of superiority.

Identity attribute: profit-maximization as part of mission

1s. The larger the industry, the more likely the member organization will value profit maximization.

1t. The greater the industry concentration, more likely the member organization will value profit maximization.

1u. The less turbulent the environment, the more likely the member organization will value profit maximization.

1v. The lower the senior management turnover, the more likely the member organization will value profit maximization.

1w. The more profitable the industry, the more likely the member organization will value profit maximization.

1x. The more utility-like the industry, the more likely the member organization will value profit maximization.

<u>Identity attribute: victim</u>

1y. The larger the industry, the more likely the member organization will perceive legislative challenges as unfair and unfounded.

1z. The greater the industry concentration, the more likely the member organization will perceive legislative challenges as unfair and unfounded.

1aa. The less turbulent the environment, the more likely the member organization will perceive legislative challenges as unfair and unfounded.

1ab. The lower the senior management turnover, the more likely the member organization will perceive legislative challenges as unfair and unfounded.

1ac. The more profitable the industry, the more likely the member organization will perceive legislative challenges as unfair and unfounded.

1ad. The more utility-like the industry, the more likely the member organization will perceive legislative challenges as unfair and unfounded.

its level of concentration (i.e., a monopoly or oligopoly), the degree of environmental turbulence it has endured (i.e., market or technological changes in its business), senior management turnover, profitability, and whether it can be construed as offering services to the public in the manner of a utility.

Propositions #1g through #1ad then suggest that this set of industry characteristics will lead to the core identity attributes identified as common in the two sites, and the industry informants. These identity attributes were consistent with industry behavior in the public testimony. These core identity attributes are a predisposition to rely on traditional rational, quantitative analysis tools for managing the environment; an internal sense of their own superiority vis a vis other stakeholders; the explicit or implicit desire to maximize profits as a key objective; and the sense that they are being victimized when they encounter challenges from external stakeholders.

The second set of propositions arising out of this model, listed in Table 30, concern the relationship between organizational identity and organizational strategies for managing the legislative environment. Propositions #2a through #2d suggest that these core identity attributes, listed above, will lead an organization to be less responsive in its strategy for managing the legislative environment. This research indicated that these attributes contributed to the banking industry's and individual members' slowness in responding to legislative challenges.

Table 30 Second Set of Propositions – Relationship Between Organizational Identity and Strategies for Managing the Legislative Environment

Relationship between specific organizational identity attributes and legislative strategy
2a. The more rationally-oriented the organization's identity, the less responsive the organizational strategy will be for managing the legislative environment.
2b. The greater the organization's sense of superiority, the less responsive the organizational strategy will be for managing the legislative environment.
2c. The more profit-oriented the organization's sense of mission, the less responsive the organizational strategy will be for managing the legislative environment.
2d. The greater the organization's sense of being a victim, the less responsive the organizational strategy will be for managing the legislative environment.

The third set of propositions arising out of this model, listed in Table 31, concern the relationship between organizational identity and image management strategies. Propositions #3a through #3d suggest that the presence of the core identity attributes will correspond with an organizational tendency to view its reputation, (or what external stakeholders think of it), as being the outcome of formal initiatives. The research indicated that given the characteristics of the industry, a significant factor affecting reputation were the personal interactions between external stakeholders and member organizations (i.e., non-formal initiatives.) Propositions #3e through #3h suggest that the presence of these core identity attributes will correspond with a generally negative view of external stakeholders. These propositions are commensurate with the research findings that industry members generally viewed external stakeholders as being less intelligent, informed or self-serving.

Propositions #3i and #3j suggest that the degree to which organizations view external stakeholders negatively, and discount the public's personal experience as a driver of reputation the less responsive their image management strategy is likely to be. A less responsive image management strategy could be characterized as one that is non-existent (i.e., as in the case of Metcalfe), ambivalent (i.e., as in the case of Atwater, or the industry as a whole) and as generally narrowly confined to a set of programs (e.g., formal advertising or consumer education programs.) A more responsive image management strategy would reflect that personal interaction at the field level is a critical driver of a positive image and would incorporate programs and initiatives around this understanding into its strategy. In addition, a responsive image management strategy would be conducted consistently over a sustained period of time.

Table 31 Third Set of Propositions – Relationship Between Organizational Identity and Image Management Strategies

Relationship between specific organizational identity attributes and image management strategy
3a. The more rationally-oriented the organization's identity, the less likely the organization is to view reputation as being significantly affected by non-formal initiatives. 3b. The greater the organization's sense of superiority, the less likely the organization is to view reputation as being significantly affected by non-formal initiatives. 3c. The more profit-oriented the organization's sense of mission, the less likely the organization is to view reputation as being significantly affected by non-formal initiatives. 3d. The greater the organization's sense of being a victim, the less likely the organization is to view reputation as being significantly affected by non-formal initiatives.
3e. The more rationally-oriented the organization's identity, the more likely it will view external stakeholders negatively. 3f. The greater the organization's sense of superiority, the more likely it will view external stakeholders negatively. 3g. The more profit-oriented the organization's sense of mission, the more likely it will view external stakeholders negatively. 3h. The greater the organization's sense of being a victim, the more likely it will view external stakeholders negatively.
3i. The less likely the organization is to view reputation as being significantly affected by non-formal initiatives, the less responsive its image management strategy.
3j. The more negative the organization's view of external stakeholders, the less responsive its image management strategy.

The fourth set of propositions arising out of this model, listed in Table 32, concern the relationship between external events and legislative and image management strategies. Propositions #4a and #4b suggest that the occurrence of external events that are construed as meaningful by organizations will correspond with increased responsiveness in legislative and image management strategies. This research indicated that a prolonged and identifiable series of events can act as a counterbalance to the inertial force of identity. External events that were relevant to their core identity attributes (e.g., profit-maximization) appeared to cause the banking industry to modify its strategies.

Table 32 Fourth Set of Propositions – Relationship Between External Events and Legislative And Image Management Strategies

4a. The greater the number of meaningful external events, the more responsive will be the organization's legislative management strategy.
4b. The greater the number of meaningful external events, the more responsive will be the organization's image management strategy.

The fifth and sixth propositions arising out of this model, laid out in Table 33, concern, first, the relationship between legislative management strategies and legislative legitimacy. Proposition #5 suggests that organizations that pursue legislative strategies that are characterized as responsive are more likely to be favorably viewed by legislators. Although this research presents no direct data linking changes in responsiveness and legitimacy, it did present data that suggested the converse would be true. The banking industry's performance in the first two hearings indicated that a lack of responsiveness is associated with poor legitimacy. In addition, this proposition is consistent with the literature on public affairs outlined in *Chapter 2, Literature Review*.

Table 33 Fifth and Sixth Propositions – Relationship Between Legislative Management Strategies and Legislative Legitimacy and Between Image Management and Reputation

5. The more responsive the legislative strategy, the greater the organization's legislative legitimacy.
6. The less responsive the organization's image management strategy, the more negative its reputation.

The sixth proposition, laid out in Table 33, concerns the relationship between an organization's image management strategies and reputation. Proposition #6 suggests that legislators are sensitive to an organization's or industry's reputation, and a positive reputation will correspond with greater legislative legitimacy. Again, this research presented evidence of the converse, that is, that a poorly conceived or executed image management strategy was linked to a poor reputation. The banking industry, and its member organizations, clearly suffered from both.

The seventh set of propositions, listed in Table 34, concerns the effects of industry characteristics on organizational reputation. Proposition #7a through #7f suggests that industries exhibiting the characteristics laid out earlier need to be very attentive to the element of personal interaction in how their reputations are formed. This research suggests that in the case of the banking industry, the public's expectations of the industry are higher than it would be for an industry that does not share these characteristics. In addition, they tend to base their perceptions of the industry and member organizations on personal experiences.

Table 34 Seventh Set of Propositions – The Effect of Industry Characteristics on Organizational Reputation

7a.	The larger the industry, the more vulnerable member organizations' reputation will be to personal interactions between stakeholders and the industry.
7b.	The greater the industry concentration, the more vulnerable member organizations' reputation will be to personal interactions between stakeholders and the industry.
7c.	The less turbulent the environment, the more vulnerable member organizations' reputation will be to personal interactions between stakeholders and the industry.
7d.	The lower the senior management turnover, the more vulnerable member organizations' reputation will be to personal interactions between stakeholders and the industry.
7e.	The more profitable the industry, the more vulnerable member organizations' reputation will be to personal interactions between stakeholders and the industry.
7f.	The more utility-like the industry, the more vulnerable member organizations' reputation will be to personal interactions between stakeholders and the industry.

The eighth proposition arising out of this model, laid out in Table 35, concerns the relationship between organizational reputation and legislative legitimacy. Again, as this research indicated, a positive reputation appears to be positively correlated with positive legislative legitimacy. The banking industry suffered from a declining reputation over the period under study, and appeared to also suffered from increased legislative scrutiny, which can be interpreted as a manifestation of reduced legislative legitimacy.

Table 35 Eighth and Ninth Propositions – Relationship Between Reputation, Legitimacy and Legislative Outcomes

8.	The more positive the organization's reputation, the greater its legislative legitimacy.
9.	The greater the organization's legislative legitimacy, the better the legislative outcomes it will face.

The ninth and final proposition arising out of this model, laid out in Table 35, concerns the relationship between legislative legitimacy and legislative outcomes. As outlined in *Chapter 2, Literature Review*, legislative legitimacy should correspond with positive legislative outcomes. These outcomes may vary from the acquisition of regulatory approvals to averting potential legislative challenge. Although this research did not directly tabulate the number of regulatory gains and losses over the period of study, it did present data that suggested an increase in negative legislative outcomes and a declining reputation.

12 DISCUSSION AND CONCLUSIONS

This chapter offers some final thoughts and discussion on the issues raised by this research. It begins by briefly summarizing the research findings that were described in the last chapter. It then lays out the limitations of the research design and provides a discussion of the factors that mitigate these limitations. In the spirit that research serves a purpose greater than its own existence, the chapter goes on to suggest how these findings may be useful to practitioners and how they contribute to our current knowledge of these phenomena. Finally, it concludes with suggestions for future research that would build on these findings.

12.1 Summary of findings

This research offers insights into our understanding of the constructs of organizational identity and image, of how organizations manage the legislative environment and the linkage between these phenomena. First, it suggests that certain industry characteristics may be associated with certain types of identity attributes found in member organizations. Specifically, industries that can be described as large, oligopolistic (or monopolistic), stable in terms of market risk and senior management turnover, profitable, and quasi-public may exhibit a tendency to value an efficiency-based model of management and profit maximization (to the exclusion of all other objectives), a sense of their own superiority, and a perception that they are victimized when challenged by external stakeholders. For industries with characteristics similar to these exhibited by the Canadian banking industry, these specific identity attributes may emerge on the organizational level and lead to an arrogance that may handicap an organization's ability to interact effectively with external stakeholders. Essentially, these attributes limit their ability to accurately understand the concerns of external stakeholders and because they are unable to understand alternative world-views they are unable to effectively develop strategies to manage these stakeholders. Ultimately, their self-perceived role as victim allows them to abdicate any real effort in this regard.

Second, organizational identity does appear to affect organizational action, and in fact, can act as a major source of inertia, preventing or significantly slowing down the rate of organizational change or adaptation to the external environment, including the legislative environment. For these organizations, in this particular type of industry, identity appeared to be extremely stable and enduring, and this stability and endurance appeared to strengthen the inertial force exerted by organizational identity. Demonstrable change or adaptation only resulted after a series of external events occurred that organizations could recognize and acknowledge as meaningful or serious in terms of their own identity.

Third, the nature of this industry may suggest that organizational image or reputation is to a significant degree dependent on personal interactions and the accumulation of these interactions over a period of time. Furthermore, for organizations in these types of industries, reputation may have a significant effect on the amount of legislative legitimacy they are able to accrue. This legislative legitimacy, in turn, appears to be linked to legislative outcomes.

12.2 Limitations of Research Design

As with all research, this particular design has its own set of limitations. In this case, however, other features of the design simultaneously offset the limitations that are evident. First, it is inherent in the nature of qualitative research that we cannot prove causality between the constructs; and therefore, the qualitative nature of this research design necessarily results in a model and propositions that, at this point in time, are only hypothetical. However, this model and the accompanying propositions are well grounded in the qualitative data, and would enable future researchers to further refine the constructs and to begin the process of testing for causality. This theoretical offering is in keeping with the embryonic stage of the research in the area.

Second, this research focuses on a single industry, which limits its generalizability. Limitations around generalizability are inherent in qualitative research, and are generally traded off against a desire to develop a rich description (McGrath 1982). The richness that was the aim of this design was achieved by using multiple data sources including informants of three member groups (i.e., Atwater, Metcalfe, and the CBA) and a variety of archival data that spanned an 11 year period. By using a rich and diverse set of data sources and delving into the actuality of events and behavior as dictated by a qualitative methodology, this research develops a model, based on a series of hypothetical relationships, and series of corresponding propositions that are suitable for testing generalizability.

Third, this research relies to a large degree on interview data, and therefore is subject to the weaknesses inherent in these kind of data, including retrospective bias and informant bias (i.e., a desire to answer in a way to please the interviewer, or an interviewer who asks leading questions.) Once again, the risk posed by informants providing historical data is mitigated by using archival sources of historical data, and ensuring that these data sources converge. The risks inherent in a faulty interviewing process were mitigated by using detailed protocols, continually reflecting on the process and analyzing results as the research progressed.

12.3 Implications for Practitioners

This research has two significant implications for managers. First, managers should be aware of the power of organizational identity and how it influences their decision-making. Second, managers in organizations or industries exhibiting these characteristics may need a broader, more personalized approach to managing image.

Organizational identity clearly impacts how managers frame issues or concepts and make decisions. This research suggests that identity can cause management to wear blinders when making decisions around allocating resources or responding to stakeholder claims. Although these decisions may be correct, they may also be faulty because management's sense of organization has not allowed it to consider fully all the implications of their actions. Organizations whose identity is particularly strong and enduring may be more at risk for this effect. In recognition of this aspect of the cognitive ramifications of organizational identity on the decision-making process, managers may want to periodically engage in questioning their identity, or in ensuring that their identity is in sync with their environment. A red flag that may suggest that management should engage in this exercise might be persistent and consistent feedback from all stakeholder quarters that directly conflicts with the organization's sense of self.

A second consideration for managers, particularly those in fields that share the characteristics exhibited by the Canadian banking industry, is that the public's expectations of them may be higher than would be experienced by other industries or organizations and they should modify their image management strategy accordingly. Such organizations may be subject to higher expectations around their conduct, and perceptions of illegitimate behavior (e.g., specific business practices, a demeanor that suggests arrogance) may be more costly for them. All points of contact between individual members of the organization and external stakeholders contribute to the organization's image and these industries or organizations need to be more aware or sensitive to the personal dynamics inherent in creating their image. Image management should not be treated as an isolated function within the organization, but on a general basis, should be incorporated into everyone's job descriptions and responsibilities. For example, when managers in these organizations attempt to interact with legislators they should frame arguments in a manner that resonates with these external stakeholders' points of view.

12.4 Contributions to Knowledge

These research findings also contribute to our knowledge of organizational identity, image, reputation and managing the legislative environment by supporting a number of recent findings, extending some of these findings, and offering some new insights into how we might think about these topics. Table 36 summarizes these contributions.

Table 36 - Summary of Contributions to Knowledge

Confirmation (existing research citations)	Extension
Organizational identity comprises attributes that are enduring. (Albert and Whetten 1985)	Certain industries or organizations may possess characteristics that make their identity particularly enduring and resistant to change.
Organizational identity affects organizational action. (Dutton and Dukerich 1991, Gioia, 1996)	Organizational identity can constrain organizational action, and act as an inertial force that limits the organization's ability to change.
Image or reputation is a result of personal interaction and cumulative interaction. (Elsbach, Sutton et al. 1998, Fombrun, 1990)	Industries with certain characteristics may be more susceptible to the personal interaction aspect of image or reputation building.
Fundamental change in organizational identity precedes fundamental strategic change. (Gioia and Thomas 1996)	

New
Suggests a new level of analysis for identity: Industry identity may be linked to organizational identity through shared attributes, and industry identity attributes that are common to member organizations may dominate members' actions.
Suggests a new linkage between organizational identity and image: Organizational identity affects how individuals conceptualize "image" and consequently, how organizations choose to manage image.
Suggests a new way of dealing with identity/image dissonance: Individual members do not always move to close the gap between identity and image; rather they may rationalize a negative image and devalue stakeholders who hold this image as a way of dealing with identity/image dissonance. This method of dealing with dissonance limits the action that organizations take.

Albert and Whetten (1985) have suggested that one of the fundamental attributes of organizational identity is its enduring nature. This has been challenged by other researchers who have suggested that, in fact, identity is malleable, and plasticity may be another central dimension (Gioia and Thomas 1996). It may be that the truth lies somewhere in between. Supporting Albert and Whetten's original proposition, these findings suggest that for the Canadian banking industry, some core features of identity do seem to endure, even in the face of environmental turbulence, poor images, and change management challenges (i.e., changing to adapt to one's environment). As researchers, we may find that the defining features of organizational identity is not one-size-fits-all, and may vary according to industry characteristics or other variables.

One of the most prominent findings of identity researchers, around which there is much consensus, is that organizational identity acts as a driving force behind organizational action (Dutton and Dukerich 1991, Bouchikhi, 1998). Individual members frame issues through their understanding of and beliefs around the organization's identity and act accordingly. This research clearly supports this finding. The industry and individual banks all framed their strategies and their perceptions of external stakeholders through the lens provided by their organizational identity. Most of the prior findings, however, focus on how identity, or the gap between identity or envisioned identity and image, has acted as a catalyst for action, while this research illustrates how identity can also act as a strong force constraining organizational action.

Correspondingly, prior research findings have suggested that a fundamental change in organizational identity must precede fundamental strategic change (Gioia and Thomas 1996, Fox-Wolfgramm, 1998). This research also supports this finding. Although the banks adapted to the legislative environment on a superficial level, their fundamental approach and attitudes did not change substantively over the period. They continued to pursue a strategy that was premised on the notion that others viewed the world in the same manner they did, and held the same set of values and priorities. Their sense of being supremely knowledgeable private sector corporations seemed to inhibit them from truly cooperating or consulting with the government over regulatory matters. In essence, they never appeared to feel a need to interact with legislators along the lines recommended by Robert Leone (1986), which include the admonition to be proactive and to recognize the legitimacy of government concerns. A stark example of this approach was the publicly reported manner in which the Royal Bank and the Bank of Montreal informed the government of their proposed merger in early 1998. According to newspaper reports, the banks placed a call to the Minister of Finance informing him of their intentions a mere 20 minutes before making a public announcement. Ultimately, the mergers failed to receive governmental approval.

Finally, prior research in the area of image and impression management has focused heavily on the impact of CEOs on organizational images, and on how crises impacted images (Sutton and Callahan 1987, Benoit, 1995), thus limiting how we may define image and its drivers. This research supports recent findings that have begun to suggest that image or reputation is also a function of interactions between employees on the front lines and customers (Elsbach, Sutton et al. 1998). These more recent findings do not contradict or negate earlier findings around the impact of CEOs, nor do they suggest that formal boundary spanning efforts such as advertising do not have a potentially significant impact on image. Rather, they expand our understanding of the construct of image. The findings of this thesis further extend the view of the importance of personal interaction but suggesting that this dimension may be an even more important driver of image in industries where the public is highly dependent on the services or the goods, they use the services or the goods frequently, and there are few alternatives for the required services or goods.

In addition to supporting and extending the literature, as discussed above, this research suggests three new perspectives on the phenomena of organizational image and identity. First, it links industry identity to organizational identity, and suggests that industry characteristics may play a role in shaping organizational identity. Although there have been mentions of extending identity beyond the level of the organization (Gioia 1998), and recognition that organizations define themselves in relation to each other, there has been no significant empirical research that explores how the two levels of analysis may be related.

Second, it suggests a particular linkage between organizational identity and image. In these findings, particular organizational identity attributes appeared to influence how individual members to frame the concept of image in a specific manner, and consequently, affected how they chose to manage (or not manage) their image. Most research treats the construct of image as a given, and seeks to understand how members interpret the content of their image (i.e., what kind of characteristics do others attribute to their organization?). These findings suggest that how image is conceptualized, as well as its content, plays a role in impression management.

Finally, many of the prior research findings suggest that organizational action results from efforts on the part of individuals to remedy dissonance that arises when organizational images are inconsistent with organizational identity. This finding suggests an alternative way that individuals may handle this dissonance, and this is to rationalize a negative image as inevitable or unimportant and to devalue the stakeholders who hold this image. Although the banks clearly did make adaptive changes throughout the period, the data and analysis indicated that these changes were not the result of individual members' desire to improve their image, but rather were the result of a series of external events that buffeted their technical core. The prior research that speaks to the issue of identity/image dissonance was conducted in the non-profit sector (i.e., governmental agencies and universities). The contradictory nature of these findings may be caused by the particular attributes of this industry, which are not present in the non-profit sector. These particular attributes may facilitate this kind of reaction. Alternatively, it may be that different industries may attract individuals who handle dissonance in a different manner. The implication is that identity/image dissonance may not be a call to action in all situations.

12.5 Future Research Directions

The findings in this research suggest three future avenues of research that may yield interesting results. First, additional qualitative research could be conducted on industries or organizations that share the same characteristics as the Canadian banking industry, with a focus on determining if the same patterns of industry and organizational identity and the same approach to the regulatory or legislative environment are present. The popular press suggests there might be a number of industries or organizations that may present such research opportunities. For example, consider Microsoft's recent difficulties with the United States Justice Department and the ensuing anti-trust action against it. Like the Canadian banks, Microsoft is a very large, dominant corporation in its industrial sector, and with an estimated 85% of the world's desktop operating systems can be considered a quasi-monopoly. It has been highly profitable and has enjoyed senior management stability (i.e., it is still run by its founder and a number of original lieutenants). Given its prominence in desktop operating systems (as well as other products), and the reliance of the general public on personal computers with these systems, it could be argued that it has a quasi-utility status. Indeed, part of the government's claim in the anti-trust suit is that Windows is an "*essential facility*", and competitor access should not be restricted. The only dimension on which it differs from the Canadian banks is that of environmental turbulence. Certainly for the last decade, the software market has been very competitive and challenging.

A recent profile of Bill Gates and the Microsoft anti-trust trial by Ken Auletta in the New Yorker (August 19, 1999) suggests that the organization and its founder share some of the identity attributes exhibited by the Canadian banks. For example, Gates clearly perceived Microsoft as being smarter than its competition and as being victimized by the government.

> *He was shocked that his government had sued and that it kept broadening the charges. He saw himself as demonized, a point he emphasized both publicly and privately...Gates nevertheless believed he was a victim. The*

United States government had become a menace unlike any he had encountered in the business world.

If his competitors had half a brain, he [Gates] was suggesting, Microsoft would be toast.

Gates was described as being offended that Microsoft's business practices were being questioned, and as being convinced that the government should not interfere in product development. He was also described as having difficulty with concepts, such as legitimacy, that did not lend themselves to mathematical precision.

Gates kept warning that the government should not be in the software-design business.

I once said to Bill, in 1992, "Shouldn't we worry about the court of public opinion? I was trying to ask a meaningful question, even if the term was not mathematically well-defined...Bill thought it was a vague, inarticulate idea.

Finally, Microsoft's approach to the government (and in the industry in general) has been widely regarded as combative and arrogant.

Barksdale (i.e., Netscape's CEO) claimed that Microsoft had crossed a legal line by using the "bullying and tough tactics" of a "monopolist" to "squelch" competition in the browser market.

Normally, when a target of a lawsuit asks for a meeting the target is solicitous. They saw in Gates a swagger that announced, in the words of one Justice official, "I'm the toughest kid on the block."

[Microsoft's] twelve witnesses radiated hubris.

Although the trial is not over, observers suggest that Microsoft's efforts at managing this aspect of the regulatory environment have been less than successful.

Second, additional qualitative research could also deepen our understanding of the linkages between reputation, legitimacy and legislative outcomes. Interviews with legislators and additional outside observers (e.g., civil servants) could help confirm the proposition that image or reputation is driven to some degree by personal interaction, is cumulative and does impact legislative decision-making.

Finally, a quantitative survey could be conducted to test the propositions laid out in *Chapter 11*. A survey sampling a variety of industries that face a similar set of regulatory challenges, say health and safety, would help refine these constructs and relationships. A quantitative analysis may help us understand whether particular industry characteristics or identity attributes, or particular combinations thereof, are more relevant in predicting specific approaches and specific legislative outcomes.

To sum up, this thesis makes a contribution to the field of organizational identity, image, reputation and managing the legislative process (or public affairs management). As a piece of qualitative research, it offers a framework and new insights for other researchers to debate, test and extend. The concepts of organizational identity and image are still in the early stages of being fully fleshed out and this research offers new ways of thinking about organizational identity. First, it suggests how industry identity might be linked to organizational identity, and explores some of the potential ramifications of this linkage in a legislative context. Second, it suggests how the inertial properties of identity can affect an organization's adaptation to its environment. Third, it also elaborates on the potential linkage between the constructs of identity and image and suggests how this linkage affects strategic decision-making in the area of image management. Fourth, in addition to these insights on identity and image, this research builds on our emerging understanding of the impact of personal interaction on the construct of reputation. Finally, as a tale of how large institutions have managed a significant element of their environment, it leaves practitioners with a cautionary note on the dangers of arrogance, and the power of an organization's identity to drive its action, for better or worse.

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APPENDICES

Appendix A Qualitative Research on Identity and Image

Authors	Selected Conclusions	Methodology	Data Sources
Dutton and Dukerich, 1991	links impression management to organizational adaptation using constructs of identity and image	qualitative, case study	open-ended interviews with 25 employees of Port Authority across levels; archives; media reports; field notes and conversations
Gioia and Thomas, 1996	links impression management to organizational adaptation using constructs of identity and image	Phase 1 - qualitative, case study Phase 2 - quantitative survey	Phase 1 - case study consisted of interviews at one site with senior management team (11) and outsiders (14) archives; media reports
Elsbach and Kramer, 1996	link impression management and organizational identity through concept of categorization	qualitative	interviews (43), records, media reports
Sutton and Callahan, 1987	links image to legitimacy and organizational demise	qualitative	interviews (22), records, observations
Elsbach, Sutton et al , 1998	links impression management to stakeholder management	qualitative	interviews (23 hospital staff, 15 patients) media reports, observations, records

Appendix B Archival Sources

1. MINUTES OF PROCEEDINGS AND EVIDENCE OF THE HOUSE OF COMMONS STANDING COMMITTEE S

Standing Committee on Finance and Economic Affairs
Chairman: Don Blenkarn, M.P.
33rd Parliament

Issue Number	Date	Witnesses
(1st session), no. 26	June 17, 1986	Reginald Stackhouse, M.P.
(2nd session), no. 10	November 26, 1986	Retail Council of Canada, Air Canada
(2nd session), no. 11	November 27, 1986	CBA, Canada Trust
(2nd session), no. 13	December 3, 1986	Consumers' Association of Canada, Petro Canada

Standing Committee on Consumer and Corporate Affairs and Government Operations
Chairman: Garth Turner, M.P.
34th Parliament, 2nd session

Issue Number	Date	Witnesses
12	June 12, 1989	Consumers' Association of Canada, Linda Leatherdale
13	June 13, 1989	Donald Blenkarn, M.P., Reginald Stackhouse, M.P.
14	June 14, 1989	CBA
15	June 15, 1989	Retail Council of Canada
19	June 27, 1989	Consumers' Association of Canada
20	June 28, 1989	Trust Companies Association of Canada

Standing Committee on Consumer and Corporate Affairs and Government Operations
Chairman: Felix Holtmann, M.P.
34th Parliament, 3rd session

Issue Number	Date	Witnesses
20	November 6, 1991	Garth Turner, M.P., Royal Bank, Bank of Montreal
23	November 20, 1991	Consumers' Association of Canada, Amex Bank of Canada
30	February 6, 11, 1992	Canada Trust, Donald Blenkarn, M.P.
31	February 12, 1992	Bank of Montreal
32	February 18, 1992	Bureau of Competition Policy
34	March 16, 1992	Fraser Institute

1. MINUTES OF PROCEEDINGS AND EVIDENCE OF THE HOUSE OF COMMONS STANDING COMMITTEES (continued)

Standing Committee on Industry
Chairman: David Walker, M.P.
35th Parliament, 2nd session

Issue Number	Date	Witnesses
38	February 6, 1997	Department of Industry
39	February 11, 1997	CBA and industry members (Bank of Montreal, CIBC, Royal Bank, Toronto-Dominion)
40	February 12, 1997	Association cooperative d'economie familiale de l'Outanouais, Consumer Aid Services of Shawinigan, Consumers' Association of Canada, Democracy Watch, Federation of Co-operative Family Economics Associations of Quebec
41	February 13, 1997	Retail Council of Canada and industry members (Canadian Tire, Sears Canada, Eaton Credit Corporation, Hudson's Bay Company)

2. NEWSPAPER ARTICLES

Date	Newspaper	Journalist	Title
May 19, 1986	Globe and Mail	Cathryn Motherwell	Credit card rates high in Canada despite U.S. pattern
June 10, 1986	Winnipeg Free Press	CP	High credit card rates under Commons scrutiny
June 19, 1986	Montreal Gazette	CP	MP hints credit-card rates reasonable
June 24, 1986	Calgary Herald	Vicki Barnett	Charge-card rate inconsistent
January 26, 1987	Globe and Mail	Cathryn Motherwell	Interest stays up on credit cards
January 28, 1987	Winnipeg Free Press	CP	Credit interest to be probed
February 17, 1987	Winnipeg Frees Press	CP	Credit Study Inconclusive
March 21, 1987	Globe and Mail	Christopher Waddell	Banks told to cut credit-card rates
March 21, 1987	Toronto Star	CP	Cut rates or else, credit card firms told
March 21, 1987	Globe and Mail	Virginia Galt	Banks ponder credit blast, but don't budge on rates
March 27, 1987	Globe and Mail	David Stewart-Patterson	Royal Bank's boss keeps cards close to vest
March 27, 1987	Calgary Herald	Gord McIntosh	Credit card rate cuts require more study, banker says
March 28, 1987	Toronto Star	Jonathon Ferguson	Ottawa may lower credit card interest rates

2. NEWSPAPER ARTICLES (continued)

Date	Newspaper	Journalist	Title
March 28, 1987	Toronto Star	Jonathon Ferguson	Banks, major retailers balk at bid to cut
April 2, 1987	Globe and Mail	Virginia Galt	CIBC lowers Visa rate after threat by Ottawa
April 3, 1987	Globe and Mail	Dow Jones	Royal cuts rate on Visa cards
April 4, 1987	Globe and Mail	no byline	Bank of Montreal to cut Mastercard interest rates
April 4, 1987	Calgary Herald	Peter Morton	Credit card interest rates still too high
August 1, 1987	Toronto Star	CP	Royal Bank boosts interest on Visa card
August 6, 1987	Calgary Herald	CP	Tory MP calls credit-card rate 'commercial obscenity'
August 6, 1987	Toronto Star	Tony Van Alphen	Tory MP seeks to legislate credit card rates
August 20, 1987	Globe and Mail	Marian Stinson	T-D to increase interest rates on Visa cards
September 23, 1987	Winnipeg Free Press	CP	Credit card interest limits, penalties sought in bill
December 16, 1987	Toronto Star	CP	Ottawa rejects credit card legislation
December 20, 1987	Winnipeg Free Press	no byline	Consumer groups urges credit-card interest limit
July 27, 1988	Toronto Star	George Brett	Two major banks studying increased Visa card rates
May 9, 1989	Globe and Mail	Christopher Waddell	MPs launching another probe of credit card interest rates
May 11, 1989	Globe and Mail	no byline	Don't tinker with credit card rates
June 4, 1989	Toronto Star	Carolyn Adolph	MPs target credit cards
June 11, 1989	Calgary Herald	Marilyn Ronald (CP)	Credit-card rates in spotlight again
June 14, 1989	Globe and Mail	CP	Some credit cards hide sting, Blenkarn says
June 14, 1989	Montreal Gazette	Eric Beauchesne	Credit-card rates can hit 1,000%: MP
June 15, 1989	Toronto Star	Jonathon Ferguson	Credit card rules may be tightened
June 15, 1989	Globe and Mail	Paul Koring	Banker urges Ottawa to refrain from regulating credit card rates
June 15, 1989	Winnipeg Free Press	CP	Banks yearn to charge by the hour, Blenkarn says
June 16, 1989	Calgary Herald	Marilyn Ronald (CP)	Leave credit cards alone, Ottawa told
June 17, 1989	Toronto Star	CP	Commons credit card claims misleading, says Royal Bank
June 17, 1989	Toronto Star	CP	Federal NDP critic raps banks on selective credit card breaks
June 18, 1989	Toronto Star	Peter Morton	Credit-card storm ruffles feathers
October 24, 1989	Toronto Star	Jonathon Ferguson	Cap on credit cards studied
October 31, 1989	Toronto Star	Jonathon Ferguson	MPs propose floating cap on card rates

2. NEWSPAPER ARTICLES (continued)

Date	Newspaper	Journalist	Title
October 31, 1989	Calgary Herald	Eric Beauchesne (Southam News)	Move to cap credit card rates wins committee little support
October 31, 1989	Globe and Mail	Drew Fagan	Committee urges Ottawa to cap rates on credit cards
March 29, 1990	Montreal Gazette	Jan Austen (Southam News)	Ottawa rejects limits on credit-card rates
March 29, 1990	Globe and Mail	Drew Fagan	Blais opposes capping interest rates on credit cards
March 12, 1991	Toronto Star	Jade Hemson	Credit card cost is slow to fall
May 8, 1991	Globe and Mail	Ellen Roseman	Credit card issuers cash in on user's inertia
October 9, 1991	Montreal Gazette	Peter Hadekel	Decline in credit-card rates has been a fraction of the drop in prime rates
October 30, 1991	Toronto Star	Jonathon Ferguson	Credit card rates 'gouging" MPs say
November 2, 1991	Globe and Mail	Ellen Roseman	Credit card rates need thorough hearing
November 2, 1991	Toronto Star	Jade Hemson	Recession blamed for credit card defaults
November 18, 1991	Globe and Mail	John Lisco (Barron's)	Credit-card cap has dark, underlying negativism
November 3, 1991	Toronto Star	Joseph Hall	Increasing defaults keep interest high, credit card firms say
November 19, 1991	Toronto Star	Jonathon Ferguson	Ottawa wants banks to cut card interest
November 19, 1991	Toronto Star	Rick Hallechuk	Royal to lower charges on cards
December 6, 1991	Montreal Gazette	Eric Beauchesne	Credit card rates are too high, Blais says
June 24, 1992	Globe and Mail	CP	MPs reject credit card cap
June 24, 1992	Winnipeg Free Press	Eoin Kenney (CP)	MPs persuaded ceiling useless on credit card interest
July 25, 1992	Globe and Mail	Ann Finlayson	Getting off the plastic treadmill
July 15, 1992	Winnipeg Free Press	Rennie Mackenzie (Thomson news)	B of M gets plus but banks balk t plastic fee cut
July 15, 1992	Winnipeg Free Press	Larry Kusch	Credit card firms exploit consumer ignorance, CAC says
September 9, 1992	Montreal Gazette	letter to the editor	Credit card rates are being lowered? We're seen as fools
September 9, 1992	Montreal Gazette	Brian McKenna (CP)	Credit-card rates aren't slowing recovery, bank says
December 16, 1992	Globe and Mail	no byline	Credit disclosure
January 18, 1993	Vancouver Sun	Michael Kane	As a mattering of interest
February 20, 1993	Globe and Mail	Ellen Roseman	Credit cards have their limit
March 23, 1993	Calgary Herald	James Daw (Toronto Star)	Banks trim rates on credit cards

2. NEWSPAPER ARTICLES (continued)

Date	Newspaper	Journalist	Title
April 18, 1993	Calgary Herald	Michael (Vancouver Sun)	Report notes range of interest charges
April 30, 1993	Globe and Mail	John Partridge	Bankers battle in credit card war
August 13, 1993	Toronto Star	James Daw	Time to give them credit
May 5, 1994	Winnipeg Free Press	no byline	Credit card customers unaware of costs
May 28, 1994	Calgary Herald	Eric Beauchesne	High credit card rates hit
December 16, 1994	Globe and Mail	Marian Stinson	Credit card rates poised to climb
April 5, 1995	Montreal Gazette	Campbell Clark	Credit-card rates have fallen from on high
October 4, 1995	Globe and Mail	no byline	Credit card cap urged
April 16, 1996	Toronto Star	Rob Carrick (CP)	Banks slow to cut rates on cards
April 16, 1996	Calgary Herald	Rob Carrick (CP)	High rates "gouging" bank credit card users
April 16, 1996	Globe and Mail	CP	Industry Canada raps banks over credit cards
April 17, 1996	Calgary Herald	Rob Carrick (CP)	Manley says banks should explain rates
April 17, 1996	Toronto Star	Jonathon Ferguson	Banks face heat on credit cards
May 7, 1996	Calgary Herald	Sandra Rubin (CP)	Image-conscious banks lower credit card rates
June 12, 1996	Calgary Herald	CP	Government report Oks credit card interest rates
November 20, 1996	Globe and Mail	Scott Feschuk	MPs target 'immoral' rates paid by credit card holders
November 21, 1996	Toronto Star	Shawn McCarthy	Consumers can choose cheap cards, Peters says
November 23, 1996	Montreal Gazette	Peter Hadekel	Put backbencher's credit-card idea on back burner
November 26, 1996	Globe and Mail	Marian Stinson	TD cuts interest rate on Visa credit card
November 29, 1996	Globe and Mail	John Partridge	Royal chairman defends credit card rates
November 29, 1996	Toronto Star	Art Chamberlain	Royal Bank rejects MPs call for lower credit-card rates
November 30, 1996	Globe and Mail	John Partridge	Credit card profits divulged at last
December 4, 1996	Calgary Herald	Vic Parsons	Credit-card rates spur MPs' call for inquiry
December 9, 1996	Toronto Star	Kristin Goff	Rate relief in some cards
February 7, 1997	Montreal Gazette	Vic Parsons	Record gap between bank rate, credit-card rates
February 13, 1997	Calgary Herald	CP	Consumer groups call for clear data on credit card rates
February 12, 1997	Vancouver Sun	No byline	How the interest on credit cards is

			calculated
February 21, 1997	Vancouver Sun	Michael Kane	Canadians unaware of plastic details
October 9, 1997	Vancouver Sun	No byline	We're happy with our credit cards, survey says

3. SUPPLEMENTARY DATA

A. Reports

Credit Cards in Canada; Report of the Standing Committee on Finance and Economic Affairs, 1987

Charge It: Credit Cards and the Canadian Consumer; Report of the Standing Committee on Consumer and Corporate Affairs and Government Operations, 1989

Credit Cards in Canada in the Nineties; Report of the Standing Committee on Consumer and Corporate Affairs and Government Operations, 1992

Ekos Research Associates Inc. Public Opinion Research Relating to the Financial Services Sector. September, 1998.

B. Credit Card Interest Rate Data

Credit Card Costs; quarterly bulletin published by the Office of Consumer Affairs, Industry Canada.

Bank of Canada, Department of Monetary and Financial Analysis, bank rate data

C. House of Commons Debates (also known as the Hansard)

Date	Speaker	Discussed as ...
May 26, 1986	multiple members	private members business- motion
January 27, 1987	Mr. Blackburn	oral question
February 5, 1987	Mr. Stackhouse	S.O 21
February 9, 1987	Mr. McCrossan	S.O 21
March 12, 1987	Mr. Orlikow	oral question
March 17, 1987	Mr. Stackhouse	S.O 21
March 19, 1987	Mr. Stackhouse	S.O 21
March 20, 1987	Mr. Cassidy	oral question
March 20, 1987	Mr. Blenkarn	table report
March 24, 1987	Mr. Stackhouse	S.O 21
March 26, 1987	Mr. Stackhouse	oral question
April 1, 1987	Mr. Stackhouse	oral question

C. **House of Commons Debates (also known as the Hansard)**

Date	Speaker	Discussed as ...
April 1, 1987	Mr. Garneau	oral question
April 3, 1987	Mr. Stackhouse	S.O 21
May 29, 1987	Mr Cassidy	debate - financial institutions
August 25, 1987	Mr. Orllikow	adjournment debate
August 28, 1987	Mr. Stackhouse	S.O 21
September 23, 1987	Mr. Stackhouse	S.O 21
September 23, 1987	Mr. Stackhouse	introduction of private members bill
September 29, 1987	Mr. Stackhouse	S.O 21
October 26, 1987	Mr. Stackhouse	S.O 21
September 30, 1987	multiple members	debate - private members bill
April 5, 1987	Ms. Callbeck	S.O 31
April 10, 1989	Mr. Rodriguez	introduction of private members bill
April 26, 1989	Mr. Rodriguez	debate - Bank Act
May 8, 1989	Mr. Blenkarn	introduction of private members bill
October 30, 1989	Mr. Turner	table report
March 28, 1990	Mr. Blais	table Government response
March 30, 1990	Mr. Boudria	oral question
June 18, 1991	Mr. Blenkarn	introduction of private members bill
June 19, 1991	Mr. Rodriguez	introduction of private members bill
October 29, 1991	Mr. Turner	oral question
October 30, 1991	Mr. Rodriguez	oral question
October 31, 1991	Mr. Turner	S.O 31
November 6, 1991	Mr. Turner	oral question
November 18, 1991	multiple members	oral question
November 19, 1991	Mr. Turner	S.O 31
November 19, 1991	Mr. MacDonald	oral question
November 20, 1991	multiple members	oral question
November 21, 1991	Mr. MacDonald	oral question
December 2, 1991	multiple members	debate - private members bill
December 6, 1991	multiple members	debate - government orders
December 6, 1991	Mr. Boudria	oral question
December 9, 1991	Mr. Rodriguez	oral question
December 10, 1991	multiple members	debate - supply
March 16, 1992	multiple members	S.O 31
March 24, 1992	Mr. Blais	oral question
June 1, 1992	Mr. Turner	oral question
June 23, 1992	Mr. Rodriguez	oral question
September 14, 1992	Mr. Turner	S.O. 31
September 16, 1992	Mr. Rodriguez	oral question
December 3, 1992	Mr. Edmonston	routine proceedings
March 15, 1993	Mr. Thorkelson	oral question
March 25, 1993	multiple members	routine proceedings
March 26, 1993	Mr. Van de Walle	S.O. 31
June 10, 1993	Mr. Hogue	S.O. 31
June 14, 1993	Mr. Tremblay	S.O. 31

C. House of Commons Debates (also known as the Hansard)

Date	Speaker	Discussed as ...
March 21, 1994	Mr. de Savoye	introduction of private members bill
April 11, 1994	Mr. de Villas	introduction of private members bill
May 27, 1994	Mr. Laurin	oral question
June 7, 1994	multiple members	debate - private members bill

Appendix C Interview Protocols

INTERVIEW PROTOCOL - BANKS

OPENING REMARKS

Thank you for agreeing to see me.

As you know from [our conversation/my letter] I am trying to develop a case study around how the banks managed the legislative challenges that have arisen in the last decade around credit cards. I am particularly interested in how banks have managed their image around these issues.

So I'd like to break our discussion in four sets of questions.

- First, I'd like to begin by understanding what your role is in the bank, how long you've been here and how you view the organization.
- Next, I'd like to understand how this bank in particular managed the legislative challenges that have arisen and continue to arise around credit cards, and why the organization chose that strategy.
- Then, I'd like to understand how the bank managed its image with external stakeholders (such as journalists, the people you lobbied, consumers) around credit card issues over the years, and why it has chosen or choose to manage it this way.
- And finally, I'd like to understand how effective you feel the bank has been in managing its image around credit card issues throughout the last few years.

I should also mention I am going to be asking two questions fairly frequently throughout our discussion - that is "why" and "did this change over time".

With your permission, I would also like to tape record our conversation. There are two reasons I'd like to do this. First, it enables me to concentrate on our conversation much more effectively. Second, it improves the accuracy of my analysis. I want to assure you that everything is confidential, and I do not use any names in the analysis.

TURN TAPE ON, CHECK MIKE

INTRODUCTION

1. Briefly, can you tell me how long you've been with the bank and what jobs you've held since you've joined.

    - roles and responsibilities with credit cards

2. How would you describe the bank's core values? Do you think these values have changed over the years you've been with the bank?

3. On a broader level, what do you see as the strategic importance, or the mission, of Canadian banks within our society?

4. Can you describe how the credit card business fits into the bank's overall business strategy? What kind of objectives or goals has the bank had for credit card business over the years?

    - market dominance
    - loss leader for other business
    - highly profitable, cross subsidizes

MANAGING THE LEGISLATIVE PROCESS

Now I'd like to talk about the legislative challenges you've faced in the area of credit cards, and how you've managed them.

5. In your tenure, or since the mid 1980s, what have been the major legislative or regulatory challenges facing the bank's credit card operations?

    - interest rate levels
    - disclosure
    - access to credit

6. Why do you think these issues became important for legislators, the media, and/or consumers?

    - changing nature of Parliament
    - changing demographics
    - lack of responsiveness to issues exacerbates then

7. How would you describe the bank's overall strategy for managing these legislative initiatives? Why did it choose this strategy? Did this strategy change during over the period? If so, why did it change?

    - free rider/leader/follower/entrepreneur
    - coordination with other banks/break ranks
    - role of institutional inertia

MANAGING THE LEGISLATIVE PROCESS

8. What actions or tactics did the bank use to implement its strategies? Why did the bank undertake these particular actions? Did these actions or tactics change throughout the period? If so, why? Were they different from those your competitors employed?

   - lobbying
   - reporting research results
   - reporting survey results
   - handling the press

9. What were the biggest obstacles or frustrations facing the bank in trying to address these issues?

   - hardest thing about trying to be responsive?
   - any unfairness in the process?
   - did you do anything that just didn't work?

10. How effective do you think these strategies and tactics were? How do you define effectiveness?

11. Are there specific factors that you think either contributed to, or detracted from their overall effectiveness?

    - could you have been more effective?
    - with hindsight, would the bank do anything differently now, knowing what it does?

12. What was the role of the CBA? Do you think they were effective? Why or why not?

13. Who was primarily responsible for these decisions regarding the overall strategy or the tactics? Who else would have input into these decisions? Did the primary responsibility for making these decisions shift over time? If so, why?

    - senior management
    - CBA influence
    - role of institutional inertia

14. Within the universe of all the legislative issues the bank deals with, how important has management perceived these legislative challenges surrounding credit cards to be? How do you know they thought it was important? Did they allocate extra resources to it?

15. Why do you think they have this perception regarding importance? Did this perception change throughout the period? If yes, how and why did it change?

MANAGING THE LEGISLATIVE PROCESS

16. How did these legislative issues around credit cards come to the bank's attention?

- Does the bank pay much attention to media reports in your view?
- Have they always?
- Did any of the issues gain salience because of media reports?

17. What departments in the bank were involved in the bank's efforts to manage these issues? How did they interact with each other? Did their roles change throughout the period?

- public affairs
- credit card ops
- president's office
- legal

18. From the bank's standpoint, did it make any changes to how it ran its credit card operations as a result of these various Parliamentary inquiries? What results did these changes have? Have they hurt or helped the bank in any way? Does anything more remain to be done in dealing with these issues?

- rate reductions
- change in disclosure
- change in credit card ops responsibilities

19. Briefly, what major regulations does the credit card operations currently comply with? Would you characterize the bank's compliance in these areas as meeting the regulatory requirements, or going beyond them?

- not meeting them

20. Is there anything that makes it hard to be compliant? Is there anything the bank is especially proud of in responding to regulatory changes?

IMPRESSION MANAGEMENT EFFORTS

Now, I'd like to focus on how the bank has managed its image around credit cards throughout the same period.

21. Did the bank have an explicit strategy around how to manage outsiders' impressions of credit cards, and credit-card related issues? Was it different for different stakeholders - legislators, media, consumers, activists? Why? If yes, can you summarize the strategy [strategies]? Did it change over time? Why?

22. If not, why do you think it did not have an explicit strategy?

23. How effective do you feel this strategy(ies) was? How do you define effectiveness?

    - specific factors that either contributed to, or detracted from the overall effectiveness?
    - could the bank have chosen impression management strategies that were more effective?

24. Do you think it is important or necessary for the organization to project different images to different stakeholders? If so, why?

25. Are there inherent challenges in projecting multiple images? If so, how has the bank handled these challenges?

26. What central messages was the bank trying to send [to each stakeholder - i.e. legislators media, consumers, activists] about credit cards? Why did the bank think these were the most important messages? Did these messages change over the period? If so, why? do you thin these were effective messages?

27. How did the bank try to transmit these messages? Did it change the way it transmitted these messages over the period? If so, why? How effective were you in their transmission? Could you have been more effective? Are there specific factors or circumstances that you think either contributed to or detracted from the overall effectiveness?

    - who was responsible (individuals, departments)
    - media relations
    - speeches
    - advertising
    - lobbying
    - customer service efforts

IMPRESSION MANAGEMENT EFFORTS

28. During periods when there was heightened attention on credit card issues, were there any initiatives that helped front line staff better understand the bank's position on these issues, or handle customer inquiries about the issues?

29. How do you think legislators would describe the bank's efforts to manage legislation around credit cards? Why do you think they see it this way? Do you think their views have changed over this period?

30. How do you think the media perceives the bank? Why do you think they see it this way? Do you think their views have changed over this period?

    - Do you think the bank has been misrepresented by the media?

31. How do you think consumers perceives the bank? Why do you think they see it this way? Do you think their views have changed over this period? Do you think the bank has been misunderstood by the public?

32. How do you think activist groups such as the Consumers Action Group perceives the bank? Has this changed over time? Why do you think they saw/see it this way? Do you think their views have changed over this period?

33. Do you think any of these external stakeholders - legislators, media, consumers, activists - perceive a distinction between you and your competitors? Have their perceptions on this matter changed over time?

34. Does the bank actively solicit feedback on its image around credit cards? If so, how? Has this changed over the period?

35. Has heightened legislative and media attention on credit cards ever posed a threat to the bank's overall image? If so, can you elaborate on the nature of this threat?

EFFECTIVENESS

36. Do you think how the bank has managed it image, has affected the bottom line? Its ability to attract new customers? To be more competitive?

37. Do you think how the bank has managed it image, either around credit cards or more generally, has had an impact on how effective it has been in managing the legislative challenges to its credit card business?

38. Do you think you were more or less effective than your competitors in managing:

- your image around credit cards?
- the legislative environment around credit cards?

39. Are there any distinguishing attributes that make this bank different from the other banks? Do you think these attributes have changed over the years?

40. When you are in a social situation, say at a party, and people learn you work with a bank, what kind of reaction do you get?

CONCLUDING REMARKS

41. What are your present challenges in managing your image? In managing the legislative environment? What do you see for the future?

42. Are there any issues you'd like to raise that we haven't already touched on, or observations you'd like to share?

43. Is there anyone else, either in the bank or outside of the bank, who you think might be interesting for me to talk to about these issues?

THANK YOU FOR YOUR TIME

INTERVIEW PROTOCOL - AFFILIATED PARTIES
(e.g., Canadian Bankers Association)

OPENING REMARKS

Thank you for agreeing to see me.

As you know from [our conversation/my letter] I am trying to develop a case study around how the banks managed the legislative challenges that have arisen in the last decade around credit cards. I am particularly interested in how banks have managed their image around these issues.

So I'd like to break our discussion in four sets of questions.

- First, I'd like to begin by understanding what your role [is] with the [CBA.
- Next, I'd like to understand the role of the CBA in helping the banks manage the legislative challenges that have arisen and continue to arise around credit cards.
- Then, I'd like to ask you some questions on how you think the banking industry managed its image with external stakeholders (such as journalists, the people you lobbied, consumers) around credit card issues over the years, and the role the CBA played in this process.
- And finally, I'd like to understand how effective you feel the banks has been in managing their image around credit card issues throughout the last few years.

I should also mention I am going to be asking two questions fairly frequently throughout our discussion - that is "why" and "did this change over time".

With your permission, I would also like to tape record our conversation. There are two reasons I'd like to do this. First, it enables me to concentrate on our conversation much more effectively. Second, it improves the accuracy of my analysis. I want to assure you that everything is confidential, and I do not use any names in the analysis.

TURN TAPE ON, CHECK MIKE

INTRODUCTION

1. Briefly, can you tell me how long were [have been] with the CBA, and in what capacity?

2. What do you see as the CBA's critical mission or role?

3. Since the mid 1980s, did the CBA have any particular mandate or goals it tried to achieve with respect to bank credit cards? Were these objectives hard to fulfill? Why? What was the biggest challenge? Any big surprises?

4. On a broader level, what do you see as the strategic importance, or the mission, of Canadian banks within our society?

MANAGING THE LEGISLATIVE PROCESS

Now I'd like to talk about the legislative challenges you've faced in the area of credit cards, and how you've managed them.

5. In your tenure, or since the mid 1980s, what have been the major legislative or regulatory challenges facing the bank's credit card operations?

    - interest rate levels
    - disclosure
    - access to credit

6. Why do you think these issues became important for legislators, the media, and/or consumers?

    - changing nature of Parliament
    - changing demographics
    - lack of responsiveness to issues exacerbates then

7. How would you describe the banking industry's overall strategy for managing these legislative initiatives? Why did it choose this strategy? Did this strategy change during over the period? If so, why did it change?

    - free rider/leader/follower/entrepreneur
    - coordination with other banks/break ranks
    - role of institutional inertia

8. What role did the CBA play in helping determine this strategy?

MANAGING THE LEGISLATIVE PROCESS

9. What tactics or actions did the CBA use to manage the legislative environment around these issues? Did these tactics change throughout the period? If so, why?

   - testimony
   - lobbying
   - reporting research results
   - reporting survey results
   - handling the press

10. How effective do you think these strategies and tactics were? How do you define effectiveness? With hindsight, would you recommend pursuing a different strategy? Or different tactics?

11. Could the banks have been more effective in their efforts? Are there specific factors that you think either contributed to, or detracted from their overall effectiveness?

12. Do you think the CBA was effective in its role?

    - What were the biggest obstacles or frustrations facing the CBA?
    - What limits your ability to contribute to the industry's effectiveness?
    - Are there any opportunities in all of this that you can contribute to?

13. What the hardest thing in your view about trying to be responsive to legislative challenges?

    - Did you see any unfairness in the process?
    - Did you do anything that just didn't work?

14. Who was primarily responsible for these decisions regarding the overall industry strategy for addressing these challenges? Did the primary responsibility for making these decisions shift over time? If so, why?

    - Who else would have input into these decisions?

15. Did individual banks use additional tactics to manage the legislative environment around these issues? Did these tactics change throughout the period? If so, why?

    - testimony
    - lobbying
    - reporting research results
    - reporting survey results
    - handling the press

MANAGING THE LEGISLATIVE PROCESS

16. Within the universe of all the legislative issues the banks deal with, how important did the industry perceive these legislative challenges surrounding credit cards to be? How do you know they thought it was important?

17. Were these perceptions around these legislative issues unanimous or varied? If they varied, how did they get resolved so the CBA could present a unified position?

    - Did these [or this] perception change throughout the period?
    - If yes, how and why do you think these changed?

18. How the did [does] the CBA interact with individual banks on this issue? Were some banks more or less easy to liase with on this issue?

19. How do legislative issues come to the CBA's attention? How did the legislative issues around credit cards come to the banking industry's attention?

    - pay much attention to media reports? Have they always?
    - issues gain salience because of media reports?

20. Do you think, either collectively or individually, the banks made any changes in how they ran their credit card operations as a result of these various Parliamentary inquiries?

    - rate reductions
    - change in disclosure
    - change in credit card ops responsibilities

21. Briefly, what major credit card regulations do [did] the banks comply with? To the best of our knowledge, would you characterize the industry's, or individual banks', compliance in these areas as meeting the regulatory requirements, or going beyond them? Is there anything that makes it hard to be compliant?

    - not meeting them

IMPRESSION MANAGEMENT EFFORTS

Now, I'd like to focus on how the industry has managed its image around credit cards throughout the same period.

22. Did the banks, collectively through the CBA, have an explicit strategy around how to manage outsiders' impressions of credit cards, and credit-card related issues? What did it really want to achieve? If yes, can you summarize the strategy [strategies]? Did it change over time? Why?

    - different for different stakeholders? Why?

23. If not, was there a specific reason why there was no strategy? Was addressing image issues ever discussed?

24. What was the CBA's role in this strategy?

25. How effective do you feel this strategy(ies) was? How do you define effectiveness? Are there specific factors that you think either contributed to, or detracted from the overall effectiveness of this strategy?

26. In hindsight, could the CBA have chosen or supported impression management strategies that were more effective?

    - What constraints has the CBA confronted in promoting the industry's image?
    - What might you do differently, knowing what you know now?

27. Do you think individual banks had an explicit strategy, distinct from the collective strategy, around how to manage outsiders' impressions of credit cards, and credit-card related issues? If yes, can you summarize the strategy [strategies]? Did it change over time? Why?

    - different for different stakeholders? Why?

28. Do you think it is important or necessary for the industry, or for individual banks, to project different images to different stakeholders?

29. Are there inherent challenges in projecting multiple images? If so, how has the industry, or individual banks handled these challenges?

30. What central messages was the industry trying to send [to each stakeholder - i.e. legislators media, consumers, activists] about credit cards? Why did it think these were the most important messages? Did these messages change over the period? If so, why?

31. Do you think these messages were effective? Why or why not?

IMPRESSION MANAGEMENT EFFORTS

32. How did it try to transmit these messages? Did it change the way it transmitted these messages over the period? If so, why?

33. How effective was the transmission? Could it have been more effective? Are there specific factors or circumstances that you think either contributed to or detracted from the overall effectiveness?

34. Did the CBA have an explicit or implicit role in the transmission of these messages?

    - who was responsible (individuals, departments)
    - media relations
    - speeches
    - advertising
    - lobbying
    - customer service efforts

35. How do you think legislators would describe the banking industry's efforts to manage legislation around credit cards? Why do you think they see it this way? Do you think their views have changed over this period?

    - How would they describe the CBA's role in those efforts?
    - Do you think they make distinctions between individual banks?

36. How do you think the media perceives the banks? Why do you think they see them this way?

    - Do you think they make distinctions between individual banks?
    - Do you think their views have changed over this period?
    - Do you think the bank has been misrepresented by the media?
    - how do you think the media perceives the CBA?

37. How do you think consumers perceives the banks? Why do you think they see it this way? Do you think their views have changed over this period?

38. Do you think the banks have been misunderstood by the public?

39. How do you think activist groups such as the Consumers Action Group perceives the banks? Has this changed over time? Why do you think they saw/see it this way? Do you think their views have changed over this period?

40. Do you think any of these external stakeholders - legislators, media, consumers, activists - perceive a distinction between individual banks? Have their perceptions on this matter changed over time?

IMPRESSION MANAGEMENT EFFORTS

41. Does the CBA actively solicit feedback on the banking industry's image? If so, how? Has this changed over the period?

42. Has heightened legislative and media attention on credit cards ever posed a threat to the industry's overall image? To the image of individual banks? If so, can you elaborate on the nature of this threat?

43. Do you think that how the industry has managed it image, either around credit cards or more generally, has had an impact on how effective it has been in managing the legislative challenges to its credit card business? In managing legislation in general?

44. Do you view the individual banks differently? For example, do you view them as having different cultures or different ways of operating, that endow them with distinctive attributes?

CONCLUDING REMARKS

45. What challenges or opportunities do you think the CBA currently faces?

46. Are there any issues you'd like to raise that we haven't already touched on, or observations you'd like to share?

47. Is there anyone else, either in the bank or outside of the bank, who you think might be interesting for me to talk to about these issues?

48. ***THANK YOU FOR YOUR TIME***

INTERVIEW PROTOCOL - MEDIA

OPENING REMARKS

Thank you for agreeing to see me.

As you know from [our conversation/my letter] I am trying to develop a case study around how the banks managed the legislative challenges that have arisen in the last decade around credit cards. I am particularly interested in how banks have managed their image around these issues.

So I'd like to break our discussion in three groups of questions.

- First, I'd like to begin by understanding how **the banks interact with the media**
- Next, I'd like to understand on **how you would describe the banks' image, and what's contributed to that image.**
- And finally, to the degree you've covered how the banks' have managed **legislative** issues, I'd like to understand **how effective** you feel they've been in doing so.

With your permission, I would also like to tape record our conversation. There are two reasons I'd like to do this. First, it enables me to concentrate on our conversation much more effectively. Second, it improves the accuracy of my analysis. I want to assure you that everything is confidential, and I do not use any names in the analysis.

TURN TAPE ON, CHECK MIKE

1. Briefly, can you tell me how long you've been with the [PAPER] and what areas you've covered

    coverage of banking industry

MEDIA RELATIONS

2. When you are covering these stories, how do you interact with the banks?

    single point of contact
    press releases v. interviews
    accessibility

3. What are the main things you are trying to accomplish when you are covering a banking story, dealing with them?

    get the facts
    speed

4. Do you distinguish between different sectors in your readership (e.g., small business, financial analysts, average consumers) Are their concerns distinctive? How so?

5. Banks periodically complain about the media coverage they get and the way they are portrayed to the public. Why do you think they say this?

6. Are there differences between individual banks and how they interact with you? Please elaborate.

    easier to deal with
    more accessible
    pr flaks versus department heads

7. What the most challenging thing about dealing with them? Or the biggest source of frustration?

8. Conversely, is there anything that makes them easy to deal with?

9. Has the way they deal with you changed over time?

10. When the banks respond to your requests, or interact with you, what do you think they are trying to accomplish? How would you describe their attitude towards you?

11. In your opinion are there things the banks could be doing differently in their interactions with the media to be more effective? In the way they manage their public image?

12. How effective are they in media relations relative to other industries you have covered?

13. Are you ever surprised by your interaction with the banks?

14. What issue, or kinds of issues, are uppermost in Canadians' minds when they judge banks? Why do you perceive this? (conversations with peers, friends, sources)

IMAGE

15. How would you personally describe the banks' image? (i.e. when I say the word 'banks" what words or phrases come to mind?) Why do you view them that way?

16. Based on your work with other sources, do you think other groups in our society have different images of the banks?

    legislators
    consumers
    activists

17. How do you think the media contribute to the creation of this image?

18. Are there other factors that you think contribute to the creation of this public image?

19. Do individual banks have different images?

20. Do you think the banks have different cultures, or personalities? Please elaborate.

MANAGING THE LEGISLATIVE PROCESS

21. Have you covered any stories with regard to how banks manage the regulatory or legislative community?

22. Why do you think these particular issues became important for legislators?

    changing nature of Parliament
    changing demographics
    lack of responsiveness to issues exacerbates then

23. How did the banks manage these issues with the legislators? Regulators? Did the way they manage change over time?

    strategy
    tactics

24. Did individual banks use different strategies or tactics for dealing with these issues?

25. How effective do you think these strategies and tactics were? How do you define effectiveness?

26. Are there specific factors that you think either contributed to, or detracted from their overall effectiveness?

27. What was the role of the CBA? Do you think they are effective? Why or why not?

THANK YOU FOR YOUR TIME

Appendix D Contact Summary Sheet

CONTACT SUMMARY FORM

Visit: **Site:**
Phone: **Contact date:**
Today's date:

1. **What were the main issues or themes that struck you in this contact?**

2. **Summarize the information you got (or failed to get) on each of the target question.**

3. **Anything else that struck you as salient, interesting, illuminating or important in this contact?**

4. **What new (or remaining target questions do you have in considering the next contact with this site?**

30	apology to committee
31	abusive practices
32	bank reputation
33	business practices
34	calculation of interest
35	card trends
36	competition
37	complaints
38	constituent example
39	consumer awareness
40	consumer behavior
41	consumer benefits
42	consumer choice
43	convenience
44	cost of card to consumer
45	cost of cards
46	cost to consumer
47	credit card advantages
48	credit card yield
49	criminal practice
50	cross subsidize
51	definiton of retail credit
52	different terminology
53	difficulty getting info
54	disclosure
55	discuss submission
56	ease of access
57	excessive rates
58	fair treatment of consumer
59	FI role
60	fraud
61	how interest is charged
62	importance of cards
63	importance of cc to retailers
64	in camera information
65	industry self-regulation
66	market forces
67	media reference
68	merchant fee
69	misleading practice
70	nature of info
71	need for evidence/information
72	opening statement
73	options
74	personal use/example
75	portfolio characteristics
76	praise government
77	privacy
78	Profits
79	Provincial regulation
80	Question
81	Rate justification
82	Rate movement
83	rationale for committee
84	reference to others
85	reference to retailers
86	repeat question
87	request for info
88	Retailers
89	Security
90	size of market
91	Submission
92	US bills
93	Welcome
94	who we are
95	Widespread concern

Appendix F Committee Hearings: Final Set of Category Codes

30 COMMITTEE IDENTITY

30.1 Rationale for committee
30.2 Fair treatment of consumer
30.3 Complaints
30.4 Personal example
30.5 Media reference
30.6 Reference to prior committee

31 ISSUES OF CONCERN

31.1 Rate justification
31.2 Method of interest rate calculation
31.3 Cost of cards
31.4 Disclosure
31.5 Competition
31.6 Profits
31.7 Cross subsidize
31.8 Ease of access
31.9 Options
31.10 Privacy
31.11 Provincial Regulations
31.12 Merchants Fee
31.13 Bankruptcy

32 RESPONSES TO COMMITTEE

32.1 Consumer behavior
32.2 Credit card advantages
32.3 Different terminology
32.4 Importance of cards to retailers
32.5 Market forces
32.6 Reference to others
32.7 US references
32.8 Difficulties with regulations
32.9 Exceed regulatory requirements
32.10 Regulatory changes needed
32.11 Strategy
32.12 Interest rate cap

33 OTHER INFORMATION TOPICS

33.1 Business practices
33.2 Card trends
33.3 Portfolio Characteristics

34 INTERACTION BETWEEN WITNESS AND COMMITTEE

34.1 Opening statements
34.2 Background information
34.3 Welcome
34.4 Praise government
34.5 Reference to submission
34.6 Information requests
34.7 Questions
34.8 Repeat Questions
34.9 Thanks
34.10 Animosity

Appendix G   Interviews: First Set of Category Codes

1	bank bashing
2	bank core values
3	CEO/senior management
4	changes to operations
5	collegial
6	communication scope
7	comparison to competitors
8	coordination with other banks
9	credit card feedback
10	credit card threat to legislation
11	decentralized
12	departmental interaction
13	duality
14	economic conditions
15	education strategy
16	external US
17	front line initiatives
18	future challenges
19	image-activist groups
20	image-general public
21	image-government
22	image-media
23	image-politicians
24	image management comparisons
25	image management strategy
26	importance of credit card operations
27	impression management strategy - credit cards
28	interest rates
29	issue identification
30	legislative strategy
31	legislative strategy effectiveness
32	lobbying tactics
33	major legislative challenges
34	market pressures
35	media misrepresentations
36	media strategy
37	merger
38	mimetic isomorphism
39	nature of the business
40	obstacles or frustrations
41	perception of backbenchers
42	performance
43	political conditions
44	product line
45	profit-oriented
46	reputation-CIBC
47	retailers
48	role of CBA
49	size
50	smart factor
51	structural changes

Appendix H Interviews: Final Set of Category Codes

1 CONDITIONS

1.1 *Internal*
1.1.1 structure
1.1.2 importance of cc operations
1.1.3 performance
1.1.4 size
1.1.5 product line
1.1.6 nature of business

1.2 *External*
1.2.1 market
1.2.2 economic
1.2.3 sociological
1.2.4 political

2 CONSTRUCTS

2.1 *Identity*
2.1.1 industry
2.1.2 core bank values
2.1.3 comparison to competitors
2.1.4 smart factor

2.2 *Image*
2.2.1 industry
2.2.2 politicians
2.2.3 media
2.2.4 activist
2.2.5 public

2.3 *Reputation*
2.3.1 Metcalfe
2.3.2 Atwater

2.4 *Perceptions*
2.4.1 media misrepresentations
2.4.2 media
2.4.3 backbenchers
2.4.4 government
2.4.5 activists

3 STRATEGIES AND TACTICS

3.1 *Managing legislation*
3.1.1 legislative strategy
3.1.2 major legislative challenges
3.1.3 issue identification
3.1.4 lobbying tactics
3.1.5 obstacles or frustrations
3.1.6 front line initiatives
3.1.7 sources of issue emergence
3.1.8 external - US

3.2 *Managing image*
3.2.1 image management strategy - cc
3.2.2 image management strategy
3.2.3 image management comparisons
3.2.4 communication scope
3.2.5 credit card feedback
3.2.6 media strategy

4 INTERACTION WITH OTHERS

4.1 CEO/senior management
4.2 role of CBA
4.3 coordination with other banks
4.4 elites
4.5 departmental interactions

5 EFFECTS OR OUTCOMES

5.1 changes to operations
5.2 bank bashing
5.3 cc threat to legislation
5.4 future challenges
5.5 legislative strategy effectiveness
5.6 image impact on legislation
5.7 bottom line impact
5.8 image management effectiveness

6 OTHER

6.1 mergers
6.2 career history

*results of first five interviews
cc=credit cards

Appendix I Milestone History

<u>1986</u>

<u>May</u> Commons Finance Committee ordered to study interest rates

<u>June, November, December</u>

hearings in front of Commons Finance Committee

<u>1987</u>

<u>March</u> TD cuts rate

Commons Finance Committee tables report "Credit Cards in Canada"

junior finance minister Hockin tells banks they have 4 weeks to cut rates

<u>April</u> CIBC, BMo, Royal follow suit

<u>June</u> at federal-provincial conference in Charlottetown, ministers responsible for consumer affairs commissioned study on credit cards (impetus March '87 report recommendations on harmonizing regulations)

<u>August</u> Royal, TD raise rates

<u>December</u> Consumer Minister Harvie Andre decides not to legislate rates, focus on education consumer. Department will publish a regular bulletin on rates

<u>1988</u>

more rate increases

<u>July</u> Blenkarn suggests that if there is no election, Commons Finance Committee may revisit issue

1989

Commons Consumer Committee decides to hold hearings on credit card rates in June

May	Blenkarn introduces private member's bill to amend the Interest Act, and standardize how issuers calculate interest on balances outstanding
	Rodriguez introduces private member's bill to cap rates
June	hearings in front of Commons Consumer Committee
October	Commons Consumer Committee tables report "Charge it/ Credit Cards and the Canadian Consumer."

1990

March	Consumer Minister Blais rejects Commons Consumer Committee's recommendations on caps, accepts recommendations on disclosure

1991

October	Commons Consumer Committee indicates they will hold another set of hearings into interest rates (new chair)
December	Minister Blais indicates concern over rates, says he has spoken to banks and retailers about the level of rates and the need for improved disclosure.

Hearings

1992

Hearings

June	Commons Consumer Committee tables report "Credit Cards in Canada in the Nineties"
December	Consumer Minister Blais reject Commons Consumer Committee's recommendations regarding disclosure

1993

1994

1995

April	De Villiers tables a private members bill on interest rates. Government decides to refer it to Commons Consumer Committee, rather than let it die.

1996

April	Industry Minister Manley suggests that rates are not coming down as fast as they should; inquiry may be needed. Reported in press as a "tongue lashing"
May	BMo, TD, BNS reduce rates.
November	Zed and 100 (or 150) MPs send letter to banks and five largest retailers asking for rate cuts by 50%.
	TD and Royal reduce rates
	Royal Bank Chm, Cleghorn, send a letter in response.
December	No response from banks, MPs call for inquiry

1997

February	Commons Industry Committee hearing into interest rates on credit cards.

Appendix J Private Member Bills

BILL #	SPONSOR	FIRST READING	SECOND READING	TITLE
C-266	Reginald Stackhouse, Conservative	September 23, 1987	September 80, 1987 dropped to bottom of Order Paper	Credit Card Interest Rate Act
C-214	John Rodriguez NDP	April 10, 1989		Limitations of Interest Rates and Fees n Relation to Credit Card Accounts Act
C-238	Donald Blenkarn Conservative	May 8, 1989		Interest Act (amendment)
C-237	Donald Blenkarn Conservative	June 18, 1991	December 2, 1991 dropped from the Order Paper	Interest Act (amendment)
C-265	John Rodriguez NDP	June 19, 1991		Limitations of Interest Rates and Fees n Relation to Credit Card Accounts Act
C-227	Pierre de Savoy Bloc	March 21, 1994		Interest Act (amendment)
C-233	Paul de Villiers Liberal	April 11, 1994	June 7, 1994 order discharged, Bill withdrawn and subject matter referred to Standing Committee on Industry	Limitations of Interest Rates and Fees n Relation to Credit Card Accounts Act
C-301	Pierre de Savoye Bloc	December 10, 1997		Credit Card Interest Limitation Act

Appendix K Bank Appearances

List of Bank Appearances in front of House of Commons Standing Committees*

PARLIAMENTARY SESSION	APPEARANCE	ISSUE
28th Pariliament, 3rd session, 1970-1971	None	
28th Parliament, 4th session, 1972	CBA	foreign ownership
29th Parliament, 1st session, 1973	None	
29th Parliament, 2nd session, 1974	None	
30th Parliament, 1st session, 1974-1976	None	
30th Parliament, 2st session, 1976-1977	None	
30th Parliament, 3rd session, 1977-1978	None	
30th Parliament, 4th session, 1978-1979	CBA Bank of Montreal Bank of Nova Scotia CIBC National Bank TD	decennial revision of the Bank Act
31st Parliament, 1st session, 1979	None	

* covers the House of Commons Standing Committee on Finance from 1970 to 1996, and House of Commons Standing Committee on Consumer and Corporate Affairs and Government operations from 1986 to 1996.

PARLIAMENTARY SESSION	APPEARANCE	ISSUE
32nd Parliament, 1st session, 1980-1983		
May 20, 1982 June 3, 1982 June 7, 1982 June 8, 1982 June 10, 1982	CBA Bank of Montreal Bank of Nova Scotia CIBC, National Bank Royal Bank	review of bank profits review of bank profits review of bank profits review of bank profits review of bank profits
32nd Parliament, 2nd session, 1984	None	
33rd Parliament, 1st session, 1984-1986		
June 6, 1986	Bank of Montreal	leasing
Sept. 12,1986 Sept. 12,1986 Sept. 17,1986 Sept. 18,1986 Sept. 19,1986	CBA Bank of Montreal Bank of Nova Scotia Royal Bank CIBC	response to green paper on the regulation of Canadian financial institutions
33rd Parliament, 2nd session, 1986-1988		
Nov. 27, 1986	CBA	credit cards
Jan. 29, 1987 Jan. 21, 1987	CBA Bank of Nova Scotia	international banking centers international banking centers
Sept. 3, 1987 February 16, 1987	CBA CBA	tax reform tax reform
April 13, 1988 April 14, 1988 April 19, 1988	CBA Bank of Montreal Royal Bank	service charges service charges service charges

PARLIAMENTARY SESSION	APPEARANCE	ISSUE
34th Parliament, 2nd session, 1989-1991		
Sept. 20, 1989	CBA	
June 14, 1989*	CBA	credit cards
June 14, 1989	Bank of Nova Scotia	insurance
June 14, 1989	Toronto Dominon	insurance
May 28, 1990	CBA	goods and services tax
Dec. 3, 1990	CBA	loan and trust company act
Dec. 17, 1990	CBA Bank of Nova Scotia	loan and trust company act loan and trust company act
34th Parliament, 3rd session, 1991-1993		
Sept. 11, 1991	CBA	
Nov. 6, 1991	Bank of Montreal	credit cards
Nov. 6, 1991	Royal Bank	credit cards
Feb.12, 1992	Bank of Montreal	credit cards