Business Fundamentals, 1st Edition

BUSINESS FUNDAMENTALS, 1ST EDITION

KERRI SHIELDS

Business Fundamentals, 1st Edition Copyright © 2025 by Kerri Shields is licensed under a Creative Commons Attribution-NonCommercial-ShareAlike 4.0 International License, except where otherwise noted.

CONTENTS

Book Information 1

Concept 1

Author 1

Book Versions 2

eCampus Ontario 3

Accessibility Statement 3

Attributions 5

References 9

Chapter 1: Habits for Business Success 11

Engage in Lifelong Learning 11

Build the Skills Employers Need 12

Study Smarter, Not Harder 15

Develop Habits that Support Your Success 20

Manage Time Effectively 22

Manage Stress Effectively 23

Gain Business Work Experience 25

Practice Business Etiquette 26

Chapter 2: Business Concepts and Teamwork 35
Business Eras in North America 35
The Role of Government in Canadian Business 36
Economic Benefits When Businesses Earn Profits 37
Business Trends 40
Business Sectors 44
Business Industries 46
Business Participants, Stakeholders, and Functional Areas of Business 47
Five Factors of Production: The Building Blocks of Business 51
The Internal and External Business Environments 53
Working in Teams 56
Chapter 3: Management and Leadership 73
The Four Functions of Management (POLC) 73
Management Function 1 = Planning 74
Environmental Analysis 81
Management Function 2 = Organizing 85
Management Function 3 = Leading 90
Management Function 4 = Controlling 103

Chapter 4: Entrepreneurship and Business Structure 116
The Importance of Entrepreneurship 116
Reasons Small Businesses Succeed or Fail 118
Small Business Statistics 120
Entrepreneurial Traits 121
Types of Entrepreneurs 124
Steps to Creating a New Business 129
Choosing a Business Structure 131
Other Types of Business Ownership 134
Business Plan 141
Business Model Canvas 143
Support and Education for Entrepreneurs 144
Chapter 5: Economics and Banking 161
How Business and Economics Work 161
Economic Systems 166
The Basics of Supply and Demand 173
Measuring the Health of the Economy 176
Economic Forecasting 182
Government's Role in Managing the Economy 184
The Functions of Money 190
International Banking Structure 193
Digital Currencies 196
Chapter 6: Ethics, Law, and Social Responsibility 206
Corporate Social Responsibility (CSR) 206
Personal and Business Ethics 221
Encouraging Ethics in the Workplace 228

Chapter 7: Global Business 245
The Globalization of Business 245
Why Do Nations Trade? 247
Measuring Trade Between Nations 251
Opportunities in International Business 256
The Global Business Environment 268
Reducing International Trade Barriers 279
Chapter 8: Marketing Management 295
What is Marketing? 295
The Marketing Concept 298
Marketing Strategy 301
Target Markets 302
The Marketing Mix 304
Retaining Customers 316
Chapter 9: Operations Management 334
The Production Process 334
Operations Management for Manufacturing 336
Operations Managers 342
1. Production Planning 343
2. Production Control 348
3. Quality Control 355
Operations Management for Service Providers 360
1. Operations Planning 361
2. Operations Control 365
3. Quality Control 368

Chapter 10: Financial Management and Accounting 382
World's Most Valuable Company 383
What is Financial Management? 383
Forecasts, Budgets, and Financial Controls 384
Business Financial Needs 386
The Role of Accounting 391
The Function of Financial Statements 394
Financial Statement Analysis 406
Chapter 11: Human Resources Management 421
Human Resource Management 422
Human Resource Planning Process 422
Recruitment and Selection Process 430
Developing Employees 439
Performance Appraisal 443
Inclusion, Diversity, Equity, and Accessibility (IDEA) in the Workplace 445
Retaining Valuable Employees 448
Compensation and Benefits 455
Losing Valuable Employees 458
Unions 459
Chapter 12: Information and Risk Management 474
The Role and Management of Business Information in Modern Organizations 474
Risk Management in Business Operations 480
Chapter 13: Managing Personal Finances 504
Financial Planning 504
Manage Personal Debt 507
Grow Your Money 513
Banking 517
Build a Good Credit Rating 519

BOOK INFORMATION

Concept

Business Fundamentals is an all-encompassing introductory textbook designed to introduce readers to the business world. Geared toward college and university students, especially those with little to no prior experience in business, this resource lays a strong foundation for individuals embarking on their academic journey with ambitions of pursuing a business career.

The book delves into key functional areas of business, illustrating how departments within organizations work together to generate sales, boost revenue, manage finances, develop innovative products and services, attract and retain customers, manage resources, and make sound decisions. It also addresses essential topics such as corporate social responsibility, business ethics, teamwork, risk management, personal finance, and strategies for academic and professional achievement. Furthermore, it provides an introduction to entrepreneurship and highlights the pivotal roles of managers and leaders in business operations.

The text includes Canadian-specific insights on economics and banking while maintaining a global outlook with examples from Canada, the United States, and other countries. By blending content from various open educational resources (OERs) with original material, this textbook offers a thorough and engaging overview of the business field.

Author

My varied experiences throughout my career have provided me with insights in many industries, companies, and job roles. Some of the positions I have held include the following:

- Factory line worker. Working in a computer manufacturing plant (twice, two different factories).
- Corporate trainer. Training employees on good manufacturing practices, exceeding customer expectations, database design, office software applications, customer service in the call center, and life skills.
- Office administrator. In various companies (i.e., art gallery, hospital, law firm, college).
- Call center supervisor. Working within a credit and collections team.
- Office cleaner. Cleaning offices for several companies.
- Customer service representative. Working at various restaurants and service businesses.
- Recruitment specialist. Working for an HR solutions firm.

- College professor. Teaching and coordinating programs for three different colleges in Ontario.
- Project manager. Managing many projects including a ISO9000 accreditation and a Certiport Authorized Test Center.

The variety of job roles I have held and the variety of business projects I have completed have permitted me to gain knowledge and skills from many different types of businesses. I have a keen understanding of business practices, operations management, project management, customer service, marketing practices, tracking revenue and expenses, starting an online business, and how global business in conducted.

I hope you find this OER book interesting and helpful. I will try my best to update it from time to time.

Sincerely,

Kerri Shields

Book Versions

Below is a record of edits and changes made to this book since its initial publication. Whenever edits or updates are made in the text, a record and description of those changes will be noted here. The edition number will only change when there is a major update to the book. The ancillary files (i.e., test bank, slides) that accompany this book always reflect the most recent version.

Table 0.1: Business Fundamentals Book Versions

Date of Publication	Edition	Revisions
January 2, 2025	Business Fundamentals, 1st Edition	• The original OER was published with 13 chapters • Chapter slides for 13 chapters • Test bank with 126 multiple choice questions and 48 written response questions • H5Ps throughout chapters • End-of-Chapter Exercises in each chapter • Key Terms in each chapter • Meets current accessibility requirements under the Accessibility for Ontarians with Disabilities Act (AODA) and in the Web Content Accessibility Guidelines (WCAG 2.1)

Chapter Features and Bloom's Taxonomy

- Chapter Learning Outcomes — The learning outcomes listed within each chapter align with the lower

levels of Bloom's Taxonomy of Educational Objectives for Knowledge-based goals (knowledge and comprehension) based on the activity of simply reading the chapter. Should readers complete the exercises within the chapters and at the end of the chapters, higher levels of Bloom's Taxonomy can be reached (application, analysis, synthesis, evaluation).

- Example-rich narrative
- Embedded videos with PDF transcripts
- Graphic elements that illustrate and reinforce concepts
- H5P Self-assessments (e.g., quiz, game, or other H5P content)
- Explore the Concept and End-of-Chapter Exercises
- Chapter Key Takeaways
- Additional resource links and Chapter references for additional reading
- Embedded navigation and image alt-text for screen readers
- Free online, PDF, and various other book formats
- Chapter PowerPoint slides
- Glossary of Terms
- Open license, Creative Commons Attribution-NonCommercial-ShareAlike 4.0 International License permits adoption, adaptation, and sharing

eCampus Ontario

eCampusOntario is a provincially-funded non-profit organization that leads a consortium of the province's publicly-funded colleges, universities, and indigenous institutes to develop and test online learning tools to advance the use of education technology and digital learning environments.[1]

This textbook is part of the eCampusOntario open textbook library, which provides free learning resources in a wide range of subject areas. These open textbooks can be assigned by instructors for their classes and can be downloaded by learners to electronic devices. These educational resources are customizable to meet a wide range of learning needs.

If you decide to adopt this book for a course or training program (or other) please report your adoption at the eCampus website. eCampusOntario is keen to report students' savings and connect with successful OER adopters.

Accessibility Statement

Every attempt has been made to make this OER accessible to all learners and compatible with assistive and

adaptive technologies. The Pressbooks content management system was chosen for its commitment to built-in accessibility. The Web version of this resource has been designed to meet accessibility requirements under the Accessibility for Ontarians with Disabilities Act (AODA) and in the Web Content Accessibility Guidelines (WCAG 2.1). In addition to the web version, additional files are available in a number of file formats including PDF, EPUB (for eReaders), and Course Cartridge (for LMS).

If you are having problems accessing this resource, please contact kshields@centennialcollege.ca. Please include the following information: The location of the problem by providing a web address or page description. A description of the problem. The computer, software, browser, and any assistive technology you are using that can help us diagnose and solve your issue (e.g., Windows 10, Google Chrome (Version 65.0.3325.181), NVDA screen reader)

Each chapter has been evaluated using WAVE® and modified as needed to meet zero errors in accordance with WCAG AA. "WAVE® is a suite of evaluation tools that helps authors make their web content more accessible to individuals with disabilities. WAVE can identify many Web Content Accessibility Guideline (WCAG) errors, but also facilitates human evaluation of web content. Our philosophy is to focus on issues that we know impact end users, facilitate human evaluation, and to educate about web accessibility."[2]

- All images that convey information include alternative text (alt text) descriptions of the image's content or function. Graphs and charts also include contextual or supporting details in the text surrounding the image. Images do not rely on colour to convey information.
- All colours meet WCAG contrast requirements.
- Content is organized under headings and subheadings. Headings and subheadings are used sequentially (e.g., Heading 1, Heading 2).
- Embedded videos are from YouTube and do have closed captioning available, although many YouTube videos have captions that are auto-generated and these do not always translate correctly. To combat this issue, PDF (English) transcripts have been posted for download with each chapter video.
- Tables are used to structure information and not for layout. Tables include row and column headers. Row and column headers have the correct scope assigned. Tables include a caption. Tables avoid merged or split cells. Tables have adequate cell padding.
- All Web links describe the destination of the link and do not use generic text such as "click here" or "read more". If a link will open or download a file (e.g., PDF), a textual reference is included in the link information (e.g., [PDF–New Tab]).
- In-text citations are embedded using the Footnote feature of Pressbooks, therefore, footnotes appear as References at the end of each chapter with Web links to the original sources.
- Font size is 12 points or higher for body text in PDF documents. Font size can be enlarged to 200 percent in Webbook or Ebook formats without needing to scroll side to side.
- An H5P element is included with each chapter as a quick review of the chapter's content. These are

accessible based on the H5P type. The goal for the accessible content types is WCAG 2.1 AA support, so the content types have been tested against these criteria and more by the H5P.org developers. Refer to the accessible content types list for additional information.

- PowerPoint slides have been checked with the Microsoft Accessibility checker to ensure proper colour contrast. Images contain ALT text. Fonts are 24 points or larger. PDF Transcripts are linked with each embedded Video. PDF copies of each slide deck are also provided.

Attributions

This book is compiled through combining various chapters of different OERs to obtain much of each chapter's content, although, new content has been added throughout and many statistics, charts, references, and examples have been updated for currency. Thank you to all those who contributed to the open educational resource platforms thereby creating a wealth of information and learning tools.

Table 0.2: Attributions for Business Fundamentals

Book Chapter	Adaptations from OER Sources	Level 1 Chapter Headings
Cover Page	Photograph by Ricky Esquivel | Pexels | URL: https://www.pexels.com/photo/high-rise-building-1662159/	Cover Page
Chapter 1	N/A	N/A
Chapter 2	"Foundations of Business" in NSCC Fundamentals of Business Copyright © 2021 NSCC Edition by NSCC, Pamplin College of Business and Virgina Tech Libraries is licensed under a Creative Commons Attribution-NonCommercial-ShareAlike 4.0 International License, except where otherwise noted.	The Apple World of Business
Chapter 2	"The Nature of Business" in Introduction to Business Copyright © 2023 Web Edition by OpenStax is licensed under Creative Commons Attribution License v4.0, except where otherwise noted.	Economic Benefits When Businesses Earn Profits and Factors of Production: The Building Blocks of Business
Chapter 2	"Teamwork in Business" in Fundamentals of Business Copyright © 2022 by Florence Daddey and Rachael Newton is licensed under a Creative Commons Attribution-NonCommercial-ShareAlike 4.0 International License, except where otherwise noted.	Business Participants, Stakeholders, and Functional Areas of Business; Group Cohesion; and Factors that Erode Team Performance
Chapter 2	"Foundations of Business" and "Teamwork in Business" in Fundamentals of Business: Canadian Edition Copyright © 2018 (Canadian Edition) by Pamplin College of Business and Virgina Tech Libraries is licensed under a Creative Commons Attribution-NonCommercial-ShareAlike 4.0 International License, except where otherwise noted.	Team Roles, Blocking Roles H5P, Class Team Projects, and Team Contract H5P
Chapter 3	"Management and Leadership in Today's Organizations" in Introduction to Business Copyright © 2023 by OpenStax is licensed under Creative Commons Attribution License v4.0	Four Functions of Management and Planning, Organizing, Leading
Chapter 3	"Governance Board Membership" in Indigenous Lifeways in Canadian Business Copyright © 2022 by Russell Evans; Michael Mihalicz; and Maureen Sterling is licensed under a Creative Commons Attribution-NonCommercial 4.0 International License, except where otherwise noted.	Governance Board Membership
Chapter 3	"The Role of Managers" in Fundamentals of Business Copyright © 2022 by Florence Daddey and Rachael Newton is licensed under a Creative Commons Attribution-NonCommercial-ShareAlike 4.0 International License, except where otherwise noted.	Controlling, Managerial Skills, SMART Goals, and A Six-step Approach to Decision Making
Chapter 3	Fundamentals of Business: Canadian Edition Copyright © 2018 (Canadian Edition) by Pamplin College of Business and Virgina Tech Libraries is licensed under a Creative Commons Attribution-NonCommercial-ShareAlike 4.0 International License, except where otherwise noted.	Motivating Employees

Chapter 4	"New Venture Innovation" in Leading Innovation, 2nd Edition Copyright © 2023 by Kerri Shields is licensed under a Creative Commons Attribution-NonCommercial-ShareAlike 4.0 International License, except where otherwise noted.	All with some adaptations
Chapter 4	Fundamentals of Business Copyright © 2022 by Florence Daddey and Rachael Newton is licensed under a Creative Commons Attribution-NonCommercial-ShareAlike 4.0 International License, except where otherwise noted.	Business Structure (partial with adaptations)
Chapter 5	"Indigenous Entrepreneurship" in Indigenous Lifeways in Canadian Business Copyright © 2022 by Russell Evans; Michael Mihalicz; and Maureen Sterling is licensed under a Creative Commons Attribution-NonCommercial 4.0 International License, except where otherwise noted.	Indigenous Entrepreneurship: Economic Leakage
Chapter 5	"Economics and Business" and "Money and Banking" in Fundamentals of Business Copyright © 2022 by Florence Daddey and Rachael Newton is licensed under a Creative Commons Attribution-NonCommercial-ShareAlike 4.0 International License, except where otherwise noted.	All with some adaptations
Chapter 6	Fundamentals of Business, 3rd edition Copyright © 2020 by Stephen J. Skripak and Ron Poff is licensed under a Creative Commons Attribution-NonCommercial-ShareAlike 4.0 International License, except where otherwise noted.	Personal and Business Ethics (partial with some adaptations) and The Individual Approach to Ethics (partial with some adaptations)
Chapter 6	Ethics and Social Responsibility Copyright © 2024 by Business Faculty from Ontario Colleges and eCampusOntario Program Managers is licensed under a Creative Commons Attribution-NonCommercial-ShareAlike 4.0 International License, except where otherwise noted.	Corporate Social Responsibility (CSR) (partial with some adaptations), CSR and Various Stakeholders (partial with some adaptations), and Carroll's Corporate Social Responsibility Pyramid (with adaptations)
Chapter 7	Business in a Global Environment Copyright © 2024 by Business Faculty from Ontario Colleges and eCampusOntario Program Managers is licensed under a Creative Commons Attribution-NonCommercial-ShareAlike 4.0 International License, except where otherwise noted.	The Globalization of Business, Why Do Nations Trade? (partial with some adaptations), The Global Environment (partial with some adaptations), Trade Controls (partial with some adaptations), and Reducing International Trade Barriers (partial with some adaptations)
Chapter 7	"Business in a Global Environment" in Fundamentals of Business Copyright © 2022 by Florence Daddey and Rachael Newton is licensed under a Creative Commons Attribution-NonCommercial-ShareAlike 4.0 International License, except where otherwise noted.	Why Do Nations Trade? (partial with some adaptations), Measuring Trade Between Nations (partial with some adaptations), and Opportunities in International Business (partial with some adaptations)

Chapter 8	"Authenticity and Indigenous Products" in Indigenous Lifeways in Canadian Business Copyright © 2022 by Russell Evans; Michael Mihalicz; and Maureen Sterling is licensed under a Creative Commons Attribution-NonCommercial 4.0 International License, except where otherwise noted.	Authenticity and Indigenous Products
Chapter 8	Marketing: Providing Value Copyright © 2024 by Business Faculty from Ontario Colleges and eCampusOntario Program Managers is licensed under a Creative Commons Attribution-NonCommercial-ShareAlike 4.0 International License, except where otherwise noted.	What is Marketing? (with some adaptations), Target Markets (with some adaptations), and The Marketing Mix (with some adaptions)
Chapter 9	Operations Management Copyright © 2024 by Business Faculty from Ontario Colleges and eCampusOntario Program Managers is licensed under a Creative Commons Attribution-NonCommercial-ShareAlike 4.0 International License, except where otherwise noted.	Operations Management for Manufacturing (partial with some adaptations), Production Planning (partial with some adaptations), Production Control (partial with some adaptations), Graphical Tools: Gannt and PERT charts, Production Process Technologies (with some adaptations), Operations Management for Service Providers (with some adaptations), and Producing for Quality (with some adaptations)
Chapter 10	"Overcoming Entrepreneurial Challenges" in Indigenous Lifeways in Canadian Business Copyright © 2022 by Russell Evans; Michael Mihalicz; and Maureen Sterling is licensed under a Creative Commons Attribution-NonCommercial 4.0 International License, except where otherwise noted.	Overcoming Entrepreneurial Challenges: Financing
Chapter 10	"Accounting and Financial Information" in Fundamentals of Business, 3rd edition Copyright © 2020 by Stephen J. Skripak and Ron Poff is licensed under a Creative Commons Attribution-NonCommercial-ShareAlike 4.0 International License, except where otherwise noted.	The Role of Accounting
Chapter 10	"Money and Banking" in Fundamentals of Business Copyright © 2022 by Florence Daddey and Rachael Newton is licensed under a Creative Commons Attribution-NonCommercial-ShareAlike 4.0 International License, except where otherwise noted.	Sources of Funding
Chapter 10	"Accounting and Financial Information" in Introduction to Canadian Business, Accounting and Financial Information Copyright © 2024 by Business Faculty from Ontario Colleges and eCampusOntario Program Managers is licensed under a Creative Commons Attribution-NonCommercial-ShareAlike 4.0 International License, except where otherwise noted.	The Functions of Financial Statements

Chapter 10	"Accounting and Financial Information" in Fundamentals of Business: Canadian Edition Copyright © 2018 (Canadian Edition) by Pamplin College of Business and Virgina Tech Libraries is licensed under a Creative Commons Attribution-NonCommercial-ShareAlike 4.0 International License, except where otherwise noted.	Financial Statement Analysis
Chapter 11	Corporate Indigenous Inclusion" in Indigenous Lifeways in Canadian Business Copyright © 2022 by Russell Evans; Michael Mihalicz; and Maureen Sterling is licensed under a Creative Commons Attribution-NonCommercial 4.0 International License, except where otherwise noted.	Corporate Indigenous Inclusion: Equity, Diversity, and Inclusion (EDI)
Chapter 11	"Managing Human Resources" in Managing Human Resources Copyright © 2024 by Business Faculty from Ontario Colleges and eCampusOntario Program Managers is licensed under a Creative Commons Attribution-NonCommercial-ShareAlike 4.0 International License, except where otherwise noted.	All (except Unions) with some adaptations
Chapter 12	Risk Management – Supply Chain and Operations Perspective Copyright © 2024 by Azim Abbas and Larry Watson is licensed under a Creative Commons Attribution-NonCommercial-ShareAlike 4.0 International License, except where otherwise noted.	What is Risk? (partial with adaptations)
Chapter 13	"Personal Finances" in Introduction to Canadian Business, Personal Finances Copyright © 2024 by Business Faculty from Ontario Colleges and eCampusOntario Program Managers is licensed under a Creative Commons Attribution-NonCommercial-ShareAlike 4.0 International License, except where otherwise noted.	All with some adaptations

References

(Note: This reference list was produced using the auto-footnote and media citation features of Pressbooks)

Notes

1. eCampus Ontario. (2021). *About. https://www.ecampusontario.ca/about/#:~:text=eCampusOntario%20is%20a%20provincially-funded%20non-profit%20organization%20that%20leads,use%20of%20education%20technology%20and%20digital%20learning%20environments.*
2. WAVE. (n.d.). *WAVE accessibility evaluation tool.* https://wave.webaim.org/

CHAPTER 1: HABITS FOR BUSINESS SUCCESS

Chapter 1 Learning Outcomes

After reading this chapter, you should be able to do the following:

1. List five benefits of obtaining a college or university credential.
2. Discuss five of the skills the Conference Board of Canada lists as Employability Skills.
3. List five tips a student can apply to improve their study skills.
4. Explain what APA style for document formatting is and why an author should use it.
5. Discuss three habits of highly effective people.
6. List five ways in which a student or business professional can improve their time management skills.
7. Describe five ways in which a student or business professional can reduce stress.
8. Discuss five ways in which a student can gain business work experience.
9. Explain how the power of mindfulness can help corporations.
10. Discuss the five zones of professional etiquette.

Engage in Lifelong Learning

Benefits of a College or University Credential

Why should you enroll in a college or university program? One of the most compelling reasons to attend college or university is to obtain credentials, learn skills, and gain knowledge that will help you earn more money than you could without a postsecondary credential you could over your lifetime. Some of the other benefits of obtaining a higher education credential include the following:

1. **Increased Job Prospects.** When looking for work in Canada, Canadian employers like to see that you attended a Canadian school because managers often recognize these schools. If you did not attend a Canadian school, it may be helpful to get a credential evaluation as doing so will help employers compare the school you attended in another country to Canadian schools.[1] There are various associations that perform credential evaluations, such as World Education Services (WES), that compare your academic accomplishments to standards in Canada and the U.S. These credential evaluations help institutions like schools, employers, licensing boards, and immigration authorities better understand your educational background.[2]
2. **Higher Wages.** Workers with four-year degrees earn higher wages and experience lower levels of unemployment than those with only a high school diploma.[3] Generally, the higher levels of education you have when working in Canada, the more money you earn.[4]
3. **Increased Job Security.** You may be better equipped for economic turmoil if you have a college or university credential.[5]
4. **Greater Life Satisfaction.** More schooling could lead to a happier life. People with bachelor's degrees tend to be happier than those without one.[6]
5. **Easier Access to Health Insurance and Other Benefits.** College and university graduates are more likely to work for companies that offer health insurance benefits than high school graduates.[7]

Continue to Learn

Lifelong learning is the ongoing, voluntary, and self-motivated pursuit of knowledge for either personal or professional reasons. Lifelong learning is a workplace necessity for most employees. It can help employees adapt to changing work demands, improve their performance, and increase their job satisfaction. Many organizations will provide professional development funds for employees' learning and growth. Some companies may require employees to commit to a set number of months or years with the company after completing a company-funded professional development program.

Build the Skills Employers Need

In addition to the above benefits of obtaining a college or university credential, you will also build new skills that will help you obtain a job, retain the position, and be successful in growing your career. Specific jobs may require specific hard skills, such as a Web Designer who needs hard skills in using software in order to build websites. Beyond hard skills, soft skills are required for you to communicate, work in teams, and manage yourself professionally in the workplace. Soft skills are considered transferable skills and are often considered employability skills. **Employability skills** are the skills you need to enter, stay in, and progress in the world of work, whether you work on your own or as part of a team. Some of the most important employability skills

you will need are the ability to work well with others, be a productive team member, and communicate well with others. Did you know that 90% of projects require team participation as opposed to individual responsibility, and 31% of companies say that miscommunications about project objectives is the number one reason why projects fail?[8]

The Conference Board of Canada provides The Employability Skills Toolkit for download. The Toolkit is a guide to the skills needed to adapt and succeed in the world of work. It includes explanations and descriptions of these skills and ways to build them. The Toolkit includes key information about how to become job-ready and exercises to practice and apply what you have learned. These activities encourage thinking about which skills you have, which skills you may need to work on, and how you can improve them. The updated version of the Toolkit also includes information on how to prepare for and succeed in the future of work. To help you understand some of the skills that are in high demand by employers, you'll find new content on digital skills and social and emotional skills. Given the impacts of technology and automation on the working world, this version of the Toolkit also includes a new section on how to develop a change-ready, lifelong learning mindset, which is essential to help you navigate job transitions.[9]

Employability skills fall into four broad categories as shown in Figure 1.1 below.

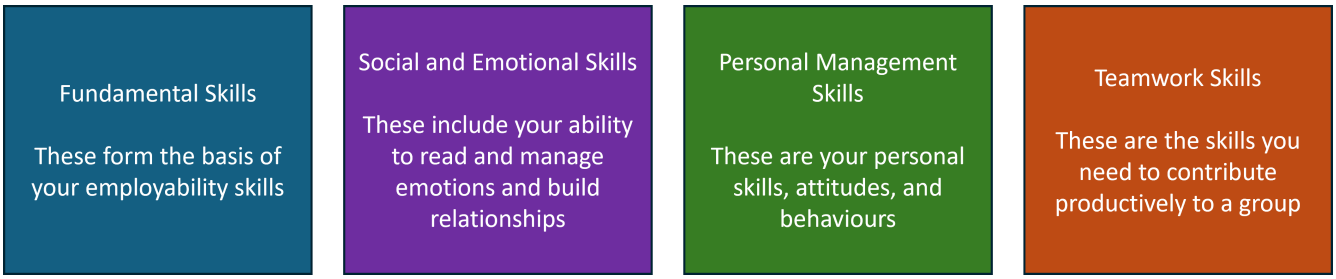


Figure 1.1 Conference Board of Canada: Four Categories of Employability Skills

Communication Skills

Communication skills, as identified by the Conference Board of Canada as fundamental skills for employability, include the following.[10]

- Read and understand information presented in different ways (e.g., words, graphs, charts, diagrams).
- Write and speak so others can pay attention and understand.
- Listen and ask questions to understand and appreciate the points of view of others.
- Share information using different technologies (e.g., phone calls, e-mail, social media, the Internet).
- Use relevant knowledge and skills to explain or clarify ideas.

Teamwork Skills

In every job you will be required to work with people. In college and university, you often work with your peers on group projects. Interacting with colleagues, managers, customers, and suppliers is part of everyday communication.

The teamwork skills identified by the Conference Board of Canada, Work with Others, include the following:[11]

- Understand and work within the roles of a group.
- Make sure that a team's purpose and aims are clear.
- Respect and support the thoughts, opinions, and contributions of others.
- Recognize and respect people's diversity and perspectives.
- Accept and provide feedback in a useful and kind manner.
- Add to a team by sharing information and skills.
- Lead or support when it's appropriate.
- Understand the role of conflict in a group in reaching solutions.
- Manage and settle conflicts.

The teamwork skills identified by the Conference Board of Canada, Participate in Projects and Tasks, include the following:

- Design or carry out a project with well-defined outcomes.
- Develop a plan, ask for feedback, and apply it.
- Work to shared standards of quality.
- Choose and use the right tools for a task or project.
- Adapt to changing information and conditions.
- Keep an eye on the success of a project or task throughout and find ways to improve.

Play the YouTube video below, "Employability Skills – Have You Got them?" to learn about the soft skills you need to succeed in your academic career as well as your business career.[12] Transcript for "Employability Skills – Have You Got Them?" Video [PDF–New Tab]. Closed captioning is available on YouTube.

One or more interactive elements has been excluded from this version of the text. You can view them online here: https://ecampusontario.pressbooks.pub/businessfundamentals/?p=5#oembed-1

According to a blog post by Matt Gavin at Harvard Business School Online, every professional should know the following business fundamentals:[13]

1. **Analytics.** The demand for professionals with a keen understanding of business analytics and data science is on the rise.
2. **Financial Accounting.** No matter your profession, understanding the meaning behind the numbers on financial statements can be a boon to your career.
3. **Economics.** Beyond an in-depth knowledge of your industry's market demands, studying economics can equip you with the necessary skills to craft a successful business strategy and help your firm succeed against competitors.
4. **Leadership.** The ability to lead and mobilize others is vital for all professionals.
5. **Negotiation.** Knowledge of effective bargaining tactics can help you resolve conflicts that are otherwise deadlocked and equip you with the skills needed to maximize value in agreements.
6. **Strategy.** An understanding of strategy formulation and execution can help professionals across all industries, making it easier for their organizations to meet business goals and adapt to new challenges and opportunities.
7. **Global Business.** Many of today's largest and most successful organizations, such as Apple and Walmart, are multinational corporations conducting business worldwide. In an age of globalization, it's highly beneficial for today's professionals to broaden their knowledge of international business.

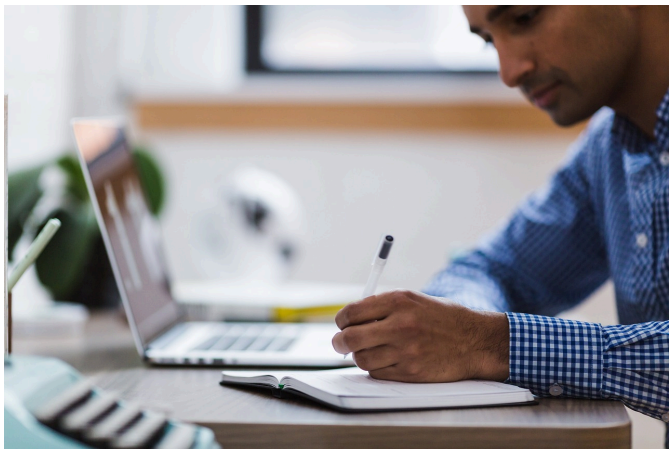
Study Smarter, Not Harder

College and university can be challenging when it comes to allocating time for studying and completing assignments.

Study Tips

Below is a list of 10 study tips that will help you get through those long study sessions.[14]

1. **The Pomodoro Technique.** Set a timer for 25 minutes and dive into your work. When the timer rings, you've earned a five-minute break. Repeat four times, then take a longer break. This study method is proven to boost focus and help prevent study fatigue.



Student studying and making notes.

2. **Block Distracting Apps.** Set your phone to Do Not Disturb to silence notifications.
3. **Learn by Chunking**. Break down complex information into bite-sized pieces, or "chunks". Focus on one section at a time. This makes information more manageable and less intimidating, allowing your brain to form patterns and connections, enhancing recall and understanding.
4. **Study After Exercising.** Physical activity increases blood flow, delivering more oxygen and nutrients to your brain. This can enhance cognitive functions like memory, problem-solving, and attention.
5. **Listen to Recorded Lectures at 2x Speed.** After attending your lectures, make it a habit to re-listen to them at double speed if there are recordings available. This technique helps reinforce what you've already heard and allows you to cover more material in less time.
6. **Reward Yourself.** Incorporating a reward system into your study routine can significantly enhance your motivation and productivity.
7. **Study with All of the Lights On.** A well-lit study environment can significantly impact your ability to concentrate and stay alert. Natural light, in particular, is associated with improved energy levels and mood.
8. **Study in Groups.** If you're studying the same information as the people around you, it can help deepen your understanding of the material. You'll be able to share your different perspectives, quiz each other on the material, and fill in gaps in each other's knowledge.
9. **Teach to Learn.** They say the best way to deeply learn anything is to teach it to someone else. Many colleges and universities have tutoring positions for students who have achieved high grades in their courses. Check with your institution's library or student services department. You can teach a colleague about course concepts while you make some extra money at the same time.
10. **Use Mnemonics.** Mnemonics are memory aids that help you recall complex information through simple associations, like acronyms, rhymes, or visual imagery. They transform hard-to-remember data into a format that's easier to remember.

SQ4R Reading System

A technique you might apply to reduce reading time is the SQ4R reading system. The **SQ4R reading system** is designed to help you study your textbook and apply reading and notetaking skills. The letters in SQ4R stand for five steps: survey, question, read, reflect, recite, and review. These steps will help you gain more from what you read and be better prepared for quizzes and exams. In other words, you will maximize the return on your time investment for reading![15]

Learning Style

It is important to identify your learning style. Which way do you learn best? Do you learn best by doing,

by observing, by listening, by watching, or through a combination of these things? **Learning styles** refers to the different methods of learning or understanding new information, the way a person takes in, understands, expresses, and remembers information. There are 4 predominant learning styles: Visual, Auditory, Read/Write, and Kinaesthetic. Often, colleges and universities offer assessments that can help you identify your learning style, as well as your strengths and abilities. The majority of people have one dominant learning style, although most people benefit from several different learning styles. When learning is presented in a way that is consistent with someone's dominant learning style, they tend to learn more quickly and with less frustration.

When you are enrolled in a course and you find yourself struggling to learn the concepts, you may need to make a plan to help yourself. For example, if the professor is teaching in a lecture format and you need more examples and videos, then after class, you might search online for videos or examples that will help you understand what the professor's lecture was about. You might also ask questions and request additional exercises or a meeting with the professor, or maybe you would do better by obtaining a tutor. You need to be proactive in your education and feel free to discuss issues that you may have with the professor, your academic advisor, and your peers. You may be able to form a learning-buddy relationship with a peer, which may help you both understand the lessons better.

Student Support

Identify what support the institution provides for students and utilize what you need to be successful. Ask yourself these questions:

- Does the school provide tutors at no charge?
- Does the school provide help with math beyond the classroom?
- Does the school offer extra English tutoring?
- Does the school have an Accessibility Office that can provide students with accommodations?
- Does the school loan laptops or other learning devices to students?
- Does the school allow access to library resources when off campus?
- Does the library provide lessons to students on researching, citing, and using the library resources?
- Does the student association have clubs that might help students study?
- Does the school provide study spaces?
- Does the student association provide information on housing, used books, clothing, food, etc.?
- Does the school provide open educational learning resources?
- Does the school offer student scholarships?
- Does the library have learning strategists who can help with time management, stress management, and study tips?

You will need to find answers to your many questions. Use the college or university website and read about student experience, student support, and student services that the institution provides. When you are in need of support, ask for it. Your academic advisor, international advisor, professor, program coordinator, and service areas at the college or university can help. Everyone working at the college or university is there to support your learning journey and provide you with the tools and resources you need to be successful.

Grades

One of the most important things you need to understand in each course is the course outline (also referred to as the course syllabus). You need to review this in the first week of class and ask your professor questions if you do not understand how you will be graded. The course outline should provide you with a breakdown of what you can expect to be taught in the course, what the course learning outcomes (sometimes called objectives) are, and how you will be assessed on your learning. Often, assessment due dates are provided in advance, and you should record these in a calendar and always, always, work ahead of due dates. When you leave assignments until the night before they are due to complete them, you are not preparing for success. So many things may go wrong, such as a technology failure, or you may find you do not understand some of the instructions, or you may find the assignment is much more time-consuming than you had thought. You should always plan and be prepared for things that may go wrong. Plan to have your assignments completed a day or two ahead of the due date; that way, if your technology does fail, you will be able to use another device, or if you don't understand some instructions, then you have time to clarify these with the professor.

It is important to keep your grades as high as you can. You do this by planning your time well, keeping a calendar and working ahead of due dates, asking questions when you need help, and completing the learning tasks you are assigned. When students do the readings assigned, watch the videos assigned, and attend and participate in class, they often do very well in achieving high grades. Your **GPA score (Grade Point Average)** is a cumulation of the grades across the courses throughout your program. To graduate, your institution will have a minimum GPA score you must achieve, and should you wish to further your education in the future, your GPA score may factor into whether or not you will be accepted for enrollment at specific colleges or universities. If you decide in the future to study another program at a different institution,n you may want to apply for transfer credit, and most colleges and universities have minimum grade requirements for accepting transfer credits (this is often a C grade, but check with the institution). Many schools calculate GPAs differently, but you can usually find this information on the institution's website.

Academic Integrity

Academic integrity is a commitment to acting with honesty, trust, fairness, respect, and responsibility in academic work and studies. A few questions to ask yourself when completing school assignments include the following.

1. Can I ask a friend to share their work with me?
2. Can I hire someone to do the work for me?
3. Can I have a generative AI, such as ChatGPT, to do the work for me?
4. Can I use an assignment mill such as Course Hero to find the assignment answers posted by someone else?

Teacher asking a student to leave the classroom after a breach of academic integrity

The answer to each of these questions is generally **NO**!

Generative AI (GenAI)

With that said, there may be occasions when your professor allows you to use generative AI to help you research or get started with a writing assignment. When you do use ChatGPT or other AI tools, you will need to cite it as a source of information in the same way you would cite a website, video, book, or other source of information you may use. Remember that you may only use the resources permitted by the professor to aid you in completing assignments; otherwise, your work may be identified as plagiarized or in breach of the academic integrity policy. Be sure to familiarize yourself with the institution's policies, and specifically the academic integrity policy.

Avoid Plagiarism

Formatting standards for documentation are common in higher education as well as in the workplace. Most companies have documentation standards that apply to all correspondence that leaves the company, such as business letters, reports, flyers, brochures, marketing media, website media, and social media. Businesses work hard to portray a certain image to the public, and they want that image to be consistent across all their communication channels. A **citation style** dictates the information necessary for a citation and how the information is ordered, as well as punctuation and other formatting. Popular citation styles such as APA and MLA provide guidelines to authors in how to format documents for professionalism, for crediting other people's words and

ideas via citations and references to avoid plagiarism, and for describing other people using inclusive, bias-free language.

Most college and university libraries provide style guides for APA, MLA, and other document formats. The Online Writing Lab (OWL) Purdue Citation Chart provides examples of various citations for both in-text and reference list citations. Additional details are available at the OWL Purdue website. Review OWL Purdue APA Formatting Guidelines, and the library guides from CSUDH are also very comprehensive.

Play the YouTube video below, "Introduction to Citation Styles: APA 7th ed." to learn about the purpose and basic conventions of citing sources in-text and in a reference list using the American Psychological Association (APA) Style, 7th edition, 2019.[16] Transcript for "Introduction to Citation Styles: APA 7th ed." Video [PDF–New Tab]. Closed captioning is available on YouTube.

One or more interactive elements has been excluded from this version of the text. You can view them online here: https://ecampusontario.pressbooks.pub/businessfundamentals/?p=5#oembed-2

Develop Habits that Support Your Success

The 7 Habits of Highly Effective People

The book entitled "**The 7 Habits of Highly Effective People**" written by Stephen R. Covey is based on Covey's belief that the way we see the world is entirely based on our own perceptions. In order to change a given situation, we must change ourselves, and in order to change ourselves, we must be able to change our perceptions.[17]

Spend a little time researching the following seven habits to understand what they mean:

1. **Be Proactive.** Control your environment rather than have it control you.
2. **Begin with the End in Mind.** Envision the desired outcome and concentrate on activities that help in achieving it.
3. **Put First Things First.** Manage time and effort so that the required tasks are prioritized.
4. **Think Win-Win.** Co-operative effort, so there are no losers.
5. **Seek First to Understand, Then to Be Understood.** Listen to others first, let them know they have been heard before you speak.
6. **Synergize.** People cooperating can often achieve more than one person could alone.

7. **Sharpen the Saw.** Take time to think, learn, and analyze.

9 Tips for Building a Successful Career You Enjoy

Career success can be highly subjective, meaning each person gets to define what success looks like for them. For some people, a successful career is one that provides the most enjoyment. For others, a successful career is one that provides certain financial benefits. Regardless of how you define it, achieving your goal of a successful career can be an exciting and empowering experience.[18]

1. **Identify Your Goals.** What are your personal and professional goals? Have you identified your career interests? You may want to schedule an appointment with a career advisor. Most colleges and universities provide a Careers office with career advisors who can help you determine your career interests, search for employment, develop your resume and cover letter for specific jobs, and practice your interview skills. It's definitely worth a visit to your Careers office.
2. **Keep Track of Progress.** Set SMART goals, as these are goals that are specific, measurable, attainable, relevant, and time-based. Using this structure can be a good way to support your success and make adjustments if needed.
3. **Make a Plan.** Identify your skills and abilities, and then search for a career you may like. Do you have the skills you need? If not, then how will you get them? This is a good time to connect with a career advisor and take a few career assessments to help you identify your strengths and weaknesses and find opportunities for you to learn and grow, and prepare yourself for the career you want.
4. **Stay Positive.** A positive outlook can support you in building a successful career by keeping your mind open to new possibilities and career paths. Practice interrupting negative thoughts and replacing them with a positive alternative, if possible. Try to spend time with other positive people to reinforce these thought patterns, if it makes sense for you to do so.
5. **Reflect Often.** Frequently reflecting on your career progress, current circumstances, and future options can help you build a successful career.
6. **Know Your Strengths**. When you know your strengths, you can tailor your job search accordingly and find a position that suits your unique skills. You can also use this information to understand where to focus your attention in professional development and expand your strengths accordingly.
7. **Network Effectively.** Your connections with other industry professionals can help you grow, make you aware of new and interesting career paths, and even make your career more enjoyable.
8. **Keep a Growth Mindset.** Growth mindset is a phrase that refers to the belief that anything can be learned if you give enough effort to learning it.
9. **Practice Mindfulness.** Mindfulness, or paying attention to your internal and external state of being, can help you build a successful career by developing self-awareness, confidence, and a sense of calm. Try researching mindfulness techniques or visiting with a mindfulness specialist to learn ways to do so.

Mindfulness is a practice in which you focus your awareness on the present without judgment. You create an intention to be conscious of your thinking, feeling, and sensations within the current situation. You fully engage in the present moment. Interestingly, mindfulness has been researched extensively and has all kinds of positive outcomes. For example, in a global study, those who practiced mindfulness reduced depression 19%, reduced anxiety 13%, and improved well-being 7%, according to research published in the *British Journal of Health Psychology.*[19] In business, mindfulness can improve productivity, biases, decision-making, behaviour, creativity, and well-being. Mindfulness programs help leaders and employees reflect effectively, focus sharply on the task at hand, master peak levels of stress, and recharge quickly.[20] In recent years, many big organizations have begun to invest in mindfulness. Google, Nike, and Procter & Gamble, for example, provide meditation rooms and classes for employees.[21] Here's how you can practice mindfulness for the benefits in your academic and business careers: 1) Reduce Distraction, 2) Avoid Multi-Tasking, 3) Reduce Procrastination, 4) Reduce Emotional Reactivity, and 5) Avoid Team Issues.[22]

Manage Time Effectively

Time management is an essential life skill and one that will make a huge difference in your career. **Time management** is the practice of planning and controlling how you use your time to be more productive and efficient. It involves prioritizing tasks, setting deadlines, and avoiding distractions. The goal of time management is to complete important tasks on time while also balancing your personal, professional, and academic responsibilities. Some benefits of effective time management include less stress, more time for creative or strategic projects, better work quality, and more self-confidence. Managing time is an essential part of every busy business professional's job. Most professionals use an electronic calendar to track appointments, meetings, events, etc.

Play the YouTube video below, "Time Management Techniques for Stress Free Productivity," YouTube video below for some time management tips for stress-free productivity.[23] Transcript for "Time Management Techniques for Stress Free Productivity" Video [PDF–New Tab]. Closed captioning is available on YouTube.

One or more interactive elements has been excluded from this version of the text. You can view them online here: https://ecampusontario.pressbooks.pub/businessfundamentals/?p=5#oembed-3

Manage Stress Effectively

Stress is a part of everyone's life. **Stress** is a physical, mental, and emotional response to a difficult event. Stress Management offers a range of ways to help you better deal with stress and difficulty in your life. Engaging in activities that support self-care may help reduce stress and anxiety. These can include exercise and mindfulness practices.

Listed below are 16 evidence-based ways to relieve stress:[24]

1. Get more physical activity
2. Eat a balanced diet
3. Minimize phone use and screen time
4. Practice self-care
5. Try journaling
6. Reduce your caffeine intake
7. Spend time with friends and family
8. Create boundaries and learn to say no
9. Avoid procrastination
10. Take a yoga class
11. Practice mindfulness
12. Cuddle
13. Spend time in nature
14. Practice deep breathing
15. Spend time with a pet
16. Consider supplements

Yoga is a good way to reduce stress

Taking Tests

Often, students become stressed when there is a test to take. Your institution may provide some test-taking tips. Below are a few test-taking tips from various colleges and universities.

- Centennial College
- Durham College
- Wichita State University
- Utah State University
- Southwestern University
- The Learning Portal, College Libraries Ontario

Manage Your Finances

The chapter, "Managing Personal Finances", explores this topic in greater depth. For now, let's start with a basic introduction to the key concepts.

Students become stressed when they need to pay bills and don't have enough funds to do so. Colleges and universities understand that students have complex lives and often need to work part-time jobs in order to pay their bills. With that said, as a full-time student, these institutions expect you to prioritize your studies since you have paid tuition fees to enroll. No student wants to fail a course and have to pay to re-take it, but if you do not focus on your studies, this may happen. Planning your time effectively is a good way to ensure you are spending enough time on your studies.

Entering college is an exciting and sometimes intimidating venture for many young adults—often it's the first time many leave the warmth and safety of their parents' home and have to live and manage on their own. One specific area that causes young adults difficulty is learning to budget.[25]

A budget is a financial plan that estimates how much money you'll make and spend over a specific period of time. It can be used by individuals, families, businesses, and governments.

Below are a few suggestions on how college students can more effectively manage their money while furthering their education:

- Set up a self-enforced budget and manage your credit card responsibly.
- Utilize meal plans or make your meals rather than eating out, and share expenses with roommates.
- Investigate economic ways to buy essential items and supplies.
- Distinguish between essential and non-essential purchases.
- Take advantage of scholarships and grant awards.
- Investigate off-campus housing and whether or not you can share a place with another student.
- Get a paid, part-time job if your schedule permits, but don't work full-time hours; otherwise, you may not have time to keep up with your studies.
- Take advantage of free (on campus) or low-priced (Value Village, Salvation Army) options for food, clothing, and furniture.
- If asked, request practical gifts for your birthday and other special occasions.
- Buy used books when possible and resell them when you are finished with them, or check out the library to see if you can borrow a course textbook.
- Investigate whether or not you can remain on your parents' health insurance plan instead of purchasing health insurance yourself.

Creating and using a budget is not just for those who need to closely monitor their cash flows from month to month because money is tight. Almost everyone can benefit from budgeting.[26] Building the right college student budget for your situation can help you stay on track for your financial life after graduation. Plus, learning to build and maintain a budget is an important skill to carry with you for the rest of your life. If you aren't sure how to create the perfect college budget that works for you, then check out this free budgeting course. It will walk you through the steps of building a budget that actually sticks.[27]

Play the YouTube video below, "Time Management Techniques for Stress Free Productivity," YouTube video below for some time management tips for stress-free productivity.[28] Transcript for "How To: The Easiest and Simplest Way to Create a Monthly Budget! 6-Minute Process" Video [PDF–New Tab]. Closed captioning is available on YouTube.

One or more interactive elements has been excluded from this version of the text. You can view them online here: https://ecampusontario.pressbooks.pub/businessfundamentals/?p=5#oembed-4

Gain Business Work Experience

College and university students often wonder how they will gain business work experience. Many work part-time jobs while attending school, but these jobs are usually entry-level service jobs paying minimum wage. Some students have no work experience or have never worked in Canada. Most students hope to work in the field they are studying after they graduate. So how can you gain business experience in your field of study that will help you obtain a job after you graduate?

Review the list below for some ideas on how to gain work experience:

1. Volunteering is a great way to gain work experience. When you volunteer you meet people, and these people could become references for you when you are searching for your next job. You also gain skills and knowledge that could be applied to future jobs. Employers like to see that you have given back to the community or volunteered your time to help others–it says good things about your character.
2. Internships and Co-op Placements are good ways to gain work experience, build your professional network, learn new skills, and apply what you have learned in school.
3. Freelance projects can be a flexible way to build expertise. Platforms like Upwork and Fiverr offer numerous opportunities to work on real-world projects.
4. Experiential course projects can help you gain real business experience. Many institutions offer experien-

tial course projects whereby you complete a real business project as part of your course. Riipen is a work-based learning platform to help educators, organizations, and learners collaborate on real industry projects to bridge the gap between education and employment. This approach is particularly effective for tech-oriented fields. These types of projects can be added to your resume and LinkedIn profile.

5. Gain leadership experience by joining student clubs or societies. Many colleges and universities have their own Enactus (entrepreneurship) chapter and Toastmasters (public speaking) club. Some institutions have badges, micro-credentials, specialized academic certificates, or stackable credentials for leadership, Indigenous Knowledges, entrepreneurship, global perspectives, sustainability, etc.
6. Gain practical experience by participating in workshops and lab sessions.
7. Gain business experience by getting involved in student-run businesses or start-ups.
8. Gain skills by utilizing online platforms to learn new skills. Some institutions provide free access to LinkedIn Learning, which houses many courses on various subjects.

The Careers and Co-op office within your institution may provide support and resources that will help you find part-time work while you are studying and/or a co-op placement (if this is an option within your program).

Practice Business Etiquette

Business etiquette is a type of social and business behaviour that team members (whether at school or work) are expected to exhibit. It includes how people communicate, dress, and conduct themselves in meetings and social events. Adhering to business etiquette can help foster positive relationships and a harmonious work environment. Some examples of business etiquette include treating others with courtesy and consideration, controlling your emotions and actions, being accountable for your actions and obligations, and meeting deadlines and admitting mistakes.

So, what are some pet peeves you have? **Pet peeves** are the things that annoy you, often things other people do that bother you. Check out this list of 87 Common Things That Annoy People. A good guideline is to try not to be the one who is annoying others, especially when working on a team or taking a potential customer out for lunch. Here are a few annoyances college students have shared with their professor over the years:

- “I don’t want to sit beside that person because they have bad body odour”.
- “I don’t want to use that bathroom stall because someone peed (urinated) all over the seat.”
- “It’s so annoying when that student keeps interrupting the professor with questions that aren’t even about the topic.”
- “I don’t like sitting with that person because they pick their nose in front of everyone. Yuck!”
- “Why can’t people just let us get off the elevator before pushing their way on?”

- "They are always late for team meetings or don't even bother to show up. It's like they don't care."

There are many things that annoy us all, but we need to remember that other people may have grown up with cultural norms that differ from our own. **Cultural norms** are the standards we live by. They are the shared expectations and rules that guide the behavior of people within social groups. Cultural norms are learned and reinforced from parents, friends, teachers, and others while growing up in a society. Norms often differ across cultures, contributing to cross-cultural misunderstandings. For example, it may be customary in certain parts of China and India to belch after a meal, but in Canada and the U.S., this would be considered rude. Punctuality around the world varies: Being on time is important in Canada and U.S. business settings, but being on time is not a concern in Greece, Brazil, or Mexico. In some cultures, they do not sit on toilet seats, so you may have noticed shoe prints on toilet seats or spillage, or unflushed toilets. This is a bathroom etiquette issue; in Canada, toilet seats are expected to be clean and dry. The main thing with etiquette is to respect the cultural norms of other people, exercise professionalism, and practice business etiquette at the location you are in. You will learn more about cultural norms and intercultural communication when you complete a course in organizational behaviour or business communications.

Professionalism is a broad concept that includes a person's attitude, work ethic, and conduct. It also involves being punctual, dressing appropriately, and having a positive attitude. Business etiquette is a key component of professionalism. Some of the traits of professionalism include being dependable and accountable, demonstrating a sense of etiquette, making ethical decisions, being a team player, and maintaining a positive outlook.

Watch "The Five Zones of Professional Etiquette" YouTube video below to learn about professional etiquette. [29]Transcript for "The Five Zones of Professional Etiquette (Student Version)" Video [PDF–New Tab]. Closed captioning is available on YouTube.

One or more interactive elements has been excluded from this version of the text. You can view them online here: https://ecampusontario.pressbooks.pub/businessfundamentals/?p=5#oembed-5

Key Takeaways

1. **Lifelong learning** is the ongoing, voluntary, and self-motivated pursuit of knowledge for either personal or professional reasons. Lifelong learning is a workplace necessity for most employees.
2. **Employability skills** are the skills you need to enter, stay in, and progress in the world of work, whether you work on your own or as part of a team. Some of the most important employability skills you will need is the ability to work well with others, be a productive team member, and communicate well with others.
3. **SQ4R reading system** is designed to help you study your textbook and apply reading and notetaking skills. The letters in SQ4R stand for five steps: survey, question, read, reflect, recite, and review.
4. **Learning styles** refers to the different methods of learning or understanding new information, the way a person takes in, understands, expresses, and remembers information. There are 4 predominant learning styles: Visual, Auditory, Read/Write, and Kinaesthetic.
5. Your **GPA score (Grade Point Average)** is a cumulation of the grades across the courses throughout your program. To graduate, your institution will have a minimum GPA score you must achieve, and should you wish to further your education in the future, your GPA score may factor into whether or not you will be accepted for enrollment at specific colleges or universities.
6. **Academic integrity** is a commitment to acting with honesty, trust, fairness, respect, and responsibility in academic work and studies.
7. A **citation style** dictates the information necessary for a citation and how the information is ordered, as well as punctuation and other formatting. Popular citation styles such as APA and MLA provide guidelines to authors in how to format documents for professionalism, for crediting other people's words and ideas via citations and references to avoid plagiarism, and for describing other people using inclusive, bias-free language.
8. The book entitled "**The 7 Habits of Highly Effective People**" written by Stephen R. Covey, is based on Covey's belief that the way we see the world is entirely based on our perceptions. In order to change a given situation, we must change ourselves, and in order to change ourselves, we must be able to change our perceptions. The 7 Habits: 1) Be Proactive, 2) Begin with the End in Mind, 3) Put First Things First, 4) Think Win-Win, 5) Seek First to Under-

stand, Then to Be Understood, 6) Synergize, and 7) Sharpen the Saw.

9. **Time management** is the practice of planning and controlling how you use your time to be more productive and efficient. It involves prioritizing tasks, setting deadlines, and avoiding distractions. The goal of time management is to complete important tasks on time while also balancing your personal, professional, and academic responsibilities.
10. **Stress** is a physical, mental, and emotional response to a difficult event. Stress Management offers a range of ways to help you better deal with stress and difficulty in your life.
11. A **budget** is a financial plan that estimates how much money you'll make and spend over a specific period of time. It can be used by individuals, families, businesses, and governments.
12. Students can **gain work experience** while studying through volunteering, internships, co-op placements, freelance projects, experiential course projects, leadership opportunities, participating in workshops and lab sessions, getting involved in student-run businesses or start-ups, and utilizing online platforms to learn new skills.
13. **Business etiquette** is a type of social and business behaviour that team members (whether at school or work) are expected to exhibit. It includes how people communicate, dress, and conduct themselves in meetings and social events.
14. **Pet peeves** are the things that annoy you, often things other people do that bother you. Try not to be the one annoying others.
15. **Cultural norms** are the standards we live by. They are the shared expectations and rules that guide the behavior of people within social groups.
16. **Professionalism** is a broad concept that includes a person's attitude, work ethic, and conduct. It also involves being punctual, dressing appropriately, and having a positive attitude. Business etiquette is a key component of professionalism.

End-of-Chapter Exercises

1. **Learning Style.** What's your learning style? Take this Learning Style Quiz to find out. Which learning style was your dominant one? Were you surprised by the results? Discuss with a partner and/or your professor how you will modify your methods for learning and

studying so that you incorporate your dominant learning style.

2. **Employability Skills.** Download the Conference Board of Canada Employability Skills Toolkit. Do you have these skills? Which skills do you need to build? How will you do this? Discuss with a partner and/or your professor.
3. **Student Support.** Research your institution's student services and support. Can you locate support for test taking? Can you locate support for math tutoring? Can you locate support for the services you require to aid you in being successful in your studies? Discuss what you learned with a partner and/or professor.
4. **APA Formatting.** Test your APA style knowledge. Complete one of these quizzes – APA Style Quiz or PennState APA Quiz or St. Thomas APA Quiz or NIC APA Quiz. Your professor may ask you to share your results.
5. **Academic Integrity.** Search your college's or university's website and locate the Academic Integrity (Academic Honesty) policy. What surprised you about the policy? Was there information in the policy you were not aware of? Discuss the sanctions that may occur should you be in breach of the academic integrity policy with a partner and/or your professor.
6. **7 Habits.** Which of the "7 Habits of Highly Effective People" have you been practicing recently? Share an example of each with a classmate or your professor. Listen carefully to how others are using these habits in their lives—you might pick up some helpful tips and new ideas.
7. **Mindfulness.** Do you want to know how mindful you are? Take this Mindfulness Quiz to find out. How can you build mindfulness into your daily routine? Discuss with a partner and/or your professor what you discovered.
8. **Time Management Skills.** Visit the Skills You Need website and Take this Quiz or the Brain Manager website and Take this Quiz to find out. Do you find you procrastinate? Do you find you often run out of time? Maybe you are not managing your time as wisely as you should. What did you learn from taking the quiz? How can you manage your time better in the future to reduce stress and accomplish tasks by their due dates? Discuss this with a partner and/or your professor.
9. **Using a Calendar.** Use Google Calendar, your school's calendar, and your own personal calendar, and review each of your courses for assessment due dates. Record each of these assessments in your calendar. Schedule study time in your calendar as well. If you work, include work time in your calendar. Also, add appointments, events, and other obligations you may have. Review the calendar one week at a time and determine which tasks you need to prioritize and how much time you need to spend to complete each task. If you need help with managing your time, contact a learning specialist at your institution. Show your

calendar to a partner and/or share your calendar with your professor or a learning strategist at your school, and gather their feedback.

10. **Budget.** Create a budget for the next month. Follow the steps provided in the video within the chapter or complete this free budgeting course. If you need help, you can ask a learning strategist on campus or a family member or a friend. Write your budget down. Review it. Determine where you could reduce spending. Discuss the ways in which you might reduce spending with a partner and/or the professor. Your peers may share some money-saving ideas you have not thought of.
11. **Business Etiquette.** Observe others in your college or university. What bothers you about the things other people do? Make a list and limit it to 10 items. Discuss with a partner, or the class, or your professor the pet peeves you and your classmates have. Then, try to determine what you can do to improve your personal business etiquette. You may even want to create a "classroom guidelines" list that all students in the class will follow to ensure professional behaviour and good business etiquette.

Self-Check Exercise: The 7 Habits of Highly Effective People Flash Cards

To complete this exercise, you may need to do a little research on The 7 Habits of Highly Effective People:

1. **Be Proactive.** Control your environment rather than have it control you.
2. **Begin with the End in Mind.** Envision the desired outcome and concentrate on activities that help in achieving it.
3. **Put First Things First.** Manage time and effort so that the required tasks are prioritized.
4. **Think Win-Win.** Co-operative effort so there are no losers.
5. **Seek First to Understand, Then to Be Understood.** Listen to others first, let them know they have been heard before you speak.
6. **Synergize.** People cooperating together can often achieve more than one person could

alone.

7. **Sharpen the Saw.** Take time to think, learn, and analyze.

An interactive H5P element has been excluded from this version of the text. You can view it online here:
https://ecampusontario.pressbooks.pub/businessfundamentals/?p=5#h5p-1

Additional Resources

1. Mindfulness at Work – How to be Mindful At Work Tips. YouTube Video.
2. What is Mindfulness? YouTube Video.
3. 16 Business Etiquette Tips for Every Working Professional
4. GPA Calculator
5. How to Convert Your GPA to a 4.0 Scale
6. Test Preparation Tips
7. Cornell Note Taking Method
8. The 20 Business Leaders Who Changed the World for the Better
9. Zotero. Collect, organize, annotate, cite and share research.
10. How Professional Are You? Quiz

References

(Note: This reference list was produced using the auto-footnote and media citation features of Pressbooks)

Media Attributions

- Four Categories of Employability Skills © Kerri Shields is licensed under a CC BY-NC-SA (Attribution NonCommercial ShareAlike) license
- Student Studying and Taking Notes © Stocksnap Pixabay
- Breach of Academic Integrity © RDNE Stock Project | Pexels
- Yoga for Reducing Stress © Cliff Booth | Pexels

Notes

1. Rego, A. (2021, February 23). Prepare for Canada. Higher education offers benefits to newcomers. https://www.prepareforcanada.com/before-you-arrive/settling-in-canada/higher-education-offers-benefits-to-newcomers/#:~:text=Three%20Benefits%20of%20Higher%20Education%20in%20Canada%201,in%20Canada.%20...%203%203.%20Network%20with%20Others
2. World Education Services. About WES credential evaluation. https://knowledge.wes.org/WES_Credential_Evaluations.html
3. Andrews, G. (2024, August 12). Is college worth it? Consider these factors before enrolling. Forbes. https://www.forbes.com/advisor/education/student-resources/is-a-college-degree-worth-it/
4. Statistics Canada. (2023, October 4). Employment income statistics by highest level of education: Canada, provinces and territories, census divisions and census subdivisions. https://www150.statcan.gc.ca/t1/tbl1/en/tv.action?pid=9810041101
5. Kumok, Z. (2023, June 14). 7 compelling reasons why you should go to college. Forbes. https://www.forbes.com/advisor/student-loans/why-should-you-go-to-college/
6. Kumok, Z. (2023, June 14). 7 compelling reasons why you should go to college. Forbes. https://www.forbes.com/advisor/student-loans/why-should-you-go-to-college/
7. Kumok, Z. (2023, June 14). 7 compelling reasons why you should go to college. Forbes. https://www.forbes.com/advisor/student-loans/why-should-you-go-to-college/
8. Stone, K. (2020, July 9). The state of project management in 2023 [42 statistics]. https://saaslist.com/blog/project-management-statistics/#:~:text=90%25%20of%20projects%20require%20team,participation%20as%20opposed%20to%20individual%20responsibility
9. Conference Board of Canada. (2023). Finding your employability skills. https://www.conferenceboard.ca/future-skills-centre/tools/finding-your-employability-skills/
10. The Conference Board of Canada. (2022). *Finding your employability skills.* https://www.conferenceboard.ca/future-skills-centre/tools/finding-your-employability-skills/
11. The Conference Board of Canada. (2022). *Finding your employability skills.* https://www.conferenceboard.ca/future-skills-centre/tools/finding-your-employability-skills/
12. The WOW Show. (2020). *Employability skills - have you got them?* [Video]. YouTube. https://www.youtube.com/watch?v=tKKPUYfOkvw
13. Gavin, M. (2019, September 26). *7 business fundamentals professionals in every industry should know.* https://online.hbs.edu/blog/post/business-fundamentals
14. Claire. (2024, August 1). 12 insanely smart study hacks for college students. Collegesavvy. https://mycollegesavvy.com/

study-hacks-for-college-students/

15. Utah State University. (n.d.). SQ4R reading system. [PDF]. https://www.usu.edu/academic-support/files/SQ4R_Reading_System.pdf
16. CSUDH Library. (2019, October 29). *Introduction to citation styles: APA 7th ed.* [Video]. YouTube. https://www.youtube.com/watch?v=_fVv2Jt0o18&t=2s
17. Nicholson, R. (2024, July 16). 7 habits of highly effective people. Hubspot. https://blog.hubspot.com/sales/habits-of-highly-effective-people-summary#7-habits-of-highly-effective-people
18. Herrity, J. (2024, August 15). 9 tips for building a successful career you enjoy. https://www.indeed.com/career-advice/career-development/building-career
19. Brower, T. (2024, October 31). *How 5 mindfulness techniques can help your workplace productivity.* https://www.forbes.com/sites/tracybrower/2024/10/28/how-5-mindfulness-techniques-can-help-your-workplace-productivity/
20. Greiser, C. (2018, April 26). Unleashing the power of mindfulness in corporations. https://www.bcg.com/publications/2018/unleashing-power-of-mindfulness-in-corporations
21. Mind Tools, (n.d.). Mindfulness in the workplace. https://www.mindtools.com/adzev6y/mindfulness-in-the-workplace
22. Brower, T. (2024, October 31). *How 5 mindfulness techniques can help your workplace productivity.* https://www.forbes.com/sites/tracybrower/2024/10/28/how-5-mindfulness-techniques-can-help-your-workplace-productivity/
23. Young Entrepreneurs Forum. (2016, August 15). *Time management techniques for stress free productivity.* [Video]. YouTube. https://youtu.be/IGVQPU-L7cQ
24. Kubala, J. (2023, July 12). *16 simple ways to relieve stress.* https://www.healthline.com/nutrition/16-ways-relieve-stress-anxiety#3-Minimize-phone-use-and-screen-time
25. Segal, T. (2024, October 26). *Money management for college students.* https://www.investopedia.com/financial-edge/0712/money-management-for-college-students.aspx#:~:text=Key%20Takeaways%201%20College%20students%20need%20to%20set,purchases%20is%20also%20a%20key%20money%20management%20tactic.
26. Ganti, A. (2024, October 17). *What is a budget? Plus 11 budgeting myths holding you back.* https://www.investopedia.com/terms/b/budget.asp
27. Sharkey, S. (2024, September 27). *How to create a college student budget you'll actually use.* https://www.clevergirlfinance.com/college-student-budget/
28. Budgets, S. (2019, July 19). *How to: The easiest and simplest way to create a monthly budget! 6-Minute process.* [Video]. YouTube. https://www.youtube.com/watch?v=3pslPbfpnzk
29. Bovee and Thill. (Young Entrepreneurs Forum. (2018, January 20). *The five zones of professional etiquette (student version).* [Video]. YouTube. https://www.youtube.com/watch?v=A9Q20hZ5ZX4

CHAPTER 2: BUSINESS CONCEPTS AND TEAMWORK

Chapter 2 Learning Outcomes

After reading this chapter, you should be able to do the following:

1. Explain the role the Government has in Canadian business.
2. Explain the economic benefits derived when businesses earn profits.
3. Explain the differences between for-profit and not-for-profit organizations.
4. Define the terms “entrepreneur”, “profit”, and “revenue”.
5. Describe the public, private, and non-profit business sectors.
6. Identify stakeholders relevant to an organization.
7. Describe the four factors of production.
8. Describe five functional areas of business.
9. Differentiate between the internal, micro, and macro business environments.
10. Explain the seven characteristics of effective teams.
11. Provide an example of a task-facilitating role and a relationship-building role on a team.
12. Explain why team conflict might occur and how it can be resolved.

Business Eras in North America

North American business history is divided into the following several distinct time periods:[123]

1. **The Colonial Period (prior to 1776).** Colonial society featured rural and agricultural production.
2. **The Early Trade and Craftsmanship era (1776-1850s).** Localized trade and craftsmanship. Small-scale production is dominated by artisans and merchants.

3. **The Industrial Revolution (1850s-1920s).** Instead of independent, skilled workers specializing in building products one by one, businesses moved to a factory system with mass production aided by machines. Businesses believed that customers valued affordability and availability over other factors. As a result, efforts centered on maximizing output rather than improving quality. These advancements in technology increased demand for manufactured goods, leading to enormous entrepreneurial opportunities.
4. **The Production era (1920s-1940s).** Companies focused on mass production and efficiency, aiming to produce large quantities at the lowest possible cost. Marketing efforts centered on achieving broad distribution, but promotional activities were limited, as high demand and minimal competition made aggressive marketing unnecessary.
5. **The Sales era (1940s-1960s).** During this period, competition for customers intensified among companies. Success was often seen as a result of aggressive promotional efforts. Customer experience and product or service quality were generally not prioritized. Instead, businesses focused on pushing products through flashy sales promotions, radio ads, and door-to-door selling tactics to encourage purchases.
6. **The Marketing era (1960s-1990s).** Instead of just trying to persuade consumers to buy the products they were making, companies focused on making products that customers wanted to buy. The rise of market research and consumer behaviour studies. The 4Ps of marketing were introduced: product, price, place, promotion.
7. **The Relationship era (1990s-Present).** Growth in technology, CRM systems, has allowed companies to engage with customers more personally.
8. **The Digital and Social era (2010s-Present).** The rise of the Internet and social media has transformed how businesses and consumers connect and exchange information. The widespread use of smartphones and other smart devices has fueled the growth of digital marketing, allowing companies to engage a broader audience. This shift supports stronger, continuous relationships with customers, employees, suppliers, and other businesses.
9. **The Sustainability and ESG era (2010s-Present).** Businesses prioritize ethical and sustainable practices, emphasizing green energy, ethical sourcing, and community impact. They aim to balance customer satisfaction, profitability, and societal well-being. Sustainability is integrated into core operations, addressing climate change, fair labour, and social responsibility.

The Role of Government in Canadian Business

Canada's system of government is based on the British parliamentary model and is quite distinct from the presidential system operating in the United States. Canada's legislative and executive jurisdiction is constitutionally divided between the federal government and the ten provincial governments. A business may be regulated at

three levels: federal, provincial, and municipal. A business may also be affected by the policies and decisions of regulatory and administrative bodies and tribunals.

The government influences business activity through the roles it plays. Some of these include the following:

- The government becomes a *regulator* when it controls many aspects of business activity through administrative boards, tribunals, and commissions. Regulations promote competition between businesses, protect consumers, achieve social goals, and protect the environment. For example, the Canadian Food Inspection Agency regulates dairy, egg, fish, and other food products.
- The government becomes a *provider of incentives* when it offers programs that help stimulate economic development. For example, the government offers funding for waste diversion initiatives, rebates for solar heating installations, and in some provinces, tax credits for employers who hire university and college students enrolled in co-operative education programs.
- The government becomes a *provider of essential services* when it supplies services that create the stability that encourages business activity, such as law enforcement (police) and health care (hospitals).
- The government becomes a *taxation agent* when taxes are imposed and collected by the three levels of government. For example, the federal government collects income tax through the Canada Revenue Agency (CRA), the provincial government collects sales tax and receives a share of income tax, and the municipal government collects property tax.
- The government becomes a *customer* when it buys from businesses. The Government of Canada buys many kinds of products and services, from aircraft to paper clips, from training services to scientific research.[4]
- The government becomes a *competitor* when it competes with businesses through its Crown corporations, such as Canada Post, the Canadian Broadcasting Corporation (CBC), SaskTel, SaskEnergy, BC Hydro, and the Liquor Control Board of Ontario (LCBO).

Economic Benefits When Businesses Earn Profits

For-Profit Organizations

Take a moment to think about the many different types of businesses you come into contact with on a typical day. As you drive to class, you may stop at a gas station that is part of a major national oil company and grab lunch from a fast food chain such as Taco Bell, McDonald's, or the neighbourhood pizza place. Need more cash? You can do your banking on a smartphone or another device via mobile apps. You don't even have to visit the store anymore: online shopping brings the stores to you, offering everything from clothes to food, furniture, and concert tickets.

A **business** is an organization that strives for a profit by providing goods and services desired by its customers. Businesses meet the needs of consumers by providing medical care, automobiles, and countless other goods and services. **Goods** are tangible items manufactured by businesses, such as laptops. **Services** are intangible offerings of businesses that can't be held, touched, or stored. Physicians, lawyers, hairstylists, car washes, and airlines all provide services. Businesses also serve other organizations, such as hospitals, retailers, and governments, by providing machinery, goods for resale, computers, and thousands of other items.

Revenue is the money a company receives by providing services or selling goods to customers. **Costs** are expenses including rent, salaries, supplies, transportation, and many other expenses a company incurs from creating and selling goods and services. For example, some of the costs Microsoft incurred by developing its software include salaries, facilities, and advertising. If Microsoft has money left over after it pays all costs, it has a **profit**. A company with costs greater than revenues incurs a **loss**. When a company such as Microsoft uses its resources intelligently, it can often increase sales, hold costs down, and earn a profit. Not all companies earn profits, but that is the risk of being in business. **Risk** is the potential to lose time and money or otherwise not be able to accomplish an organization's goals. For example, the Canadian Red Cross faces the risk of not meeting the demand for victims of disaster (patients who need blood) if there are not enough blood donors. Businesses such as Microsoft face the risk of falling short of their revenue and profit goals. In Canadian business today, there is generally a direct relationship between risks and profit: the greater the risks, the greater the potential for profit (or loss).

The owner or shareholders of a business are not the only people who benefit from the business's earned profits. A successful business provides employment opportunities, goods and services people need and want, tax payments to the government, and spends money buying resources, which stimulates the economy. Socially responsible firms contribute even more by adopting policies that promote the well-being of society and the environment while lessening the negative impacts on them.

Not-for-Profit Organizations

Not every organization that generates revenue and pays expenses is considered a for-profit business. Not all organizations strive to make a profit. A **not-for-profit organization** is an organization that exists to achieve some goal other than the usual business goal of profit at all costs. Often, these organizations serve communities through social, educational, or political means. Organizations such as universities and colleges, hospitals, environmental groups, and charities are not-for-profit organizations. Charities such as Habitat for Humanity, the United Way, the Canadian Cancer Society, and the World Wildlife Fund are not-for-profit organizations, as are most hospitals, zoos, arts organizations, civic groups, and religious organizations.[5] Over the last 20 years, the number of not-for-profit organizations—and the employees and volunteers who work for them—has increased considerably. Government is our largest and most pervasive not-for-profit group.

Like their for-profit counterparts, these groups set goals and require resources to meet those goals. However, their goals are not focused solely on profits. For example, a not-for-profit organization's goal might be feeding the poor, preserving the environment, increasing attendance at the ballet, or preventing drunk driving. Not-for-profit organizations do not compete directly with one another in the same manner as, for example, Ford and Honda, but they do compete for talented employees, people's limited volunteer time, and donations.

The boundaries that formerly separated not-for-profit and for-profit organizations have blurred, leading to a greater exchange of ideas between the sectors as for-profit businesses are now addressing social issues. Successful not-for-profits apply business principles to operate more effectively. Not-for-profit managers are concerned with the same concepts as their colleagues in for-profit companies: developing strategy, budgeting carefully, measuring performance, encouraging innovation, improving productivity, demonstrating accountability, and fostering an ethical workplace environment.

In addition to pursuing a museum's artistic goals, for example, top executives manage the administrative and business side of the organization: human resources, finance, and legal concerns. Ticket revenues cover a fraction of the museum's operating costs, so the director spends a great deal of time seeking major donations and memberships. Today's museum boards of directors include both art patrons and business executives who want to see sound fiscal decision-making in a not-for-profit setting. Therefore, a museum director must walk a fine line between the institution's artistic mission and financial policies.

Standard of Living

Successful businesses help to raise a country's standard of living because they create the goods and services that are the basis of our standard of living. The **standard of living** of any country is measured by the output of goods and services people can buy with the money they have. It's the ease with which people living in a time or place are able to satisfy their needs and wants. It is generally measured by standards such as income per person and poverty rate. Other measures are also used, such as access to and quality of health care, income-growth inequity, availability of employment, environmental quality, and educational standards. One measure of the standard of living is the Human Development Index (HDI), which was developed by the United Nations. Canada was ranked #18 out of 193 countries and territories worldwide on the 2023/2024 HDI report (Refer to Table 2.1).[6]

Table 2.1: Human Development Index 2023/2024 Rankings

Country	Rank
Canada	18
United States	20
Germany	7
United Kingdom	15
Switzerland	1
Norway	2
Hong Kong	4
China	75
Finland	12
India	134
Somalia	193
Pakistan	164
Yemen	186

Quality of Life

Businesses play a key role in determining our quality of life by providing jobs, goods, and services to society. **Quality of life** refers to the general level of human happiness based on factors including life expectancy, educational standards, health, sanitation, and leisure time. It takes into account not only the material standard of living, but also more intangible aspects that make up human life. Building a high quality of life is a combined effort between businesses, government, and not-for-profit organizations. In a Mercer Insights report for 2023, Vienna, Austria, ranked highest in quality of life, followed by Zurich, Switzerland; Auckland, New Zealand; and Copenhagen, Denmark. It may come as a surprise that not one of the world's top cities is in the United States: seven of the top 10 locations are in western Europe, two are in Australia/New Zealand, and one is in Canada (#8 on the list). At the other end of the scale, Baghdad, Iraq, is the city scoring the lowest on the annual survey.[7]

Business Trends

Businesses must observe trends in business, as many trends stem from consumer demands and preferences.

Companies must keep up with their competitors, observe changes in the business environment, and meet consumer demands if they wish to stay in business.

Some of the current business and consumer trends include the following:

- **Artificial Intelligence.** We will start to see organizations move beyond the hype and start integrating generative AI into business strategy. During the previous wave of AI transformation, we saw businesses like Google, Amazon, and Netflix rethink their strategy from the ground up to center around deep learning. By doing this, they transformed existing business models such as online advertising, retail, and media streaming. Rather than existing products and services with a chatbot bolted on, think of generative tools and applications that enable entirely new possibilities across healthcare, manufacturing, education, and many other industries.[8]
- **Young Consumers' Spending.** By 2030, 75 percent of consumers in emerging markets will be between the ages of 15 and 34. Among this group, young consumers aged 18 to 24 in Asian and Middle Eastern nations, such as India and Saudi Arabia, will be particularly important to consumer businesses, given their pent-up demand and willingness to spend.[9]
- **Retirement Spending.** Despite the financial constraints that may accompany retirement, aging consumers across all income levels are willing to spend on discretionary items. In experiential categories such as travel, older consumers' intent to splurge is even higher than that of millennials, who have historically been big travel spenders. High-income baby boomer and Silent Generation consumers (those whose household incomes exceed $100,000) are a sizable cohort in the United States, making up 30 percent of the market, and they're more likely to spend on discretionary purchases, such as home improvement and gardening, compared with lower-income consumers their age.[10]
- **Customer Experience is King.** Customer experience (CX) will increasingly be seen as the key differentiator between competing providers of goods and services. As markets mature and buyers become more discerning, businesses that excel in delivering friction-free, hyper-personalized, and memorable experiences will find they are well-positioned to rise above the competition.[11]
- **Sustainable Business and Circular Economies.** Driven by both regulatory pressure and consumer demand, the move towards more environmentally friendly and sustainable business practices is certain to be a key driver of change. The development of circular economies – where the focus is on reusing materials and recycling resources in a "closed loop" system in order to reduce waste and minimize environmental footprint is a core focus.[12]
- **Brand Exploration.** Weakening of brand loyalty is not limited to a specific age group. In the past, older consumers remained consistently loyal to their preferred brands, but today, they're just as likely to embrace new brands and retailers. In Europe and the United States, Gen Zers and millennials are only slightly more likely than older consumers to trade down to lower-priced brands and retailers. One beneficiary of this rampant downtrading is private labels. Thirty-six percent of consumers plan to purchase private-label products more frequently, and 60 percent believe private brands offer equal or better qual-

ity.[13]

- **Wellness.** The global wellness market is worth approximately $1.8 trillion and is growing 5 to 10 percent annually. In advanced economies, health and wellness products and services have been in high demand over the past several years. Today, these categories are also growing quickly in emerging markets, and in some cases, growth in intent to spend on health and wellness products in emerging markets is outpacing growth in advanced markets.[14]
- **Quality of Life.** In both advanced and emerging markets, people are moving to seek out new opportunities and a better quality of life. In advanced markets like the United States, consumers are moving away from larger cities in the Pacific Northwest and the Northeast to "secondary cities," or those with populations between 50,000 and 500,000 people. Two-thirds of the fastest-growing US cities are in the South and West. In these cities, the cost of living is lower than in larger cities, and remote work opportunities are plentiful. Millennials, Gen Xers, and boomers are propelling this trend.[15]
- **Social Commerce.** For several years, China has led the world in the adoption of social commerce, in which consumers browse and buy directly through social media and content creation platforms. Today, social-commerce markets in both China and India continue to mature, while those in other emerging-market countries—such as Brazil, Saudi Arabia, and the United Arab Emirates—are close behind. Consumers in these countries consistently spend more on purchases made through social media platforms, compared with consumers in Europe and the United States.[16]

The Apple World of Business

Why is Apple so successful?

In 1976, Steve Jobs and Steve Wozniak created their first computer, the Apple I.[17] They invested a mere $1,300 and set up business in Jobs' garage. Three decades later, their business—Apple Inc.—has become one of the world's most influential and successful companies. Jobs and Wozniak were successful entrepreneurs: those who take the risks and reap the rewards associated with starting a new business enterprise.

Did you ever wonder why Apple flourished while so many other young companies failed? How did it grow from a garage start-up to a company generating over $394 billion in sales in 2022? How was it able to transform itself from a nearly bankrupt firm to a multinational corporation with locations all around the world? You might conclude that it was the company's products, such as the Apple I and II, the Macintosh, or more recently its wildly popular iPod, iPhone, and iPad. Alternatively, you could decide that it was its dedicated employees, management's willingness to take calculated risks, or just plain luck – that Apple simply was in the right place at the right time.

Steve Jobs 1955-2011 by segagman licensed CC BY | flickr

Before you draw any conclusions about what made Apple what it is today and what will propel it into a successful future, you might like to learn more about Steve Jobs, the company's co-founder and former CEO. Jobs was instrumental in the original design of the Apple I and, after being ousted from his position with the company, returned to save the firm from destruction and lead it onto its current path. Growing up, Jobs had an interest in computers. He attended lectures at Hewlett-Packard after school and worked for the company during the summer months. He took a job at Atari after graduating from high school and saved his money to make a pilgrimage to India in search of spiritual enlightenment. Following his India trip, he attended Steve Wozniak's "Homebrew Computer Club" meetings, where the idea for building a personal computer surfaced.[18]

"Many colleagues describe Jobs as a brilliant man who could be a great motivator and positively charming. At the same time, his drive for perfection was so strong that employees who did not meet his demands were faced with blistering verbal attacks."[19] Not everyone at Apple appreciated Jobs' brilliance and ability to motivate. Nor did they all go along with his willingness to do whatever it took to produce an innovative, attractive, high-quality product. So, at age thirty, Jobs found himself ousted from Apple by John Sculley, whom Jobs himself had hired as president of the company several years earlier. It seems that Sculley wanted to cut costs and thought it would be easier to do so without Jobs around. Jobs sold $20 million of his stock and went on a two-month vacation to figure out what he would do for the rest of his life. His solution: start a new personal computer company called NextStep. In 1993, he was invited back to Apple (a good thing, because neither his new company nor Apple was doing well).

Steve Jobs was definitely not known for humility, but he was a visionary and had a right to be proud of his accomplishments. Some have commented that "Apple's most successful days occurred with Steve Jobs at the helm."[20]

Jobs did what many successful CEOs and managers do: he learned, adjusted, and improvised. Perhaps the most important statement that can be made about him is this: he never gave up on the company that once turned its back on him. So now you have the facts. What do you think Apple's success is due to? (a) its products, (b) its customers, (c) luck, (d) its willingness to take risks, (e) Steve Jobs, or (f) some combination of these options. What impact has Apple had on technological advances with its over 500 devices?

Business Sectors

Businesses are often categorized into specific groupings called sectors, which can be based on business activities, how profits are managed, or the industry in which the business operates.

The Public Business Sector

The **public business sector** includes goods and services produced, delivered, and allocated by the government and public sector organizations (publicly controlled government business enterprises). The government sector includes all federal, provincial, municipal, and territorial government ministries and departments. It also includes public school boards, public universities and colleges, and public health and social service institutions. Public sector organizations operate in the marketplace, often in competition with privately owned organizations. The government may have direct or indirect control over public sector organizations, which are also referred to as Crown corporations. The public sector aims to provide services that benefit the public as a whole, either because it would be difficult to charge people for the goods and services concerned or because people may not be able to afford them. The government can provide these goods and services at a lower price than if they were provided by a for-profit company. Examples include public utilities, such as water and sewage, electricity, and gas, as well as nationalized industries such as coal and steel.

The Private Business Sector

The **private business sector** includes goods and services produced and delivered by private individuals or

groups as a means of enterprise for profit. The sector is not controlled by the government. These businesses can be small firms owned by just one person or large multinational businesses that operate globally. Large businesses may have many owners. A public (or publicly traded) company within the private business sector is not part of the public sector (government-provided services and government owned organizations); it is a particular kind of private sector company that can offer its shares for sale to the general public (i.e., Microsoft, Apple, Proctor & Gamble).

The Non-Profit or Voluntary Sector

The **non-profit or voluntary sector** includes non-governmental, non-profit organizations that receive support from individual citizens, government, and businesses. Non-profit organizations (NPOs) are also referred to as private voluntary organizations (PVOs); not-for-profit organizations (NFPOs); or non-profit making, non-governmental organizations (NGOs). In the global business world, there is inconsistency in how these terms are defined. A non-profit organization could be a not-for-profit corporation or an unincorporated association. A not-for-profit corporation is usually created with a specific purpose in mind and could be a foundation or charity or other type of non-profit organization. A private voluntary association is a group of volunteers who enter an agreement to form an organized body to accomplish a purpose. For the purposes of this book, not-for-profit corporations, private voluntary organizations, and non-governmental organizations are classified in the non-profit and voluntary sector as non-profit organizations.

Non-profit organizations have the ability to respond to issues more quickly than government and are usually formed or expanded in reaction to a community need that is not being met by the government. The Canadian government recognizes the importance of the non-profit sector as a key partner in building a stronger Canada, and it supports the sector in a number of ways, such as partnering, streamlining funding practices and accountability, and developing knowledge on the non-profit sector.[21]

Non-profit organizations operate in a variety of areas, including sports, religion, arts, culture, fundraising, and housing. Various organizations include hospitals, universities and colleges, research organizations, business and professional associations, and unions. Non-profit organizations experience problems with planning for the future, recruiting the types of volunteers needed, and obtaining board members and funding. People who work in non-profit organizations may be paid employees or unpaid volunteers.

There can be confusion around which sector a business is in. Is the hospital in the public or private sector? Are all hospitals non-profit organizations? Is the private sector university a non-profit or a for-profit organization? This confusion exists because some types of organizations typically thought of as belonging to the non-profit sector can cross sectors. For example, in Ontario, there are four types of hospitals, including public, private, federal, and Cancer Care Ontario hospitals. Public sector hospitals are owned by the government and receive government funding. Private sector hospitals are privately owned, often by a for-profit company or a non-profit

organization, and are funded through patient payments, insurers, grants, donations, and foreign embassies. Private hospitals and health care clinics are classified as being in either the private, for-profit or private, non-profit sectors and are quite common in the United States and Australia. Canada's mix of public and private health care options leaves many people thinking that the hospitals in Canada belong to the public sector because hospital services are publicly delivered, funded, and governed, and hospitals are accountable to the public. In fact, hospital services in many provinces are delivered largely by private sector, non-profit organizations.[22]

Similarly, Canada has private sector, for-profit and private sector, non-profit colleges and universities in addition to its many public, non-profit colleges and universities. Private colleges and universities are not operated by the government, although many have received public subsidies, and depending on the province they reside in, they may be subject to government regulations. Some of the world's most renowned universities, such as Harvard University, Stanford University, and Massachusetts Institute of Technology (MIT), are private sector, non-profit universities.

Business Industries

Across the three sectors, businesses may be classified by industry, such as service-producing industries and goods-producing industries, using the North American Industry Classification System (NAICS).

Goods-Producing Industries

- Agriculture, forestry, fishing, and hunting
- Mining, oil, and gas extraction
- Utilities
- Construction
- Manufacturing

Service-Producing Industries

- Wholesale trade
- Retail trade
- Transportation and warehousing
- Information and cultural industries
- Finance and insurance
- Real estate, rental, and leasing
- Professional, scientific, and technical services

- Management of companies
- Administrative and support, waste management, and remediation services
- Educational services
- Health care and social assistance
- Arts, entertainment, and recreation
- Accommodation and food services
- Other services, except public administration
- Public administration

Business Participants, Stakeholders, and Functional Areas of Business

Participants

Business participants are the people who participate in conducting the work of the business. These always include the employees and managers, but often include suppliers, customers, and shareholders. Every business must have one or more owners whose primary role is to invest money in the business. When a business is being started, it is generally the owners who polish the business idea and bring together the resources (money and people) needed to turn the idea into a business. The owners also hire employees to work for the company and help it reach its goals. Owners and employees depend on a third group of participants— customers. Ultimately, the goal of any business is to satisfy the needs of its customers in order to generate a profit for the owners. Other participants can include suppliers and even competitors.

Stakeholders

Figure 2.1 Common Business Stakeholders include: the environment, service users, policy makers, the public, managers, customers, the government, shareholders, funders, employees, suppliers, and owners.

Stakeholders are those affected by the business's operations and its decisions. Examples of stakeholders include shareholders, investors, suppliers, the community, customers, employees, competitors, and governmental agencies. Consider your favorite restaurant. It may be an outlet or franchise of a national chain (more on franchises in a later chapter) or a local "mom and pop shop" without affiliation to a larger entity. Whether national or local, every business has stakeholders – those with a legitimate interest in the success or failure of the business and the policies it adopts. Stakeholders include customers, vendors, employees, suppliers, landlords, competitors, bankers, and others (see Figure 2.1). Other stakeholders include the general public, the environment, and all the various government departments that impact the business. All have a keen interest in how the business operates, in most cases for obvious reasons. If the business fails, employees will need new jobs, vendors will need new customers, and banks may have to write off loans they made to the business. Stakeholders do not always see things the same way — their interests sometimes conflict with each other. For example, lenders are more likely to appreciate high profit margins that ensure the loans they make will be repaid, while customers would probably appreciate the lowest possible prices. Pleasing stakeholders can be a real balancing act for any company.

Six Functional Areas of Business

Functional areas in a business refer to different departments or sections that perform specific tasks, such as human resources, operations, accounting, and finance. Each functional area has a unique role in achieving the overall business objectives, and they need to work in cooperation to ensure that the company operates smoothly and effectively. Depending on who you ask, you may receive different answers about how many functional areas there are in a business. It depends on how the business is structured (more on this later). Some people will say there are four functional areas, some say five, some say six, or even seven. Examples of functional areas include human resources, operations, marketing, accounting, finance, information technology, strategy, leadership, team, marketing and sales, production and operations, research and development, employment and human resources, insurance and risk management, and so on.

Let us briefly explore each of the six functional areas listed below (Shown in Figure 2.2). When we look at the functional area of business, we are organizing the work in terms of the type of work. In small businesses, the owner may do the finance, accounting, and human resource functions along with overseeing the operations. In large businesses, these functions are often broken down into departments that have large groups of people working within each function.

Figure 2.2 Six Functional areas of business: human resources, operations, marketing, accounting, finance, and technology. (left to right)

1. Human Resources

The **Human Resources (HR) functional area** is an organizational function that is about searching for, selecting, training, and maintaining workers. HR managers are responsible for ensuring that the organization has all of the skills and capabilities necessary to run the business. HR managers develop staffing plans, recruit and select new employees, monitor the performance management process, and develop succession plans for advancement and replacement. They develop standards for compensation and benefits and assist managers with staff issues.

2. Operations

Operations is the organizational function that is focused on producing the goods and/or services of the business. Operations involve managing the processes and resources that create goods and services in a business. It is responsible for ensuring efficiency, quality, and cost-effectiveness in production, distribution, and delivery to meet customer demand and achieve organizational objectives. All companies must convert resources (labour, materials, money, information, and so forth) into goods or services. Some companies, such as Apple, convert resources into tangible products — iPads, iPhones, etc. Others, such as hospitals, convert resources into intangible products, e.g., health care. The person who designs and oversees the transformation of resources into goods or services is called an operations manager. This individual is also responsible for ensuring that products are of high quality. In many organizations, operations management includes managing the supply chain, which controls the delivery of raw materials and the distribution of finished goods.

3. Marketing

Marketing plays a crucial role in a business by helping to identify, create, and satisfy customer needs and wants through the promotion of products or services. Effective marketing strategies can help businesses differenti-

ate themselves from competitors, build brand awareness and loyalty, increase sales and revenue, and ultimately, achieve their business goals. Marketing consists of everything that a company does to identify customers' needs (i.e., market research and consumer analysis) and ensure that products are designed to meet those needs. Marketers develop the benefits and features of products, including price and quality. They also decide on the best method of delivering products and the best means of promoting them to attract and keep customers. They manage relationships with customers and make customers aware of the organization's desire and ability to satisfy their needs.

4. Accounting

Accounting is the organizational function that is focused on recording, keeping, analyzing, and communicating financial information. Managers need accurate, relevant, and timely financial information, which is provided by accountants. Accountants measure, summarize, and communicate financial and managerial information and advise other managers on financial matters. There are two fields of accounting. Financial accountants prepare financial statements to help users, both inside and outside the organization, assess the financial strength of the company. Managerial accountants prepare information, such as reports on the cost of materials used in the production process, for internal use only.

5. Finance

The **financial functional area** of a business is responsible for managing the company's financial resources, including budgeting, accounting, financial reporting, cash flow management, and investment decisions. Its role is to ensure the financial stability and growth of the organization by optimizing financial performance and minimizing risks. Finance involves planning for, obtaining, and managing a company's funds while maintaining the financial health of the business.

Financial managers address such questions as:

- How much money does the company need?
- How and where will it get the necessary money?
- How and when will it pay the money back?
- What investments should be made in the company's plant and equipment?
- How much should be spent on research and development?
- Good financial management is particularly important when a company is first formed because new business owners usually need to borrow money to get started.

6. Information Technology

Information technology is the organizational function that aims to understand the information and data needs of the company in terms of obtaining, analyzing, and protecting information. Information is one of the critical assets of most businesses. Businesses such as Facebook are entirely information-based businesses. Information technology (IT) managers are concerned with building computer and network infrastructure, implementing security and privacy protocols, and developing user interfaces and apps for customers. Usually, there is a high level of integration between the business's website or application and other departments within the business, such as finance, marketing, and operations. Often, businesses must develop interfaces to send and receive information from other companies, including suppliers, logistics and shipping providers. The global pandemic has also made it necessary for businesses to establish and improve their virtual presences. As the use of technology increases, so do the number of threats and vulnerabilities. The number of potential risks involved in using information technology is rising, creating a security gap between the expectations of users and the ability of technology suppliers to meet those expectations. Data privacy concerns, protection, and security now play an important role. Cybersecurity is changing the way things are done today more than ever before.

Five Factors of Production: The Building Blocks of Business

To provide goods and services, regardless of whether they operate in the for-profit or not-for-profit sector, organizations require inputs in the form of resources called **factors of production**. Four traditional factors of production are common to all productive activity: *natural resources*, *labour (human resources)*, *capital*, and *entrepreneurship*. Many experts now include *knowledge* a fifth factor, acknowledging its key role in business success (Shown in Figure 2.3). By using the factors of production efficiently, a company can produce more goods and services with the same resources.

1. Natural Resources

Figure 2.3 Five Factors of Production: natural resources, human resources, capital, entrepreneurs, and knowledge. (left to right)

Commodities that are useful inputs in their natural state are known as natural resources and these can be either renewable or non-renewable. Renewable natural resources are those that can grow again or can never run out and these include trees, water, air, and sources of power like solar and wind energy. Non-renewable natural resources are found in the ground, and there are limitations to their availability as they cannot be replaced or renewed. These include land, mineral and oil deposits. Sometimes natural resources are simply called land, although the term means more than just land. Companies use natural resources in different ways. International Paper Company uses wood pulp to make paper, and Pacific Gas & Electric Company may use water, oil, or coal to produce electricity. Today, urban sprawl, pollution, and limited resources have raised questions about resource use. Conservationists, environmentalists, and government bodies are proposing laws to require land-use planning and resource conservation.

2. Human Resources

Labor, or human resources, refers to the economic contributions of people working with their minds and muscles. This input includes the talents of everyone, from a restaurant cook to a nuclear physicist, who performs the many tasks of manufacturing and selling goods and services.

3. Capital

The tools, machinery, equipment, and buildings used to produce goods and services and get them to the consumer are known as capital. Sometimes the term *capital* is also used to mean the money that buys machinery, factories, and other production and distribution facilities. However, because money itself produces nothing, it is not one of the basic inputs. Instead, it is a means of acquiring the inputs. Therefore, in this context, capital does not include money.

4. Entrepreneurs

Entrepreneurs are the people who combine the inputs of natural resources, labor, and capital to produce goods

or services with the intention of making a profit or accomplishing a not-for-profit goal. These people make the decisions that set the course for their businesses; they create products and production processes or develop services. Because they are not guaranteed a profit in return for their time and effort, they must be risk-takers. Of course, if their companies succeed, the rewards may be great. Today, many individuals want to start their own businesses. They are attracted by the opportunity to be their own boss and reap the financial rewards of a successful firm. Many start their first business from their dorm rooms, such as Mark Zuckerberg of Facebook, or while living at home, so their cost is almost zero. Entrepreneurs include people such as Microsoft co-founder Bill Gates, who was named the richest person in the world in 2017, as well as Google founders Sergey Brin and Larry Page.[23] Many thousands of individuals have started companies that, while remaining small, make a major contribution to the U.S. economy.

5. Knowledge

A number of outstanding managers and noted academics are beginning to emphasize a fifth factor of production—knowledge. Knowledge refers to the combined talents and skills of the workforce and has become a primary driver of economic growth. Today's competitive environment places a premium on knowledge and learning over physical resources.

The Internal and External Business Environments

Internal Environment

The **internal business environment** in business refers to the elements within the organization that influence its operations and decision-making. It encompasses factors like the company's culture, management practices, employees, and work processes. A manager should strive to create a well-managed or positive work environment within the organization. A well-managed internal environment has a significant role in influencing the organization's operations and ensuring successful goal achievement. Some of the most important parts of the internal environment include communicating purpose to stakeholders through creating a mission statement (who we are, what we value), a vision statement (who we want to become), a strategy to achieve the company mission and vision and setting goals and objectives to gauge the company's degree of success (refer to Figure 2.2).

These are the areas management has control over and can make changes to in response to strategic goals and changes that occur, which impact the organization.

1. Management

2. Materials
3. Machinery
4. Money
5. Employees

An internal business analysis is a business analysis conducted by management or by consultants to evaluate the company's strengths and weaknesses. Such analyses are often closely associated with the SWOT analysis, which helps businesses identify the company's strengths, weaknesses, opportunities, and threats. An internal business analysis is generally more concerned with the strengths and weaknesses of a business, while its opportunities and vulnerabilities fall more under the external business analysis. When studying strengths and weaknesses, it is important to analyze them in light of their impact on customers, since the customer's view of the company is ultimately the one that matters most. A SWOT analysis can be done on products, processes, companies, people, and just about anything you are trying to improve.

An internal analysis enables a firm to determine what it can do to improve its internal capability to support the overall success of the business. There are other internal analyses managers can do to gauge how the company is performing, some of these include process mapping (to identify issues in processes), NOISE. SOAR, or SCORE analysis as alternatives to SWOT analysis; skills inventory tracking to determine what skills are missing or needed within the organization; succession planning to ensure employees are able to move into positions where someone else has retired; Gap Analysis, Core Competencies Analysis, OCAT, VRIO Analysis, Strategy Evaluation, McKinsey 7S Framework, etc.[24] You will learn more about how managers analyze the business environments when you review the chapter on management.

Once complete, the organization should have a clear idea of where it's excelling, where it's doing okay, and where its current deficits and gaps are. The analysis gives management the knowledge to leverage the company's strengths, expertise, and opportunities. It also enables management to develop strategies that mitigate threats and compensate for identified weaknesses and disadvantages.[25]

External Environment

Micro-external environment

The **micro-environment** may be defined as including groups and organizations that have a direct relationship with the business. For example, suppliers, distributors, competitors, and external customers deal with the firm regularly and have a direct interest in the activities of the company because they are clearly affected by its actions (refer to Figure 2.4). It is important for any organization to monitor and analyze all elements of the micro-environment. The Porter's Five Forces model is used for a thorough analysis of the competitive environment. A

commonly used method for assessing suppliers is the Kraljic Matrix. A method often used when conducting consumer analysis is Ferrell's 6W model. You will learn more about how managers analyze the business environment when you review the chapter on management.

Figure 2.4 Diagram showing the relationship of Internal, micro, and macro business environments.

Macro-external environment

The **macro-environment** refers to the broader condition of an economy as opposed to specific markets. The macro-environment can be affected by GDP, fiscal policy, monetary policy, inflation, employment rates, and consumer spending. The state of the macro environment affects business decisions on things such as spending, borrowing, and investing. To what degree is a business vulnerable to macroeconomic factors? It depends on

the extent to which a company is dependent on the health of the economy and external factors for its success. If a company is relying more on the economic health of the country, then it will be more vulnerable to macroeconomic changes. Banks, financial institutions, and credit card companies are very good examples of such businesses that are heavily reliant on the macroeconomic factors.[26]

The macro-environment analysis involves brainstorming and a lot of research to initiate the process. It starts by creating a list of trends that would have positive and negative impacts on the business. The macro-environment can be analyzed by using the PEST, PESTLE, or PESTEL analysis method (refer to Figure 2.3). This acronym represents external factors that affect the business, including Political, Economic, Sociocultural, Technological, Environmental, and Legal (PESTEL). The business has little influence over the macro-environment; for example, if the government enacts mandatory regulations on waste management, businesses must comply with these regulations to remain open. As consumers and employees, we see some of these laws and regulations in operation regarding safety conditions on products, foods, buildings, etc. Consumer trends and technological innovations also impact company operations. For example, consumers put pressure on fast food restaurants to offer healthier choices. Another example of external factors affecting business is when one company adopts new technology to serve customers faster and more conveniently, businesses must adapt in order to remain competitive. You will learn more about how managers analyze the business environment when you review the chapter on management.

Working in Teams

Types of Teams

Teams are a critical aspect of business. A **team** is a group of people with certain skills who share a common purpose, approach, and performance goals. All team members hold themselves responsible and accountable for reaching the team's objectives. Teams are widely used in business and in many not-for-profit organizations, such as hospitals and government agencies. Teams are one of the most frequently discussed topics in employee training programs, because they require that people learn how to work well together. There are five common types of teams (Shown in Figure 2.5): Problem-solving teams, self-managed teams, cross-functional teams, virtual teams, and work teams.

Figure 2.5 Five Types of Teams: Problem-solving, self-managed, cross-functional, virtual, work teams.

7 Characteristics of Effective Teams

Effective teams share the following characteristics:[27]

1. **Clear Leadership.** Successful teams usually have effective leadership, where one or several members act as team leaders. This helps unify the entire team to work toward the same goals. Effective leaders often provide guidance, motivation, and focus.
2. **Defined Goals.** Before working on their tasks, an effective team may first establish its goals. The team might work together to identify common objectives that align with a company's organizational goals.
3. **Assigned Roles.** When each team member has an assigned role, they can make effective contributions to their group and help ensure its success. A team's roles might change throughout the lifetime of a project. Effective teams often reevaluate roles once the team is assembled to ensure each member can fulfill the expectations of their roles.
4. **Open Communication.** A team with open communication allows members to discuss their ideas and feel that their input matters. Successful teams often welcome diverse thoughts and opinions that help them solve problems and complete tasks in creative ways. Effective communication also involves active listening, where members make a conscious effort to hear their teammates' ideas and reflect before responding to them.
5. **Collaboration.** Team members may collaborate continuously throughout a project's lifetime to ensure they're working on the right tasks and contributing to the planned outcomes. Collaborative work helps encourage innovation through the exchange of ideas and the collective expertise of a team.
6. **Trust.** Trust contributes to open communication, problem solving, and collaboration. A successful team might rely on team-building exercises to increase trust between its members.
7. **Conflict Resolution.** Successful teams usually have effective methods for resolving any conflicts that may arise. During a disagreement, members may speak to one another calmly, respect each other's ideas, and focus on finding a compromise. Effective teams often view disputes as a way to improve their decision-making and problem-solving strategies.

Group Cohesiveness

Team cohesion is the strength and extent of interpersonal connection existing among the members of a group. It is this interpersonal bond that causes members to participate readily and remain motivated to accomplish the set goals. Cohesive teams have an attitude of "we-ness."[28]

Numerous factors may contribute to team cohesiveness, but in this section, we will focus on five of the most important ones:

- **Size.** The bigger the team, the less satisfied members tend to be. When teams get too large, members find it harder to interact closely with other members; a few members tend to dominate team activities, and conflict becomes more likely.
- **Similarity.** People usually get along better with people like themselves, and teams are generally more cohesive when members perceive fellow members as people who share their own attitudes and experience.
- **Success.** When teams are successful, members are satisfied, and other people are more likely to be attracted to their teams.
- **Exclusiveness.** The harder it is to get into a group, the happier the people who are already in it. Team status also increases members' satisfaction.
- **Time.** The more time a group spends together, the stronger the bond between them will be. By interacting more often, members learn about each other's strengths, weaknesses, and skills.
- **Competition.** Membership is valued more highly when there is motivation to achieve common goals and outperform other teams.
- **Equitable and inclusive practices.** Members value and celebrate each person's authenticity, identity, and the unique perspectives that come with those; as well, the team members work to create inclusive and equitable practices in their day-to-day teamwork.

Maintaining team focus on broad organizational goals is crucial. If members get too wrapped up in immediate team goals, the whole team may lose sight of the larger organizational goals toward which it is supposed to be working. Let us look at some factors that can erode team performance.

Skills for Effective Teamwork

Sometimes we hear about a sports team made up of mostly average players who win a championship because of coaching genius, flawless teamwork, and superhuman determination. But not terribly often. In fact, we usually hear about such teams simply because they are newsworthy — exceptions to the rule. Typically, a team

performs well because its members possess some level of talent. Members' talents must also be managed in a collective effort to achieve a common goal.

In the final analysis, a team can succeed only if its members provide the skills that are needed for managing. In particular, every team requires some mixture of four sets of skills:

- **Communication Skills.** The ways in which members communicate can positively and negatively affect relationships within the team and outside the team with managers, customers, vendors, etc.
- **Technical skills.** Teams must perform certain tasks, therefore, they need people with the skills to perform them. For example, if your project calls for a lot of math work, it is good to have someone with the necessary quantitative skills.
- **Decision-making and problem-solving skills.** Because every task is subject to problems, and because handling every problem means deciding on the best solution, it is good to have members who are skilled in identifying problems, evaluating alternative solutions, and deciding on the best options.
- **Interpersonal skills.** Because teams need direction and motivation and depend on communication, every group benefits from members who know how to listen, provide feedback, and resolve conflict. Some members must also be good at communicating the team's goals and needs to outsiders.

The key is ultimately to have the right mix of these skills. Remember, too, that no team needs to possess all these skills — never mind the right balance of them — from day one. In many cases, a team gains certain skills only when members volunteer for certain tasks and perfect their skills in the process of performing them. For the same reason, effective teamwork develops over time as team members learn how to handle various team-based tasks. In a sense, teamwork is always a work in progress.

Factors that Erode Team Performance

Just as there are factors and behaviours that contribute to teams working well together, there are some common factors that keep teams from working well together.

- **Groupthink.** It is easy for leaders to direct members toward team goals when members are all on the same page, i.e., when there is a basic willingness to conform to the team's rules. When there is too much conformity, however, the group can become ineffective; it may resist fresh ideas and, what's worse, end up adopting its dysfunctional tendencies as its way of doing things. Such tendencies may also encourage a phenomenon known as groupthink, or the tendency to conform to group pressure in making decisions, while failing to think critically or consider outside influences.
- **Lack of Motivation and Frustration.** Remember that teams are composed of people, and regardless of whatever roles they happen to be playing at a given time, people are subject to psychological ups and

downs. As members of workplace teams, they need motivation, and when motivation is low, so are effectiveness and productivity. The difficulty of maintaining a high level of motivation is the chief cause of frustration among members of teams. As such, it is also a chief cause of ineffective teamwork, and that is one reason why more employers now look for the ability to develop and sustain motivation when they are hiring new managers.

- **Unwillingness to cooperate.** Failure to cooperate can occur when members do not or would not commit to a common goal or set of activities. What if, for example, half the members of a product development team want to create a brand-new product and half want to improve an existing product? The entire team may get stuck on this point of contention for weeks or even months. Lack of cooperation between teams can also be problematic for an organization.
- **Lack of managerial support.** Every team requires organizational resources to achieve its goals, and if management is not willing to commit the needed resources, e.g., funding or key personnel, a team will probably fall short of those goals.
- **Failure of managers to delegate authority.** Team leaders are often chosen from the ranks of successful supervisors; first-line managers who give instructions on a day-to-day basis and expect to have them carried out. This approach to workplace activities may not work very well in leading a team, the success of which depends on building consensus and letting people make their own decisions.

Team Stages

Play the YouTube video below, "Forming, Storming, Norming, and Performing: Bruce Tuckman's Team Stages Model Explained" to learn the stages a team goes through when starting a new project.[29] Transcript for "Forming, Storming, Norming, and Performing: Bruce Tuckman's Team Stages Model Explained" Video [PDF–New Tab]. Closed captioning is available on YouTube.

One or more interactive elements has been excluded from this version of the text. You can view them online here: https://ecampusontario.pressbooks.pub/businessfundamentals/?p=160#oembed-1

Team Roles

Team roles can be divided into two categories, task-facilitating roles and relationship-building roles (Summarized in Figure 2.6).

Task-Facilitating Roles

Task-facilitating roles help the team accomplish goals. These roles include not only providing information when someone else needs it but also asking for it when you need it. In addition, it includes monitoring (checking on progress) and enforcing (making sure that team decisions are carried out). Task facilitators are especially valuable when assignments aren't clear or when progress is too slow.

Relationship-Building Roles

Relationship-building roles help team members understand their roles, support them in their roles, and maintain or improve group cohesiveness. These types of roles include activities that improve team "chemistry," from empathizing to confronting. Bear in mind three points about this model: (1) Teams are most effective when there's a good balance between task facilitation and relationship-building; (2) it's hard for any given member to perform both types of roles, as some people are better at focusing on tasks and others on relationships; and (3) overplaying any facet of any role can easily become counterproductive. For example, elaborating on something may not be the best strategy when the team needs to make a quick decision, and consensus-building may cause the team to overlook an important difference of opinion.

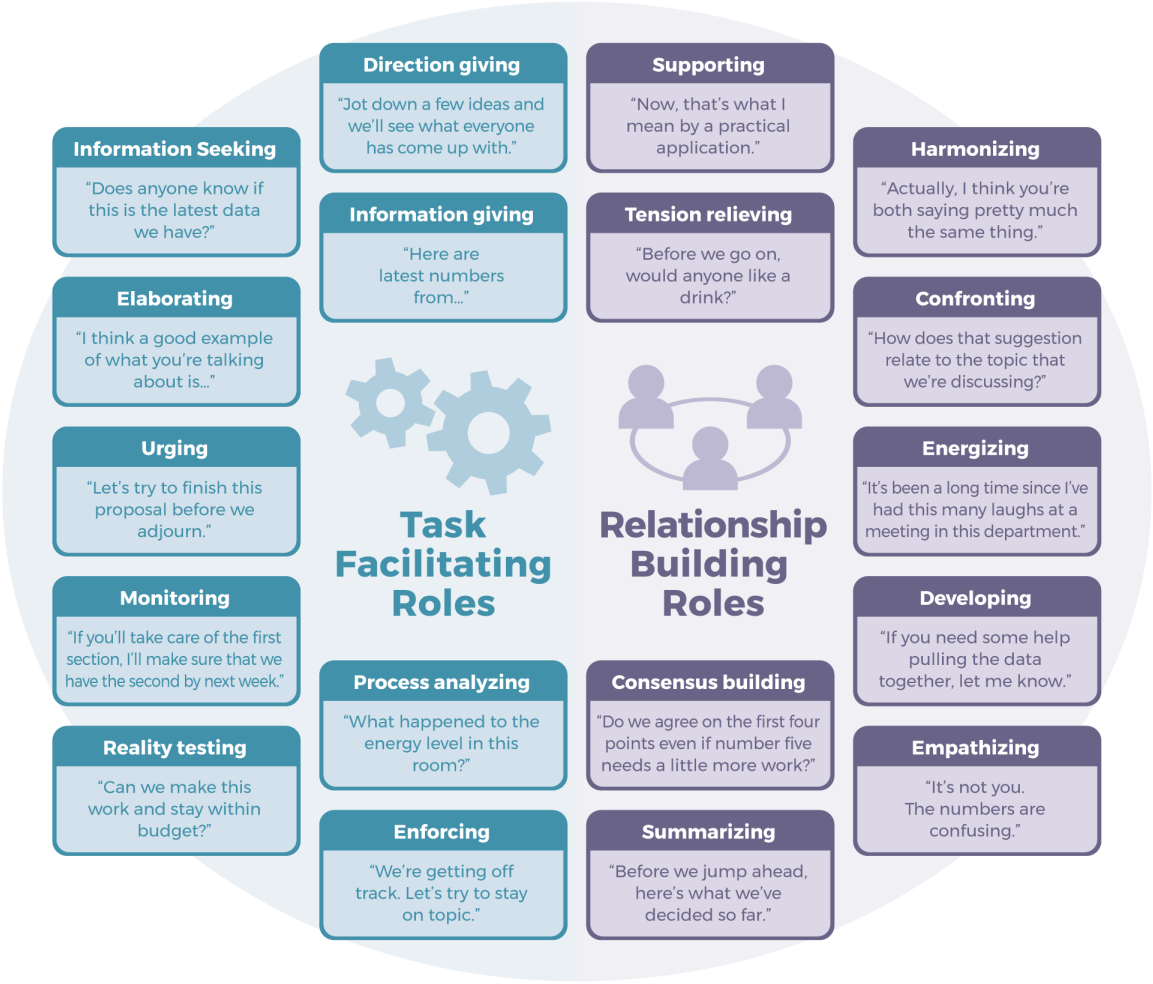


Figure 2.6 Team Roles: Task facilitating roles and relationship building roles.

Self-Check Exercise: Blocking Roles

So-called blocking roles consist of behavior that inhibits either team performance or that of individual members. Every member of the team should know how to recognize blocking behavior. If teams

don't confront dysfunctional members, they can destroy morale, hamper consensus building, create conflict, and hinder progress. Demonstrate what you know about blocking behaviours by dragging the words to match with each description.

An interactive H5P element has been excluded from this version of the text. You can view it online here:
https://ecampusontario.pressbooks.pub/businessfundamentals/?p=160#h5p-2

Class Team Projects

Throughout your studies, you will be exposed to teams and teamwork concepts and be required to complete projects by collaborating with your peers in teams. You will want to consider how to make your class team-based projects as successful as possible. To get insider advice on how to succeed on team projects in college, let's look at some suggestions offered by students who have gone through this experience.[30]

- Draw up a team charter. At the beginning of the project, draw up a team charter that includes: the goals of the group; ways to ensure that each team member's ideas are considered; timing and frequency of meetings. A more informal way to arrive at a team charter is to simply set some ground rules to which everyone agrees. Your instructor may also require you to sign an existing team contract or charter similar to the one below.
- Contribute your ideas. Share your ideas with your group. The worst that could happen is that they won't be used (which is what would happen if you kept quiet).
- Never miss a meeting or deadline. Pick a weekly meeting time and write it into your schedule as if it were a class. Never skip it.
- Be considerate of each other. Be patient, listen to everyone, involve everyone in decision making, avoid infighting, and build trust.
- Create a process for resolving conflict. Do so before conflict arises. Set up rules to help the group decide how conflict will be handled.
- Use the strengths of each team member. All students bring different strengths. Utilize the unique value of each person.
- Don't do all the work yourself. Work with your team to get the work done. The project output is often less important than the experience.

Self-Check Exercise: Team Contract

In many of your courses, you will be working in teams during school time as well as outside formal class time. A team contract is important to ensure all members have input on how the team will work together. This contract can also be referenced if a team member is performing in accordance with expectations. The following activity is encouraged to help you and your team think through and agree on how you will operate. As a team, discuss each of the items listed below – it's a menu or a template for a basic team charter (contract). Try it – just fill in the blanks, then you can generate your team contract as a document.

An interactive H5P element has been excluded from this version of the text. You can view it online here:
https://ecampusontario.pressbooks.pub/businessfundamentals/?p=160#h5p-3

Resolving Team Conflict

Team conflict is the breakdown of interpersonal relationships between members of a team. Common reasons for team conflict include the following:

- Misunderstandings or poor communication skills
- Differing opinions, viewpoints, or personalities
- Biases and stereotypes
- Variations in learning and processing styles
- Perceptions of unfairness

Play the YouTube video below, "How to Deal with Conflict," to gain a few tips on how to work through a conflict with a team member.[31] Transcript for "How to Resolve Conflict in the Workplace" Video [PDF–New Tab]. Closed captioning is available on YouTube.

One or more interactive elements has been excluded from this version of the text. You can view them online here: https://ecampusontario.pressbooks.pub/businessfundamentals/?p=160#oembed-2

Key Takeaways

1. **The government** influences business activity through the roles it plays.
2. A **business** is an organization that strives for a profit by providing goods and services desired by its customers.
3. **Goods** are tangible items manufactured by businesses, such as laptops.
4. **Services** are intangible offerings of businesses that can't be held, touched, or stored.
5. **Revenue** is the money a company receives by providing services or selling goods to customers.
6. **Costs** are expenses, including rent, salaries, supplies, transportation, and many other expenses a company incurs from creating and selling goods and services.
7. If Microsoft has money left over after it pays all costs, it has a **profit.**
8. A company whose costs are greater than its revenues incurs a **loss.**
9. **Risk** is the potential to lose time and money or otherwise not be able to accomplish an organization's goals.
10. A **not-for-profit organization** is an organization that exists to achieve some goal other than the usual business goal of profit at all costs.
11. The **standard of living** of any country is measured by the output of goods and services that people can buy with the money they have.
12. **Quality of life** refers to the general level of human happiness based on factors including life expectancy, educational standards, health, sanitation, and leisure time.
13. Businesses must observe **trends in business,** as many trends stem from consumer demands and preferences. Companies must keep up with their competitors, observe changes

in the business environment, and meet consumer demands if they wish to stay in business.

14. The **public business sector** includes goods and services produced, delivered, and allocated by the government and public sector organizations (publicly controlled government business enterprises).
15. The **private business sector** includes goods and services produced and delivered by private individuals or groups as a means of enterprise for profit.
16. The **non-profit or voluntary sector** includes non-governmental, non-profit organizations that receive support from individual citizens, government, and businesses.
17. **Business participants** are the people who participate in conducting the work of the business.
18. **Stakeholders** are those affected by the business's operations and its decisions. Examples of stakeholders include shareholders, investors, the community, customers, competitors, and governmental agencies.
19. **Functional areas in a business** refer to different departments or sections that perform specific tasks, such as human resources, operations, accounting, and finance.
20. The **Human Resources (HR) functional area** is an organizational function that is about searching for, selecting, training, and maintaining workers.
21. **Operations** is the organizational function that is focused on producing the goods and/or services of the business.
22. **Marketing** plays a crucial role in a business by helping to identify, create, and satisfy customer needs and wants through the promotion of products or services.
23. **Accounting** is the organizational function that is focused on recording, keeping, analyzing, and communicating financial information.
24. The **financial functional area** of a business is responsible for managing the company's financial resources, including budgeting, accounting, financial reporting, cash flow management, and investment decisions.
25. **Information technology** is the organizational function that aims to understand the information and data needs of the company in terms of obtaining, analyzing, and protecting information. Information is one of the critical assets of most businesses.
26. To provide goods and services, regardless of whether they operate in the for-profit or not-for-profit sector, organizations require inputs in the form of resources called **factors of production.** Four traditional factors of production are common to all productive activity: *natural resources*, *labour (human resources)*, *capital*, and *entrepreneurship*. Many experts now include *knowledge* a fifth factor, acknowledging its key role in business success.
27. The **internal business environment** in business refers to the elements within the organi-

zation that influence its operations and decision-making.

28. The **micro-environment** may be defined as including groups and organizations that have a direct relationship with the business.
29. The **macro-environment** refers to the broader conditions of an economy as opposed to specific markets.
30. A **team** is a group of people with certain skills who share a common purpose, approach, and performance goals. There are seven characteristics teams share: clear leadership, defined goals, assigned roles, open communication, collaboration, trust, and conflict resolution.
31. **Task-facilitating** roles help the team accomplish goals.
32. **Relationship-building** roles help team members understand their roles, support them in their roles, and maintain or improve group cohesiveness.
33. **Teams** are a critical aspect of business. A team is a group of people with certain skills who share a common purpose, approach, and performance goals.
34. **Team cohesion** is the strength and extent of interpersonal connection existing among the members of a group. It is this interpersonal bond that causes members to participate readily and remain motivated to accomplish the set goals.
35. **Team skills** needed for success include communication skills, technical skills, decision-making and problem-solving skills, and interpersonal skills.
36. **Team conflict** is the breakdown of interpersonal relationships between members of a team. Common reasons for team conflict include misunderstandings or poor communication skills; differing opinions, viewpoints, or personalities; biases and stereotypes; variations in learning and processing styles; and perceptions of unfairness. Resolve conflicts by seeking to understand the other person and moving toward win-win outcomes.
37. Factors that **erode team performance** include groupthink, lack of motivation and frustration, unwillingness to cooperate, lack of managerial support, and failure of managers to delegate authority.

End-of-Chapter Exercises

1. **Factors of Production.** Consider all the factors of production: labour, natural resources, capital, entrepreneurs, and knowledge. Is each of these resources a vital part of the school you attend or the company you work for? Which factors do you believe are most important to the goods and services provided by your organization? Why? Discuss with a partner and/or your professor.
2. **Fortune 500 Company.** Search the Fortune 500 list (or other list as assigned by your professor) of the largest companies in the world for a business you have either shopped with or worked for. Learn about this company through the list and through the corporate website. Does the company provide goods or services? How much revenue did the company generate last year? How much of this revenue was profit? Share your findings with the class and/or professor.
3. **Government Role.** Research how the government supports your college or university. Which government regulations affect your institution? How does the government support your institution? Share your findings with your class and/or professor.
4. **Not-for-Profit Organization.** Pick one non-profit organization to research. How much revenue did the organization make last year? What did they do with it since they do not make profit? Share your findings with your class and/or professor.
5. **Business Environments.** Search the Fortune 500 list (or other list as assigned by your professor) of the largest companies in the world for a business you have either shopped with or worked for. Consider the internal and external business environments for this company. Use the Internet to research specific answers to the following questions. What is one internal environmental factor that is currently having a big impact on this organization? What is one micro-environment factor that is having a big impact on this organization? What is one macro-environment factor that is having a big impact on this organization? Share your findings with your class and/or professor.
6. **Business Trends.** Using the Internet search for the fastest-growing industries in North America. What did you discover? Have you personally observed this? What trends are happening in the global consumer market? Have you personally observed these? Discuss your findings with the class and/or professor.
7. **Team building Exercise.** Conduct an Internet search to locate team-building exercises. Locate one you think you could do with a team of four peers. Form a team or your professor might assign teams. Try the exercise. Pair up with another team and guide them through our team-building exercise, then let them guide you through theirs. Did you have fun? What did you learn? Share your experience with your class and/or professor.
8. **Young Entrepreneurs.** Conduct an Internet search to locate information about support for

young entrepreneurs. The Government and banks may have some programs/funding, start there. Would you like to start a business? Why or why not? Share your findings with your class and/or professor.

9. **Team Player Quiz.** What type of team player are you? Try taking this Quiz to find out. Review the results to determine how your team player style can better interact with other styles when working on teams. Share your findings with your team and/or professor.
10. **Team Player Job Interview Questions.** Review this Indeed article about how to answer team player questions during a job interview. Partner with a peer and practice asking each other some of these questions; it's good practice for when the day comes that you will be in a real job interview.
11. **Personal SWOT Analysis.** SWOT stands for strengths, weaknesses, opportunities, and threats. Download this Personal SWOT analysis worksheet [PDF] and complete it as you consider your teamwork skills. Do you think there will be opportunities for personal growth through working on a team? With a partner, discuss your SWOT analysis and theirs. Make suggestions to each other on how you might overcome some threats and how you might take advantage of opportunities when working in teams.
12. **Teamwork Example.** Search the Internet and locate examples of how various organizations get work done in teams. What did you find? Pick one specific company and share your findings with your class and/or professor.

Self-Check Exercise: Business Concepts and Teams Quiz

Check your understanding of this chapter's concepts by completing this short self-check quiz.

An interactive H5P element has been excluded from this version of the text. You can view it online

here:
https://ecampusontario.pressbooks.pub/businessfundamentals/?p=160#h5p-4

Additional Resources

1. What are the Functional Areas of Business?
2. What are Stakeholders?
3. Download a Free Internal Analysis Toolkit
4. Personal SWOT Analysis Quick Guide
5. Successful Student Team Projects
6. Business Fundamentals Every Professional Should Know
7. Business Analytics: What it is and Why it is Important
8. Conflict in the Workplace, YouTube Video

Attributions

The contents of this chapter is a compilation sourced from various OER resources, please refer to the Book Information for details.

References

(Note: This reference list was produced using the auto-footnote and media citation features of Pressbooks)

Media Attributions

- Steve Jobs 1955-2011 by segagman licensed CC BY | flickr
- Business Stakeholders is licensed under a CC BY-NC-SA (Attribution NonCommercial ShareAlike) license
- Functional Areas of Business © Unknown Author adapted by Kerri Shields is licensed under a CC BY (Attribution) license
- Factors of Production © Unknown Author adapted by Kerri Shields is licensed under a CC BY (Attribution) license
- Business Environments © Kerri Shields is licensed under a CC BY-NC-SA (Attribution NonCommercial ShareAlike) license
- Five Types of Teams © Kerri Shields is licensed under a CC BY-NC-SA (Attribution NonCommercial ShareAlike) license
- Team Roles © Unknown is licensed under a CC BY-NC-SA (Attribution NonCommercial ShareAlike) license

Notes

1. Sharma, A. (2024, October 14). *7 stages in the evolution of marketing: A journey through time.* https://thenextrack.com/7-stages-evolution-of-marketing/
2. Full Scale. (2025, April 23). *The evolution of marketing.* https://fullscale.io/blog/the-evolution-of-marketing/
3. Business School 101. (2023, July 3). *The evolution of marketing (a brief history of marketing) | From a business professor.* [Video]. YouTube. https://www.youtube.com/watch?v=X1VRAiWn6R4&t=3s
4. Government of Canada. (2023, December 7). *What the government buys.* https://canadabuys.canada.ca/en/tender-opportunities/what-government-buys
5. Government of Canada. (n.d.) *What is the difference between a registered charity and a non-profit organization?* https://www.canada.ca/en/revenue-agency/services/charities-giving/about-registered-charities/what-difference-between-a-registered-charity-a-non-profit-organization.html
6. UNDP. (2023). *Human Development Reports.* https://hdr.undp.org/data-center/country-insights#/ranks
7. Mercer. (2023). *Quality of living city rankings 2023.* https://www.mercer.com/en-ca/insights/total-rewards/talent-mobility-insights/quality-of-living-city-ranking/
8. Marr, B. (2024, September 30). *The 5 biggest business trends for 2025 everyone must be ready for now.* https://www.forbes.com/sites/bernardmarr/2024/09/30/the-5-biggest-business-trends-for-2025-everyone-must-be-ready-for-now/
9. McKinsey & Company. (2024, June 10). *State of the consumer 2024: What's now and what's next.* https://www.mckinsey.com/industries/consumer-packaged-goods/our-insights/state-of-consumer
10. McKinsey & Company. (2024, June 10). *State of the consumer 2024: What's now and what's next.* https://www.mckinsey.com/industries/consumer-packaged-goods/our-insights/state-of-consumer
11. Marr, B. (2024, September 30). *The 5 biggest business trends for 2025 everyone must be ready for now.*

https://www.forbes.com/sites/bernardmarr/2024/09/30/the-5-biggest-business-trends-for-2025-everyone-must-be-ready-for-now/

12. Marr, B. (2024, September 30). *The 5 biggest business trends for 2025 everyone must be ready for now.* https://www.forbes.com/sites/bernardmarr/2024/09/30/the-5-biggest-business-trends-for-2025-everyone-must-be-ready-for-now/
13. McKinsey & Company. (2024, June 10). *State of the consumer 2024: What's now and what's next.* https://www.mckinsey.com/industries/consumer-packaged-goods/our-insights/state-of-consumer
14. McKinsey & Company. (2024, June 10). *State of the consumer 2024: What's now and what's next.* https://www.mckinsey.com/industries/consumer-packaged-goods/our-insights/state-of-consumer
15. McKinsey & Company. (2024, June 10). *State of the consumer 2024: What's now and what's next.* https://www.mckinsey.com/industries/consumer-packaged-goods/our-insights/state-of-consumer
16. McKinsey & Company. (2024, June 10). *State of the consumer 2024: What's now and what's next.* https://www.mckinsey.com/industries/consumer-packaged-goods/our-insights/state-of-consumer
17. Testa, D. M. (2019). *Apple, Inc.: An Analysis of the Firm's Tumultuous History, in Conjunction with the Abounding Future.* https://scholar.flatworldknowledge.com/books/33658/collins-ch01_s00/preview
18. Angelelli, L. (1994). *Steve Paul Jobs.* http://ei.cs.vt.edu/~history/Jobs.html
19. Angelelli, L. (1994). *Steve Paul Jobs.* http://ei.cs.vt.edu/~history/Jobs.html
20. Farivar, C. (2006, June 2). *30 years of Apple: Assessing Apple's impact. Macworld.* https://www.macworld.com/article/1050153/30impact.html
21. Government of Canada. (2022, November 22). *Government of Canada announces national funders selected to support charities and non-profits.* https://www.canada.ca/en/employment-social-development/news/2022/11/government-of-canada-announces-national-funders-selected-to-support-charities-and-non-profits.html
22. Government of Canada. (2022). *Canada health act annual report 2021-2022.* https://www.canada.ca/en/health-canada/services/publications/health-system-services/canada-health-act-annual-report-2021-2022.html
23. Dolan, K. (2017, March 20). *Forbes 2017 Billionaires List: Meet the Richest People on the Planet.* https://www.forbes.com/sites/kerryadolan/2017/03/20/forbes-2017-billionaires-list-meet-the-richest-people-on-the-planet/
24. Blackmore, L. (2024, July 24). What is internal analysis? https://www.cascade.app/blog/internal-analysis
25. Blackmore, L. (2024, July 24). *What is internal analysis?* https://www.cascade.app/blog/internal-analysis
26. Shaw, A. (n.d.). *What is the macro environment? Definition and examples.* https://www.marketingtutor.net/macro-environment/
27. Indeed Editorial Team. (2024, August 15). *7 characteristics of effective teams (with benefits & tips).* https://www.indeed.com/career-advice/career-development/characteristics-of-effective-teams
28. Wale, H. (n.d.). *Team cohesion.* https://corporatefinanceinstitute.com/resources/management/team-cohesion/
29. MindToolsVideos. (2014, November 10). *Forming, storming, norming, and performing: Bruce Tuckman's team stages model explained.* [Video]. YouTube. https://www.youtube.com/watch?v=nFE8IaoInQU&t=4s
30. Feenstra, K. (n.d.). *Study skills: Teamwork skills for group projects.* http://powertochange.com/students/academics/groupproject/
31. Litmos Heroes. (2014, December 12). *How to deal with conflict.* [Video]. YouTube. https://www.youtube.com/watch?v=QLbGHQo4qnA

CHAPTER 3: MANAGEMENT AND LEADERSHIP

Chapter 3 Learning Outcomes

After reading this chapter, you should be able to do the following:

1. Explain how the four functions of management interrelate.
2. Identify the three levels of management and the responsibilities at each level.
3. Explain the process of developing and implementing a strategic plan.
4. List the four types of managerial planning and provide an example of each.
5. Describe three environmental analyses (SWOT, PEST, Competitor).
6. Describe three types of organizational structures.
7. Describe each of the four leadership styles.
8. Describe the process by which a manager monitors operations and assesses performance.
9. List four skills needed to be a successful manager.
10. Explain the basics of motivational theories: The Hierarchy of Needs theory, the Two-Factor theory, the Expectancy theory, and the Equity theory.
11. Define the key terms: power, delegation, empowerment, and corporate culture.

The Four Functions of Management (POLC)

The four functions of management–planning, organizing, leading, and controlling–serve as the pillars that allow organizations to meet their goals. These functions are interdependent and equally important for ensuring the smooth operation of any business (Refer to Figure 3.1). The four management functions (POLC) can help managers increase organizational efficiency and effectiveness. **Efficiency** is using the least possible amount

of resources to get work done, whereas **effectiveness** is the ability to produce a desired result. Managers need to be both efficient and effective in order to achieve organizational goals.

The management functions of planning, organizing, leading, and controlling are widely considered to be the best means of describing the manager's job, as well as the best way to classify accumulated knowledge about the study of management. Although there have been tremendous changes in the environment faced by managers and the tools used by managers to perform their roles, managers still perform these essential functions.

Figure 3.1 Four functions of management: planning, organizing, leading and controlling (POLC).

Management Function 1 = Planning

Planning is the function of management that involves setting objectives and determining a course of action for achieving those objectives. Planning requires that managers be aware of the environmental conditions facing their organization and forecast future conditions. It also requires that managers be good decision-makers.

Planning is a process consisting of several steps. The process begins with environmental scanning, which simply means that planners must be aware of the critical contingencies facing their organization in terms of economic conditions, their competitors, and their customers. Planners must then attempt to forecast future conditions. These forecasts form the basis for planning.

Planners must establish objectives, which are statements of what needs to be achieved and when. Planners must

then identify alternative courses of action for achieving objectives. After evaluating the various alternatives, planners must make decisions about the best courses of action for achieving objectives. They must then formulate necessary steps and ensure effective implementation of plans. Finally, planners must constantly evaluate the success of their plans and take corrective action when necessary. There are many different types of plans and planning.

Levels of Management

There are three levels of management, and each level is responsible for specific planning, decision-making, and activities.

The level of management you work in will determine the type of planning and decision-making you will do. Figure 3.2 shows the three levels of management: Top Managers, Middle Managers, and First-line managers, and the activities they do at each level. **Top-level managers** set objectives, scan the business environment, and plan and make decisions that affect the overall health of the organization. **Middle-level managers** allocate resources, oversee first-line managers, report to top-level managers, and develop and implement activities. **First-line managers** (also referred to as customer-facing or front-line) coordinate activities, supervise employees, report to middle managers, and are involved in day-to-day operations.

Figure 3.2 Levels of Management: Top, Middle, First-line and task done at each level.

Managerial Decision-Making

Decision-making is the action or process of thinking through possible options and selecting one. It is important to recognize that managers are continually making decisions, and that the quality of their decision-making has an impact, sometimes quite significant, on the effectiveness of the organization and its stakeholders. Stakeholders are all the individuals or groups that are affected by an organization (such as customers, employees, shareholders, etc.).

Members of the top management team regularly make decisions that affect the future of the organization and all its stakeholders, such as deciding whether to pursue a new technology or product line. A good decision can enable the organization to thrive and survive long-term, while a poor decision can lead a business into bankruptcy. Managers at lower levels of the organization generally have a smaller impact on the organization's survival, but can still have a tremendous impact on their department and its workers. Consider, for example, a first-line supervisor who is charged with scheduling workers and ordering raw materials for her department. Poor decision-making by lower-level managers is unlikely to drive the entire firm out of existence, but it can lead to many adverse outcomes, such as:

- reduced productivity if there are too few workers or insufficient supplies,
- increased expenses if there are too many workers or too many supplies, particularly if the supplies have a limited shelf life or are costly to store, and
- frustration among employees, reduced morale, and increased turnover (which can be costly for the organization) if the decisions involve managing and training workers.

Self-Check Exercise: Problem Solving and Decision-Making

Click on each step to learn more about the problem-solving model and how to make decisions after gathering relevant data.

An interactive H5P element has been excluded from this version of the text. You can view it online

here:
https://ecampusontario.pressbooks.pub/businessfundamentals/?p=257#h5p-6

Managerial Skills

To be a successful manager, you'll have to master several skills. To get an entry-level position, you'll have to be technically competent at the tasks you're asked to perform. To advance, you'll need to develop strong interpersonal and conceptual skills. The relative importance of different skills varies from job to job and organization to organization, but to some extent, you'll need them all to forge a managerial career. Throughout your career, you'll also be expected to communicate ideas clearly, use your time efficiently, and reach sound decisions.

Technical Skills

You'll probably be hired for your first job based on your **technical skills** — the ones you need to perform specific tasks — and you'll use them extensively during your early career. If your college major is accounting, you'll use what you've learned to prepare financial statements. If you have a marketing degree and you join an ad agency, you'll use what you know about promotion to prepare ad campaigns. Technical skills will come in handy when you move up to a first-line managerial job and oversee the task performance of subordinates. Technical skills, though developed through job training and work experience, are generally acquired during your formal education.

Interpersonal Skills

As you move up the corporate ladder, you'll find that you can't do everything yourself: you'll have to rely on other people to help you achieve the goals for which you're responsible. That's why **interpersonal skills**, also known as relational skills — the ability to get along with and motivate other people — are critical for managers in mid-level positions. These managers play a pivotal role because they report to top-level managers while overseeing the activities of first-line managers. Thus, they need strong working relationships with individuals at all levels and in all areas. More than most other managers, they must use "people skills" to foster teamwork, build trust, manage conflict, and encourage improvement.[1]

Communication Skills

Effective communication skills? Maybe not.

Effective communication skills are crucial to just about everyone. At all levels of an organization, you'll often be judged on your ability to **communicate**, both orally and in writing. Whether you're talking informally or making a formal presentation, you must express yourself clearly and concisely. Talking too loudly, rambling, and using poor grammar reduce your ability to influence others, as does poor written communication. Confusing and error-riddled documents (including emails) don't do your message any good, and they will reflect poorly on you.[2]

Conceptual Skills

Managers at the top, who are responsible for deciding what's good for the organization from the broadest perspective, rely on **conceptual skills** — the ability to reason abstractly and analyze complex situations. Senior executives are often called on to "think outside the box" — to arrive at creative solutions to complex, sometimes ambiguous problems. They need both strong analytical abilities and strong creative talents.

Time-Management Skills

Time management skills are techniques that help you plan and organize your time to complete tasks and achieve goals. Managers face multiple demands on their time, and their days are usually filled with interruptions. Ironically, some technologies that were supposed to save time, such as voicemail and email, have increased workloads. Unless you develop certain time-management skills, you risk reaching the end of the day feeling that you've worked a lot but accomplished little. What can managers do to ease the burden? Here are a few common-sense suggestions:

- Prioritize tasks, focus on the most important things first.
- Set aside a certain time each day to return phone calls and answer email.
- Delegate routine tasks.
- Don't procrastinate.
- Insist that meetings start and end on time, and stick to an agenda.
- Eliminate unnecessary paperwork.[3]

Decision-Making Skills

Every manager is expected to make decisions, whether alone or as part of a team. Drawing on your **decision-making skills** is often a process in which you must define a problem, analyze possible solutions, and select the best outcome. As luck would have it, because the same process is good for making personal decisions, we'll use a personal example to demonstrate the process approach to decision making. Consider the following scenario: you're upset because your midterm grades are much lower than you'd hoped. To make matters worse, not only are you in trouble academically, but also the other members of your business-project team are annoyed because you're not pulling your weight. Your lacrosse coach is very upset because you've missed too many practices, and members of the mountain-biking club, of which you're supposed to be president, are talking about impeaching you if you don't show up at the next meeting. And your significant other is feeling ignored.

Strategic Planning

Strategic planning involves analyzing competitive opportunities and threats, as well as the strengths and weaknesses of the organization, and then determining how to position the organization to compete effectively in its environment. Strategic planning has a long time frame, often three years or more. It generally includes the entire organization and includes the formulation of objectives. Strategic planning is often based on the organization's mission, which is its fundamental reason for existence. An organization's top management most often conducts strategic planning. Strategic managers are often involved with developing and writing company mission, vision, and values statements.

Understanding of the four stages of the **industry life cycle** (also referred to as the business cycle) include expansion, peak, contraction, and trough (discussed in the chapter on economics) and industry dynamics informs management's investment decisions and risk management strategies. It can help companies manage their operational and financial decisions and activities so that they position themselves to achieve important goals, including product research and development, implementing innovative technology, expanding a customer base, and more. External factors that affect a business are often analyzed through a PEST analysis.

Planning begins at the highest level of management and works its way down through the organization.

Step one is usually called strategic planning: the process of establishing an overall course of action. To begin this process, a manager/owner should ask a couple of very basic questions: why, for example, does the organization exist? What value does it create? Sam Walton posed these questions in the process of founding Wal-Mart: his new chain of stores would exist to offer customers the lowest prices with the best possible service.

Once the purpose of the company has been identified, the manager is ready to take the remaining steps in the strategic-planning process:

1. Write a mission statement that tells customers, employees, and others why the organization exists. Review this article, How to Write a Mission Statement, for tips on writing a mission statement.
2. Identify core values or beliefs that will guide the behavior of members of the organization. Review this article, 4 Steps to Creating Your Company Core Values, for tips on creating company core values.
3. Assess the company's strengths, weaknesses, opportunities, and threats. Performing a SWOT Analysis is a good start here. It is also important to conduct various business environment scans and analyze how these conditions will affect the business.
4. Establish goals and objectives, or performance targets, to direct all the activities that will be performed to achieve the mission. So, the next step in the strategic-planning process is establishing goals and objectives. Goals are major accomplishments that the company wants to achieve over a long period. **SMART** is an acronym used to guide and set goals: Specific, Measurable, Attainable, Relevant, and Time-Based (Refer to Figure 3.3). Review this article, SMART Goals: What They Are and How to Write Them, for tips on how to write SMART goals.
5. Develop and implement tactical and operational plans to achieve goals and objectives.

Figure 3.3 SMART Goals: specific, measurable, attainable, relevant, and time-based.

Tactical Planning

Tactical planning is intermediate-range (one to three years) planning that is designed to develop relatively concrete and specific means to implement the strategic plan. Middle-level managers often engage in tactical planning.

Operational Planning

Operational planning generally assumes the existence of organization-wide or sub-unit goals and objectives and specifies ways to achieve them. Operational planning is short-range (less than a year) planning that is designed to develop specific action steps that support the strategic and tactical plans. First-level managers engage in operational planning.

Contingency and Crisis Planning

Contingency and Crisis Planning are plans for what actions to take when things go wrong. Perhaps your plans were flawed, or maybe something in the environment shifted unexpectedly. Successful managers anticipate and plan for the unexpected. Dealing with uncertainty requires contingency planning and crisis management.

Play the YouTube video below, "Types of Planning: Strategic, Tactical, Operational & Contingency Planning," to learn how the levels of planning interconnect.[4] Transcript for "Types of Planning: Strategic, Tactical, Operational & Contingency Planning." Video [PDF–New Tab]. Closed captioning is available on YouTube.

One or more interactive elements has been excluded from this version of the text. You can view them online here: https://ecampusontario.pressbooks.pub/businessfundamentals/?p=257#oembed-1

Environmental Analysis

A **business environment analysis** is a systematic process that evaluates the internal and external factors impacting a business. Before planning can be done, an analysis of the business environment should be conducted through researching and analyzing market conditions, competition, trends, and other external factors that could influence the business's strategy. Environmental analysis plays an essential role in a company's strategic planning by providing a clear and thorough understanding of external business factors and how they affect the company. Analyses help the company take advantage of opportunities, lower risks, and come up with good plans that lead to growth and success.

As this book is written for an introduction to business (usually a survey course at colleges and universities) you

will not take these concepts into too much depth. Later in your business studies, when you complete management, leadership, analytics, and other courses, you will utilize these analysis models to a fuller extent.

PEST Analysis

PEST is the term used for an external environment scan, whereby a business collects and analyzes data on the political, economic, social, and technological aspects of the business environment in which the business operates. PEST can be extended to include the legal, environmental, and ethical aspects of the business environment and when included, the acronym is referred to as PESTEL or PESTLE, PESTLEE. Many people refer to the analysis as a PEST analysis and include all the factors mentioned here (Refer to Figure 3.4).

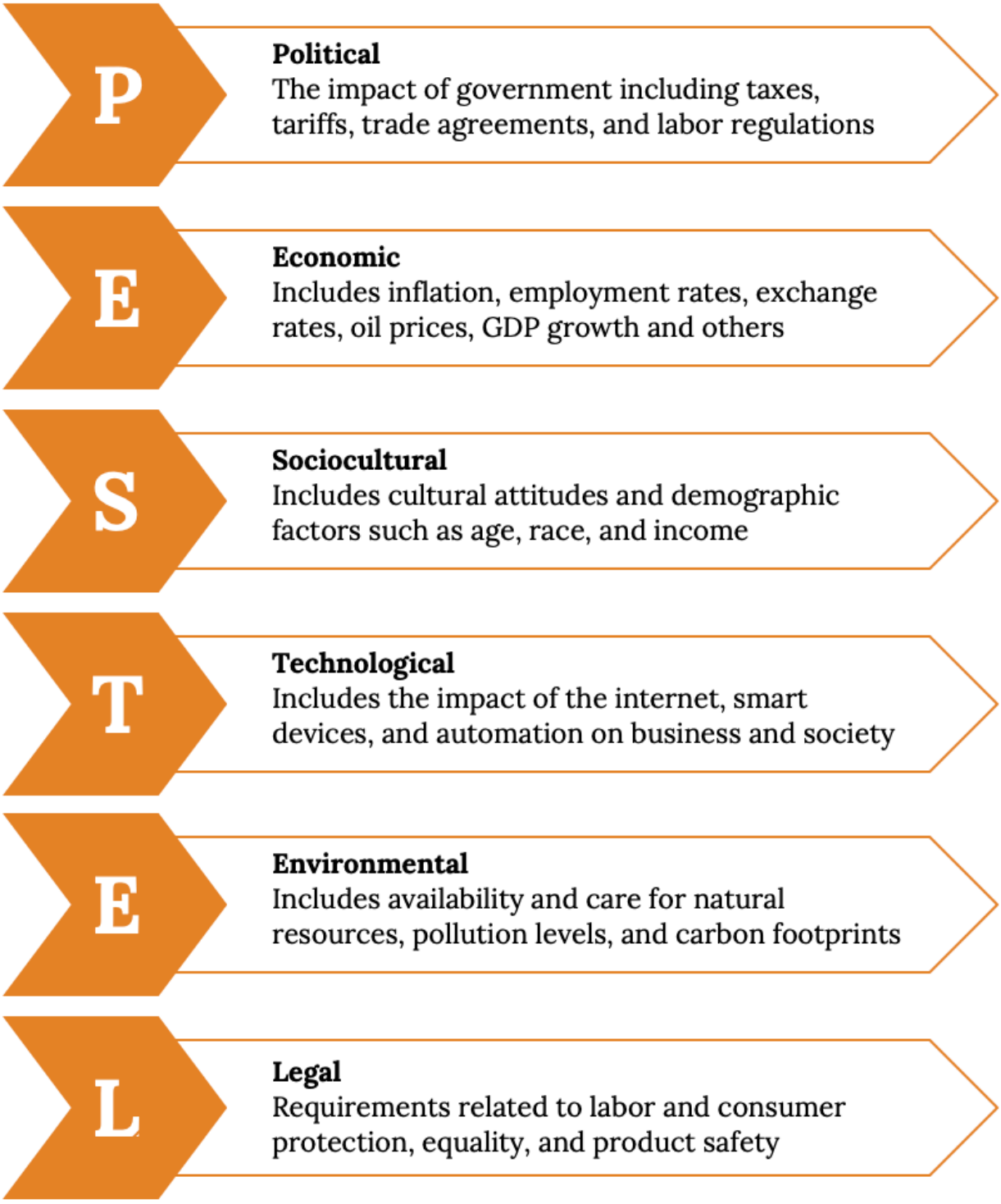


Figure 3.4 Acronym for PESTEL: Political, Economic, Sociocultural, Technological, Environmental, and Legal.

SWOT Analysis

A **SWOT analysis** analysis is a framework for identifying and analyzing an organization's strengths, weaknesses, opportunities, and threats. These words make up the SWOT acronym. The primary goal of SWOT analysis is to increase awareness of the factors that go into making a business decision or establishing a business strategy.

Below each of the four points of SWOT is explained in more detail:[5]

- **Strengths.** Your Strengths are internal positives about your company that you can control and that often provide you with a competitive advantage. Some examples might be the quality of your product, the effectiveness of your processes, your access to physical or team assets, or other competitive advantages.
- **Weaknesses.** A Weakness is an adverse internal attribute about your company that negatively takes away from your Strengths. Some examples might include knowledge gaps on your team, a low-quality product, a lack of money or other tangible assets, bad locations, and more.
- **Opportunities.** An Opportunity is an external factor that provides promise or is likely to contribute to your potential success. Some examples might include the growth rate in your industry, specific laws or policies that will benefit the need for your product, positive customer feedback, or technological advancements.
- **Threats.** A Threat is an external factor that you have no control over, which could negatively impact your success. These are typically acknowledged so that you can provide a plan to overcome each one. Some examples include potential future competitors, costs of supply, upcoming market trends, negative technological changes, and upcoming regulations or laws.

Play the YouTube video below, "SWOT Analysis" to learn how to analyze a company's strengths, weaknesses, opportunities, and threats.[6] Transcript for "SWOT Analysis" Video [PDF–New Tab]. Closed captioning is available on YouTube.

One or more interactive elements has been excluded from this version of the text. You can view them online here: https://ecampusontario.pressbooks.pub/businessfundamentals/?p=257#oembed-2

Competitor Analysis

A **competitor analysis** in business involves examining similar brands in the same industry to gain insight into other companies' offerings, brands, sales, and marketing approaches.

Play the YouTube video below, "The Five Forces Analysis Explained," to learn how to apply the Five Forces Analysis to a coffee shop within this industry.[7] Transcript for "The Five Forces Analysis Explained" Video [PDF–New Tab]. Closed captioning is available on YouTube.

One or more interactive elements has been excluded from this version of the text. You can view them online here: https://ecampusontario.pressbooks.pub/businessfundamentals/?p=257#oembed-3

Management Function 2 = Organizing

A second key function of managers is **organizing**, which is the process of coordinating and allocating a firm's resources in order to carry out its plans. Organizing includes developing a structure for the people, positions, departments, and activities within the firm. Managers can arrange the structural elements of the firm to maximize the flow of information and the efficiency of work processes. They accomplish this by doing the following:

- Dividing up tasks (division of labour)
- Grouping jobs and employees (departmentalization)
- Assigning authority and responsibilities (delegation)

Organizing is the function of management that involves developing an organizational structure and allocating human resources to ensure the accomplishment of objectives. The structure of the organization is the framework within which effort is coordinated. The structure is usually represented by an organization chart, which provides a graphic representation of the chain of command within an organization. Decisions made about the structure of an organization are generally referred to as organizational design decisions.

Organizational Structure

Businesses use **organizational charts** to depict the reporting structure within the organization. Depending

on the number of layers in an organizational chart, the company's command chain can be identified along with each manager's span of control. **Span of Control** can be defined as the total number of direct subordinates that a manager can control or manage. The number of subordinates managed by a manager varies depending on the complexity of the work.[8] The vertical lines in an organizational chart represent a few things: flows of communication as well as the authority relationships among people working at various levels of the organization.

Review the video below, "What is Organizational Structure?" to learn how companies structure for business operations.[9] Transcript for "What is Organizational Structure?" Video [PDF–New Tab]. Closed captioning is available on YouTube.

One or more interactive elements has been excluded from this version of the text. You can view them online here: https://ecampusontario.pressbooks.pub/businessfundamentals/?p=257#oembed-4

3M's Organizational Structure

3M's organizational structure is mainly hierarchical at the corporate level. The company has large-scale operations in multiple industries. This large organizational size requires top leaders to have strong command and control of the business. For such command and control to be realistically achieved, 3M needs to maintain a hierarchical structure.[10]

3M has operations in different types of markets, such as healthcare, electronics and communications, and transportation. With its company structure, the conglomerate has diverse competitors, including General Electric. 3M maintains a departmental organizational structure under the larger corporate hierarchical structure. This departmental organizational structure ensures that 3M's different businesses are properly managed. Also, departments have their own unique structures. For example, some departments have a matrix structure, while others are more hierarchical. The matrix organizational structure is used in R&D to support 3M's innovation through employee contributions.[11]

Organizing Work in a Business

Organizing involves structuring both the organization as a whole and the individual jobs within it. Managers make two key types of decisions: **job design** (how tasks are assigned to individuals) and **departmentalization** (how jobs are grouped into units).

Job Design and Job Specialization

At the job level, organizing focuses on defining duties, responsibilities, and how tasks should be carried out. This process is known as job design. Organizing activities into clusters of related tasks that can be handled by certain individuals or groups is called **job specialization**. This aspect of designing an organizational structure is twofold: 1) Identify the activities that need to be performed to achieve organizational goals. 2) Break down these activities into tasks that can be performed by individuals or groups of employees.

Traditionally, jobs were designed using the principle of specialization—dividing tasks into narrow, repetitive roles to improve efficiency. However, overly specialized jobs can lead to boredom, low job satisfaction, and high turnover. For example, working on an assembly line screwing lids onto jars all day would likely become monotonous over time.

To improve employee motivation and performance, many organizations now aim for a balance between specialization and variety. Modern job design often includes empowerment, job enrichment, and teamwork to increase autonomy, engagement, and commitment.

Departmentalization and Organizational Structure

At the organizational level, managers decide how to group jobs into departments to coordinate work effectively. **Departmentalization** is grouping specialized jobs into meaningful units. Depending on the organization and the size of the work units, they may be called divisions, departments, or just plain groups. Traditional groupings of jobs result in different organizational structures, and for the sake of simplicity, the course textbook focuses on two types—**functional and divisional organizations.**

Common methods include:

- **Functional** – Grouped by business function (e.g., marketing, finance, HR)
- **Product** – Grouped by product lines (e.g., different car brands)
- **Customer** – Grouped by customer type (e.g., retail vs. professional buyers)

- **Process** – Grouped by production or service processes
- **Geographic** – Grouped by regional location

Large organizations often use a combination of these methods to best suit their operations.

Functional Organizational Structure

A functional structure groups employees based on the type of work they perform or their area of expertise. Common departments include marketing, finance, operations, human resources, and IT. This structure is widely used in small to medium-sized organizations and in companies with a single product or service line.

Advantages of Functional Structure:

- Encourages specialization and expertise within each area.
- Promotes operational efficiency through clear roles and processes.
- Easier management and supervision within departments.

Challenges of Functional Structure:

- Can create silos, where departments work independently and may not share information.
- May lead to poor communication across functions.
- Less flexibility in responding to specific product, customer, or regional needs.

Divisional Organizational Structure

A **divisional organizational structure** is a type of organizational structure where a company is divided into independent divisions that operate like their own companies within the larger organization. Each division has its own resources, teams, and responsibilities.

- **Product Divisions.** Structuring a company based on its product lines. Examples: General Motors uses product-based divisions for their various automotive lines – Buick, Cadillac, Chevrolet, and GMC.
- **Customer Divisions.** Structuring the company based on the needs of the customers. Example: Johnson & Johnson is divided into three consumer-based structures – consumer business, pharmaceuticals, and professional business.

- **Process Divisions.** Structuring the company based on the processes needed to create the product or service. Example: Bowater Thunder Bay has several steps in production and opts for a process division structure.
- **Geographical Divisions.** Structuring the company so that responses to customers in their geographical areas can be done more effectively. Example: Adidas is set up so that it can operate effectively in the five regions of the world where it operates.

Advantages of Divisional Structure:

- **Focus and Accountability:** Each division operates like its own business unit, making it easier to focus on specific goals and be accountable for results.
- **Responsiveness to Markets:** Divisions can quickly respond to changes in customer needs, regional demands, or product trends.
- **Improved Coordination Within Divisions:** Having all necessary functions (marketing, production, etc.) within the same division allows for better coordination.
- **Flexibility and Innovation:** Divisions can experiment and innovate without affecting the entire organization.

Disadvantages of Divisional Structure:

- **Duplication of Resources:** Each division may have its own departments, leading to inefficient use of resources and higher costs.
- **Inconsistent Company Policies:** Different divisions may develop their own ways of doing things, leading to inconsistency across the organization.
- **Limited Communication Across Divisions:** Divisions may focus on their own goals and not share knowledge or best practices with each other.
- **Potential for Internal Competition:** Divisions may compete for resources or recognition, which can harm collaboration and overall company unity.

Management Function 3 = Leading

The third management function is **leading**—providing focus and direction to others and motivating them to achieve organizational goals.

A leader can be anyone in an organization, regardless of position, able to influence others to act or follow, often by their own choice. **Managers** are designated leaders according to the organizational structure, but may need to use negative consequences or coercion to achieve change. In the organizational structure, top managers use leadership skills to set, share, and gain support for the company's direction and strategy—mission, vision, and values, such as Jeff Bezos does at Amazon. Middle and supervisory management use leadership skills in the process of directing employees on a daily basis as the employees carry out the plans and work within the structure created by management. Top-level leadership demonstrated by Bezos was also exhibited by Jack Welch while leading General Electric, and led to many studies of his approach to leadership. Organizations, however, need strong, effective leadership at all levels in order to meet goals and remain competitive.

Governance Board Membership

The Board of Directors is a governing body that represents the interests of community stakeholders on non-profit and owner shareholders when referring to corporate boards. Forming a skilled and balanced group of individuals to work on boards promotes respectful and productive discussions, which is fundamental to achieving organizational success. Minority populations, however, are found to be vastly underrepresented in the boardroom. In 2020, a report on diversity disclosure practices demonstrated that only 0.5% of board members in Canada were of Indigenous descent. Corporations have yet to realize that Indigenous board members contribute valuable knowledge and perspectives, as well as attracting and retaining more Indigenous talent. It additionally provides organizations with the opportunity to demonstrate respect for social, cultural, and environmental values of Indigenous populations. These advantages are expanded upon by Indigenous professional Krystal Abotossaway, who recounts her experiences as a board member.[12]

One or more interactive elements has been excluded from this version of the text. You can view them online here: https://ecampusontario.pressbooks.pub/businessfundamentals/?p=257

Indigenous Lifeways in Canadian Business Video with Closed Captioning and Transcript [PDF — New Tab]

Leadership Style

There are four basic **leadership styles**, Autocratic, Democratic, Transformational, and Free-rein (Laissez-faire).

Autocratic Style

Autocratic leaders are directive leaders, allowing for very little input from subordinates. These leaders prefer to make decisions and solve problems on their own and expect subordinates to implement solutions according to very specific and detailed instructions. In this leadership style, information typically flows in one direction, from manager to subordinate. The military, by necessity, is generally autocratic. When employees are new with little experience, they may value an autocratic leader. When autocratic leaders treat employees with fairness and respect, they may be considered knowledgeable and decisive. But often, autocrats are perceived as narrow-minded and heavy-handed in their unwillingness to share power, information, and decision-making in the organization. The trend in organizations today is away from the directive, controlling style of the autocratic leader. Although in emergencies or highly structured environments requiring quick, decisive actions, an autocratic style works well. For example, during a factory emergency, such as a fire or equipment failure, the plant manager orders an immediate evacuation without consulting the team to ensure safety.

Democratic Style

Sheryl Sandberg, COO at Facebook 2008-2022

Businesses are looking more and more for participative leaders, meaning leaders who share decision-making with group members and encourage discussion of issues and alternatives. **Participative leaders** use a democratic, consensual, consultative style. The leader encourages team participation and values group input before making decisions. This leadership style works well In collaborative environments where creativity, buy-in, and team cohesion are critical. For example, a marketing team brainstorming ideas for a new product campaign. The leader facilitates discussions, gathers input from all team members, and makes the final decision based on consensus.

Participative leadership has three types: democratic, consensual, and consultative. **Democratic leaders** solicit input from all members of the group and then allow the group members to make the final decision through a voting process. This approach works well with highly trained professionals. The president of a physicians' clinic might use the democratic approach. **Consensual leaders** encourage discussion about issues and then require that all parties involved agree to the final decision. This is the general style used by labour mediators. **Consultative leaders** confer with subordinates before making a decision but retain the final decision-making authority. This technique has been used to dramatically increase the productivity of assembly-line workers.

Transformational

Transformational leadership is a leadership style that can inspire positive changes in those who follow. Transformational leaders are generally energetic, enthusiastic, and passionate. Not only are these leaders concerned and involved in the process, but they are also focused on helping every member of the group succeed. Transformational leaders take control of situations by conveying a clear vision of the group's goals. These leaders have a marked passion for the work and an ability to make the rest of the group feel recharged and energized. Transformational leaders focus on helping members of the group support one another and provide them with the support, guidance, and inspiration they need to work hard, perform well, and stay loyal to the group. The primary goals of transformational leadership are to inspire growth, promote loyalty, and instill confidence in group members.[13]

In today's organizations, in which team building and information sharing are important, and projects are often collaborative, transformational leadership has proven to be more effective. Modern organizations look for man-

agers who can develop positive relationships with subordinates and motivate employees to focus on the interests of the organization. Leaders who can be both transactional and transformational are rare, and those few who have both capacities are very much in demand. This leadership style works well In industries undergoing change or organizations aiming for significant innovation. For example, a tech startup founder inspires the team to develop a groundbreaking app by sharing a compelling vision, mentoring employees, and encouraging risk-taking to achieve ambitious milestones.

Free-Rein Style

The third leadership style, at the opposite end of the continuum from the autocratic style, is **free-rein** or laissez-faire(French for "leave it alone") leadership. With this style, the leader provides minimal supervision, allowing employees to make decisions and work independently. Employees are assigned a task and then given free rein to figure out the best way to accomplish it. The manager doesn't get involved unless asked. Under this approach, subordinates have unlimited freedom as long as they do not violate existing company policies. This approach is also sometimes used with highly trained professionals who are self-motivated and require little oversight. For example, a software development team is working on a project. The leader trusts the developers to self-manage their tasks and deliver results, stepping in only when issues arise. Similarly, free rein may be an effective leadership style when managing an experienced team working in a research laboratory. Although one might at first assume that subordinates would prefer the free-rein style, this approach can have several drawbacks. If free-rein leadership is accompanied by unclear expectations and a lack of feedback from the manager, the experience can be frustrating for an employee. Employees may perceive the manager as being uninvolved and indifferent to what is happening or as unwilling or unable to provide the necessary structure, information, and expertise.

Situational Leadership

No leadership style is effective all the time. Effective leaders recognize employee growth and use **situational leadership**, selecting a leadership style that matches the maturity and competency levels of those completing the tasks. Newly hired employees may respond well to authoritative leadership until they understand the job requirements and show the ability to handle routine decisions. Once established, however, those same employees may start to feel undervalued and perform better under a participative or free-rein leadership style. Using situational leadership empowers employees.

Employee Empowerment

Participative and free-rein leaders use a technique called empowerment to share decision-making authority with subordinates. **Empowerment** means giving employees increased autonomy and discretion to make their

own decisions, as well as control over the resources needed to implement those decisions. When decision-making power is shared at all levels of the organization, employees feel a greater sense of ownership in and responsibility for organizational outcomes.

Power to Influence Others

To be effective leaders, managers must be able to influence others' behaviours. This ability to influence others to behave in a particular way is called **power**.

Researchers have identified five primary sources, or bases, of power:

- Legitimate power, which comes from an individual's position in an organization
- Reward power, which comes from an individual's control over rewards
- Coercive power, which comes from an individual's ability to threaten negative outcomes
- Expert power, which comes from an individual's extensive knowledge in one or more areas
- Referent power, which comes from an individual's charisma and the respect and/or admiration the individual inspires

Delegating Authority

Delegating is the process of entrusting work to subordinates, letting go, trusting – this is challenging for many managers to do; however, it is a necessary skill to learn.

Managers who know how to delegate effectively:

- Decrease their workload
- Increase their productivity
- Empower their employees
- Help their employees to develop new skills

The other aspect of delegating authority has to do with how decisions are made; they can either be centralized or decentralized.

- **Centralized decision making** is done at the top level of management, which makes decision making consistent but can make lower-level managers feel underutilized and impedes the development of decision-making skills in these managers.
- **Decentralized decision making** is spread throughout the organization. Since the responsibilities and

decision-making are given to various people holding different positions in an organization, top management can work towards the growth and long-term vision of the company. Also, this system engages more people to work in different areas such as expansion of the company, employee hiring process, development, and raising capital. As a result, these processes speed up the growth of the company. With that said, decentralization could increase conflict, increase duplicate work, and increase the challenge of executing consistent strategies.[14]

Self-Check Exercise: Leadership Style Quiz

Can you determine the leadership style of these leaders? Try the short quiz below.

An interactive H5P element has been excluded from this version of the text. You can view it online here:
https://ecampusontario.pressbooks.pub/businessfundamentals/?p=257#h5p-5

Motivating Employees

How do managers motivate employees to do quality work? This question is difficult to answer because people are motivated by different things at different stages in their life, their career, and their personal growth. Highly motivated employees focus their efforts on achieving specific goals. It's the manager's job, therefore, to motivate employees—to get them to try to do the best job they can. Motivated employees call in sick less frequently, are more productive, and are less likely to convey bad attitudes to customers and coworkers. They also tend to stay in their jobs longer, reducing turnover and the cost of hiring and training employees.

Personal Motivation

They may be intrinsically or extrinsically motivated, or by a combination of both.

Intrinsic motivation. This is when motivation comes from within; in other words, a person has it within

themselves to be, stay, or become motivated. For example, a person may be intrinsically motivated by the enjoyment of doing a task, the satisfaction of a job well done, or the desire to achieve.

Extrinsic motivation. This is when motivation comes from external factors; in other words, a person needs an incentive to be, stay, or become motivated. For example, a person may be extrinsically motivated by the pay they receive, bonuses they receive, avoiding punishment, gaining recognition or prestige, or perks of the job.

Motivational Theories

Maslow's Hierarchy of Needs

According to **Maslow's theory**, the idea is that we need to satisfy lower-level needs before we move to the other levels; once we have satisfied said need(s), we move on to the next level as the previous one no longer satisfies us. Consider how this can play out in the workplace.

What implications does Maslow's theory have for business managers? There are two key points: (1) Not all employees are driven by the same needs, and (2) the needs that motivate individuals can change over time. Managers should consider which needs different employees are trying to satisfy and should structure rewards and other forms of recognition accordingly. For example, when you got your first job repossessing cars, you were motivated by the need for money to buy food. If you'd been given a choice between a raise or a plaque recognizing your accomplishments, you'd undoubtedly have opted for the money. As a city councillor, by contrast, you may prefer public recognition of work well done (say, election to higher office) to a pay raise.

As shown in Figure 3.5, Maslow's Hierarchy of Needs ranges from the highest level (self-actualization) to the lowest level (physiological needs):

- **Self-Actualization:** Mortality, creativity, spontaneity, problem-solving, lack of prejudice, acceptance of facts
- **Esteem:** Self-esteem, confidence, achievement, respect of others, respect by others.
- **Social:** Love/belonging through friendship, family, sexual intimacy
- **Safety:** security of body, of employment, of resources, or of mortality, of the family, of health, of property
- **Physiological:** breathing, food, water, sex, sleep, homeostasis, excretion

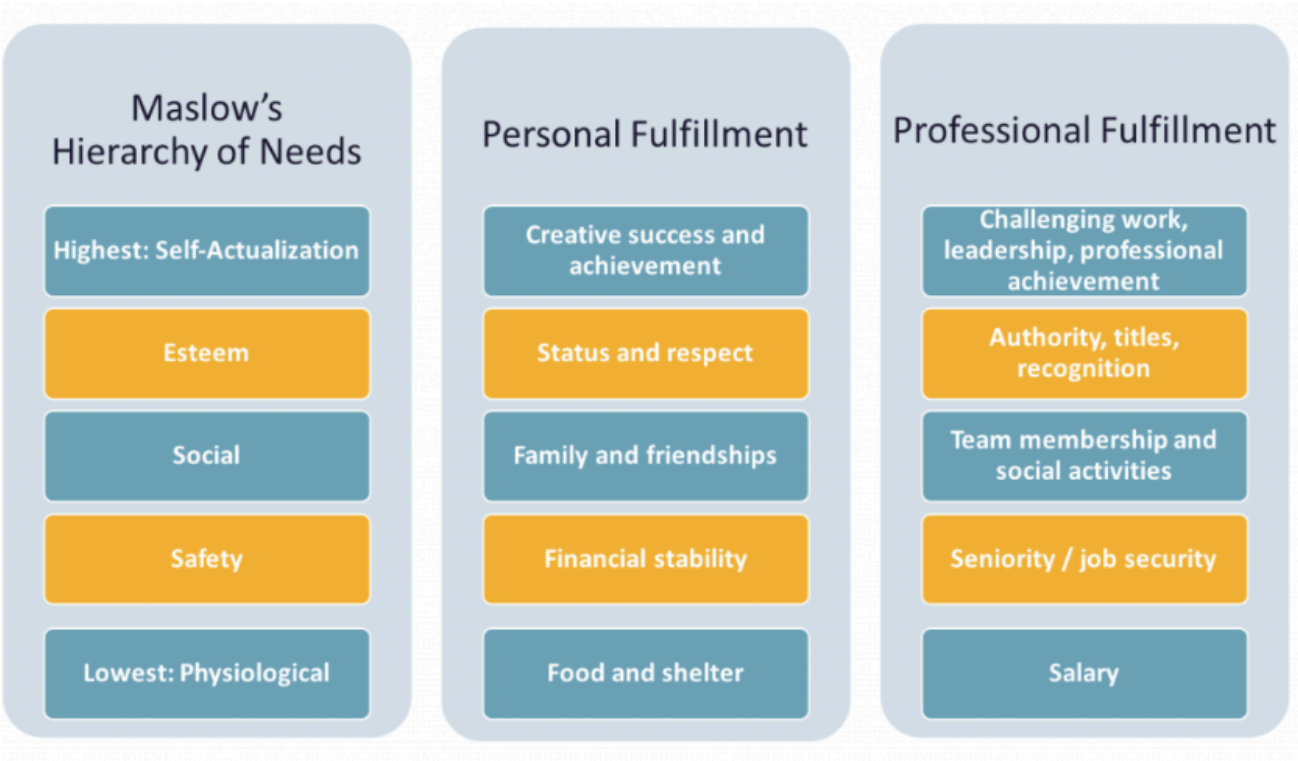


Figure 3.5 Maslow's Hierarchy of Needs

Two-Factor Theory

Another psychologist, Frederick Herzberg, set out to determine which work factors (such as wages, job security, or advancement) made people feel good about their jobs and which factors made them feel bad about their jobs. He surveyed workers, analyzed the results, and concluded that to understand employee satisfaction (or dissatisfaction), he had to divide work factors into two categories:

- Motivation factors. Those factors that are strong contributors to job satisfaction.
- Hygiene factors. Those factors that are not strong contributors to satisfaction but must be present to meet a worker's expectations and prevent job dissatisfaction.

Figure 3.6 illustrates **Herzberg's two-factor** theory. Note that motivation factors (such as promotion opportunities) relate to the nature of the work itself and the way the employee performs it. Hygiene factors (such as physical working conditions) relate to the environment in which it's performed.

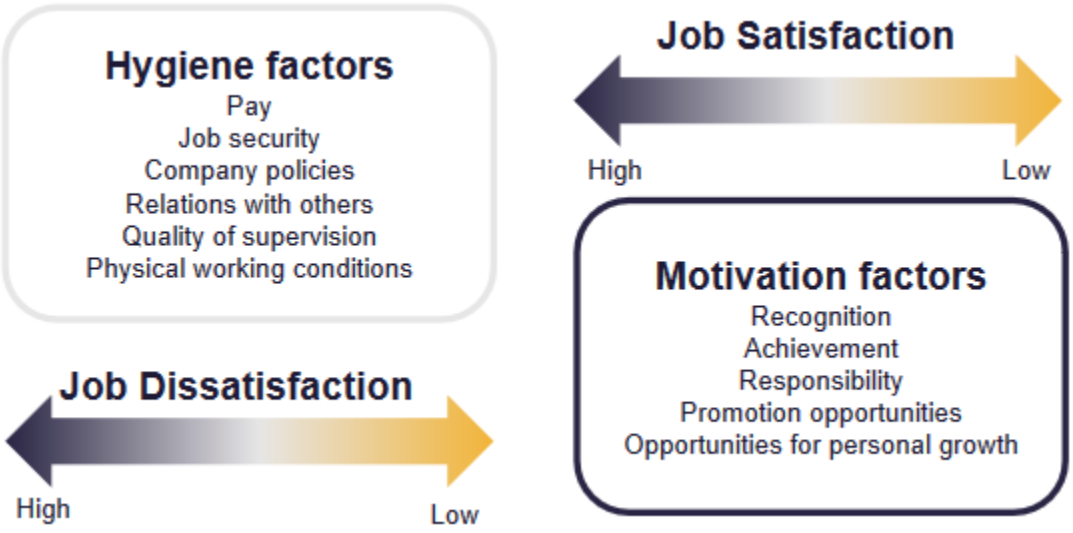


Figure 3.6 Herzberg's Two-Factor theory: Poor hygiene factors will increase job dissatisfaction, while good motivators will increase satisfaction.

Let's start with hygiene factors. Are salaries reasonable? What about working conditions? Does each accountant have his or her own workspace, or are they crammed into tiny workrooms? Are they being properly supervised, or are they left on their own to sink or swim? If hygiene factors like these don't meet employees' expectations, they may be dissatisfied with their jobs.

Fixing problems related to hygiene factors may alleviate job dissatisfaction, but it won't necessarily improve anyone's job satisfaction. To increase satisfaction (and motivate someone to perform better), you must address motivation factors. Is the work itself challenging and stimulating? Do employees receive recognition for jobs well done? Will the work that an accountant has been assigned help him or her to advance in the firm? According to Herzberg, motivation requires a twofold approach: eliminating "dissatisfiers" and enhancing satisfiers.

Expectancy Theory

If you were a manager, wouldn't you like to know how your employees decide whether to work hard or goof off? Wouldn't it be nice to know whether a planned rewards program will have the desired effect—namely, motivating them to perform better in their jobs? These are the issues considered by psychologist Victor Vroom in his expectancy theory, which proposes that employees will work hard to earn rewards that they value and that they consider "attainable".

As you can see from Figure 3.7, Vroom's **Expectancy Theory** argues that an employee will be motivated to exert a high level of effort to obtain a reward under three conditions – the employee:

1. believes that his or her efforts will result in acceptable performance.

2. believes that acceptable performance will lead to the desired reward.
3. values the reward.

Figure 3.7 Vroom's Expectancy Theory

To apply expectancy theory to a real-world situation, let's analyze an automobile-insurance company with one hundred agents who work from a call centre. Assume that the firm pays a base salary of $2,000 a month, plus a $200 commission on each policy sold above ten policies a month. In terms of expectancy theory, under what conditions would an agent be motivated to sell more than ten policies a month?

The agent would have to believe that his or her efforts would result in policy sales (that, in other words, there's a positive link between effort and performance). The agent would have to be confident that if he or she sold more than ten policies in a given month, there would indeed be a bonus (a positive link between performance and reward). The $200 bonus per policy would have to be of value to the agent.

Now let's alter the scenario slightly. Say that the company raises prices, thus making it harder to sell the policies. How will agents' motivation be affected? According to expectancy theory, motivation will suffer. Why? Because agents may be less confident that their efforts will lead to satisfactory performance. What if the company introduces a policy whereby agents get bonuses only if buyers don't cancel policies within ninety days? Now agents may be less confident that they'll get bonuses even if they do sell more than ten policies. Motivation will decrease because the link between performance and reward has been weakened. Finally, what will happen if bonuses are cut from $200 to $25? Obviously, the reward would be of less value to agents, and, again, motivation will suffer. The message of expectancy theory, then, is fairly clear: managers should offer

rewards that employees value, set performance levels that they can reach, and ensure a strong link between performance and reward.

Equity Theory

What is the equity theory of motivation? The **Equity Theory** of motivation is the idea that what an individual receives for their work has a direct effect on their motivation. When applied to the workplace, it means an individual will generally aim to create a balance between what they give to the organization compared to what they get in return.[15]

Equity theory was developed by John Stacey Adams, and you can read more information about Equity theory in this article.

Let's review this example. What if you spent thirty hours working on a class report, did everything you were supposed to do, and handed in an excellent assignment (in your opinion). Your roommate, on the other hand, spent about five hours and put everything together at the last minute. You know, moreover, that he ignored half the requirements and never even ran his assignment through a spell-checker. A week later, your teacher returns the reports. You get a C grade and your roommate gets a B+. In all likelihood, you'll feel that you've been treated unfairly relative to your roommate.

According to Figure 3.8, the Equity Theory, your reaction makes sense. The Equity Theory of motivation focuses on our perceptions of how fairly we're treated relative to others. Applied to the work environment, this theory proposes that employees analyze their contributions or job inputs (hours worked, education, experience, work performance) and their rewards or job outcomes (salary, bonus, promotion, recognition). Then they create a contributions/rewards ratio and compare it to those of other people. The basis of comparison can be any one of the following:

- Someone in a similar position
- Someone holding a different position in the same organization
- Someone with a similar occupation
- Someone who shares certain characteristics (such as age, education, or level of experience)
- Oneself at another point in time

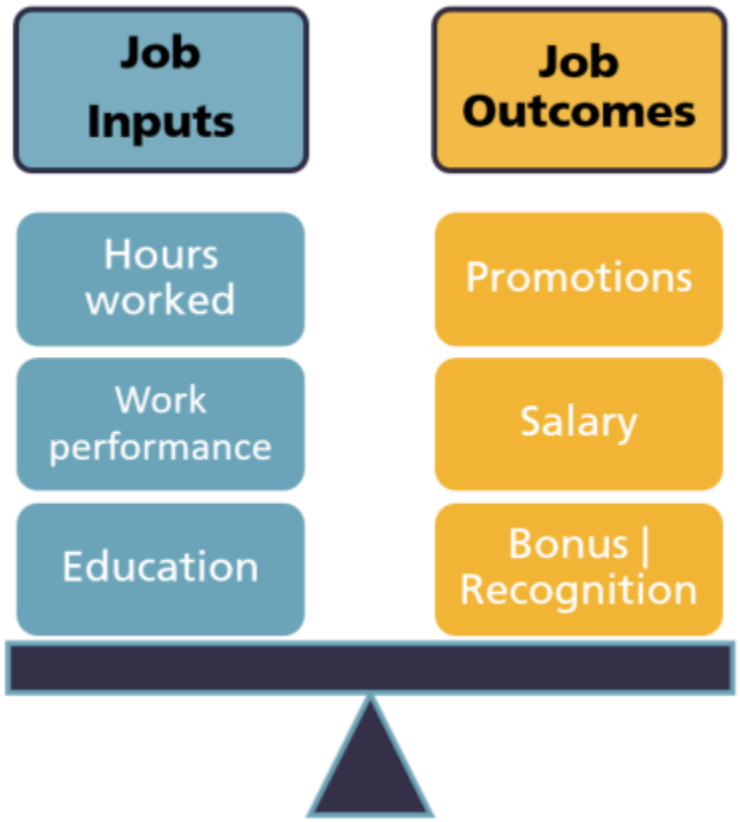


Figure 3.8 Equity Theory by John Stacey Adams

When individuals perceive that the ratio of their contributions to rewards is comparable to that of others, they perceive that they're being treated fairly or equitably; when they perceive that the ratio is out of balance, they perceive inequity. Occasionally, people will perceive that they're being treated better than others. More often, however, they conclude that others are being treated better (and that they themselves are being treated worse). This is what you concluded when you saw your grade in the previous example. You've calculated your ratio of contributions (hours worked, research, and writing skills) to rewards (project grade), compared it to your roommate's ratio, and concluded that the two ratios are out of balance.

What will an employee do if he or she perceives an inequity? The individual might try to bring the ratio into balance, either by decreasing inputs (working fewer hours, not taking on additional tasks) or by increasing outputs (asking for a raise). If this strategy fails, an employee might complain to a supervisor, transfer to another job, leave the organization, or rationalize the situation (e.g., deciding that the situation isn't so bad after all). Equity theory advises managers to focus on treating workers fairly, especially in determining compensation, which is, naturally, a common basis of comparison.

Self-Check Exercise: Motivational Theories Quiz

Can you determine the leadership style of these leaders? Try the short quiz below.

An interactive H5P element has been excluded from this version of the text. You can view it online here:
https://ecampusontario.pressbooks.pub/businessfundamentals/?p=257#h5p-37

Corporate Culture

Corporate culture refers to the shared values, beliefs, attitudes, and practices that shape the social and psychological environment of a business. The leadership style of managers in an organization is usually indicative of the underlying philosophy or values of the organization. This set of attitudes, values, and standards of behavior distinguishes one organization from another. A corporate culture evolves over time and is based on the accumulated history of the organization, including the vision of the founders. It influences how employees interact, make decisions, and work towards organizational goals. A strong corporate culture can drive employee engagement, enhance productivity, and align individual actions with the company's mission.

Corporate culture key elements include:

- Core Values: Guiding principles that inform behaviors and decision-making.
- Leadership Style: The approach leaders take to inspire and manage teams.
- Communication: How information flows within the organization, including formal and informal channels.
- Work Environment: The physical and emotional atmosphere in which employees operate.
- Behavioral Norms: Expectations for conduct among employees and management.

The **grapevine** represents the informal communication network within an organization. It is a natural part

of corporate culture where employees share information unofficially through casual conversations, rumors, or personal interactions.

The nature of the grapevine is shaped by the corporate culture. For example:

- In open and transparent cultures, the grapevine is less likely to spread harmful rumors since employees trust formal communication.
- In hierarchical or secretive cultures, reliance on the grapevine may increase as employees seek information not readily available through official channels.

Culture may be intangible, but it has a tremendous impact on employee morale and a company's success. Google approaches morale analytically. When Google discovered that mothers were leaving the company at higher rates than other employee groups, the company improved its parental leave policies. The result was a 50 percent reduction in attrition for working moms. An analytical approach, along with culture-building activities such as town halls led by Black employees and allies, support for transgender employees, and unconscious-bias workshops, are why employees say Google is a safe and inclusive place to work.[16] Clearly Google leaders recognize culture is critical to the company's overall success.

Management Function 4 = Controlling

Controlling involves ensuring that performance does not deviate from standards.

You can think of the control function as a five-step process (Refer to Figure 3.5):

1. **Set Performance Standards.** Set the standards by which performance will be measured. Performance standards are often stated in monetary terms, such as revenue, costs, or profits, but may also be stated in other terms, such as units produced, number of defective products, or levels of quality or customer service.
2. **Measure Performance.** Use appropriate methods to measure actual performance against the set standards.
3. **Compare Performance to Standards.** Compare the actual performance against the standards. Identify any deviations from the standards.

The Five-step Control Process

4. **Determine Reasons for Deviations.** Identify the reasons for any deviations from the standards.
5. **Take Corrective Action.** Implement necessary corrective actions to address the deviations and ensure continued alignment with organizational goals.

It is also useful to use the information gained from the process to set up future performance standards.

The measurement of performance can be done in several ways, depending on the performance standards, including financial statements, sales reports, production results, customer satisfaction, and formal performance appraisals. Managers at all levels engage in the managerial function of controlling to some degree.

The managerial function of controlling should not be confused with control in the behavioral or manipulative sense. This function does not imply that managers should attempt to control or manipulate the personalities, values, attitudes, or emotions of their subordinates. Instead, this function of management concerns the manager's role in taking necessary actions to ensure that the work-related activities of subordinates are consistent with and contribute toward the accomplishment of organizational and departmental objectives.

Effective controlling requires the existence of plans, since planning provides the necessary performance standards or objectives. Controlling also requires a clear understanding of where responsibility for deviations from standards lies. Two traditional control techniques are budget and performance audits. An **audit** involves an examination and verification of records and supporting documents. A **budget audit** provides information about where the organization is with respect to what was planned or budgeted for, whereas a performance audit might try to determine whether the figures reported are a reflection of actual performance. Although controlling is often thought of in terms of financial criteria, managers must also control production and operations processes, procedures for delivery of services, compliance with company policies, and many other activities within the organization.

The Importance of Controls

Project controls provide information that allow managers to make informed and timely decisions that prevent project risks. A manager must keep things on track and within scope throughout the project. Without a project control process, it's difficult to answer important questions about the project, which may impact or complicate project success.

Some reasons why projects might go off track without project controls include:[17]

- **People:** Without project controls, questions may arise about who's available to work on a project, who's in charge of which roles and responsibilities, and who should take ownership of specific tasks during project development.

- **Quality:** The project control process ensures that expectations are met, items in every project phase are complete, and everything works along the way.
- **Cost:** When the project cost isn't controlled, unforeseen fees may occur because of changes from stakeholders or miscalculations during project planning.
- **Time:** Monitoring project time prevents issues like schedule delays, shifting priorities, and clashes in resources, which can lead to unsatisfactory project results.

Through the control process, managers can catch when things don't go as planned and quickly course correct to keep the project on track.

Benchmarking

Benchmarking could be considered as a specialized kind of control activity. Rather than controlling a particular aspect of performance (say, defects for a specific product), benchmarking aims to improve a firm's overall performance. The process of **benchmarking** involves comparisons to other organizations' practices and processes with the objective of learning and improvement in both efficiency and effectiveness.

Benchmarking exercises can be conducted in a number of ways:

- Organizations often monitor publicly available information to keep tabs on the competition. Annual reports, news articles, and other sources are monitored closely in order to stay aware of the latest developments. In academia, universities and colleges often use published rankings tables to see how their programs compare on the student satisfaction, salaries of graduates, and other important dimensions.
- Organizations may also work directly with companies in unrelated industries in order to compare those functions of the business which are similar. A manufacturer of aircraft would not likely have a great deal in common with a company making engineered plastics, yet both have common functions such as accounting, finance, information technology, and human resources. Companies can exchange ideas that help each other improve efficiency, and often at a very low cost to either.
- In order to compare more directly with competition without relying solely on publicly available data, companies may enter into benchmarking consortiums in which an outside consultant would collect key data from all participants, anonymize it, and then share the results with all participants. Companies can then gauge how they compare to others in the industry without revealing their own performance to others.

Key Takeaways

1. The **four functions of management**–planning, organizing, leading, and controlling–serve as the pillars that allow organizations to meet their goals.
2. **Efficiency** is using the least possible amount of resources to get work done, whereas **effectiveness** is the ability to produce a desired result.
3. **Planning** is the function of management that involves setting objectives and determining a course of action for achieving those objectives.
4. There are three **levels of management**: Top Managers, Middle Managers, and First-line managers. **Top-level managers** set objectives, scan the business environment, and plan and make decisions that affect the overall health of the organization. **Middle-level managers** allocate resources, oversee first-line managers, report to top-level managers and develop and implement activities. **First-line managers** (also referred to as customer-facing or front-line) coordinate activities, supervise employees, report to middle managers, and are involved in day-to-day operations.
5. **Decision-making** is the action or process of thinking through possible options and selecting one.
6. **Managerial skills** include technical skills, interpersonal skills, conceptual skills, communication skills, time-management skills, and decision-making skills.
7. **Strategic planning** involves analyzing competitive opportunities and threats, as well as the strengths and weaknesses of the organization, and then determining how to position the organization to compete effectively in its environment.
8. Understanding of the four stages of the **industry life cycle,** including expansion, peak, contraction, and trough (discussed in the chapter on economics) and industry dynamics informs management's investment decisions and risk management strategies. External factors that affect a business are often analyzed through a PEST analysis.
9. The **strategic planning process** begins by identifying the purpose of the company. After that, write a mission statement. Then identify core values; assess the company's strengths, weaknesses, opportunities, and threats; establish goals and objectives; and develop and implement tactical and operational plans to achieve goals and objectives.
10. **SMART Goals** are specific, measurable, attainable, relevant, and time-based.
11. **Tactical planning** is intermediate-range (one to three years) planning that is designed to

develop relatively concrete and specific means to implement the strategic plan. Middle-level managers often engage in tactical planning.

12. **Operational planning** generally assumes the existence of organization-wide or sub-unit goals and objectives and specifies ways to achieve them. Operational planning is short-range (less than a year) planning that is designed to develop specific action steps that support the strategic and tactical plans. First-level managers engage in operational planning.
13. **Contingency and Crisis Planning** are plans for what actions to take when things go wrong. Perhaps your plans were flawed, or maybe something in the environment shifted unexpectedly. Successful managers anticipate and plan for the unexpected.
14. A **business environment analysis** is a systematic process that evaluates the internal and external factors impacting a business.
15. **PEST** is the term used for an external environment scan, whereby a business collects and analyzes data on the political, economic, social, and technological aspects of the business environment in which the business operates.
16. A **SWOT** analysis is an examination of the internal and external factors that impact the organization and its strategies. Generally, the internal factors are strengths and weaknesses; the external factors are opportunities and threats.
17. A **competitor analysis** in business involves examining similar brands in the same industry to gain insight into other companies' offerings, brands, sales, and marketing approaches.
18. **Organizing** is the process of coordinating and allocating a firm's resources in order to carry out its plans. Organizing includes developing a structure for the people, positions, departments, and activities within the firm.
19. Businesses use **organizational charts** to depict the reporting structure within the organization. Building an organizational structure engages managers in two activities: **job specialization** (dividing tasks into jobs) and **departmentalization** (grouping jobs into units).
20. A **divisional organizational structure** is a type of organizational structure where a company is divided into independent divisions that operate like their own companies within the larger organization. Each division has its own resources, teams, and responsibilities. Product divisions structure a company based on its product lines. Customer divisions structure the company based on the needs of the customers. Process divisions structure the company based on the processes needed to create the product or service. Geographical divisions structure the company so that responses to customers in their geographical areas can be done more effectively.
21. **Leaders** provide focus and direction to others and motivate them to achieve organizational goals. A leader can be anyone in an organization, regardless of position, able to influence

others to act or follow, often by their own choice.

22. **Managers** are designated leaders according to the organizational structure, but may need to use negative consequences or coercion to achieve change.
23. There are **four basic leadership styles**: Autocratic, Democratic, Transformational, and Free-rein.
24. **Autocratic leader**s are directive leaders, allowing for very little input from subordinates.
25. Participative leaders use a democratic, consensual, consultative style. **Democratic** leaders solicit input from all members of the group and then allow the group members to make the final decision through a voting process. **Consensual** leaders encourage discussion about issues and then require that all parties involved agree to the final decision. **Consultative** leaders confer with subordinates before making a decision, but retain the final decision-making authority.
26. **Transformational leadership** is a leadership style that can inspire positive changes in those who follow.
27. **Free-rein** or laissez-faire(French for "leave it alone") leadership includes managers who turn over all authority and control to subordinates.
28. Effective leaders recognize employee growth and use **situational leadership**, selecting a leadership style that matches the maturity and competency levels of those completing the tasks.
29. **Intrinsic motivation** is when motivation comes from within; in other words, a person has it within themselves to be, stay, or become motivated.
30. **Extrinsic motivation** is when motivation comes from external factors; in other words, a person needs an incentive to be, stay, or become motivated.
31. **Mazlow's Hierarchy of Needs** Theory is the idea that we need to satisfy lower-level needs before we move to the other levels; once we have satisfied said need(s), we move on to the next level as the previous one no longer satisfies us. There are five levels (from lowest to highest): Physiological, Safety, Social, Esteem, and Self-Actualization.
32. **Herzberg's Two-factor Theory** includes Motivation factors: Those factors that are strong contributors to job satisfaction, and Hygiene factors: Those factors that are not strong contributors to satisfaction but that must be present to meet a worker's expectations and prevent job dissatisfaction.
33. **Expectancy Theory** of motivation developed by Victor Vroom, argues that an employee will be motivated to exert a high level of effort to obtain a reward under three conditions – the employee: believes that his or her efforts will result in acceptable performance, believes that acceptable performance will lead to the desired reward, and values the reward.

34. The **Equity Theory** of motivation is the idea that what an individual receives for their work has a direct effect on their motivation.
35. **Empowerment** means giving employees increased autonomy and discretion to make their own decisions, as well as control over the resources needed to implement those decisions.
36. To be effective leaders, managers must be able to influence others' behaviours. This ability to influence others to behave in a particular way is called **power.**
37. **Corporate culture** refers to the shared values, beliefs, attitudes, and practices that shape the social and psychological environment of a business. The leadership style of managers in an organization is usually indicative of the underlying philosophy or values of the organization.
38. The **grapevine** represents the informal communication network within an organization. It is a natural part of corporate culture where employees share information unofficially through casual conversations, rumors, or personal interactions.
39. **Delegating** is the process of entrusting work to subordinates, letting go, trusting – this is challenging for many managers to do; however, it is a necessary skill to learn.
40. **Centralized decision making** is done at the top level of management, which makes decision making consistent but can make lower-level managers feel underutilized and impedes the development of decision-making skills in these managers.
41. **Decentralized decision-making** is spread throughout the organization.
42. **Controlling** involves ensuring that performance does not deviate from standards. The control function has five steps: 1) Set performance standards and goals, 2) Measure performance, 3) Compare, 4) Take corrective action if needed, and 5) Use information gained. Through the control process, managers can catch when things don't go as planned and quickly course correct to keep the project on track.
43. The process of **benchmarking** involves comparisons to other organizations' practices and processes with the objective of learning and improvement in both efficiency and effectiveness.

End-of-Chapter Exercises

1. **Mission and Values.** Imagine you own a pet store. You groom dogs and cats, sell supplies and pets, and offer a dog walking service. Working with a peer, write a mission statement for your business and invent five core values your company will have. You may review these articles before you start: How to Write a Mission Statement, 4 Steps to Creating Your Company Core Values. Share your mission and values with the class and/or professor.
2. **Your Leadership Style.** What's your leadership style? Try this Leadership Style Quiz to find out. Consider past experiences where you have had an opportunity to lead a project or lead a group of people on a specific task. Did the quiz results align with your past experiences? Did you learn something new about yourself?
3. **Famous CEOs.** Use the Internet to research one of these famous leaders: Bill Gates, Elon Musk, or Steve Jobs (or other if assigned by your professor). What leadership style were they known for? How did they motivate their teams? What type of power did they have? Share your findings with your class and/or professor.
4. **Mission, Values, Strategy.** Use the Internet to research a company, for example, Twitter, Google, Amazon, or other and locate the company mission statement. What values does this company share with the public? What strategy does it use to reach its goals and objectives? Share your findings with your class and/or professor.
5. **Manager Wanted.** Use the Internet to search for a job advertisement for a management role. What sort of skills and qualifications is the company looking for? What sort of leadership skills does the position require? Share your findings with your class and/or professor.
6. **Management Trends.** Use the Internet to research trends that are happening today that affect managers and leaders. Locate a specific story or article and summarize it. Which management skills would you need to address this trend? Which management function is most affected by this trend? Share your findings with the class and/or professor.
7. **Create an Organizational Chart.** Try using a software tool that provides you with free templates, such as SmartDraw (PowerPoint has these too) to create an organizational chart for your college or university. You may need to conduct research on your institution's website first. How did you do? Did you depict most of the reporting structure? What type of organizational structure does your school have? Share your chart with a partner and/or professor.
8. **Conduct a SWOT Analysis.** Conduct a SWOT Analysis for your college or university (or other company as assigned by your professor). Use a free software tool such as SmartDraw (or other) to help you do this task. Try to have at least four points under each of the SWOT parts. What opportunities did you identify? What threats did you identify? Was there anything that surprised you? Suggest several ways your school could take advantage of these opportunities by using its strengths and several ways in which your school could protect

itself from threats and overcome its weaknesses. Share your results with a partner and/or your professor.

9. **Conduct a PEST Analysis.** Conduct a PEST, PESTEL, PESTLE Analysis for your college or university (or other company as assigned by your professor). Use a free software tool such as Lucidspark (or other) to help you do this task. Try to have at least two points under each of the PEST, PESTEL, PESTLE parts. What economic changes are happening that might affect your institution? What political or legal changes are happening that might affect your institution? Was there anything that surprised you? Share your results with a partner and/or your professor.
10. **Managerial Skills Assessment.** Search the Internet to find a free quiz or assessment that will assess your managerial skills. You may wish to complete a time-management, communication, or interpersonal skills assessment. Managers also need a strong emotional intelligence (EQ) and they should have some understanding of cultural intelligence (CQ). Your professor may assign a specific quiz for you to complete, or you can locate one on your own. Identify the skills you have now and the skills you need to develop, then you can make a plan for learning in the areas you need to strengthen.
11. **Research a Leader.** Use the Internet to research a specific leader you admire or respect. What type of power does this leader have? What is their leadership style? What accomplishments is this leader known for? Share your findings with the class and/or professor.
12. **SMART Goals.** Use this AI SMART Goals Generator (or other) online. Assume you operate a pet store, and you want to generate some SMART goals for your business. You need more customers, so how will you go about getting them? Set some goals. Your professor may expand upon the scenario or provide you with a different scenario. Share your SMART business goals with your class and/or professor.
13. **Contingency Plans.** Research the contingency plans your college or university has in place (or other business as assigned by your professor). Consider a few different scenarios that the institution would need to have contingency plans for. What did you discover? How would these plans differ, if at all, from those of a local business in your area? Share your findings with your class and/or professor.
14. **Corporate Culture.** Use the Internet to learn more about the corporate culture at the CIBC bank and the Google company. What differences did you find in the corporate cultures between CIBC Bank and Google? Do you think some similarities would exist between the two companies' cultures? Share your findings with your class and/or professor.
15. **Company Research.** Choose a Global 500 company (or as assigned by your professor) to research. Locate the name of the current CEO. How much money did this CEO make last

year? How long have they been in this position? Where did they work before they came to this company? What leadership style does this CEO seem to have? How does this company motivate its employees? What have the leaders of this company done lately to increase profits? Share your findings with your class and/or professor.

16. **Controlling Function**. Conduct some research about your college or university to find out what controls are in place to ensure the curriculum is of a high standard. How does the institution ensure that students learn the skills and gain the knowledge they need to get a job and be successful in their careers? Share your findings with the class and/or professor.

Self-Check Exercise: Management and Leadership Quiz

Check your understanding of this chapter's concepts by completing this short self-check quiz.

An interactive H5P element has been excluded from this version of the text. You can view it online here:
https://ecampusontario.pressbooks.pub/businessfundamentals/?p=257#h5p-7

Additional Resources

1. SMART Goals: What They Are and How to Write Them

2. SMART Goals – Quick Overview. YouTube Video.
3. PESTEL Explained. YouTube Video.
4. PESTLE Analysis. YouTube Video.
5. What is a SWOT Analysis? Download a Free Template.
6. 14 Essential Business Metrics that Managers Often Track
7. Famous CEOs: 40 Leaders Who Shaped Business History
8. The 3 Levels of Management: Definition, Examples, and FAQs
9. SWOT Analysis for Starbucks. YouTube Video.
10. Motivating Your Team Using Herzberg's Motivators and Hygiene Factors, YouTube Video.
11. Expectancy Theory. YouTube Video.
12. Vrooms Expectancy Theory. YouTube Video.
13. Five Steps in the Strategic Planning Process. YouTube Video.
14. Porter's Five Forces – A Practical Example. YouTube Video.

Attributions

The contents of this chapter is a compilation sourced from various OER resources, please refer to the Book Information for details.

References

(Note: This reference list was produced using the auto-footnote and media citation features of Pressbooks)

Media Attributions

- Four Functions of Management © Unknown is licensed under a CC BY-NC-SA (Attribution Non-Commercial ShareAlike) license
- Levels of Management © Unknown is licensed under a CC BY-NC-SA (Attribution NonCommercial ShareAlike) license
- Communication © Sasin Tipchai | Pixabay
- SMART Goals © Unknown is licensed under a CC BY-NC-SA (Attribution NonCommercial Share-Alike) license
- PESTEL Analysis © Unknown is licensed under a CC BY-NC-SA (Attribution NonCommercial Share-

Alike) license

- Sheryl Sandberg © JD Lasica | Flickr | CC BY 2.0
- Maslow's Hierarchy of Needs © Unknown is licensed under a CC BY-NC-SA (Attribution NonCommercial ShareAlike) license
- Two-factor theory © Unknown is licensed under a CC BY-NC-SA (Attribution NonCommercial ShareAlike) license
- Expectancy theory © Unknown is licensed under a CC BY-NC-SA (Attribution NonCommercial ShareAlike) license
- Equity Theory © Unknown is licensed under a CC BY-NC-SA (Attribution NonCommercial ShareAlike) license
- Five-step Control Process © Kerri Shields is licensed under a CC BY-NC-SA (Attribution NonCommercial ShareAlike) license

Notes

1. Belyh, A. (2023, May 24). *11 management skills used by top managers (types & examples).* https://www.founderjar.com/management-skills/
2. Belyh, A. (2023, May 24). *11 management skills used by top managers (types & examples).* https://www.founderjar.com/management-skills/
3. Belyh, A. (2023, May 24). *11 management skills used by top managers (types & examples).* https://www.founderjar.com/management-skills/
4. Brigole, J. (2021, March 24). *Types of planning: Strategic, tactical, operational & contingency planning.* [Video]. YouTube. https://www.youtube.com/watch?v=QIG_CGNP2hE
5. White, J. & Bottorff, C. (2024, May 28). *What is a SWOT analysis? Download our free template.* https://www.forbes.com/advisor/business/what-is-swot-analysis/
6. SmartDraw. (2018, August 17). *SWOT Analysis - What is SWOT? Definition, examples and how to do a SWOT analysis.* https://www.youtube.com/watch?v=JXXHqM6RzZQ[Video]. YouTube.
7. Sim Institute. (2020, November 15). *The Five Forces Analysis Explained.* [Video]. YouTube. https://www.youtube.com/watch?v=ehSQR6oMBHA&t=37s
8. Bhasin, H. (2021, January 6). *Span of control – Definition, meaning, factors, examples*. https://www.marketing91.com/span-of-control/
9. Marketing Business Network. (2019, May 18). *What is organizational structure?* [Video]. YouTube. https://www.youtube.com/watch?v=RcGCFX95ejE
10. Thompson, A. (2023, August 24). 3M industry, organizational structure, management philosophy. https://panmore.com/3m-industry-organizational-structure-management-philosophy
11. Thompson, A. (2023, August 24). 3M industry, organizational structure, management philosophy. https://panmore.com/3m-industry-organizational-structure-management-philosophy
12. University of Windsor & Ryerson University. (2022). *Indigenous lifeways in Canadian business.* https://ecampusontario.pressbooks.pub/indigenousbusinesstopics/chapter/chapter-1/
13. Cherry, K. (2024, June 19). *How transformational leadership can inspire others.* https://www.verywellmind.com/what-

is-transformational-leadership-2795313

14. steemit. (2016). Pros and cons of decentralization. https://steemit.com/blog/@mgibson/pros-and-cons-of-decentralization
15. Indeed Editorial Team. (2024, August 15). *A guide to equity theory of motivation.* https://www.indeed.com/career-advice/career-development/equity-theory-of-motivation#:~:text=What%20is%20the%20equity%20theory%20of%20motivation%3F%20The,organization%20compared%20to%20what%20they%20get%20in%20return.
16. Fortune. (2017, October 30). *Fortune 100 best companies to work for 2017.* http://fortune.com/best-companies/google/
17. Team Asana. (2024, January 18). *5 project controls and where to implement them.* https://asana.com/resources/project-controls

CHAPTER 4: ENTREPRENEURSHIP AND BUSINESS STRUCTURE

Chapter 4 Learning Outcomes

After reading this chapter, you should be able to do the following:

1. Discuss why entrepreneurship is important to society.
2. Define the term "entrepreneur".
3. List four characteristics or traits an entrepreneur should have.
4. Explain the difference between a social entrepreneur, a necessity entrepreneur, and an opportunity entrepreneur.
5. Explain the four types of business structure: sole proprietorship, partnership, corporation, and co-operative.
6. Explain what a business plan is and how it is used.
7. Explain how the business model canvas is used.
8. Discuss three types of support an entrepreneur might obtain for starting a new business.

The Importance of Entrepreneurship

Entrepreneurship is important for economic growth. New companies create employment, contribute to a nation's GDP, and bring new and innovative products and services to consumers. Some small business founders like Henry Ford and Thomas Edison have even gained places in history. Others, including Bill Gates (Microsoft), Mike Lazaridis (Research in Motion), Steve Jobs (Apple Computer), and Larry Page and Sergey Brin (Google), have changed the way global business is done today.

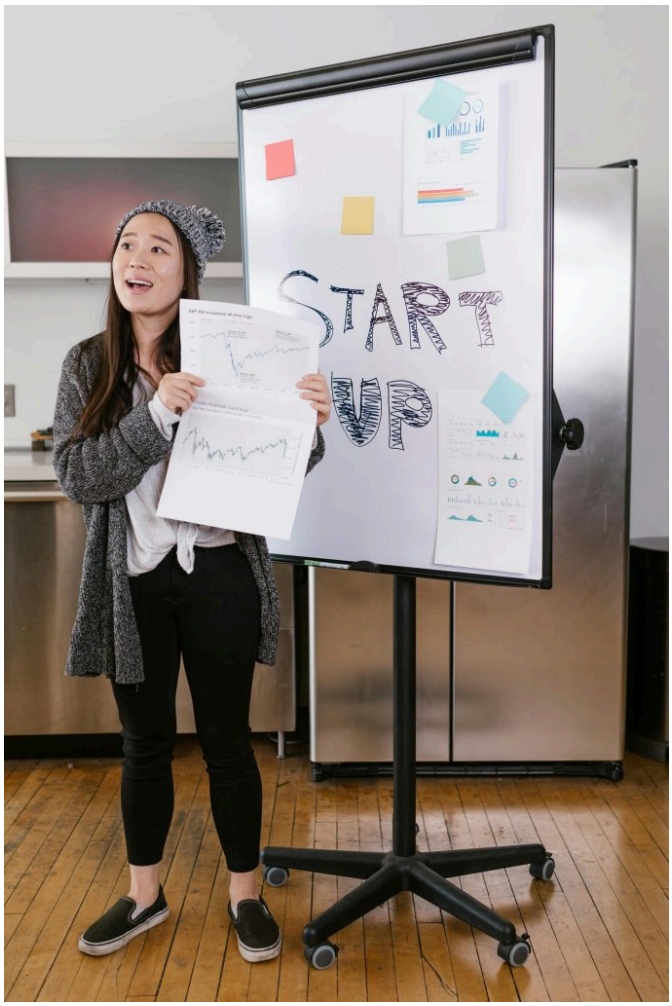
Entrepreneurship plays a vital role in the growth and development of economies and societies. Here are five key points highlighting its importance:

1. **Economic Growth and Job Creation.** Entrepreneurs are critical drivers of economic development. By establishing new businesses, they contribute to GDP growth and generate employment opportunities. Startups often create jobs directly within their operations and indirectly by fostering demand for suppliers, service providers, and other industries. This dynamism boosts local economies and reduces unemployment. For example, small and medium-sized enterprises (SMEs) are significant contributors to job creation in both developed and developing economies.
2. **Innovation and Technological Advancement.** Entrepreneurs often introduce groundbreaking ideas, products, and services that improve lives and solve societal problems. By challenging traditional methods, they encourage innovation and technological progress. Many technological breakthroughs, such as smartphones and e-commerce, originated from entrepreneurial ventures. These innovations not only benefit consumers but also drive competition, compelling existing businesses to adapt and improve, further advancing technology and efficiency.
3. **Improved Standard of Living.** Entrepreneurship leads to the development of goods and services that address consumer needs more effectively. By making products more accessible, affordable, or efficient, entrepreneurs enhance the standard of living. For instance, affordable transportation services like Uber or low-cost consumer goods offered by startups improve daily life for millions. Moreover, as businesses grow and incomes rise, employees and communities benefit from better infrastructure, education, and healthcare.
4. **Economic Diversification and Resilience.** Entrepreneurship encourages diversification by fostering businesses in various industries, including emerging sectors like renewable energy, biotechnology, and digital technologies. A diversified economy is less reliant on a single industry, making it more resilient to economic shocks. For example, in resource-dependent countries, encouraging entrepreneurship in non-resource sectors helps reduce vulnerability to fluctuations in global commodity prices.
5. **Empowerment and Social Change.** Entrepreneurship empowers individuals, particularly marginalized groups, by providing opportunities to take control of their economic futures. Women-led businesses, for instance, are transforming communities by creating jobs and addressing gender inequalities. Additionally, social entrepreneurs tackle pressing societal issues like poverty, education, and climate change, driving positive change through sustainable and innovative solutions. Initiatives like microfinance have empowered countless individuals to start businesses and improve their lives.

Entrepreneurship is not just about starting businesses; it is a catalyst for economic prosperity, innovation, and societal transformation. By fostering creativity, empowering individuals, and addressing pressing global challenges, entrepreneurship builds a more sustainable and equitable future. Governments and institutions must encourage and support entrepreneurial endeavors to unlock their full potential.

"A society becomes greater if the employment base is large and diversified. It brings about changes in society and promotes facilities like higher expenditure on education, better sanitation, fewer slums, and a higher level of homeownership."[1]

"Entrepreneurship increases income levels, therefore improving standards of living. Entrepreneurs identify challenges in the lives of customers and provide appropriate business solutions. Additionally, they hire new employees who receive remuneration, and this income gets circulated in the economy. All of the spending and salaries generate incremental wealth, therefore improving standards of living."[2]



An entrepreneur pitching the business concept

"Entrepreneurs play a key role in increasing the standard of living in a community. They do this not just by creating jobs, but also by developing and adopting innovations that lead to improvements in the quality of life of their employees, customers, and other stakeholders in the community. New and improved products, services, or technology from entrepreneurs enable new markets to be developed and new wealth to be created. Additionally, increased employment and higher earnings contribute to better national income in the form of higher tax revenue and higher government spending."[3]

Reasons Small Businesses Succeed or Fail

The success or failure of small businesses is influenced by a variety of factors. Understanding these can help entrepreneurs make informed decisions and improve their chances of success.

Small Business Success

Success hinges on strategic planning, adaptability, customer focus, and sound financial management. Small businesses must remain proactive, monitor performance, and adapt to challenges to thrive in a competitive environment.

Here are some of the reasons small businesses are successful:

1. **Clear Vision and Strong Planning.** A well-defined business plan helps set realistic goals, understand market needs, and devise a growth strategy. Example: A bakery with a unique product line tailored to health-conscious consumers can attract a loyal customer base.
2. **Financial Management.** Successful businesses monitor expenses, optimize pricing, and secure adequate funding to manage operations and growth. Example: A café maintaining detailed cash flow records and controlling costs can reinvest profits into expansion.
3. **Understanding the Market and Customers.** Businesses that focus on customer needs, preferences, and feedback often outperform competitors. Example: An e-commerce store offering personalized shopping experiences can build customer loyalty.
4. **Adaptability and Innovation.** Thriving businesses adapt to changing trends and innovate to stay competitive. Example: A clothing retailer that shifts to online sales during a pandemic ensures continued revenue.
5. **Effective Leadership and Teamwork.** Skilled leaders who motivate teams, make informed decisions, and delegate effectively can drive success. Example: A software startup with a strong leadership team and skilled employees can quickly scale operations.

Small Business Failure

There are several factors that contribute to the failure of small businesses, including insufficient cash flow, pricing issues, and lack of focus. However, the main reason is the lack of research and offering a product or a service that there is no market for.[4]

Failures often stem from internal factors like poor planning, financial mismanagement, or lack of experience, as well as external factors such as economic shifts or market saturation.

Here are some of the reasons small businesses fail:

1. **Lack of Planning.** Poor business planning, unclear goals, or a lack of market research often lead to failure. Without a solid business plan, owners struggle to define their target audience, competitive strategy, or financial projections. Example: A restaurant opening without researching local demand or competi-

tion may struggle to attract customers.

2. **Inadequate Funding.** Insufficient startup capital or poor financial management can cripple a business. Many small businesses underestimate costs or fail to secure necessary funding to sustain operations. Example: A retail store running out of cash before building a stable customer base will likely close.
3. **Poor Marketing and Customer Understanding.** Businesses that fail to connect with their target audience or market their products effectively often see limited growth. Example: A business using outdated marketing strategies may not reach modern, digital-savvy customers.
4. **Ineffective Management.** Inexperience, poor decision-making, or inability to delegate can lead to operational inefficiencies. Example: A business owner handling everything alone may burn out and neglect crucial aspects of the business.
5. **Economic or Market Challenges.** External factors like economic downturns, increased competition, or changing market trends can negatively impact businesses. Example: A travel agency may struggle during a recession or global health crisis, such as COVID-19.

Small Business Statistics

While there are different ways to define a small company in Canada, the most straightforward way is to look at the number of employees. Companies with fewer than a hundred members of staff are considered small businesses in Canada. As more consumers are shopping online, small companies often do not have the workforce or the know-how to create an online presence, nor pricing, that could compete with larger companies. As a result, many small Canadian companies are struggling and they do not expect their sales to increase. Yet, small businesses are the backbone of the Canadian economy, making a significant contribution to the Canadian gross domestic product (GDP). They are also vital in keeping the employment numbers up in Canada.[5]

Below are some Small Business Statistics in Canada:[6]

- Each small business may only employ a few people, but combined, they are the biggest employers in Canada.
- According to data from Statistics Canada, in 2021, 98.1% of all employer businesses in Canada were small businesses.
- In 2021, they employed 63.8% of the Canadian workforce, which represents 10.3 million people. Medium-sized local businesses employed 21.1% and large businesses 15.1%. These percentages represent 3.4 and 2.4 million people, respectively.
- Data on new small businesses shows that 21.5% of small businesses close before the end of their first year. About 50% of small businesses survive for five years, and about 33% get to celebrate ten years in business.
- About 42% of small businesses fail because they have not researched the market and are selling a service

or a product that customers are not interested in.

- About 29% of small companies have to close because they run out of money, and 67% of small business owners are using personal funds to try to keep the business running, which is not a strategy that can be applied in the long term. Other reasons that contribute to small business failures include not having the right team (23%), being out-performed by their competition (19%), pricing issues (18%), ignoring the customers' needs (14%), lack of focus (13%), and failure to make necessary changes (7%).
- About 73.9% of Canadian companies have fewer than ten employees. 55.3% employ fewer than five people, and 18.6% have between five and nine members of staff.
- Baby boomers are the biggest business-owning age group, owning 42% of Canadian companies. The number of small businesses owned by millennials is growing, with 24% of all small companies owned by a millennial in 2019.
- Small and medium-sized companies contribute over half of Canada's GDP.
- About 58% of small business owners believe a work-life balance is crucial for long-term survival.
- According to Start Up Canada, there are currently about 3.5 million entrepreneurs and 901,794 small businesses in Canada in October 2021.

Entrepreneurial Traits

An **entrepreneur** is someone who starts, owns, and operates a business. It is difficult to generalize about the kind of people attracted to the idea of starting their own business because entrepreneurs are increasingly diverse. An interesting portrait of Canadian entrepreneurs emerged from a 2019 BDC survey of 1,025 Canadian business owners. Among the findings:[7]

- Twenty-eight percent were women, up from 11% 40 years ago.
- Newcomers to Canada were twice as likely to start a business as their Canadian-born counterparts.
- The number of Canadians under 35 who started a business increased by 80% between 2014 and 2018.

Key Traits

While entrepreneurs do require many skills and abilities, they may not have all the skills they need to run a business successfully. In these cases, an entrepreneur might hire a consultant, a contract employee, or a full-time employee to support the business tasks for which the entrepreneur lacks skills or may not have the time to focus on. For example, as an entrepreneur, if accounting is your weakness, you might hire an accountant, payroll service, or bookkeeper. If sales or marketing are not skills you have developed, you might hire a salesperson or contract a marketing company to help you build marketing campaigns. While hiring consultants, services,

or employees does cost money, you can rest assured it is being done accurately, and the investment should pay off.

Some of the key traits found in entrepreneurs include the following.

1. **Passion.** "Work ethic and passion go hand in hand. It takes a work ethic to keep the business strong, and it takes passion to feel motivated enough to maintain a good work ethic. That feeling of success is priceless, and it's how entrepreneurs feel when they see great outcomes from the effort they put into their work."[8]
2. **Risk Tolerance.** "Taking risks helps businesses find new ways to differentiate themselves from the competition, which is especially helpful in saturated markets. In the event the risk doesn't have the intended result, the entrepreneur can still apply the valuable lessons learned to future business decisions. Microsoft's Bill Gates is credited with the quote, 'To win big, you sometimes have to take big risks.' Gates certainly took risks throughout the history of Microsoft, but perhaps his most notable risk was leaving Harvard during his sophomore year in 1975 to found the company. His vision was 'a computer on every desk and in every home,' which was something no one could have conceived of at the time. The risk he took to make that vision a reality paid off."[9]
3. **Persistence.** "While many successful entrepreneurs are comfortable with the possibility of failing, it doesn't mean they give up easily. Rather, they see failure as an opportunity to learn and grow. Throughout the entrepreneurial process, many hypotheses turn out to be wrong, and some ventures fail altogether. Part of what makes an entrepreneur successful is their willingness to learn from mistakes, continue to ask questions, and persist until they reach their goal."[10]
4. **Innovative.** "Innovation is a characteristic some, but not all, entrepreneurs possess. Fortunately, it's a type of strategic mindset that can be cultivated. Some of the most successful startups have taken existing products or services and drastically improved them to meet the changing needs of the market."[11] "Companies that thrive are often built from the wild creativity of their creators. With aggressive competition these days, entrepreneurs are forced to come up with original ideas that differentiate their companies from others. Creative entrepreneurs consider the possibility that the traditional solution isn't good enough."[12]

There are three characteristics of entrepreneurial activity:

1. Innovation: Coming up with new ideas, pivoting, and adapting when a consumer or economic environment changes.
2. Operating a Business: You will need to understand the functional areas of business, how to analyze the internal and external environments, make decisions, and more.
3. Risk-taking: Entrepreneurs need to be able to deal with risk. There are no guarantees that the business will be successful or remain successful. You will need to learn how to mitigate risks.

Motivational Factors

There are some common motivational factors identified in many entrepreneurs. For instance, entrepreneurs are often motivated by much more than money, and most start their business to become their own boss. In BDC's survey, when asked why they became an entrepreneur, the most popular answer, cited by 70%, was independence, autonomy, and flexibility. About one in two mentioned passion or self-fulfillment, and one-third cited financial reasons.[13] Refer to Figure 9.1 below to view survey results for motivational factors that influence entrepreneurial success.

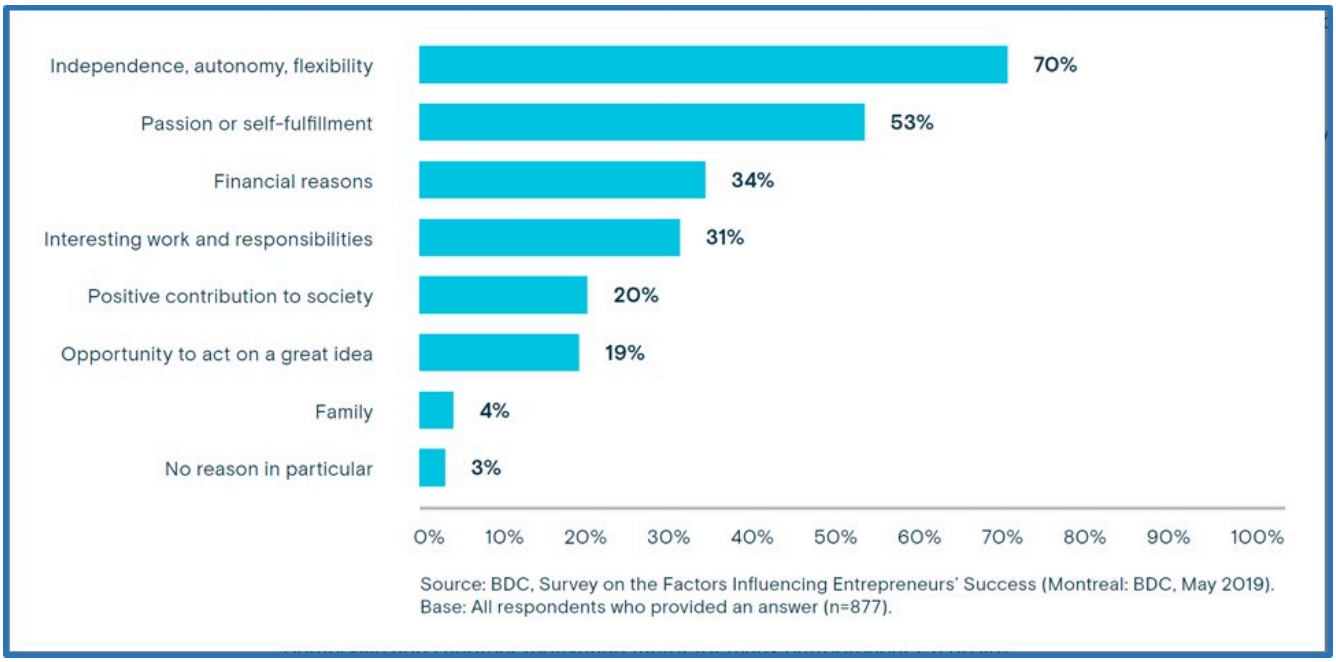


Figure 9.1 Motivational Factors Influencing Entrepreneurs' Success (2019) BDC Survey Results Chart

"The 2019 BDC survey of business owners sheds additional light on what makes Canadian entrepreneurs tick. Three in four said they had to deal with financial insecurity, significant stress, and a lack of benefits. Yet, 90% were professionally satisfied."[14]

Types of Entrepreneurs

There are many types of entrepreneurs, and depending on which website you read, you may see a list of five to fifteen types of entrepreneurs. The type of entrepreneur you are depends on your goals and personal characteristics (e.g., skills, knowledge, creativity, interests, preferences, situation in life, drive, determination, etc.).

The Indeed Editorial Team (2023) provides the following list of nine different types of entrepreneurship.[15]

Ben & Jerry's Ice Cream

1. **Small business entrepreneurship.** People interested in this category are probably interested in making a profit that supports their family and a modest lifestyle. They often run the business and work in it. They hire local employees and family members. Local grocery stores, hairdressers, small restaurants, small boutiques, consultants, plumbers, and accountants are a part of this category.
2. **Large company entrepreneurship.** People in this category are often in a team of executives who know how to sustain innovation. Small business entrepreneurship can turn into large company entrepreneurship when the company grows quickly or when a large company acquires a small business. Microsoft, Google, and Disney are examples of this category.
3. **Scalable startup entrepreneurship.** People in this category look for things that are missing in the market and create solutions for them. Many of these types of businesses start in Silicon Valley and are technology-focused. They seek rapid expansion and big profit returns. Examples include Facebook, Instagram, and Uber.
4. **Social entrepreneurship.** People in this category want to solve social problems with their products and services. Their main goal is to make the world a better place and so they are not concerned with making big profits.
5. **Innovative entrepreneurship.** People in this category aim to change the way people live for the better. Innovators tend to be very motivated and passionate people. They look for ways to make their products and services stand out from other things on the market. People like Steve Jobs and Bill Gates are examples of innovative entrepreneurs.
6. **Hustler entrepreneurship.** People who are willing to work hard and put in constant effort are considered hustler entrepreneurs. Their aspirations are what motivates them and they are willing to do what it takes to achieve their goals. They have drive and determination and do not give up easily.
7. **Imitator entrepreneurship.** People in this category use other people's business ideas but work to

improve them. They seek to make certain products and services better and more profitable. They have a lot of self-confidence and determination. They learn from others' mistakes.

8. **Researcher entrepreneurship.** People in this category like to do as much research as possible before starting a business. They believe that with the right preparation and information, they have a higher chance of being successful. They tend to rely on facts, data, and logic rather than their intuition.
9. **Buyer entrepreneurship.** People in this category use their wealth to fuel their business ventures, usually through purchasing well-established businesses that they think will be successful. Their goal is to grow the businesses they acquire and expand their profits.

Social Entrepreneur

Some people start businesses to help society, people, and communities. A **social entrepreneur** does not start a company with their main goal being to make a profit, instead, their goal is to make a positive change in the world. Their goals often align with the United Nations Sustainable Development Goals (as shown in Figure 9.2 below), and their efforts may have a local, national, or global impact. "Whether it's reducing poverty, ending homelessness, or fighting climate change, social entrepreneurs are, first and foremost, committed to a cause. While starting a business to support a worthy cause is admirable, the venture still requires focus and serious processes to be sustainable and reach the desired social or environmental impact."[16]

Figure 9.2 United Nations Sustainable Goals

"These entrepreneurs might be for-profit or non-profit, and they operate under the umbrella of social enterprise or entrepreneurship. It recognizes societal issues, donates profits or uses grants or raises, and mobilizes resources for the greater good. Poverty reduction, child rights restoration, access to health care and financial services, women's empowerment, and community development are the most common issues these entrepreneurs address. They often persuade societies, large organizations, and governments to encourage social transformation by addressing unmet needs and social issues."[17]

Mark Marsolais-Nahwegahbow (Ojibwe) – Social Entrepreneur

"Entrepreneur Mark Marsolais-Nahwegahbow brought his background in Indigenous law, business, and education to the founding of the Birch Bark Coffee Company on Birch Island in the District of Manitoulin Island. The company offers organic, fair trade, and small-producers-certified coffee. He is bringing sustainable revenue and a more secure future to his community with a larger goal of improving Indigenous lives across Canada. He has pledged, for instance, to devote a portion of company profits to purchase certified water purifiers for those on every reserve without access to clean drinking water. Through his example and speaking engagements, Mark seeks to inspire young Indigenous people to respect tradition and, possibly through entrepreneurship of their own, build a better future for themselves and their communities."[18]

Play the YouTube video below, "What is Social Innovation? How do you actually DO it (and change the world)?", to learn more about the steps involved in creating a social innovation. Amber Melanie Smith provides a specific example of a social innovation related to food insecurity and applies the design thinking methodology to step through the stages of identifying the problem, empathizing, defining the problem, ideating, prototyping, and testing the solution.[19] Transcript for "What is Social Innovation? How do you actually DO it (and change the world)?" Video [PDF–New Tab]. Closed captioning is available on YouTube.

One or more interactive elements has been excluded from this version of the text. You can view them online here: https://ecampusontario.pressbooks.pub/businessfundamentals/?p=259#oembed-1

Necessity Entrepreneur

A **necessity entrepreneur** is someone who starts a business based on a need for income, out of necessity, because they cannot find employment, have lost their job, need to supplement their income, or require flexibility to attend to other demands in their lives. Some necessity entrepreneurs find business ideas to pursue after retirement or after being downsized. "A typical necessity entrepreneur is over 50 years of age, has been unemployed for over a year, and sees the possibility of finding full-time employment dwindling."[20]

"A business started of necessity is usually initiated through some sort of bad luck, i.e., a job loss, redundancy, or even ill health. These entrepreneurs are hesitant because, in all honesty, they would rather be working for a large corporation with the guarantee of a monthly income; however, for whatever reason, that is not an option. As with all entrepreneurs, be they averse to starting a business or not, they have particular knowledge or know a specific product that they think is of value to others. To be able to share this knowledge/product with the world is all they know so, if the only way to be able to use these specialities is to create their own business, that's what they do."[21] An example of this might include a parent with an autistic child who finds it difficult to work a full-time job and still provide the care and attention required to support their child. This parent decides to stay home to take care of their child because they feel they are the best person to do so. The parent then starts to receive many questions from friends and family about autism, and they realize that there may be a need for this type of service. They decide to obtain formal credentials, and they complete an online program in the field of autism and behavioural science. Once formally qualified, they start a business providing advice to families about autism as a fee-based service. This works well for the necessity entrepreneur because they can now earn an income by providing a needed service and still take care of their child.

Opportunity Entrepreneur

An **opportunity entrepreneur** is someone who sees an opportunity to make money, gets involved at the right time, and aims for business growth and economic development. For example, "Matt Horan started Rollasole after his girlfriend always complained of walking home in High Heels. With his first entrepreneurial venture, he created the first vended shoe, launching Rollasole in his local nightclub. From his hometown, word spread, and he built up his business selling his shoes online, in stores, and in vending machines. Soon, the bright lights of Vegas came calling, and after a chance meeting with Ashley Ross, an unlikely partnership was formed to

bring Rollasole into the States."[22] Sometimes one great idea acts as a catalyst for other great ideas, and today we can find vending machines dispensing sneakers, dress shoes, "emergency" shoes, and "flip flops" for beach wear or when you need a pair of shoes to enter a restaurant. So many great ideas!

Another example of an opportunity entrepreneur is Tim Horton, who was a Canadian hockey player. In 1964, he founded the first Tim Horton doughnut shop in Hamilton, Ontario, which later grew into a chain of franchises across Canada and eventually the United States. Burger King purchased Tim Hortons in 2014, and the two brands became subsidiaries of Restaurant Brands International Inc. (RBI). As of August 2022, RBI is one of the world's largest quick-service restaurant companies with over $35 billion in annual system-wide sales and over 29,000 restaurants in more than 100 countries.[23]

Tim Hortons

Sometimes, a potential entrepreneur identifies an opportunity to make a new product or start a new business, which may be a combination of a profit-making business idea that also supports a socially sustainable goal or a business created out of necessity that not only makes a profit but also supports a socially sustainable goal.

A good example of a social and profit-making business is 31 Bits. During a trip to Uganda, marketing and international development college student Kallie Dovel realized that many of the uneducated single mothers she had met during her trip had exceptional skills and resourcefulness in making jewelry out of old posters. Kallie identified an opportunity to sell this jewelry, so she partnered with a few of her college peers and formed the company 31 Bits. The company employs artisans, women from Uganda, with these exceptional skills, and ensures they are paid a fair wage. The company also promotes ethical sourcing by allowing for family time, providing dignified careers, and preserving culture. The mission statement for the company is "We use fashion and design to drive positive change in the world by providing artisans with dignified opportunities and inspiring customers to live meaningful lives."[24] Nearly a decade later, 31 Bits can be found in hundreds of stores and has been endorsed by celebrities like Sophia Bush, Candace Cameron Bure, and Jessica Alba, and has been written about by Forbes, Harper's Bazaar, and Elle. Most importantly, hundreds of artisans' lives have been changed forever.[25]

Steps to Creating a New Business

The Business Development Bank of Canada (BDC) provides an ultimate guide to starting a business in Canada. This step-by-step guide provides resources and answers to many questions an entrepreneur may need when considering starting a new business.

1. **Identify a Business Opportunity.** You may find an opportunity for a new product or business by identifying a need for something that is currently missing or identifying a problem that is occurring, and contemplating a way to fix it. Before you start spending money on an idea, it's essential to ensure your business idea has the potential to be successful. Conduct research into what other companies are doing that may be similar to your business concept. Ask yourself these questions. How will your company stand out from the crowd? Who are your target customers? Will they want your service or product? How much money will you need, and where will you get it?
2. **Choose a Business Structure.** In Canada, there are three common types of business structures: sole proprietorship, partnership, or corporation. Be sure to review the pros and cons and specifics of each structure at the BDC, "How to Start a Business in Canada" Ultimate Guide. **Sole proprietorship**—A sole proprietorship is quite informal and easily created, which is why it's the most common structure chosen by new entrepreneurs. In this structure, the business and the operator are the same in the eyes of the law and tax authorities. The downside is that the owner is personally liable for all functions and debts of the business. **Partnership**— A partnership is similar to a sole proprietorship, but instead of one proprietor, there are two or more. As with a sole proprietorship, there is no legal structure, as such, for a partnership. However, partners usually have some type of contractual agreement among themselves that governs the sharing of revenues, expenses, and tasks. **Corporation**—When a business is incorporated, ownership shares are created, which produce a taxation and legal distance between the company and its shareholders. This has tax advantages for the owners; provides some liability protection from the corporation's debts; and offers some measure of protection for a company's name. The downside is that setting up a corporation involves initial and ongoing costs for legal and accounting fees.[26]
3. **Choose a Business Name.** "Selecting a name for your business is not a task to be taken lightly. In fact, it may prove more difficult than you expect. Your name must be accurate, catchy, and, most importantly, available. Your name will often create your company's first impression on customers, so choose it with care. Ask yourself the following questions. Does the name reflect my business and what I sell? Can it be easily remembered? Is it unique and distinctive?"[27]
4. **Create a Business Plan.** Often, a **business plan** is used to help secure funding, validate a business idea, grow an existing business, buy a business, sell a business, or advise clients. It legitimizes a business idea, shows the results of research, provides product and customer information, and includes operational and strategic goals. "A business plan is a document that explains how your business operates. It

summarizes your business structure, objectives, milestones, and financial performance. It's a guide that helps you, and anyone else, better understand how your business will succeed."[28] Additional information on business plans is below.

5. **Obtain Business Financing.** There are many ways to finance a new venture, and depending on the size of your startup, you might use personal funds or apply for a bank loan (debt financing). Other options include government grants and subsidies, asking family and friends, crowdfunding, developing partnerships, business incubators or accelerators, and inviting venture capitalists or angel investors who may be willing to invest in your business for partial ownership or participation in business decision-making (equity financing).
6. **Choose a Commercial Space.** Your choices here will vary. You may not need a physical location if you are selling online and working from your home, although if selling products, you will need to consider suppliers and shipping. If you operate a mobile hot dog cart, you will want to set up in locations where your customers are. Some mobile food trucks/carts/stands obtain permission to set up outside specific retail stores. Some food truck owners obtain contracts with various organizations, and they move from company to company during lunch hours, selling lunch products to employees. If you are going to sell products or services in a brick-and-mortar store, then you want to consider buying or leasing a space, the costs of each, and finding a location either near your target market (make more sales near potential customers) or near your supplier (reduce costs). There may also be licenses required, for example, if you sell liquor or food products. You may also require insurance.
7. **Hire Employees.** Whether or not you hire employees will depend on the size of your business. For example, if you are opening a hot dog stand, then you may be the only employee you have. If you are opening a small bakery, you might start out hiring friends and family, although that can be a sticky situation if you have disagreements. Although some entrepreneurs open restaurants or retail businesses specifically to start a family-owned business, and create jobs and income for their family members. As your business grows, you may need to hire employees. Take time to do a thorough job search so you can find the right-fit employees; otherwise, you may end up with a lot of headaches and wasted time by hiring the wrong people. To save time, and depending on the number and type of employees you need, you might use a recruiting firm to vet potential candidates for you. While there is usually a cost for this service, it saves you time (and money) in not having to recruit and select employees yourself.
8. **Grow Your Business.** "Getting your business up and running is only the start of your business journey. Your first year will be one of your most challenging. It's when many businesses fail. You will have to keep your eye not only on your day-to-day operations but also on planning for your company's future growth. The difference between the two is often described as working in the business versus working on the business. Visit the Business Development Canada (BDC) manage your growth hub for more tips on how best to move your business forward in the early months."[29]

Choosing a Business Structure

The legal framework of a business, business structure, or form of business ownership determines how the business is organized, who owns it, and how it is taxed. When starting your business, choose the business structure that best suits your needs. There are four types of business structures in Canada: sole proprietorship, partnerships, corporations, and cooperatives.

Sole Proprietorship

A sole proprietorship is a simple, unincorporated business owned and operated by one person. The owner has complete control, receives all profits, and is fully liable for the business's financial and legal situation. A sole proprietorship is the easiest and most common way to start a business, but it does come with drawbacks, and all of the responsibility for the business's success rests with you as the owner. Examples of sole proprietorship businesses include independent photographers, small landscaping companies, freelance writers, and personal trainers.

Partnership

A partnership is a non-incorporated business owned by two or more people who share profits and responsibilities, and risks.

A major problem with partnerships, as with sole proprietorships, is unlimited liability: in this case, each partner is personally liable not only for his or her actions but also for the actions of all the partners. If your partner in an architectural firm makes a mistake that causes a structure to collapse, the loss your business incurs impacts you just as much as it would your partner. And here is the really bad news: if the business does not have the cash or other assets to cover losses, you can be personally sued for the amount owed. In other words, the party who suffered a loss because of the error can sue you and/or your partner for your personal assets. Many people are understandably reluctant to enter into partnerships because of unlimited liability. Certain forms of businesses allow owners to limit their liability. These include limited partnerships and corporations.

Partners are considered self-employed for tax purposes and have unlimited liability unless an LLP (limited liability partnership) is created. LLP allows partners to pool resources while limiting their liability for other partners' professional negligence. Limited partnerships have at least one general partner who assumes unlimited liability, and at least one limited partner whose liability is limited to their investment in the business. Each Canadian province has its own partnership legislation, but all provinces recognize general partnerships and limited partnerships. Partners may have disagreements; therefore, a partnership agreement usually stipulates how decisions will be made, how responsibilities will be divided, and how profits will be split.

Partnership Agreement

The impact of disputes can be lessened if the partners have executed a well-planned **partnership agreement** that specifies everyone's rights and responsibilities. The agreement might provide such details as the following:

- The amount of cash and other contributions to be made by each partner
- Division of partnership income (or loss)
- Partner responsibilities — who does what
- Conditions under which a partner can sell an interest in the company
- Conditions for dissolving the partnership
- Conditions for settling disputes

Corporation

A corporation is a separate legal entity from its shareholders and can be incorporated at the federal or provincial level. Corporations offer a flexible structure and the ability to divide ownership with shares. A corporation is a legal entity that separates the business from its owner/operator. Therefore, its shareholders have limited liability. Corporations can choose to incorporate federally or provincially.

Incorporation makes it possible for businesses to raise funds by selling stock. This is a big advantage as a company grows and needs more funds to operate and compete. Depending on its size and financial strength, the corporation also has an advantage over other forms of business in getting bank loans. An established corporation can borrow its own funds, but when a small business needs a loan, the bank usually requires that it be guaranteed by its owners.

Corporations are owned by shareholders who invest money in the business by buying shares of stock. Therefore, there is no ownership control by one person as in a proprietorship. The portion of the corporation that the shareholders own depends on the percentage of stock they hold. For example, if a corporation has issued 100 shares of stock, and you own 30 shares, you own 30 percent of the company. The shareholders elect a board of directors, a group of people (primarily from outside the corporation) who are legally responsible for governing the corporation. The board oversees the major policies and decisions made by the corporation, sets goals and holds management accountable for achieving them, and hires and evaluates the top executive, generally called the CEO (chief executive officer). The board also approves the distribution of income to shareholders in the form of cash payments called dividends. Ownership can be transferred by selling shares and, therefore, is not dependent upon the life of the owner, board of directors, or a specific shareholder.

Like sole proprietorships and partnerships, corporations have both positive and negative aspects. In sole proprietorships and partnerships, for instance, the individuals who own and manage a business are the same peo-

ple. Corporate managers, however, don't necessarily own stock, and shareholders don't necessarily work for the company. This situation can be troublesome if the goals of the two groups differ significantly.

Managers, for example, are often more interested in career advancement than the overall profitability of the company. Stockholders might care more about profits without regard for the well-being of employees. This situation is known as the agency problem, a conflict of interest inherent in a relationship in which one party is supposed to act in the best interest of the other. It is often quite difficult to prevent self-interest from entering into these situations.

Another drawback to incorporation — one that often discourages small businesses from incorporating — is the fact that corporations are more costly to set up. When you combine filing and licensing fees with accounting and attorney fees, incorporating a business could set you back by $1,000 to $6,000 or more, depending on the size and scope of your business.[30] Additionally, corporations are subject to levels of regulation and governmental oversight that can place a burden on small businesses. Finally, corporations are subject to what's generally called "double taxation." Corporations are taxed by the federal and provincial governments on their earnings. When these earnings are distributed as dividends, the shareholders pay taxes on these dividends. Corporate profits are thus taxed twice—the corporation pays the taxes the first time and the shareholders pay the taxes the second time.

Co-operative (for-profit and not-for-profit)

A co-operative is controlled by its members and can operate for profit or as a not-for-profit. Co-ops are structured to meet the common needs of their members rather than maximize profits for shareholders. Just like a corporation, it can be registered provincially or federally, and each option comes with its advantages and disadvantages. Some of the largest co-operatives in Canada include:[31]

Person standing in front of the corner co-op store

- Desjardins. The largest co-operative financial group in Canada.
- Sollio Co-operative Group. The largest agri-food co-operative in Canada.
- Federated Co-operatives. One of the largest companies in Canada.
- South Country Co-op. One of Canada's largest co-ops.
- Vancity Co-op. Canada's largest community credit union.

The co-operative is democratically controlled (one member, one vote). Ensures all members have input, but may result in slower decision-making. All members need to participate for a co-op to be successful. Members benefit from receiving special discounts, deals, education, training, services, and sometimes dividends. Surplus revenue is distributed back to the members, proportional to their use of the cooperative's services. Members share in profits and losses, so they may be less willing to take risks or to invest in long-term projects.

Members contribute financially to the co-op by purchasing membership shares and using the co-op's services. Members participate in the co-op's governance by attending meetings, voting on major decisions, and electing the board of directors. Members follow the co-op's bylaws and policies. Members offer suggestions on how to improve the co-op. Members volunteer some of their time and often serve on a committee. Therefore, all members need to participate for a co-op to be successful.

Business Structure Comparison

Refer to Table 4.1 for a comparison of the forms of business ownership.

Table 4.1: Comparison of Forms of Business Ownership

Characteristic	Sole-proprietorship	Partnership	Corporation	Co-operative
Ease of formation	High	High	Medium	Medium
Continuity	Low	Low	High	High
Protection against liability	Low	Low	High	High
Ease of raising money	Low	Medium	High	High
Government regulation	Low	Low	High	Medium

Other Types of Business Ownership

When starting a new business, an entrepreneur must decide which choice is best for them when it comes to starting a business from scratch, buying a used business from another owner, or buying a franchise business. Each has its benefits and drawbacks. Starting a business from scratch is ideal for innovators with a strong vision, risk tolerance, and creativity. Buying an existing business is best for those who want immediate operations and are comfortable managing an established system. Franchising is great for individuals seeking lower risk and structured support while operating under a recognized brand.

Franchising

A franchise business is a business where the owner grants licenses to licensees to operate the business (sell its products, provide services, and more) at a business location. Think of Baskin-Robbins, CrossFit, or another business that you've seen in multiple cities. Each location is a franchisee with its own management that pays a fee to the franchisor (the owner) to "rent" the brand name.

Below are the main financial elements of starting a franchise.[32]

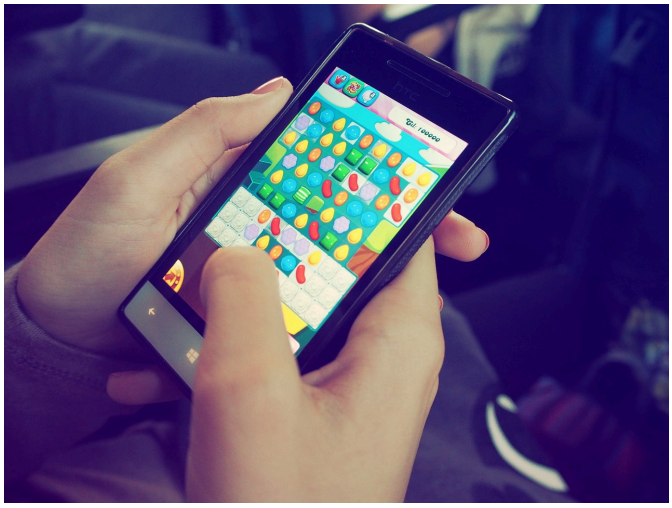
- Franchise purchase fee: This can cost anywhere from $20,000 to $50,000, depending on the license.
- Minimum liquid capital: A generally good idea is to have $50,000 to $60,000 for a service-based business, and $75,000 to $100,000 of liquid capital for a facilities-based business.
- Franchise royalties: This is a fee you'll have to continue to pay to operate your business–the royalty fee can be 4% to 12% of your franchise location's profits.
- Additional expenses: Franchise businesses also have expenses such as sourcing a commercial space (if applicable), staffing, and more.

Buying or Merging with an Existing Business

Given the stakes, it's important to thoroughly weigh your business goals, risk tolerance and market opportunities before making an acquisition. To learn more about the pros and cons of buying an existing business, review this BDC article.

Acquisitions

A business acquisition is a financial transaction where one company buys the majority or all of another company's shares or assets, giving the acquiring company control over the target company. Acquisitions are often amicable, with both companies agreeing to the terms of the deal. However, the term "acquisition" can also be used to describe a hostile takeover, where one company buys a majority stake against the wishes of the target company's management or board of directors. A firm effectively gains control of a company if it buys more than 50% of a target company's shares. Acquisitions are often carried out with the help of an investment bank because they're complex arrangements with legal and tax ramifications.[33]



Microsoft's Acquisition of Activision Blizzard

An example of a business acquisition is Microsoft's acquisition of Activision Blizzard for $68.7 billion in 2023. This deal brought popular gaming franchises like Call of Duty, World of Warcraft, and Candy Crush under Microsoft's umbrella, significantly boosting its presence in the gaming industry. It also positioned Microsoft to compete more aggressively in the gaming market against rivals like Sony and expanded its potential in the growing metaverse and cloud gaming sectors.

Below are a few reasons for a company to acquire another company:[34]

1. Gain vertical integration. A business may want to buy its supplier or another business that is part of its supply chain to reduce costs and expand capabilities. Helps boost profits and make companies less dependent on their suppliers or distributors.
2. Gain horizontal integration. A business strategy where one company takes over another that operates at the same level in an industry. Helps companies expand in size, diversify their product offerings, reduce competition, and expand into new markets.
3. Enter a foreign market. Buying an existing company in another country could be the easiest way to enter a foreign market. The purchased business will already have its personnel, a brand name, and other intangible assets. This could help to ensure that the acquiring company will start in a new market with a solid base.
4. Cost of expansion. Perhaps a company met with physical or logistical constraints or depleted its resources. It may be more cost-effective to acquire another firm rather than to expand its operations. Such a company might look for promising young companies to acquire and incorporate into its revenue

stream as a new way to profit.

5. Eliminate competition. Companies may start making acquisitions to reduce excess capacity, eliminate the competition, and focus on the most productive providers when there's too much competition or supply. Federal watchdogs often keep an eye on deals that may affect the market. Acquisitions between two similar companies may harm consumers, including higher prices and lower-quality goods and services.
6. Gain new technology. Sometimes it can be more cost-efficient for a company to purchase another company that has already implemented a new technology successfully than to spend the time and money to develop the new technology itself.
7. Gain intellectual property. A company sometimes purchases another company to gain the other company's intellectual property (i.e., trademarks, patents, copyrights, trade secrets).

Mergers

A company merger is when two or more companies join together to form a new company with a single stock. During a merger, the two companies negotiate terms such as the valuation of assets and the exchange ratio. While mergers are often thought of as an equal split, one company may end up with a larger percentage of ownership in the new company. Mergers are similar to acquisitions or takeovers, and the two actions are often grouped together as mergers and acquisitions (M&A).[35]

Companies may merge for a number of reasons, including:[36]

1. Increase market share. Merging with another company may allow a company to gain a larger market share.
2. Access new technologies. A company may seek a merger to gain access to new technologies, expertise, patents, or intellectual property.
3. Gain economies of scale. By consolidating operations, a company can reduce redundancies and streamline processes, which can lead to improved profit margins.
4. Diversify. A company can enter new markets or offer new products or services.
5. Blend cultural values. A successful merger can lead to a more diverse and inclusive workforce.
6. Enhance competitive position. A merger can strengthen a company's portfolio or services and better equip it to meet the needs of consumers.

Strategic Alliances and Joint Ventures

Strategic Alliance

A strategic alliance and a joint venture are both collaborative business arrangements between companies, but they differ in structure, commitment, and goals.

A strategic alliance is a partnership between two or more businesses to work together on a common goal, while each company remains independent. The goal is to share resources and capabilities to create mutual value, such as by entering new markets, developing new products, or increasing innovation.

The other types of strategic alliances are equity strategic alliances and non-equity strategic alliances:

- Equity strategic alliance: One company buys equity in another company. This is also known as a partial acquisition.
- Non-equity strategic alliance: Two companies come together without exchanging equity. Each company brings its resources to the alliance. An example of a non-equity strategic alliance is the partnership between Starbucks and Barnes & Noble.

Joint Venture

A joint venture (JV) is a business collaboration in which two or more companies create a new, independent legal entity to achieve a specific business objective or undertake a particular project. In this arrangement, the companies share ownership, profits, risks, and governance of the newly formed entity. JVs often require substantial capital investment and a long-term commitment, typically concluding once the objective is met unless the parties agree to extend the venture.

Alternatively, a JV can also refer to a business agreement where two or more parties combine resources to pursue a common goal. These ventures leverage the strengths of each participant, often yielding mutual benefits. For example, a hairstylist and a nail salon might collaborate in a JV to attract more customers and increase profits. While JVs can adopt various legal structures, they are generally characterized by shared ownership, financial returns, risks, and decision-making authority. The terms of the JV are usually outlined in a private and confidential contract. A prevalent form of JV is the project-based joint venture, which dissolves upon the completion of the specified project.[37]

There are two main ways of setting up a joint venture in Canada. The first is for the partners to agree on a contract that will set out the terms of the venture; the second is to form a separate corporate entity.[38]

Below are a few advantages and disadvantages of joint ventures:[39]

Advantages of a joint venture:

- Increased growth, productivity and profits
- Reduced costs and risks
- Growth opportunity that does not require having to borrow funds or look for outside investors
- Quick access to expertise

Disadvantages of a joint venture:

- Higher likelihood of conflicts arising
- Decreased control and flexibility through joint decision-making
- More widely shared knowledge, which can lead to sensitive information being communicated to other parties

Generally, the main difference between a joint venture and other types of strategic alliances is that a joint venture creates a separate legal entity, while a strategic alliance does not. For example, in 2022, these companies announced a joint venture to build a battery plant in Columbus, Ohio to produce lithium-ion EV batteries for Honda's electric vehicles.[40]

An example of a joint venture is the one between Sony and Honda to create an electric vehicle. The joint venture, called "Afeela", is a collaboration between the electronics company Sony and the automobile company Honda. The goal is to combine Sony's expertise in imaging, networks, and entertainment with Honda's skills in mobility development, technology, and sales. The company plans to take pre-orders in 2025 and deliver the vehicle in the U.S. in 2026.[41]

Refer to Table 4.2 for key differences between strategic alliances and joint ventures.

Table 4.2: Key Differences Between Strategic Alliance and Joint Venture

Aspect	Strategic Alliance	Joint Venture
Legal Structure	No new entity formed	New independent entity created
Commitment	Flexible and less binding	Long-term and formal commitment
Risk and Control	Risks and control are individual	Shared risks, profits, and governance
Duration	Typically short to medium term	Often long-term
Examples	Co-branding agreements, research collaborations	Infrastructure projects, product development partnerships

Self-Check Exercise: Other Types of Business Ownership Drag-the-Words

An interactive H5P element has been excluded from this version of the text. You can view it online here:
https://ecampusontario.pressbooks.pub/businessfundamentals/?p=259#h5p-36

Business Plan

A person holding a light bulb sign

A business plan may change as your business grows or pivots in a new direction, so you will find that the business plan is not fixed but flexible and needs to be revised from time to time. Any new or existing business can and should make use of a business plan. "In its simplest form, a business plan is a guide that outlines goals for your business and how you plan to reach them. It contains an overview of your business strategy, milestones to track tasks and responsibilities, and the basic financial projections you need to forecast your sales, expenses, and cash flow."[42] "The primary purpose of a business plan is to help you understand the direction of your business and the steps it will take to get there. Having a solid business plan can help you grow up to 30% faster and according to our own 2021 Small Business research, working on a business plan increases confidence regarding business health—even in the midst of a crisis."[43] There is no one right way to write a business plan; your approach depends on your industry and who is reading your plan. Ensure you include all the important information any lender or investor will want to see before they go into business with you.

Below is a brief description of the sections of a traditional business plan.

1. **Executive Summary.** "This is an essential part of a successful business plan that often takes the most time to complete. It's also one that you may consider completing last, even though it's usually the first thing that the reader sees. An executive summary is the definitive recap of all of the information that you include in the business plan. Most commonly, this section doesn't exceed two full pages. This is because the executive summary aims to present the essence of the business and its goals. It serves as an elevator pitch that may help you convince someone to invest in the business."[44]
2. **Company Description.** "A List of the goods and services the company will provide, the market it will serve, short- and long-term goals for growth, and a brief history of the company's formation and past performance."[45]
3. **Market Analysis.** "The market analysis section details the target market for the company's product offerings. This section confirms that the company understands the market and that it has already analyzed the existing market to determine that there is adequate demand to support its proposed business model. Market analysis includes information about the target market's demographics, geographical loca-

tion, consumer behavior, and market needs. The company can present numbers and sources to give an overview of the target market size."

4. **Competitive Analysis.** "A competitive analysis is a strategy that involves researching major competitors to gain insight into their products, sales, and marketing tactics. Implementing stronger business strategies, warding off competitors, and capturing market share are just a few benefits of conducting a competitive market analysis.[46]
5. **Management Plan.** "The management plan provides an outline of the company's legal structure, its management team, and internal and external human resource requirements. It should list the number of employees that will be needed and the remuneration to be paid to each of the employees. Any external professionals, such as lawyers, valuers, architects, and consultants, that the company will need should also be included. If the company intends to use the business plan to source funding from investors, it should list the members of the executive team, as well as the members of the advisory board."[47]
6. **Operating Plan.** "The operating plan provides an overview of the company's physical requirements, such as office space, machinery, labor, supplies, and inventory. For a business that requires custom warehouses and specialized equipment, the operating plan will be more detailed, as compared to, say, a home-based consulting business. If the business plan is for a manufacturing company, it will include information on raw material requirements and the supply chain."[48]
7. **Sales and Marketing Plan.** "This section of the plan defines what you plan to do to promote and sell the company's products or services. Consider including your pricing plans here and mentioning the organization's unique selling proposition. You may also list important communication channels for the business. For example, if you're about to launch a retail company, you may explain which social media channels you'd use to promote the products through paid and organic advertisements. Other elements to include here are your email, influencer, and content marketing strategies."[49]
8. **Financial Plan and Projections**. "This section should include a company's financial planning and projections. Every company needs to have a budget in place. This section should include costs related to staffing, development, manufacturing, marketing, and any other expenses related to the business. Financial statements, balance sheets, and other financial information may be included for established businesses. New businesses will include targets and estimates for the first few years, plus a description of potential investors."[50]
9. **Appendix.** "The final section of a business plan usually includes any additional information or appendices that support the claims and ideas you present in previous sections. You may consider adding attachments that exhibit the viability of your business plan, for example, financial statements or external market reports that you used to analyze competition or target audience."[51]

Play the YouTube video below, "Writing a Business Plan: What You Need to Know | It's a Money Thing", to review one entrepreneur's business planning process. Whether you're just getting started or refining your plan, this video will walk you through the essentials of creating a business plan that sets you up for success.[52]Tran-

script for "Writing a Business Plan: What You Need to Know | It's a Money Thing" Video [PDF–New Tab]. Closed captioning is available on YouTube.

One or more interactive elements has been excluded from this version of the text. You can view them online here: https://ecampusontario.pressbooks.pub/businessfundamentals/?p=259#oembed-2

Business Model Canvas

The **business model canvas** is a strategic planning tool used by managers to illustrate and develop their business model. The business model canvas template clearly identifies the key elements that make up a business. Additionally, it simplifies a business plan into a condensed form. In this way, the business model canvas template acts as an executive summary for the business plan.[53]

The business model canvas is a great tool to help you understand a business model in a straightforward, structured way. Using this canvas will lead to insights about the customers you serve, what value propositions are offered through what channels, and how your company makes money. You can also use the business model canvas to understand your own business model or that of a competitor! The Business Model Canvas was created by Alexander Osterwalder of Strategyzer.[54]

The typical use for this tool is to outline the fundamental building blocks of a business, but it can be used effectively for individual products as well. It can be used to identify potential opportunities for growth and expansion or areas that need improvement. The components may vary, but typically the business model canvas includes the following nine building blocks, and each is represented by a rectangle in the model diagram.

1. Customer segments
2. Value proposition
3. Channels
4. Customer relationships
5. Key activities
6. Revenue streams
7. Key resources
8. Key partnerships
9. Cost structure

Play the YouTube video below, "Introduction to the Business Model Canvas", to learn about what a business model canvas is and why and how you should use one. [55] Transcript for "Introduction to the Business Model Canvas" Video [PDF–New Tab]. Closed captioning is available on YouTube.

One or more interactive elements has been excluded from this version of the text. You can view them online here: https://ecampusontario.pressbooks.pub/businessfundamentals/?p=259#oembed-3

Support and Education for Entrepreneurs

The University of Toronto Open Learning Series

The University of Toronto, The Bridge, Scarborough Campus, offers a free entrepreneurship course within its open learning series. "We welcome students, staff, faculty, alumni, and the local and international community of emerging entrepreneurs to enhance your learning of entrepreneurship through the award-winning Entrepreneurship Open Learning Series. Start your entrepreneurship journey by completing training modules that teach you core management principles to help perfect your business plans and pitches."[56]

After you complete the entrepreneurship course within the open learning series, you will be able to do the following:[57]

- Explain the value proposition and utility to help focus on specific motivations for a specific product.
- Define the target market and describe the value specific to a target market to help demonstrate the value built into a product.
- Evaluate the utility and value of a product within an industry using market research.
- Design a usage scenario for a product.
- Discuss software design principles to help the development of a product.

> *"The BRIDGE is a joint venture between UTSC's Department of Management and the UTSC Library. It is where business, research, and innovation converge, delivering extraordinary student experiences through entrepreneurship, research, advanced training programs, and work-*

integrated learning. Our state-of-the-art facility includes a business research library, data lab, and collaboration lounge. We are a U of T accelerator focused on student formation and a pathway for industry and community partnerships."[58]

Other Open Courses

There are many free online courses in entrepreneurship and many other subjects. These courses are offered by various education providers, often in addition to their fee-based courses, and include Massachusetts Institute of Technology (MIT), INSEAD, University of Toronto, McMaster University, the University of Michigan, Stanford Online, Open Yale Courses, Harvard University, LinkedIn Learning, FutureLearn, Coursera, Udacity, edX, Khan Academy, YouTube, and more. Some courses are referred to as MOOCs, Open Courses, Free Trials, or Demos.

OER (Free) Books, Video Tutorials, Case Studies, and More

"The Recommendation on Open Educational Resources (OER), adopted by UNESCO's General Conference at its 40th session on 25 November 2019, is the first international normative instrument to embrace the field of openly licensed educational materials and technologies in education. OER are defined in this Recommendation as learning, teaching, and research materials in any format and medium that reside in the public domain or are under copyright that have been released under an open license, which permit no-cost access, re-use, repurpose, adaptation, and redistribution by others."[59]

There are many free ebooks, case studies, video tutorials, and lessons on many subjects, including entrepreneurship, available from eCampus Ontario, BCCampus, OpenStax, OER Commons, Saylor Academy, Khan Academy, MERLOT, Directory of Open Access Journals (DOAJ), Open Textbook Library, OASIS, and more.

Government Support

The Government of Canada provides support for entrepreneurs and provides specific initiatives to aid entrepreneurs from various demographic and geographical groups. For example, the Strategic Partnerships Initiative (SPI) helps Indigenous communities participate in complex economic opportunities. An additional $300 million is available until 2027 for clean energy projects in Indigenous, rural, and remote communities across

Canada.[60] The Aboriginal entrepreneurship program (AEP) provides access to capital and access to business opportunities to Indigenous entrepreneurs and business owners in Canada.[61]

Example of the Business Benefits Finder

The Government website provides a search tool for entrepreneurs seeking financial or other types of support to start or expand their businesses. An entrepreneur can use the business benefits finder to search for support in several categories, including Canadians, Indigenous Peoples, Black Canadians, Other Racialized Persons, Women, Language Minorities, 2SLGBTQI+, Newcomers to Canada, Persons with Disabilities, Youth (<40), and Rural or Northern Residents. Give it a try by visiting the Business Benefits Finder and answering a few short questions about a business you might like to start and discover if there are any Government supports for you, as an entrepreneur.

The Government of Canada and many chambers of commerce have mentoring programs designed to facilitate contact between business leaders and budding entrepreneurs. Local economic development centers and some business leaders' associations offer similar programs. The Government of Canada, Starting a Business website, also provides information for registering a business, getting business support and financing, choosing a business name, applying for business permits and licenses, and tax help. The Canadian Government's Business Grants and Financing website provides information on Government financing programs, loans, and capital investments, wage subsidies, grants, tax credits, and managing your business finances. Some grant and loan programs in Canada include Business Start Program (BSP) in Manitoba, Youth Entrepreneurship Partnership Program in Ontario, Jeunes Promoteurs in Quebec, and Canada Small Business Financing Program.

Governments in countries other than Canada may also offer incentives for new business start-ups. Some government programs specifically offer support to young entrepreneurs, entrepreneurs starting businesses within specific industries in which the government may be trying to grow the economy, and entrepreneurs who are part of specific minority groups. For example, the U.S. Small Business Administration (SBA) is a federal agency that provides assistance to current and prospective small business owners.[62]. There are also several federal entrepreneur programs for immigrants, such as the Microenterprise Development Program and the Minority Business Development Agency Business Centers[63].

Business Development Bank of Canada (BDC)

The Business Development Bank of Canada (BDC) offers many tools and resources, as well as advice, to entre-

preneurs and business owners. "We support small and medium-sized businesses in all industries and at every stage of growth with money and advice. We are the Business Development Bank of Canada."[64]

Crowd Funding

"**Crowdfunding** is a kind of crowdsourcing and alternative financing by which people, via the Internet, can contribute money to a person, cause, event, or business venture. This method has been used to fund startup businesses, help communities suffering from a natural disaster, and aid families and individuals in financial need due to a medical emergency or a death. Crowdfunding is now a common method for connecting entrepreneurs and investors, offering an alternative to bank loans or venture capitalists, and it is now a popular way of supporting cultural institutions, such as art organizations and charities. Billions of dollars are raised annually via this fundraising method. A high-profile example of crowdfunding is Oculus VR, now part of Meta (the parent company of Facebook). It produces virtual reality headsets and other hardware and software. The firm's founder, Palmer Luckey, used Kickstarter to raise $2.4 million (U.S.) in 2012, vastly exceeding its crowdfunding goal of $250,000. Facebook purchased the company for $2 billion in cash and stock in 2014."[65]

Incubators and Accelerators

"A **business incubator** is a specialized program designed as a space for new businesses to learn and grow. The programs provide services for entrepreneurs and startups while offering reduced rates for supplies and workspace. Typically, young businesses must apply for a position and commit to a certain amount of time in the program. While in a business incubator, companies can more thoroughly plan their business, learn from other individuals, and save money."[66]

"A **business accelerator** is a program designed to help established startups scale quickly, and often provide funding in exchange for equity in the business. Accelerators often require startups to already have a minimum viable product or a fixed team before they can apply. Once admitted, startups go through an intense period of growth and development, often over the course of three to six months."[67]

Here are a few examples of business incubators and accelerators. Be sure to check with your college or university to see if there is an incubator or accelerator available on campus.

Seneca College

Seneca College has HELIX. "HELIX's Innovation and Entrepreneurship Incubator has a process that provides future entrepreneurs with resources and support to help develop their innovation mindset and grow their new ventures from ideation to launch and scaling. The process involves two stages or 'strands' – the INNOVA-

TION Strand and the ACCELERATION Strand. Those who want to enter the ACCELERATION Strand of HELIX must complete all six workshops of the INNOVATION Strand and deliver a pitch of their proposed venture idea."[68]

MIT

The MIT delta v accelerator is the capstone entrepreneurial experience for students at MIT.[69] MIT REAP is a dynamic global initiative with two programs – Global and Focus – that engage with communities around the world to strengthen innovation-driven entrepreneurial ecosystems and transform economies.[70]

MaRS

MaRS Discovery District innovation hub works with business startups to scale-ups. MaRS offers a range of services and a Start-up toolkit that help tech founders grow their companies and create meaningful innovation: solving real problems for real people. MaRS works with hundreds of companies across the country, turning breakthrough ideas into products and services with global impact.[71]

District 3

"At District 3, we work with founders and their startup teams to help them validate their business and get to scaling it, faster and better. As a founder, you'll be receiving tons of information and opinions about what you need to do to run your startup successfully, and you'll have to learn to select what to follow. This takes time and experience, and while there is no real way to teach it, there are tools and organizations out there that can make it easier for you, like this library!

Futurepreneur

"Futurpreneur has been fueling the entrepreneurial passions of Canada's young entrepreneurs for over two decades. We are the only national, non-profit organization that provides financing, mentoring, and support tools to aspiring business owners aged 18-39. Our internationally recognized mentoring program hand matches young entrepreneurs with a business expert from a network of more than 2,600 volunteer mentors."[72]

Key Takeaways

1. Entrepreneurship is **important** for economic growth. New companies create employment, contribute to a nation's GDP, and bring new and innovative products and services to consumers.
2. An **entrepreneur** is someone who starts, owns, and operates a business. It is difficult to generalize about the kind of people attracted to the idea of starting their own business because entrepreneurs are increasingly diverse.
3. Some of the **key traits** or characteristics found in entrepreneurs include passion, risk tolerance, persistence, and an innovative mindset.
4. Entrepreneurs are **motivated** by much more than mone,y and most start their business to become their own boss.
5. The **type of entrepreneur** one is depends on their goals and personal characteristics (e.g., skills, knowledge, creativity, interests, preferences, situation in life, drive, determination, etc.).
6. A **necessity entrepreneur** is someone who starts a business based on a need for income, out of necessity, because they cannot find employment, have lost their job, need to supplement their income, or require flexibility to attend to other demands in their lives.
7. An **opportunity entrepreneur** is someone who sees an opportunity to make money, gets involved at the right time, and aims for business growth and economic development.
8. **Social entrepreneurs** don't start companies with their main goal being to make a profit, instead, their goal is to make positive change in the world.
9. **Steps to creating a new business:** Identify a business opportunity, choose a business structure, choose a business name, create a business plan, obtain business financing, choose a commercial space, hire employees, and grow your business.
10. A **sole proprietorship** is a simple, unincorporated business owned and operated by one person.
11. A **partnership** is a non-incorporated business owned by two or more people who share profits and responsibilities and risks. The impact of disputes can be lessened if the partners have executed a well-planned **partnership agreement** that specifies everyone's rights and responsibilities.
12. A **corporation** is a separate legal entity from its shareholders and can be incorporated at the federal or provincial level.

13. A **co-operative** is controlled by its members and can operate for profit or as a not-for-profit. Co-ops are structured to meet the common needs of their members rather than maximize profits for shareholders.
14. A business **acquisition** is a financial transaction where one company buys the majority or all of another company's shares or assets, giving the acquiring company control over the target company.
15. A company **merger** is when two or more companies join together to form a new company with a single stock.
16. A **strategic alliance** is a partnership between two or more businesses to work together on a common goal, while each company remains independent. The goal is to share resources and capabilities to create mutual value, such as by entering new markets, developing new products, or increasing innovation.
17. A **joint venture** (JV) is a business arrangement where two or more parties combine resources to achieve a specific goal.
18. Often, a **business plan** is used to help secure funding, validate a business idea, grow an existing business, buy a business, sell a business, or advise clients. It legitimizes a business idea, shows the results of research, provides product and customer information, and includes operational and strategic goals.
19. The **business model canvas** is a strategic planning tool used by managers to illustrate and develop their business model. The business model canvas template clearly identifies the key elements that make up a business. Additionally, it simplifies a business plan into a condensed form. In this way, the business model canvas template acts as an executive summary for the business plan.
20. **Support and Education for Entrepreneurs**: The University of Toronto Open Learning Series, open courses, OER resources, Incubators and Accelerators, Government support, and Crowdfunding.

End-of-Chapter Exercises

1. **Entrepreneurial Potential.** Take this Self-Assessment or this Entrepreneurial Quiz to help you identify your entrepreneurial potential.
2. **Entrepreneurial Characteristics.** Search the Internet to find entrepreneurial traits or characteristics that most entrepreneurs need to be successful (not already listed in this chapter). Which three traits or characteristics do you feel you possess? Prove it by providing an example of when you have applied these characteristics. Share your three traits using examples with your class or professor.
3. **Startup Entrepreneur Competency Model.** Jane Somerville, Director General, Division Services at the National Research Council of Canada, Industrial Research Assistance Program, Canada's leading innovation assistance program for small and medium-sized businesses, and former Managing Director of District 3, a startup incubator at Concordia University in Montreal, developed the Startup Entrepreneur Competency Model, a basic entrepreneur self-assessment while running District 3. This self-assessment includes seven competencies, which are roughly divided into two phases. Use the Startup Entrepreneur Competency Model to help you understand and evaluate your readiness to lead your startup business. Determine your levels of competency and identify where you may need additional training, skills, and knowledge. Share your results with your professor.
4. **Incubator.** Search the Internet to find one business incubator (not already listed in this chapter) that supports entrepreneurs in developing new business ventures. What does this incubator do? What services are offered? Do you think these services would be helpful to an entrepreneur? Share your findings with your partner, class, or professor.
5. **Expand Your Network.** Visit the Business Development Bank of Canada (BDC) and discover effective strategies for expanding your network. You may use alternate resources that discuss how to expand your professional network (as determined by your professor). Put one of these suggestions into action over the next week. Consider what happened, anything, nothing? Were you surprised at anything you read or tried? What did you find challenging? Share your thoughts with your partner, class, or professor.
6. **Naming a Company.** Search the Internet to find some rules for naming a new company. Consider the rules for naming proprietorships, partnerships, and corporations. For example, an entrepreneur starting a corporation might visit NUANS, which is the Government of

Canada's combined search tool for business names and trademarks. Share your findings with your partner, class, or professor.

7. **Social Entrepreneurship.** Consider the United Nations Sustainable Development Goals, and consider the community you live in. Is there a need for improvement in one or more of these 17 goals? Have you observed a need for more efficient use of energy, more responsible consumption and production, or more homes for people living on the streets? Maybe you can identify another area for improvement? Choose one improvement you assume is needed based on your observations. Then, search the Internet to find facts that support your assumption for this need. Is anyone or any company already trying to address this need? Discuss your findings with your class or professor.
8. **Standard of Living/Quality of Life.** Standard of living and quality of life utilize some of the same data, but "standard of living" represents a more physical aspect of life, while "quality of life" represents the more intangible aspects. Search the Internet to find an example of a specific entrepreneurial endeavour that changed the standard of living or quality of life for a specific group of people. Consider how this type of entrepreneur and the goals they pursued relate to the content in this chapter. Share your findings with your class or professor.
9. **Great Entrepreneur.** Use the Internet to find a great entrepreneur. Read about their story. What key characteristics do they have that helped them achieve success? What major decisions did they have to make along the way to becoming a successful entrepreneur? Write a summary of who this entrepreneur is, what business or invention they created and its impact, and the major decisions they had to make along the way to achieving success. Share this story with your class and professor.
10. **Hire an Employee.** Review the information on the Business Development Canada (BDC) website about hiring employees. Assume you just opened a small bakery in your community, and you need an employee to work at the front counter serving customers because you plan to be helping in the kitchen and managing operations. Write a list of five competencies and/or qualifications you will be looking for in your new hire. Why did you select each of these? Share this list and your rationale with your class and professor.
11. **Number of Business Startups.** Search the Internet to find comparisons between two countries on the number of new business startups. You may choose any two countries, or these may be assigned by your professor. A good place to start is locating some world statistics or national government statistics. Identify the number of new business startups within a specific country over a specific time frame. Then identify the number of not-for-profit social enterprises, for-profit social enterprises, or non-social enterprises at all. Are you surprised by the number of social enterprise start-ups? Why might one country have more new business

start-ups than another? Share your findings with your class and professor.

12. **New Startup Research.** Assume you are planning to open a coffee shop in your community. Use the Internet to conduct a competitive analysis. Determine who your competitors are. Visit a coffee shop for an hour, order something, and observe the types of customers that visit and what they purchase. Take note of the menu items and services the location offers. List three things the company does well that bring value to customers. List three things you will do in your coffee shop that differ from your competitors to be unique and bring value to customers. Share your lists with your class and professor.

Self-Check Exercise: Type of Business Structure Flash Cards

An interactive H5P element has been excluded from this version of the text. You can view it online here:
https://ecampusontario.pressbooks.pub/businessfundamentals/?p=259#h5p-10

Self-Check Exercise: Business Plan Drag-the-Words

An interactive H5P element has been excluded from this version of the text. You can view it online here:
https://ecampusontario.pressbooks.pub/businessfundamentals/?p=259#h5p-9

Additional Resources

1. 13 Types of Entrepreneurs with Examples
2. Entrepreneurship Statistics In Canada
3. 21 Groundbreaking Canadian Entrepreneur Statistics
4. Example of a Young Entrepreneur, Asia Newson, Started a Business at Five Years Old, YouTube Video.
5. Canadian Entrepreneurs Who Will Inspire You
6. Entrepreneurship Indicators of Canadian Enterprises, 2022, StatsCan
7. Entrepreneurship and Innovation Toolkit, OER eCampus
8. University of Toronto Entrepreneurship Open Learning Series
9. Forms of Business Ownership. YouTube Video.
10. BDC How to Make a Solid Business Model
11. Visualizing Your Business Model, YouTube Video
12. Business Model Canvas Explained

13. Free Business Model Canvas Download
14. What is a Business Plan? Definition and Resources
15. 500+ Free Business Plan Examples
16. How to Write a Business Plan, BDC
17. Download your free business plan template to start drafting your own plan
18. 10 Reasons Small Businesses Fail, YouTube Video
19. Key Small Business Statistics, 2023, Government of Canada
20. 50 Social Impact Innovations that Might Save the World
21. Forbes 30 under 30 List, Young Entrepreneurs 2024
22. Indigenous Entrepreneurship May Be the Driver of Social Innovation
23. Business Resources for Indigenous Entrepreneurs
24. Notable Indigenous Entrepreneurs in Canada
25. BDC How to Start a Business in Canada
26. 10 Tips for Starting Your Own Business in 2025, YouTube Video
27. How to Start a Franchise in 8 Steps.
28. Mergers and Acquisitions: Types, Structures, and Valuations
29. Business Benefits Finder, Government of Canada

Attributions

The contents of this chapter is a compilation sourced from various OER resources, please refer to the Book Information for details.

References

(Note: This reference list was produced using the auto-footnote and media citation features of Pressbooks)

Media Attributions

- Start Up © RDNE Stock project | Pexels
- Corner Co-op © ZhiCheng Zhang | Pexels
- Candy Crush Game © Pexels
- Business Benefits Finder © Government of Canada is licensed under a All Rights Reserved license

Notes

1. ByJus. (n.d.). *Entrepreneurship--Types of entrepreneurship.* https://byjus.com/commerce/what-is-entrepreneurship/
2. Harappa. (2021, April 19). *What is entrepreneurship? – Meaning, features, need & examples.* https://harappa.education/harappa-diaries/meaning-examples-and-role-of-entrepreneurship/
3. FastAdvices. (2020, July 10). *How entrepreneurship affects the standard of living?* https://yourfastadvices.com/how-entrepreneurship-affects-the-standard-of-living/
4. Blair, N. (2024, November 4). *Small business statistics in Canada.* https://madeinca.ca/small-business-statistics-canada/
5. Blair, N. (2024, November 4). *Small business statistics in Canada.* https://madeinca.ca/small-business-statistics-canada/
6. Blair, N. (2024, November 4). *Small business statistics in Canada.* https://madeinca.ca/small-business-statistics-canada/
7. BDC. (n.d.). *How to become an entrepreneur.* https://www.bdc.ca/en/articles-tools/start-buy-business/start-business/how-become-entrepreneur
8. Walker, B. (2020, May 11). *Six personality traits of successful entrepreneurs.* https://www.forbes.com/sites/theyec/2020/05/11/six-personality-traits-of-successful-entrepreneurs/?sh=319450e070ba
9. Alfred, L. (n.d.). *12 characteristics & personality traits great entrepreneurs share.* https://blog.hubspot.com/sales/entrepreneur-personality-traits
10. Miller, K. (2020, July 7). *10 characteristics of successful entrepreneurs.* Business Insights. https://online.hbs.edu/blog/post/characteristics-of-successful-entrepreneurs
11. Miller, K. (2020, July 7). *10 characteristics of successful entrepreneurs.* Business Insights. https://online.hbs.edu/blog/post/characteristics-of-successful-entrepreneurs
12. Walker, B. (2020, May 11). *Six personality traits of successful entrepreneurs.* https://www.forbes.com/sites/theyec/2020/05/11/six-personality-traits-of-successful-entrepreneurs/?sh=319450e070ba
13. BDC. (n.d.). *How to become an entrepreneur.* https://www.bdc.ca/en/articles-tools/start-buy-business/start-business/how-become-entrepreneur
14. BDC. (n.d.). *How to become an entrepreneur.* https://www.bdc.ca/en/articles-tools/start-buy-business/start-business/how-become-entrepreneur
15. Indeed Editorial Team. (2023, March 10). *The 9 different types of entrepreneurship (with examples).* https://www.indeed.com/career-advice/career-development/types-of-entrepreneurship
16. Wirth, K. (2022, August 30). *12 Most Common Types of Entrepreneurs Explained.* https://www.liveplan.com/blog/types-of-entrepreneurs/
17. Wallstreetmojo Team. (n.d.). *Social entrepreneur.* https://www.wallstreetmojo.com/social-entrepreneur/#:~:text=Types%20Of%20Social%20Entrepreneurship%201%20%231%20%E2%80%93%20Trading,Charities%20...%204%20%234%20%E2%80%93%20Community-Oriented%20Organizations%20
18. Boyko, J. (2022, April 7). *Notable Indigenous entrepreneurs in Canada.* https://www.thecanadianencyclopedia.ca/en/article/notable-indigenous-entrepreneurs
19. Smith, M. A. (2022, June 19). *What is Social Innovation? How do you actually DO it (and change the world)?* [Video]. YouTube. https://youtu.be/7G20_sPzR4g
20. CareerPivot. (n.d.). *The necessity entrepreneur – A path to freedom [updated]*. https://careerpivot.com/2020/necessity-entrepreneur-buying-job/
21. Incomeholic. (n.d.). *What does it mean to start a business out of necessity?* https://incomeholic.com/what-does-it-mean-

to-start-a-business-out-of-necessity/#:~:text=A%20business%20started%20out%20of%20necessity%20is%20usually,for%20whatever%20reason%2C%20that%20is%20not%20an%20option.

22. Rollasole. *About us.* https://www.rollasole.com/pages/about-us
23. Restaurant Brands International. (2022, August 4). *Restaurant Brands International Inc. report second quarter 2022 results.* https://www.rbi.com/English/news/news-details/2022/Restaurant-Brands-International-Inc.-Reports-Second-Quarter-2022-Results/default.aspx
24. Thirty One Bits. (n.d.). *Our mission.* https://31bits.com/pages/our-mission
25. Thirty One Bits. (n.d.). *Our story.* https://31bits.com/pages/our-story
26. BDC. (n.d.). *Your ultimate guide to starting a business in Canada.* https://www.bdc.ca/en/articles-tools/start-buy-business/start-business/how-start-business-canada
27. BDC. (n.d.). *Your ultimate guide to starting a business in Canada.* [Video]. YouTube. https://www.bdc.ca/en/articles-tools/start-buy-business/start-business/how-start-business-canada
28. Wirth, K. (2022, February 21). *What is a business plan? Definition and planning essentials explained.* https://www.liveplan.com/blog/business-plan-definition-explained/
29. BDC. (n.d.). *Your ultimate guide to starting a business in Canada.* [Video]. YouTube. https://www.bdc.ca/en/articles-tools/start-buy-business/start-business/how-start-business-canada
30. AllBusiness. (2016). *What are the costs of forming a corporation?* https://www.allbusiness.com/costs-of-forming-a-corporation-502-1.html
31. Toomer-McApline, A. (2023, August 7). *Co-ops ranked among Canada's top 50 'corporate citizens'.* https://www.thenews.coop/co-ops-ranked-among-canadas-top-50-corporate-citizens/#:~:text=Co%2Doperators%2C%20Desjardins%20and%20Vancity,the%20banking%20and%20insurance%20sectors&text=Co%2Doperators%2C%20Desjardins,placed%20top%20in%20their%20sectors.
32. Rittenberg, J. (2024, April 17). *How to start a franchise in 8 steps (2024 guide).* https://www.forbes.com/advisor/business/how-to-start-a-franchise/#:~:text=Here%20are%20the%20main%20financial%20elements%20of%20starting,liquid%20capital%20for%20a%20facilities-based%20business.%20More%20items
33. Kenton, W. (2024, June 16). *Acquisition: Meaning, types, and examples.* https://www.investopedia.com/terms/a/acquisition.asp#:~:text=An%20acquisition%20is%20a%20financial,and%20meet%20any%20legal%20stipulations.
34. Kenton, W. (2024, June 16). *Acquisition: Meaning, types, and examples.* https://www.investopedia.com/terms/a/acquisition.asp#:~:text=An%20acquisition%20is%20a%20financial,and%20meet%20any%20legal%20stipulations.
35. Schooley, Sk. (2023, November 8). *What you should know about company mergers.* https://www.businessnewsdaily.com/15786-company-mergers.html
36. Greenwich. (n.d.). *How do mergers and acquisitions work?* https://greenwichcapital.com.au/insights/how-do-mergers-and-acquisitions-work/#:~:text=Enhanced%20Competitive%20Position.%20The%20merger%20enhanced%20the,increasingly%20demanded%20seamless%20connectivity%20across%20various%20devices.
37. Hargrave, M. (2024, June 14). *Joint venture (JV): What is it, and why do companies form one?* https://www.investopedia.com/terms/j/jointventure.asp#:~:text=In%20a%20joint%20venture%20(JV,to%20enter%20a%20foreign%20market.
38. BDC. (n.d.). *Joint venture.* https://www.bdc.ca/en/articles-tools/entrepreneur-toolkit/templates-business-guides/glossary/joint-venture#:~:text=In%20Canada%2C%20the%20agreement%20governing,supplied%20by%20a%20movie%20franchise.
39. BDC. (n.d.). *Joint venture.* https://www.bdc.ca/en/articles-tools/entrepreneur-toolkit/templates-business-guides/glossary/joint-venture#:~:text=In%20Canada%2C%20the%20agreement%20governing,supplied%20by%20a%20movie%20franchise.
40. Suazo, R. (n.d.). *10 joint-venture examples you should know about.* https://www.bundl.com/articles/10-joint-venture-

examples-you-should-know-about#:~:text=In%202022%2C%20Honda%20and%20LG,3%2C000%20new%20jobs%20in%20Ohio).

41. Hargrave, M. (2024, June 14). *Joint venture (JV): What it is, and why do companies form one?* https://www.investopedia.com/terms/j/jointventure.asp#:~:text=Example%20of%20a%20Joint%20Venture,43
42. BPlans. (2016, March 17). *What is a business plan?* [Video]. YouTube. https://youtu.be/FIoGLHT4wGE
43. Wirth, K. (2022, February 21). *What is a business plan? Definition and planning essentials explained.* https://www.liveplan.com/blog/business-plan-definition-explained/
44. Indeed Editorial Team. (2023, March 20). *10 key business plan sections and why they're important.* https://uk.indeed.com/career-advice/career-development/business-plan-sections
45. Ferriolo, J. (2021, August 27). *Seven sections your business plan should have.* https://www.forbes.com/sites/forbesbusinessdevelopmentcouncil/2021/08/27/seven-sections-your-business-plan-should-have/?sh=6c8a168c1310
46. *White, C. (2022, November 10). What's a competitive analysis & how do you conduct one? https://blog.hubspot.com/marketing/competitive-analysis-kit*
47. *CFI Team. (2023, April 25). Business plan example and template. https://corporatefinanceinstitute.com/resources/management/business-plan-example-and-template/*
48. *CFI Team. (2023, April 25). Business plan example and template. https://corporatefinanceinstitute.com/resources/management/business-plan-example-and-template/*
49. *Indeed Editorial Team. (2023, March 20). 10 key business plan sections and why they're important. https://uk.indeed.com/career-advice/career-development/business-plan-sections*
50. *Hayes, A. (2023, March 30). Business plan: What it is, what's included, and how to write one. https://www.investopedia.com/terms/b/business-plan.asp*
51. *Indeed Editorial Team. (2023, March 20). 10 key business plan sections and why they're important. https://uk.indeed.com/career-advice/career-development/business-plan-sections*
52. *Red Canoe Credit Union (2020, January 2). Writing a business plan: What you need to know | It's a money thing [Video]. YouTube. https://www.youtube.com/watch?v=7ykkhepT9aE*
53. *CFI Team. (2023, July 7). Business model canvas template. https://corporatefinanceinstitute.com/resources/management/business-model-canvas-template/*
54. *Business Model Inc. (n.d.). Business model canvas. https://www.businessmodelsinc.com/en/inspiration/tools/business-model-canvas*
55. *Optima Training (UK) Limited. (2021, July 29). Introduction to the business model canvas. [Video]. YouTube. https://youtu.be/I8nwNcCfyig*
56. *University of Toronto. (n.d.). The bridge: Entrepreneurship open learning series. https://www.utsc.utoronto.ca/thebridge/entrepreneurship-open-learning-series*
57. *University of Toronto. (n.d.). The bridge: Entrepreneurship open learning series. https://www.utsc.utoronto.ca/thebridge/entrepreneurship-open-learning-series*
58. *University of Toronto. (n.d.). The bridge. https://www.utsc.utoronto.ca/thebridge/*
59. *UNESCO. (2023, April 20). UNESCO's mandate in OER. https://www.unesco.org/en/open-educational-resources/mandate*
60. *Canada Energy Regulator. (2023, February 15) Market Snapshot: Clean Energy Projects in Remote Indigenous and Northern Communities. https://www.cer-rec.gc.ca/en/data-analysis/energy-markets/market-snapshots/2023/market-snapshot-clean-energy-projects-remote-indigenous-northern-communities.html#:~:text=Since%202017%2C%20the%20Clean%20Energy,million%20is%20available%20until%202027.*
61. *Government of Canada. (n.d.) Aboriginal entrepreneurship program: Access to business opportunities. https://www.isc-sac.gc.ca/eng/1582037564226/1610797399865*

62. *U.S. Department of Labor. (n.d.). Self-employment & entrepreneurship. https://www.dol.gov/agencies/odep/program-areas/employers/self-employment-entrepreneurship*
63. *Remitly. (2023). 15 Federal and State Programs for Immigrant Business Owners in the U.S. https://blog.remitly.com/immigration/federal-and-state-programs-for-immigrant-business-owners/*
64. *BDC. (n.d.). About. https://www.bdc.ca/en/about*
65. *Costa, D. (2022, November 15). Entrepreneurship. Encyclopedia Britannica. https://www.britannica.com/topic/crowdfunding*
66. *Harper, J. (2023, July 3). What Is a business incubator and how does it work? https://www.indeed.com/career-advice/career-development/what-is-business-incubator#What%20Is%20A%20Business%20Incubator?*
67. *Hotspot for Startups. (2023, January 16). What is a business accelerator? Everything you need to know. https://www.hubspot.com/startups/resources/what-is-an-accelerator*
68. *Seneca. (n.d.). HELIX: Innovation and entrepreneurship incubator. https://theservicehub.senecacollege.ca/s/article/HELIX-Innovation-and-Entrepreneurship-Incubator*
69. *Center for MIT Entrepreneurship. (n.d.). MIT delta v. https://entrepreneurship.mit.edu/accelerator/program/*
70. *MIT REAP. (n.d.). Innovation is a global game. https://mitsloan.mit.edu/regional-entrepreneurship-acceleration-program-reap*
71. *MaRS. (n.d.). We help high-impact Canadian tech ventures succeed. https://www.marsdd.com/startup-services/*
72. *Futurepreneur. (n.d.). About. https://www.futurpreneur.ca/en/about/*

CHAPTER 5: ECONOMICS AND BANKING

Chapter 5 Learning Outcomes

After reading this chapter, you should be able to do the following:

1. Describe different types of global economic systems according to how they control the factors of production through input and output markets.
2. Describe the law of supply and demand and how the equilibrium price is determined.
3. Identify the various degrees of competition in the Canadian economic system.
4. Describe what occurs at each of the four stages of the business cycle.
5. Explain how the unemployment rate in Canada is measured and the four different types of unemployment that occur.
6. Explain how the Consumer Price Index (CPI) measures inflation.
7. Summarize how the government uses both monetary and fiscal policies to stabilize the economy as a result of business cycle fluctuations.
8. List four crucial properties of money in order for it to be a medium of exchange.
9. Explain how the World Bank and the International Monetary Fund assist with international trade.

How Business and Economics Work

To appreciate how a business functions, we need to know something about the economic environment in which it operates. We begin with a definition of economics and a discussion of the resources used to produce goods and services.

A business's success depends in part on the economic systems of the countries where it is located and where it sells its products. A nation's economic system is the combination of policies, laws, and choices made by its government to

establish the systems that determine what goods and services are produced and how they are allocated. ***Economics*** *is the study of how individuals, businesses, governments, and nations allocate their limited resources to satisfy their unlimited wants and needs. It is how a society uses scarce resources to produce and distribute goods and services. The resources of a person, a firm, or a nation are limited, and in economics this limitation is known as* ***scarcity****. An example of scarcity would be if food were limited throughout a geographic region due to a drought or a harsh winter. Scarcity is one of the key concepts of economics. It means that the demand for a good or service is greater than the availability of the good or service. Hence, economics is the study of choices—what people, firms, or nations choose from among the available resources. Every economy is concerned with what types and amounts of goods and services should be produced, how they should be produced, and for whom. These decisions are made by the marketplace, the government, or both.*

Microeconomics *is the study of individuals and business decisions.* ***Macroeconomics*** *looks at the decisions of countries and governments. These two branches of economics appear to be different but in reality, they're interdependent and complement each other. You probably know more about economics than you realize. Every day, many news stories deal with economic matters: a union wins wage increases at General Motors, the Bank of Canada lowers interest rates, Wall Street has a record day, the prime minister proposes a cut in income taxes, consumer spending rises as the economy grows, or retail prices are on the rise, to mention just a few examples. In Canada, the government and the free-market system guide the economy together.*

Resources: Inputs and Outputs

The allocation of resources is concerned with the production, distribution, and consumption of goods and services. Resources are the ***inputs*** *used to produce* ***outputs****.*

Resources may include any or all of the following and their connections with one another:

- *Land and other natural resources*
- *Labour (physical and mental)*
- *Capital, including buildings and equipment*
- *Entrepreneurship*
- *Knowledge*

Resources are combined to produce goods and services. Land and natural resources provide the needed raw materials. Labour transforms raw materials into goods and services. Capital (equipment, buildings, vehicles, cash, and so forth) is needed for the production process. Entrepreneurship provides the skill, drive, and creativity needed to bring the other resources together to produce a good or service to be sold in the marketplace.

Because a business uses resources to produce goods, these resources are often referred to as factors of production. For example, the factors of production involved in making a shirt include:

- *Land–the physical space the factory occupies, the electricity used to power the plant, and the raw cotton used to make the shirts.*
- *Labour–the workers who manufacture the shirts.*
- *Capital–the factory, machinery, and equipment used in production, along with the financial resources required to operate the business.*
- *Entrepreneurship–the skills and knowledge needed to organize the other resources effectively and bring the product to market.*

Input and Output Markets

The circular flow model is simply a way of depicting how money circulates through the economy from individuals to firms in the form of labor and buying goods and services. Then, from firms to individuals in the form of wages, and providing goods/services.[1] *Many of the factors of production are provided to businesses by households. For example, households provide businesses with labour (as workers), land and buildings (as landlords), and capital (as investors). In turn, businesses pay households for these resources by providing them with income, such as wages, rent, and interest. The resources obtained from households are then used by businesses to produce goods and services, which are sold to provide businesses with revenue. The revenue obtained by businesses is then used to buy additional resources, and the cycle continues. This is described in Figure 5.1 below, "The Circular Flow of Inputs and Outputs", which illustrates the dual roles of households and businesses:*

- *Households not only provide factors of production (or resources) but also consume goods and services.*
- *Businesses not only buy resources but also produce and sell both goods and services.*

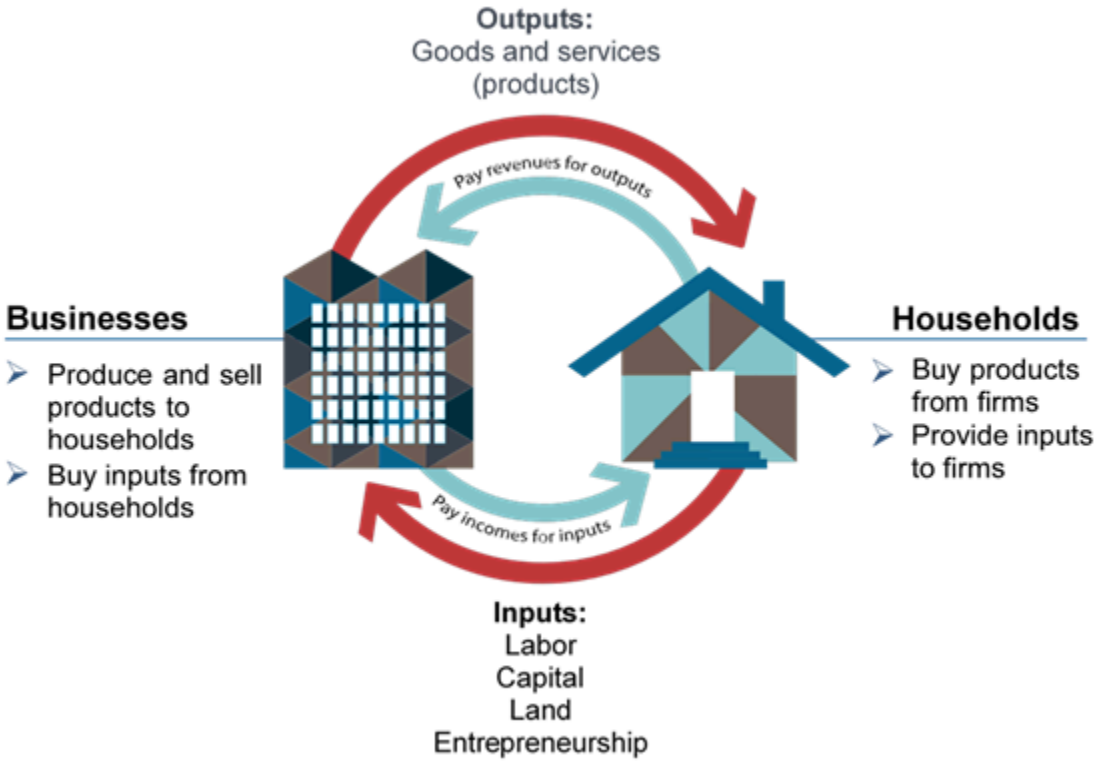


Figure 5. 1 The Circular Flow of Inputs and Outputs

The Circular Flow of Inputs and Outputs illustrates the dual roles of households and businesses. Households not only provide factors of production (or resources) but also consume goods and services. Businesses not only buy resources but also produce and sell both goods and services. Outputs include goods and services (or products). Inputs include labor, capital, land, and entrepreneurship.

This version of the circular flow model is stripped down to the essentials, but it has enough features to explain how the product and labour markets work in the economy. We could easily add details to this basic model if we wanted to introduce more real-world elements, like financial markets, governments, and interactions with the rest of the globe (imports and exports).

Productivity

Productivity *refers to how efficiently goods and services are being produced. Theoretically, higher levels of labor productivity equal higher economic output and lower inflation. Productivity increases when more output is produced with the same amount of inputs or when the same amount of output is produced with fewer inputs. Productivity in economics is usually measured as the ratio of what is produced (an aggregate output) to what is used in producing it (an aggregate input).*

Labor productivity is the most common productivity measure—it's defined as economic output (gross domestic product, or GDP) per hour worked. Labor productivity is typically the biggest determinant of economic and wage growth in the long term. And over time, labor productivity and real wages are closely—though not exactly—linked. Labour productivity tends to rise with increases in technology. On a country scale, labor productivity is frequently calculated as a ratio of GDP per total hours worked. So, if a country's GDP were $1 trillion and its people worked 20 billion hours to create that value, the country's labor productivity would be $50 per hour.[2]

Economists measure other types of productivity, too. Capital productivity is a measure of how well physical capital, such as real estate, equipment, and inventory, is used to generate output such as goods and services. (Capital productivity and labor productivity are frequently considered together as an indicator of a country's overall standard of living.) Total factor productivity is the portion of growth in output not explained by growth in labor or capital. This type of productivity is sometimes called "innovation-led growth."[3]

Your Role in the Canadian Economy

Curious about your role in the Canadian economy? Plug in a few facts about yourself and compare them with national and regional data from across Canada. At the end, your profile, as well as your place in the economy, will be revealed. Figure 5.2 shows a results page after taking the "Your Role in the Canadian Economy" Quiz. Give it a try! You will see how you compare to other Canadians.

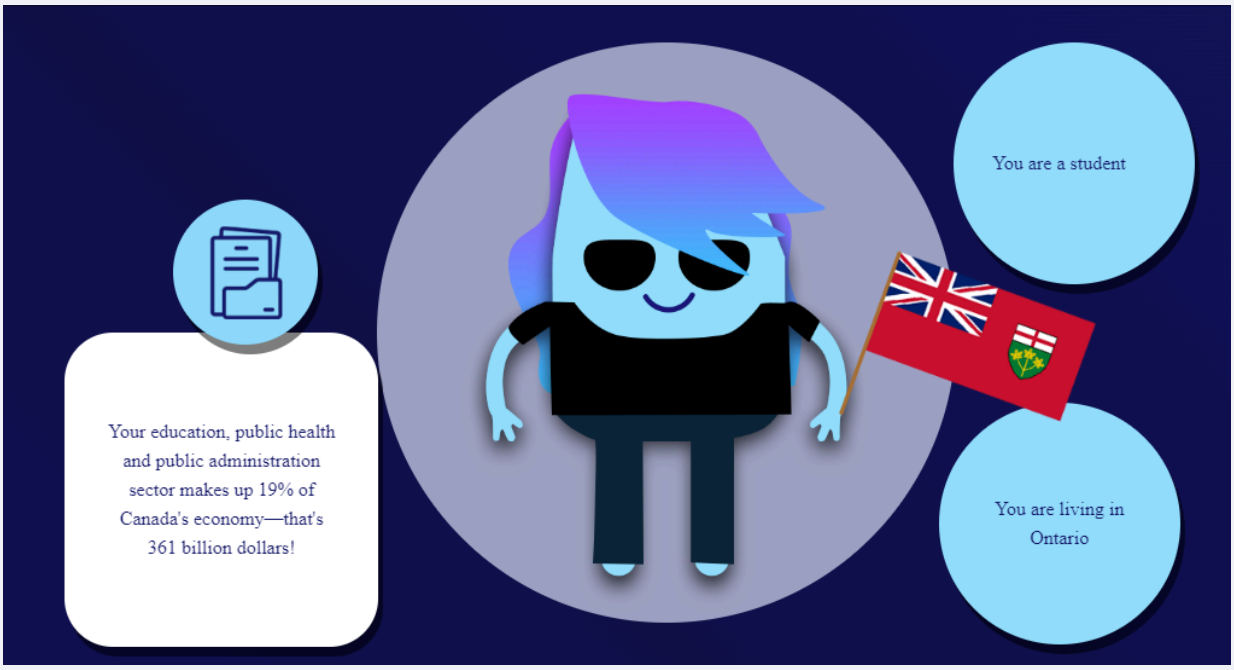


Figure 5.2 Your Role in the Canadian Economy Quiz

Economic Systems

Economists study the interactions between households and businesses and look at the ways in which the factors of production are combined to produce the goods and services that people need. Basically, economists try to answer three sets of questions:

1. *What goods and services should be produced to meet consumers' needs? In what quantity? When?*
2. *How should goods and services be produced? Who should produce them, and what resources, including technology, should be combined to produce them?*
3. *Who should receive the goods and services produced? How should they be allocated among consumers? The answers to these questions depend on a country's economic system — the means by which a society (households, businesses, and government) makes decisions about allocating resources to produce products and about distributing those products. The degree to which individuals and business owners, as opposed to the government, enjoy freedom in making these decisions varies according to the type of economic system.*

Economic Systems Defined:

- *A **free market economy** is an economic system in which the production and distribution of goods and services are primarily determined by supply and demand with minimal government intervention. In this system, private individuals and businesses own the means of production, and transactions are conducted in a competitive market environment. People decide how to use factors of production, such as land, labor, capital, and physical resources. In a market economy, producers decide what to produce, how much to charge, and what to sell.*
- *A **mixed economy** is an economic system where some resources are planned for by the government, while citizens control others. The world's dominant economic organization is a mixed economy.*
- *A **planned economy** is a system where the state determines production levels and regulates prices. In a centrally planned economy, the state uses advanced planning mechanisms to determine production levels, rather than supply and demand.*
- ***Capitalism** is an economic system that promotes the creation and ownership of capital and wealth. A free market system is a capitalist system that focuses on the unfettered exchange of goods and services, with little or no interference by the government.*
- ***Socialism** is an economic and political system where the means of production are owned by the public or the state, rather than private individuals. It's based on the idea that shared ownership of resources leads to a more equal society. Socialism is generally considered a planned economy, where the government controls the production of goods and services, rather than a market economy.*
- ***Communism** is a political and economic system that aims to eliminate class struggles by having the public own the means of production, such as factories and mines. In a communist society, there is no private property or currency, and wealth is shared equally or based on need. Communism is not the same as a planned economy, but communism is often associated with centrally planned economies.*

Generally speaking, economic systems can be divided into two systems: planned systems and free market systems (Refer to Figure 5.3).

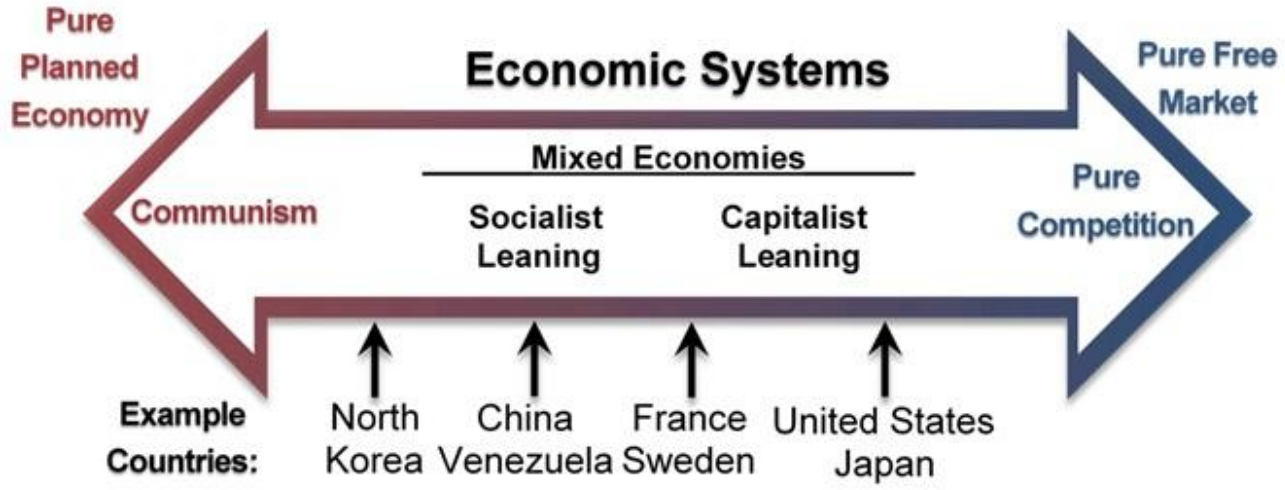


Figure 5.3 Economic Systems: Planned, Free, and Mixed.

Planned Systems

*In a **planned system**, the government exerts control over the allocation and distribution of all or some goods and services. The system with the highest level of government control is communism. In theory, a communist economy is one in which the government owns all or most enterprises. Central planning by the government dictates which goods or services are produced, how they are produced, and who will receive them. In practice, pure communism is practically nonexistent today, and only a few countries (notably North Korea and Cuba) operate under rigid, centrally planned economic systems.*

Under socialism, industries that provide essential services, such as utilities, banking, and health care, may be government-owned. Some businesses may also be owned privately. Central planning allocates the goods and services produced by government-run industries and tries to ensure that the resulting wealth is distributed equally. In contrast, privately owned companies are operated for the purpose of making a profit for their owners. In general, workers in socialist economies work fewer hours, have longer vacations, and receive more health care, education, and child-care benefits than do workers in capitalist economies. To offset the high cost of public services, taxes are generally steep. Examples of countries that lean towards a socialistic approach include Venezuela, Sweden, and France.

Free Market System

*The **free market system** is an economic system in which most businesses are owned and operated by individuals, also known as capitalism. In a free market economy, competition dictates how goods and services will be allocated. Business is conducted with more limited government involvement, concentrated on regulations that dictate how businesses are permitted to operate. A key aspect of a free market system is the concept of private property rights,*

which means that business owners can expect to own their land, buildings, machines, etc., and keep the majority of their profits, except for taxes. The profit incentive is a key driver of any free market system. The economies of the United States and other countries, such as Japan, are based on capitalism. However, a purely capitalistic economy is as rare as one that is purely communist. Imagine if a service such as police protection, one provided by the government in the United States, were instead allocated based on market forces. The ability to pay would then become a key determinant in who received these services, an outcome that few in American society would consider to be acceptable.

Mixed Market Economies

Though it is possible to have a pure communist system, or a pure capitalist (free market) system, in reality many economic systems are ***mixed market*** *economies. A mixed market economy relies on both markets and the government to allocate resources. In practice, most economies are mixed, with a leaning towards either free market or socialistic principles, rather than being purely one or the other. Some previously communist economies, such as those of Eastern Europe and China, are becoming more mixed as they adopt more capitalistic characteristics and convert businesses previously owned by the government to private ownership through a process called privatization. By contrast, Venezuela is a country that has moved increasingly towards socialism, taking control of industries such as oil and media through a process called nationalization.*

The Canadian Economic System

Like most countries, Canada features a mixed market system much like its neighbor to the south; though the Canadian and U.S. economic systems are primarily free market systems, the federal government controls some basic services, such as the postal service and air traffic control. The Canadian economy also has some characteristics of a socialist system, such as providing social security retirement benefits to retired workers or free health care to its population.

The free market system was espoused by Adam Smith in his book The Wealth of Nations, published in 1776. According to Smith, competition alone would ensure that consumers received the best products at the best prices. In the kind of competition he assumed, a seller who tries to charge more for his product than other sellers would not be able to find any buyers. A job-seeker who asks more than the going wage won't be hired. Because the "invisible hand" of competition will make the market work effectively, there won't be a need to regulate prices or wages. Almost immediately, however, a tension developed among free market theorists between the principle of laissez-faire—leaving things alone — and government intervention. Today, it is common for the Canadian government to intervene in the operation of the economic system. For example, the government exerts influence on the food and pharmaceutical industries through Canada's Food and Drug Act and Regulations, which protect consumers by preventing unsafe or mislabeled products from reaching the market.

To appreciate how businesses operate, we must first get an idea of how prices are set in competitive markets. The next section, "Perfect Competition and Supply and Demand," begins by describing how markets establish prices in an environment of perfect competition.

Indigenous Entrepreneurship and Economic Leakage

Economic development through resource extraction is an important tool for the creation of own-sourced revenue. To achieve long-term economic sustainability, however, it must be supported by community-appropriate business development. Various Indigenous communities authorize impact and benefit agreements with multi-national resource extraction corporations, doing so with the intention that the economic benefits will offset the resulting ethical and environmental concessions. In reality, the agreements often leave the communities in a similar socio-economic state before the resources were extracted, which is attributed to the **phenomenon of economic leakage**. Business development for Indigenous populations, on the other hand, refers to the strategic decision to produce and promote businesses for and within their own communities. Doing so would not only recapture economic leakage, but also provide additional revenue sources. Dr Russell Evans, the professor of accounting at the University of Windsor, offers his insight into the benefits of Indigenous entrepreneurship.[4]

One or more interactive elements has been excluded from this version of the text. You can view them online here: https://ecampusontario.pressbooks.pub/businessfundamentals/?p=261

Indigenous Lifeways in Canadian Business Video with Closed Captioning and Transcript [PDF–New Tab]

Degrees of Competition

In economic theory and the broader discussion of competition, the "types" or "degrees" of competition refer to how firms compete in the market. These classifications focus on the market environment, not direct "business competition" (strategies businesses use to compete).

The Canadian economy is founded on the principles of private enterprise: private property rights, freedom of choice, profits, and competition. Under a mixed economy, such as we have in Canada, businesses make decisions about which goods to produce or services to offer and how they are priced. Because there are many businesses making goods or providing services, customers can choose from a wide array of products. The competition for sales among businesses is a vital part of our economic system. Competition varies within industries and has a big influence on how companies operate. Porter's Five Forces model can be used to identify and analyze an industry's competitive forces. The five forces are: threat of new entrants, threat of substitutes, bargaining power of buyers, bargaining power of suppliers, and rivalry among existing competitors.

As shown in Table 5.1 below, economists have identified four types of competition — ***perfect competition***, ***monopolistic competition***, ***oligopoly***, *and* ***monopoly***.

Table 5.1: Four Types of Competition

Characteristic	***Perfect Competition***	***Monopolistic Competition***	***Oligopoly***	***Pure Monopoly***
Number of Firms	*Very Many*	*Many*	*A Few*	*One*
Types of Products	*Homogeneous*	*Differentiated*	*Homogeneous or Differentiated*	*Homogeneous*
Barriers to Entry or Exit from Industry	*No Substantial Barriers*	*Minor Barriers*	*Considerable Barriers*	*Extremely Great Barriers*
Examples	*Agriculture*	*Retail Trade*	*Banking*	*Public Utilities*

Perfect Competition

Perfect competition is a market structure characterized by many buyers and sellers, homogeneous products, and no single participant having market power. Perfect competition exists when there are many consumers buying a standardized product from numerous small businesses. Because no seller is big enough or influential enough to affect the price, sellers and buyers accept the going price. For example, when a commercial fisher brings his fish to the local market, he has little control over the price he gets and must accept the going market price.

Supply and demand are central to the concept of perfect competition. In perfect competition, the price of goods and

services is determined entirely by the interaction of supply and demand. High competition ensures that the supply curve (producers) and demand curve (consumers) interact freely without interference, such as monopolistic pricing or government controls. Producers can only compete on efficiency since prices cannot be manipulated, aligning the supply with the true demand.

Monopolistic Competition

In monopolistic competition, we still have many sellers (as we had under perfect competition). Now, however, they do not sell identical products. Instead, they sell differentiated products—products that differ somewhat, or are perceived to differ, even though they serve a similar purpose. Products can be differentiated in a number of ways, including quality, style, convenience, location, and brand name. Some people prefer Coke over Pepsi, even though the two products are quite similar. But what if there was a substantial price difference between the two? In that case, buyers could be persuaded to switch from one to the other. Thus, if Coke has a big promotional sale at a supermarket chain, some Pepsi drinkers might switch (at least temporarily).

How is product differentiation accomplished? Sometimes, it's simply geographical; you probably buy gasoline at the station closest to your home, regardless of the brand. At other times, perceived differences between products are promoted by advertising designed to convince consumers that one product is different from and better than another. Regardless of customer loyalty to a product, however, if its price goes too high, the seller will lose business to a competitor. Under monopolistic competition, therefore, companies have only limited control over price.

Oligopoly

Oligopoly means a few sellers. In an oligopolistic market, each seller supplies a large portion of all the products sold in the marketplace. In addition, because the cost of starting a business in an oligopolistic industry is usually high, the number of firms entering it is low. Companies in oligopolistic industries include such large-scale enterprises as automobile companies and airlines. As large firms that supply a sizable portion of a market, these companies have some control over the prices they charge. But there's a catch: because products are fairly similar, when one company lowers prices, others are often forced to follow suit to remain competitive. You see this practice all the time in the airline industry: When American Airlines announces a fare decrease, Continental, United Airlines, and others do likewise. When one automaker offers a special deal, its competitors usually come up with similar promotions.

Monopoly

In terms of the number of sellers and degree of competition, a monopoly lies at the opposite end of the spectrum from perfect competition. In perfect competition, there are many small companies, none of which can control prices;

they simply accept the market price determined by supply and demand. In a monopoly, however, there's only one seller in the market. The market could be a geographical area, such as a city or a regional area, and doesn't necessarily have to be an entire country.

There are few monopolies in Canada because the government limits them. Most fall into one of two categories: natural and legal. Natural monopolies include public utilities, such as electricity and gas suppliers. Such enterprises require huge investments, and it would be inefficient to duplicate the products that they provide. They inhibit competition, but they're legal because they're important to society. In exchange for the right to conduct business without competition, they're regulated. For instance, they can't charge whatever prices they want; they must adhere to government-controlled prices. As a rule, they're required to serve all customers, even if doing so isn't cost-efficient.

A legal monopoly arises when a company receives a patent giving it exclusive use of an invented product or process. Patents are issued for a limited time, generally twenty years.[5] *During this period, other companies can't use the invented product or process without permission from the patent holder. Patents allow companies a certain period to recover the heavy costs of researching and developing products and technologies. A classic example of a company that enjoyed a patent-based legal monopoly is Polaroid, which for years held exclusive ownership of instant film technology.*[6] *Polaroid priced the product high enough to recoup, over time, the high cost of bringing it to market. Without competition, it enjoyed a monopolistic position in regard to pricing.*

The Basics of Supply and Demand

To appreciate how perfect competition works, we need to understand how buyers and sellers interact in a market to set prices. In a market characterized by perfect competition, price is determined through the mechanisms of supply and demand. Prices are influenced both by the ***supply*** *of products from sellers and by the* ***demand*** *for products by buyers. The* ***law of supply and demand*** *is an economic theory that explains how the relationship between supply and demand determines prices. When supply is greater than demand, prices fall, and when demand is greater than supply, prices rise.*

To illustrate this concept, let us create a supply and demand schedule for one particular good sold at one point in time. Then we'll define demand and create a demand curve, and define supply and create a supply curve. Finally, we'll see how supply and demand interact to create an equilibrium price — the price at which buyers are willing to purchase the amount that sellers are willing to sell.

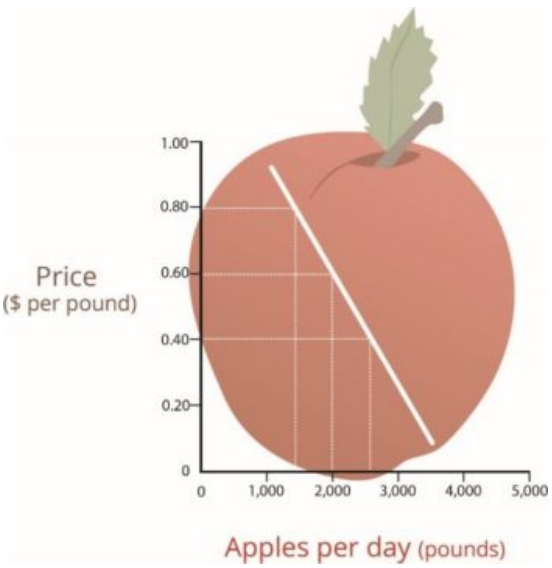


Figure 5.4 The Demand Curve

Demand and the Demand Curve

Demand is the quantity of a product that buyers are willing to purchase at various prices. The quantity of a product that people are willing to buy depends on its price. Consumers are typically willing to buy less of a product when prices rise and more of a product when prices fall. Generally speaking, we find products more attractive at lower prices, and we buy more at lower prices because our income goes further.

Using this logic, we can construct a demand curve that shows the quantity of a product that will be demanded at different prices. Let's assume that Figure 5.4, "The Demand Curve," represents the daily price and quantity of apples sold by farmers at a local market. Note that as the price of apples goes down, buyers' demand goes up. Thus, if a pound of apples sells for $0.80, buyers will be willing to purchase only fifteen hundred pounds per day. But if apples cost only $0.60 a pound, buyers will be willing to purchase two thousand pounds. At $0.40 a pound, buyers will be willing to purchase twenty-five hundred pounds.

Factors that can affect demand include changes in income levels, population changes, consumer preferences, complementary goods, and substitute goods.

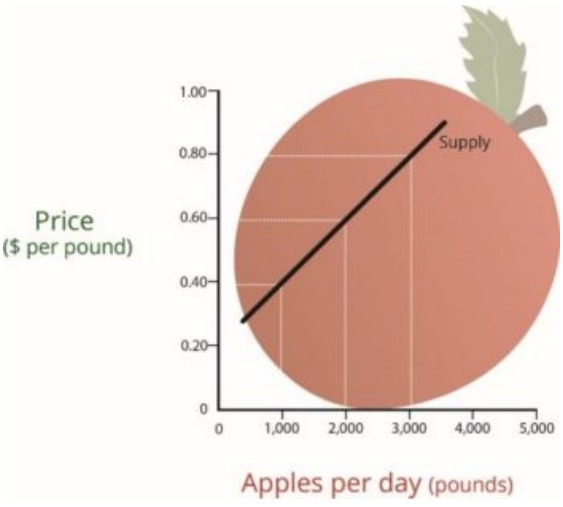


Figure 5.5 The Supply Curve

Supply and the Supply Curve

Supply is the quantity of a product that sellers are willing to sell at various prices. The quantity of a product that a business is willing to sell depends on its price. Businesses are more willing to sell a product when the price rises and less willing to sell it when prices fall. Again, this fact makes sense: businesses are set up to make profits, and there are larger profits to be made when prices are high.

Now we can construct a supply curve that shows the quantity of apples that farmers would be willing to sell at different prices, regardless of demand. As shown in Figure 5.5, "The Supply Curve", the supply curve goes in the opposite direction from the demand curve: as prices rise, the quantity of apples that farmers are willing to sell also goes up. The supply

curve shows that farmers are willing to sell only a thousand pounds of apples when the price is $0.40 a pound, two thousand pounds when the price is $0.60, and three thousand pounds when the price is $0.80.

Factors that affect supply include technological changes, changes in resource prices, price expectations, the number of suppliers, and the price of substitute goods.

Equilibrium Price

We can now see how the market mechanism works under perfect competition. We do this by plotting both the supply curve and the demand curve on one graph, as we have done in Figure 5.6. ***The Equilibrium Price****" is the state in which market supply and demand balance each other; the point at which the two curves intersect.*

"The Equilibrium Price", where the supply and demand curves intersect, is at the price of $0.60 and quantity of two thousand pounds. Thus, $0.60 is the equilibrium price. At this price, the quantity of apples demanded by buyers equals the quantity of apples that farmers are willing to supply. If a single farmer tries to charge more than $0.60 for a pound of apples, they won't sell very many because other suppliers are making apples available for less. As a result, their profits will go down. If, on the other hand, a farmer tries to charge less than the equilibrium price of $0.60 a pound, they will sell more apples, but their profit per pound will be less than at the equilibrium price. With profit being the motive, there is no incentive to drop the price.

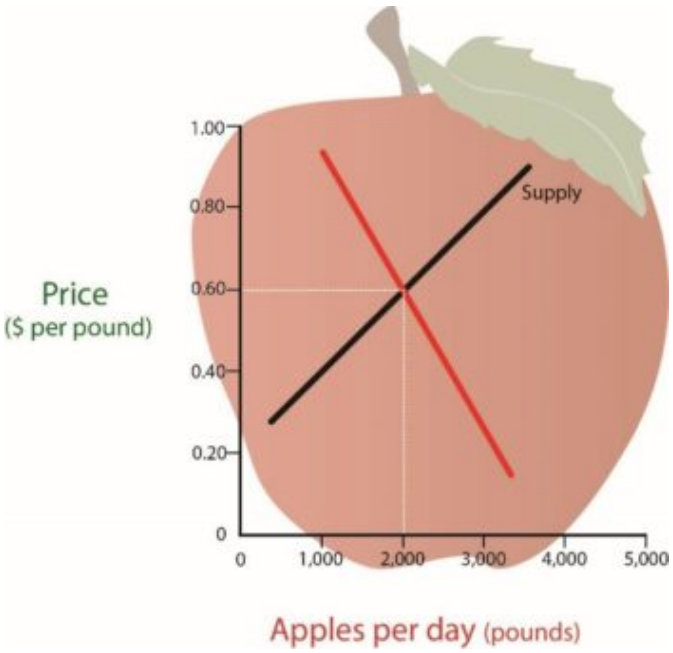


Figure 5.6 The Equilibrium Price

What have you learned in this discussion? Without outside influences, markets in an environment of perfect competition will arrive at an equilibrium point at which both buyers and sellers are satisfied. But you must be aware that this is a very simplistic example. Things are much more complex in the real world. For one thing, markets rarely operate without outside influences. Sometimes, sellers supply more of a product than buyers are willing to purchase; in that case, there's a surplus. Sometimes, they don't produce enough of a product to satisfy demand; then we have a shortage.

Circumstances also have a habit of changing. What would happen, for example, if incomes rose and buyers were willing to pay more for apples? The demand curve would change, resulting in an increase in the equilibrium price. This outcome makes intuitive sense: as demand increases, prices will go up. What would happen if apple crops

were larger than expected because of favorable weather conditions? Farmers might be willing to sell apples at lower prices rather than letting part of the crop spoil. If so, the supply curve would shift, resulting in another change in equilibrium price: the increase in supply would bring down prices.

Measuring the Health of the Economy

Every day, we are bombarded with economic news (at least if you watch the business news stations). We are told about things like unemployment, home prices, and consumer confidence trends. As a student learning about business, and later as a business manager, you need to understand the nature of the Canadian economy and the terminology that we use to describe it. You need to have some idea of where the economy is heading, and you need to know something about the government's role in influencing its direction.

Economic Goals

The world's economies share three main goals:

- *Growth*
- *High employment*
- *Price Stability*

Let us take a closer look at each of these goals, both to find out what they mean and to show how we determine whether or not they're being met.

Economic Growth

One purpose of an economy is to provide people with goods and services such as cars, computers, video games, houses, rock concerts, fast food, and amusement parks. One way in which economists measure the performance of an economy is by looking at a widely used measure of total output called the ***gross domestic product (GDP)****. The GDP is defined as the market value of all goods and services produced by the economy in a given year. The GDP includes only those goods and services produced domestically; goods produced outside the country are excluded. The GDP also includes only those goods and services that are produced for the final user; intermediate products are excluded. For example, the silicon chip that goes into a computer (an intermediate product) would not count directly because it is included when the finished computer is counted. By itself, the GDP doesn't necessarily tell us much about the direction of the economy. But a change in the GDP does. If the GDP (after adjusting for inflation) goes up, the economy is growing. If it goes down, the economy is contracting. There is some debate amongst economists that GDP provides the most accurate measure of an economy's performance. Many economists believe that GDP per capita,*

which is the measure of total production of goods and services divided by the number of households, is a better indicator of an economy's performance. For example, according to The World Bank, as of 2017, India's GDP ranked 7th in the world at $2.439 trillion (USD) while Canada's GDP ranked 10th at $1.640 trillion (USD). However, as of 2017, Canada's GDP per capita ranks 18th at $44,773 per household, compared to India's GDP per capita, which ranked 142nd in the world at $1,852 per household.

***Gross national product (GNP)** is another metric used for measuring a nation's economic output. Gross national product (GNP) is the value of all products and services produced by the citizens of a country, both domestically and internationally, minus income earned by foreign residents. For instance, if Canada has production facilities in the USA, its GNP will account for both the production output in Canada and the USA.*

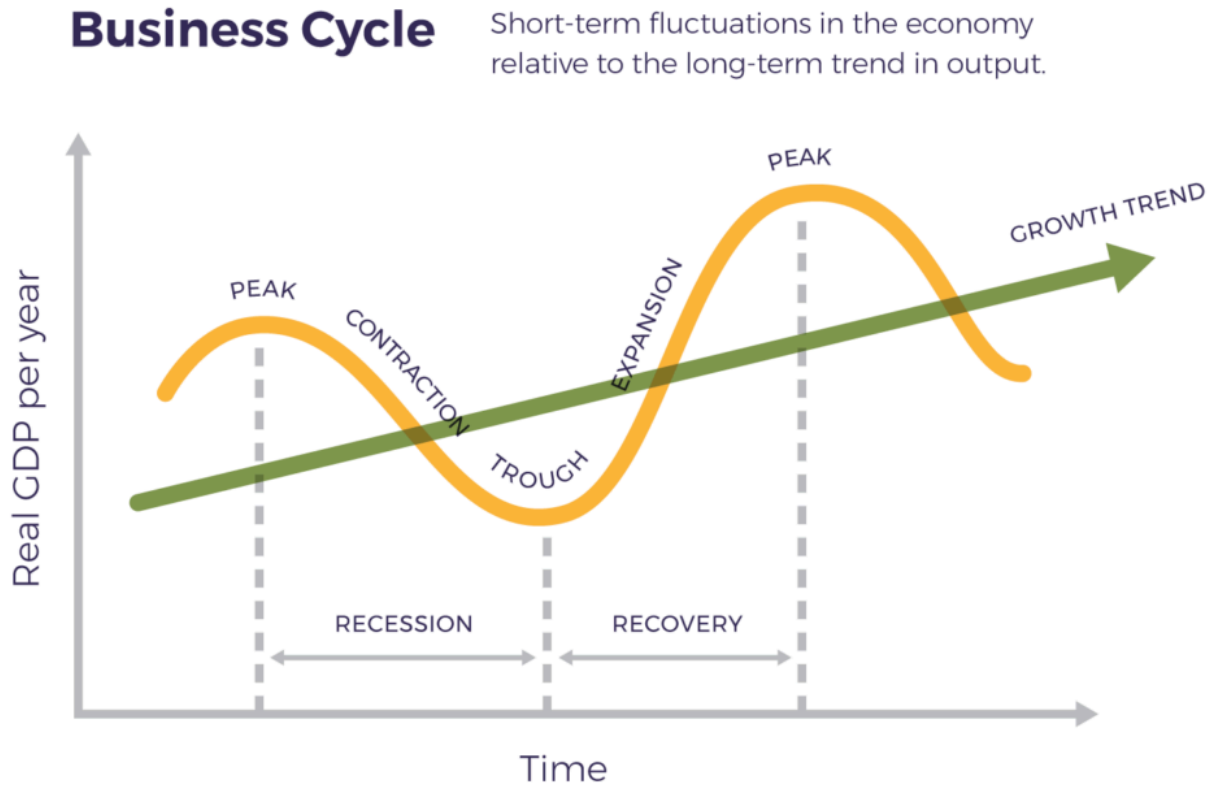


Figure 5.7 The Business Cycle

*As shown in Figure 5.7, the economic ups and downs resulting from expansion and contraction constitute the **business cycle** (also referred to as the industry life cycle). Similar to a product lifecycle, as a business cycle introduces new products, those products grow, mature, and decline; when all business cycles in an economy are combined, an economy's business cycle is created. A typical cycle runs from three to five years but could last much longer. Though*

typically irregular, a cycle can be divided into four general phases of prosperity, recession, depression (which the cycle generally skips), and recovery:

- *During **prosperity**, the economy expands, unemployment is low, incomes rise, and consumers buy more products. Businesses respond by increasing production and offering new and better products.*
- *Eventually, however, things slow down. GDP decreases, unemployment rises, and because people have less money to spend, business revenues decline. This slowdown in economic activity is called a **recession.** Economists often say that we are entering a recession when GDP goes down for two consecutive quarters.*
- *Generally, a recession is followed by a recovery or **expansion** in which the economy starts growing again.*
- *If, however, a recession lasts a long time (perhaps a decade or so), while unemployment remains very high and production is severely curtailed, the economy could sink into a depression. While economists have defined recession, they have not agreed on a uniform standard for what constitutes a depression, though they are generally characterized by their duration. Though not impossible, it is unlikely that Canada will experience another severe depression like that of the 1930s. The federal government has several economic tools (some of which we'll discuss shortly) with which to fight any threat of a **depression.***

If you want or need more interactive examples of the business cycle, this 10-minute Khan Academy video provides more details: The Business Cycle: Aggregate demand and aggregate supply.

High Employment

To keep the economy going strong, people must spend money on goods and services. A reduction in personal expenditures for things like food, clothing, appliances, automobiles, housing, and medical care could severely reduce GDP and weaken the economy. Because most people earn their spending money by working, an important goal of all economies is making jobs available to everyone who wants one. In principle, full employment occurs when everyone who wants to work has a job. In practice, we say that we have full employment when about 95 percent of those wanting to work are employed.

Refer to Figure 5.8, Statistics Canada Employment Rates. What might have caused employment rates to fall during the year 2020?

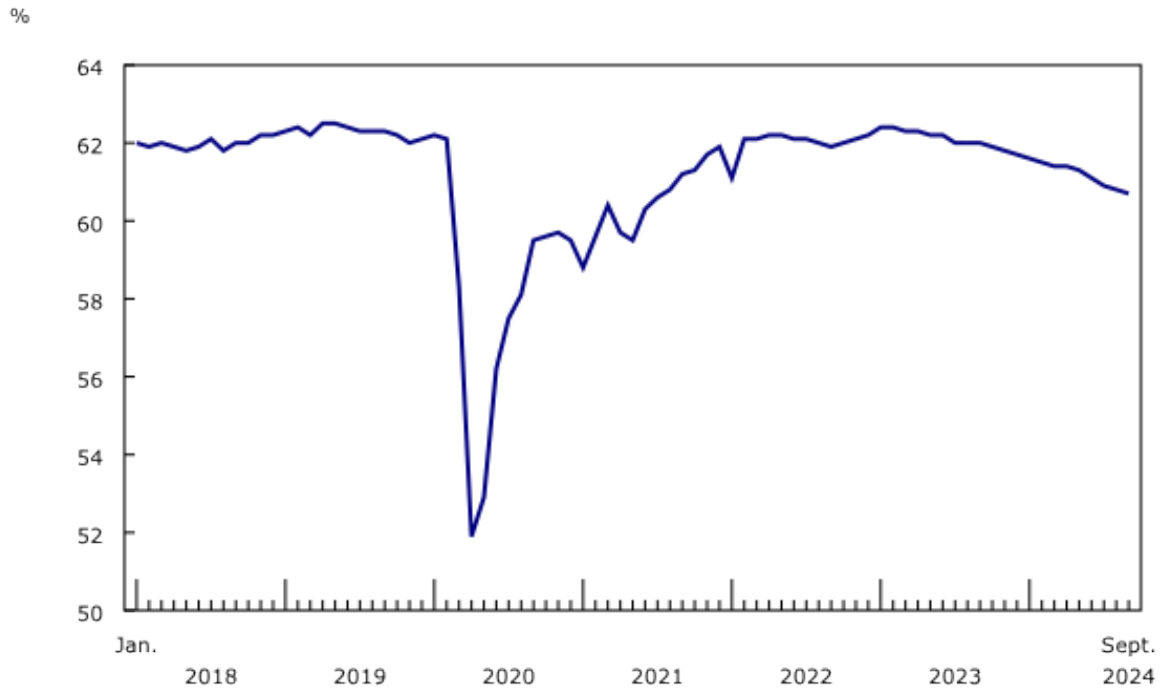


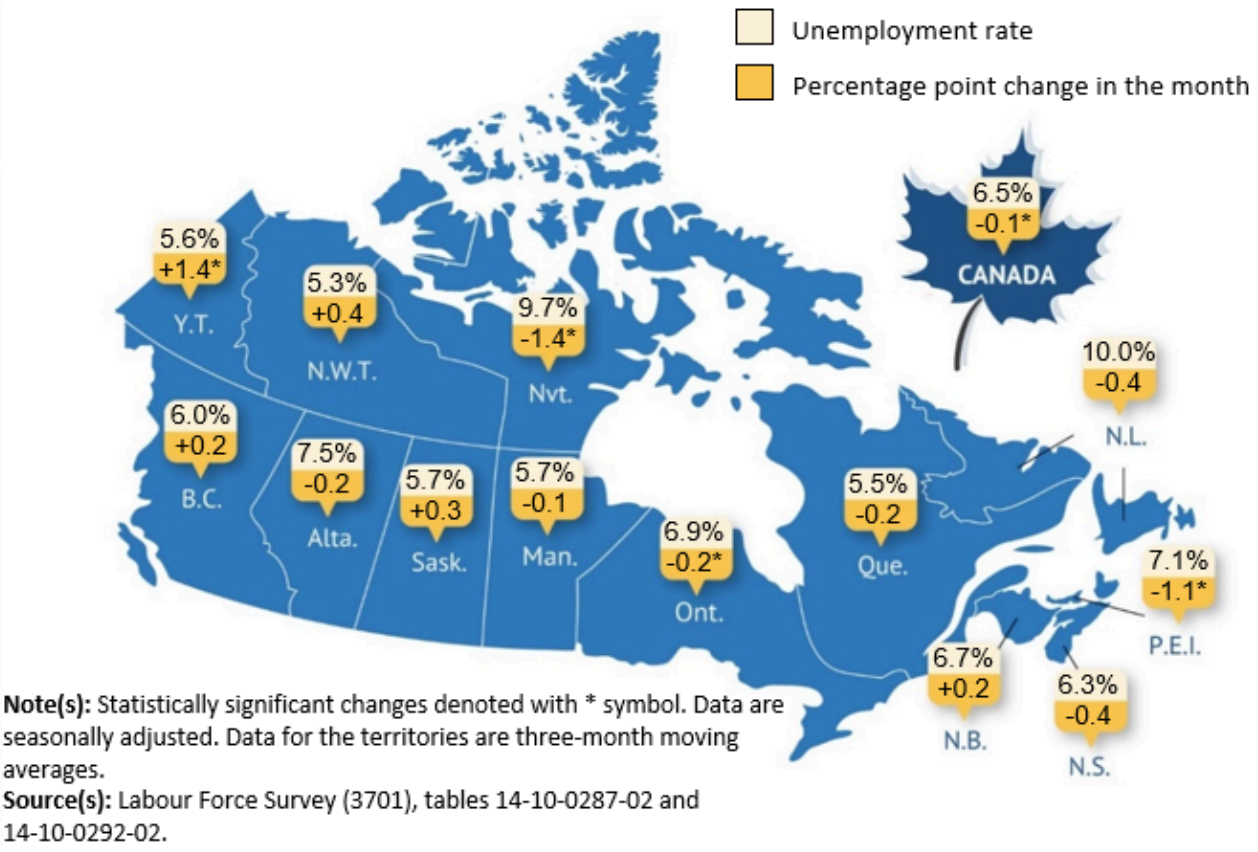
Figure 5.8 Statistics Canada, Annual Employment Rates

Unemployment

Statistics Canada tracks unemployment and reports the ***unemployment rate****: the percentage of the labour force who are at least 15 years old that is unemployed and actively seeking work. The unemployment rate is an important measure of economic health. It goes up during recessionary periods because companies are reluctant to hire workers when demand for goods and services is low. Conversely, it goes down when the economy is expanding and there is high demand for products and workers to supply them. There are several different measures of unemployment because there are different reasons people may be unemployed, including:*

- ***Frictional unemployment.*** *Workers move between jobs and locations.*
- ***Structural unemployment.*** *Jobs are terminated.*
- ***Cyclical unemployment.*** *Impacted by the business cycle, when businesses may not have enough demand for labour.*
- ***Seasonal unemployment.*** *Jobs that occur during part of the year (e.g., snow plowing, beach-related industries).*

Figure 5.9 shows the Statistics Canada map of the unemployment rate by province and territory as of September 2024. Which province or territory has the highest unemployment rate? Why might that be?



Note(s): Statistically significant changes denoted with * symbol. Data are seasonally adjusted. Data for the territories are three-month moving averages.
Source(s): Labour Force Survey (3701), tables 14-10-0287-02 and 14-10-0292-02.

Figure 5.9 Statistics Canada, Unemployment Rate by Province and Territory, September 2024

Price Stability

A third major goal of all economies is maintaining price stability. ***Price stability*** *occurs when the average price for goods and services either does not change or changes very little. Rapidly rising prices are troublesome for both individuals and businesses. For individuals, rising prices mean people have to pay more for the things they need. For businesses, rising prices mean higher costs, and, at least in the short run, businesses might have trouble passing on higher costs to consumers.*

Inflation

When the overall price level goes up, we have ***inflation****. More jobs and higher wages increase household incomes and lead to a rise in consumer spending, further increasing aggregate demand and the scope for firms to increase the prices of their goods and services. When this happens to a large number of businesses and sectors, this leads to an increase in inflation. Long-lasting episodes of high inflation are often the result of lax monetary policy.*[7] *If the money supply grows too big relative to the size of an economy, the unit value of the currency diminishes; in other words, its purchasing power falls and prices rise.*[8]

Deflation

*When the price level goes down (which rarely happens), we have **deflation**. A deflationary situation can also be damaging to an economy. When purchasers believe they can expect lower prices in the future, they may defer making purchases, which has the effect of slowing economic growth. Japan experienced a long period of deflation, which contributed to economic stagnation in that country, from which it is only now beginning to recover.*

The Consumer Price Index (CPI)

*The most widely publicized measure of inflation is the consumer price index (CPI), which is reported monthly by Statistics Canada. The **consumer price index (CPI)** measures the rate of inflation by determining price changes of a hypothetical basket of goods, such as food, housing, clothing, medical care, appliances, automobiles, and so forth, bought by a typical household.*

The Bank of Canada currently measures prices against the base year of 2002, and the basket for that year is given the value of 100. In 2012, the CPI averaged $121, which means that what you could buy for $100 in 2002 cost $121.70 in 2012. The difference registers the effect of inflation. In fact, that's what an inflation rate is—the percentage change in a price index.

The Bank of Canada created an Inflation Calculator to compare the costs of consumer goods then and now. For example, ask a parent or an older neighbour what they paid for their first car, first house, or first formal wear. Observe Figure 5.10 showing the consumer price index for the years 2000 to 2024. Why do you think there is a huge increase in the CPI during 2022? What happened in the world to cause this?

*The CPI measures change in prices of consumer goods and does not measure change in prices of goods used to create consumer goods, such as capital and resource expenditures. The **producer price index (PPI)** tracks the average change in prices at the wholesale level (e.g., raw materials, product components that require further processing, and finished goods sold to retailers).*

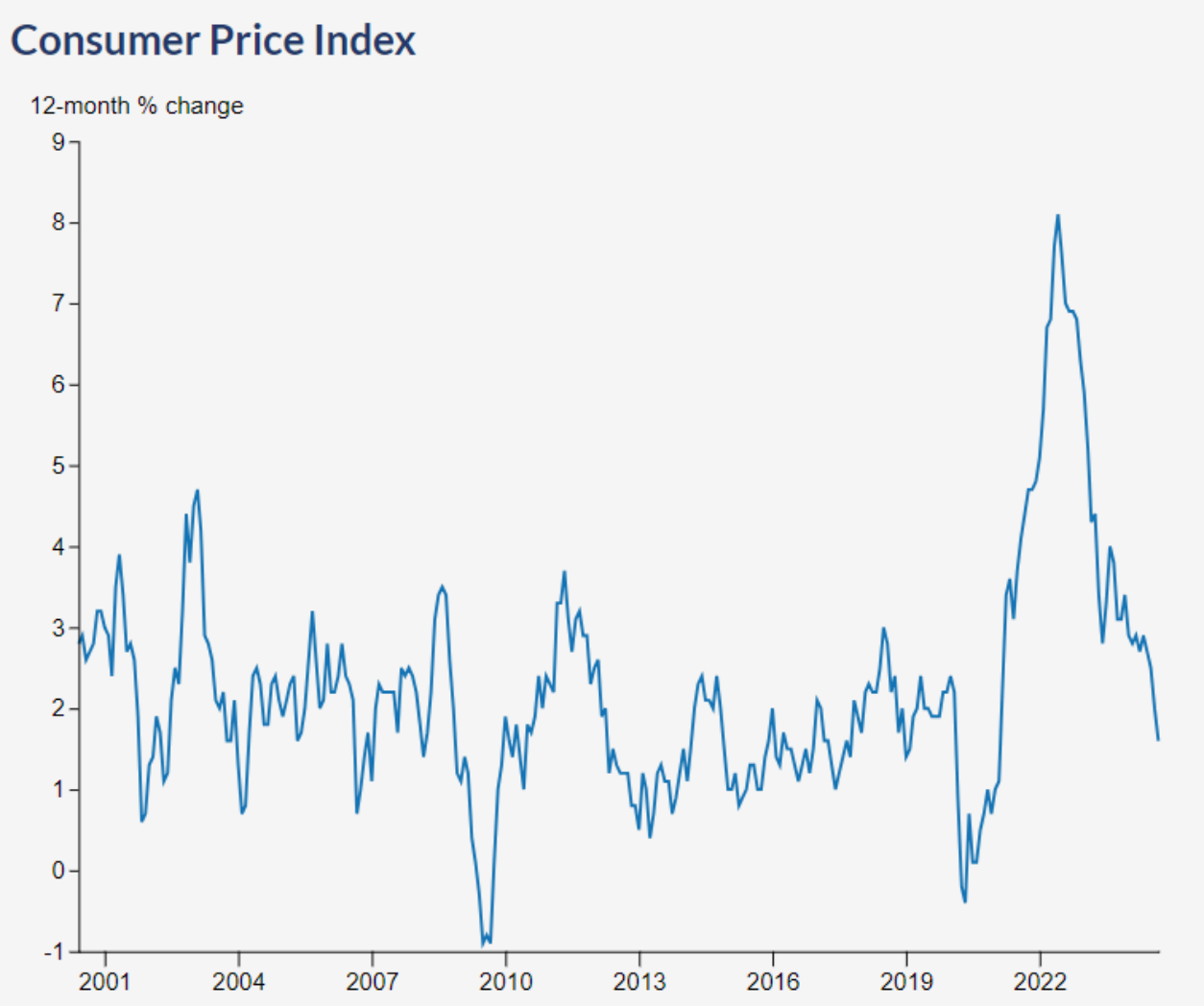


Figure 5.10 Statistics Canada Consumer Price Index from 2000 to 2024. License CC-BY-4.0

Economic Forecasting

In the previous section, we introduced several measures that economists use to assess the performance of the economy at a given time. By looking at changes in the GDP, for instance, we can see whether the economy is growing. The CPI allows us to gauge inflation. These measures help us understand where the economy stands today. But what if we want to get a sense of where it's headed in the future? To a certain extent, we can forecast future economic trends by analyzing several leading economic indicators.

Leading, Coincident, and Lagging Economic Indicators

In economics, leading, lagging, and coincident indicators are tools used to analyze and predict economic perfor-

mance. These indicators help economists, policymakers, and businesses make informed decisions about the state of the economy and potential future trends. An ***economic indicator*** *is a statistic that provides valuable information about the economy. There's no shortage of economic indicators, and trying to follow them all would be an overwhelming task. So, in this chapter, we will only discuss the general concept and a few of the key indicators.*

Canadian economic indicators can be expressed in three main indicators — ***leading indicators****,* ***coincident indicators*** *and* ***lagging indicators****.*

Leading Indicators

These indicators signal future economic activity and are used to predict changes in the economy before they occur. For example, stock prices often reflect investor sentiments about future economic conditions. An increase in building permits suggests future growth in the construction and housing markets. On the consumer confidence index, higher confidence indicates likely increases in spending, boosting economic activity. An increase in new orders for manufacturing indicates increased production and economic growth. Businesses and policymakers monitor these changes to anticipate expansions or contractions in the economy.

New unemployment claims often reflect employers' expectations about future economic conditions. If businesses anticipate a slowdown, they may lay off workers, leading to an increase in claims. This data provides an early signal of weakening economic activity or labor market challenges. Economists and policymakers monitor changes in unemployment claims to predict potential recessions or recoveries. For example, a sustained rise in claims could indicate an impending economic downturn, prompting proactive policy adjustments such as monetary easing or fiscal stimulus.

Lagging Indicators

These indicators reflect changes that have already occurred in the economy. They confirm trends but do not predict them. For example, changes in unemployment often lag behind economic trends as businesses adjust to economic shifts. Rising consumer debt levels confirm past high spending levels during an economic boom. The inflation rate typically reacts to earlier changes in supply, demand, and monetary policy. These indicators are useful for validating the accuracy of leading indicators and understanding the economy's historical performance.

The length of unemployment is also a lagging indicator. If unemployed workers have remained out of work for a long time, we may infer that the economy has been slow. Indicators that predict the status of the economy three to twelve months into the future are called leading economic indicators. If such an indicator rises, the economy is more likely to expand in the coming year. If it falls, the economy is more likely to contract.

Coincident Indicators

These indicators move in real-time with the economy, reflecting its current state. Gross Domestic Product (GDP) directly shows the economic output at a given time. Employment levels indicate current labour market conditions. Retail sales reflect ongoing consumer spending trends. Industrial production measures real-time manufacturing activity. These indicators provide a snapshot of the present economic situation and are helpful for short-term planning.

Since employment is such a key goal in any economy, the Canadian Industry Statistics, in collaboration with Statistics Canada, tracks total non-farm payroll employment from which the number of net new jobs created can be determined. The number of new jobs created is considered a coincident indicator in economics. New job creation reflects current economic activity and labor market conditions. It shows how businesses are responding to the existing economic climate by expanding their workforce, which aligns with the economy's present state rather than predicting future trends. A rise in new jobs typically coincides with economic growth, indicating healthy consumer demand and business investment. Conversely, a decline in new jobs suggests slower economic activity or contraction.

Understanding the differences between these indicators is crucial:

- *Businesses might use leading indicators to forecast demand and adjust production.*
- *Governments use lagging indicators to assess the effectiveness of policies.*
- *Both rely on coincident indicators for immediate economic health assessments.*

Government's Role in Managing the Economy

The Canadian government, including federal, provincial, and municipal governments, plays many roles within the Canadian economic system and therefore influences business activities. The government plays many roles and influences business activities in many ways. The roles the government plays are as follows:

- *Customer – Purchases goods and services from businesses (e.g., infrastructure projects, equipment).*
- *Competitor – Operates Crown corporations (e.g., Canada Post) that may compete with private businesses.*
- *Regulator – Enforces laws and regulations that promote competition, protect consumers, and ensure environmental and social responsibility.*
- *Taxation Agent – Collects taxes to fund public programs and infrastructure.*
- *Provider of Incentives – Offers subsidies, tax credits, and grants to stimulate specific industries or investments.*
- *Protector of Consumers – Sets quality and safety standards for goods, services, and business practices.*

- *Provider of Essential Services – Delivers healthcare, education, transportation, and emergency services.*

Businesses may also attempt to influence government decisions through lobbying, trade associations, political contributions, and public advocacy.

To manage the broader economy, the government uses three primary tools: Monetary Policy, Fiscal Policy, and National Debt Management.

Monetary Policy and The Bank of Canada

***Monetary policy** is exercised by the Bank of Canada, which is empowered to take various actions that decrease or increase the money supply and raise or lower short-term interest rates, making it harder or easier to borrow money.*

The Role of the Bank of Canada

The Bank of Canada is the nation's central bank. Its principal role is "to promote the economic and financial welfare of Canada," as defined in the Bank of Canada Act. The ***Bank of Canada*** *is a special type of Crown corporation that is owned by the federal government but has considerable independence to carry out its responsibilities and therefore operates separately from the political process. The Bank of Canada is led by the Governing Council, the policy-making body of the Bank, which is responsible for conducting monetary policy and promoting a safe and efficient financial system.*

The Governing Council is made up of the Governor, the Senior Deputy Governor, and the Deputy Governors. The Governing Council's main tool for conducting monetary policy is the target for the overnight rate (also known as the key policy rate). This rate is normally set on eight fixed announcement dates per year. The Council reaches its decisions about the rate by consensus, rather than by individual votes, as is the case at some other central banks.

Expansionary policy puts more money into circulation

The Bank's four main areas of responsibility are:[9]

- ***Monetary policy:*** *The Bank influences the supply of money circulating in the economy, using its monetary policy framework to keep inflation low and stable.*
- ***Financial systems:*** *The Bank promotes safe, sound, and efficient financial systems, within Canada and internationally, and conducts transactions in financial markets in support of these objectives.*
- ***Currency:*** *The Bank designs, issues, and distributes Canada's bank notes.*
- ***Funds management:*** *The Bank is the fiscal agent for the Government of Canada, managing its public debt programs and foreign exchange reserves.*

Tools for Monetary Policy

The Bank of Canada uses two main tools to conduct monetary policy:

1. Bank Rate

The bank rate is the interest rate the Bank of Canada charges commercial banks for short-term loans. It serves as a benchmark for other interest rates in the country.

- *Lowering the bank rate makes borrowing cheaper, encouraging spending and investment.*
- *Raising the bank rate makes borrowing more expensive, helping to reduce inflation.*

2. Open Market Operations (OMO)

These operations involve buying or selling government securities (bonds) in the financial markets to manage the money supply.

- *Expansionary Policy (During Recession):*
  - *The Bank buys government bonds from banks and investors.*
  - *This puts more money into circulation, increasing the reserves of commercial banks.*
  - *With more money to lend, interest rates decrease, encouraging borrowing and spending.*
- *Contractionary Policy (During Inflation):*
  - *The Bank sells government bonds, which pulls money out of circulation.*
  - *Commercial banks use their reserves to purchase these bonds, reducing their ability to lend.*
  - *This makes money more expensive to borrow, which helps reduce demand and slow inflation.*

The Bank of Canada plays a vital role in managing the money supply in Canada. If the Bank of Canada wants to increase the money supply, it can buy government securities. The individuals and investors who sell these bonds then deposit the proceeds in their banks. These deposits increase banks' reserves and their willingness to make loans. The Bank of Canada can also lower the bank rate; this action will cause increased demand for loans from businesses and households because these customers borrow more money when interest rates drop.

If the Bank of Canada wants to decrease the money supply, it can sell government securities. Individuals and investors spend money to buy bonds, and these withdrawals bring down banks' reserves and reduce their willingness to make loans. The Bank of Canada can also raise the bank rate; this action will decrease the demand for loans from businesses and households because these customers borrow less money when interest rates rise.

The Bank of Canada will typically decrease the money supply during inflationary periods, making it harder to borrow money. As shown in Figure 5.11, when the Bank of Canada believes that inflation is a problem, it will use contractionary policy to decrease the money supply and raise interest rates. When rates are higher, borrowers have to pay more for the money they borrow, and banks are more selective in making loans. Because money is "tighter" — more expensive to borrow — demand for goods and services will go down, and so will prices. In any case, that's the theory.

To counter a recession, the Bank of Canada uses expansionary policy to increase the money supply and reduce interest rates. With lower interest rates, it's cheaper to borrow money, and banks are more willing to lend it. We then say that money is "easy." Attractive interest rates encourage businesses to borrow money to expand production and encourage consumers to buy more goods and services. In theory, both sets of actions will help the economy escape or come out of a recession.

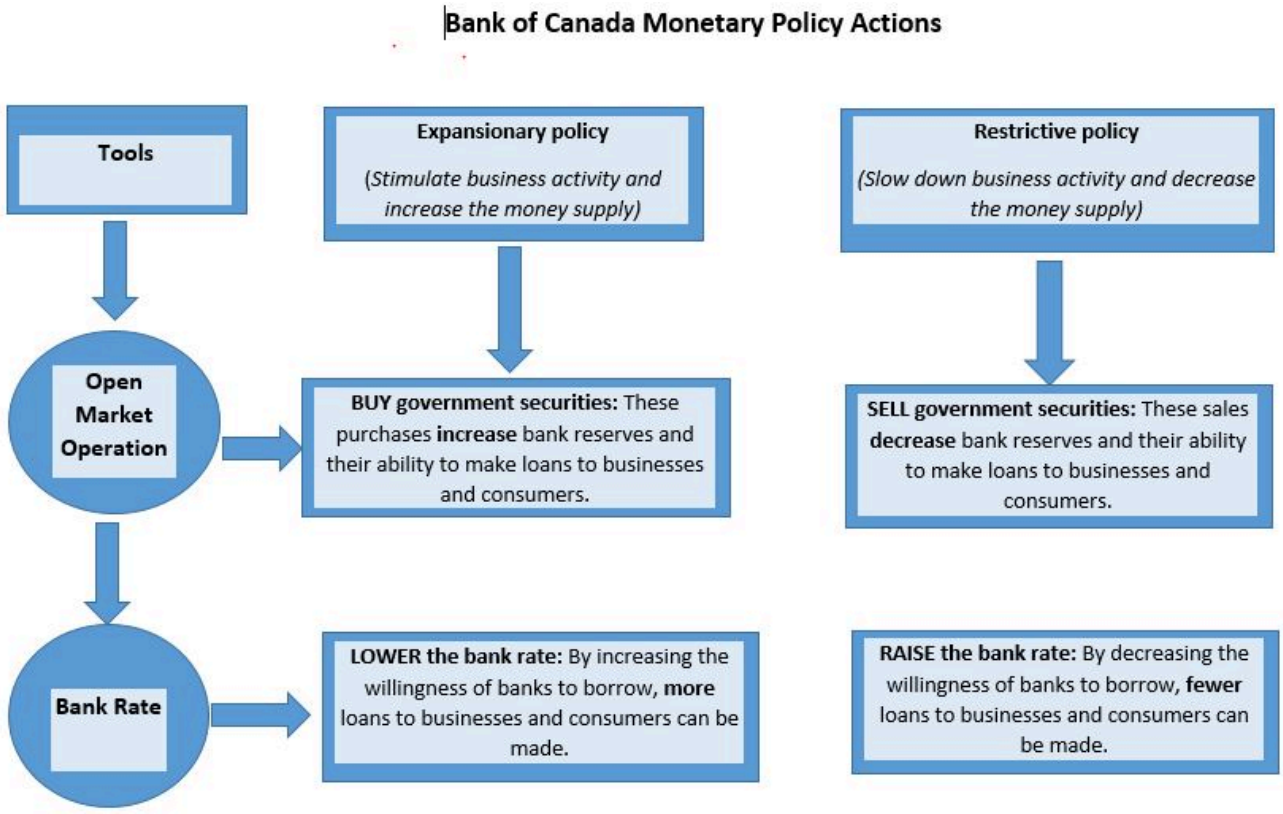


Figure 5.11 Bank of Canada Monetary Policy Actions

Fiscal Policy

Fiscal policy *relies on the government's powers of spending and taxation. Both taxation and government spending can be used to reduce or increase the total supply of money in the economy — the total amount, in other words, that businesses and consumers have to spend.*

Below are a few key points:

- ***Taxation as a tool.*** *The federal government adjusts taxes (e.g., income tax, corporate tax, GST) to influence economic activity. For instance, tax cuts may be implemented to stimulate consumer spending and*

investment during economic downturns. When the country is in a recession, government policy is typically to increase spending, reduce taxes, or both. Such expansionary actions will put more money in the hands of businesses and consumers, encouraging businesses to expand and consumers to buy more goods and services. Expansionary fiscal policy is used to increase government expenditures and/or decrease taxes, which causes the government's budget deficit to increase or its budget surplus to decrease. When the economy is experiencing inflation, the opposite policy is adopted: the government will decrease spending or increase taxes, or both. Because such contractionary measures reduce spending by businesses and consumers, prices come down and inflation eases. Contractionary fiscal policy is used to decrease government expenditures and/or increase taxes, which causes the government's budget deficit to decrease or its budget surplus to increase.

- ***Government spending.*** *Public expenditures on infrastructure, healthcare, education, and social programs are critical components of fiscal policy. Increased spending during economic slowdowns can boost demand and promote growth, while spending reductions may help curb inflation.*
- ***Budget management.*** *Canada's fiscal policy balances between deficits and surpluses. During recessions, deficits may increase due to stimulus measures, whereas in economic booms, surpluses help reduce national debt.*
- ***Targeted economic support.*** *Programs like the Canada Child Benefit (CCB) or pandemic relief measures (e.g., CERB) reflect the use of fiscal policy to address specific societal or economic challenges and support vulnerable populations.*

The National Debt

*The **national debt** is also referred to as Canada's public debt. According to the Department of Finance Canada, Government Debt in Canada increased to 1134.49 CAD Billion in 2022 from 1048.75 CAD Billion in 2021. The expected rise was due to the massive new borrowing to cover COVID-19 pandemic responses. You can check the current debt at Canadian National Debt Clock.*

If, in any given year, the government takes in more money (through taxes) than it spends on goods and services (for things such as defense, transportation, and social services), the result is a budget surplus. If, on the other hand, the government spends more than it takes in, we have a budget deficit (which the government pays off by borrowing through the issuance of Treasury bonds). Historically, deficits have occurred much more often than surpluses; typically, the government spends more than it takes in.

Below are a few key facts:

- ***Federal debt levels.*** *As of the 2023-2024 fiscal year, Canada's federal net debt has risen to approximately $1.33 trillion, reflecting a significant increase from pre-pandemic levels. This surge includes the impacts of*

COVID-19 relief measures and ongoing fiscal policies.[10]

- ***Combined federal-provincial debt.*** *When combining federal and provincial levels, the total net debt reached approximately $2.18 trillion in 2023/24. The debt-to-GDP ratio for federal and provincial governments collectively has risen from 65.7% in 2019/20 to 76.2% in 2023/24.*
- [11]
- ***Debt per capita.*** *On average, each Canadian is responsible for approximately $33,682 in federal debt. Provincial variations exist, with Newfoundland and Labrador having the highest per capita debt at $32,561, followed by Ontario at $27,091.*
- [12]
- ***Projected growth.*** *Federal debt is expected to increase further, with projections reaching $1.49 trillion by 2028/29. Efforts are being made to manage debt servicing costs, which currently remain stable at 1.8% of GDP, despite rising interest rates.*[13]

The Functions of Money

Money Characteristics

If you happen to have one on you, take a look at a $5 bill. Though this piece of paper — indeed, money itself — has no intrinsic value, it is certainly in demand. Why? Because money serves three basic functions:

- *a medium of exchange;*
- *a measure of value; and*
- *a store of value.*

Everyone likes to have money!

To get a better idea of the role of money in a modern economy, let us imagine a system in which there is no money. In this system, goods and services are bartered — traded directly for one another. Now, if you are living and trading under such a system, for each barter exchange that you make, you will have to have something that another trader wants. For example, say you are a farmer who needs help clearing his fields. Because you have plenty of food, you might enter into a barter transaction with a laborer who has time to clear fields but not enough food: he'll clear your fields in return for three square meals a day. This system will work as long as two people have exchangeable assets, but needless to say, it can be inefficient. If we identify the functions of money, we will see how it improves the exchange for all the parties in our hypothetical set of transactions.

Money *is anything that is acceptable as payment for goods and services. It affects our lives in many ways. We earn it, spend it, save it, invest it — and often wish we had more of it. Businesses and the government use money in similar ways. Both require money to finance their operations. By controlling the amount of money in circulation, the federal government can promote economic growth and stability. For this reason, money has been called the lubricant of the machinery that drives our economic system. Our banking system was developed to ease the handling of money.*

Medium of Exchange

Money serves as a medium of exchange because people will accept it in exchange for goods and services. Because people can use money to buy the goods and services that they want, everyone's willing to trade something for money. The laborer will take money for clearing your fields because he can use it to buy food. You'll take money as payment for his food because you can use it not only to pay him but also to buy something else you need (perhaps seeds for planting crops).

For money to be used in this way, it must possess a few crucial properties:

- *It must be* ***divisible*** *— easily divided into usable quantities or fractions. A $5 bill, for example, is equal to five $1 bills. If something costs $3, you don't have to rip up a $5 bill; you can pay with three $1 bills.*
- *It must be* ***portable*** *— easy to carry; it can't be too heavy or bulky.*
- *It must be* ***durable*** *— strong enough to resist tearing, and the print can't wash off if it winds up in the washing machine.*
- *It must be* ***difficult to counterfeit*** *— it won't have much value if people can make their own.*

Measure of Value

Money simplifies exchanges because it serves as a measure of value. We state the price of a good or service in monetary units so that potential exchange partners know exactly how much value we want in return for it. This practice is a lot better than bartering because it's much more precise than an ad hoc agreement that a day's work in the field has the same value as three meals.

Store of Value

Money serves as a store of value. Because people are confident that money keeps its value over time, they're willing to save it for future exchanges. Under a bartering arrangement, the laborer earned three meals a day in exchange for his work. But what if, on a given day, he skipped a meal? Could he "save" that meal for another day? Maybe, but if he were paid in money, he could decide whether to spend it on food each day or save some of it for the future. If

he wanted to collect his unpaid meal two or three days later, the farmer might not be able to pay it; unlike money, food could go bad.

The Money Supply

Now that we know what money does, let us tackle another question: how much money is there? How would you go about "counting" all the money held by individuals, businesses, and government agencies in this country? You could start by counting the money that's held to pay for things daily. This category includes cash (paper bills and coins) and funds held in demand deposits — chequing accounts, which pay given sums to "payees" when they demand them.

Then, you might count the money that is being "saved" for future use. This category includes interest-bearing accounts, time deposits (such as certificates of deposit, which pay interest after a designated period of time), and money market mutual funds, which pay interest to investors who pool funds to make short-term loans to businesses and the government.

M-1, M-2 and M3

Counting all this money would be a daunting task (in fact, it would be impossible). Fortunately, there's an easier way — namely, by examining two measures that the government compiles for the purpose of tracking the money supply: M-1 and M-2.

- ***M-1** is the narrowest measure, and it includes the most liquid forms of money — the forms, such as cash and chequing account funds, which are spent immediately.*
- ***M-2** includes everything in M-1 plus near-cash items invested for the short term — savings accounts, time deposits and money market mutual funds.*
- *Canada Money Supply M3 includes M2 plus long-term time deposits in banks.*

M-3 money in Canada refers to a broad measure of the money supply that includes M-2 (which itself comprises M-1, demand deposits, and savings accounts) and adds components like large time deposits, institutional money market funds, short-term repurchase agreements, and other liquid financial instruments. This measure provides insights into the overall liquidity in the economy, encompassing funds that are less readily accessible but still significant for economic activities. M-3 is particularly useful for analyzing broader economic trends, such as inflation, as it includes assets closer to "near-money" and reflects overall financial stability and potential consumer spending capabilities. This category is sometimes referred to as "broad money."

How much money is out there? The Bank of Canada reports that as of July 2023, M-1 totalled $1,510,782 CAD

Million (approximately $1,111.114 B USD), M-2 totalled $2,423,488 CAD Million (approximately $1,782.37 B USD), and M-3 totalled $3,493,917 CAD Million (approximately $2,569.623 B USD).[14]

What Exactly Is "Plastic Money"?

Are credit cards a form of money? If not, why do we call it plastic money? When you buy something with a credit card, you are not spending money. The principle of the credit card is buy-now-pay-later. In other words, when you use plastic, you are taking out a loan that you intend to pay off when you get your bill. And the loan itself is not money. Why not? Basically, because the credit card company cannot use the asset to buy anything. The loan is merely a promise of repayment. The asset does not become money until the bill is paid (with interest). That is why credit cards are not included in the calculation of M-1 and M-2.

International Banking Structure

Policymaking and regulatory powers are different in every nation; local standards and laws also vary greatly, which means that banking systems vary greatly. These two United Nations agencies — the World Bank and the International Monetary Fund — assist in financing international trade.

The World Bank

*The **World Bank** is an important source of economic assistance for poor and developing countries. With backing from wealthy donor countries (such as Canada, the United States, Japan, Germany, and the United Kingdom), the World Bank provides loans, grants, and guarantees to some of the world's poorest nations. Loans are made to help countries improve the lives of the poor through community support programs designed to provide health, nutrition, education, infrastructure, and other social services.*

The International Monetary Fund

*The **International Monetary Fund (IMF)** is governed by and accountable to its 191 member countries and has three critical missions: furthering international monetary cooperation, encouraging the expansion of trade and economic growth, and discouraging policies that would harm prosperity.*[15]

These countries combine their resources to:

- *Encourage the development of a system for international payments*
- *Promote the stability of exchange rates*

- *Provide temporary, short-term loans to member countries*
- *Encourage members to cooperate on international monetary issues*

The IMF loans money to countries with troubled economies, such as Mexico in the 1980s and mid-1990s, and Russia and Argentina in the late 1990s. There are, however, strings attached to IMF loans; in exchange for relief in times of financial crisis, borrower countries must institute sometimes painful financial and economic reforms. In the 1980s, for example, Mexico received financial relief from the IMF on the condition that it privatize and deregulate certain industries and liberalize trade policies. The government was also required to cut back expenditures for such services as education, health care, and workers' benefits.

Some nations have declined IMF funds rather than accept the economic changes that the IMF demands. In 2021, according to the IMF website, the IMF had about $1 trillion available for loans. Even though the U.S. has been instrumental in promoting global free trade for decades in 2018, it was rumoured that under Trump's administration, the U.S. would withdraw from the World Trade Organization (WTO). This did not happen, but the instability caused by such news was damaging to the WTO.

Canadian Banks In The International Marketplace

The financial marketplace spans the globe, with money routinely flowing across international borders. Canadian banks play an important role in global business by providing loans to foreign governments and businesses. Multinational corporations need many special banking services, such as foreign currency exchange and funding for overseas investments. Canadian banks also offer trade-related services, such as global cash management, which help firms manage their cash flow, improve their payment efficiency, and reduce their exposure to operational risks. Sometimes, consumers in other nations have a need for banking services that banks in their own countries do not provide. Therefore, large banks often look beyond their national borders for profitable banking opportunities.

Foreign funding has been crucial to Canada's economic development, with the Canadian capital market being an integral part of the international capital market. Canadian provinces often secure financing in foreign markets like London and New York, and projections suggest that foreign capital will remain essential to meeting Canada's future financial needs.

Some Canadian banks have established a presence in overseas markets, opening offices in Europe, Latin America, and Asia. These banks often offer superior customer service compared to local institutions and have access to diverse funding sources. However, international expansion poses challenges. Canadian banks face competition from foreign institutions that operate under less stringent regulations, enabling them to offer more competitive pricing. Some governments also protect domestic banks by restricting foreign competition. For instance, in China, foreign banks face high fees, deposit limits, and interest rate controls, which favor government-owned Chinese banks. Despite these obstacles, certain Canadian banks continue to do business in China.[16]

International banks operating in Canada significantly contribute to the economy by creating jobs, paying taxes, and making operational and capital investments. Most employees in these institutions are Canadian citizens, further supporting the domestic workforce.

Nonetheless, international banking carries risks, including political and economic instability. The financial crisis of 2007–2009 highlighted these vulnerabilities, with countries such as Greece, Portugal, Spain, and Ireland experiencing severe economic disruptions. Recovery in these nations has been slow, but financial assistance from the European Union and the International Monetary Fund has played a critical role in stabilizing both regional and global economies.

Currency Values and Exchange Rates

Currencies are traded in the foreign exchange market. Like any other market, when something is exchanged, there is a price. In the foreign exchange market, a currency is bought and sold, and the price of that currency is given in some other currency. That price is expressed as an ***exchange rate****.*

When an exchange rate changes, the value of one currency will go up while the value of the other currency will go down. When the value of a currency increases, it is said to have appreciated. On the other hand, when the value of a currency decreases, it is said to have depreciated.

The Canadian dollar fluctuates against the American dollar between a 65-70 per cent range. In November 2007, the CAD dollar was stronger than the US dollar, at US $1.09. After a few years of parity, the Canadian dollar retreated to approximately US $0.76 in June 2018.[17] *These fluctuations have an impact on businesses.*

International Payment Process

International financial settlements between buyers and sellers are different in many countries. Canadian banks provide services to buyers and sellers to support their clients during global financial transactions. Country-to-country transactions rely on an international payment process that moves money between buyers and sellers in different countries. For example, payment from a Canadian buyer starts at a local bank that converts funds from dollars into the seller's currency, say British pounds sterling, to be sent to a seller in England. At the same time, payments and currency conversions from separate transactions are also flowing between British businesses and Canadian sellers in the other direction. A balanced trade between the two countries implies that money inflows and outflows are equal for both countries. If inflows and outflows are not in balance at the Canadian bank or the British bank, then a flow of money, either to England or Canada, is made to cover the difference.

Digital Currencies

Digital currencies *are currencies that are only accessible with computers or mobile phones because they only exist in electronic form. Digital money is not physically tangible like a dollar bill or a coin. It is accounted for and transferred using online systems. The difference between digital currencies and cryptocurrencies is that digital currencies are centralized, meaning that transaction within the network is regulated in a centralized location, like a bank. Cryptocurrencies are mostly decentralized, and the regulations inside the network are governed by the majority of the community.*

Bitcoin Decentralized Cryptocurrency

The Bank of Canada revealed in 2016 that it was developing the CAD-coin as a digital version of the Canadian dollar, a move in response to the rise in popularity of bitcoin and other blockchain-based digital currencies. The initiative will involve issuing, transferring, and settling the central bank's monetary assets by way of a computerized ledger rather than by way of printed dollars. Research and experiments have been ongoing since 2016. Some major banks in Canada are participating in this new initiative, including Royal Bank of Canada, CIBC, and TD Bank Group, and institutional partners such as Payments Canada and TMX Group.

Despite their claim of being the money of the future, current private digital currencies, like Bitcoin, do not work well for making payments or saving for the future. Because of their fluctuating values and slow clearing times, very few merchants accept them. It is possible that in the future, digital currencies could at least partially solve these problems, leading to greater adoption. But widespread adoption of private digital currencies would carry important risks to both the economy and the financial system. The issuer could go out of business or fall victim to cybertheft; either situation could cause a loss of confidence in the payment system.

Exploring the idea of a central bank digital currency makes sense. In theory, it could provide the safety of cash, with the convenience of modern electronic payments. It could take many forms, but two broad approaches are:

- *value-based — people transfer money from their bank account to a card or a phone app; or*
- *account-based — people or businesses open accounts at the central bank.*

Either way, payments made using a central bank digital currency could allow payments to remain private to the parties involved, just like cash, but traceable to law enforcement, just like bank accounts.

Central bank digital currencies could give consumers more choice while maintaining competition among financial service providers like banks, the way cash does now. Depending on their design, they could even act as a backup if other payment methods become temporarily unavailable.

Basically, central bank digital cash would act like current electronic payment methods, the only difference being that it would not be tied to a commercial bank the way bank accounts and debit cards are.[18]

Key Takeaways

1. **Economics** is the study of how individuals, businesses, governments, and nations allocate their limited resources to satisfy their unlimited wants and needs. It is how a society uses scarce resources to produce and distribute goods and services. The resources of a person, a firm, or a nation are limited, and in economics, this limitation is known as **scarcity.**
2. In Canada, the government and the free-market system guide the economy together.
3. **Microeconomics** is the study of individuals and business decisions. **Macroeconomics** looks at the decisions of countries and governments. These two branches of economics appear to be different but in reality, they're interdependent and complement each other.
4. Resources are the **inputs** used to produce **outputs.** The circular flow model is simply a way of depicting how money circulates through the economy from individuals to firms in the form of labor and buying goods and services. Then, from firms to individuals in the form of wages, and providing goods/services.
5. **Productivity** refers to how efficiently goods and services are produced.
6. A **free market economy** is an economic system where the laws of supply and demand determine prices, and the government has limited or no involvement. People decide how to use factors of production, such as land, labor, capital, and physical resources. In a market economy, producers decide what to produce, how much to charge, and what to sell.
7. A **mixed economy** is an economic system where some resources are planned for by the government, while citizens control others. The world's dominant economic organization is a mixed economy.
8. A **planned economy** is a system where the state determines production levels and regulates prices. In a centrally planned economy, the state uses advanced planning mechanisms

to determine production levels, rather than supply and demand.

9. **Capitalism** is an economic system that promotes the creation and ownership of capital and wealth. A free market system is a capitalist system that focuses on the unfettered exchange of goods and services, with little or no interference by the government.
10. **Socialism** is an economic and political system where the means of production are owned by the public or the state, rather than private individuals. It's based on the idea that shared ownership of resources leads to a more equal society. Socialism is generally considered a planned economy, where the government controls the production of goods and services, rather than a market economy.
11. **Communism** is a political and economic system that aims to eliminate class struggles by having the public own the means of production, such as factories and mines. In a communist society, there is no private property or currency, and wealth is shared equally or based on need. Communism is not the same as a planned economy, but communism is often associated with centrally planned economies.
12. Economists generally agree there are four different **degrees of competition**: 1) perfect competition, 2) monopolistic competition, 3) oligopoly, and 4) monopoly. Porter's Five Forces model is used to identify and analyze an industry's competitive forces. **Perfect competition** exists when there are many consumers buying a standardized product from numerous small businesses. In **monopolistic competition**, we still have many sellers (as we had under perfect competition). Now, however, they do not sell identical products. **Oligopoly** means a few sellers. In an oligopolistic market, each seller supplies a large portion of all the products sold in the marketplace. In terms of the number of sellers and degree of competition, a **monopoly** lies at the opposite end of the spectrum from perfect competition.
13. The **law of supply and demand** is an economic theory that explains how the relationship between supply and demand determines prices. When supply is greater than demand, prices fall, and when demand is greater than supply, prices rise.
14. **Supply** is the quantity of a product that sellers are willing to sell at various prices. The quantity of a product that a business is willing to sell depends on its price.
15. **Demand** is the quantity of a product that buyers are willing to purchase at various prices. The quantity of a product that people are willing to buy depends on its price.
16. **The Equilibrium Price** is the state in which the market supply and demand balance each other.
17. The world's economies share three main **goals:** growth, high employment, and price stability. Economists measure the performance of an economy by looking at GDP, GNP, and other measures.

18. The **GDP** is defined as the market value of all goods and services produced by the economy in a given year.
19. Gross national product **(GNP)** is the value of all products and services produced by the citizens of a country, both domestically and internationally,y minus income earned by foreign residents.
20. The economic ups and downs resulting from expansion and contraction constitute the **business cycle** (also referred to as the industry life cycle). During **prosperity,** the economy expands, unemployment is low, incomes rise, and consumers buy more products. A slowdown in economic activity is called a **recession.** A recession is followed by a recovery or **expansion** in which the economy starts growing again. If, however, a recession lasts a long time (perhaps a decade or so), while unemployment remains very high and production is severely curtailed, the economy could sink into a **depression.**
21. Statistics Canada tracks unemployment and reports the **unemployment rate**: the percentage of the labour force who are at least 15 years old that is unemployed and actively seeking work.
22. **Price stability** occurs when the average price for goods and services either does not change or changes very little. When the overall price level goes up, we have **inflation.** When the price level goes down (which rarely happens), we have **deflation.**
23. The **consumer price index (CPI)** measures the rate of inflation by determining price changes of a hypothetical basket of goods, such as food, housing, clothing, medical care, appliances, automobiles, and so forth, bought by a typical household.
24. The **producer price index (PPI)** tracks the average change in prices at the wholesale level (e.g., raw materials, product components that require further processing, and finished goods sold to retailers).
25. **Monetary policy** is exercised by the Bank of Canada, which is empowered to take various actions that decrease or increase the money supply and raise or lower short-term interest rates, making it harder or easier to borrow money.
26. **Fiscal policy** relies on the government's powers of spending and taxation. Both taxation and government spending can be used to reduce or increase the total supply of money in the economy — the total amount, in other words, that businesses and consumers have to spend.
27. The **national debt** is also referred to as Canada's public debt. According to the Department of Finance Canada, Government Debt in Canada increased to 1134.49 CAD Billion in 2022 from 1048.75 CAD Billion in 2021.
28. **Money** is anything that is acceptable as payment for goods and services. For money to be used as a medium of exchange, it must be divisible, portable, durable, and difficult to coun-

terfeit. **M-1** is the narrowest measure, and it includes the most liquid forms of money — the forms, such as cash and chequing account funds, which are spent immediately. **M-2** includes everything in M-1 plus near-cash items invested for the short term — savings accounts, time deposits, and money market mutual funds.

29. The **Bank of Canada's four main areas** of responsibility are: monetary policy, financial systems, currency, and funds management.
30. The **World Bank** is an important source of economic assistance for poor and developing countries. With backing from wealthy donor countries (such as Canada, the United States, Japan, Germany, and the United Kingdom), the World Bank provides loans, grants, and guarantees to some of the world's poorest nations.
31. The **International Monetary Fund (IMF)** is governed by and accountable to its 191 member countries and has three critical missions: furthering international monetary cooperation, encouraging the expansion of trade and economic growth, and discouraging policies that would harm prosperity.
32. Currencies are traded in the foreign exchange market. Like any other market, when something is exchanged, there is a price. In the foreign exchange market, a currency is bought and sold, and the price of that currency is given in some other currency. That price is expressed as an **exchange rate**.
33. **Digital currencies** are currencies that are only accessible with computers or mobile phones because they only exist in electronic form.

End-of-Chapter Exercises

1. **Unemployment Rate.** Visit Statistics Canada and locate the most recent unemployment reports. Can you find annual employment rates by industry? Which industry has the most employment? Share your findings with the class and/or professor.
2. **Inflation Rate.** Visit Statistics Canada and locate the most recent inflation reports. In which province is inflation rising the fastest? Is the government taking any action to combat rising

inflation rates? Share your findings with the class and/or professor.

3. **Pros and Cons of Economies.** Use the Internet to search the pros and cons of each of the different types of economies. Which economy makes the most sense to you? Why? Share your conclusions with the class and/or professor.
4. **Gross Domestic Product (GDP).** Use the Internet to locate the most recent GDP reports. Which countries have the highest GDP Per Capita? What does the term "per capita" mean? Is there a correlation between lower GDP per capita in developing countries compared to developed nations? Share your findings with the class and/or professor.
5. **Surplus and Shortage.** Use the Internet to locate an example in which a surplus of a product led to decreased prices. Similarly, locate an example in which a shortage of a product led to increased prices. What eventually happened in each case? Share your findings with the class and/or professor.
6. **Government Assistance.** Use the Internet to locate an example in which the Government (Canadian or U.S.) provided funds in assistance to a business. Is the Government supporting businesses by providing funds consistent with a free market system? Explain how this might distort the system. Share your findings with the class and/or professor.
7. **Economic Indicators.** Explain how current inflation and unemployment rates affect you personally. Explain how they may affect you as a manager. Share your thoughts with the class and/or professor.
8. **Government Roles.** The government plays a variety of roles in the Canadian mixed economy. Use the Internet to locate an example of when the government has been a customer, a regulator, a taxation agent, and a provider of services. Discuss with the class and/or professor whether government involvement in each role is excessive, or about right. What criteria did you use to make your assessments?
9. **Getting Acquainted with Canadian Banks.** Visit the website of a bank that is near to where you are located. Locate the current interest rates on investments as well as on loans. What are the latest bank policies shared on the website? What other kinds of information does the website provide? Share your findings with the class and/or professor.
10. **Competitive Analysis.** Use Porter's Five Forces analysis to analyze the competitive positions of any one of the following companies: Toyota, Walmart, First Choice Hair Cutters, Canadian Tire, or Cara Foods. Describe the five forces and how they affect the company's operations and strategies. Share your findings with the class and/or professor.
11. **Monetary Policy Simulation: You're in Control.** How would it feel to be in control of the monetary policy of a country? Play MoPoS, the Monetary Policy Simulation Game at. Download the game, then play. You will act out the role of a fictitious central bank by implement-

ing monetary policy in a simple virtual economy, all the while observing the limitations of monetary policy. Write a summary of your experience. What did you learn from playing the simulation? Share your summary with your class and/or professor.

12. **Supply and Demand Simulation.** Visit the Lemonade Stand Free Trial game. Using information you learned in this chapter, write a brief summary about your experience as an entrepreneur dealing with economic factors of supply and demand and environmental conditions that may impact your business. Consider how much revenue you made each time you played the game and the reasons for your business success or failure. Share your summary with your class and/or professor.
13. **Fiscal Policy Game.** This game, The Fiscal Ship, allows you to practice your decision-making as it pertains to fiscal policy based on the U.S. economy. Give it try by visiting the Federal Reserve Bank of St. Louis website. What did you learn? Was it difficult to make the right decisions to help put the Fiscal Ship on the right course? Share your thoughts about the game with your class and/or professor.

Self-Check Exercise: Economics and Banking Quiz

Check your understanding of this chapter's concepts by completing this short self-check quiz.

An interactive H5P element has been excluded from this version of the text. You can view it online here:
https://ecampusontario.pressbooks.pub/businessfundamentals/?p=261#h5p-12

Additional Resources

1. Markets, Efficiency, and Price Signals: Crash Course Economies. YouTube Video.
2. The Free Market: Competition, Monopolies, and the Dynamics of Innovation. YouTube Video.
3. What is a Monopoly? YouTube Video.
4. Economy: What It Is, Types of Economies, Economic Indicators
5. The Business Cycle: Aggregate demand and aggregate supply. Khan Academy.
6. Factors of Production, AP Microeconomics, Khan Academy, YouTube Video.
7. Labour Statistics: Statistics Canada
8. Canadian National Debt Clock
9. How Much Federal Debt is Too Much For Canada? CBC News 2023, YouTube Video.
10. Bank of Canada, Understanding the Consumer Price Index
11. Inflation calculator
12. Gross Domestic Product (GDP) and Government Revenue Explained in One Minute. YouTube Video.
13. Unemployment Rate and the Labor Force Participation Rate Compared in One Minute. YouTube Video.
14. Difference Between Micro and Macro Economics. YouTube Video.
15. Circular Flow Model: Definition and Calculation
16. What is Productivity?
17. Economic Games to Play!
18. BANK! Apple App Game
19. Financial Games and Fun Activities for the Classroom
20. Imports, Exports, and Exchange Rates: Crash Course Economics #15
21. Difference Between Micro and Macro Economics (with examples), YouTube Video.

Attributions

The contents of this chapter is a compilation sourced from various OER resources, please refer to the Book Information for details.

References

(Note: This reference list was produced using the auto-footnote and media citation features of Pressbooks)

Media Attributions

- *Circular Flow of Inputs and Outputs © Unknown is licensed under a CC BY-NC-SA (Attribution Non-Commercial ShareAlike) license*
- *game © Bank of Canada Museum is licensed under a All Rights Reserved license*
- *Economic Systems © Wikimedia Commons | Designed for Virginia Tech by B. Craig licensed CC BY*
- *The Demand Curve © Unknown is licensed under a CC BY-NC-SA (Attribution NonCommercial Share-Alike) license*
- *The Supply Curve © Unknown is licensed under a CC BY-NC-SA (Attribution NonCommercial Share-Alike) license*
- *The Equilibrium Price © Unknown is licensed under a CC BY-NC-SA (Attribution NonCommercial ShareAlike) license*
- *The Business Cycle © Unknown is licensed under a CC BY-NC-SA (Attribution NonCommercial Share-Alike) license*
- *Statistics Canada Employment Rate © Statistics Canada is licensed under a All Rights Reserved license*
- *Unemployment Rate Map © Statistics Canada is licensed under a All Rights Reserved license*
- *Consumer Price Index Chart © Statistics Canada is licensed under a All Rights Reserved license*
- *pexels-pavel-danilyuk-7654610 © Pavel Danilyuk | Pexels*
- *Bank of Canada Monetary Policy © Unknown is licensed under a CC BY-NC-SA (Attribution NonCommercial ShareAlike) license*
- *Money Cat © Allange | Pixabay*
- *Bitcoin Decentralized Cryptocurrency © Benjamin Nelan | Pixabay*

Notes

1. *Study.com. (n.d.). How do you explain the circular flow model? https://study.com/academy/lesson/circular-flow-diagram-in-economics-definition-example.html#:~:text=The%20circular%20flow%20model%20is,wages%20and%20providing%20goods%2Fservices.*
2. *McKinsey & Company. (2024, May 17). What is productivity? https://www.mckinsey.com/featured-insights/mckinsey-explainers/what-is-productivity*
3. *McKinsey & Company. (2024, May 17). What is productivity? https://www.mckinsey.com/featured-insights/mckinsey-explainers/what-is-productivity*
4. *University of Windsor & Ryerson University. (2022). Indigenous lifeways in Canadian business. https://ecampuson-*

tario.pressbooks.pub/indigenousbusinesstopics/chapter/chapter-1/

5. *Brown, S. (2021, November 10). What happens when a patent expires? https://patentexperts.org/patent/faqs/patent-expiration/*
6. *University of Minnesota. (2016). Exploring Business. https://open.lib.umn.edu/exploringbusiness/chapter/1-5-monopolistic-competition-oligopoly-and-monopoly-2/*
7. *Reserve Bank of Australia. (n.d.) Causes of inflation. https://www.rba.gov.au/education/resources/explainers/causes-of-inflation.html#:~:text=More%20jobs%20and%20higher%20wages,to%20an%20increase%20in%20inflation.*
8. *International Monetary Fund. (n.d.). Inflation: Prices on the rise. https://www.imf.org/en/Publications/fandd/issues/Series/Back-to-Basics/Inflation#:~:text=What%20creates%20inflation%3F,power%20falls%20and%20prices20rise.*
9. *Royal Bank of Canada. (n.d.). About us. https://www.bankofcanada.ca/about/#:~:text=Currency%3A%20We%20design%2C%20issue%20and,programs%20and%20foreign%20exchange%20reserves.*
10. *Fraser Research Bulletin. (2024). The growing debt burden of Canadians: 2024 edition. https://www.fraserinstitute.org/sites/default/files/growing-debt-burden-for-canadians-2024.pdf*
11. *Fraser Research Bulletin. (2024). The growing debt burden of Canadians: 2024 edition. https://www.fraserinstitute.org/sites/default/files/growing-debt-burden-for-canadians-2024.pdf*
12. *Fraser Research Bulletin. (2024). The growing debt burden of Canadians: 2024 edition. https://www.fraserinstitute.org/sites/default/files/growing-debt-burden-for-canadians-2024.pdf*
13. *Government of Canada. (2024). Debt management strategy. https://budget.canada.ca/2024/report-rapport/anx2-en.html*
14. *Bank of Canada. (2023). Selected monetary aggregates and their components. https://www.bankofcanada.ca/rates/banking-and-financial-statistics/selected-monetary-aggregates-and-their-components-formerly-e1/*
15. *International Monetary Fund. (n.d.). What is the IMF? https://www.imf.org/en/About/Factsheets/IMF-at-a-Glance#:~:text=The%20International%20Monetary%20Fund%20(IMF,%2C%20and%20economic%20well%2Dbeing.*
16. *Bank of Canada. (n.d.). About Us. https://www.bankofcanada.ca/about/*
17. *Xe. (n.d.). US Dollar to Canadian Dollar Exchange Rate Chart. https://www.xe.com/currency-charts/?from=USD&to=CAD*
18. *Bank of Canada. (n.d.) The road to digital money. https://www.bankofcanada.ca/2019/04/the-road-to-digital-money/*

CHAPTER 6: ETHICS, LAW, AND SOCIAL RESPONSIBILITY

Chapter 6 Learning Outcomes

After reading this chapter, you should be able to do the following:

1. Define Corporate Social Responsibility (CSR) and explain how organizations are responsible to their various stakeholders.
2. Discuss the United Nations Sustainable Development Goals and how these can align with CSR business strategies.
3. Explain the four parts of Caroll's Corporate Social Responsibility Pyramid.
4. Discuss the legal responsibilities of a business using three specific legal regulation examples.
5. Define business ethics and explain what it means to act ethically in business.
6. Explain how organizations can prevent unethical behaviours such as sexual harassment and bribery.
7. Explain how an individual can avoid an ethical lapse, and why one should not rationalize when making decisions.
8. Identify four things you can do to maintain your honesty and integrity in a business environment.

Corporate Social Responsibility (CSR)

Corporate social responsibility *is a business model by which companies make a concerted effort to operate in ways that enhance rather than degrade society and the environment. CSR can help improve society and promote a positive brand image for companies. It refers to the approach that an organization takes in balancing its responsibilities toward different stakeholders when making legal, economic, ethical, and social decisions. CSR includes*

four categories: environmental impacts, ethical responsibility, philanthropic endeavors, and financial responsibilities.[1]

What motivates companies to be "socially responsible"? We hope it's because they want to do the right thing, and for many companies, "doing the right thing" is a key motivator. The fact is, it's often hard to figure out what the "right thing" is: what's "right" for one group of stakeholders isn't necessarily "right" for another. One thing, however, is certain: companies today are held to higher standards than ever before. Consumers and other groups consider not only the quality and price of a company's products but also its character. If too many groups see a company as a poor corporate citizen, it will have a harder time attracting qualified employees, finding investors, and selling its products. Good corporate citizens, by contrast, are more successful in all these areas.

Sustainable Development Goals

*The **United Nations' Sustainable Development Goals (SDGs)** are a set of 17 goals that aim to achieve peace and prosperity for people and the planet. In September 2015, all of the United Nations Member States adopted a "shared blueprint for peace and prosperity for people and the planet, now and into the future". The 17 Sustainable Development Goals (SDGs) shown in Figure 6.1 are "an urgent call for action by all countries" — developed and developing — in a global partnership. They recognize that ending poverty must go hand-in-hand with strategies that build economic growth, and address a range of social needs, including education, health, equality, and job opportunities, while tackling climate change and working to preserve our ocean and forests.*[2]

Figure 6.1 United Nations 17 Sustainable Development Goals

The SDGs are as follows:

1. *No poverty.*
2. *Zero hunger.*
3. *Good health and well-being.*
4. *Quality education.*
5. *Gender equality.*
6. *Clean water and sanitation.*
7. *Affordable and clean energy.*
8. *Decent work and economic growth.*
9. *Industry, innovation, and infrastructure.*
10. *Reduced inequalities.*
11. *Sustainable cities and communities.*
12. *Responsible consumption and production.*
13. *Climate action.*
14. *Life below water.*
15. *Life on land.*
16. *Peace, justice, and strong institutions.*
17. *Partnerships for the goals.*

The 17 SDGs contain targets for building a better world for people and the planet by 2030. Businesses, non-profits, NGOs, and educational institutions have developed their frameworks to address the SDGs and meet individual targets. Sustainable development can be part of a company's corporate social responsibility program.

On January 16, 2019, The Washington Post reported that Microsoft has pledged $500 million to address homelessness and build affordable housing units in the Seattle and Puget Sound area, a region that has grown prosperous as the technology industry has swelled but is increasingly plagued by an affordable housing crisis. This is an

example of how a business such as Microsoft has made progress on these SDG goals, serving to benefit society and, at the same time, acting in its economic interest.

CSR and Various Stakeholders

Let's look at some of the ways in which companies can be "socially responsible" in considering the claims of various ***stakeholders****: Owners and Investors, Managers, Employees, Customers, and Communities.*

Owners and Investors

Owners invest money in companies. In return, the people who run a company have a responsibility to increase the value of owners' investments through profitable operations. Managers also have a responsibility to provide owners (as well as other stakeholders having financial interests, such as creditors, suppliers, and the government) with accurate, reliable information about the performance of the business. Some of the most notorious accounting fraud scandals in business include: WorldCom inflated revenue and assets, Lehman Brothers repurchasing agreements, Bernie Madoff's Ponzi scheme, Saytam firm falsifying records, and Enron hiding debts.

Managers

Managers have what is known as a ***fiduciary responsibility*** *to owners: they're responsible for safeguarding the company's assets and handling its funds in a trustworthy manner. Yet managers experience what is called the agency problem; a situation in which their best interests do not align with those of the owners who employ them. To enforce managers' fiduciary responsibilities for a firm's financial statements and accounting records, Ontario's Keeping the Promise for a Strong Economy Act (Budget Measures) 2002, also known as Bill 198, (Canadian equivalent to Sarbanes-Oxley Act of 2002 in the United States) requires CEOs and CFOs to attest to their accuracy. The law also imposes penalties on corporate officers, auditors, board members, and any others who commit fraud. You'll learn more about this law in your accounting and business law courses.*

Employees

Companies are responsible for providing employees with safe, healthy places to work, as well as environments that are free from sexual harassment and all types of discrimination. They should also offer appropriate wages and benefits. In the following sections, we'll take a closer look at these areas of corporate responsibility.

Wages and Benefits

At the very least, employers must obey laws governing minimum wage and overtime pay. A ***minimum wage***

is set by the provincial government. As of January 1, 2018, the Ontario rate is $14.00, with another increase to $15.00 set for January 1, 2019. By law, employers must also provide certain benefits—Canadian Pension Plan (CPP-retirement funds), unemployment insurance (protects against loss of income in case of job loss), and, depending on the industry, workers' compensation (covers lost wages and medical costs in case of on-the-job injury). Most large companies pay most of their workers more than minimum wage and offer broader benefits, including medical, dental, and vision care, as well as savings programs, in order to compete for talent.

Safety and Health

In Canada, workplace ***health and safety*** *are governed by several key pieces of legislation designed to protect workers and ensure safe working environments: Canada Labour Code, provincial and territorial health and safety legislation, occupational health and safety regulations, and workers. There are fourteen jurisdictions in Canada – one federal, ten provincial, and three territorial, each having its own occupational health and safety legislation. For most people in Canada, the agency that you would contact is the provincial or territorial agency in the area where you work. There is one exception – Federal legislation covers employees of the federal government, including Crown agencies and corporations across Canada, regardless of location.*[3]

The Federal Government of Canada reported a noticeable increase in work-related injuries in 2022, with 18,131 disabling injuries reported (an increase of 10%) from 2021, with 16,342 injuries were reported.[4]

In the United States, workplace health and safety are primarily regulated by the Occupational Safety and Health Act (OSHA) of 1970, along with additional state-specific laws and regulations. Here's a breakdown of the key legislation: Occupational Safety and Health Act, state-specific health and safety legislation, workers' compensation legislation, and other relevant laws.[5]

Together, these laws aim to safeguard workers from injury and illness in the workplace, ensuring compliance through inspections, reporting systems, and penalties for non-compliance.

Customers

The purpose of any business is to satisfy customers, who reward businesses by buying their products. Sellers are also responsible—both ethically and legally—for treating customers fairly. This means ***customers have rights****:*

- ***The right to safe products.*** *A company should sell no product that it suspects of being unsafe for buyers. Thus, producers have an obligation to safety-test products before releasing them for public consumption. The automobile industry, for example, conducts extensive safety testing before introducing new models (though recalls remain common).*
- ***The right to be informed about a product.*** *Sellers should furnish consumers with the product infor-*

mation that they need to make an informed purchase decision. That's why pillows have labels identifying the materials used to make them, for instance.

- ***The right to choose what to buy.*** *Consumers have a right to decide which products to purchase, and sellers should let them know what their options are. Pharmacists, for example, should tell patients when a prescription can be filled with a cheaper brand-name or generic drug. Telephone companies should explain alternative calling plans.*
- ***The right to be heard.*** *Companies must tell customers how to contact them with complaints or concerns. They should also listen and respond.*

Companies share the responsibility for the legal and ethical treatment of consumers with several government agencies.

Consumer Protection Legislation in Canada

In Canada, consumer complaints are regulated by different levels of government, as well as non-government organizations. Finding the right place to direct your complaint is not always easy, but understanding your rights as a consumer is an important part of the complaint-filing process.

Consumer Shopping Online

Provincial and territorial consumer protection legislation

Many consumer complaints fall under provincial and territorial jurisdiction, including issues related to:

- *buying goods and services;*
- *contracts;*
- *the purchase, maintenance, or repair of motor vehicles;*
- *credit reporting agencies and the practices of collection agencies.*

Federal consumer protection legislation

The Government of Canada has an important role in consumer awareness and protection.

Federal agencies and departments are responsible for enforcing legislation related to various issues, including:

- *consumer product safety;*
- *food safety;*

- *consumer product packaging and labelling;*
- *anti-competitive practices, such as price fixing and misleading advertising;*
- *privacy complaints.*

Additional resources to remember:

For more relevant areas where federal agencies and departments regulate consumer issues, consult the Government of Canada website: Federal consumer protection legislation in Canada. In Ontario, customers have the added protection of the Consumer Protection Act.

Did you know that protections for Ontario consumers include a cooling-off period for signed contracts? Which specific areas does the cooling-off period cover?

- *to buy a product or service from a door-to-door salesperson (also called a direct agreement)*
- *to pay in advance to join a fitness club or gym (also called a personal development contract)*
- *to buy a newly-built condo (under the Condominium Act)*
- *to get a payday loan (under the Payday Loans Act)*
- *to purchase a time share*

Communities

For obvious reasons, most communities see getting a new business as an asset and view losing one, especially a large employer, as a detriment. After all, the economic impact of business activities on local communities is substantial: they provide jobs, pay taxes, and support local education, health, and recreation programs. Both big and small businesses donate funds to community projects, encourage employees to volunteer their time, and donate equipment and products for a variety of activities. Larger companies can make greater financial contributions.

Many large corporations support various charities, an activity called ***philanthropy****. Some donate a percentage of sales or profits to worthwhile causes. Retailer Target, for example, donates over $7 million each year to local communities where the company does business.*[6]

Loblaws, one of Canada's largest grocery retailers, is involved in numerous community initiatives, especially focused on food security and environmental sustainability. Through its Loblaw's Good Food Program, the company works to reduce food waste and help Canadians in need. They provide food donations to local charities and help fund nutrition programs. Additionally, Loblaws has worked to help communities during times of crisis, such as through their support for food banks and disaster relief efforts.[7]

Telus is a prominent Canadian telecommunications company known for its commitment to social responsibility. Through its Telus Friendly Future Foundation, the company supports initiatives focused on education, healthcare,

and community wellness. The foundation has invested in improving access to technology, especially for underserved communities, and has donated millions of dollars to support mental health programs, healthcare initiatives, and environmental sustainability.[8]

These companies not only contribute financially but also engage in programs that benefit the broader community through direct action, volunteerism, and supporting local organizations.

Carroll's Corporate Social Responsibility Pyramid

***Carroll's Pyramid** is a well-respected resource for situating corporate social responsibility. In this model, the focus is on managers, not owners, as the principals involved in the company's relationships with its stakeholders. Owners are the stakeholders who invest risk capital in the firm in expectation of a financial return. Other stakeholders include employees, suppliers, and the communities in which the firm does business. Proponents of this model hold that customers, who provide the firm with revenue, have a special claim on managers' attention.*

The pyramid shown in Figure 6.2 provides Carroll's definition of CSR. The pyramid also helps businesses to understand their philanthropic, community outreach initiatives, donations to charities, or participation in social justice causes, ethical responsibilities, legal responsibilities, and economic responsibilities.

Figure 6.2 Carroll's Corporate Social Responsibility Pyramid

Economic responsibilities

Economic corporate responsibility *refers to the practice of making financial decisions based on a commitment to doing good. To uphold economic responsibility, business leaders are challenged to think past operational cost savings and instead put their obligation to corporate citizenship at the heart of all financial decisions.*[9]

As a fundamental condition or requirement of existence, businesses have an economic responsibility to the society that permitted them to be created and sustained. At first, it may seem unusual to think about an economic expectation as a social responsibility, but society expects business organizations to be able to sustain themselves, and the only way this is possible is by being profitable and able to incentivize owners or shareholders to invest and have enough resources to continue in operation. In its origins, society views business organizations as institutions that will produce and sell the goods and services society needs and desires. As an inducement, society allows businesses to make a profit. Businesses create profits when they add value, and in doing this, they benefit all the stakeholders of the business.

Profits are necessary both to reward investors/owners and for business growth when profits are reinvested back into the business. CEOs, managers, and entrepreneurs will attest to the vital foundational importance of profitability and return on investment as motivators for business success. Virtually all economic systems of the world recognize the vital importance to societies of businesses making profits. While thinking about its economic responsibilities, businesses employ many business concepts that are directed towards financial effectiveness – attention to revenues, cost-effectiveness, investments, marketing, strategies, operations, and a host of professional concepts focused on augmenting the long-term financial success of the organization.

In today's hypercompetitive global business environment, economic performance and sustainability have become urgent topics. Those firms that are not successful in their economic or financial sphere go out of business, and any other responsibilities that may be incumbent upon them become moot considerations. Therefore, economic responsibility is a baseline requirement that must be met in a competitive business world, and so economic responsibility is a critical part of corporate social responsibility.

Corporate citizenship is the extent to which a business meets its legal, ethical, and economic responsibilities. Investors are increasingly looking for companies with socially responsible orientations, which can lead to positive stock returns and increased confidence by investors.[10]

Legal responsibilities

*Businesses have **legal responsibilities** to comply with laws and regulations at the local, national, and international levels. Society has not only sanctioned businesses as economic entities, but it has also established the minimal ground rules under which businesses are expected to operate and function. These ground rules include laws and regulations, and in effect, reflect society's view of "codified ethics". They articulate fundamental notions of fair business practices as established by lawmakers at the federal, provincial/state, and local levels. Businesses are expected and required to comply with these laws and regulations as a condition of operating. It is not an accident that compliance officers now occupy an important and high-level position in company organization charts.*

While meeting these legal responsibilities, managers must do the following:

- *Perform in a manner consistent with the expectations of government and law*
- *Comply with various federal, provincial/state, and local regulations*
- *Conduct themselves as law-abiding corporate citizens*
- *Fulfill all their legal obligations to societal stakeholders*
- *Provide goods and services that at least meet minimal legal requirements*

Tax Evasion is a Criminal Offense

Operating a business in Canada involves adhering to various laws, regulations, and acts at the federal, provincial/territorial, and municipal levels. ***Business law*** *refers to rules, statutes, codes, and regulations established to provide a legal framework within which business may be conducted. Businesses are subject to many laws; some pertain to operations, while others pertain to human resources and sustainable practices.* ***Legal compliance*** *refers to conducting a business within the boundaries of all the legal regulations of that industry. Legislation governing business practice includes (but is not limited to) the following:*

- *Income Tax Act, Excise Tax Act*
- *Bankruptcy and Insolvency Act*
- *Companies' Creditors Arrangement Act*
- *Consumer Protection Act*
- *Consumer Packaging and Labelling Act*
- *Food and Drug Act*
- *Weights and Measures Act*
- *Contract law*
- *Textile Labelling Act*
- *Hazardous Product Act*
- *Consumer Product Safety Act*
- *Motor Vehicle Safety Act*
- *Aeronautics Act*
- *Employment Standards Act*
- *Workplace Health and Safety Act*
- *Canada Labour Code*
- *Sales of Goods Act*
- *Intellectual property law (i.e., patents, copyrights, trade secrets, and trademarks)*
- *Personal Information Protection and Electronic Documents Act (PIPEDA)*
- *Competition Act*
- *Canadian Code of Advertising Standards*
- *Canadian Business Corporations Act (i.e., incorporation)*

Employment-related legislation *covers the following subjects: employment standards, human rights, federal and provincial privacy, occupational health and safety, workers' compensation, and labour regulations legislation.*

The ***Employment Equity Act*** *states that no person shall be denied employment opportunities or benefits for reasons unrelated to ability. It seeks to improve the employment conditions experienced by women, Indigenous peoples, persons with disabilities, and visible minorities.*[11]

*The **Canadian Charter of Rights and Freedoms** is a binding legal document that protects the basic human rights of all Canadians, such as fundamental freedoms, democratic rights, mobility rights, legal rights, equality rights, and language rights. The Charter is often cited in legal cases pertaining to human rights issues. While the Charter allows all Canadians to express their thoughts and opinions freely, it also protects everyone's right to be treated fairly, without discrimination.*

*The **Canadian Human Rights Act** extends the law to ensure equal opportunity to individuals who may be victims of discriminatory practices based on a set of prohibited grounds: race, colour, religion, national or ethnic origin, age, sex, sexual orientation, marital status, family status, disability, or conviction for an offence for which a pardon has been granted.[12] It applies to all federally regulated activities, but each province and territory has its own anti-discrimination laws that apply to non-federally regulated activities.*

Federally regulated organizations must comply with the Canada Labour Code, while other organizations are subject to the Employment Standards and Labour Codes of the individual provinces and territories. For example, in Ontario, under the Employment Standards Act (ESA), you can learn about your employee rights and obligations in this Employment Standards Act guide which describes the rules about minimum wage, hours of work limits, termination of employment, public holidays, pregnancy and parental leave, severance pay, vacation and more.

In the United States, there are similar laws pertaining to those listed above. One example is the U.S. Department of Labor website for Wages and the Fair Labor Standards Act, or visit the USA government website for a list of labor laws and worker protection.

Ethical responsibilities

*The normative expectations of most societies hold that laws are essential but not sufficient. In addition to what is required by laws and regulations, society expects businesses to operate and conduct their affairs in an ethical fashion. Businesses have **ethical responsibilities** to ensure fair practices and treat customers, employees, and stakeholders with respect.*

Taking on ethical responsibilities implies that organizations will embrace those activities, norms, standards, and practices that, even though they are not codified into law, are expected, nonetheless. Part of the ethical expectation is that businesses will be responsive to the "spirit" of the law, not just the letter of the law. Another aspect of the ethical expectation is that businesses will conduct their affairs in a fair and objective fashion, even in those cases when laws do not provide guidance or dictate courses of action. Thus, ethical responsibilities embrace those activities, standards, policies, and practices that are expected or prohibited by society even though they are not codified into law. The goal of these expectations is that businesses will be responsible for and responsive to the full range of norms, standards, values, principles, and expectations that reflect and honor what consumers, employees, owners, and the community regard as consistent with respect to the protection of stakeholders' moral rights. The distinction between

legal and ethical expectations can often be tricky. Legal expectations certainly are based on ethical premises. But ethical expectations carry these further. In essence, then, both contain a strong ethical dimension or character, and the difference hinges upon the mandate society has given business through legal codification.

While meeting these ethical responsibilities, managers must do the following:

- *Performing in a manner consistent with the expectations of societal mores and ethical norms*
- *Recognizing and respecting new or evolving ethical/moral norms adopted by society*
- *Preventing ethical norms from being compromised in order to achieve business goals*
- *Being good corporate citizens by doing what is expected morally or ethically*
- *Recognizing that business integrity and ethical behaviour go beyond mere compliance with laws and regulations*

As an overlay to all that has been said about ethical responsibilities, it also should be clearly stated that in addition to society's expectations regarding ethical performance, there are also the great, universal principles of moral philosophy such as rights, justice, and utilitarianism that also should inform and guide company decisions and practices.

Philanthropic responsibilities

Corporate philanthropy includes all forms of business giving. Corporate philanthropy embraces a business's voluntary or discretionary activities. ***Philanthropic responsibility*** *is a business's commitment to improving society through charitable activities, community support, and social initiatives. It's a key aspect of corporate social responsibility (CSR), and it emphasizes that businesses should not only focus on profit-making.*

Charitable Giving

Philanthropy or business giving may not be a responsibility in a literal sense, but it is normally expected by businesses today and is a part of the everyday expectations of the public. Certainly, the quantity and nature of these activities are voluntary or discretionary. They are guided by businesses' desire to participate in social activities that are not mandated, not required by law, and not generally expected of businesses in an ethical sense. Having said that, some businesses do give charitably, partly based on ethical motivation. That is, they want to do what is right for society. The public does have a sense that businesses will "give back," and this constitutes the "expectation" aspect of the responsibility. When one examines the social contract between business and society today, it is typically found that the citizenry expects businesses to be good corporate citizens just as individuals are. To fulfill its perceived philanthropic respon-

sibilities, companies engage in a variety of giving forms – gifts of monetary resources, product and service donations, volunteerism by employees and management, community development, and any other discretionary contribution to the community or stakeholder groups that make up the community.

Although there is sometimes an altruistic motivation for business giving, most companies engage in philanthropy as a practical way to demonstrate their good citizenship. This is done to enhance or augment the company's reputation and not necessarily for noble or self-sacrificing reasons. The primary difference between the ethical and philanthropic categories in the four-part model is that business giving is not necessarily expected in a moral or ethical sense. Society expects such gifts, but it does not label companies as "unethical" based on their giving patterns or whether the companies are giving at the desired level. As a consequence, the philanthropic responsibility is more discretionary or voluntary on the business's part. Hence, this category is often thought of as good "corporate citizenship." Having said all this, philanthropy historically has been one of the most important elements of CSR definitions, and this continues today.

In summary, the four-part CSR definition forms a conceptual framework that includes the economic, legal, ethical, and philanthropic or discretionary expectations that society places on businesses at a given point in time. And, in terms of understanding each type of responsibility, it could be said that the economic responsibility is "required" of business by society; the legal responsibility also is "required" of business by society; the ethical responsibility is "expected" of business by society; and the philanthropic responsibility is "expected/desired" of business by society. As time passes, what exactly each of these four categories means may change or evolve as well.

The pyramid should not be interpreted to mean that business is expected to fulfill its social responsibilities in some sequential, hierarchical fashion, starting at the base. Rather, business is expected to fulfill all responsibilities simultaneously. The positioning or ordering of the four categories of responsibility strives to portray the fundamental or basic nature of these four categories to a business's existence in society. As said before, economic and legal responsibilities are required; ethical and philanthropic responsibilities are expected and desired. The representation being portrayed, therefore, is that the total social responsibility of business entails the concurrent fulfillment of the firm's economic, legal, ethical, and philanthropic responsibilities. Stated in the form of an equation, it would read as follows: Economic Responsibilities + Legal Responsibilities + Ethical Responsibilities + Philanthropic Responsibilities = Total Corporate Social Responsibility. Stated in more practical and managerial terms, the CSR-driven firm should strive to make a profit, obey the law, engage in ethical practices, and be a good corporate citizen. When seen in this way, the pyramid is viewed as a unified or integrated whole.

Measuring CSR

CSR reporting has evolved from relatively simple environmental statements to comprehensive triple-bottom-line (people, planet, profit) reporting, which is used as a framework for measuring and reporting corporate performance against economic, social, and environmental parameters. Corporate Social Responsibility (CSR) is typically ***mea-***

sured *through a combination of quantitative and qualitative metrics that assess how well a company is meeting its social, environmental, and ethical obligations. Different organizations use various frameworks, tools, and reporting standards to evaluate CSR performance. Some of the most common methods include the Global Reporting Initiative (GRI), Sustainability Accounting Standards Board (SASB), Key Performance Indicators (KPI), Dow Jones Sustainability Index (DJSI), stakeholder feedback, and benchmarking.*

ESG *stands for Environmental, Social, and Governance. It refers to a set of standards used by businesses to evaluate and address their impact on the world, beyond just financial performance. The* ***FTSE4Good Index Series*** *is designed to measure the performance of companies demonstrating specific Environmental, Social, and Governance (ESG) practices. Transparent management and clearly defined ESG criteria make FTSE4Good indices suitable tools to be used by a wide variety of market participants when creating or assessing sustainable investment products.*[13]

Power Plant

There is growing attention on corporate sustainability and reporting, often raising the question: What's the difference between CSR and ESG? While both are frameworks for evaluating sustainability, they serve different purposes. CSR (Corporate Social Responsibility) is typically used as an internal guide for a company's ethical and social commitments, whereas ESG (Environmental, Social, and Governance) is a set of criteria used by investors to assess a company's sustainability performance. Some argue that ESG is increasingly becoming the dominant standard in the corporate sustainability landscape.[14]

The Boston College Center for Corporate Citizenship helps companies advance and elevate their corporate citizenship to deliver both business and social value, no matter where they are in their corporate citizenship journey. As the leading corporate citizenship membership community, The Boston College Center for Corporate Citizenship uses research-based knowledge, best-in-class learning opportunities, and dynamic peer network to help ALL companies know more about the global landscape of corporate citizenship; do more to optimize performance and value through the environmental, social, and governance (ESG) dimensions of firm performance—and thus achieve more as effective corporate citizens.[15]

Morningstar Sustainalytics provides high-quality, analytical environmental, social, and governance (ESG) research, ratings, and data to institutional investors and companies. For more than 30 years, this firm has focused on delivering innovative solutions that have enabled the world's leading institutional investors to identify, understand, and manage ESG-driven risks and opportunities.[16]

Greenwashing

Greenwashing *refers to the practice of misleading consumers or stakeholders into believing that a company, product, or initiative is more environmentally friendly or sustainable than it actually is. Companies engage in greenwashing by exaggerating, omitting, or fabricating claims about their environmental practices to enhance their reputation or market appeal.*

An example of a Canadian company accused of greenwashing is Shell Canada. The company launched its "Drive Carbon Neutral" program in 2020, claiming that the carbon emissions from fuel sold at its gas stations would be offset through investments in forest conservation projects. However, Greenpeace Canada raised concerns about the reliability of these claims, stating that the offsets were overstated or ineffective. They argued the program distracted from the need for Shell to reduce fossil fuel usage directly. Following these criticisms, Shell Canada discontinued the program in 2023.[17]

In the United States, Suncor Energy has faced allegations of greenwashing due to its CEO's statements about decarbonization efforts. Critics, including Members of Parliament, questioned the company's commitment to climate change initiatives, suggesting that its strategies and public communications did not align with substantive action on emissions reduction.[18]

These cases highlight the importance of transparency and verifiable claims in corporate environmental initiatives.

Personal and Business Ethics

Ethics *is the philosophical discipline concerned with what is morally good and bad, and morally right and wrong. Ethics, morals, and values – these are complex principles. Depending on the person, culture, time, situation, age, gender, business, or context, these concepts can change. People's morals or ethics are shaped when they are relatively young and are influenced not only by our parents but by society, our culture, and in some cases by our religion as well. Ethics can present challenges, dilemmas, and lapses of judgment. These challenges occur because these influences complicate how people make ethical decisions or think about ethics personally or professionally.*

Ideally, prison terms, heavy fines, and civil suits would discourage corporate misconduct, but, unfortunately, many experts suspect that this assumption is a bit optimistic. Whatever the condition of the ethical environment in the near future, one thing seems clear: the next generation entering business, which includes most of you, will find a world much different than the one that awaited the previous generation. Recent history tells us in no uncertain terms that today's business students, many of whom are tomorrow's business leaders, need a much sharper understanding of the difference between what is and isn't ethically acceptable. As a business student, one of your key tasks is learning how to recognize and deal with the ethical challenges that will confront you. Asked what he looked for in a new hire, Warren Buffett, the world's most successful investor, replied: "I look for three things. The first is per-

sonal integrity, the second is intelligence, and the third is a high energy level." He paused and then added: "But if you don't have the first, the second two don't matter".[19]

As business students, it is important to begin to understand how ethics affects you – what are your ethics like? If you had a compass, where would you fall? Studying ethics will help you understand this.

From a business perspective, ethics is even more complex. How do organizations know how to do the right thing? How do they know how to be socially responsible or how to practice effective corporate social responsibility? Part of this knowledge has to do with the leaders and culture of the organization. Part of the challenge is that things like conflicts occur, such as conflicts of interest, when individuals must choose between taking actions that promote their interest over the interests of others or conflicts of loyalty, when individuals have a responsibility to be loyal to a friend, family member, or employer and that conflicts with their ability to act ethically. These types of conflicts present real ethical dilemmas that make it very challenging to figure out how to do what's right.

It's in the best interest of a company to operate ethically. Trustworthy companies are better at attracting and keeping customers, talented employees, and capital. Those tainted by questionable ethics suffer from dwindling customer bases, employee turnover, and investor mistrust. Acting ethically in business means more than simply obeying applicable laws and regulations. It also means being honest, doing no harm to others, competing fairly, and declining to put your interests above those of your company, its owners, and its workers. If you're in business, you need a strong sense of what's right and wrong. You need personal conviction to do what's right, even if it means doing something difficult or personally disadvantageous.

Identifying Ethical Issues, Lapses, and Dilemmas

Ethical issues *are the difficult social questions that involve some level of controversy over what is the right thing to do. Environmental protection is an example of a commonly discussed ethical issue because there can be tradeoffs between environmental and economic factors.*

An ***ethical lapse*** *is a mistake or error in judgment that produces a harmful outcome. It is a failure to follow proper ethical principles. An ethical lapse can be viewed in two ways: as either a clearly unethical decision or a mistake that resulted in an unethical outcome. It is not considered a complete lack of integrity, just an oversight or an ethical blind spot.*[20] *Ethical lapses often reflect a failure of leadership, culture, or systems that prioritize accountability and integrity. Maintaining robust ethics training and a strong corporate governance framework can help prevent such lapses.*

Ethical dilemmas *are situations in which it is difficult for an individual to make decisions either because the right course of action is unclear or carries some potential negative consequences for the person or people involved.*

Make no mistake about it: when you enter the business world, you'll find yourself in situations in which you'll have to choose the appropriate behavior. How, for example, would you answer questions like the following?

Making Ethical Decisions May Take Some Thought

- *Is it OK to accept a pair of sports tickets from a supplier?*
- *Can I buy office supplies from my brother-in-law?*
- *Is it appropriate to donate company funds to a local charity?*
- *If I find out that a friend is about to be fired, can I warn her?*

The types of situations are numerous and varied. Fortunately, we can break them down into a few basic categories: issues of honesty and integrity, conflicts of interest and loyalty, bribes versus gifts, and whistle-blowing. Let's look a little more closely at each of these categories.

Issues of Honesty and Integrity

*An **ethical lapse in honesty and integrity** occurs when an individual, organization, or company fails to uphold fundamental ethical principles, such as truthfulness, transparency, and adherence to moral standards. It typically involves actions or decisions that prioritize self-interest, convenience, or profit over fairness, accountability, and ethical responsibility.*

A recent example of an ethical lapse involving honesty and integrity in a Canadian company is the case of PwC Canada. The accounting firm was found to have systemic answer-sharing among employees during mandatory internal training assessments between 2016 and 2020. These assessments were designed to evaluate professional competencies, but many employees, including senior associates and managers, participated in or facilitated widespread sharing of answers. This practice reflected a failure in fostering a culture of ethical integrity and ensuring independent completion of assessments. PwC Canada self-reported the issue, leading to fines totaling $1.45 million imposed by the Chartered Professional Accountants of Ontario. The incident undermined public trust in the firm and raised questions about its internal quality controls and ethical standards.[21]

A recent example of a U.S. company facing an ethical lapse related to honesty and integrity involves the biotech company Illumina. In July 2023, the European Commission fined Illumina €432 million (approximately $476 million USD) for merging with the cancer detection company Grail without obtaining the necessary regulatory approval. The Commission called this action an "unprecedented and very serious infringement" of EU merger

control rules. This lapse reflects ethical concerns over compliance with international regulations and transparency in business operations, as the company knowingly bypassed established legal procedures to expedite the merger.[22]

If you work for a company that settles for its employees merely obeying the law and following a few internal regulations, you might think about moving on. If you're being asked to deceive customers about the quality or value of your product, you're in an ethically unhealthy environment.

Conflicts of Interest

***Conflicts of interest** occur when individuals must choose between taking actions that promote their interests over the interests of others or taking actions that don't. A conflict can exist, for example, when an employee's interests interfere with, or have the potential to interfere with, the best interests of the company's stakeholders (management, customers, and owners). Let's say that you work for a company with a contract to cater events at your college and that your uncle owns a local bakery. This situation could create a conflict of interest (or at least give the appearance of one, which is a problem in itself). When you're called on to furnish desserts for a luncheon, you might be tempted to send some business your uncle's way even if it's not in the best interest of your employer. What should you do? You should disclose the connection to your boss, who can then arrange things so that your interests don't conflict with the company's.*

The same principle holds that an employee shouldn't use private information about an employer for personal financial benefit. Say that you learn from a coworker at your pharmaceutical company that one of its most profitable drugs will be pulled off the market because of dangerous side effects. The recall will severely hurt the company's financial performance and cause its stock price to plummet. Before the news becomes public, you sell all the stock you own in the company. What you've done is called insider trading—acting on information that is not available to the general public, either by trading on it or providing it to others who trade on it. Insider trading is illegal, and you could go to jail for it.

Conflicts of Loyalty

You may one day find yourself in a bind between being loyal to your employer or a friend, or a family member. Perhaps you just learned that a coworker, a friend of yours, is about to be downsized out of his job. You also happen to know that he and his wife are getting ready to buy a house near the company headquarters. From a work standpoint, you know that you shouldn't divulge the information. From a friendship standpoint, though, you feel it's your duty to tell your friend. Wouldn't he tell you if the situation were reversed? So, what do you do? As tempting as it is to be loyal to your friend, you shouldn't tell. As an employee, your primary responsibility is to your employer. You might be able to soften your dilemma by convincing a manager with the appropriate authority to tell your friend the bad news before he puts down his deposit.

A notable example of a conflict of loyalty in Canadian business arose in the legal dispute involving Groupe Excellence, a Quebec-based insurance company. This case centered on two directors and presidents of the company, who failed to inform the majority shareholders about a potential acquisition interest from Industrial Alliance Insurance. Instead, the presidents secretly negotiated the deal, bought out the shareholders' stakes, and sold them to Industrial Alliance at a significantly higher profit, depriving the shareholders of substantial financial benefits. The Supreme Court of Canada examined whether the directors breached their duties of loyalty, good faith, and disclosure to the shareholders. It concluded that while they did not owe a fiduciary duty directly to shareholders, they breached an implied obligation of good faith due to a separate compensation agreement that required them to act in the shareholders' best interests. This lapse resulted in legal actions against the directors, highlighting the delicate balance of duties and conflicts in corporate governance. This case illustrates how ***conflicts of loyalty*** *can arise when individuals in leadership positions prioritize personal gains over their professional obligations, leading to ethical and legal repercussions.*[23]

Ethical Dilemma

In the video below, an ethical dilemma is presented. Dilemmas are situations that you find yourself in when you have to make a decision that does not have a clear answer. Like in the dilemma presented in the video, what would have happened if Amber had taken the money? As the video discusses, it's not the right thing to do. However, the dilemmas lie within the context of the situation as well. What if Amber were living in poverty? What's the right thing to do in that situation? Would it change your response? To help guide us, we need to fall back on our morals, the ethical framework that helps us to be honest and go through life and situations with integrity.

Play the YouTube video below, "Ethics," to review an ethical dilemma experienced by Amber.[24]
Transcript for "Ethics." Video [PDF–New Tab]. Closed captioning is available on YouTube.

One or more interactive elements has been excluded from this version of the text. You can view them online here: https://ecampusontario.pressbooks.pub/businessfundamentals/?p=264#oembed-1

Bribes Versus Gifts

It is not uncommon in business to give and receive small gifts of appreciation, but when is a gift unacceptable? When is it a bribe?

There is often a fine line between a gift and a bribe. The following information may help to draw that line, because it raises key issues in determining how a gesture should be interpreted: the cost of the item, the timing of the gift, the type of gift, and the connection between the giver and the receiver. If you are on the receiving end, it is a good idea to refuse any item that is overly generous or given to influence a decision. Because accepting even small gifts may violate company rules, always check on company policy.

In both Canada and the U.S., companies have struggled to define clear distinctions between gifts and bribes. A ***gift*** *intended to maintain goodwill or celebrate a partnership might be ethical if it's modest and transparent. However, lavish or undisclosed gifts designed to influence decision-making cross the line into* ***bribery****. Policies like those of the FCPA emphasize transparency, proper recording, and adherence to anti-corruption laws to avoid such lapses.*

An example of an ethical lapse involving bribes versus gifts in a Canadian company includes the high-profile case of SNC-Lavalin. The Montreal-based engineering firm faced allegations of bribery related to securing business in Libya. The accusations included millions of dollars in payments classified as bribes, disguised as legitimate business expenses, which raised ethical concerns about distinguishing acceptable corporate gifts from outright corruption. This led to legal actions under Canada's Corruption of Foreign Public Officials Act and significant reputational damage.[25]

In the U.S., Walmart faced scrutiny for alleged bribery practices in Mexico, where executives were accused of paying off officials to expedite permits and construction approvals. The investigation revealed systemic issues in distinguishing ethical gifts or facilitation payments from bribes, ultimately resulting in a $282 million settlement under the U.S. Foreign Corrupt Practices Act (FCPA).[26]

Both cases highlight the importance of robust compliance programs to ensure clear policies about what constitutes acceptable business conduct, emphasizing the need for transparency and adherence to anti-bribery laws.

Whistle-Blowing

A ***whistleblower*** *is someone who reports waste, fraud, abuse, corruption, or dangers to public health and safety to someone who is in a position to rectify the wrongdoing. A whistleblower typically works inside the organization where the wrongdoing is taking place; however, being an agency or company "insider" is not essential to serving as a whistleblower. What matters is that the individual discloses information about wrongdoing that otherwise would not be known.*[27]

An example of whistleblowing in a Canadian company involves Coinsquare, a cryptocurrency trading platform. From 2018 to 2019, Coinsquare engaged in "wash trading," where an algorithm created fake buy-and-sell orders to inflate trading volumes artificially. A whistleblower within the company, who discovered and reported this practice to senior management, faced significant retaliation, including threats to their employment and eventual termination after taking stress leave due to the issue. The Ontario Securities Commission (OSC) investigated and determined that Coinsquare's actions violated securities laws and whistleblower protections. As part of a settlement, the company admitted to the reprisal and agreed to strengthen its whistleblower policies, while the former CEO faced fines and a ban on serving as an officer or director.[28]

Blow the Whistle when you Identify illegal Business Practices

In the past few years, a notable whistleblower case in the USA involved BofI Federal Bank (now called Axos Bank), where an internal auditor, Erhart, reported concerns about the bank's risky business practices. He had raised alarms about high deposit concentrations and risky loans to potentially fraudulent entities. After Erhart reported these issues internally, he was fired, and the case progressed to a legal battle under the Sarbanes-Oxley Act (SOX) for whistleblower protection. In 2023, the jury sided with Erhart, awarding him significant compensation, and the court denied the bank's attempt to overturn the decision. The case highlighted concerns over shareholder fraud and internal controls violations.[29]

Another example of a whistleblower case in the USA occurred at Donovan Salvage Works, a Delaware salvage yard. An employee, a smelter operator, reported a safety hazard involving a propane leak at the yard. After the employee refused to continue working under unsafe conditions, he was terminated by the company in retaliation for reporting the issue. Following an investigation by the Occupational Safety and Health Administration (OSHA), the company was found guilty of wrongful termination and was ordered to pay $40,000 in back wages and damages.[30]

Despite significant financial investment in its whistleblower protection framework, Canada has failed to ade-

quately protect individuals reporting misconduct. Over 500 whistleblowers faced reprisals without sufficient remedies. This was highlighted in international assessments, which rated Canada's legal framework for whistleblower protections as among the worst globally. The case underscores the challenges whistleblowers face in bringing attention to unethical practices without fearing retaliation.[31]

In the United States, a significant 2023 case involved a whistleblower under the False Claims Act. The individual, a doctor, accused a healthcare company of enabling Medicare fraud. The case reached the U.S. Supreme Court, which ruled the Department of Justice could dismiss such lawsuits even if initially allowed to proceed. This ruling reflects the complex interplay between whistleblower rights and government oversight in ensuring actionable claims move forward without undue burden.[32]

These examples highlight how whistleblowing plays a critical role in exposing corporate and institutional malpractice, but also the legal and systemic barriers faced in both Canada and the U.S.

Encouraging Ethics in the Workplace

When organizations are ethical and practice CSR, consumer and employee rights will be highly considered and handled with integrity and ethics. For employees' health and safety, privacy, wages, and benefits, along with the right to not be harassed or discriminated against, are all-important ethical considerations. Consumers have rights too; consumers expect that the products they buy will be safe, in terms of production, consumption, and/or use. Consumers also have the right to be made aware of how the product is made or what the service involves. The choice is their right too – they can buy whatever products or services that they want; and it's the responsibility of businesses to let consumers know about alternatives or information that they need to be aware of regarding the product or service they are buying.

A recent survey found that 38% of employees consider "ethical standards" to be the first or second-most important workplace attribute (Refer to Figure 6.3).[33] *People spend much of their lives at work. An ethical workplace is key because it allows employees to feel a sense of purpose and integrity on the job.*

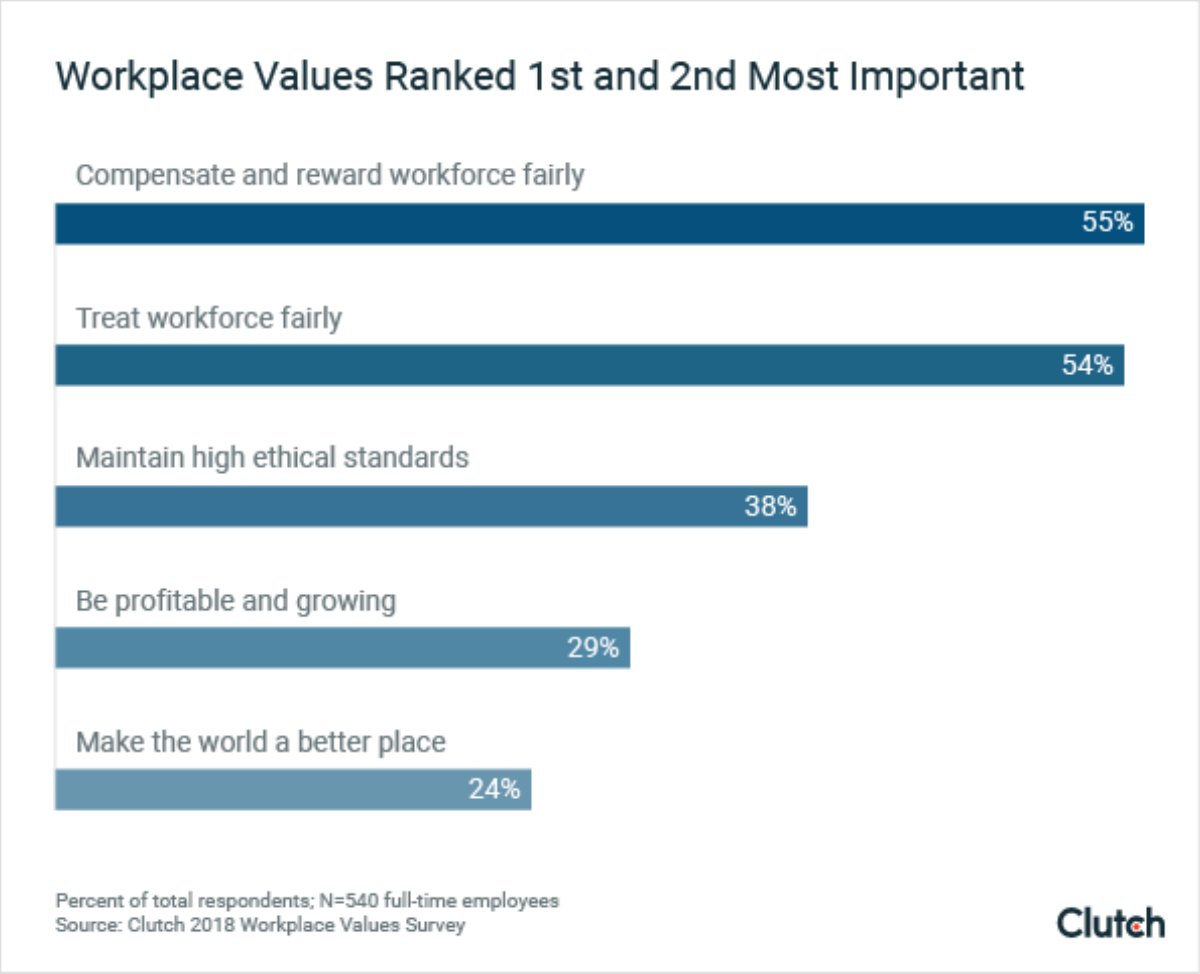


Figure 6.3 Clutch Workplace Values Survey Results

Create an Ethical Work Environment

For a business to be considered an ethical organization, it must demonstrate integrity, transparency, and accountability in all aspects of its operations. Creating an ***ethical business environment*** *involves adherence to laws and regulations, strong corporate governance, and proactive efforts to ensure the well-being of employees, customers, and the community. For example, a few of the companies that do this well include those listed on the 2024 "100 Best Corporate Citizens" list, which, to name a few, include HP Inc., Johnson & Johnson, PepsiCo Inc., Ford Motor Company, and The Hershey Company.*[34]

Key factors in creating an ethical business environment include:[35]

1. ***Strong Leadership and Ethical Oversight.*** *Effective ethical practices start at the top. Establish a comprehensive code of ethics that clearly defines acceptable behavior and guides decision-making in areas such as anti-corruption, diversity, privacy, and fairness. A dedicated board of directors should oversee accountabil-*

ity and steer ethical strategies. Transparency is crucial—regularly share financial, operational, and social responsibility information to build stakeholder trust. Leading Canadian companies like TELUS and RBC exemplify this by publishing Corporate Social Responsibility (CSR) and Environmental, Social, and Governance (ESG) reports that showcase their ethical commitments.

2. ***Adherence to Laws and Standards.*** *Ensure compliance with applicable regulations, including the Competition Act, the Corruption of Foreign Public Officials Act (CFPOA), the Canadian Human Rights Act, and Occupational Health and Safety Regulations. For businesses with a global footprint, aligning with international standards such as ISO 26000 (Social Responsibility) or the UN Global Compact further strengthens ethical credibility. For instance, Bombardier's governance policies and Code of Ethics help the company maintain high standards of corporate governance.*[36]
3. ***Ethical Workplace Practices.*** *Safeguard employee rights and foster a workplace that values diversity and inclusion. Ensure a safe environment and encourage employees to report unethical conduct without fear of retaliation. Shopify, for example, champions inclusivity and diversity through programs like "Diversity and Belonging."*[37]
4. ***Commitment to Social Responsibility.*** *Support community development through volunteering, charitable contributions, and strategic partnerships. Prioritize environmental sustainability by reducing carbon emissions, managing waste responsibly, and investing in eco-friendly initiatives. Loblaw's proactive measures to curb food waste and minimize plastic usage are strong examples of corporate sustainability.*
5. ***Proactive Risk Management.*** *Provide ongoing training for employees on ethical decision-making and compliance. Implement clear social media and data privacy policies. Conduct internal audits to monitor adherence to company policies and maintain open communication with stakeholders to address their concerns.*

By prioritizing these practices, businesses can earn a reputation for integrity and ethical leadership, laying the foundation for long-term success and stakeholder trust.

Sexual Harassment

Sexual harassment *occurs when an employee makes "unwelcome sexual advances, requests for sexual favours, and other verbal or physical conduct of a sexual nature" to another employee. It's also considered sexual harassment when "submission to or rejection of this conduct explicitly or implicitly affects an individual's employment, unreasonably interferes with an individual's work performance or creates an intimidating, hostile or offensive work environment." In Canada, the legal framework for addressing sexual harassment includes protections under the Canadian Human Rights Act (CHRA), provincial human rights codes, and the Canada Labour Code for federally regulated workplaces.*[38][39]

Sexual harassment rocketed to the top of news reports and social media when, on October 5, 2017, The New York Times broke the story of Harvey Weinstein's decades of harassment in Hollywood. In March of 2018, CBC News

collated the allegations of sexual harassment against prominent Canadians. The list, including only those allegations reported by CBC, highlights the prevalence of this issue.

The Government of Canada reported that in 2020, one in four women and one in six men reported having experienced inappropriate sexualized behaviours at work in the previous year.[40] *Indigenous women and members of the LGBTQ+ community are disproportionately affected, with much higher likelihoods of experiencing sexual violence.*[41] *Federally regulated sectors such as transportation, banking, and communication account for a significant proportion of harassment incidents. In 2022, 31% of reported sexual harassment occurrences were from the road transportation sector, 17% from air transportation, and 15% from banking.*[42]

To prevent sexual harassment—or at least minimize its likelihood—a company should adopt a formal anti-harassment policy describing prohibited conduct, asserting its objections to the behaviour, and detailing penalties for violating the policy. Employers also have an obligation to investigate harassment complaints. Failure to enforce anti-harassment policies can be very costly.

Workforce Diversity | Inclusive Workplaces

In addition to complying with equal employment opportunity laws, many companies make special efforts to create an ***inclusive workforce*** *by recruiting employees who are underrepresented in the workforce according to sex, race, or some other characteristic. In helping to build more inclusive workforces, such initiatives contribute to competitive advantage for two reasons:*

1. *People from diverse backgrounds bring new talents and fresh perspectives to an organization, typically enhancing creativity in the development of new products.*
2. *By more accurately reflecting the demographics of the marketplace, a diverse workforce improves a company's ability to serve an ethnically diverse population.*

The Tylenol Crisis

On September 30, 1982, twelve-year-old Mary Kellerman of Chicago died after her parents gave her Extra-Strength Tylenol. That same morning, twenty-seven-year-old Adam Janus, also of Chicago, died after taking Tylenol for minor chest pain. That night, when family members came to console

his parents, Adam's brother and his wife took Tylenol from the same bottle and died within forty-eight hours. Over the next two weeks, four more people in Chicago died after taking Tylenol. The actual connection between Tylenol and the series of deaths wasn't made until an off-duty fireman realized from news reports that every victim had taken Tylenol. As consumers panicked, the Johnson & Johnson (J&J) company pulled Tylenol off Chicago-area retail shelves. Researchers discovered Tylenol capsules containing large amounts of deadly cyanide. Because the poisoned bottles came from batches originating at different J&J plants, investigators determined that the tampering had occurred after the product had been shipped.[43]

So, J&J wasn't at fault. But CEO Burke was still faced with an extremely serious dilemma: Was it possible to respond to the tampering cases without destroying the reputation of a highly profitable brand?

Burke had two options:

1. He could recall only the lots of Extra-Strength Tylenol that were found to be tainted with cyanide. In 1991, Perrier executives recalled only tainted products when they discovered that cases of their bottled water had been poisoned with benzine. This option favoured J&J financially but possibly put more people at risk.
2. Burke could order a nationwide recall of all bottles of Extra-Strength Tylenol. This option would reverse the priority of the stakeholders, putting the safety of the public above stakeholders' financial interests.

Burke opted to recall all 31 million bottles of Extra-Strength Tylenol on the market. The cost to J&J was $100 million, but public reaction was quite positive. Less than six weeks after the crisis began, Tylenol capsules were reintroduced in new tamper-resistant bottles, and by responding quickly and appropriately, J&J was eventually able to restore the Tylenol brand to its previous market position. When Burke was applauded for moral courage, he replied that he'd simply adhered to the long-standing J&J credo that put the interests of customers above those of other stakeholders. His only regret was that the perpetrator was never caught.[44]

Source: CNBC

If you're wondering what your thought process should be if you're confronted with an ethical dilemma, you might wish to remember the mental steps listed here, which happen to be the steps that James Burke took in addressing the Tylenol crisis:

1. Define the problem: How to respond to the tampering case without destroying the reputation of the Tylenol brand.
2. Identify feasible options: (1) Recall only the lots of Tylenol that were found to be tainted, or (2) order a nationwide recall of all bottles of Extra-Strength Tylenol.
3. Assess the effect of each option on stakeholders: Option 1 (recalling only the tainted lots of Tylenol) is cheaper but puts more people at risk. Option 2 (recalling all bottles of Extra-Strength Tylenol) puts the safety of the public above stakeholders' financial interests.
4. Establish criteria for determining the most appropriate action: Adhere to the J&J credo, which puts the interests of customers above those of other stakeholders.
5. Select the best option based on the established criteria: In 1982, Option 2 was selected, and a nationwide recall of all bottles of Extra-Strength Tylenol was conducted.

The Individual Approach to Ethics

How can you make sure that you do the right thing in the business world? How should you respond to the kinds of challenges that you'll be facing? Because your actions in the business world will be strongly influenced by your moral character, let's begin by assessing your current moral condition. Which of the following best applies to you (select one)?

1. *I'm always ethical.*
2. *I'm mostly ethical.*
3. *I'm somewhat ethical.*
4. *I'm seldom ethical.*
5. *I'm never ethical.*

Now that you've placed yourself in one of these categories, here are some general observations. Few people put themselves below the second category. Most of us are ethical most of the time, and most people assign themselves to category number two— "I'm mostly ethical." Why don't more people claim that they're always ethical?

Apparently, most people realize that being ethical all the time takes a great deal of moral energy. If you placed yourself in category number two, ask yourself this question: How can I change my behaviour so that I can move up a notch? The answer to this question may be simple. Just ask yourself an easier question: How would I like to be treated in a given situation?[45]

Unfortunately, practicing this philosophy might be easier in your personal life than in the business world. Ethical

challenges arise in business because companies, especially large ones, have multiple stakeholders who sometimes make competing demands. Making decisions that affect multiple stakeholders isn't easy even for seasoned managers, and for new entrants to the business world, the task can be extremely daunting. You can, however, get a head start in learning how to make ethical decisions by looking at two types of challenges that you'll encounter in the business world: ethical dilemmas and ethical decisions.

Maintain Personal Honesty and Integrity

To maintain your own honesty and integrity in the workplace, do the following:

- Follow your own code of personal conduct; act according to your own convictions rather than doing what's convenient (or profitable) at the time.
- While at work, focus on your job, not on non-work-related activities, such as emails and personal phone calls.
- Don't appropriate office supplies or products or other company resources for your own use.
- Be honest with customers, management, coworkers, competitors, and the public.
- Remember that it's the small, seemingly trivial, day-to-day activities and gestures that build your character.

Make Ethical Decisions

Ask yourself the following five questions as a test to help you improve your chances of making ethical decisions. If you answer yes to any of them, then you probably should not do it.

1. *Is the action illegal?*
2. *Is it unfair to some stakeholders? (Also, if it were happening to you, then would it be unfair?*
3. *If I do it, will I feel bad about it?*
4. *Will I be ashamed to tell my family, friends, coworkers, or boss?*
5. *Will I be embarrassed if my action is written up in the newspaper?*

Some ethical problems are fairly straightforward. Others, unfortunately, are more complicated, but it will help to think of our five-question test as a set of signals that will warn you that you're facing a particularly tough deci-

sion— that you should think carefully about it and perhaps consult someone else. The situation is like approaching a traffic light. Red and green lights are easy; you know what they mean and exactly what to do. Yellow lights are trickier. Before you decide which pedal to hit, try posing the five questions. If you get a single yes, you'll almost surely be better off hitting the brakes.[46]

Refuse to Rationalize

Despite all the good arguments in favour of doing the right thing, why do many reasonable people act unethically (at least at times)? Why do good people make bad choices? According to one study, there are four common rationalizations (excuses) for justifying misconduct:[47]

1. *My behaviour isn't really illegal or immoral. Rationalizers try to convince themselves that an action is OK if it isn't downright illegal or blatantly immoral. They tend to operate in a gray area where there's no clear evidence that the action is wrong.*
2. *My action is in everyone's best interests. Some rationalizers tell themselves: "I know I lied to make the deal, but it'll bring in a lot of business and pay a lot of bills." They convince themselves that they're expected to act in a certain way.[46]*
3. *No one will find out what I've done. Here, the self-questioning comes down to "If I didn't get caught, did I really do it?" The answer is yes. There's a simple way to avoid succumbing to this rationalization: always act as if you're being watched.*
4. *The company will condone my action and protect me. This justification rests on a fallacy.*

If you find yourself having to rationalize a decision, it's probably a bad one.

Key Takeaways

1. **Corporate social responsibility (CSR)** is a business model by which companies make a concerted effort to operate in ways that enhance rather than degrade society and the environment.
2. **The United Nations' Sustainable Development Goals (SDGs)** are a set of 17 goals that

aim to achieve peace and prosperity for people and the planet.

3. Companies can be "socially responsible" in considering the claims of various **stakeholders:** Owners and Investors, Managers, Employees, Customers, and Communities.
4. Managers have what is known as a **fiduciary responsibility** to owners: they're responsible for safeguarding the company's assets and handling its funds in a trustworthy manner.
5. **Customer rights:** the right to safe products, the right to be informed about a product, the right to choose what to buy, and the right to be heard.
6. **Carroll's Pyramid** is a well-respected resource for situating corporate social responsibility. In this model, the focus is on managers, not owners, as the principals involved in the company's relationships with its stakeholders.
7. **Economic corporate responsibility** refers to the practice of making financial decisions based on a commitment to doing good.
8. Businesses have **legal responsibilities** to comply with laws and regulations at the local, national, and international levels. **Business law** refers to rules, statutes, codes, and regulations established to provide a legal framework within which business may be conducted. **Legal compliance** refers to conducting a business within the boundaries of all the legal regulations of that industry.
9. The **Canadian Charter of Rights and Freedoms** is a binding legal document that protects the basic human rights of all Canadians, such as fundamental freedoms, democratic rights, mobility rights, legal rights, equality rights, and language rights.
10. The **Canadian Human Rights Act** extends the law to ensure equal opportunity to individuals who may be victims of discriminatory practices based on a set of prohibited grounds (e.g., gender, disability, or religion).
11. **Employment-related legislation** covers the following subjects: employment standards, human rights, federal and provincial privacy, occupational health and safety, workers' compensation, and labour regulations legislation. Employers must obey laws governing minimum wage and overtime pay. A **minimum wage** is set by the provincial government.
12. In Canada, **workplace health and safety** are governed by several key pieces of legislation designed to protect workers and ensure safe working environments: Canada Labour Code, provincial and territorial health and safety legislation, occupational health and safety regulations, and workers' compensation legislation.
13. The **Employment Equity Act** states that no person shall be denied employment opportunities or benefits for reasons unrelated to ability. It seeks to improve the employment conditions experienced by women, Indigenous peoples, persons with disabilities, and visible minorities.

14. Many large corporations support various charities, an activity called **philanthropy. Philanthropic responsibility** is a business's commitment to improving society through charitable activities, community support, and social initiatives. It's a key aspect of corporate social responsibility (CSR), and it emphasizes that businesses should not only focus on profit-making.
15. Corporate Social Responsibility **(CSR)** is typically **measured** through a combination of quantitative and qualitative metrics that assess how well a company is meeting its social, environmental, and ethical obligations. Different organizations use various frameworks, tools, and reporting standards to evaluate CSR performance.
16. **Greenwashing** refers to the practice of misleading consumers or stakeholders into believing that a company, product, or initiative is more environmentally friendly or sustainable than it actually is.
17. **ESG** stands for Environmental, Social, and Governance. It refers to a set of standards used by businesses to evaluate and address their impact on the world, beyond just financial performance.
18. The **FTSE4Good Index Series** is designed to measure the performance of companies demonstrating specific Environmental, Social, and Governance (ESG) practices.
19. **Ethics** is the philosophical discipline concerned with what is morally good and bad, and morally right and wrong. Businesses have **ethical responsibilities** to ensure fair practices and treat customers, employees, and stakeholders with respect.
20. **Ethical issues** are the difficult social questions that involve some level of controversy over what is the right thing to do.
21. An **ethical lapse** is a mistake or error in judgment that produces a harmful outcome. It is a failure to follow proper ethical principles.
22. **Ethical dilemmas** are situations in which it is difficult for an individual to make decision,s either because the right course of action is unclear or carries some potential negative consequences for the person or people involved.
23. An **ethical lapse in honesty and integrity** occurs when an individual, organization, or company fails to uphold fundamental ethical principles, such as truthfulness, transparency, and adherence to moral standards. It typically involves actions or decisions that prioritize self-interest, convenience, or profit over fairness, accountability, and ethical responsibility.
24. **Conflicts of interest** occur when individuals must choose between taking actions that promote their personal interests over the interests of others or taking actions that don't.
25. **Conflicts of loyalty** can arise when individuals in leadership positions prioritize personal gains over their professional obligations, leading to ethical and legal repercussions.

26. A **gift** intended to maintain goodwill or celebrate a partnership might be ethical if it's modest and transparent. However, lavish or undisclosed gifts designed to influence decision-making cross the line into **bribery.**
27. A **whistleblower** is someone who reports waste, fraud, abuse, corruption, or dangers to public health and safety to someone who is in a position to rectify the wrongdoing.
28. Creating an **ethical business environment** involves adherence to laws and regulations, strong corporate governance, and proactive efforts to ensure the well-being of employees, customers, and the community.
29. **Sexual harassment** occurs when an employee makes "unwelcome sexual advances, requests for sexual favours, and other verbal or physical conduct of a sexual nature" to another employee.
30. In addition to complying with equal employment opportunity laws, many companies make special efforts to create an **inclusive workforce** by recruiting employees who are underrepresented in the workforce according to sex, race, or some other characteristics.

End-of-Chapter Exercises

1. **Corporate Social Responsibility (CSR).** Use the Internet to research a company's corporate social responsibility efforts (e.g., Leons, Home Depot, Starbucks, PepsiCo, or others). What action does the company take toward CSR? What is the reaction of the stakeholders to the company's CSR strategy? Share your findings with the class and/or the professor.
2. **Ethical Crisis.** Use the Internet to search for an example of a business having an ethical crisis (similar to the Tylenol crisis discussed in the chapter). What did you find? Did anyone get hurt? What was the court ruling? Was this fair in your opinion? How could this have been avoided? Discuss with a partner, the class, and/or the professor.
3. **Greenwashing.** Use the Internet to research the characteristics of greenwashing. Provide an example of a company that has been found to be greenwashing. Why does greenwashing happen? How can consumers identify greenwashing? Discuss with the class and/or the pro-

fessor.

4. **CSR Rankings.** Use the Internet to locate a ratings and rankings website that ranks companies based on their CSR efforts. Which companies are ranked best and worst? Why? Share your findings with the class and/or professor.
5. **Pondering Ethics.** Assume you are a manager and, as the manager, you feel you have the right to take home office supplies (e.g., printer paper, pens, binders, coffee packs, etc.). Recently, you noticed that your employees have begun doing the same. What should you do? Discuss with a partner, the class and/or your professor.
6. **Personal and Business Ethics.** Where are the boundaries between personal ethics and business ethics? Are there rules to indicate where one begins and the other ends? Should there be? Discuss with a partner, the class and/or the professor.
7. **Charter of Rights and Freedoms.** Use the Internet to research what the Charter includes. How has this affected you personally? Discuss with the class and/or professor.
8. **Codes.** What is your college or university's code of conduct, academic honesty code, or other ethical behaviour code? What are the expectations of behaviour outlined in these codes? How are they enforced? Do you think these codes are working? Why or why not? Discuss with a partner, the class and/or the professor.
9. **Stakeholder Responsibilities.** Non-profit organizations, such as your college or university, have social responsibilities to their stakeholders. Identify the stakeholders at your school, and for each category of stakeholder, indicate the ways your school is socially responsible to that group. Discuss with a partner, the class and/or professor.
10. **Write a Personal Code of Ethics.** Write a personal code of ethics. What will you put into it? What's important to you? Identify your core values, principles, and guidelines for how you want to live and make decisions. Visit Indeed's Career Guide for examples if you need a little help getting started. Discuss with a partner, the class and/or professor.
11. **Corporate Ethics.** Visit two of the following company websites: Boeing, Apple Inc., and Toyota Motor Corporation. Compare and contrast the companies' code of ethics, mission, vision, values and code of conduct. Based solely on each company's ethical conduct, mission, and values, which company would you rather work for? Why? Discuss with a partner, the class and/or professor.
12. **Volunteerism.** You don't have to wait until you graduate to start demonstrating your social responsibility. Volunteering in your community or at your school is a great way to gain experience, make contacts, and do something good. Employers like to hire people who have given back to their communities. Visit Volunteer Canada and find an organization in your area looking for volunteers. What opportunities are there for volunteers? What are the current trend-

ing issues? What is the Canadian Code of Volunteer Involvement? List a couple organizations in our province or territory that have adopted the code. Share your findings with the class and/or the professor.

13. **Company Research.** Choose a Global 500 company from Fortune magazine's annual ranking for last year (or your professor might assign a specific company). You will submit a short report (formatted as instructed) to your professor with answers to the following questions:
    - Does the company's vision or values statement discuss the environment or treatment of people? Provide details.
    - Does the company have a code of ethics? If so, what is it? If not, does the mission statement or vision statement mention ethical values? Provide details.
    - Has the company been in a news scandal? If so, what was it about? Provide details.
    - Has the company had an ethical lapse? If so, what was it about? How did the company recover? Provide details.
    - Does the company engage in philanthropy? Provide details.
    - Is there anything in the news that contradicts the image the company is trying to portray?

Self-Check Exercise: Ethics, Law, and Social Responsibility Quiz

Check your understanding of this chapter's concepts by completing this short self-check quiz.

An interactive H5P element has been excluded from this version of the text. You can view it online here:
https://ecampusontario.pressbooks.pub/businessfundamentals/?p=264#h5p-32

Additional Resources

1. Ethics Defined. YouTube Video.
2. Fiduciary Duty. YouTube Video.
3. What is Triple Bottom Line? YouTube Video.
4. What is Corporate Social Responsibility (CSR)?
5. Corporate Social Responsibility Explained: Why it's Important for your Business. YouTube Video.
6. What is Corporate Social Responsibility (CSR)? HBS Online, YouTube Video.
7. What are the Types of Corporate Social Responsibility? How to Choose the Right One. YouTube Video.
8. How to Develop a Corporate Social Responsibility Strategy: Solving Business Problems. YouTube Video.
9. Corporate Social Responsibility vs Corporate Philanthropy: What's the Difference? YouTube Video.
10. Corporate Social Responsibility and Diversity in the Modern Workplace: Building Better Businesses. YouTube Video.
11. How to Measure Your CSR Program's Performance and Impact. YouTube Video.
12. Top 7 Benefits of Corporate Social Responsibility (CSR) for Any Business. YouTube Video.
13. Sustainable Development Goals (SDGs): Why They Matter for Business Today. YouTube Video.
14. Prominent Canadian Whistleblowers
15. A Timeline of U.S. Whistleblowing
16. Canada's Best Diversity Employers
17. America's Best Employers for Diversity
18. The World's Biggest Accounting Fraud Scandals
19. Get Better Employee Engagement by Following These 8 Simple Steps: Best Practices for 2022 and Beyond. YouTube Video.

Attributions

The contents of this chapter is a compilation sourced from various OER resources, please refer to the Book Information for details.

References

(Note: This reference list was produced using the auto-footnote and media citation features of Pressbooks)

Media Attributions

- *UN Sustainable Development Goals © United Nations is licensed under a All Rights Reserved license*
- *Shopping Online © justynafaliszek | Pixabay*
- *Carrolls CSR Pyramid © Unknown is licensed under a CC BY-NC-SA (Attribution NonCommercial ShareAlike) license*
- *Tax Evasion © Alexa | Pixabay*
- *Charitable Giving © Willian 2000 | Pixabay*
- *Power Plant © Denny Franzkowiak | Pixabay*
- *Decision Making © Tumisu | Pixabay*
- *Whistle Blower © Luis Quintero | Pexels*
- *Workplace Values © Clutch 2018 Workplace Values Survey is licensed under a All Rights Reserved license*

Notes

1. *Fernando, J. (2024, March 6). What is CSR? Corporate social responsibility explained. https://www.investopedia.com/terms/c/corp-social-responsibility.asp#:~:text=Corporate%20social%20responsibility%20is%20a%20business%20model%20by,and%20promote%20a%20positive%20brand%20image%20for%20companies.*
2. *United Nations (n.d.). Sustainable development goals (SDGs). https://unosd.un.org/content/sustainable-development-goals-sdgs*
3. *CCOHS. (n.d.). Health and safety legislation in Canada. https://www.ccohs.ca/oshanswers/legisl/legislation/intro.html*
4. *Government of Canada. (2022). 2022 annual report -- Occupational injuries in the Canadian federal jurisdiction. https://www.canada.ca/en/employment-social-development/services/health-safety/reports/2022-injuries.html*
5. *U.S. Department of Labor. Occupational safety and health administration. https://www.osha.gov/*
6. *Target. (2024). Target circle community giving. https://corporate.target.com/sustainability-governance/communities/grants-corporate-giving/target-circle-community-giving#:~:text=Our%20impact,communities%20where%20we%20do%20business.*
7. *Loblaw Companies Limited. (n.d.). Helping Canadians live life well. https://www.loblaw.ca/*

8. *Telus. (n.d.). Funding meaningful change. https://www.telus.com/en/social-impact/giving-back/community-grants*
9. *benevity. (n.d.). The 4 main types of corporate social responsibility your business should consider (and why). https://benevity.com/resources/types-of-corporate-social-responsibility#:~:text=Economic%20responsibility%20refers%20to%20the,way%20of%20bolstering%20their%20mission.*
10. *Hayes, A. (2022, December 29). Corporate citizenship: What it means, 5 stages, and examples. https://www.investopedia.com/terms/c/corporatecitizenship.asp#:~:text=Investopedia%20/%20Julie%20Bang-,What%20Is%20Corporate%20Citizenship?,and%20governance%20(ESG)%20practices.*
11. *Government of Canada. (n.d.). Overview of policy issues and background--Employment Equity Act review. https://www.canada.ca/en/employment-social-development/corporate/portfolio/labour/programs/employment-equity/reports/act-review-overview-backgrounder-policy-issues.html*
12. *Government of Canada. (n.d.). Canadian Human Rights Act. Justice Laws Website. https://laws-lois.justice.gc.ca/eng/acts/h-6/page-1.html*
13. *FTSE Russell. (n.d.). Overview. https://www.lseg.com/en/ftse-russell/indices/ftse4good*
14. *O'Neill, S. (n.d.). What is the difference between CSR and ESG? https://www.thecorporategovernanceinstitute.com/insights/lexicon/what-is-the-difference-between-csr-and-esg/*
15. *BCCCC. (n.d.). About. https://ccc.bc.edu/content/ccc/about/our-approach.html*
16. *Morningstar. (n.d.). About us. https://www.sustainalytics.com/about-us*
17. *Meyer, C. (2024, February 9). What do 'clean' and 'green' actually mean? Canadian watchdog receives complaints about environmental claims by Shell, RBC, Embridge. https://thenarwhal.ca/competition-bureau-greenwashing-investigations/*
18. *Rabson, M. (2023, October 16). Suncor Energy CEO says company committed to decarbonization, is accused of greenwashing. https://globalnews.ca/news/10027106/suncor-ceo-commons-committee/*
19. *Gostick, A., & Telford D. (2003). The integrity advantage. Salt Lake City: Gibbs Smith. https://openlibrary.org/books/OL8821943M/The_Integrity_Advantage*
20. *Frenz, R. (2017, September 26). What are ethical lapses? https://bizfluent.com/info-8292625-advantages-disadvantages-ethical-reasoning.html*
21. *Ellis, C. (2023, December 15). What went wrong at PwC Canada: Accounting firm agrees to pay $1.45 million to settle exam cheating scandal. Canadian Accountant. https://canadian-accountant.com/content/profession/pwc-canada-settlement-cpao*
22. *Chee, F. Y. (2023, July 14). Illumina hit with record $476 million EU antitrust fine over Grail deal. https://www.reuters.com/markets/deals/eu-regulators-fine-illumina-476-mln-closing-grail-deal-without-green-light-2023-07-12/*
23. *Mathieu, J. & Weir, O. (2023, December 16). Important takeaways for D&O duty of loyalty and contractual compensation from recent Supreme Court decision. https://www.mccarthy.ca/en/insights/blogs/canadian-securities-regulatory-monitor/important-takeaways-do-duty-loyalty-and-contractual-compensation-recent-supreme-court-decision*
24. *BrainPop. (2017, August 23). Ethics. [Video]. YouTube. https://www.youtube.com/watch?v=zPsoFhUDLuU*
25. *Bronskill, J. (2022, January 8). Overseas Canadian firms being probed for corruption: RCMP. https://globalnews.ca/news/8497870/canadian-companies-overseas-corruption-probe/*
26. *Bose, N. (2019, June 20). Walmart to pay $282 million to settle seven-year global corruption probe. https://www.reuters.com/article/business/walmart-to-pay-282-million-to-settle-seven-year-global-corruption-probe-idUSKCN1TL27I/*
27. *NWC. (n.d.). What is a whistleblower? https://www.whistleblowers.org/what-is-a-whistleblower/*
28. *BLG. (2020, August 13). OSC's first whistleblower reprisal case is a cautionary tale for companies. https://www.blg.com/en/insights/2020/08/oscs-first-whistleblower-reprisal-case-is-a-cautionary-tale?utm_source=mondaq&utm_medium=syndication&utm_content=articleoriginal&utm_campaign=article*

29. *Foley. (2023, October 4). A review of recent whistleblower developments. https://www.foley.com/insights/publications/2023/10/review-recent-whistleblower-developments-4/*
30. *U.S. Department of Labor. (2023, June 28). US department of labor settles whistleblower case against Delaware salvage yard that wrongly terminated employee for reporting safety concerns. https://www.dol.gov/newsroom/releases/osha/osha20230628*
31. *(2023, March 1). European court decision highlights Canada's third-world status on whistleblower protection. https://cfe.torontomu.ca/page/european-court-decision-highlights-canadas-third-world-status-whistleblower-protection*
32. *Proskauer. (2023, December 19). Top 10 whistleblowing and retaliation events of 2023. https://www.proskauer.com/pub/top-10-whistleblowing-and-retaliation-events-of-2023*
33. *The Manifest. (2023, October 13). How can companies encourage ethics in the workplace? https://themanifest.com/staffing/blog/workplace-ethics*
34. *3BLMedia. (2024). 100 best corporate citizens 2024. https://100best.3blmedia.com/*
35. *Purertos, E. (2025, March 18). What are ethical business practices and why are they important? https://www.sustainable-businesstoolkit.com/what-are-ethical-business-practices-and-why-are-they-important/*
36. *Bombardier. (n.d.). Government relations & advocacy. https://bombardier.com/en/sustainability/governance/government-relations-advocacy*
37. *Motley Fool. (2021, May 25). Shopify's Shavonne Hasfal-McIntosh talks diversity and belonging. https://www.fool.com/investing/2021/05/25/shopifys-shavonne-hasfal-mcintosh-talks-diversity/?msockid=1cd7f85dde4165b022c3eddbdf846480*
38. *Government of Canada. (n.d.). Harassment and sexual violence in the workplace. https://www.canada.ca/en/employment-social-development/services/health-safety/reports/workplace-harassment-sexual-violence.html*
39. *Government of Canada. (n.d.). Workplace harassment and violence prevention regulations--What we heard. https://www.canada.ca/en/employment-social-development/services/health-safety/reports/workplace-harassment-sexual-violence.html*
40. *Government of Canada. (2020). In 2020, one in four women and one in six men reported having experienced inappropriate sexualized behaviours at work in the previous year. https://www150.statcan.gc.ca/n1/daily-quotidien/210812/dq210812b-eng.htm*
41. *Government of Canada. (n.d.). Sexual violence: It's not just "how things are". https://www.canada.ca/en/women-gender-equality/campaigns/gender-based-violence-its-not-just/infographic-sexual-violence-how-things-are.html*
42. *Government of Canada. (2022). 2022 annual report -- Taking action against harassment and violence in workplaces under Canadian federal jurisdiction. https://www.canada.ca/en/employment-social-development/services/health-safety/reports/2022-workplace-harassment-violence.html*
43. *Kaplan, T. (1998). The Tylenol crisis: How effective public relations saved Johnson & Johnson. http://www.aerobiologicalengineering.com/wxk116/TylenolMurders/crisis.html*
44. *Yaakov, W. (1999, June 13). CEO saves company's reputation, products. https://web.archive.org/web/20030712124829/http:/adtimes.nstp.com.my/jobstory/jun13.htm*
45. *Maxwell, J. C. (2003). There's no such thing as "Business Ethics": There's only one rule for making decisions. New York: Warner Books.*
46. *Online Ethics Center for Engineering and Science. (2004). Advice from the Texas Instruments Ethics Office: Article Number 280: What do you do when the light turns yellow? Onlineethics.org. Retrieved from: https://web.archive.org/web/20060517161459/http://onlineethics.org/corp/help.html*
47. *Gellerman, S. W. (1986, July). Why "Good" Managers Make Bad Ethical Choices. Harvard Business Review on Corporate Ethics. https://hbr.org/1986/07/why-good-managers-make-bad-ethical-choices*

CHAPTER 7: GLOBAL BUSINESS

Chapter 7 Learning Outcomes

After reading this chapter, you should be able to do the following:

1. Explain why nations and companies participate in international trade and how they measure that trade.
2. Describe the concepts of absolute and comparative advantage.
3. Describe how companies can enter foreign markets through importing and exporting.
4. Explain why a business might opt for outsourcing and contract manufacturing in foreign countries.
5. Explain how companies enter the international market through licensing agreements or franchises.
6. Explain how strategic alliances and joint ventures differ in structure, commitment, and goals.
7. Explain why a company might make a direct investment in operations conducted in another country.
8. Describe how companies reduce costs through contract manufacturing and outsourcing.
9. Explain how cultural, economic, legal, and political differences between countries create challenges to successful business dealings.
10. Discuss the various initiatives designed to reduce international trade barriers and promote free trade.

The Globalization of Business

Globalization *is the process of increasing economic and social integration between countries, and the increased flow of goods, services, and people across borders.*

Do you wear Nike shoes or Timberland boots? Listen to Beyoncé, Pitbull, Twenty One Pilots, or The Neighborhood on Spotify? If you answered yes to either of these questions, you're a global business customer. Both Nike and Timberland manufacture most of their products overseas. Spotify is a Swedish enterprise.

Orchard Road, Shopping in Singapore

Take an imaginary walk down Orchard Road, the most fashionable shopping area in Singapore. You'll pass department stores such as Tokyo-based Takashimaya and London's very British Marks & Spencer, both filled with such well-known international labels as Ralph Lauren, Polo, Burberry, and Chanel. If you need a break, you can also stop for a latte at Seattle-based Starbucks.

When you're in the Chinese capital of Beijing, don't miss Tiananmen Square. Parked in front of the Great Hall of the People, the seat of the Chinese government, are fleets of black Buicks, cars made by General Motors in Flint, Michigan. If you're adventurous enough to find yourself in Faisalabad, a medium-sized city in Pakistan, you'll see Hamdard University, located in a refurbished hotel. Step inside its computer labs, and the sensation of being in a faraway place will likely disappear when you recognize the familiar Microsoft flag on the computer screen—the same one emblazoned on screens in Microsoft's hometown of Seattle and just about everywhere else on the planet.

The globalization of business is bound to affect you. Not only will you buy products manufactured overseas, but it's likely that you'll meet and work with individuals from various countries and cultures as customers, suppliers, colleagues, employees, or employers. The bottom line is that the globalization of world commerce has an impact on all of us ~ as evidenced in Figure 7.1 below, The Expanded Circular Flow Model. Therefore, it makes sense to learn more about how globalization works.

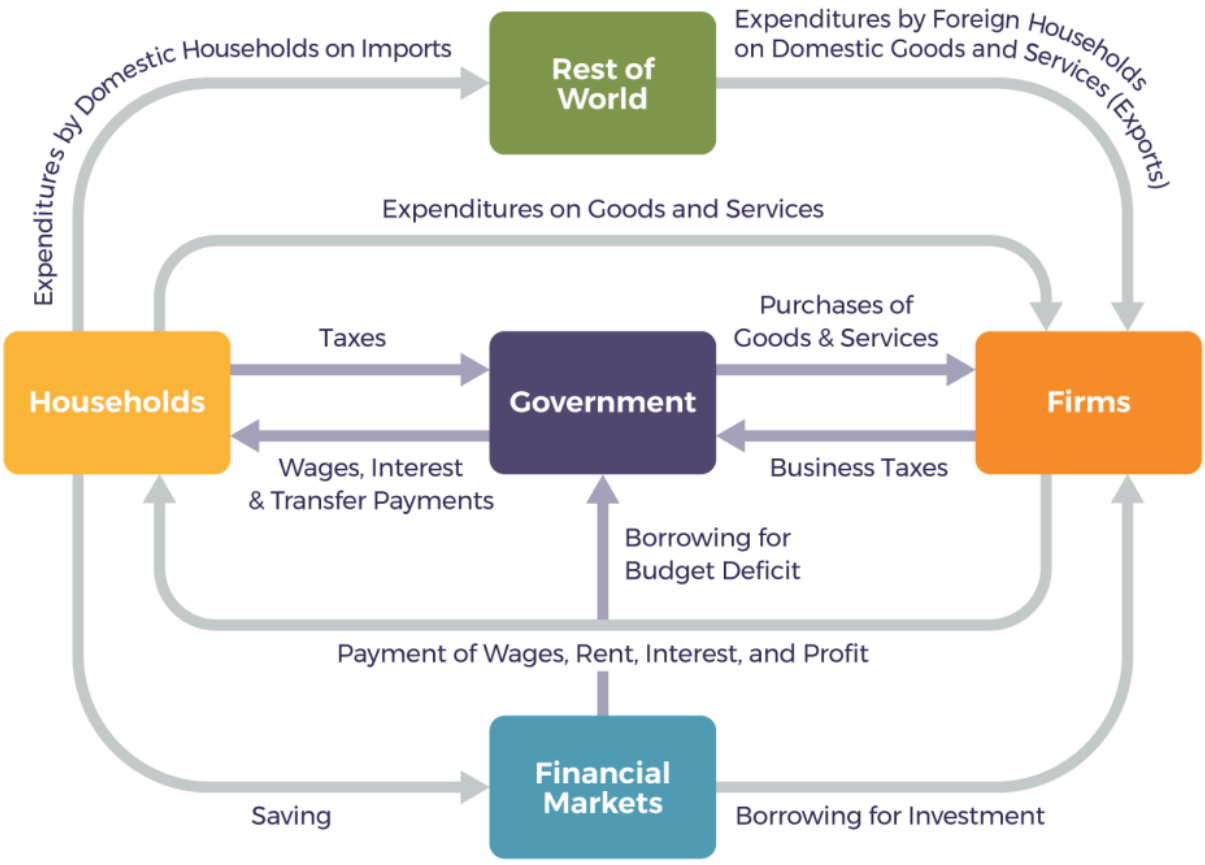


Figure 7.1 The Expanded Circular Flow: Firms, Government, Households, Financial Markets, Rest of the World

Never has business spanned the globe the way it does today, and will continue to do in the future. But why is international business important? Why do companies and nations engage in international trade? What strategies do they employ in the global marketplace? How do governments and international agencies promote and regulate international trade? These questions and others will be addressed in this chapter. Let's start by looking at the more specific reasons why companies and nations engage in international trade.

Why Do Nations Trade?

Nations trade to capitalize on their unique advantages and to foster economic growth, enhance living standards, and build relationships with other countries. Trade allows countries to access products and services they cannot produce efficiently or lack altogether, enhancing consumer choice and quality of life. Tropical fruits are imported by colder countries like Canada because they cannot be grown domestically. By producing for export, businesses

can achieve economies of scale, lowering production costs and making goods more affordable domestically and abroad. Automotive manufacturers in Germany produce vehicles on a large scale, selling them globally. Trade fosters innovation and the spread of new technologies, ideas, and practices, driving development and competitive advantage. Collaboration in international technology markets has accelerated advancements in renewable energy. Trade builds interdependence, reducing the likelihood of conflicts and fostering diplomatic relations. For example, the European Union promotes trade among its member states to strengthen regional stability and cooperation. Exporting goods and services generates income, creating jobs and boosting the national Gross Domestic Product (GDP). The export of oil and gas has been a significant contributor to Canada's economic growth.

Why does Canada import automobiles, steel, digital phones, and apparel from other countries? Why don't we just make them ourselves? Why do other countries buy wheat, chemicals, machinery, and lumber products from us? Because no national economy produces all the goods and services that its people need. Countries are importers when they buy goods and services from other countries; when they sell products to other nations, they're exporters. In 2023, the total value of world trade in merchandise and commercial services was $30.5 trillion, a 2% decrease from the previous year. This was due to a 5% decline in the value of goods trade, while the value of services trade increased by 9%. The World Trade Organization (WTO) projects that the volume of world merchandise trade will grow by 0.8% in 2023 and 3.3% in 2024.[1]

Factors that have impacted trade in recent years include:[2]

- *The war in Ukraine*
- *High inflation*
- *Tightening monetary policy in major economies*
- *High energy prices*
- *Rising interest rates*
- *Geopolitical tensions*
- *Food and energy insecurity*
- *Increased risk of financial instability*
- *High levels of external debt*

Absolute and Comparative Advantage

To understand why certain countries import or export specific products, you need to realize that every country (or region) cannot produce the same products. The cost of labour, the availability of natural resources, and the level of know-how vary greatly around the world. Most economists use the concepts of absolute advantage and comparative advantage to explain why countries import some products and export others.

Absolute Advantage

*A nation has an **absolute advantage** if, (1) it's the only source of a particular product, or (2) it can make more of a product using fewer resources than other countries. Because of climate and soil conditions, for example, France had an absolute advantage in wine making until its dominance of worldwide wine production was challenged by the growing wine industries in Italy, Spain, the United States, and, more recently, Canada. Unless an absolute advantage is based on some limited natural resource, it seldom lasts. That's why there are few, if any, examples of absolute advantage in the world today.*

Comparative Advantage

When a country decides to specialize in a particular product, it must sacrifice the production of another product (opportunity costs). Countries benefit from specialization—focusing on what they do best, and trading the output to other countries for what those countries do best. Canada's top export destinations are the United States, China, and the United Kingdom. In 2023, the United States was the destination for 76% of Canada's exports.[3]

Canada's energy exports make up 22% of its total exports. In 2023, the top exports in this category were mineral fuels, oils, and distillation products. Cars and parts are one of Canada's biggest exports, making up 19% of its total exports. In 2023, the top exports in this category were vehicles other than railway and tramway. Consumer goods make up 12% of Canada's total exports. Canada exports a variety of minerals, including potash, metallurgical coal, and diamonds. In 2022, Canada was the world's biggest exporter of potash. Canada also exports machinery, nuclear reactors, boilers, pearls, precious stones, metals, and coins.[4]

The United States, for instance, is increasingly an exporter of knowledge-based products, such as software, movies, music, and professional services (management consulting, financial services, and so forth). America's colleges and universities, therefore, are a source of comparative advantage, and students from all over the world come to the United States for the world's best higher-education system. France and Italy are centers for fashion and luxury goods and are leading exporters of wine, perfume, and designer clothing. Japan's engineering expertise has given it an edge in such fields as automobiles and consumer electronics. And with large numbers of highly skilled graduates in technology, India has become the world's leader in low-cost, computer-software engineering.

*How can we predict, for any given country, which products will be made and sold at home, which will be imported, and which will be exported? This question can be answered by looking at the concept of **comparative advantage**, which exists when a country can produce a product at a lower opportunity cost compared to another nation. But what's an opportunity cost?*

Opportunity costs

Since resources are limited, every time you make a choice about how to use them, you are also choosing to forego other options. Economists use the term ***opportunity cost*** *to indicate what must be given up to obtain something that is desired. A fundamental principle of economics is that every choice has an opportunity cost.*

- *If you sleep through your economics class (not recommended, by the way), the opportunity cost is the learning you miss.*
- *If you spend your income on video games, you cannot spend it on movies.*
- *If you choose to marry one person, you give up the opportunity to marry anyone else.*

In short, opportunity cost is all around us. The idea behind opportunity cost is that the cost of one item is the lost opportunity to do or consume something else; in short, opportunity cost is the value of the next best alternative. Since people and businesses must choose, they inevitably face trade-offs in which they must give up things they desire to get other things they desire more.

Opportunity Cost and Individual Decisions

In some cases, recognizing the opportunity cost can alter personal behaviour. Imagine, for example, that you spend $10 on lunch every day at work. You may know perfectly well that bringing lunch from home would cost only $3 a day, so the opportunity cost of buying lunch at the restaurant is $7 each day (that is, the $10 that buying lunch costs minus the $3 your lunch from home would cost). Ten dollars each day does not seem to be that much. However, if you project what that adds up to in a year—250 workdays a year × $10 per day equals $2 500—it is the cost, perhaps, of a decent vacation. If the opportunity cost were described as "a nice vacation" instead of "$10 a day," you might make different choices.

Opportunity Cost and Societal Decisions

Opportunity cost also comes into play with societal decisions. Universal health care in the U.S. would be nice, but the opportunity cost of such a decision would be less housing, environmental protection, or national defense. These trade-offs also arise with government policies. For example, after the terrorist plane hijackings on September 11, 2001, many proposals, such as the following, were made to improve air travel safety:

- *The federal government could provide armed "sky marshals" who would travel inconspicuously with the rest of the passengers. The cost of having a sky marshal on every flight would be roughly $3 billion per year.*
- *Retrofitting all U.S. planes with reinforced cockpit doors to make it harder for terrorists to take over the plane would have a price tag of $450 million.*
- *Buying more sophisticated security equipment for airports, like three-dimensional baggage scanners and cameras linked to face-recognition software, would cost another $2 billion.*

Lost time can be a significant component of opportunity cost.

However, the single biggest cost of greater airline security does not involve money. It is the opportunity cost of additional waiting time at the airport. According to the United States Department of Transportation, more than 800 million passengers took plane trips in the United States in 2012. Since the 9/11 hijackings, security screening has become more intensive, and consequently, the procedure takes longer than in the past. Say that, on average, each air passenger spends an extra 30 minutes in the airport per trip. Economists commonly place a value on time to convert an opportunity cost in time into a monetary figure. Because many air travelers are relatively highly paid business people, conservative estimates set the average "price of time" for air travelers at $20 per hour. Accordingly, the opportunity cost of delays in airports could be as much as 800 million (passengers) × 0.5 hours × $20/hour, or $8 billion per year. The opportunity costs of waiting time can be just as substantial as costs involving direct spending.

Measuring Trade Between Nations

To evaluate the nature and consequences of its international trade, a nation looks at two key indicators: the balance of trade and balance of payments.

Balance of Trade

*A country's **balance of trade** is calculated by subtracting the value of its imports from the value of its exports. If a country sells more products than it buys, it has a favourable balance, called a trade surplus. If it buys more than it sells, it has an unfavourable balance, or a trade deficit.*

In 2023, the value of Canada's annual merchandise exports decreased 1.4% to $768.2 billion, while the value of annual imports rose 1.4% to $770.2 billion.[5] Between 1980 and 2008, Canada recorded a positive trade balance every year, except 1991 and 1992. From 2009 onwards, the trade balance shifted to a deficit. In 2021, it switched again to a trade surplus, with energy products making the largest share of exports (Refer to Figure 7.2). The United States remains the country's biggest trading partner.[6] Other countries, such as China and Taiwan, which manufacture high volumes for export, have large trade surpluses because they sell far more goods overseas than they buy.

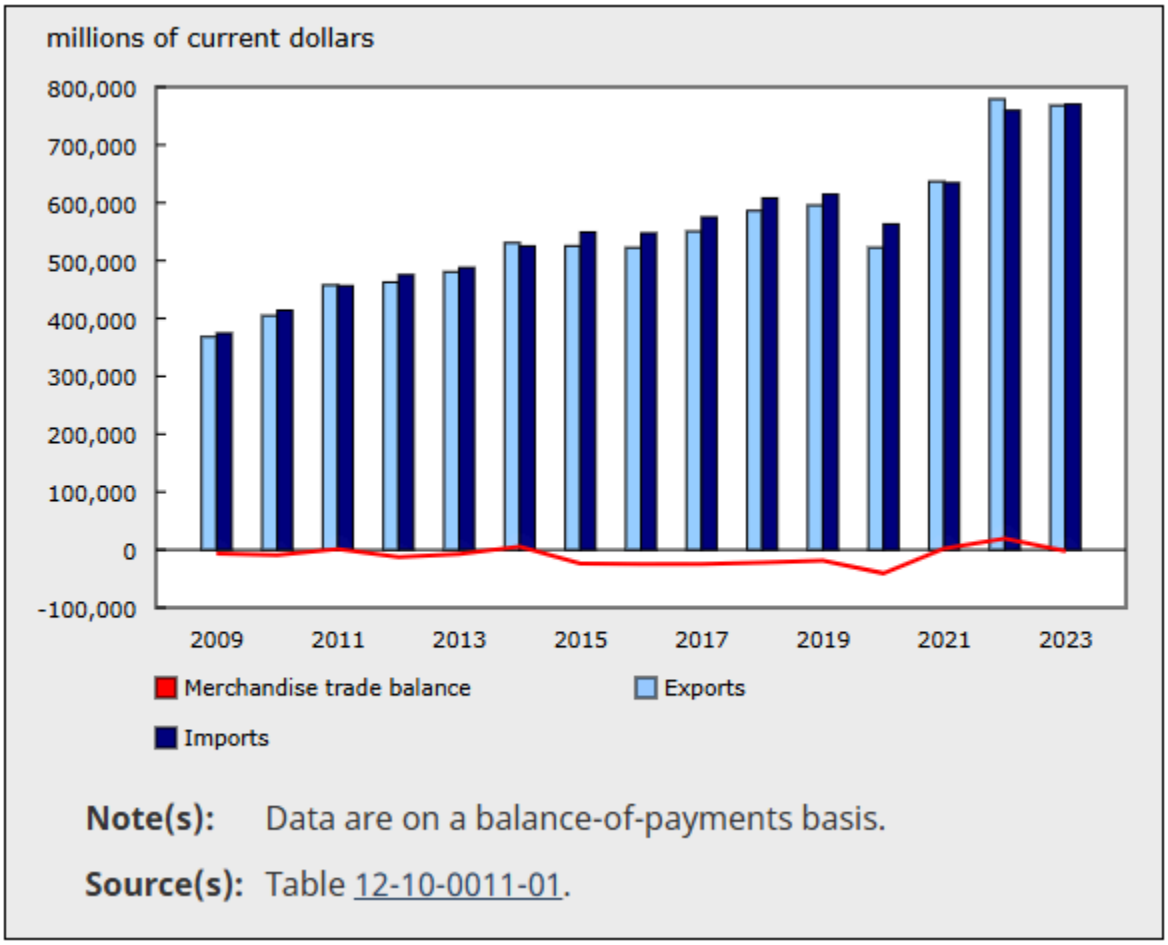


Figure 7.2 Statistics Canada Chart: Exports and Imports Stabilize in 2023

Deficits

*A **nation's deficit** is when a government spends more money than it receives in revenue over a period of time. This can be due to a number of factors, including excessive spending or borrowing. A nation's deficit can be an indicator of its financial health and economic situation.*

Are trade deficits a bad thing? Not necessarily. They can be positive if a country's economy is strong enough both to keep growing and to generate the jobs and incomes that permit its citizens to buy the best the world has to offer. That was certainly the case in Canada in the 1990s and early 2000s. Some experts, however, are alarmed by trade deficits. Investment guru Warren Buffett, for example, cautions that no country can continuously sustain large and burgeoning trade deficits. Why not? Because creditor nations will eventually stop taking IOUs from debtor nations, and when that happens, the national spending spree will have to cease. "A nation's credit card," he warns, "charges truly breathtaking amounts. But that card's credit line is not limitless".[7]

Surpluses

*A country has a **trade surplus** when it sells more to other countries than it buys from them. It's the opposite of a trade deficit. A surplus can lead to economic growth and employment, but it can also cause higher prices, interest rates, and a more expensive currency.*

Trade surpluses aren't necessarily good for a nation's consumers. For example, Japan's export-fueled economy produced high economic growth in the 1970s and 1980s but most domestically made consumer goods were priced at artificially high levels inside Japan itself, so high that many Japanese traveled overseas to buy the electronics and other high-quality goods on which Japanese trade was dependent.

CD players and televisions were significantly cheaper in Honolulu or Los Angeles than in Tokyo. How did this situation come about? Though Japan manufactures a variety of goods, many of them are made for export. To secure shares in international markets, Japan prices its exported goods competitively. Inside Japan, because competition is limited, producers can put artificially high prices on Japanese-made goods. Due to several factors (high demand for a limited supply of imported goods, high shipping and distribution costs, and other costs incurred by importers in a nation that tends to protect its own industries), imported goods are also expensive.[8]

Today, Japan may not be as expensive as you think. While prices for certain goods and services are generally higher than you'd find in countries like China, Thailand, and Vietnam, on the whole, you might discover that costs are lower than in places such as Singapore, Australia, and Scandinavia.[9]

Balance of Payments

*The second key measure of the effectiveness of international trade is **balance of payments**: the difference, over a period of time, between the total flow of money coming into a country and the total flow of money going out. As in its balance of trade, the biggest factor in a country's balance of payments is the money that flows as a result of imports and exports. But the balance of payments includes other cash inflows and outflows, such as cash received from or paid for foreign investment, loans, tourism, military expenditures, and foreign aid. For example, if a Canadian company buys some real estate in a foreign country, that investment counts in the Canadian balance of payments, but not in its balance of trade, which measures only import and export transactions. In the long run, having an unfavorable balance of payments can negatively affect the stability of a country's currency. Canada has experienced unfavorable balances of payments since the turn of the century, which has forced the government to cover its debt by borrowing from other countries.*

The balance of payments records an economy's transactions with the rest of the world. Balance of payments accounts are divided into two groups: the current account, which records transactions in goods, services, primary income, and

secondary income, and the capital and financial account, which records capital transfers, acquisition or disposal of nonproduced, nonfinancial assets, and transactions in financial assets and liabilities. [10]

Refer to Figure 7.3, Statistics Canada chart to review Canada's current account balance throughout the years 1960-2024. In Canada, a positive current account balance indicates that the country is exporting more than it imports, while a negative current account balance means the opposite. The Statistics Canada website provides the most current statistics for various key measures. For example, below are a few of the 2024 balance of payments statistics.

For the year 2024, the current account balance posted a $15.6 billion deficit, a narrowing of $2.8 billion compared with 2023. The reduction of the deficit was largely due to the investment income surplus increasing from $0.7 billion in 2023 to $8.4 billion in 2024, as higher profits earned by Canadian investors abroad outpaced payments.[11]

The trade in goods deficit widened from $0.6 billion in 2023 to $6.9 billion in 2024. Total imports of goods rose 1.9% to reach $785.4 billion in 2024 on widespread increases led by consumer goods (+$7.6 billion), moderated by lower imports of energy products (-$5.5 billion).[12]

Total exports of goods increased 1.1% to reach $778.6 billion in 2024. Higher exports of metal products (+$10.4 billion), mainly gold, and consumer goods (+$5.4 billion) were partially offset by lower exports of motor vehicles and parts (-$7.3 billion). Within the energy products category, exports of crude oil (+$8.3 billion) increased significantly in 2024, following the completion of the Trans Mountain pipeline expansion project in May, but were partially offset by lower exports of natural gas (-$5.0 billion).[13]

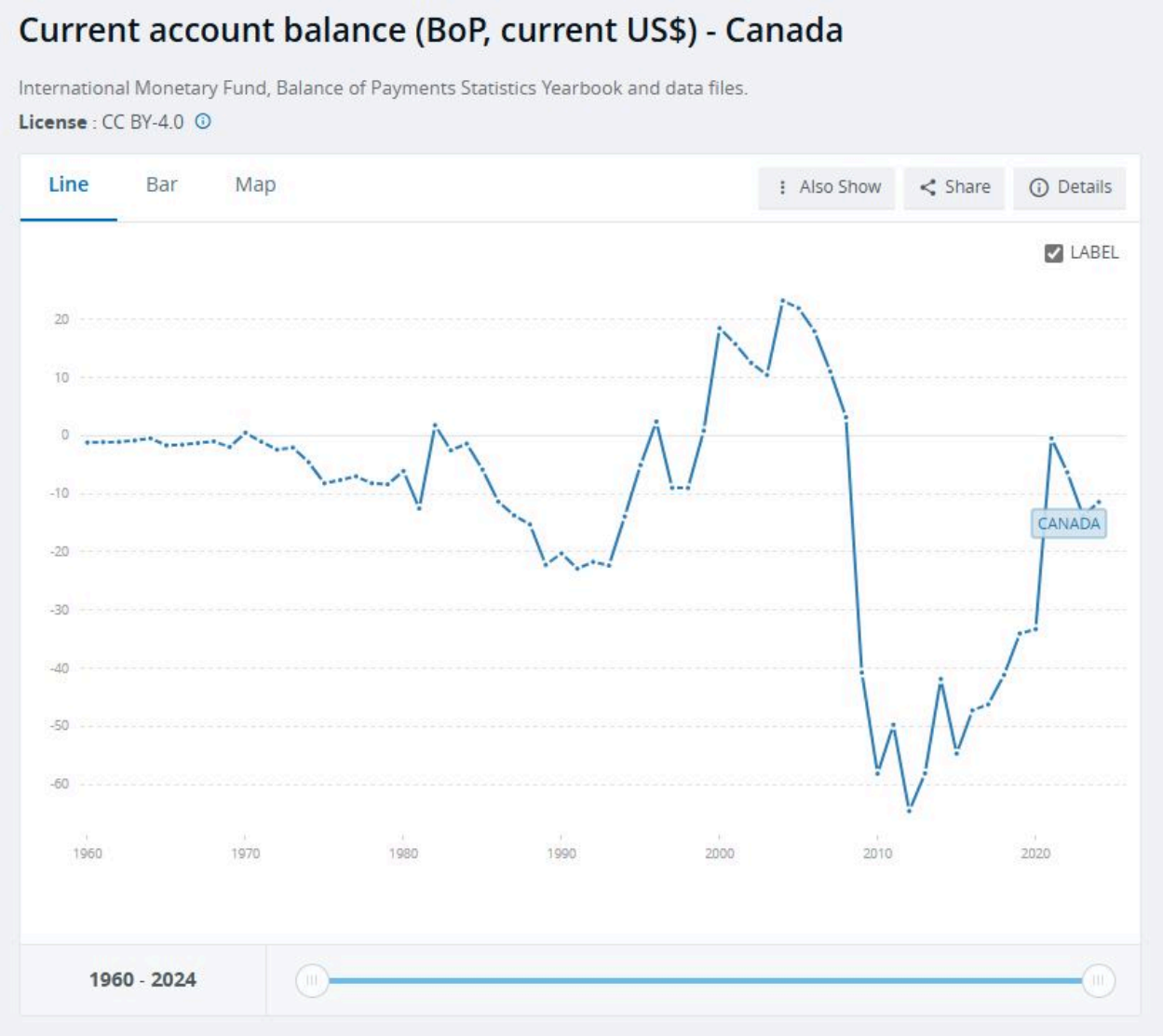


Figure 7.3 Statistics Canada Chart showing Canada's Current Account Balance from 1960 to 2024

Below are a few interesting facts about who owes money to whom:

- *Canada's national debt is the combined debt of all three levels of government: federal, provincial, and territorial. The federal debt (the difference between total liabilities and total assets) stood at $1,236.2 billion as of March 31, 2024. The federal debt-to-gross domestic product (GDP) ratio was 42.1 per cent, up from 41.1 per cent in the previous year. The government remains committed to its fiscal anchor of reducing the federal debt as a share of the economy over the medium term.*[14]
- *As of 2021, China owed Canada $371 million in loans it incurred decades ago, and is not expected to repay them in full until 2045.*[15]
- *As of 2024, Pakistan owed China $26.6 billion for money borrowed for infrastructure and energy projects.*[16]

- *The United States boasts both the world's biggest national debt in terms of dollar amount and its largest economy, which translates to a debt-to-GDP ratio of approximately 121.31%. The United States' government's spending exceeds its income most years, and the US has not had a budget surplus since 2001.*[17]
- *Japan, China, the United Kingdom, Belgium, and Luxembourg own the most U.S. debt, in that order.*[18]

Opportunities in International Business

The fact that nations exchange billions of dollars in goods and services each year demonstrates that international trade makes good economic sense. For a company wishing to expand beyond national borders, there are a variety of ways it can get involved in international business. Let's take a closer look at the more popular ones.

Importing and Exporting

Importing *(buying products overseas and reselling them in one's own country) and* ***exporting*** *(selling domestic products to foreign customers) are the oldest and most prevalent forms of international trade. For many companies, importing is the primary link to the global market. American food and beverage wholesalers, for instance, import for resale in U.S. supermarkets the bottled waters Evian and Fiji from their sources in the French Alps and the Fiji Islands, respectively.*[19] *Other companies get into the global arena by identifying an international market for their products and becoming exporters. The Chinese, for instance, are fond of fast foods cooked in soybean oil. They also have an increasing appetite for meat, therefore, they need high-protein soybeans to raise livestock. The United States exported $15.06 billion worth of soybeans to China in 2023, making it the top destination for US soybean exports.*[20]

A few reasons why companies may engage in importing include:

1. *Importing to reduce costs as importing may be more affordable than producing the same product locally.*
2. *Importing new products before competitors in an attempt to become a leader in the industry.*
3. *Importing the products that are not core to the business will allow a business to specialize. For example, companies can specialize in a part of a good, such as producing just brake pads for cars, and rely on other companies or countries for the rest.*
4. *Importing increases competition for domestic products. Companies may import products from other countries to compete with other businesses selling domestic products.*

A few reasons why companies may engage in exporting include:

1. *Exporting can help a company reach new markets or expand in existing markets and increase sales and*

profits.

2. *Exporting can spread business risk by diversifying into multiple markets instead of one domestic market.*
3. *Exporting can improve a company's competitiveness against both domestic and international competitors.*
4. *Exporting can lead to enhanced innovation and the acquisition of new skills.*
5. *Exporting can help boost a company's profile and credibility.*
6. *Exporting may allow a company to take advantage of trade agreements with reduced trade barriers.*
7. *Exporting can help a company manage seasonal product use and market fluctuations.*
8. *Exporting may allow a company to take advantage of exchange rates, depending on which currency is at a higher rate.*

When goods are shipped from one country to another, they must go through customs. Customs is the process of declaring and paying taxes on imported goods. All countries have different regulations for what can and cannot be imported. Some items, such as drugs or weapons, are prohibited because they are dangerous. Other items, such as used tires or chemicals, are restricted because they may harm the environment. The purpose of customs is to protect a country's economy, environment, jobs, and residents.

Licensing and Franchising

A company that wants to get into an international market quickly while taking only limited financial and legal risks might consider licensing agreements with foreign companies. An ***international licensing agreement*** *allows a foreign company (the licensee) to sell the products of a producer (the licensor) or to use its intellectual property (such as patents, trademarks, copyrights) in exchange for what is known as royalty fees. Here's how it works: You own a company in Canada that sells coffee-flavored popcorn. You're sure that your product would be a big hit in Japan, but you don't have the resources to set up a factory or sales office in that country. You can't make the popcorn here and ship it to Japan because it would get stale. So, you enter a licensing agreement with a Japanese company that allows your licensee to manufacture coffee-flavored popcorn using your special process and to sell it in Japan under your brand name. In exchange, the Japanese licensee would pay you a royalty fee – perhaps a percentage of each sale or a fixed amount per unit.*

Star Wars Lego Licensing

The best way to understand licensing is to think about something that a company owns that they agree to sell to another company to use, either locally or globally. For example, Lego, a company that produces building block toys, had to get a license from companies like Disney when they wanted to create their Star Wars Lego sets.

Another popular way to expand overseas is to sell franchises. Under an ***international franchise agreement****, a company (the franchiser) grants a foreign company (the franchisee) the right to use its brand name and to sell its products or services. The franchisee is responsible for all operations but agrees to operate according to a business model established by the franchiser. In turn, the franchiser usually provides advertising, training, and new-product assistance. Franchising is a natural form of global expansion for companies that operate domestically according to a franchise model, including restaurant chains, such as McDonald's and Kentucky Fried Chicken, and hotel chains, such as Holiday Inn and Best Western. Unlike franchising in the franchisor's home country, where the franchisor grants the franchisee a license to use the marketing, branding and operations of the franchisor, international franchising usually involves selling the franchise rights to a third party to operate as the master franchisee in that area, giving them the rights to open company-owned outlets and sub-franchise in the country or region.*[21]

Contract Manufacturing and Outsourcing

Canadian companies are increasingly drawing on a vast supply of relatively inexpensive skilled labour to perform various business services, such as software development, accounting, and claims processing. This is known as outsourcing. In contrast, contract manufacturing is a specific type of outsourcing related specifically to products when two parties sign a contract manufacturing agreement.

Because of high domestic labour costs, many U.S. and Canadian companies manufacture their products in countries where labour costs are lower. This arrangement is called ***international contract manufacturing****, a form of outsourcing. A domestic company might contract with a local company in a foreign country to manufacture one of its products. It will, however, retain control of product design and development and put its own label on the finished product. Contract manufacturing is quite common in the U.S. apparel business, with most American brands being made in a number of Asian countries, including China, Vietnam, Indonesia, and India.*[22]

Thanks to twenty-first-century information technology, non-manufacturing functions can also be outsourced to nations with lower labour costs. Canadian companies are increasingly drawing on a vast supply of relatively inexpensive skilled labour to perform various business services, such as software development, accounting, and claims processing. With a large, well-educated population with English language skills, India has become a centre for software development and customer call centres. In the case of India, as you can see in the graph below, the attraction is not only a large pool of knowledge workers but also significantly lower wages.[23]

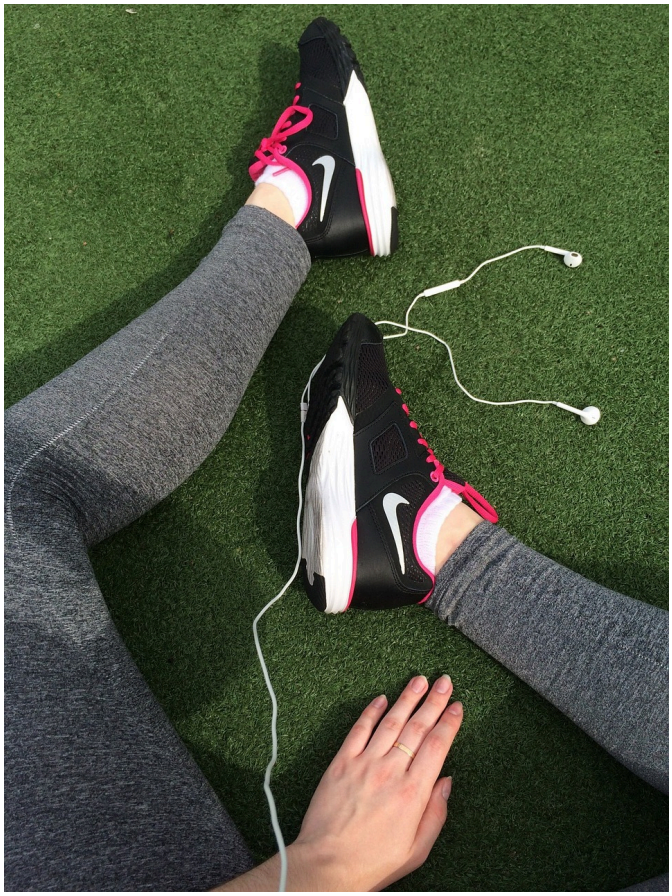
Strategic Alliances and Joint Ventures

A strategic alliance is an agreement between two companies (or a company and a nation) to pool resources in order to achieve business goals that benefit both partners. A strategic alliance and a joint venture are both collaborative business arrangements between companies, but they differ in structure, commitment, and goals.

Strategic Alliance

What if a company wants to do business in a foreign country but lacks the expertise or resources? Or what if the target nation's government doesn't allow foreign companies to operate within its borders unless it has a local partner? In these cases, a firm might enter a strategic alliance with a local company or even with the government itself.

*A **strategic alliance** is an agreement between two companies (or a company and a nation) to pool resources to achieve business goals that benefit both partners. Alliances range in scope from informal cooperative agreements to joint ventures— alliances in which the partners fund a separate entity (perhaps a partnership or a corporation) to manage their joint operation.*



Nike+ iPod Strategic Alliance

An alliance can serve a number of purposes:

- *Enhancing marketing efforts*
- *Building sales and market share*
- *Improving products*
- *Reducing production and distribution costs*
- *Sharing technology*
- *Sharing risks*

With a strategic alliance, companies remain legally independent and the focus is on sharing resources, knowledge, and access to markets. The agreement is typically less binding and easier to dissolve compared to a joint venture. An example of a strategic alliance is Starbucks and PepsiCo partnering to market and distribute Starbucks-branded ready-to-drink beverages globally. Strategic alliances are used to enter new markets, share technological expertise, or achieve cost efficiencies without significant financial or operational commitment.

A few examples of a strategic equity alliance (one company buys equity in the other, or both buy equity in each other) are:

- *One prominent example of a successful strategic partnership is the partnership between Apple and Nike. This collaboration brought together Apple's technological expertise and Nike's extensive knowledge in sports and fitness. Through this partnership, they created the Nike+ iPod, a product that revolutionized the way people track their workouts using their iPod and Nike shoes.*[24]
- *Tesla and Panasonic formed a strategic alliance to build Tesla's Gigafactory, a large-scale battery manufacturing plant in the United States. This collaboration focuses on producing lithium-ion batteries to support Tesla's electric vehicles (EVs) and energy storage products. Under the agreement, Tesla manages the land, buildings, and utilities for the Gigafactory, while Panasonic manufactures and supplies cylindrical lithium-ion cells. Panasonic also invests in equipment and machinery for production. By co-locating suppliers and optimizing manufacturing processes, this partnership aims to reduce battery costs through economies of scale. The Gigafactory's output supports Tesla's goal of producing mass-market EVs, such as the Model 3, and lowering energy storage costs across applications. The alliance highlights the strategic benefit of combining Tesla's EV expertise with Panasonic's battery technology to advance sustainable energy solutions and the EV market.*[25]
- *A non-equity strategic alliance is when two companies share resources and proprietary information. An example of this is between Kroger and Starbucks; any time you shop at the grocery chain, there's a Starbucks stand near the door.*[26]

Joint Venture

*A **joint venture** involves two or more companies forming a new, independent legal entity to pursue a specific business objective or project. The companies share ownership, profits, risks, and governance in the newly created entity. This typically involves significant capital investment and a long-term commitment. The joint venture ends when the project or objective is completed unless extended by the parties. An example of a joint venture is Sony Ericsson, which was the resulting company formed by Sony and Ericsson to produce mobile phones (eventually acquired by Sony). Another prime example of a joint venture is the partnership between NASA and Google, which created the business Google Earth. Another example is SIA and TATA, which ventured into forming Vistara Airlines out of India. Joint ventures are used when there are large-scale, resource-intensive projects, entering highly regulated markets, or pooling expertise for mutual benefit. Refer to Table 7.1 for a comparison of the key differences between strategic alliances and joint ventures.*

Table 7.1: Key Differences Between Strategic Alliance and Joint Venture

Aspect	***Strategic Alliance***	***Joint Venture***
Legal Structure	*No new entity formed*	*New independent entity created*
Commitment	*Flexible and less binding*	*Long-term and formal commitment*
Risk and Control	*Risks and control are individual*	*Shared risks, profits, and governance*
Duration	*Typically short to medium term*	*Often long-term*
Examples	*Co-branding agreements, research collaborations*	*Infrastructure projects, product development partnerships*

Foreign Direct Investment and Subsidiaries

Foreign Direct Investment

Many of the approaches to global expansion that we've discussed so far allow companies to participate in international markets without investing in foreign plants and facilities. As markets expand, however, a firm might decide to enhance its competitive advantage by making a direct investment in operations conducted in another country. ***Foreign direct investment (FDI)*** *refers to the formal establishment of business operations on foreign soil—the building of factories, sales offices, and distribution networks to serve local markets in a nation other than the company's home country. On the other hand, offshoring occurs when facilities in a foreign country replace Canadian manufacturing facilities and are used to produce goods that will be sent back to Canada for sale.*

FDI is generally the most expensive commitment that a firm can make to an overseas market, and it's typically driven by the size and attractiveness of the target market. For example, German and Japanese automakers, such as BMW, Mercedes, Toyota, and Honda, have made serious commitments to the U.S. market: most of the cars and trucks that they build in plants in the South and Midwest are destined for sale in the United States.

Subsidiary

A common form of FDI is the foreign subsidiary: an independent company owned by a foreign firm (called the parent). This approach to going international not only gives the parent company full access to local markets but also exempts it from any laws or regulations that may hamper the activities of foreign firms. The parent company has tight control over the operations of a subsidiary, but while senior managers from the parent company often oversee operations, many managers and employees are citizens of the host country. Not surprisingly, most very large firms have foreign subsidiaries. IBM and Coca-Cola, for example, have both had success in the Japanese market

through their foreign subsidiaries (IBM-Japan and Coca-Cola–Japan). FDI goes in the other direction, too, and many companies operating in the United States are subsidiaries of foreign firms. Gerber Products, for example, is a subsidiary of the Swiss company Novartis, while Stop & Shop and Giant Food Stores belong to the Dutch company Royal Ahold. Where does most FDI capital end up? The graph below provides an overview of amounts, destinations (high to low income countries), and trends.

Foreign Acquisition

Walmart Example of Both FDI And Subsidiary

The acquisition of a foreign company by a domestic company is considered a form of foreign direct investment (FDI). When a company based in one country acquires a substantial ownership stake (typically 10% or more) in a business located in another country, it qualifies as FDI. The key feature of FDI is that it involves not only capital transfer but also control or significant influence over the foreign entity's operations.

Walmart and Flipkart formed a significant business relationship when Walmart acquired a 77% majority stake in Flipkart for $16 billion in 2018. This move marked Walmart's entry into India's burgeoning e-commerce market, which is among the fastest-growing in the world. However, this is not a joint venture but rather an acquisition, as Walmart gained control of Flipkart while maintaining the existing brand and operations of the Indian company.

Flipkart is a leading e-commerce platform in India, and the acquisition allowed Walmart to establish a foothold in India's online retail market to compete against Amazon. Walmart leveraged Flipkart's extensive logistics network, while also applying its own expertise to enhance supply chain efficiency and improve customer satisfaction. Flipkart benefited from Walmart's resources and global reach, including its financial strength and technological capabilities, while Walmart tapped into Flipkart's local market expertise and established customer base. Walmart had to navigate India's restrictions on foreign direct investment in multi-brand retail. The deal was structured to comply with these laws, ensuring Flipkart's operations could continue while adapting to regulatory requirements. This acquisition highlights how multinational corporations like Walmart strategically invest in emerging markets, often through partnerships or acquisitions, rather than joint ventures. The success of such strategies hinges on aligning operational strengths, navigating local regulations, and meeting competitive challenges.[27]

Walmart's investment in Flipkart qualifies as foreign direct investment (FDI) because it involved Walmart acquiring a controlling 77% stake in Flipkart, an Indian company, for $16 billion. This type of investment is categorized as FDI since it entails a direct investment by a foreign company (Walmart, based in the United States) into a business operating in another country (Flipkart in India). Walmart's majority stake gives it control over Flipkart's operations and strategic direction, characteristic of FDI.

Following the acquisition, Flipkart operates as a subsidiary of Walmart, meaning Walmart owns the company

while Flipkart continues to function under its own brand and management in the local market. The deal exemplifies Walmart's strategic move to enter India's growing e-commerce sector and highlights the nature of FDI as a tool to penetrate foreign markets. This arrangement combines the principles of FDI with subsidiary operations, allowing Walmart to benefit from Flipkart's established local presence while providing Flipkart with resources and expertise to expand its market share further.[28]

These strategies have been employed successfully in global business. But success in international business involves more than finding the best way to reach international markets. Global business is a complex, risky endeavor. Over time, many large companies reach the point of becoming truly multinational.

Foreign Mergers

A strategic alliance with a foreign company is not the same as a merger. These two concepts involve different types of business relationships and commitments. A strategic alliance is a formal agreement between two or more companies to collaborate and leverage each other's resources, expertise, or market presence without forming a new legal entity or transferring ownership. A merger involves two or more companies combining to form a single new entity, often with shared ownership, resources, and management. In a merger, ownership and control are consolidated. It involves permanent restructuring. Often, one company may dissolve into the other, or both may dissolve into a newly formed entity. A strategic alliance focuses on mutual benefit without ownership transfer, while a merger represents a deeper level of integration where the entities combine to form a single organization.

A well-known example of a domestic company merging with a foreign company is the merger between Vodafone Group, based in the UK, and Idea Cellular, an Indian telecom provider. This merger created Vodafone Idea Limited, a major player in India's telecommunications market. The merger combined the resources and market strengths of both companies to enhance competitive positioning and operational efficiencies in a rapidly evolving market. This type of cross-border merger is complex, involving regulatory approvals, alignment of corporate strategies, and integration of operations across different legal and cultural environments. These collaborations are essential for companies looking to expand their global footprint and leverage each other's strengths in their respective markets.

Both mergers and joint ventures facilitate collaboration, but they differ significantly in purpose, scope, and legal integration.

Refer to Table 7.2 for a comparison of the key differences between strategic alliances, joint ventures, and mergers.

Table 7.2: Key Differences Between Strategic Alliance, Joint Venture, and Merger

Aspect	***Strategic Alliance***	***Joint Venture***	***Merger***
Legal Structure	*No new entity created; companies remain separate*	*Companies remain separate*	*Companies combine into a single entity*
Ownership	*Independent ownership remains intact*	*Shared control over the joint project, not the company*	*Ownership is shared in the new entity*
Control	*Each company retains control over its operations*	*Shared risks, profits, and governance of the project, not the company*	*Control is unified under the merged company*
Commitment	*Collaboration is often flexible and limited*	*Project-based and temporary*	*The commitment is permanent and comprehensive*

Multinational Corporations

A company that operates in many countries is called a ***multinational corporation (MNC)****. According to Fortune's Global 500 2024 rankings, Walmart is the world's largest company by revenue for the 11th year in a row, with almost $648 billion in revenue in 2024. Walmart also has the most employees of any company in the world.*[29] *Microsoft is one of the most profitable companies in the world, along with Apple and Alphabet. As of June 2024, Apple was the most profitable company in the world, with a net income of $100 billion. Apple was also one of the companies with the largest corporate annual earnings of all time in 2021 and 2022.*

Many MNCs have made themselves more sensitive to local market conditions by decentralizing their decision-making while still maintaining a fair amount of control. Today, fewer managers are dispatched from headquarters; MNCs depend instead on local talent. Not only does a decentralized organization speed up and improve decision-making, but it also allows an MNC to project the image of a local company. IBM, for instance, has been quite successful in the Japanese market because local customers and suppliers perceive it as a Japanese company. Crucial to this perception is the fact that the vast majority of IBM's Tokyo employees, including top leadership, are Japanese nationals.[30]

Some MNCs standardize their products globally, while others adapt their products to the local region they operate within. Standardization delivers a single unified product that sits comfortably in all markets. Standardization allows manufacturers to keep costs down using one set of manufacturing tools and the same packaging, creating a truly global product in the process. Production is more straightforward with only one set of options, as opposed to

multiple versions of the same product creating considerable additional costs; conversely, waste is also kept to a minimum. Compared to alternative versions that appeal directly to local users, standardized products have a mass-market appeal, ideal for travelers who can immediately appreciate what they're getting wherever they acquire it.[31]

Here are a few examples of product standardization in foreign markets:[32]

Red Bull Parachute

- *Sporting manufacturers, such as Nike and Adidas, retain global standardization across global markets with strict branding, marketing, and product themes remaining the same throughout. However, the sports and teams they sponsor and supply locally in each region are culturally considered to match the brand's values and the product's sales potential.*
- *Red Bull, despite its Austrian roots, with its typically European style, remains almost untouched across its international markets. It retains the same packaging, product size, and branding throughout to stay instantly recognizable. And with its prime marketing tactic supporting every type of extreme, high-energy sports, it's market-appropriate across the masses too.*

MNCs often adopt the approach encapsulated in the motto "Think globally, act locally". They often adjust their operations, products, marketing, and distribution to mesh with the environments of the countries in which they operate. Because they understand that a "one-size-fits-all" mentality doesn't make good business sense when they're trying to sell products in different markets, they're willing to accommodate cultural and economic differences. Adaptation delivers a modified version of the product (may also modify promotional strategy and pricing) that considers local requirements, culturally and legally. Increasingly, MNCs supplement their mainstream product line with products designed for local markets.

Here are a few examples of product adaptation in foreign markets:

- *Coca-Cola, for example, sells a coffee alternative and citrus-juice drinks developed specifically for the Japanese market.*[33]
- *McDonald's adapts its menu for many global markets, retaining the same branding throughout yet bolstering the phrase 'glocal' through regional changes so you can enjoy Chicken McArabia in the Middle East, McSpaghetti in the Philippines, and Macarons in France.*[34]
- *Domino's Pizza changed its toppings preferentially for local diners. They played to the popular diets of seafood and fish in Asia and curries in India.*[35]

- *Dunkin' Donuts amends its menus to cater to each of the 36 countries where it operates. You might not instantly warm to the idea of a dry pork and seaweed donut, but they're all the rage in China.*[36]
- *P&G Diapers completely remodelled its product when moving into alternative local markets. Their research into local markets found that many features weren't considered necessary in poorer countries, and the price seemed to be the critical factor. So, by amending packaging and product materials, they managed to match the price point (to the same as a single egg) without damaging the brand.*[37]

Self-Check Exercise: Tour of McDonald's

Check your understanding of "Think globally, act locally" for McDonald's MNC. Review each image and try to guess which country the McDonald's meal is sold in. Hover your mouse over the image to get the answer.

An interactive H5P element has been excluded from this version of the text. You can view it online here:
https://ecampusontario.pressbooks.pub/businessfundamentals/?p=277#h5p-31

Benefits of MNCs

Supporters of MNCs respond that huge corporations deliver better, cheaper products for customers everywhere; create jobs; and raise the standard of living in developing countries. They also argue that globalization increases cross-cultural understanding.

Some of the benefits of MNCs include:[38]

Coca-Cola, so refreshing!

- *Create wealth and jobs around the world. Inward investment by multinationals creates much-needed foreign currency for developing economies. They also create jobs and help raise expectations of what is possible.*
- *Their size and scale of operation enable them to benefit from economies of scale, enabling lower average costs and prices for consumers. This is particularly important in industries with very high fixed costs, such as car manufacture and airlines.*
- *Large profits can be used for research & development. For example, oil exploration is costly and risky; this could only be undertaken by a large firm with significant profit and resources. It is similar for drug manufacturers who need to take risks in developing new drugs.*
- *Ensure minimum standards. The success of multinationals is often because consumers like to buy goods and services where they can rely on minimum standards. i.e., if you visit any country, you know that the Starbucks coffee shop will give you something you are fairly familiar with. It may not be the best coffee in the district, but it won't be the worst. People like the security of knowing what to expect.*
- *Products that attain global dominance have a universal appeal. McDonald's, Coca-Cola, and Apple have attained their market share due to meeting consumer preferences.*
- *Foreign investments. Multinationals engage in Foreign direct investment. This helps create capital flows to poorer/developing economies. It also creates jobs. Although wages may be low by the standards of the developed world, they are better jobs than alternatives and gradually help to raise wages in the developing world.*
- *Outsourcing of production by multinationals enables lower prices; this increases disposable incomes of households in the developed world and enables them to buy more goods and services, creating new sources of employment to offset the lost jobs from outsourcing manufacturing jobs.*

Criticisms of MNCs

The global reach of MNCs is a source of criticism as well as praise. Critics argue that they often destroy the livelihoods of home-country workers by moving jobs to developing countries where workers are willing to labour under poor conditions and for less pay. They also contend that traditional lifestyles and values are being weakened, and even destroyed, as global brands foster a global culture of American movies, fast food, and cheap, mass-produced consumer products. Still others claim that the demand of MNCs for constant economic growth and cheaper access to natural resources does irreversible damage to the physical environment. All these negative consequences, critics

maintain, stem from the abuses of international trade—from the policy of placing profits above people, on a global scale.

Some of the criticisms of MNCs include:

- *In the pursuit of profit, multinational companies often contribute to pollution and the use of non-renewable resources, which is putting the environment under threat. For example, some MNCs have been criticized for outsourcing pollution and environmental degradation to developing economies where pollution standards are lower.*[39]
- *Outsourcing to cheaper labour-cost economies has caused a loss of jobs in the developed world. This is an issue in the US, where many multinationals have outsourced production around the world.*[40]
- *MNCs possess substantial financial and technological resources, enabling them to dominate markets. This often leads to monopolistic or oligopolistic practices, pushing smaller, local businesses out of competition. For example, global retail giants have faced criticism for undermining small-scale retailers in developing countries, disrupting local economies and livelihoods.*[41]
- *MNCs are frequently criticized for repatriating their profits to their home countries rather than reinvesting them in the host nations. This practice can drain foreign exchange reserves in developing countries and limit the local economic benefits of their operations. Host economies often see minimal returns despite significant contributions to MNC revenues.*[42]
- *MNCs are often accused of exploiting natural resources in host countries without adequate regard for sustainability. Industries such as mining, oil extraction, and agriculture are particularly notorious for depleting resources and leaving host countries with long-term environmental degradation.*[43]

The Global Business Environment

In the classic movie The Wizard of Oz, a magically misplaced Midwest farm girl takes a moment to survey the bizarre landscape of Oz and then comments to her little dog, "I don't think we're in Kansas anymore, Toto". That sentiment probably echoes the reaction of many businesspeople who find themselves in the midst of international ventures for the first time. The differences between the foreign landscape and the one with which they're familiar are often huge and multifaceted. Some are quite obvious, such as differences in language, currency, and everyday habits (say, using chopsticks instead of silverware). But others are subtle, complex, and sometimes even hidden.

Success in international business means understanding a wide range of cultural, economic, legal, and political differences between countries. Let's look at some of the more important of these differences.

The Cultural Environment

*The **cultural environment** is the set of factors that shape the way people interact with each other and their physical and social environment. Even when two people from the same country communicate, there's always a possibility of misunderstanding. When people from different countries get together, that possibility increases substantially. Differences in communication styles reflect differences in culture: the system of shared beliefs, values, customs, and behaviors that govern the interactions of members of a society. Cultural differences create challenges to successful international business dealings. Let's look at a few of these challenges.*

Some social scientists argue that CQ (Cultural Quotient) is the new IQ (Intelligence Quotient) and that it is an even more important measure for determining professional success than smarts measured by traditional intelligence quotient tests. Review this article, "Increase Your Cultural Intelligence" for some tips on improving your cultural intelligence. Take this Test Your Cultural Intelligence quiz if you wish to know whether or not you have a high CQ.

Language

English is the international language of business. The natives of such European countries as France and Spain certainly take pride in their languages and cultures, but nevertheless, English is the business language of the European community.

Whereas only a few educated Europeans have studied Italian or Norwegian, most have studied English. Similarly, on the South Asian subcontinent, where hundreds of local languages and dialects are spoken, English is the official language. In most corners of the world, English-only speakers, such as most Canadians, have no problem finding competent translators and interpreters. So why is language an issue for English speakers doing business in the global marketplace? In many countries, only members of the educated classes speak English. The larger population, which is usually the market you want to tap, speaks the local tongue. Advertising messages and sales appeals must take this fact into account. More than one English translation of an advertising slogan has resulted in a humorous (and perhaps serious) blunder.

Here are a few advertisements that were lost in translation:

Frankfurt Bridge at night in Germany

- *In Belgium, the translation of the slogan of an American auto-body company, Body by Fisher, came out as Corpse by Fisher.*
- *Translated into German, the slogan, Come Alive with Pepsi became Come Out of the Grave with Pepsi.*
- *A U.S. computer company in Indonesia translated "software" as "underwear".*
- *A German chocolate product called "Zit" didn't sell well in the U.S.*
- *An English-speaking car wash company in Francophone Quebec advertised itself as a "lavement d'auto" or "car enema" instead of the correct "lavage d'auto.*
- *In the 1970s, General Motors' Chevy Nova didn't get on the road in Puerto Rico, in part because "nova" in Spanish means "it doesn't go".*

Furthermore, relying on translators and interpreters puts you as an international businessperson at a disadvantage. You're privy only to interpretations of the messages that you're getting, and this handicap can result in a real competitive problem. Maybe you'll misread the subtler intentions of the person with whom you're trying to conduct business. The best way to combat this problem is to study foreign languages. Most people appreciate some effort to communicate in their local language, even on the most basic level. They even appreciate mistakes you make, resulting from a desire to demonstrate your genuine interest in the language of your counterparts in foreign countries. The same principle goes doubly when you're introducing yourself to non-English speakers in Canada. Few things work faster to encourage a friendly atmosphere than a native speaker's willingness to greet a foreign guest in the guest's native language.

Time and Sociability

North Americans take for granted many of the cultural aspects of our business practices. Most of our meetings, for instance, focus on business issues, and we tend to start and end our meetings on schedule. These habits stem from a broader cultural preference: we don't like to waste time. (It was an American, Benjamin Franklin, who coined the phrase "Time is money.") This preference, however, is by no means universal. The expectation that meetings will start on time and adhere to precise agendas is common in parts of Europe (especially the Germanic countries), as well as in Canada, but elsewhere—say, in Latin America and the Middle East—people are often late to meetings.

High-Context and Low-Context Cultures

Don't expect businesspeople from these regions—or businesspeople from most of Mediterranean Europe, for that matter—to "get down to business" as soon as a meeting has started. They'll probably ask about your health and that of your family, inquire whether you're enjoying your visit to their country, suggest local foods, and generally appear to be avoiding serious discussion at all costs. For Canadians, such topics are conducive to nothing but idle chitchat, but in certain cultures, getting started this way is a matter of simple politeness and hospitality.

High-context and low-context cultures refer to different approaches to communication: High-context cultures rely on implicit messages, body language, and context. High-context cultures are often found in Asia, the Middle East, and Latin America. Low-context cultures prioritize explicit verbal communication and clarity. Low-context cultures are typically associated with Western countries like the United States and Germany.

Different cultures have different communication styles—a fact that can take some getting used to. For example, degrees of animation in expression can vary from culture to culture. Southern Europeans and Middle Easterners are quite animated, favoring expressive body language along with hand gestures and raised voices. Northern Europeans are far more reserved. The English, for example, are famous for their understated style and the Germans for their formality in most business settings. In addition, the distance at which one feels comfortable when talking with someone varies by culture. People from the Middle East like to converse from a distance of a foot or less, while North Americans prefer more personal space.

While people in some cultures prefer to deliver direct, clear messages, others use language that's subtler or more indirect. North Americans and most Northern Europeans fall into the former category and many Asians into the latter. But even within these categories, there are differences. Though typically polite, Chinese and Koreans are extremely direct in expression, while Japanese are indirect: They use vague language and avoid saying "no" even if they do not intend to do what you ask. They worry that turning someone down will result in their "losing face", i.e., an embarrassment or loss of credibility, and so they avoid doing this in public.

In summary, learn about a country's culture and use your knowledge to help improve the quality of your business dealings. Learn to value the subtle differences among cultures, but don't allow cultural stereotypes to dictate how you interact with people from any culture. Treat each person as an individual and spend time getting to know what he or she is about.

Self-Check Exercise: Globalization Quiz

Check your understanding of this chapter's global business concepts. Complete this quiz.

An interactive H5P element has been excluded from this version of the text. You can view it online here:
https://ecampusontario.pressbooks.pub/businessfundamentals/?p=277#h5p-29

The Economic Environment

Economic development *refers to the process through which a region, country, or community improves the well-being of its citizens by increasing income, reducing poverty, creating jobs, and expanding access to healthcare and education. If you plan to do business in a foreign country, you need to know its level of economic development. You also should be aware of factors influencing the value of its currency and the impact that changes in that value will have on your profits.*

Economic Development

If you don't understand a nation's level of economic development, you'll have trouble answering some basic questions, such as: Will consumers in this country be able to afford the product I want to sell? Will it be possible to make a reasonable profit? A country's level of economic development can be evaluated by estimating the annual income earned per citizen. The World Bank, which lends money for improvements in underdeveloped nations, divides countries into four income categories (Refer to Figure 7.4):

World Bank Group Income Categories as of July 1, 2024:[44]

- *High income—Greater than $14,005 or higher (United States, Germany, Japan, Canada)*
- *Upper-middle income—$4,516 to $14,005 (China, South Africa, Mexico)*
- *Lower-middle income—$1,146 to $4,515 (Kenya, Philippines, India)*

- *Low income—$1,145 or less (Afghanistan, South Sudan, Uganda)*

Note that even though a country has a low annual income per citizen, it can still be an attractive place for doing business. India, for example, is a lower-middle-income country, yet it has a population of a billion, and a segment of that population is well educated—an appealing feature for many business initiatives.

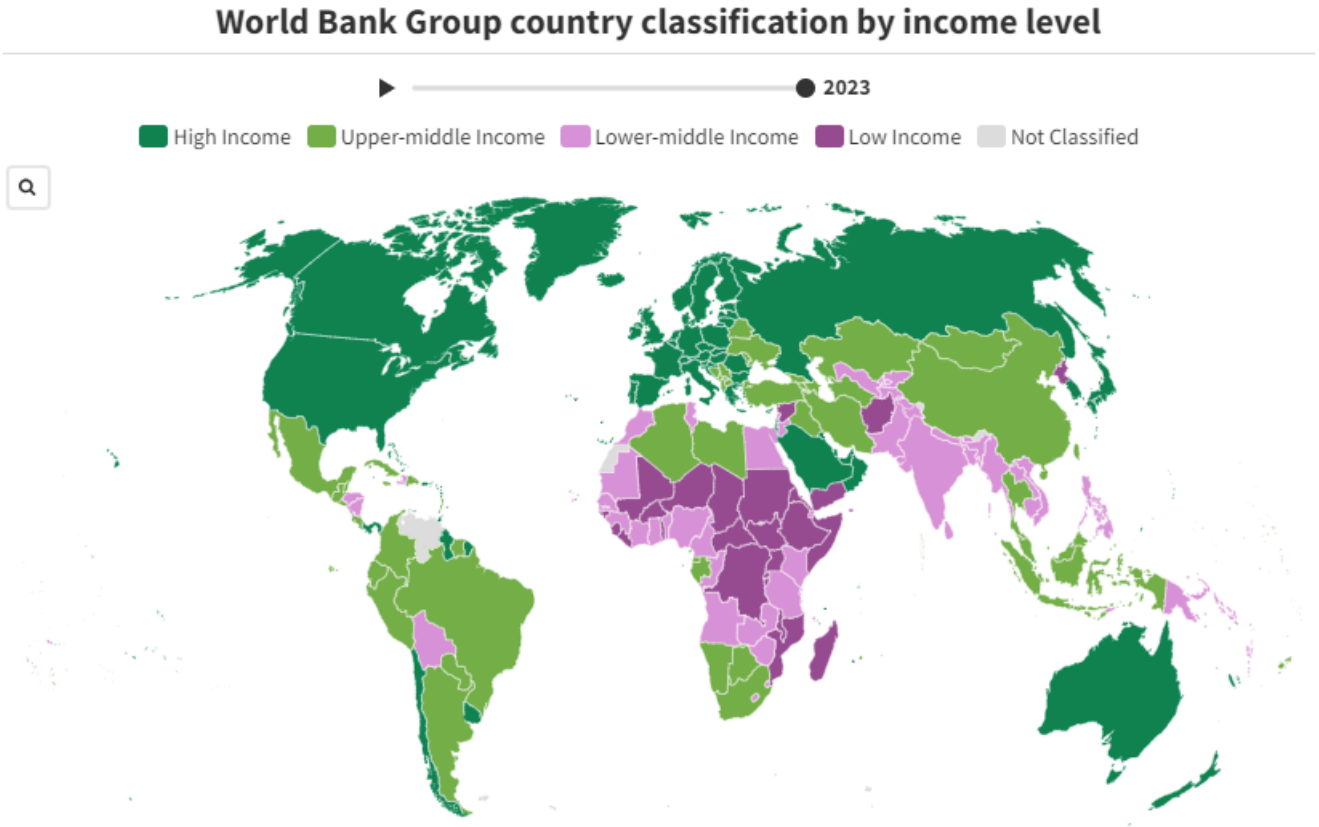


Figure 7.4 World Bank Group Country Classification by Income Level. License CC-BY-4.0

The classification of countries into income categories has evolved significantly over the period since the late 1980s. In 1987, 30% of reporting countries were classified as low-income and 25% as high-income countries. Jumping to 2023, these overall ratios have shifted down to 12% in the low-income category and up to 40% in the high-income category.

The scale and direction of these shifts, however, vary a great deal between world regions. Here are some regional highlights:[45]

- *100% of South Asian countries were classified as low-income countries in 1987, whereas this share has fallen to just 13% in 2023.*

- *In the Middle East and North Africa, there is a higher share of low-income countries in 2023 (10%) than in 1987, when no countries were classified to this category.*
- *In Latin America and the Caribbean, the share of high-income countries has climbed from 9% in 1987 to 44% in 2023.*
- *Europe and Central Asia have a slightly lower share of high-income countries in 2023 (69%) than it did in 1987 (71%).*

The long-term goal of many countries is to move up the economic development ladder. Some factors conducive to economic growth include a reliable banking system, a strong stock market, and government policies to encourage investment and competition while discouraging corruption. It's also important that a country have a strong infrastructure—its systems of communications (telephone, Internet, television, newspapers), transportation (roads, railways, airports), energy (gas and electricity, power plants), and social facilities (schools, hospitals). These basic systems will help countries attract foreign investors, which can be crucial to economic development.

Currency Valuations and Exchange Rates

If every nation used the same currency, international trade and travel would be a lot easier. Of course, this is not the case. The United Nations currently recognizes 180 currencies that are used in 195 countries across the world.[46] *Some currencies you've heard of, such as the British pound; others are likely unknown to you, such as the manat, the official currency of Azerbaijan. If you were in Azerbaijan, you would exchange your Canadian dollars for Azerbaijan manats. The day's foreign exchange rate will tell you how much one currency is worth relative to another currency and so determine how many manats you will receive. If you have traveled abroad, you already have personal experience with the impact of exchange rate movements.*

The Legal and Regulatory Environment

One of the more difficult aspects of doing business globally is dealing with vast differences in legal and regulatory environments. Canada, for example, has an established set of laws and regulations that provide direction to businesses operating within its borders. But because there is no global legal system, key areas of business law—for example, contract provisions and copyright protection—can be treated in different ways in different countries. Companies doing international business often face many inconsistent laws and regulations. To navigate this sea of confusion, Canadian business people must know and follow both Canadian laws and regulations and those of nations in which they operate.

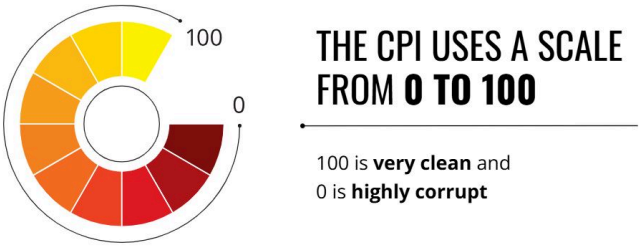
Business history is filled with stories about North American companies that have stumbled in trying to comply with foreign laws and regulations. Laws change as well over time. For example, the government in the Netherlands made working from home a legal right. This means companies can expect requests from employees to work

remotely, therefore, companies should develop a work-from-home policy outlining the factors they will consider when an employee makes a request.[47]

One approach to dealing with local laws and regulations is to hire lawyers from the host country who can provide advice on legal issues. Another is working with local business people who have experience in complying with regulations and overcoming bureaucratic obstacles.

Foreign Corrupt Practices Act

One Canadian law that creates unique challenges for Canadian firms operating overseas is the Corruption of Foreign Public Officials Act (CFPOA), which prohibits the distribution of bribes and other favors in the conduct of business. Despite the practice being illegal in Canada, such tactics as kickbacks and bribes are business-as-usual in many nations. According to some experts, Canadian business people are at a competitive disadvantage if they're prohibited from giving bribes or undercover payments to foreign officials or business people who expect them. In theory, because the Corruption of Foreign Public Officials Act warns foreigners that Canadians can't give bribes, they'll eventually stop expecting them.



Corruption Perceptions Index. Transparency International. Licence: CC BY-ND 4.0

Where are business people most likely and least likely to encounter bribe requests and related forms of corruption? ***Transparency International*** *reports on corruption and publishes an annual Corruption Perceptions Index that rates the world's countries. Transparency International annually rates nations according to "perceived corruption" and defines corruption as "the abuse of entrusted power for private gain." A score of 100 would be perfect (corruption-free) and anything below 30 establishes that corruption is rampant. In 2024, Canada scored 75/100 on the Corruption Perceptions Index, ranking 15/180 countries. Top-scoring countries also tend to have well-functioning justice systems, stronger rule of law, and political stability.*[48]

Ranked as the least corrupt country was Denmark, ranking 1/180 and scoring 90/100, followed by Finland, Singapore, New Zealand, Luxembourg, Norway, Switzerland, and Sweden. The most corrupt countries include South Sudan, ranked 180/180, followed by Somalia, Venezuela, Syria, Yemen, Libya, and Eritrea.[49]

Transparency International reports on corruption and publishes an annual Corruption Perceptions Index that rates the world's countries. A score of 100 would be perfect (corruption-free), and anything below 30 establishes that corruption is rampant.

Trade Controls

Containers at Port

The debate about the extent to which countries should control the flow of foreign goods and investments across their borders is as old as international trade itself. ***Trade controls*** *are policies that restrict free trade, and governments continue to control trade. To better understand how and why, let's examine a hypothetical case. Suppose you're in charge of a small country in which people do two things—grow food and make clothes. Because the quality of both products is high and the prices are reasonable, your consumers are happy to buy locally made food and clothes. But one day, a farmer from a nearby country crosses your border with several wagonloads of wheat to sell. On the same day, a foreign clothes maker arrives with a large shipment of clothes. These two entrepreneurs want to sell food and clothes in your country at prices below those that local consumers now pay for domestically made food and clothes. At first, this seems like a good deal for your consumers: they won't have to pay as much for food and clothes. But then you remember all the people in your country who grow food and make clothes. If no one buys their goods (because the imported goods are cheaper), what will happen to their livelihoods? And if many people become unemployed, what will happen to your national economy? That's when you decide to protect your farmers and clothes makers by setting up trade rules. Maybe you'll increase the prices of imported goods by adding a tax to them; you might even make the tax so high that they're more expensive than your homemade goods. Or perhaps you'll help your farmers grow food more cheaply by giving them financial help to defray their costs. The government payments that you give to the farmers to help offset some of their costs of production are called subsidies. These subsidies will allow the farmers to lower the price of their goods to a point below that of imported competitors' goods. What's even better is that the lower costs will allow the farmers to export their goods at attractive, competitive prices.*

Canada has a long history of subsidizing farmers. Subsidy programs guarantee farmers (including large corporate farms) a certain price for their crops, regardless of the market price. This guarantee ensures stable income in the farming community, but it can have a negative impact on the world economy. How? Critics argue that in allowing Canadian farmers to export crops at artificially low prices, Canadian agricultural subsidies permit them to compete unfairly with farmers in developing countries. A reverse situation occurs in the steel industry, in which a number of countries—China, Japan, Russia, Germany, and Brazil—subsidize domestic producers. U.S. trade unions charge that trade subsidy practices give an unfair advantage to foreign producers and hurt American industries, which can't compete on price with subsidized imports.

The top exports of Canada in 2022 were Crude Petroleum ($123B), Cars ($29.4B), Petroleum Gas ($24.3B), Refined Petroleum ($17.2B), and Gold ($14.7B), exporting mostly to United States ($438B), China ($25.4B),

Japan ($14.3B), United Kingdom ($12.9B), and Mexico ($7.39B). The top imports of Canada are Cars ($31.9B), Refined Petroleum ($19.8B), Motor vehicles; parts and accessories (8701 to 8705) ($17.4B), Delivery Trucks ($17.3B), and Crude Petroleum ($16.8B), importing mostly from United States ($308B), China ($62.1B), Mexico ($22.2B), Germany ($14.1B), and Japan ($9.87B).[50] *So, if Canada imported $308B from the United States and exported $438B to the United States, Canada achieved a positive trade balance of $130B.*

Whether they push up the price of imports or push down the price of local goods, such initiatives will help locally produced goods compete more favorably with foreign goods. Both strategies are forms of trade controls—policies that restrict free trade. Because they protect domestic industries by reducing foreign competition, the use of such controls is often called protectionism. Though there's considerable debate over the pros and cons of this practice, all countries engage in it to some extent. Before debating the issue, however, let's learn about the more common types of trade restrictions: tariffs, quotas, and embargoes.

Tariffs

Tariffs *are taxes on imports. Because they raise the price of the foreign-made goods, they make them less competitive. Tariffs are also used to raise revenue for a government. Donald Trump, President of the United States, for example, announced in March of 2018 that the U.S. would increase tariffs on imported steel products from 10% to 25% as a means of enhancing the American steel industry and protecting U.S steel manufacturers.*

Quotas

A ***quota*** *imposes limits on the quantity of a good that can be imported over a period of time. Quotas are used to protect specific industries, usually new industries or those facing strong competitive pressure from foreign firms. Canadian import quotas take two forms. An absolute quota fixes an upper limit on the amount of a good that can be imported during the given period. A tariff-rate quota permits the import of a specified quantity and then adds a high import tax once the limit is reached.*

Sometimes quotas protect one group at the expense of another. For example, let us assume that a hypothetical country restricts the number of mangoes imported. If the demand for mangoes in the country is 27,000 pounds, and the current international market price for one pound of mangoes is $1.35. Upon introducing an import quota, the country imposes restrictions and allows importing only 18000 pounds of mangoes. When this happens, it hikes the domestic price to $1.89 per pound of mangoes. At this price, the domestic farmers of the country can afford to increase their production from 4000 to 9000 pounds. At the same time, at the price of $1.89 per pound, the country's demand for mangoes declines to 25000 pounds. In this example, the restriction helps domestic mango farmers increase production and decrease demand through price regulation.[51]

Another example, the wheat export quota implemented by India, has prompted Nepal's flour industry to adapt and innovate. It was introduced in response to concerns about reduced wheat production due to heatwaves in India,

but it has spurred resilience in Nepali flour mills. Nepal, which primarily sources wheat from India, initially received a partial quota allocation, leading to concerns about potential price increases. In response to this situation, calls have been made for the Nepali government to engage in constructive dialogue with India to secure 200,000 tonnes of wheat, which could help mitigate potential shortages. While the initial quota allocation did offer some relief by reducing flour prices, industry leaders are now advocating for a comprehensive, long-term solution, recognizing that domestic production alone may not suffice to meet the demand.[52]

Embargos

*An extreme form of quota is the **embargo**, which, for economic or political reasons, bans the import or export of certain goods to or from a specific country.*

Dumping

*A common political rationale for establishing tariffs and quotas is the need to combat **dumping**: the practice of selling exported goods below the price that producers would normally charge in their home markets (and often below the cost of producing the goods). Usually, nations resort to this practice to gain entry and market share in foreign markets, but it can also be used to sell off surplus or obsolete goods. Dumping creates unfair competition for domestic industries, and governments are justifiably concerned when they suspect foreign countries of dumping products on their markets. They often retaliate by imposing punitive tariffs that drive up the price of the imported goods.*

The Pros and Cons of Trade Controls

Opinions vary on government involvement in international trade. Proponents of controls contend that there are a number of legitimate reasons why countries engage in protectionism. Sometimes they restrict trade to protect specific industries and their workers from foreign competition—agriculture, for example, or steel making. At other times, they restrict imports to give new or struggling industries a chance to get established. Finally, some countries use protectionism to shield industries that are vital to their national defense, such as shipbuilding and military hardware.

Despite valid arguments made by supporters of trade controls, most experts believe that such restrictions as tariffs and quotas, as well as practices that don't promote level playing fields, such as subsidies and dumping, are detrimental to the world economy. Without impediments to trade, countries can compete freely. Each nation can focus on what it does best and bring its goods to a fair and open world market. When this happens, the world will prosper, or so the argument goes. International trade is certainly heading in the direction of unrestricted markets.

Reducing International Trade Barriers

Many organizations work to remove trade barriers, and an increasing number of countries are coming together to foster trade and shared economic benefits. Lowering trade barriers helps businesses source materials and products from more affordable international suppliers, reducing production costs and boosting competitiveness. For example, when China lowered its trade barriers, it made cheaper goods available to businesses worldwide, resulting in lower prices for consumers globally. Additionally, the reduction of tariffs and quotas allows businesses to tap into larger markets, creating more sales opportunities and higher profits. A case in point is the European Union, where the removal of trade barriers among member countries enables businesses to sell products across all EU nations without incurring extra costs.

Let's review some of the important initiatives in reducing international trade barriers.

Trade Agreements and Organizations

Free trade is encouraged by a number of agreements and organizations set up to monitor trade policies. The two most important are the General Agreement on Tariffs and Trade and the World Trade Organization.

General Agreement on Tariffs and Trade

After the Great Depression and World War II, most countries focused on protecting home industries, so international trade was hindered by rigid trade restrictions. To rectify this situation, twenty-three nations joined together in 1947 and signed the General Agreement on Tariffs and Trade (GATT), which encouraged free trade by regulating and reducing tariffs and by providing a forum for resolving trade disputes. The highly successful initiative achieved substantial reductions in tariffs and quotas, and in 1995, its members founded the World Trade Organization to continue the work of GATT in overseeing global trade.

World Trade Organization

Based in Geneva, Switzerland, with nearly 150 members, the ***World Trade Organization (WTO)*** *encourages global commerce and lower trade barriers, enforces international rules of trade, and provides a forum for resolving disputes. It is empowered, for instance, to determine whether a member nation's trade policies have violated the organization's rules, and it can direct "guilty" countries to remove disputed barriers (though it has no legal power to force any country to do anything it doesn't want to do). If the guilty party refuses to comply, the WTO may authorize the plaintiff nation to erect trade barriers of its own, generally in the form of tariffs.*

Affected members aren't always happy with WTO actions. In 2002, for example, President George W. Bush's

administration imposed a three-year tariff on imported steel. In ruling against this tariff, the WTO allowed the aggrieved nations to impose counter-tariffs on some politically sensitive American products, such as Florida oranges, Texas grapefruits and computers, and Wisconsin cheese. Reluctantly, the administration lifted its tariff on steel.[53]

Financial Support for Emerging Economies: The IMF and the World Bank

A key to helping developing countries become active participants in the global marketplace is providing financial assistance. Offering monetary assistance to some of the poorest nations in the world is the shared goal of two organizations: the International Monetary Fund and the World Bank. These organizations, to which most countries belong, were established in 1944 to accomplish different but complementary purposes.

The International Monetary Fund

*The **International Monetary Fund (IMF)** loans money to countries with troubled economies, such as Mexico in the 1980s and mid-1990s and Russia and Argentina in the late 1990s. There are, however, strings attached to IMF loans: in exchange for relief in times of financial crisis, borrower countries must institute sometimes painful financial and economic reforms. In the 1980s, for example, Mexico received financial relief from the IMF on the condition that it privatize and deregulate certain industries and liberalize trade policies. The government was also required to cut back expenditures for such services as education, health care, and workers' benefits.*[54]

The World Bank

*The **World Bank** is an important source of economic assistance for poor and developing countries. With backing from wealthy donor countries (such as Canada, the United States, Japan, Germany, and the United Kingdom), the World Bank has committed $128.3 billion in loans, grants, and guarantees to partner countries and private businesses.*[55] *Loans are made to help countries improve the lives of the poor through community-support programs designed to provide health, nutrition, education, infrastructure, and other social services.*

Trading Blocs: USMCA and the European Union

So far, our discussion has suggested that global trade would be strengthened if there were no restrictions on it—if countries didn't put up barriers to trade or perform special favors for domestic industries. The complete absence of barriers is an ideal situation that we haven't yet attained. In the meantime, economists and policymakers tend to focus on a more practical question: Can we achieve the goal of free trade on the regional level? To an extent, the

answer is yes. In certain parts of the world, groups of countries have joined together to allow goods and services to flow without restrictions across their mutual borders. Such groups are called trading blocs. Let's examine two of the most powerful trading blocs—USMCA and the European Union.

USMCA/CUSMA Agreement

***USMCA** (also referred to as CUSMA) is a free trade agreement between the United States, Mexico, and Canada that replaced the NAFTA free trade agreement. In April 2020, Canada and Mexico notified the U.S. that they were ready to implement the agreement. The USMCA took effect on July 1, 2020, replacing NAFTA.*[56] *Each country benefits from the comparative advantages of its partners: each nation is free to produce what it does best and to trade its goods and services without restrictions.*

The European Union

*The forty-plus countries of Europe have long shown an interest in integrating their economies. The first organized effort to integrate a segment of Europe's economic entities began in the late 1950s, when six countries joined together to form the European Economic Community (EEC). Over the next four decades, membership grew, and in the late 1990s, the EEC became the European Union. Today, the **European Union (EU)** is a unique economic and political union between 27 countries that have eliminated trade barriers among themselves (Refer to the map in Figure 7.5).*

The EU is more than a trading organization: it also enhances political and social cooperation and binds its members into a single entity with the authority to require them to follow common rules and regulations. It is much like a federation of states with a weak central government, with the effect not only of eliminating internal barriers but also of enforcing common tariffs on trade from outside the EU. In addition, the EU also allows people to come and go freely: if you possess an EU passport, you can work in any EU nation.

Figure 7.5 Map of European Countries in the European Union

The Euro

A key step toward unification occurred in 1999, when most (but not all) EU members agreed to abandon their currencies and adopt a joint currency. The actual conversion occurred in 2002, when a common currency called the euro replaced the separate currencies of participating EU countries. The common currency facilitates trade and finance because exchange-rate differences no longer complicate transactions.[57]

The formation of the European Union (EU) paved the way for a unified, multi-country financial system under a

single currency: the euro. Most EU member nations agreed to adopt the euro, but a few have decided to stick with their legacy currencies. There are 27 member countries in the European Union, but six of them are not in the Eurozone and therefore don't use the euro. Denmark is a member country but has negotiated an opt-out with the Union, and it has kept its own currency. The six countries that are not in the Eurozone choose to use their own currencies as a way to maintain financial independence on certain key issues. These issues include setting monetary policy, dealing with issues specific to each country, handling national debt, modulating inflation, and choosing to devalue the currency in certain circumstances. The Euro enables trade to operate far quicker by removing the need and risk of currency exchanges when operating across eurozone countries. Currency exchanges cost money to complete and are a risk to businesses as fluctuations in rates lead to uncertainty about the cost of the exchange. Therefore, by removing this barrier, trade has flowed more easily between countries.[58]

Only time will tell whether the trend toward regional trade agreements is good for the world economy. Clearly, they're beneficial to their respective participants; for one thing, they get preferential treatment from other members. But certain questions still need to be answered more fully. Are regional agreements, for example, moving the world closer to free trade on a global scale, toward a marketplace in which goods and services can be traded anywhere without barriers?

CPTPP and CETA Agreements

Canada is engaged in more recent trade agreements, including the following:

- *The Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) too effect in January 2019 and is a comprehensive and progressive agreement that is made up of 11 member countries. TPP will increase Canada's foothold in Asia Pacific and create opportunities to open new markets, such as Canadian beef and pork producers gaining access to the Japanese market. Opponents of the TPP agreement highlight the impact on the dairy industry, the auto sector, and other groups.*[59]
- *Canadian-European Union Comprehensive Economic and Trade Agreement (CETA). With CETA, Canada has negotiated trade deals in which 98% of Canadian goods are now duty-free and eventually, 99% of tariffs will be eliminated.*[60]
- *Canada started negotiations with Mercosur (made up of the following: Argentina, Brazil, Uruguay, Paraguay, and Venezuela) in 2018, but had to pause when other priorities took over. As of 2023, Canada resumed negotiations for a free trade agreement (FTA) with Mercosur, a trading bloc and customs union consisting of Argentina, Brazil, Paraguay, and Uruguay.*[61]

Other Free Trade Agreements and Blocs

Nations have grouped to form regional trade associations for their benefit, including the following:

- *ASEAN Free Trade Area*
- *The Asia-Pacific Economic Cooperation (APEC)*
- *The Economic Community of Central African States*
- *The Gulf Cooperation Council*
- *BRICS – Brazil, Russia, India, China, and South Africa*

Key Takeaways

1. **Globalization** is the process of increasing economic and social integration between countries, and the increased flow of goods, services, and people across borders.
2. An **absolute advantage** exists if, (1) it's the only source of a particular product, or (2) it can make more of a product using fewer resources than other countries.
3. A **comparative advantage** exists when a country can produce a product at a lower opportunity cost compared to another nation.
4. An **opportunity cost** indicates what must be given up to obtain something that is desired.
5. Calculate the **balance of trade** by subtracting the value of its imports from the value of its exports. If a country sells more products than it buys, it has a favourable balance, called a trade surplus. If it buys more than it sells, it has an unfavourable balance, or a trade deficit.
6. A nation's **deficit** is when a government spends more money than it receives in revenue over a period of time.
7. A country has a trade **surplus** when it sells more to other countries than it buys from them.
8. **Balance of payments** is the difference, over a period of time, between the total flow of money coming into a country and the total flow of money going out.
9. **Importing** is buying products overseas and reselling them in one's own country.
10. An **international licensing agreement** allows a foreign company (the licensee) to sell the products of a producer (the licensor) or to use its intellectual property (such as patents, trademarks, copyrights) in exchange for what is known as royalty fees.
11. Under an **international franchise agreement**, a company (the franchiser) grants a foreign company (the franchisee) the right to use its brand name and to sell its products or services. The franchisee is responsible for all operations but agrees to operate according to a business

model established by the franchiser. The franchisee pays royalties to the franchiser. In turn, the franchiser usually provides advertising, training, and new-product assistance.

12. Because of high domestic labour costs, many U.S. companies manufacture their products in countries where labour costs are lower. This arrangement is called **international contract manufacturing**, a form of outsourcing.
13. **Foreign direct investment (FDI)** refers to the formal establishment of business operations on foreign soil—the building of factories, sales offices, and distribution networks to serve local markets in a nation other than the company's home country.
14. A company that operates in many countries is called a **multinational corporation (MNC).**
15. **Economic development** refers to the process through which a region, country, or community improves the well-being of its citizens by increasing income, reducing poverty, creating jobs, and expanding access to healthcare and education.
16. The **cultural environment** is the set of factors that shape the way people interact with each other and their physical and social environment.
17. **Transparency International** annually rates nations according to "perceived corruption" and defines corruption as "the abuse of entrusted power for private gain." A score of 100 would be perfect (corruption-free), and anything below 30 establishes that corruption is rampant.
18. **Trade controls** are policies that restrict free trade, and governments continue to control trade.
19. **Tariffs** are taxes on imports.
20. A **quota** imposes limits on the quantity of a good that can be imported over a period of time.
21. An extreme form of quota is the **embargo,** which, for economic or political reasons, bans the import or export of certain goods to or from a specific country.
22. **Dumping** is the practice of selling exported goods below the price that producers would normally charge in their home markets (and often below the cost of producing the goods).
23. The **World Trade Organization (WTO)** encourages global commerce and lower trade barriers, enforces international rules of trade, and provides a forum for resolving disputes.
24. **USMCA** is a free trade agreement between the United States, Mexico, and Canada that replaced the NAFTA free trade agreement.
25. Today, the **European Union (EU)** is a unique economic and political union between 27 countries that have eliminated trade barriers among themselves.

End-of-Chapter Exercises

1. **Japan's Value of Money.** Use the Internet to research how expensive things are to buy in Japan. Why has Japan become one of the cheapest countries in the developed world (compared to the 1980s when Japan was very expensive)? Compare costs in Japan to costs in Canada. Share your findings with your class and/or professor.
2. **Cultural Intelligence.** What's your cultural intelligence? Take this Cultural Intelligence Quiz to find out. When doing global business, interacting with various cultures, it is a good idea to learn a bit about the cultures and people you will be interacting with.
3. **Foreign Market.** Imagine you own a furniture store in Canada that specializes in handcrafted dining room tables and chairs. You would like to sell your product to countries in Western Europe. What would be a good mode of entering the foreign market for your company? Use the Internet to research the possibilities. Discuss with the class and/or professor.
4. **Developing Nations**. Countries like Canada and the U.S. have high standards of living and are referred to as industrialized nations. Countries with a lower standard of living are called developing nations (or sometimes underdeveloped or less developed countries). What factors prevent developing nations from becoming industrialized nations? Discuss with the class and/or professor.
5. **Intellectual Property.** The growth of online businesses brings new legal challenges where intellectual property is concerned. Patents, brand names, copyrights, and trademarks are difficult to monitor because of the boundaryless nature of the Internet. What steps could businesses take to protect their trademarks and brands in this environment? List at least five suggestions and compare your list with those of your classmates.
6. **Global 500.** Use the most recent edition of the Fortune Global 500 list. On what is the Global 500 ranking based? List the home countries of the world's 10 largest corporations. Discuss with the class and/or your professor.
7. **International Company.** Visit the website of a major global company such as Coca-Cola (or other as assigned by your professor) and enter some of its international sites. Choose countries from various parts of the world. What are some of the differences and similarities you can identify on the websites? Share your findings with the class and/or professor.
8. **The World Bank.** The World Bank uses per-capita income to make distinctions among

countries. Research and identify at least three countries in the following categories for last year: high-income countries, upper-middle-income countries, lower-middle-income countries, and lower-income countries. In addition, identify the source of the data that you used to draw these conclusions. Share your findings with the class and/or professor.

9. **Foreign Investment.** What attributes of your province or region (cultural, geographical, economic, etc.) would be of interest to a foreign firm thinking about locating there? Visit provincial government sites and locate resources that are available for businesses to help them invest in your province (region). Identify a company that has recently invested in your area. What reasons did the company provide for its decision? Share your findings with the class and/or professor.
10. **USMCA.** What does the USMCA agreement entail? Which countries are involved? What other trade agreements exist that involve Canada? Share your findings with the class and/or professor.
11. **Strategic Alliance.** Use the Internet to search for a recent joint venture or strategic alliance between two or more companies. Summarize why the alliance came about and what the final results were. Share your findings with your class and/or professor.
12. **Failed Adaptations.** Use the Internet to search for an example of a company that attempted to adapt its product to a foreign market only to fail. Summarize what happened and share your findings with the class and/or professor.
13. **Corruption.** Visit Transparency International's Corruption Perception Index for last year and determine which country is most corrupt among Canada, the U.S., and Australia (or other countries as assigned by your professor. Review how these countries were ranked and determine the similarities and differences between them. Summarize your findings and share them with the class and/or professor.
14. **Trading Blocs.** Use the Internet to research the differences between the USMCA and the European Union agreements. Share your findings with the class and/or professor.
15. **Canada's Free Trade.** Use the Internet to research which free trade agreements Canada is a member of. Choose one not explained in the chapter, and explain which countries are members as well as a few details about the agreement itself. Share your findings with the class and/or professor.

Self-Check Exercise: Global Business Quiz

Check your understanding of this chapter's concepts by completing this short self-check quiz.

An interactive H5P element has been excluded from this version of the text. You can view it online here:
https://ecampusontario.pressbooks.pub/businessfundamentals/?p=277#h5p-28

Self-Check Exercise: International Trade Dialogue Cards

Check your understanding of this chapter's concepts by completing this short self-check quiz.

An interactive H5P element has been excluded from this version of the text. You can view it online here:
https://ecampusontario.pressbooks.pub/businessfundamentals/?p=277#h5p-38

Additional Resources

1. Canada's Exports by Category
2. Canada's Exports Summary
3. International Trade Statistics
4. Statistics Canada: Canadian International Merchandise Trade: Annual Review 2023
5. Trading Economics: Canada, World Bank Development Indicators
6. International Monetary Fund
7. WTO Explained. YouTube Video.
8. USMCA Agreement. YouTube Video.
9. Your 6-Step Guide to Starting and Import Export Business. YouTube Video.
10. What is Globalization? Understand Our Interconnected World. YouTube Video.
11. HSBC Funny Culture Ads (Subway, Bart, Golf), YouTube Video.
12. How much Federal Debt is too much for Canada? YouTube Video.

Attributions

The contents of this chapter is a compilation sourced from various OER resources, please refer to the Book Information for details.

References

(Note: This reference list was produced using the auto-footnote and media citation features of Pressbooks)

Media Attributions

- *Orchard Road © Michael Spencer licensed CC BY | flickr*
- *Expanded Circular Flow Chart © Unknown is licensed under a CC BY-NC-SA (Attribution NonCommercial ShareAlike) license*
- *exportsimportschart © Statistics Canada is licensed under a All Rights Reserved license*

- *currentacctbalance © World Bank Group is licensed under a CC BY (Attribution) license*
- *Star Wars Lego © Andrew Martin | Pixabay*
- *Nike Shoes © BapBapa Pe3BOBA | Pixabay*
- *Red Bull Parachute © WikimediaImages | Pixabay*
- *Coca-Cola © Steve Buissinne | Pixabay*
- *Frankfurt Bridge © Bruno | Pixabay*
- *World Bank Country Income Levels © World Bank Group is licensed under a CC BY (Attribution) license*
- *Transparency International — Corruption Meter © Transparency International is licensed under a CC BY-ND (Attribution NoDerivatives) license*
- *Containers at Port © Anja | Pixabay*
- *European Countries Map © Nations Online Project is licensed under a All Rights Reserved license*

Notes

1. *World Trade Organization. (2024, November 25). World trade statistics 2023. https://www.wto.org/english/res_e/statis_e/statistics2023_e.htm#:~:text=In%202023%2C%20world%20trade%20in,mirrors%20the%20situation%20in%202019.*
2. *World Trade Statistical Review 2023. Chapter III: Word trade and economic growth, 2022-2023. https://www.wto.org/english/res_e/booksp_e/wtsr_2023_ch3_e.pdf*
3. *Trading Economics. (n.d.). Canada exports. https://tradingeconomics.com/canada/exports#:~:text=The%20biggest%20export%20products%20are,United%20Kingdom%20(2.6%20percent).*
4. *Trading Economics. (n.d.). Canada exports by category. https://tradingeconomics.com/canada/exports-by-category*
5. *Statistics Canada. (2024, May 9). Canadian international merchandise trade: Annual review 2023. https://www150.statcan.gc.ca/n1/daily-quotidien/240509/dq240509a-eng.htm*
6. *Trading Economics. (n.d.). Canada balance of trade. https://tradingeconomics.com/canada/balance-of-trade*
7. *Buffet, W. E., & Loomis, C. (2003, November 10). America's growing trade deficit is selling the nation out from under us. Here's a way to fix the problem–and we need to do it now. Fortune. http://archive.fortune.com/magazines/fortune/fortune_archive/2003/11/10/352872/index.htm*
8. *Anonymous. (2003). Why are prices in Japan so damn high? The Japan FAQ.com. http://www.thejapanfaq.com/FAQ-Prices.html*
9. *Boutique Japan. (2024, June 7). Is Japan expensive? https://boutiquejapan.com/is-japan-expensive/#:~:text=The%20truth%20is%2C%20Japan%20may,Singapore%2C%20Australia%2C%20and%20Scandinavia.*
10. *World Bank Group. (2024). Current account balance (BoP, current US$) - Canada. https://data.worldbank.org/indicator/BN.CAB.XOKA.CD?end=2024&locations=CA&start=1960&view=chart*
11. *Statistics Canada. (2025, February 27). Canada's balance of international payments, fourth quarter 2024. https://www150.statcan.gc.ca/n1/daily-quotidien/250227/dq250227a-eng.htm*
12. *Statistics Canada. (2025, February 27). Canada's balance of international payments, fourth quarter 2024. https://www150.statcan.gc.ca/n1/daily-quotidien/250227/dq250227a-eng.htm*
13. *Statistics Canada. (2025, February 27). Canada's balance of international payments, fourth quarter 2024. https://www150.statcan.gc.ca/n1/daily-quotidien/250227/dq250227a-eng.htm*
14. *Government of Canada. (2024). Annual financial report of the Government of Canada fiscal year 2023-2024.*

https://www.canada.ca/en/department-finance/services/publications/annual-financial-report/2024.html

15. *Lim, J. (2021, January 4). China still owes Canada $371 million in decades-old debt. https://www.ipolitics.ca/news/china-still-owes-canada-371-million-in-decades-old-debt*
16. *The Economic Times. (2024, August 28). These countries own the most debt to China, is yours one of them? https://economictimes.indiatimes.com/news/international/us/these-countries-owe-the-most-debt-to-china-is-your-one-of-them/articleshow/112874819.cms?from=mdr*
17. *Word Population Review. (n.d.). National debt by country/countries with the highest national debt in 2024. https://worldpopulationreview.com/country-rankings/countries-by-national-debt*
18. *Word Population Review. (n.d.). National debt by country/countries with the highest national debt in 2024. https://worldpopulationreview.com/country-rankings/countries-by-national-debt*
19. *Fine Waters Media. (2024). Evian. https://www.finewaters.com/bottled-waters-of-the-world/france/evian%20and%20Fiji%20Water.The Water. https://www.fijiwater.com/pages/the-water*
20. *USDA. (2024). U.S. soybean exports in 2023. https://fas.usda.gov/data/commodities/soybeans*
21. *Franchise Company. (n.d.). International franchising. https://www.franchisecompany.co.uk/international-franchising/#:~:text=Unlike%20franchising%20in%20the%20franchisor's,master%20franchisee%20in%20that%20area%2C*
22. *Gereffi, G., & Frederick, S. (2010). The global apparel value chain, trade and the crisis: Challenges and opportunities for developing countries. World Bank Group. https://openknowledge.worldbank.org/entities/publication/5ff4813c-2109-5792-b8c0-3d7b5d8231f3*
23. *Manuel, L. (2022). Global marketing in a digital world. https://ecampusontario.pressbooks.pub/globalmarketing/chapter/6-1-international-entry-modes/*
24. *Escott, I. (2023, September 7). Strategic partnership types, benefits, & how to find partners. https://respona.com/blog/strategic-partnership/#:~:text=These%20partnerships%20can%20be%20formed,partnership%20between%20Apple%20and%20Nike.*
25. *Tesla Press Releases. (2014). Panasonic and Tesla sign agreement for the Gigafacotry. https://ir.tesla.com/press-release/panasonic-and-tesla-sign-agreement-gigafactory*
26. *Harrington, G. (n.d.). Strategic alliances: Types, benefits, and challenges. https://www.relevize.com/blog/strategic-alliances-types-benefits-and-challenges#:~:text=Strategic%20Equity%20Alliance,the%20e%2Dcommerce%20superstar%20Flipkart.*
27. *AK. (2023, June 20). Analysis of the Walmart-flipkart deal. https://aklegal.in/analysis-of-the-walmart-flipkart-deal/*
28. *Hindustan Times. (2018, May 10). Walmart buys 77% stake in Flipkart: Key reasons why the mega deal matters. https://www.hindustantimes.com/business-news/walmart-buys-77-stake-in-flipkart-key-reasons-why-the-mega-deal-matters/story-vbonsBNFcPQ0rHycQWhJsI.html*
29. *Fortune. (n.d.). Fortune Global 500 ranking 2024. https://fortune.com/ranking/global500/*
30. *Nakata, H. (2024, March 8). IBM's tech advances driven by leadership, collaboration. https://sustainable.japantimes.com/unraveling/23*
31. *UX24/7. (2022, December 29). Product adaptation in foreign markets (with examples). https://ux247.com/product-adaptation-in-foreign-markets-with-examples/*
32. *UX24/7. (2022, December 29). Product adaptation in foreign markets (with examples). https://ux247.com/product-adaptation-in-foreign-markets-with-examples/*
33. *Sakurada. (2021, February 24). Unique Coca-Cola flavors in Japan. https://gowithguide.com/blog/unique-coca-cola-flavors-in-japan-276*
34. *UX24/7. (2022, December 29). Product adaptation in foreign markets (with examples). https://ux247.com/product-adaptation-in-foreign-markets-with-examples/*
35. *UX24/7. (2022, December 29). Product adaptation in foreign markets (with examples). https://ux247.com/product-adaptation-in-foreign-markets-with-examples/*

36. *UX24/7. (2022, December 29). Product adaptation in foreign markets (with examples). https://ux247.com/product-adaptation-in-foreign-markets-with-examples/*
37. *UX24/7. (2022, December 29). Product adaptation in foreign markets (with examples). https://ux247.com/product-adaptation-in-foreign-markets-with-examples/*
38. *Pettinger, T. (2019, May 30). Multinational corporations: Good or bad? https://www.economicshelp.org/blog/538/economics/multinational-corporations-good-or-bad/*
39. *Pettinger, T. (2019, May 30). Multinational corporations: Good or bad? https://www.economicshelp.org/blog/538/economics/multinational-corporations-good-or-bad/*
40. *Pettinger, T. (2019, May 30). Multinational corporations: Good or bad? https://www.economicshelp.org/blog/538/economics/multinational-corporations-good-or-bad/*
41. *More, H. (2024, November 24). Criticism of multinational companies. https://thefactfactor.com/facts/management/international-business/criticism-of-multinational-companies/22151/*
42. *More, H. (2024, November 24). Criticism of multinational companies. https://thefactfactor.com/facts/management/international-business/criticism-of-multinational-companies/22151/*
43. *More, H. (2024, November 24). Criticism of multinational companies. https://thefactfactor.com/facts/management/international-business/criticism-of-multinational-companies/22151/*
44. *Metreau, E., Young, E., & Eapen, S. (2024, July 1). World bank country classifications by income level for 2024-2025. https://blogs.worldbank.org/en/opendata/world-bank-country-classifications-by-income-level-for-2024-2025*
45. *Metreau, E., Young, E., & Eapen, S. (2024, July 1). World bank country classifications by income level for 2024-2025. https://blogs.worldbank.org/en/opendata/world-bank-country-classifications-by-income-level-for-2024-2025*
46. *Sawe, B. (2018, June 28). How many currencies exist in the world? https://www.worldatlas.com/articles/how-many-currencies-are-in-the-world.html*
47. *Owen-Jones, J. (2024, August 12). The Netherlands is making work from home a legal right: What does this mean for Dutch companies? https://www.deel.com/blog/the-netherlands-is-making-work-from-home-a-legal-right/*
48. *Transparency International. (2023). Our work in Canada. https://www.transparency.org/en/countries/canada*
49. *Transparency International. (2024). Corruption Perceptions Index. https://www.transparency.org/en/cpi/2024*
50. *OEC. (2022). Canada. https://oec.world/en/profile/country/can*
51. *WallStreetMojo. (2023, September 28). Quota. https://www.wallstreetmojo.com/quota/*
52. *WallStreetMojo. (2023, September 28). Quota. https://www.wallstreetmojo.com/quota/*
53. *Becker, E. (2003, November 11). U.S. tariffs on steel are illegal, World Trade Organization says. http://www.nytimes.com/2003/11/11/business/us-tariffs-on-steel-are-illegal-world-trade-organization-says.html?pagewanted=all*
54. *Sanders, B. (1998, July/August). The International Monetary Fund is hurting you. http://www.thirdworldtraveler.com/IMF_WB/IMF_Sanders.html*
55. *IFC. (2023). World Bank Group 2023 summary results. https://www.ifc.org/en/insights-reports/annual-report-2023/world-bank-group-summary-results*
56. *Lobosco, K. (2020, July 1). NAFTA is officially gone. Here's what has and hasn't changed. https://www.cnn.com/2020/07/01/politics/usmca-nafta-replacement-trump/index.html*
57. *European Commission on Economic and Financial Affairs. (2015). Why the Euro? http://ec.europa.eu/economy_finance/euro/why/index_en.htm*
58. *Seth, S. (2023, December 4). Why these European countries don't use the Euro. https://www.investopedia.com/articles/investing/050515/why-these-european-countries-dont-use-euro.asp*
59. *Manning, R. (2020, July 7). Global and regional trade systems. https://www.atlanticcouncil.org/in-depth-research-reports/issue-brief/global-and-regional-trade-systems/*

60. *Government of Canada. (n.d.). Canada-UK trade continuity agreement explained. https://www.international.gc.ca/trade-commerce/trade-agreements-accords-commerciaux/agr-acc/cuktca-acccru/trade-agreement-explained.aspx?lang=eng*

61. *MercoPress. (2023, April 10). Mercosur, Canada to resume trade deal talks. https://en.mercopress.com/2023/04/10/mercosur-canada-to-resume-trade-deal-talks*

CHAPTER 8: MARKETING MANAGEMENT

Chapter 8 Learning Outcomes

After reading this chapter, you should be able to do the following:

1. Define the terms marketing, marketing concept, and marketing strategy.
2. Outline how marketers identify target markets for new products.
3. Identify the four Ps of the marketing mix.
4. Explain how to conduct marketing research.
5. List the factors marketers consider when determining product prices.
6. Discuss three branding strategies.
7. List three benefits of packaging and labelling.
8. Describe four tools used for promoting products.
9. Identify the advantages and disadvantages of social media marketing.
10. Explain how companies attempt to retain customers and build relationships.

What is Marketing?

*When you consider the functional areas of business—accounting, finance, management, marketing, and operations, marketing is the one you probably know the most about. After all, as a consumer and target of all sorts of advertising messages, you've been on the receiving end of marketing initiatives for most of your life. What you probably don't appreciate, however, is the extent to which marketing focuses on providing value to the customer. According to the American Marketing Association, "**Marketing** is the activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large."*[1]

Marketing to the target segment

In other words, marketing isn't just advertising and selling. Marketing encompasses every part of a plan to turn a prospective consumer into a happy and satisfied customer. It includes everything from market research to advertising. The goal of marketing is to convince a person that your product is worth investing in, establish brand loyalty and increase overall sales. It includes everything that organizations do to satisfy customer needs, including:

- *Coming up with a product and defining its features and benefits*
- *Setting its price*
- *Identifying its target market*
- *Making potential customers aware of it*
- *Getting people to buy it*
- *Delivering it to people who buy it*
- *Managing relationships with customers after it has been delivered*

Think about a typical business—a local movie theater, for example. It's easy to see how the person who decides what movies to show is involved in marketing; they select the product to be sold. It's even easier to see how the person who puts ads in the newspaper works in marketing; they are in charge of advertising, making people aware of the product, and getting them to buy it. What about the ticket seller and the person behind the counter who gets the popcorn

and soda, or the projectionist? Are they marketing the business? Absolutely. The purpose of every job in the theater is satisfying customer needs, and as we've seen, identifying and satisfying customer needs is what marketing is all about. Marketing is a team effort involving everyone in the organization.

If everyone is responsible for marketing, can the average organization do without an official marketing department? Not necessarily: most organizations have marketing departments in which individuals are actively involved in some marketing-related activity—product design and development, pricing, promotion, sales, and distribution. As specialists in identifying and satisfying customer needs, members of the marketing department manage, plan, organize, lead, and control the organization's overall marketing efforts.

Consumer Behaviour

Knowledge of consumer buying behaviour and the influences on the consumer's buying decision are critical to effective marketing.

*The **consumer buying process** involves five steps:*

1. *Need recognition (first, you realize you need or want something)*
2. *Information search (depending on the item, you may do a short search or an extensive search)*
3. *Evaluation of Alternatives (hmm...you consider where you will buy the item, getting the best deal, best quality, meeting your needs, etc.)*
4. *Purchase or No Purchase Decision (maybe you buy, maybe you don't at this time)*
5. *Post-purchase Evaluation (you consider whether you enjoy it, if it works as advertised, or if you will return it, telling others about your experience, etc.)*

Consumer Decision-making

The five-step consumer decision-making process is part of a broader environmental context that influences each step. Effective marketing attempts to help consumers with their information search and the evaluation of alternatives, but there are other major influences on a consumer's buying decision. These influences are listed below:

- *Socio-cultural Factors: Culture, subculture, social class, family, and peers.*
- *Psychological Factors: Motivation, perception, attitudes, and learning.*
- *Situational Factors: Physical and social surroundings, type of product purchased.*
- *Personal Factors: Age, economic situation, lifestyle, and personality.*
- *Marketing Mix Factors: Product, Price, Place, and Promotion.*

The Marketing Concept

*The **marketing concept** focuses on understanding and fulfilling customer needs better than competitors. It prioritizes customer research, targeted strategies, and integrated efforts across departments to ensure satisfaction and long-term loyalty.*[2]

The nature of marketing has evolved over the years.[345]

1. ***The Colonial Period (prior to 1776).*** *Colonial society featured rural and agricultural production.*
2. ***The Early Trade and Craftsmanship era (1776-1850s).*** *Localized trade and craftsmanship. Small-scale production is dominated by artisans and merchants.*
3. ***The Industrial Revolution (1850s-1920s).*** *Instead of independent, skilled workers specializing in building products one by one, businesses moved to a factory system with mass production aided by machines. Businesses believed that customers valued affordability and availability over other factors. As a result, efforts centered on maximizing output rather than improving quality. These advancements in technology increased demand for manufactured goods, leading to enormous entrepreneurial opportunities.*
4. ***The Production era (1920s-1940s).*** *Companies focused on mass production and efficiency, aiming to produce large quantities at the lowest possible cost. Marketing efforts centered on achieving broad distribution, but promotional activities were limited, as high demand and minimal competition made aggressive marketing unnecessary.*
5. ***The Sales era (1940s-1960s).*** *During this period, competition for customers intensified among companies. Success was often seen as a result of aggressive promotional efforts. Customer experience and product or service quality were generally not prioritized. Instead, businesses focused on pushing products through flashy sales promotions, radio ads, and door-to-door selling tactics to encourage purchases.*
6. ***The Marketing era (1960s-1990s).*** *Instead of just trying to persuade consumers to buy the products they were making, companies focused on making products that customers wanted to buy. The rise of market research and consumer behaviour studies. The 4Ps of marketing were introduced: product, price, place, promotion.*
7. ***The Relationship era (1990s-Present).*** *Growth in technology, CRM systems, has allowed companies to engage with customers more personally.*
8. ***The Digital and Social era (2010s-Present).*** *The rise of the Internet and social media has transformed how businesses and consumers connect and exchange information. The widespread use of smartphones and other smart devices has fueled the growth of digital marketing, allowing companies to engage a broader audience. This shift supports stronger, continuous relationships with customers, employees, suppliers, and other businesses.*
9. ***The Sustainability and ESG era (2010s-Present).*** *Businesses prioritize ethical and sustainable practices, emphasizing green energy, ethical sourcing, and community impact. They aim to balance customer*

satisfaction, profitability, and societal well-being. Sustainability is integrated into core operations, addressing climate change, fair labour, and social responsibility.

The key principle of the marketing concept is its consumer-centric approach—putting the customer at the heart of all business decisions. This means that everyone within the organization plays a role in meeting customer needs while also maintaining a balance with the company's goals. To succeed long-term, a business must not only satisfy its customers but also remain profitable, ensuring its ability to sustain and grow.

Examples of Companies Applying the Marketing Concept

Lululemon Athletica[6]

Established in 1998 in Vancouver, Canada, Lululemon Athletica has grown from a small yoga apparel company to a global leader in the athletic wear industry. A significant driver of this success has been the Lululemon marketing strategy, which combines innovative approaches with a deep understanding of its audience. By utilizing methods that emphasize community connection, exceptional product quality, and experiential engagement, the company has fueled its growth and reshaped consumer expectations within the activewear market.

Lululemon's marketing goals and objectives are designed to facilitate various efforts such as community engagement, building a strong brand identity, and driving long-term growth in the competitive activewear market. Below are some of the objectives that guide the brand's marketing strategy:

- **Empower Customers through Wellness and Lifestyle:** Lululemon prioritizes creating products and experiences that promote mindfulness, fitness, and personal growth, aligning with its mission to inspire a healthier, more balanced lifestyle.
- **Enhance Brand Loyalty and Community Engagement:** Through initiatives like local events, partnerships with fitness instructors, and training staff as "educators," Lululemon nurtures meaningful connections with its customers, fostering loyalty and a sense of belonging.
- **Expand Product Offerings to Broaden Appeal:** By diversifying its range to include running gear, swimwear, and men's apparel, Lululemon ensures it meets the evolving needs of a

wider audience while maintaining its reputation for quality.

- **Leverage Premium Experiences and Sophistication:** From stylish store designs to curated social media content, Lululemon emphasizes a sense of luxury and exclusivity, enhancing its brand image and customer appeal.
- **Price:** Lululemon employs a value-based pricing strategy, reflecting the premium quality of its products. While its pricing is higher, the brand justifies this by emphasizing innovative fabric technologies, exceptional durability, and a focus on sustainability.

These objectives underscore Lululemon's commitment to innovation, connection, and excellence, fueling its continued success.

Shopify[7]

Shopify, headquartered in Ottawa, Ontario, and founded by Tobias Lutke, provides tools for merchants to set up and maintain online stores, helping them compete against Amazon.

- **Community Building:** Shopify fosters a community of entrepreneurs through its forums and events. This allows merchants to learn from each other, share experiences, and discover new strategies, all while contributing to the overall success of the Shopify ecosystem.
- **Customer-Centric Solutions:** Shopify has placed a strong focus on listening to customer feedback, which has led to continuous improvements and the introduction of new features. For example, Shopify introduced "Shopify Payments" and "Shopify Capital" to make it easier for small businesses to accept payments and access financing, based directly on customer requests for more streamlined, all-in-one services. Positive customer and merchant experiences have contributed to the company's growth.
- **Profitability:** Shopify's subscription-based model, combined with additional fees for services like payment processing, has fueled rapid growth while providing a reliable and consistent revenue stream. The company has continuously expanded its platform by offering advanced tools for marketing, logistics, and customer analytics, empowering users to scale their businesses while simultaneously driving Shopify's ongoing revenue growth.
- **Distribution Channels:** Strong distribution channels and a dealer community promote the company's products and provide training to the sales team. These strengths are crucial elements of the Shopify marketing strategy, ensuring sustained growth and market presence.

Shopify carved a niche by empowering entrepreneurs with user-friendly tools, insightful content,

and strategic partnerships. Through targeted campaigns and a commitment to user education, Shopify doesn't just offer a platform – it cultivates a thriving e-commerce ecosystem. This focus on user success ensures Shopify remains a leader in the ever-evolving world of online sales.

Marketing Strategy

*A **marketing strategy consists** of two major elements: the organization must determine its target market and then develop a marketing mix to meet the needs of that market. The target market is the specific group of consumers with similar needs and wants, toward which a firm directs its marketing efforts. A **target market** is the group of people who are most likely to buy your product or service. The **marketing mix** is the combination of four factors, known as the "4Ps" of marketing. The 4Ps are designed to serve the target market and include product, price, promotion, and place. A marketing strategy must not only define the target market, it must also define goals and outcomes, timelines, resources, and opportunities as well. For example, the Statistics Canada 2021 Census stated that 6.2 million people (more than one in six Canadians) live in the GTA (Greater Toronto Area). A business would want to segment several specific customer groups to more effectively sell to its potential target markets living in the Toronto area.*

There are five steps in the marketing planning process:[8]

1. *Mission (Understand the company's mission and corporate objectives)*
2. *Situation Analysis (Identify opportunities, SWOT analysis, PEST analysis, 5C analysis)*
3. *Marketing Strategy (Define the target audience, Set measurable goals, Develop a budget)*
4. *Marketing Mix (Product development, pricing, place, and distribution, promotion)*
5. *Implementation and Control (Put plan into action, Monitor results)*

***Strategic marketing planning** involves setting goals and objectives, analyzing internal and external business factors, product planning, implementation, and tracking your progress. Consider the example of Apple, winner of the CMO Survey Award for Marketing Excellence for the past sixteen years. Here's an example of the five steps of the marketing planning process aligned to Apple Inc., one of the most successful companies in the world:*

***Mission:** Apple is dedicated to making innovative, high-quality products.*

Situation Analysis: *Apple's competitive advantage is driven by its commitment to understanding customer needs, focusing on the products that are core to its mission, and fostering a collaborative work culture.*

Marketing Strategy: *Apple is usually first to the marketplace with new products, and the company relies on brand loyalty from existing customers as a strategy when launching new products and services.*

Marketing Mix: *While Apple offers a range of products, it values premium pricing and relies on strict guidelines for distribution.*

Apple Inc.

Implementation and Control: *Each Apple product complements the others and works within the same ecosystem, so customers tend to stay with the brand, creating loyal consumers.*

The strategic marketing process puts all the pieces together so that everything you do contributes to the success of the business. Rather than executing haphazard activities and ideas, developing a solid plan that weaves goals and tactics into a seamless experience is essential.

Target Markets

Businesses earn profits by selling goods or providing services. It would be nice if everybody in the marketplace were interested in your product, but if you tried to sell it to everybody, you'd probably spread your resources too thin. You need to identify a specific group of consumers who should be particularly interested in your product, who would have access to it, and who have the means to buy it. This group represents your target market, and you need to aim your marketing efforts at its members.

Identifying Your Market

How do marketers identify target markets? First, they usually identify the overall market for their product—the individuals or organizations that need a product and can buy it. This market can include either or both of the two groups:

- *A consumer market—buyers who want the product for personal use*
- *An industrial market—buyers who want the product for use in making other products*

You might focus on only one market or both. A farmer, for example, might sell blueberries to individuals on the consumer market and, on the industrial market, to bakeries that will use them to make muffins and pies.

Segmenting the Market

The next step in identifying a target market is to divide the entire market into smaller portions, or ***market segments****—groups of potential customers with common characteristics that influence their buying decisions. You can use a number of characteristics to segment a market, including demographic, geographic, behavioral, and psychographic. Demographic and geographic segmentation are quite common. To read more about each type of segmentation, review the examples below.*

Examples of Demographic, Geographic, Behavioral, and Psychographic Segmentation

Let's look at these types of segmentation in detail.

An interactive H5P element has been excluded from this version of the text. You can view it online here:
https://ecampusontario.pressbooks.pub/businessfundamentals/?p=273#h5p-22

Clustering Segments

Typically, marketers determine target markets by combining, or "clustering," segmenting criteria. What characteristics does Starbucks look for in marketing its products? Three demographic variables come to mind: age, geography, and income. Buyers are likely to be of any gender, ranging in age from about twenty-five to forty (although college students, aged eighteen to twenty-four, are moving up in importance). Geography is a factor, as customers tend to live or work in cities or upscale suburban areas. Those with relatively high incomes are willing to pay a premium for Starbucks specialty coffee, and so income, a socioeconomic factor, is also important.

The Marketing Mix

After identifying a target market, your next step is to develop and implement a marketing program designed to reach it. This program involves a combination of tools called the marketing mix, often referred to as the "4P's" of marketing:

1. *Developing a **product** that meets the needs of the target market*
2. *Setting a **price** for the product*
3. *Distributing the product—getting it to a **place** where customers can buy it*
4. ***Promoting** the product—informing potential buyers about it*

The Marketing Mix: Product, Price, Place, and Promotion

There are other models used for the marketing mix. One of which is the SAVE model, which stands for Solution, Access, Value, and Education. Unlike the initial 4Ps, this idea promotes and advertises different virtues that fit productively in today's marketing industry. Solution replaces product, access replaces place, value replaces price, and education replaces promotion. SAVE could potentially be a modern adaptation or evolution of this traditional framework.[9] *Another model is the 4Cs model, which stands for Customer, Cost, Convenience, and Communication. This is a contemporary marketing framework that expands on the conventional 4Ps paradigm. The 4Cs framework was proposed as a customer-centric alternative to the 4Ps, concentrating on the customer's perspective and demands.*[10]

We will focus on the 4Ps Marketing Mix for the time being.

1st P=Product

*There are many things that are involved in product development. The first step starts with coming up with an idea. It's important to remember that when it comes to this first "P" of the marketing mix, the term "**product**" refers to both products and services.*

New product development teams often consist of top management and specialists from sales and marketing, research and development, manufacturing, and finance. This team will conduct market research and gather customer and employee feedback before formulating ideas for new products. The team will also evaluate the feasibil-

ity of ideas, consider the resources available, and identify risks. This group considers and plans new and improved products following the seven stages of new product development:

1. *Idea Generation (Idea formulation)*
2. *Idea Evaluation (Screening)*
3. *Concept Testing*
4. *Product Development*
5. *Testing and Execution*
6. *Post Development (Commercialization, Market Introduction)*
7. *Support and Maintenance*

Product Life Cycle

Once a product is developed, it begins the product life cycle. A ***product life cycle*** *is a theoretical model describing a product's sales and profits over the course of its lifetime. During this cycle, the product typically goes through four stages: an introductory stage, a growth stage, a maturity stage, and a declining stage. Refer to Table 8.1 for a summary of the characteristics, marketing objectives, and strategies for each of the four stages of a product's life cycle.*

Table 8.1: The Product Life Cycle Model

Characteristics	***Introduction***	***Growth***	***Maturity***	***Decline***
Sales	*Low sales*	*Radically rising sales*	*Peak sales*	*Declining sales*
Costs	*High cost per customer*	*High cost per customer*	*Low cost per customer*	*Low cost per customer*
Profits	*Negative*	*Rising*	*High*	*Declining*
Customers	*Innovators*	*Innovators*	*Middle majority*	*Laggards*
Competitors	*Few*	*Growing number*	*Stable number beginning to decline*	*Declining number*
Marketing Objectives	*Create product awareness and trial*	*Maximize market share*	*Maximize profit while defending market share*	*Reduce expenditure and milk the brand*
Product Strategy	*Offer a basic product*	*Offer product extensions, services, and warranty*	*Diversify brands and models*	*Phase out weak items*
Price Strategy	*Charge cost-plus*	*Price to penetrate the market*	*Price to match or beat competitors*	*Cut prices*
Distribution Strategy	*Build selective distribution*	*Build intensive distribution*	*Build a more intensive distribution*	*Go selective; phase out unprofitable outlets*
Advertising Strategy	*Build product awareness among early adopters and dealers*	*Build awareness and interest in the mass market*	*Stress brand differences and benefits*	*Reduce to the level needed to retain hard-core loyals*
Sales Promotion Strategy	*Use heavy sales promotion to entice trial*	*Reduce to take advantage of heavy customer demand*	*Increase to encourage brand switching*	*Reduce to a minimal level*

Circular Economy in Marketing

At its core, the circular economy aims to minimize waste, reduce environmental impact, and maximize the value of products and materials throughout their lifecycle. In the realm of marketing, companies often take a linear approach, where content creation follows a 'use and discard' mentality. This approach leads to the proliferation of content that may not be sustainable or aligned with long-term planetary goals.

Circular business models *offer an alternative that shifts the focus from selling products to providing and preserving value, whether through traditional sales or innovative circular services and activities, such as repair or resale. Kantar's 2022 Global Issues Barometer found that 64% of people believe businesses have a responsibility to solve climate and environmental problems. And they match that belief with action, spending more with brands that can find ways to eradicate waste and pollution while still offering the essentials of value and convenience.*[11]

Shopping bags made from recycled materials

Circular solutions can impact a business in many of the same ways, including a company's philosophy, purpose, and values; its sourcing of raw materials; product and packaging design; production procedures; and even its chosen business model. Since branding and circular solutions affect similar aspects of a business, they must be aligned to ensure a consistent business strategy. If a company starts implementing circular economy solutions, they must be incorporated into its core values and overall brand strategy. Likewise, if sustainability and corporate social responsibility are fundamental pillars of a brand strategy, then the circular economy can be a great way to implement these values and deliver the brand's promise to consumers.[12]

A circular economy offers a clear pathway to deliver, while also offering an opportunity to build brand growth and business resilience. By embracing circular models, brands can tap into new revenue streams, reduce costs, and strengthen customer relationships. The future of marketing could well be circular.[13]

Market Research

Market research *is the process of gathering, analyzing, and interpreting information about a market, product, service, and customers. It helps companies understand their customers, competitors, and industry, and make strategic decisions about marketing and selling.*

Once a business has an idea for a new product or service, the next step is to figure out who is going to buy it. If we use the example of potential consumers in the Greater Toronto Area, we know they will not all buy what the business has to sell. How does the company determine how to market to specific groups of consumers effectively? That's where

market research can help. Conducting market research will help the company find out what its consumer profile looks like.

The term market research refers to the process of evaluating the viability of a new service or product through research conducted directly with potential customers. It allows a company to define its target market and get opinions and other feedback from consumers about their interest in a product or service. Research may be conducted in-house or by a third party that specializes in market research. It can be done through surveys and focus groups, among other ways. Test subjects are usually compensated with product samples or a small stipend for their time.[14]

Questions the company needs answers to include the following:

- *Who are our potential customers?*
- *What do they like about this product? What would they change?*
- *How much are they willing to pay for it?*
- *Where will they expect to buy it?*
- *How can we distinguish it from competing products?*
- *Will enough people buy this product to return a reasonable profit for the company?*

This data had to be collected in a systematic way. Market research seeks two types of data:

1. *Marketers generally begin by looking at **secondary data**—information already collected, whether by the company or by others, which pertains to the target market.*
2. *With secondary data in hand, they're prepared to collect **primary data**—newly collected information that addresses specific questions.*

Gather Secondary Data

The company may use secondary data when researching the market. Secondary data usually refers to information that has been collected, processed, and published by someone else, although it can come from inside or outside the organization. Internally available data includes sales reports and other information on customers. External data can come from a number of sources. Here is a list of secondary data examples:

- *Government publications and databases are a good place to start. Statistics Canada, for example, posts demographic information on Canadian households (such as age, income, education, and number of members), both for the country as a whole and for specific geographic areas. Using secondary data that is already available (and free) is a lot easier than collecting your own information.*
- *Industry reports published by industry associations such as Nielsen, Gartner, or IBISWorld provide insights into market trends, competitor analysis, and consumer behaviour.*

- *Trade journals and magazines, such as Canadian Business and Marketing Magazine, can help an organization stay informed about industry news, trends, and analysis.*
- *Reviewing company annual reports, whitepapers, or press releases from competitors or industry leaders is helpful when analyzing the market. Publicly traded companies are required to disclose detailed financial and market information.*
- *Online databases and market research platforms like Statista, ProQuest, or MarketLine provide detailed market analysis.*
- *Academic research, such as academic journals and university databases, provides research on consumer behaviour and emerging trends.*
- *News outlets, Globe and Mail or CBC, and online media, such as news websites, blogs, and social media, to learn about industry shifts, consumer sentiment, or competitive developments.*
- *Existing customer data on sales, customer feedback, and customer relationship management (CRM software) records can help identify patterns and preferences within the company's own database.*

Secondary research utilizes data that is already available

Google Trends can be a valuable tool for gathering secondary data. It provides insights into the popularity of search terms over time, across regions, and in specific categories, making it useful for understanding market trends, consumer interests, and geographic patterns. Google Trends is an excellent starting point for secondary market research, especially when paired with other data sources for a well-rounded analysis.

Explore Google Trends – What are people in Canada Searching for Right Now?

Explore Google Trends – What are people in the USA Searching for Right Now?

Explore Google Trends – What are people in Finland Searching for Right Now?

Explore Google Trends – What are people in India Searching for Right Now?

Explore Google Trends – What are people in the World Searching for Right Now?

By using these resources, businesses can gain a comprehensive understanding of their market without the need for direct primary research. Gathering secondary data is usually less costly than gathering primary data because the data is already available. Companies can save time by accessing existing data rather than conducting primary research. Secondary data also provides insights into industry-wide trends and historical data. It does have some disadvantages: data may not answer specific questions or fit the unique needs of a company, it may be outdated and not reflect the current market, and competitors also have access to secondary data (or much of it).

Secondary research is ideal when looking for a quick, cost-effective understanding of broader market conditions, trends, or context.

Gather Primary Data

Primary research involves collecting firsthand data directly from the source, tailored to specific needs. There are a variety of tools for collecting primary data is data gathered by the company firsthand, including:

Focus Groups. *Focus groups involve getting a group of people together who fit the consumer profile and asking them questions about the company's product or service and taking note of their thoughts. Usually, the company will need to pay people to participate in the focus group. With a focus group, you can bring together a group of individuals (perhaps six to ten) and ask them questions. A trained moderator can explain the purpose of the group and lead the discussion. If sessions are run effectively, you can come away with valuable information about customer responses to both your product and your marketing strategy.*

Observations. *It's important to note that while an independent facilitator is asking the questions of consumers in observation, representatives from the market research team are behind a two-way mirror observing consumer behaviour. Observations may also take place by observing consumers in action, such as buying groceries or electronics. Observations sometimes include home visits to observe consumers using the product.*

Surveys. *Surveys are done through questionnaires, which can be mailed to the target market; the challenge with this is that the response rate is usually low. Businesses may offer coupons or other incentives to entice consumers to complete the survey. Sometimes marketers mail questionnaires to members of the target market. The process is time-consuming, and the response rate is generally low. Online surveys are easier to answer and so get better response rates than other approaches.*

Interviews. *Interviews are a good method as market researchers can take the time to talk to people about their thoughts about the product or service; they can demonstrate how the product or service works, and they can get real-time feedback. Though time-consuming, personal interviews not only let you talk with real people but also let you demonstrate the product. You can also clarify answers and ask open-ended questions.*

Experiments. *Experiments in primary research involve testing specific variables or conditions to observe outcomes and gather data directly relevant to the research question. They are structured studies designed to establish cause-and-effect relationships. Experiments are widely used in scientific research but are also valuable in business contexts, such as marketing, product development, and operations. For example, assume a retailer wants to understand how price changes affect product demand. Products are sold at varying prices across different regions or time frames. The retailer can identify the price range that maximizes revenue without significantly reducing sales volume.*

While gathering primary data may be more time-consuming (designing, collecting, analyzing) and more expensive (planning, execution, analysis) than gathering secondary data, it has its advantages. Primary research allows the company to customize the questions to gather specific data. It provides current information. It has exclusive ownership, data collected is proprietary to the company. Primary research also requires skilled personnel for accurate data collection and interpretation.

Primary research is best when a business requires detailed, specific, and proprietary insights to solve unique challenges or validate hypotheses. Combining both types of research is ideal. Start with secondary research to gain a foundational understanding and guide the focus of primary research. Secondary research can help identify gaps or areas requiring in-depth exploration, which primary research can address.

Branding

Brand strategy *is "The entire experience your prospects and customers have with your company, product or service. Your brand strategy defines what you stand for, a promise you make, and the personality you convey."*[15]

Branding is an essential tool for marketing. Consumers relate so strongly to brands that you can show them just the brand logo and they know everything about the brand. Visit the World's Most Recognizable Brand Logos to see if you can recognize the company with its brand logo.

Brands by B. Jordan | flickr licensed CC BY

Below is a list of some brands that have become so popular that they are used to refer to common products.[16] *For example:*

- *Kleenex, which is a brand name, has become synonymous with facial tissues. It is often used to refer to any type of facial tissue, regardless of the brand.*
- *The Q-Tips brand is often used when people refer to cotton swabs.*
- *You might think you are riding around on a Jet Ski, but if it's not made by Kawasaki Heavy Industries, it's just a personal watercraft.*
- *The Crock-Pot, a brand name for the slow cooker, was originally developed as a beanery appliance.*
- *Chapstick is a brand name of lip balm produced by Pfizer.*
- *Xerox has been trying to stop people from calling photocopying "xeroxing" for years.*
- *Google is the world's largest and most powerful search engine.*
- *The actual name for "Band-Aid" is "bandage." Band-Aid became a trademark of Johnson & Johnson in 1920 and has dominated the wound care market ever since.*

Self-Check Exercise: Popular Brands Dialog Cards

Try this interactive exercise related to company brands. Using the dialog cards in the exercise, try to answer each question, then flip the card over to read the answer.

An interactive H5P element has been excluded from this version of the text. You can view it online here:
https://ecampusontario.pressbooks.pub/businessfundamentals/?p=273#h5p-19

Branding Strategies

Companies can adopt one of three major strategies for branding a product:[17]

1. *With **private branding** (private labeling or store branding), a company makes a product and sells it to a retailer who, in turn, resells it under its own name. A soft-drink maker, for example, might make cola for Wal-Mart to sell as its Sam's Choice Cola.*
2. *With **generic branding**, the maker attaches no branding information to a product except a description of its contents. Products are sold without a widely recognized brand name, often with plain packaging and minimal marketing. Customers are often given a choice between a brand-name prescription drug or a cheaper generic drug with the same formula.*
3. *With **manufacturer branding**, a company sells one or more products under its own brand names, such as Apple, Nike, or Coca-Cola. Adopting a multiproduct-branding approach, it sells many products under one brand name. Food-maker ConAgra sells soups, frozen treats, and complete meals under its Healthy Choice label. Using a multi-branding approach, the company assigns different brand names to products covering different segments of the market. Automakers often use multi-branding. The Volkswagen group of brands also includes Audi and Lamborghini.*

Refer to Table 8.2 for a comparison of differences between branding strategies.

Table 8.2: Key Differences on Branding Strategies

Aspect	***Private Branding***	***Generic Branding***	***Manufacturer Branding***
Ownership	*Retailer*	*No brand owner focus*	*Manufacturer*
Cost Positioning	*Mid-tier or budget-friendly*	*Lowest price*	*Mid to premium*
Marketing Investment	*Moderate to low*	*Minimal*	*High*
Examples	*Kirkland, great value*	*"No Name" labels*	*Coca-Cola, Nike*

Branding is used in hotels to allow chains (Marriott, Hyatt, Hilton) to offer hotel brands that meet various customers' travel needs while still maintaining their loyalty to the chain. The same customer who would choose an Extended Stay hotel with a full kitchen when on a long-term assignment might stay at a convention hotel when attending a trade show and then stay in a resort property when traveling with their family. By segmenting different types of hotel locations, amenities, room sizes, and décor, hotel chains can meet the needs of a wide variety of travelers. In the past decade, "soft" branding has become common to allow unique hotels to take advantage of being part of a chain reservation system and loyalty program. For example, Marriott has over 100 affiliated independent hotels in its Autograph Collection. Loyalty programs are heavily used in the hospitality industry, especially airlines and hotels, as part of their Customer Relationship Management programs. Loyalty programs are often targeted at high-value business travelers with less price sensitivity. They achieve loyalty status and perks while traveling, as well as earning points to use for personal travel rewards. Once a loyalty program member obtains elite status with significant associated perks such as guaranteed room availability, airport club lounge access, etc., the customer is much less likely to use other brands.[18]

When consumers have a favorable experience with a product, it builds brand equity. If consumers are loyal to it over time, it enjoys brand loyalty. To get an idea of how valuable brand equity is, think for a moment about the effect of the name Dell on a product. When you have a positive experience with a Dell product—say, a laptop or a printer—you come away with a positive opinion of the entire Dell product line and will probably buy more Dell products. Over time, you may even develop brand loyalty: you may prefer—or even insist on—Dell products. Not surprisingly, brand loyalty can be extremely valuable to a company.

Each branding strategy suits specific market needs, allowing businesses to cater to varying consumer priorities, such as cost, trust in brand, or exclusivity.

Packaging and Labelling

Packaging *can influence a consumer's decision to buy a product or pass it up. Packaging gives customers a glimpse of the product, and it should be designed to attract their attention, with consideration given to color choice, style of lettering, and many other details.*

Labelling *not only identifies the product but also provides information on the package contents: who made it and where or what risks are associated with it (such as being unsuitable for small children).*

Packaging and labelling can provide many benefits for companies, including:[19]

- *Advertising. Packaging and labelling can be used to convey an advertising message.*
- *Consumer trust. Attractive packaging labels can help build trust in the product's quality and contents.*
- *Product Safety. Labels can help protect products and keep them safe.*
- *Product Identification. Packaging and labelling can help consumers quickly identify a brand.*
- *Shipping Efficiency. Clearly printed labels can help eliminate confusion during shipping.*
- *Competitive Advantage. Packaging and labelling can help a company differentiate itself from competitors.*

2nd P=Price

The second P in the four Ps of marketing is price. Naturally, the company needs to price its products in a way that allows it to operate profitably. However, pricing is far more complex than calculating the cost of goods and adding on an additional amount that will let the business meet its desired profit margin.

Price *is the only element of the marketing mix that directly generates revenue for a company. It's also the most flexible element, and it's important to continuously monitor and revise it.*

When determining price, marketers consider several factors, including:

- *Customer value: How much are customers willing to pay for the product?*
- *Competitors: What competitors are charging for similar products?*
- *Supply costs: What are the costs of supplying the product?*
- *Seasonal discounts: What discount should we offer and when?*
- *Business model: How does the price fit with the company's business model?*

Marketers may also use pricing strategies like:

- *Cost-plus pricing: Adding a fixed percentage to the unit cost to determine the selling price*

- *Competitive pricing: Adjusting prices based on what competitors are doing*
- *Price skimming: Starting with a high price and then reducing it as customer volume increases*
- *Value-based pricing: Basing the price on how much customers are willing to pay*
- *Penetration pricing: Starting with a low price to build a customer base*
- *Dynamic pricing: Continually changing prices based on market forces like competitor pricing and customer demand*

Authenticity and Indigenous Products

Cultural artistic expression revitalizes and reaffirms the heritage of Indigenous peoples in Canada. The distribution of authentic Arts and handicrafts is a method by which Indigenous populations can preserve their cultural identity. A global marketplace for Indigenous Arts, handicrafts, and tourism was built on the widespread interest in Indigenous cultures, which is a necessary tool for alleviating socio-economic hardship. Due to this rise in popularity of Indigenous products, an entire market segment has developed where inexpensive, inauthentic, and mass-produced items are being marketed as Indigenous. As non-Indigenous companies commoditize culturally-appropriated Arts and handicrafts, they negatively impact authentic Indigenous producers. Kat Pasquach, the owner of Culture Shock Jewelry, offers her insight into the differences between cultural appropriation and appreciation. She further describes how the time, labour, and cultural expertise of Indigenous products warrant the demand for higher prices. The reclamation of culturally significant arts and handicrafts is a crucial endeavour; one that will lead to positive social, economic, and cultural outcomes for Indigenous populations around the world.[20]

One or more interactive elements has been excluded from this version of the text. You can view them online here: https://ecampusontario.pressbooks.pub/businessfundamentals/?p=273

Indigenous Lifeways in Canadian Business with Closed Captioning and Transcript [PDF–New Tab]

3rd P=Place

*In marketing, "**place**" is the third of the "4Ps" of marketing and refers to where and how a company sells its products to consumers:*

- *Where: The physical locations or digital channels where a company will sell its products.*
- *How: The distribution channels, transportation, and storage methods a company will use to get its products to consumers.*
- *Goal: To reach the target audience and meet sales targets.*

A great deal is involved in getting a product to the place where it is ultimately sold. If you're a fast food retailer, for example, you'll want your restaurants to be in high-traffic areas to maximize your potential business. If your business is selling beer, you'll want it to be offered in bars, restaurants, grocery stores, convenience stores, and even stadiums. Placing a product in each of these locations requires substantial negotiations with the owners of the space and often the payment of slotting fees (an allowance paid by the manufacturer to secure space on store shelves).

*Retailers are marketing **intermediaries** that sell products to the eventual consumer. Without retailers, companies would have a much more difficult time selling directly to individual consumers, no doubt at a substantially higher cost. Many retailers do not fit neatly into only one category, for example, Walmart, which began as a discount store, has added groceries to many of its outlets, also placing it in competition with supermarkets. Similarly, IKEA is a furniture retailer but also provides a place to eat, "IKEA Swedish Restaurant" within the store, placing it in competition with restaurants.*

The logistics of place are all the activities required to move a product from the production line to the end user. This includes transportation, warehousing, inventory management, order processing, and selecting distribution channels. Effective logistics requires strategic planning and coordination to deliver the right product to the right place, at the right time, in a suitable condition, and at the correct cost.

4th P=Promotion

*Promotion is a part of the marketing mix that refers to the methods used to communicate with customers about a product or service. It involves a combination of promotional tools and techniques to reach a company's goals. The **Promotional mix** is the means in which a company communicates with its customers and may include advertising, social media, email marketing, personal selling, sales promotion, public relations, and more. The goal of promotion is to create a message that resonates with customers and encourages them to purchase a product.*

Before deciding on an appropriate promotional strategy, a business should consider a few questions:

- *What's the main purpose of the promotion?*
- *Who is the target market?*
- *Which product features should be emphasized?*
- *How much can the business afford to invest in a promotional campaign?*
- *How do competitors promote their products?*

To promote a product, you need to imprint a clear image of it in the minds of your target audience. What do you think of, for instance, when you hear "Ritz-Carlton"? What about "Motel 6"? They're both hotel chains that have been quite successful in the hospitality industry, but they project very different images to appeal to different clienteles. The differences are evident in their promotions. The Ritz-Carlton website describes itself as the "gold standard" and promises that the chain provides "the finest personal service and facilities throughout the world".[21] *Motel 6, by contrast, characterizes its facilities as "no frills " and assures you that you'll pay "the lowest price".*[22]

Promotional Tools

Advertising

Advertising *is paid, non-personal communication designed to create an awareness of a product or company. Ads are everywhere—in print media (such as newspapers, magazines, mailers), on billboards, in broadcast media (radio and TV), and, increasingly, online. It's hard to escape the constant barrage of advertising messages. Research on the exact number of ads the average person sees each day varies, but estimates suggest that we are exposed to anywhere from 4,000 to 10,000 ads daily. This figure includes all forms of advertising, from traditional media like TV and radio to digital platforms such as social media, search engines, and websites.*[23] *You wear a GymShark T-shirt or a pair of lululemon pants while scrolling through your Facebook or Instagram feed while brushing your teeth with Crest toothpaste, and just within the first 20 minutes of your day! At some point, you start a screening process for what you engage with, and you start ignoring brands and advertising messages, unless it's something that you have a personal interest in.*[24] *Even so, advertising is still the most prevalent form of promotion.*

The choice of advertising media depends on the company's product, target audience, and budget. A travel agency selling spring-break getaways to college students might post flyers on campus bulletin boards or run ads in campus newspapers. The co-founders of Sleep Country Canada found radio ads particularly effective, ingraining their catchy jingle, "why buy a mattress anywhere else?" into listeners nationwide.

Exercise: Advertising Crossword

Below are 15 of the most successful advertising campaigns of all time. Can you determine the product that aligns with each campaign? Try this crossword puzzle to find out.

An interactive H5P element has been excluded from this version of the text. You can view it online here:
https://ecampusontario.pressbooks.pub/businessfundamentals/?p=273#h5p-25

Personal Selling and Direct Marketing

Personal Selling

Personal Selling: Realtor handing keys to new home buyer

Personal selling *refers to one-on-one communication with customers or potential customers. This type of interaction is necessary in selling large-ticket items, such as homes, and it's also effective in situations in which personal attention helps to close a sale, such as sales of cars and insurance policies. Many retail stores depend on the expertise and enthusiasm of their salespeople to persuade customers to buy. Home Depot has grown into a home-goods giant in large part because it fosters one-on-one interactions between salespeople and customers. Best Buy has staff helping educate consumers on technical devices; the store also offers technical support through the "Geek Squad." When you visit the Honda or Subaru dealerships to buy a vehicle, you will be greeted by a sales associate who will spend time with you discussing the vehicles' features, financing, options, etc.*

It is often used in business-to-business consultations and sales. The sales pitch is tailored to each customer's specific needs. There is a high level of personal interaction with immediate feedback. It works well in complex high-value

product/service sales (e.g., real estate, custom software solutions). It is relationship-driven, requires in-depth explanations or demonstrations in industries where trust is critical.

Direct Marketing

Direct marketing is a marketing approach that involves direct communication with consumers to generate a response or transaction. It does not rely on intermediaries such as retailers or advertising platforms. The company communicates directly with customers through various channels to elicit an immediate response, such as making a purchase or signing up for a service. Examples include email marketing, catalogs, or direct mail campaigns. Customer interaction is limited with no face-to-face interaction and relies on impersonal communication. It is a good choice for quick responses to promotions, reaching a broad, segmented audience efficiently, or building brand awareness and driving online traffic.

Refer to Table 8.3 for a comparison of direct marketing and personal selling features.

Table 8.3: Comparison of Direct Marketing and Personal Selling

Feature	***Direct Marketing***	***Personal Selling***
Communication	*One-to-many*	*One-to-one*
Medium	*Digital, mail, SMS, and automated systems*	*Face-to-face or direct voice calls*
Cost	*Relatively low per contact*	*Higher cost due to personal effort*
Customer engagement	*Indirect, often passive*	*Direct, active interaction*
Focus	*Promoting offers and generating leads*	*Building relationships and closing sales*
Scalability	*High; can target many customers simultaneously*	*Low; limited by salesperson capacity*

Sales Promotion

*A **sales promotion** is a marketing strategy that uses temporary offers or campaigns to increase sales, encourage customer loyalty, or build brand awareness. Sales promotions can include any of the following:*

- *discounts, coupons, and rebates*
- *contests and sweepstakes*
- *free samples or trials*
- *bundling (e.g., buy a laptop and get a mouse free)*

- *loyalty programs (e.g., Tim Hortons)*
- *referral bonuses*
- *trade promotions (e.g., trade shows)*
- *in-store displays (e.g., while supplies last)*
- *seasonal promotions (e.g., Black Friday, Boxing Day, Back-to-school)*
- *event sponsorship and co-branding (e.g., movie promotions with fast-food chains)*
- *digital and social media campaigns (e.g., influencer collaborations, limited-time online sales)*

It's likely that at some point, you have purchased an item with a coupon or because it was advertised as a buy-one-get-one special. If so, you have responded to a sales promotion – one of the many ways that sellers provide incentives for customers to buy. Some promotional activities are targeted directly at consumers and are designed to motivate them to purchase now. You've probably heard advertisers make statements like "limited time only" or "while supplies last". If so, you've encountered a sales promotion directed at consumers.

Other forms of sales promotion are directed at dealers and intermediaries. Trade shows are one example of a dealer-focused promotion. Mammoth convention centres such as the Enercare Centre in Toronto host enormous events in which manufacturers can display their new products to retailers and other interested parties. At food shows, for example, potential buyers can sample products that manufacturers hope to launch to the market. Feedback from prospective buyers can even result in changes to new product formulations or decisions not to launch.

Publicity and Public Relations

Public relations *(PR) refers to managing how others see and feel about a person, brand, or company. Free publicity—say, getting the company or product mentioned or pictured in a newspaper or on TV—can often generate more customer interest than a costly ad. Consumer perception of a company is often important to a company's success. Many companies, therefore, manage their public relations in an effort to garner favorable publicity for themselves and their products. When the company does something noteworthy, such as sponsoring a fundraising event, the public relations department may issue a press release to promote the event. When the company does something negative, such as selling a prescription drug that has unexpected side effects, the public relations department will work to control the damage to the company. Every year, Fortune puts out its list of the World's Most Admired Companies. In 2024, these were the top five in ranked order: Apple, Microsoft, Amazon, Berkshire Hathaway, and JPMorgan Chase. Approximately 3,700 analysts, directors, and executives are polled about corporate reputation to determine the final list.*[25]

Digital and Social Media Marketing

Digital marketing is promotion through digital platforms, including websites, search engines, and social media. It includes all marketing efforts using digital channels to promote products, services, or brands. Examples include search engine optimization (SEO), pay-per-click (PPC) ads, and email campaigns.

In the last several years, the popularity of social media marketing has exploded. It is a subset of digital marketing focused specifically on using social media platforms to promote brands and engage audiences. You already know what social media is — Facebook, Twitter, TikTok ads, Instagram LinkedIn, YouTube, and any number of other online sites that allow you to network, share your opinions, ideas, photos, etc. ***Social media marketing*** *is the practice of including social media as part of a company's marketing program.*

Customer engagement through social media

The days of trying to reach customers through ads on TV, in newspapers, or in magazines are over. Most television watchers skip commercials, and few people read newspapers or magazines, and even if they do, they don't focus on the ads.

Social media marketing can have many advantages for businesses, including:

- *Brand Awareness: Reaching a wider audience and increasing brand awareness.*
- *Website Traffic: Sharing links to the company website or blog on social media which can drive more traffic to the website.*
- *Customer Engagement: Improving customer engagement and customer service by connecting with customers and potential customers in two-way communication.*
- *Brand Loyalty: Building brand loyalty by providing opportunities for a targeted audience to participate in company-sponsored activities, such as contests.*
- *Incentives: Offering and publicizing incentives, such as special discounts or coupons.*
- *Feedback: Collecting feedback and ideas on how to improve products and marketing initiatives to get a better understanding of brand perception.*
- *Word-of-Mouth: Allowing customers to interact with each other and spread the word about the company's products or marketing initiatives.*

- *Low-Cost: Taking advantage of low-cost marketing opportunities by being active on free social sites, such as Facebook.*
- *Target Segments: Delivering personalized content to specific audiences as social media platforms offer a range of targeting options.*
- *Rankings: Improving search engine rankings as Google and other search engines pull information from social media platforms into their search results.*

Social media marketing can have several disadvantages, including:

- *Negative feedback: Customers can publicly voice their complaints, which can damage a company's reputation.*
- *Time-consuming: Social media marketing requires consistent content creation, community management, and engagement with followers.*
- *Difficult to measure: It can be challenging to measure the effectiveness of social media marketing, as it often involves tracking multiple metrics and analyzing complex data sets.*
- *Competition: With millions of businesses competing for attention on social media, it can be difficult to stand out.*
- *Platform changes: Social media platforms are constantly changing their algorithms and policies, which can make it difficult to predict and maintain success.*
- *Security and privacy policy issues: Social media platforms may have security and privacy policy issues.*
- *Not built for all groups: Social media marketing may not work for all groups of people.*
- *Expensive: Social media marketing can be expensive and confusing if done incorrectly.*

Retaining Customers

Customers are the most important asset that any business has. Without enough customers, no company can survive. Firms must not only attract new customers but also retain current customers.

Here are a few facts about retaining customers:[26]

- *The probability of selling to an existing customer is 60-70%, while the probability of selling to a new prospective customer is only 5-20%.*
- *It costs up to 7 times more to acquire a new customer than to retain an existing customer.*

A company thanking a customer for shopping

- *65% of a company's business comes from existing customers.*
- *Loyal customers spend 67% more than new ones.*
- *82% of companies agree that customer retention is less expensive than customer acquisition.*

Retaining customers is the purpose of ***customer-relationship management****—a marketing strategy that focuses on using information about current customers to nurture and maintain strong relationships with them. The underlying theory is fairly basic: to keep customers happy, you treat them well, give them what they want, listen to them, reward them with discounts and other loyalty incentives, and deal effectively with their complaints. Do you know some companies that do a good job of retaining customers? How about Amazon and Nike? These companies seem to know how to keep customers happy.*

Another advantage of keeping in touch with customers is the opportunity to offer them additional products. Amazon is a master at this strategy. When you make your first purchase at Amazon, you're also making a lifelong "friend"—one who will suggest (based on what you've bought before) other things that you might like to buy. Because Amazon continually updates its data on your preferences, the company gets better at making suggestions.

Developed in-house, Amazon's CRM software captures customer data at the point of purchase, which it uses to instantly customize its users' online experience and get a full view of the customer journey. It learns about customer habits, improves relationships from the first purchase, and reduces returns or even cart abandonment based on the customer's ecommerce activities.[27]

Refer to Table 8.4 for key actions taken by Amazon and Nike to retain customers.

Table 8.4: Key Actions to Retain Customers

Amazon	***Nike***
Membership: free two-day shipping, exclusive deals, access to streaming services (Prime Video, Prime Music), and more.	*Strong Brand Identity: Creates a powerful emotional connection through the "Just Do It" slogan and campaigns featuring inspiring athletes.*
Exceptional Customer Service: Customer support, hassle-free returns, and refunds.	*Product Innovation: Constantly develops cutting-edge products like Flyknit, Air Max, and self-lacing shoes.*
Personalization: Uses data analytics to recommend products based on customer behaviour, previous purchases, and browsing history.	*Customization Options: Offers personalized products through Nike By You, allowing customers to design shoes and apparel.*
Wide Product Selection: Offers nearly everything, from books and electronics to groceries and furniture, on a single platform.	*Digital Ecosystem: Integrates apps like Nike Run Club and Nike Training Club for fitness tracking and personalized coaching.*
Competitive Pricing: Monitors and matches competitor prices, offering deals and discounts.	*Direct-to-Consumer Sales: Focuses on Nike-owned stores and online platforms, reducing reliance on third-party retailers.*
Seamless User Experience: Provides an intuitive website and app interface with features like 1-click ordering and voice shopping through Alexa.	*Community Engagement: Hosts events, challenges, and local running clubs to foster community among customers.*
Subscription Services: Options like "Subscribe & Save" for recurring orders (e.g., household items, groceries) and Kindle Unlimited for eBooks.	*Sustainability Initiatives: Introduced the "Move to Zero" campaign, aiming for zero carbon emissions and zero waste.*
Gamification and Loyalty Incentives: Reward programs like Amazon Coins for digital purchases and exclusive deals for Prime members.	*Endorsements and Collaborations: Partners with top athletes (e.g., LeBron James, Serena Williams) and designers for exclusive collections.*
Continuous Innovation: Introduces new features like Amazon Go (cashier-less shopping), drone delivery (Prime Air), and Alexa devices.	*Exceptional Customer Service: Provides easy returns, exchange policies, and support across channels.*
Community Engagement and Trust: Provides reliable customer reviews and Q&A forums, ensuring transparency.	*Social Media and Digital Marketing: Engages customers through platforms like Instagram, TikTok, and Twitter with dynamic content.*

Key Takeaways

1. **Marketing** is the activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large.
2. The **marketing concept** focuses on understanding and fulfilling customer needs better than competitors. It prioritizes customer research, targeted strategies, and integrated efforts across departments to ensure satisfaction and long-term loyalty.
3. A **marketing strategy** consists of two major elements: the organization must determine its target market and then develop a marketing mix to meet the needs of that market.
4. The **marketing mix** is the combination of four factors, known as the "4Ps" of marketing. The 4Ps are designed to serve the target market and include product, price, promotion, and place.
5. **Strategic marketing planning** involves setting goals and objectives, analyzing internal and external business factors, product planning, implementation, and tracking your progress.
6. A **product life cycle** is a theoretical model describing a product's sales and profits over the course of its lifetime. During this cycle, the product typically goes through four stages: an introductory stage, a growth stage, a maturity stage, and a declining stage.
7. **Circular business models** offer an alternative that shifts the focus from selling products to providing and preserving value, whether through traditional sales or innovative circular services and activities, such as repair or resale.
8. A **target market** is the group of people who are most likely to buy your product or service.
9. **Market segments** are groups of potential customers with common characteristics that influence their buying decisions. You can use a number of characteristics to segment a market, including demographic, geographic, behavioral, and psychographic.
10. The **consumer buying process** involves five steps: Need recognition, Information search, Evaluation of Alternatives, Purchase or No Purchase Decision, Post-purchase Evaluation.
11. **Market research** is the process of gathering, analyzing, and interpreting information about a market, product, service, and customers. It helps companies understand their customers, competitors, and industry, and make strategic decisions about marketing and selling.
12. **Secondary data** is information already collected, whether by the company or by others,

which pertains to the target market.

13. **Primary data** is newly collected information that addresses specific questions.
14. **Brand strategy** is "The entire experience your prospects and customers have with your company, product or service. Your brand strategy defines what you stand for, a promise you make, and the personality you convey." Strategies include private branding, generic branding, and manufacturer branding. When consumers have a favorable experience with a product, it builds brand equity. If consumers are loyal to it over time, it enjoys brand loyalty.
15. **Packaging** can influence a consumer's decision to buy a product or pass it up. Packaging gives customers a glimpse of the product, and it should be designed to attract their attention, with consideration given to color choice, style of lettering, and many other details.
16. **Labelling** not only identifies the product but also provides information on the package contents: who made it and where or what risks are associated with it (such as being unsuitable for small children).
17. **Product,** the first "P" of the marketing mix, refers to both products and services.
18. **Price** is the only element of the marketing mix that directly generates revenue for a company. It's also the most flexible element, and it's important to continuously monitor and revise it.
19. **Place** is the third of the "4Ps" of marketing and refers to where and how a company sells its products to consumers. The goal is to reach the target audience and meet sales targets. Retailers are marketing intermediaries that sell products to the eventual consumer.
20. **Promotional mix** is the means by which a company communicates with its customers and may include advertising, social media, email marketing, personal selling, sales promotion, public relations, and more. The goal of promotion is to create a message that resonates with customers and encourages them to purchase a product.
21. **Advertising** is paid, non-personal communication designed to create awareness of a product or company.
22. **Personal selling** refers to one-on-one communication with customers or potential customers.
23. **Direct marketing** is a marketing approach that involves direct communication with consumers to generate a response or transaction. It does not rely on intermediaries such as retailers or advertising platforms.
24. **Sales promotion** is a marketing strategy that uses temporary offers or campaigns to increase sales, encourage customer loyalty, or build brand awareness.
25. **Public relations** (PR) refers to managing how others see and feel about a person, brand, or company.

26. **Digital marketing** is promotion through digital platforms, including websites, search engines, and social media. It includes all marketing efforts using digital channels to promote products, services, or brands. **Social media marketing** is the practice of including social media as part of a company's marketing program.
27. Retaining customers is the purpose of **customer-relationship management**—a marketing strategy that focuses on using information about current customers to nurture and maintain strong relationships with them.

End-of-Chapter Exercises

1. **Best Brands.** Use the Internet to search for the best global brands from last year. What did you discover? Were you surprised with the top five brands? Why do you think these companies have the best brands? Discuss with a partner, the class and/or the professor.
2. **Apple's Marketing Mix.** Visit Apple's website for iPhones and describe the marketing mix: product, price, place, and promotion. How does Apple attempt to foster good customer relations? What marketing recommendations would you make? Share your findings with your class and/or professor.
3. **SWOT Analysis.** Visit Walmart SWOT Analysis (another site for Walmart SWOT analysis). Would you add to the strengths, weaknesses, opportunities or threats that are listed? Why or why not? How could Walmart take advantage of its strengths in terms of its marketing mix? What market environmental forces do you think gave rise to its opportunities and threats? How much control does Walmart have over its market environment? What recommendations would you make for Walmart? Explain. Share your explanation with the class and/or professor.
4. **Marketing Concept.** Research either Apple Inc. or Patagonia and describe two to three actions this company takes to put the Marketing Concept into action. Share your findings with the class and/or professor.
5. **Promotional Strategy.** Visit the website of Sephora (if not in Canada, visit the Sephora

website for your location). This company gives free samples with purchases from its website as well as on customers' birthdays. Do you think that this promotional strategy will be profitable for the company? Why or why not? Share your observations with the class and/or professor.

6. **Promotional Tools and Techniques.** Visit The Running Room Canada (also operates in the U.S.). Review the website. What promotional tools is this business using to attract and retain customers? Do you think it's working? Discuss with a partner, the class, and/or your professor.
7. **4Ps of Marketing.** Select a product or service you regularly use (e.g., cell phone, food, cosmetics, clothing) and explain how the 4Ps of marketing apply to this product/service. Who is the target market or markets? How can this product be modified, or the marketing strategy be adjusted, to appeal to other market segments? Discuss with the class and/or professor.
8. **Starting a Business.** Assume you wish to start a limousine service (or a business of your choice or your professor's choice) in your community. How might you segment the market for your service? Which marketing mix strategies would you employ? How would you nurture customer relationships? Share your business marketing strategy with the class and/or professor.
9. **Your Last Purchase.** Consider the last thing you purchased. Explain how each of the following affected your purchasing decision: socio-cultural, situational, psychological, and marketing mix influences. Discuss with the class and/or professor.
10. **Loss Leader.** Use GenAI (e.g., ChatGPT, Google AI Overview, or other) with the prompt "What is a Loss Leader in Marketing?" and review the response. Ask AI to provide some company examples. Have you seen a loss leader before in a store you visit? What are the pros and cons of promoting with loss leaders? Discuss with your class and/or professor.
11. **Customer Retention.** Use the Internet to research the strategies used by Starbucks, Spotify, IKEA, or Nordstrom (or other companies) to retain customers. What did you learn? Share your findings with the class and/or professor.
12. **CRM Software.** Use the Internet to research the most popular customer relationship management software (CRM) used today. What does this software allow businesses to do? Do you think this gives the business a competitive edge? Do you think it improves customer service and, thus, customer satisfaction? Explain. Share your findings with your class and/or professor.
13. **New Marketing Model.** Use the Internet to research the new marketing model, SAVE. How does this model differ from the 4Ps model? Do you think it's better? Explain. Share your findings with your class and/or professor.

14. **PEST Analysis**. Use the Internet to research whether or not it is a good time to be selling real estate, in-ground pools, or plant-based meat (or other product as assigned by your professor)? Conduct a PEST analysis to find out. What trends are happening with consumers? What government regulations may support or hinder sales in these areas? Discuss with the class and/or professor.

Self-Check Exercise – Marketing Management Quiz

Check your understanding of this chapter's concepts by completing this short self-check quiz.

An interactive H5P element has been excluded from this version of the text. You can view it online here:
https://ecampusontario.pressbooks.pub/businessfundamentals/?p=273#h5p-20

Additional Resources

1. The Marketing Plan: Three Phases. YouTube Video.
2. 50 Famous Logos with Hidden Meaning.
3. 50 Largest Marketing Companies in the World.
4. Marketing Mix: 4Ps (with Real World Examples). YouTube Video.

5. Amazon Marketing Strategy. YouTube Video.
6. Top 10 Misleading Marketing Tactics. YouTube Video.
7. Unethical Marketing Practices (Keyword Stuffing, Dark Patterns, and more). YouTube Video.
8. Sale of Goods Act (Ontario).
9. Canadian Advertising/Marketing Laws.
10. U.S. Advertising and Marketing Basics Federal Trade Commission.
11. Canadian Marketing Association (CMA)
12. American Marketing Association (AMA)
13. Product Life Cycle in Marketing. YouTube Video.
14. Match Companies with Brands Game

Attributions

The contents of this chapter is a compilation sourced from various OER resources, please refer to the Book Information for details.

References

(Note: This reference list was produced using the auto-footnote and media citation features of Pressbooks)

Media Attributions

- *Marketing © Gerd Altmann | Pixabay*
- *Apple Inc. © Matias Cruz | Pixabay*
- *4Ps of Marketing © Hara Udu | Pixabay adapted by Kerri Shields*
- *Shopping Bags © Helga | Pixabay*
- *Big Data © Gerd Altmann | Pixabay*
- *Brands © B. Jordan | flickr is licensed under a CC BY (Attribution) license*
- *Realtor © RDNE Stock Project | Pexels*
- *Social Media © Joao Queiroz | Pixabay*
- *Thank You Customer © RDNE Stock project | Pexels*

Notes

1. *American Marketing Association. (n.d.). Definition of marketing. https://www.ama.org/AboutAMA/Pages/Definition-of-Marketing.aspx*
2. *TheMBAins. (2024, August 8) What is a marketing concept? Definition, features, examples, and pros/cons. https://thembains.com/what-is-a-marketing-concept/*
3. *Sharma, A. (2024, October 14). 7 stages in the evolution of marketing: A journey through time. https://thenextrack.com/7-stages-evolution-of-marketing/*
4. *Full Scale. (2025, April 23). The evolution of marketing. https://fullscale.io/blog/the-evolution-of-marketing/*
5. *Business School 101. (2023, July 3). The evolution of marketing (a brief history of marketing) | From a business professor. [Video]. YouTube. https://www.youtube.com/watch?v=X1VRAiWn6R4&t=3s*
6. *Pereira, D. (2025, January 8). Lululemon marketing strategy. https://businessmodelanalyst.com/lululemon-marketing-strategy/*
7. *Shastri, A. (2024, September 4). In-depth marketing strategy of Shopify-IIDE. https://iide.co/case-studies/marketing-strategy-of-shopify/*
8. *Weller, J. (2017, June 23). The definitive guide to strategic marketing planning. https://www.smartsheet.com/strategic-marketing-processes-and-planning*
9. *abs institute. (n.d.). The new marketing mix S.A.V.E. https://www.absinstitute.com.au/the-new-marketing-mix-s-a-v-e/#:~:text=This%20new%20framework%20stands%20for,productively%20in%20today's%20marketing%20industry.*
10. *VisoChart. (n.d.). Difference between 4Ps and 4Cs of marketing. https://visiochart.com/blog/4ps-and-4cs-of-marketing/*
11. *Kantar. (2024, November 12). How can marketing support the circular economy? https://www.kantar.com/north-america/Inspiration/Sustainability/How-can-marketing-support-the-circular-economy*
12. *Adnrivet, M. (2023, October 16). The way forward: How the circular economy is changing the game for brands. https://www.thebrandingjournal.com/2023/01/circular-economy-branding/*
13. *Kantar. (2024, November 12). How can marketing support the circular economy? https://www.kantar.com/north-america/Inspiration/Sustainability/How-can-marketing-support-the-circular-economy*
14. *Twin, A. (2023, April 14). How to do market research, types, and example. https://www.investopedia.com/terms/m/market-research.asp*
15. *Marketingmo. (n.d). Marketing guides: Brand strategy. https://www.marketingmo.com/strategic-planning/brand-strategy/*
16. *Mertes, A. (2022, December 5). 34 brand names you casually use without even realizing they're brand names. https://www.qualitylogoproducts.com/blog/brand-names-generic-terms/*
17. *Skripak, S. & Poff, R. (2020). Fundamentals of Business, 3rd edition. https://pressbooks.lib.vt.edu/fundamentalsofbusiness3e/chapter/chapter-14-marketing-providing-value-to-customers/*
18. *Skripak, S. & Poff, R. (2020). Fundamentals of Business, 3rd edition. https://pressbooks.lib.vt.edu/fundamentalsofbusiness3e/chapter/chapter-14-marketing-providing-value-to-customers/*
19. *Chesshir, H. (2024, June 6). Benefits of utilizing custom packaging labels. https://www.paramountglobal.com/knowledge/benefits-of-custom-packaging-labels/*
20. *University of Windsor & Ryerson University. (2022). Indigenous lifeways in Canadian business. https://ecampusontario.pressbooks.pub/indigenousbusinesstopics/chapter/chapter-1/*
21. *The Ritz-Carlton Hotel Company LLC (2024). The gold standard: About the Ritz Carlton. http://www.ritzcarlton.com/en/about/gold-standards*
22. *G6Hospitality LLC (2024). Motel6: About us/FAQs. https://www.motel6.com/en/faq.html*

23. *Adfuel Inc. (2024, June 27). The daily ad exposure: How many ads does the average person see each day? https://goadfuel.com/the-daily-ad-exposure-how-many-ads-does-the-average-person-see-each-day/#:~:text=Research%20on%20the%20exact%20number,4%2C000%20to%2010%2C000%20ads%20daily.*

24. *Simpson, J. (2022, April 14). Finding brand success in the digital world. https://www.forbes.com/sites/forbesagencycouncil/2017/08/25/finding-brand-success-in-the-digital-world/#:~:text=You%20don%20a%20Banana%20Republic,20%20minutes%20of%20the%20day!&text=Digital%20marketing%20experts%20estimate%20that,to%2010%2C000%20ads%20each%20day.*

25. *Pietroluongo, L. (2024, April 19). What are Fortune's most admired companies in 2024? https://www.netreputation.com/what-are-fortunes-most-admired-companies-in-2024/#:~:text=In%202024%2C%20these%20were%20the%20Top%2010%20in,Wholesale%207%20Alphabet%208%20American%20Express%20More%20items*

26. *Kiniulis, M. (2021). Customer acquisition vs. customer retention: What data says? https://www.markinblog.com/customer-loyalty-retention-statistics/#:~:text=It%20costs%20up%20to%207x%20more%20to%20acquire,of%20a%20company%E2%80%99s%20business%20comes%20from%20existing%20customers.*

27. *Binns, R. (2023, February 22). Amazon CRM case study. https://www.expertmarket.com/uk/crm-systems/amazon-crm-case-study#:~:text=And%20crucially%2C%20it's%20helped%20it,The%20Amazon%20story*

CHAPTER 9: OPERATIONS MANAGEMENT

Chapter 9 Learning Outcomes

After reading this chapter, you should be able to do the following:

1. Explain how the production process creates finished products and services that provide value and utility to buyers.
2. Explain how operations management is closely intertwined with the production process.
3. Discuss how supply chain, value chain, and circular economy are intertwined.
4. Discuss production planning, production control, and quality control as they pertain to manufacturing and service operations management.
5. Explain how site selection, facility layout, and capacity are determined for both manufacturing and service organizations.
6. Explain how outsourcing provides value to businesses and their customers.
7. Explain the purpose of both PERT and Gantt charts.
8. Discuss the technologies used by manufacturing organizations to produce and deliver goods in an efficient, cost-effective manner.
9. Identify the characteristics that distinguish service operations from manufacturing operations.
10. Discuss quality management as a strategy to improve productivity and customer satisfaction.

The Production Process

Every business that produces goods or services has a specific production process. ***Production*** *refers to the process of transforming inputs (such as labour, capital, and raw materials) into outputs (goods and services) that a firm wishes to sell. Refer to the production transformation process in Figure 9.1.*

The decisions made in the planning stage have long-range implications and are crucial to a firm's success. Before making decisions about the operations process, managers must consider the goals set by marketing managers. Does the company intend to be a low-cost producer and to compete based on price? Or does it plan to focus on quality and go after the high end of the market? Many decisions involve trade-offs. For example, low cost doesn't normally go hand in hand with high quality. All functions of the company must be aligned with the overall strategy to ensure success.

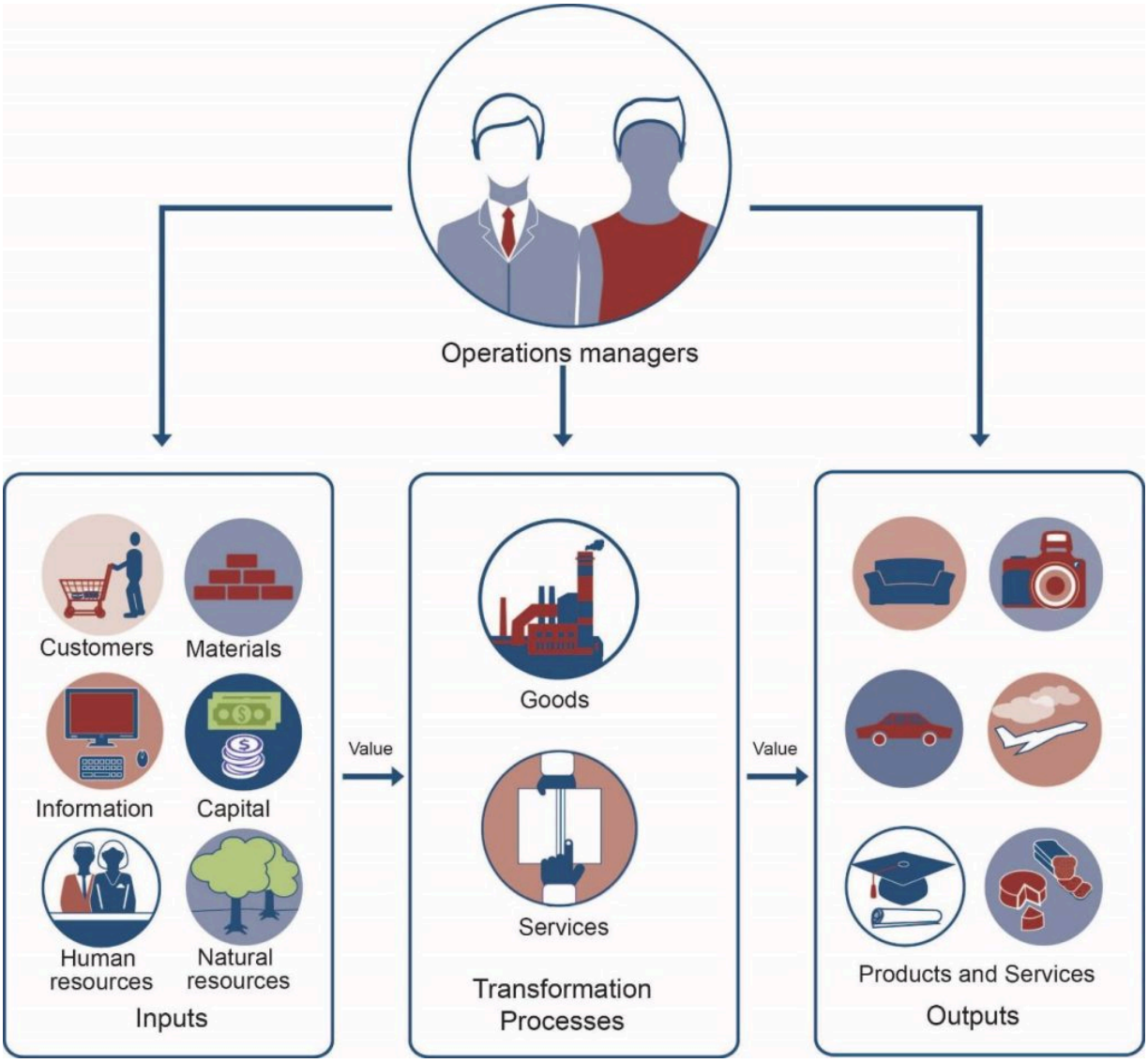


Figure 9.1 The Production Transformation Process

Value

The transformation process gives the finished products and services value. ***Value*** *is the customer's perception of the benefits they receive compared to the cost or effort required to obtain the product. It is subjective and influenced by*

factors like branding, emotional appeal, and customer experience. The value of the product or service equals the ratio of the product's benefit to its cost (value = benefits/costs). The price you will pay for a product or service often depends on the benefits it brings and the value it has for you. Value is about how much the product matters to the customer (subjective).

Utility

***Utility** refers to the inherent usefulness or the ability of a product or service to satisfy a customer's needs and wants. It is often measurable and tied directly to functionality. Utility is about what a product can do (objective).*

There are four types of utility:

1. *Time utility. Availability when needed (e.g., seasonal availability of bathing suits)*
2. *Place utility. Accessibility (e.g., location distribution of accessible)*
3. *Form utility. Design (e.g., the design or structure meets needs)*
4. *Ownership utility. Satisfaction (e.g., benefits of ownership, functional and emotional)*

Companies can enhance ownership utility by offering after-sales services, providing financing options, promoting lifestyle benefits and pride of ownership, and allowing buyers to personalize the product to enhance its appeal.

Operations Management for Manufacturing

***Operations Management** is a vital component of any business, encompassing the practices, techniques, and tools that organizations use to produce and deliver goods and services efficiently and effectively. Whether in manufacturing or service industries, operations management plays a crucial role in building a competitive edge and driving long-term success.*[1] *Employing proficient staff, ensuring operations are ethical and safe, and choosing strategic locations are important for maintaining operational excellence.*

Operations management and the production process are closely intertwined, as operations management oversees and optimizes the production process to ensure efficiency, quality, and value creation.

Here's how they relate:

1. ***Planning the Production Process.** Operations management involves determining the resources, steps, and timelines needed to produce goods or services. This planning phase aligns production goals with business objectives, ensuring resources like labor, materials, and machinery are used effectively.*
2. ***Resource Allocation.** The production process requires inputs such as raw materials, labor, and technology.*

Operations management allocates these resources to minimize waste and optimize productivity, considering costs and demand forecasts.

3. ***Process Optimization.*** *Operations managers analyze the production process to identify bottlenecks, inefficiencies, or areas for improvement. They implement techniques like Lean manufacturing, Six Sigma, or Total Quality Management (TQM) to streamline processes.*
4. ***Monitoring and Controlling.*** *During production, operations management monitors progress against planned schedules and budgets. Real-time tracking systems and metrics ensure the process stays aligned with targets, and any deviations are corrected promptly.*
5. ***Quality Assurance.*** *Operations management integrates quality control and assurance into the production process to ensure the final products meet customer expectations and regulatory standards.*
6. ***Delivery and Feedback.*** *Once production is complete, operations management oversees product delivery, evaluates performance, and collects feedback to refine the process for future cycles.*

In summary, operations management is the strategic framework that governs every aspect of the production process, ensuring that goods and services are produced efficiently, meet quality standards, and align with customer and market demands.

IKEA's Operations Model

[IKEA excerpt from Chekhub, Taylor Faircloth, 2021][2]

Operations management is an essential part of the Swedish furniture company IKEA's success. Its management systems have enabled the company to offer more than 9,500 products at competitive prices as it has grown over nearly eight decades. IKEA's reputation has rested on its efficient and effective management of:

- Product and process design
- Inventory
- Quality assurance

IKEA Home Furnishings

- Supply chain networks
- Back-end operations

IKEA requires efficient operational management on all levels of the organization, from product design, sourcing materials, and flat packing to distribution and dealing with fluctuations in demand in order to maintain its low prices. Sustaining low manufacturing or service costs through efficient operations management is what sets a successful business apart from the rest.

IKEA has strict requirements on quality, function, and cost when it comes to designing products. To reduce the price of production and distribution, the company uses a ready-to-assemble design for items in its inventory, and the flat packing method used to ship and store its products reduces consumer and manufacturing costs.

IKEA starts each design phase by first setting a price point for a particular product. To reduce waste and overall costs, the company's standardized production process uses a limited selection of raw materials. From this selection, designers at IKEA create a product that upholds the company standards of affordability, sustainability, quality design, and functionality.

To stay ahead in such a competitive marketplace, IKEA has an extensive forecasting system to predict trends and begin production plans years in advance. The strategic allocation of production based on supplier resources and capacity allows IKEA to balance production volumes across its network of third-party manufacturers. These two factors significantly reduce the cost of production for each unit in its extensive inventory.

After production, IKEA's operational management oversees the transportation of the final products to a network of 47 automated distribution centers around the globe. The well-designed system ensures cost-effective distribution to the 445 IKEA stores worldwide.

Each retail location functions as both a store and a warehouse. Each location has both an in-store logistics manager and a store goods manager who are responsible for the ordering and material handling processes, respectively. Together, they work to balance customer demand and inventory management while maximizing profits. By merging retail locations with warehouse facilities and a self-service model, IKEA is able to reduce distribution and product storage costs to maintain a competitive edge.

With over 1,800 suppliers around the globe and 43 localized trading offices to maintain relationships with manufacturers, IKEA understands the importance of building strong business relationships through effective communication. To ensure that its inventory will be in stock, IKEA works side-by-side with material suppliers, manufacturers, and factory workers across its supply chain network. IKEA believes that long-term business relationships with suppliers ultimately reduce the

cost of goods sold. As a high-volume global retailer, IKEA recognizes that suppliers are meaningful collaborators who add to the business's value chain. Rather than fostering competition among suppliers, IKEA works directly with suppliers to innovate efficient, low-cost ways to bring its designs to life.

Through tight control over operational efficiencies in the design, production, supply chain, and distribution processes, IKEA has been able to keep consumer and manufacturing costs low while growing the company on a world stage. IKEA perfectly demonstrates the power and significance of operational management systems to elevate a business and optimize its workflows.

Supply Chain

*A **supply chain** refers to the network of individuals, organizations, resources, activities, and technologies involved in the production and distribution of a product or service. It encompasses every stage from sourcing raw materials to delivering the final product or service to the consumer.*

Key Components of a Supply Chain:

- *Suppliers: Provide the raw materials or components needed for production.*
- *Manufacturers: Transform raw materials into finished goods.*
- *Distributors and Wholesalers: Facilitate the movement of goods from manufacturers to retailers.*
- *Retailers: Sell the final products to consumers.*
- *Consumers: The end-users of the product or service.*

Activities in the Supply Chain:

- *Procurement: Sourcing raw materials or goods.*
- *Production: Converting inputs into finished products.*
- *Logistics: Transporting and storing goods.*
- *Demand Planning: Forecasting customer demand to optimize inventory and production.*

*The goal of an effective supply chain is to deliver products efficiently and cost-effectively while maintaining high levels of quality and customer satisfaction. **Supply chain management (SCM)** is the monitoring and optimization of the production and distribution of a company's products and services. It seeks to improve and make more efficient all processes involved in turning raw materials and components into final products and getting them*

to the ultimate customer. Effective SCM can help streamline a company's activities to eliminate waste, maximize customer value, and gain a competitive advantage in the marketplace.[3]

The supply chain and value chain are closely related concepts, but they focus on different aspects of a product's life-cycle. The key difference lies in their focus:

- *The supply chain emphasizes the logistics and operational flow of goods and services from raw materials to the final consumer and the ways in which the process will convert raw materials into goods and services as efficiently as possible (Refer to Figure 9.2, The Lifecycle of a Cotton T-Shirt).*
- *The value chain focuses on value creation at each step, analyzing how each activity adds value to the product or service and how the costs of operational activities represent a portion of the final sale price of the good or service (Refer to Figure 9.2, The Lifecycle of a Cotton T-Shirt).*

Supply chain is often explained as Functional Stages (Planning, Sourcing, Manufacturing (or Production), Distribution, Returns (Reverse Logistics)): Focus on processes within the supply chain, often overlapping with multiple actors; or, as Actor-Based Stages (Supplier, Manufacturer, Distributor, Retailer, Consumer): Focus on who participates in the chain and their responsibilities. Both frameworks are complementary and can be used together to gain a comprehensive understanding of supply chains. The supply chain functions as a continuous loop, with data and insights from one stage influencing decisions in others. This integration ensures efficiency, cost-effectiveness, and customer satisfaction. In essence, the supply chain ensures delivery, while the value chain ensures desirability and worth.

The Gartner Supply Chain Top 25 releases rankings every year, and the 2023 list features a few new logos as well as businesses from years past that have sustained supply chain excellence. The compilation celebrates companies whose supply chain strategies have shown them to be purpose-driven, disruptive, and early adopters of innovative technologies. To recognize the most sustained examples of supply chain excellence, Gartner lists Amazon, Apple, Procter & Gamble, and Unilever as Supply Chain Masters—an accolade earned as a result of having attained top-five composite scores in the Gartner Supply Chain Top 25 for at least seven out of the past 10 years.[4]

You will learn more about supply chain and value chain when you complete an operations management course. This chapter is meant to be an introduction to these concepts.

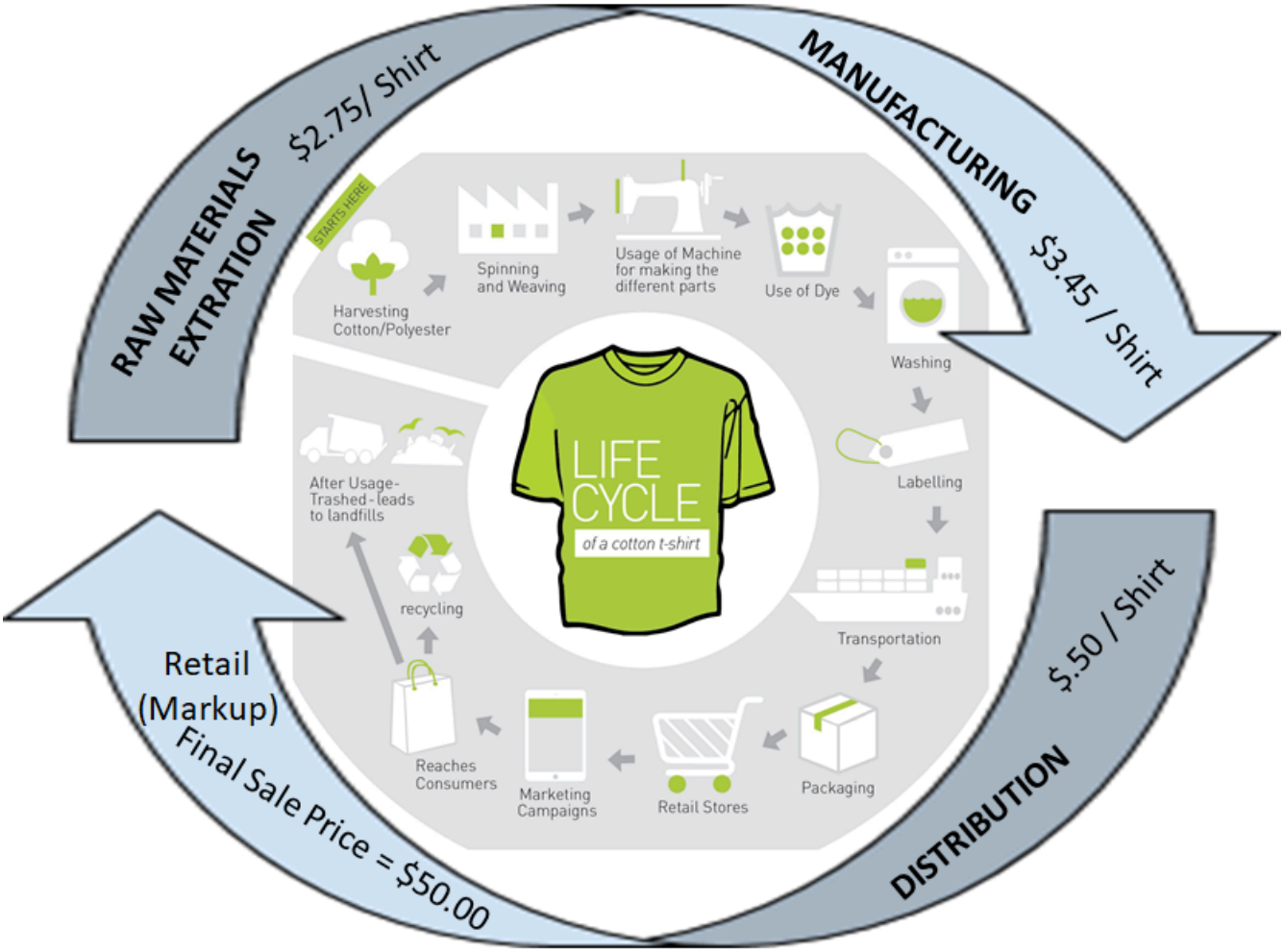


Figure 9.2 The Lifecycle of a Cotton T-Shirt

Circular Economy in Manufacturing

*The**circular economy** represents a paradigm shift from the traditional linear model of "take-make-dispose" to a regenerative approach that emphasizes the restoration and regeneration of products, materials, and energy. It challenges conventional metrics of value creation and encourages manufacturers to design products and business models with durability, repairability, and recyclability in mind. Through recycling, part harvesting, remanufacturing, repair, refurbishment, and ecommence, circular economy principles can reduce dependency on scarce resources and component suppliers, building adaptable and resilient supply chains.*[5]

For manufacturers, this means ensuring parts and materials within their control never unintentionally exit their sphere of influence. By retaining control over the lifecycle of products, materials and components, manufacturers can prevent resource loss, ensure efficient reuse, enable capitalization of circular practices and reduce their environmental impact.[6] *Companies like IKEA focus on product design and production processes that can be easily disas-*

sembled or recycled at the end of their life cycle. IKEA's operations focus on sourcing sustainable materials and creating products that contribute to a circular supply chain. Patagonia has implemented circular supply chain practices by offering repair services for products and encouraging customers to return old items for recycling or resale, contributing to a circular flow of materials.[7]

What fashion consumption habits have been generating in terms of waste is alarming. The global clothing and textile industry is responsible for nearly 100 million metric tons (110,231,131 short tons or 220,462,262,185 pounds!) of waste every year – a figure that could jump by at least 50% by 2030.[8]

Despite the lessons from the digital revolution, many companies continue to focus primarily on refining their existing products and services for their current customer base. But this approach overlooks the transformative potential of the circular economy, which, like the internet in the late 1990s, stands poised to redefine how businesses create, capture and deliver value. As we approach 2030, companies that embrace this shift will lead in innovation and market share, much as early adopters of digital technologies outpaced their peers. The rest of this decade will be crucial for businesses to adapt to this new paradigm, where sustainability is no longer a choice but an essential component of success.[9]

Play the "Creating a Circular Economy for Fashion", YouTube video below to learn about the innovations in the fashion industry that may just help save our world.[10] *Transcript for "Creating a Circular Economy for Fashion" Video [PDF–New Tab]. Closed captioning is available on YouTube.*

One or more interactive elements has been excluded from this version of the text. You can view them online here: https://ecampusontario.pressbooks.pub/businessfundamentals/?p=271#oembed-1

Operations Managers

Operations managers *manage the process that transforms inputs into outputs. Their responsibilities can be grouped as follows:*

1. ***Production planning.*** *During production planning, managers determine how goods will be produced, where production will take place, and how manufacturing facilities will be laid out.*
2. ***Production control.*** *Once the production process is underway, managers must continually schedule and monitor the activities that make up that process. They must solicit and respond to feedback and make adjustments where needed. At this stage, they also oversee the purchasing of raw materials and the handling*

of inventories.

3. ***Quality control.*** *The operations manager is directly involved in efforts to ensure that goods are produced according to specifications and that quality standards are maintained.*

Let's take a closer look at each of these responsibilities.

1. Production Planning

The decisions made in the planning stage have long-range implications and are crucial to a firm's success. Before making decisions about the operations process, managers must consider the goals set by marketing managers. Does the company intend to be a low-cost producer and to compete on the basis of price? Or does it plan to focus on quality and go after the high end of the market? Many decisions involve trade-offs. For example, low cost doesn't normally go hand in hand with high quality. All functions of the company must be aligned with the overall strategy to ensure success.

Effective ***production planning*** *requires a thorough analysis of market demand, capacity capabilities, and available resources. It involves aligning production schedules with sales forecasts and considering factors such as lead times, production capacities, and resource availability. Additionally, it involves coordinating with other departments, such as procurement, logistics, and maintenance, to ensure a smooth and uninterrupted production process.*[11]

Let's review the specific types of decisions that have to be made in the production planning process.

Production-Method Decisions

The first step in production planning is deciding which type of production process is best for making the goods that your company intends to manufacture. In reaching this decision, managers should answer such questions as:

- *Are we making a one-of-a-kind good based solely on customer specifications, or are we producing high-volume standardized goods to be sold later?*
- *Do we offer customers the option of "customizing" an otherwise standardized good to meet their specific needs?*

One way to appreciate the nature of this decision is by comparing three basic types of processes or methods: make-to-order, mass production, and mass customization. The task of the operations manager is to work with other managers, particularly marketers, to select the process that best serves the needs of the company's customers.

Make-to-Order (MTO)

At one time, most consumer goods, such as furniture and clothing, were made by individuals practicing various crafts. By their very nature, products were customized to meet the needs of the buyers who ordered them. This process, which is called a ***make-to-order*** *strategy, is still commonly used by such businesses as print or sign shops that produce low-volume, high-variety goods according to customer specifications. This level of customization often results in a longer production and delivery cycle than other approaches. It is suitable for niche markets or high-value goods (e.g., luxury yachts or custom furniture).*

The advantages of make-to-order production include a lower likelihood of unsold inventory, easily adapts to specific customer requirements, and manufacturing products only after receiving customer orders.

The disadvantages of make-to-order production include higher costs due to smaller production runs and customized processes, can lead to idle production capacity if orders are low, and customers must wait for products to be made.

Mass Production

By the early twentieth century, a new concept of producing goods had been introduced: ***mass production*** *(or make-to-stock strategy), the practice of producing high volumes of identical goods at a cost low enough to price them for large numbers of customers. Goods are made in anticipation of future demand (based on forecasts) and kept in inventory for later sale. This approach is particularly appropriate for standardized goods ranging from processed foods to electronic appliances. It generally results in shorter cycle times than a make-to-order process. This type of production also takes advantage of economies of scale, which refers to the reduced costs per unit that are realized from an increased total number of units produced. It is best for high-demand products (e.g., Coca-Cola or generic clothing).*

The advantages of mass production include lower per-unit costs due to economies of scale, high production rates that meet large market demand quickly, and uniform quality of products due to standardized processes.

The disadvantages of mass production include limited ability to adapt to changing customer preferences, requiring substantial capital for machinery and setup, and overproduction may lead to surplus stock and storage costs.

Mass Customization

Personalized M&Ms

There is at least one big disadvantage to mass production: customers, as one old advertising slogan put it, can't "have it their way." They have to accept standardized products as they come off assembly lines. Increasingly, however, customers are looking for products that are designed to accommodate individual tastes or needs but can still be bought at reasonable prices. To meet the demands of these consumers, many companies have turned to an approach called ***mass customization****, which combines the advantages of customized products with those of mass production.*

This approach requires that a company interact with the customer to find out exactly what the customer wants and then manufacture the goods, using efficient production methods to hold down costs. One efficient method is to mass-produce a product up to a certain cut-off point and then to customize it to satisfy different customers. It is ideal for industries offering personalized products (e.g., Dell's customizable computers).

The advantages of mass customization include offering personalized products that enhance customer loyalty, helping businesses stand out in markets filled with standardized goods, and leveraging automation and modular design for greater adaptability.

The disadvantages of mass customization include generally higher unit costs compared to traditional mass production, the need for advanced technology and logistics to handle customization efficiently, and the potential for slower production speeds due to the customization process.

One of the best-known mass customizers is Nike, which has achieved success by allowing customers to configure their own athletic shoes, apparel, and equipment through "Nike By You" program. The Web has a lot to do with the growth of mass customization. Levi's, for instance, lets customers find a pair of perfectly fitting jeans, then helps them personalize the jeans through the "Levi's Tailor Shop". Oakley offers customized sunglasses, goggles, watches, and backpacks. Mars, Inc. can make M&M's in any color the customer wants (say, school colours) as well as add text and even pictures to the candy.

Naturally, mass customization doesn't work for all types of goods. Most people don't care about customized detergents or paper products. And while many of us like the idea of customized clothes, footwear, or sunglasses, we often aren't willing to pay the higher prices they command.

Refer to Table 9.1 for a comparison of features for mass production, mass customization, and make-to-order production methods.

Table 9.1: Production Methods Comparison

Feature	***Mass Production***	***Mass Customization***	***Make-to-Order***
Customer Focus	*Low*	*High*	*Very High*
Cost Efficiency	*Very High*	*Moderate*	*Low*
Flexibility	*Low*	*Moderate to High*	*Very High*
Lead Times	*Short*	*Moderate*	*Long*
Production Risk	*Inventory Surplus*	*Moderate (requires demand prediction)*	*Low (no overproduction)*

Facilities Decisions

After selecting the best production process, operations managers must then decide where the goods will be manufactured, how large the manufacturing facilities will be, and how those facilities will be laid out.

Site Selection

Site selection *involves measuring the needs of a new project against the merits of potential locations. In site selection, managers must consider several factors:*

- *To minimize shipping costs, managers often want to locate plants close to suppliers, customers, or both.*
- *They generally want to locate in areas with ample numbers of skilled workers.*
- *They naturally prefer locations where they and their families will enjoy living.*
- *They want locations where costs for resources and other expenses—land, labour, construction, utilities, and taxes—are low.*
- *They look for locations with a favourable business climate—one in which, for example, local governments might offer financial incentives (such as tax breaks) to entice them to do business in their locales. For example, an enterprise zone is an area in which incentives are used to attract investments from private companies.*

Managers rarely find locations that meet all these criteria. As a rule, they identify the more important criteria

and aim to satisfy them. For example, Toyota Manufacturing Canada (TMMC) established one of its assembly plants in Cambridge, Ontario, after an extensive site selection process. Factors that influenced the site selection decision included skilled workforce, proximity to automotive supply chains, access to major markets (close to U.S. border), transportation infrastructure (major highways and railways), government incentives (Canadian and Ontario governments provided financial incentives and tax breaks), cost of operations (affordable), and cultural fit (high-quality manufacturing and workforce reliability aligned with Toyota's brand image and production standards).

Facility Layout

*The **facility layout** is the physical arrangement of resources. The facility layout should be planned to handle materials orderly and efficiently and ensure a smooth flow of production. For instance, the distance that a work-in-progress must travel within a facility should be considered. Different manufacturing processes require different facility layouts.*

Facility Layout: Factory Worker

The four main types of facility layouts are:

1. ***Process layout:** Groups similar machines or functions together. Best for low-volume, varied products. Example: Hospital departments.*
2. ***Product layout:** Arranges equipment in sequence for mass production of identical items. Example: Car assembly line.*
3. ***Fixed-position layout:** The product stays in one place while workers and tools move to it. Example: Ship-building.*
4. ***Cellular layout:** Machines are grouped into cells to produce related product families efficiently. Example: Computer parts manufacturing.*

A company may also choose to combine any of these layouts into a hybrid layout.

Capacity Planning

Now that the company has determined a location, the next decision is on the quantity of products that will be pro-

duced. Managers begin by forecasting demand for the company's product, which isn't easy. To estimate the number of units that is likely to sell over a given period, they have to understand the industry that they are in and estimate their likely share of the market by reviewing industry data and conducting other forms of research.

Once demand for the product has been forecasted, managers can calculate the ***capacity requirements*** *of the production facility—the maximum number of goods that it can produce over a given time under normal working conditions. In turn, having calculated the capacity requirements, they are ready to determine how much investment in the plant and equipment they will have to make, as well as the number of labour hours required for the plant to produce at capacity and meet demand.*

Like forecasting, capacity planning can be challenging. However, failing to align capacity with expected demand can significantly impact a company's profitability. If capacity is too low, the business may fall short of meeting demand, resulting in lost sales and customers. On the other hand, if capacity is too high and production exceeds demand, resources are wasted and operating costs rise. That's why continuous review—the ongoing evaluation of organizational processes to identify opportunities for increased efficiency—is a critical part of capacity planning. It helps ensure that production levels stay in line with actual demand.

2. Production Control

Production control is a crucial function in operations management that ensures resources are used efficiently and effectively to meet production goals. It integrates purchasing, inventory control, and work scheduling to streamline production processes.

Purchasing

The process of acquiring the materials and services to be used in production is called ***purchasing (or procurement)****. For many products, the costs of materials make up about 50 percent of total manufacturing costs. Not surprisingly, materials acquisition gets a good deal of the operations manager's time and attention.*

Supplier Selection

Supplier selection is a critical aspect of purchasing. It involves choosing the best vendors to meet the company's material or service requirements based on specific criteria. As a rule, there's no shortage of vendors willing to supply materials, but the trick is finding the best suppliers. Operations managers must consider the following:

- *Can the vendor supply the needed quantity of materials at a reasonable price?*
- *Is the quality good?*

- *Is the vendor reliable (will materials be delivered on time)?*
- *Does the vendor have a favourable reputation?*
- *Is the company easy to work with?*

Use key performance indicators (KPIs) to assess potential vendors:

- *Cost: Are the prices competitive?*
- *Quality: Do they meet the required standards consistently?*
- *Reliability: Are deliveries made on time?*
- *Capacity: Can they handle the required volume?*
- *Sustainability: Do they align with the company's ethical and environmental goals?*

Importance of Strategic Supplier Selection:

- *Cost Efficiency: Reducing production costs through competitive pricing.*
- *Quality Assurance: Ensuring final products meet customer expectations.*
- *Risk Mitigation: Reducing supply chain disruptions by working with reliable suppliers.*
- *Innovation: Collaborating with suppliers who offer advanced technologies or innovative solutions.*

In summary, the integration of efficient purchasing and careful supplier selection can significantly enhance a company's operational performance and competitive advantage.

Procurement

Technology has changed the way businesses buy things. Through modern procurement, companies use the Internet to interact with suppliers. The process is similar to the one you'd use to find a consumer good—say, a high-definition TV—over the Internet. To choose a TV, you might browse the websites of manufacturers like Sony, then shop for prices and buy on Amazon, the world's largest online retailer.

Procurement: Supplies being shipped

If you were a purchasing manager using the Internet to buy parts and supplies, you'd follow the same process. You'd identify potential suppliers by going directly to private websites maintained by individual suppliers or to public sites that aggregate information on numerous suppliers. You could do your shopping through online catalogs, or you might participate in an online marketplace by indicating the type and quantity of materials you need and

letting suppliers bid. Finally, just as you paid for your TV electronically, you could use a system called electronic data interchange (EDI) to process your transactions and transmit all your purchasing documents.

The Internet provides an additional benefit to purchasing managers by helping them communicate with suppliers and potential suppliers. They can use the Internet to give suppliers specifications for parts and supplies, encourage them to bid on future materials needs, alert them to changes in requirements, and give them instructions on doing business with their employers. Using the Internet for business purchasing cuts the costs of purchased products and saves administrative costs related to transactions. It's also faster for procurement and fosters better communications.

Harley-Davidson maintains a Supplier Diversity policy for making decisions in this area of operations management. This decision area is concerned with optimizing the supply chain for the motorcycle manufacturer's growth. The company's policy ensures the optimal productivity and capacity of its supply chain based on the availability of a wide variety of suppliers. Success in this area of operations management depends on how policies and strategies address the bargaining power of suppliers described in the Five Forces analysis of Harley-Davidson. Also, decisions in supply chain management account for supply-related industry and market conditions, such as the trends shown in the PESTLE/PESTEL analysis of Harley-Davidson.[12]

Outsourcing in the Manufacturing Sector

Outsourcing *in business refers to the practice of contracting out certain business functions, tasks, or processes to external vendors or service providers, rather than handling them in-house. This strategy is commonly employed by companies to reduce costs, gain access to specialized expertise, or increase efficiency by leveraging external resources. These tasks can include activities such as customer service, manufacturing, IT support, human resources, and more. A company may decide to outsource manufacturing to a foreign country where labor costs are lower, influencing both the location of operations and the logistics required to maintain supply chains. For example, Nike has been known for outsourcing the majority of its manufacturing, choosing to locate production in countries like Vietnam, China, and Indonesia. This allows Nike to focus on its product design and marketing while relying on external partners for labor-intensive tasks. This outsourcing model significantly impacts both its product/service strategy and supply chain decisions.*

Some reasons companies outsource include:

- *Companies might outsource to reduce costs*
- *Gain access to expertise, technology, and innovation that they currently do not have*
- *To better focus on core business activities by outsourcing non-core activities*
- *Outsourcing provides flexibility in scaling operations up or down quickly.*
- *Companies can reduce risks by sharing risks with, or transferring some risks to, external partners*

- *For global companies, outsourcing to different time zones can provide a 24-hour work cycle*

While outsourcing provides numerous advantages, it also has some disadvantages, including:

- *Ensuring quality standards are met*
- *Maintaining control over outsourced functions*
- *Risks of data breaches or the mishandling of sensitive information*
- *Communication issues, such as language barriers or cultural differences*
- *Limited options to switch providers without incurring costs or disruptions*
- *Vulnerability if the company over-relies on the partner and the partner fails to deliver*
- *Risks of intellectual property theft or misuse by third-party providers*

Outsourcing has become an increasingly popular option among manufacturers. For one thing, few companies have either the expertise or the inclination to produce everything needed to make a product. Today, more firms want to specialize in the processes that they perform best (core function) and outsource the rest. Companies also want to take advantage of outsourcing by linking up with suppliers located in regions with lower labour costs. Outsourcing can be local, regional, or even international, and companies can outsource everything from parts for their products, like automobile manufacturers do, to complete manufacturing of their products, like Nike and Apple do. Apple outsources the production of certain components (like chips or displays) to specialized manufacturers, enhancing both product quality and innovation.

Inventory Control

If a manufacturer runs out of the materials it needs for production, then production stops. In the past, many companies guarded against this possibility by keeping large inventories of materials on hand. It seemed like the thing to do at the time, but it often introduced a new problem—wasting money. Companies were paying for parts and other materials that they wouldn't use for weeks or even months, and in the meantime, they were running up substantial storage and insurance costs. If the company redesigned its products, some parts might become obsolete before ever being used.

Most manufacturers have since learned that to remain competitive, they need to manage inventories more efficiently. This task requires that they strike a balance between two threats to productivity: losing production time because they've run out of materials and wasting money because they're carrying too much inventory. The process of striking this balance is called ***inventory control****, and companies now regularly rely on a variety of inventory-control methods.*

Just-in-Time Production

*One method is called **just-in-time (JIT) production:** the manufacturer arranges for materials to arrive at production facilities just in time to enter the manufacturing process. Parts and materials don't sit unused for long periods, and the costs of "holding" inventory are significantly cut. JIT, however, requires considerable communication and cooperation between the manufacturer and the supplier. The manufacturer has to know what it needs and when. The supplier has to commit to supplying the right materials, of the right quality, at exactly the right time. An example in retail: A grocery store uses JIT systems to replenish stock based on sales data from its point-of-sale system, reducing waste of perishable items.*

Material Requirements Planning

*A software tool called **material requirements planning (MRP)**, relies on sales forecasts and ordering lead times for materials to calculate the quantity of each component part needed for production and then determine when they should be ordered or made. The detailed sales forecast is turned into a master production schedule (MPS), which MRP then expands into a forecast for the needed parts based on the bill of materials for each item in the forecast. A bill of materials is simply a list of the various parts that make up the end product. The role of MRP is to determine the anticipated need for each part based on the sales forecast and to place orders so that everything arrives just in time for production.*

Inventory Management Software

Tools like SAP, Oracle NetSuite, or QuickBooks help automate inventory tracking and analysis. An example in the manufacturing sector, a car manufacturer that maintains a safety stock of critical components to avoid production halts due to supply chain disruptions. An example in the manufacturing sector: A car manufacturer maintains a safety stock of critical components to avoid production halts due to supply chain disruptions. Point-of-sale (POS) systems track everything sold during a given time and provide information on how much of each item should be kept in inventory.

Work Scheduling

To control the timing of all operations, managers set up schedules: they select jobs to be performed during the production process, assign tasks to work groups, set timetables for the completion of tasks, and make sure that resources will be available when and where they're needed. There are a number of scheduling techniques. We'll focus on two of the most common graphical tools—Gantt and PERT charts.

Gantt Charts

*A **Gantt chart**, named after the designer, Henry Gantt, is an easy-to-use graphical tool that helps operations managers determine the status of projects. Let's say that you're in charge of making the "hiking bear" offered by the Toronto Teddy Bear Company. Figure 9.3 below shows a Gantt chart for the production of one hundred of these bears. It shows that several activities must be completed before the bears are dressed: the fur has to be cut, stuffed, and sewn; and the clothes and accessories must be made. Our Gantt chart tells us that by day six, all accessories and clothing have been made. The sewing and stuffing, however (which must be finished before the bears are dressed), isn't scheduled for completion until the end of day eight. As operations manager, you'll have to pay close attention to the progress of the sewing and stuffing operations to ensure that finished products are ready for shipment by their scheduled date.*

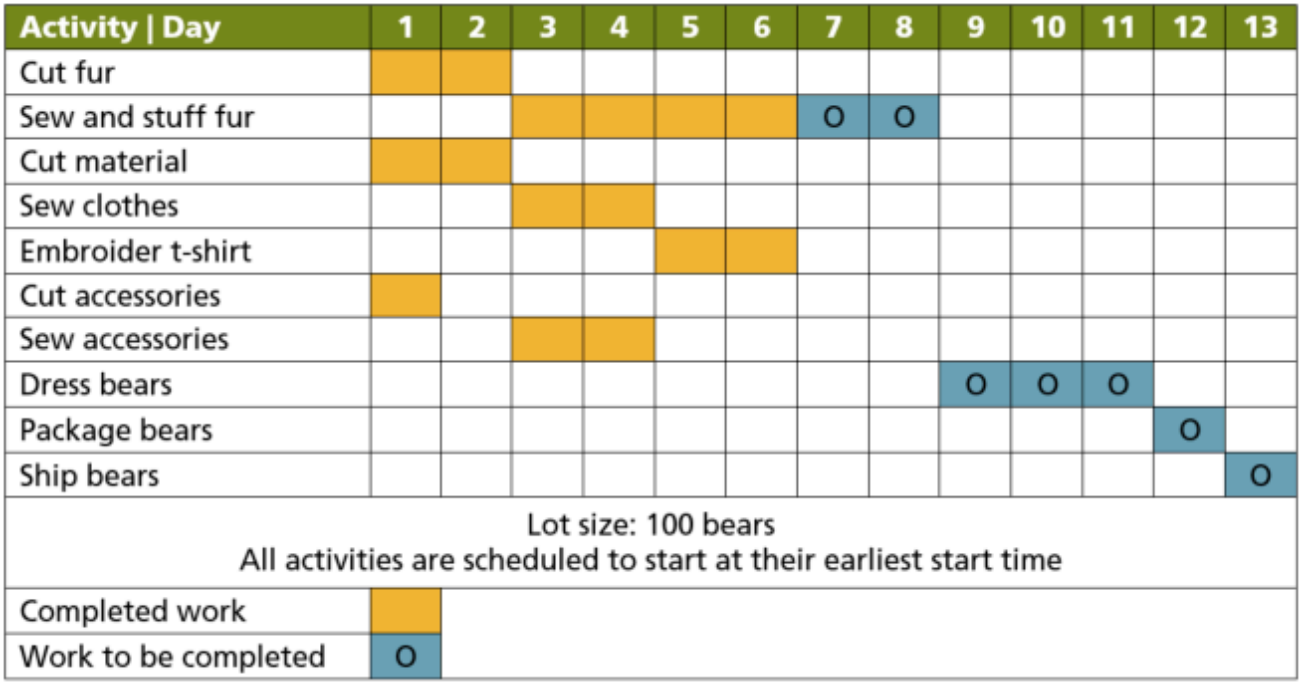


Figure 9.3 Gantt Chart for Producing Teddy Bears

PERT Charts

*Gantt charts are useful when the production process is fairly simple and the activities aren't interrelated. For more complex schedules, operations managers may use PERT charts. **PERT** (which stands for Program Evaluation and Review Technique) is designed to diagram the activities required to produce a good, specify the time required to perform each activity in the process, and organize activities in the most efficient sequence. It also identifies a critical*

path: the sequence of activities that will entail the greatest amount of time. Figure 9.4 below is a PERT diagram showing the process for producing one "hiker" bear at Toronto Teddy Bear.

Our PERT chart shows how the activities involved in making a single bear are related. It indicates that the production process begins at the cutting station. Next, the fur that's been cut for this particular bear moves first to the sewing and stuffing stations and then to the dressing station. At the same time that its fur is moving through this sequence of steps, the bear's clothes are being cut and sewn, and its T-shirt is being embroidered. Its backpack and tent accessories are also being made at the same time. Note that fur, clothes, and accessories all meet at the dressing station, where the bear is dressed and outfitted with its backpack. Finally, the finished bear is packaged and shipped to the customer's house.

What was the critical path in this process? The path that took the longest amount of time was the sequence that included cutting, stuffing, dressing, packaging, and shipping—a sequence of steps taking sixty-five minutes. If you wanted to produce a bear more quickly, you'd have to save time on this path. Even if you saved the time on any of the other paths, you still wouldn't finish the entire job any sooner: the finished clothes would just have to wait for the fur to be sewn and stuffed and moved to the dressing station. We can gain efficiency only by improving our performance on one or more of the activities along the critical path.

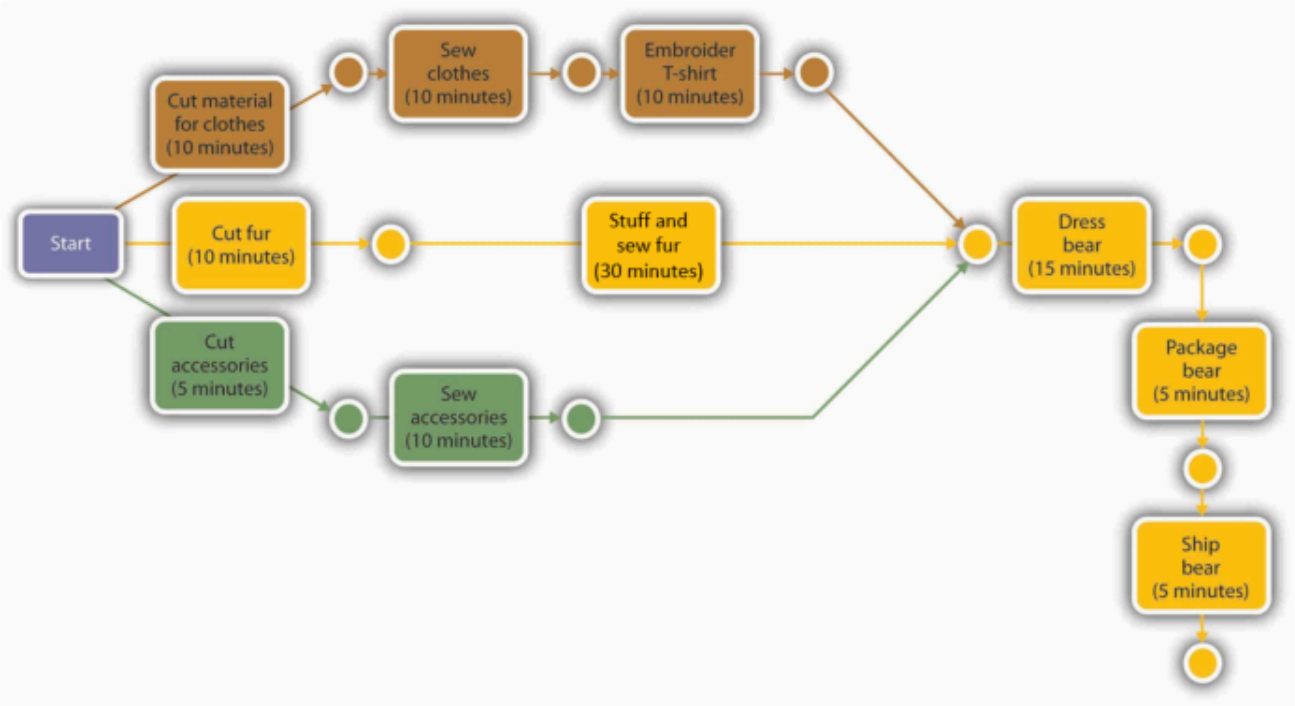


Figure 9.4 PERT Chart Showing Time and Activities in Making Teddy Bears

3. Quality Control

Quality *is defined by the International Standards Organization (ISO) as the degree to which a set of inherent characteristics of an object fulfills requirements.*[13] *The term "Quality" can be subjective and can vary depending on the context, the perspective, and the criteria used to evaluate it.*

What do you do if your brand-new phone doesn't work when you get it home? Like most people, you'd probably be more or less disgruntled. As a customer, you're constantly assured that when products make it to market, they're of the highest possible quality, and you tend to avoid brands that have failed to live up to your expectations or to producers' claims. When you buy a mobile phone, you expect it to be able to easily connect and communicate. If your expectations are not met, you'll conclude that you're the victim of poor quality.

Quality Control in Manufacturing is the process of ensuring that products meet predefined quality standards and specifications, helping to deliver consistent and reliable outputs. It involves systematic planning, implementation, and evaluation of processes to maintain product quality.

Key aspects of quality control include:

- *Inspection and testing*
- *Process monitoring (Statistical Process Control (SPC))*
- *Standardization (ISO 9001)*
- *Defect prevention (Six Sigma)*

Here are some examples of quality control in practice:

- ***Automotive:*** *Toyota employs the Andon system, which allows production to be halted instantly when a quality issue is identified, combining lean manufacturing principles with strict quality control.*[14]
- ***Electronics:*** *Apple conducts extensive quality testing, including assessments of material durability and product performance, before releasing products to the market.*[15]

Total Quality Management (TQM)

Total quality management (TQM) *is the continual process of detecting and reducing or eliminating errors in manufacturing. It streamlines supply chain management, improves the customer experience, and ensures that employees are up to speed with training.*[16]

A Quality Management System (QMS) is a formalized system that documents processes, procedures, and respon-

sibilities for achieving quality policies and objectives. The QMS helps manufacturing companies coordinate and direct activities to meet customer and regulatory requirements.[17]

The TQM strategy requires consistent feedback from employees and customers to determine how services and products can be improved across the organization and is designed to help companies find a path to strengthen their position in the market, increase productivity, improve customer loyalty and satisfaction, boost employee morale, and improve processes. Whereas many quality management strategies focus on specific departments, TQM includes every department in continually improving a company's products and services. According to the TQM philosophy, the more you improve processes in every department, the easier it will be to deliver higher-quality products and services to customers. With TQM, everyone in the company should be focused on quality improvement with the shared goal of boosting customer loyalty and satisfaction. [18]

Total quality management (TQM), or quality assurance, includes all the steps that a company takes to ensure that its goods or services are of sufficiently high quality to meet customers' needs. Generally speaking, a company adheres to TQM principles by focusing on three tasks: Customer satisfaction, employee involvement, and continuous improvement. Let's take a closer look at these three principles.

Customer Satisfaction

Companies that are committed to TQM understand that the purpose of a business is to generate a profit through customer satisfaction. Thus, they let their customers define quality by identifying desirable product features and then offering them. They encourage customers to tell them how to offer services that work the right way. Armed with this knowledge, they take steps to make sure that providing quality is a factor in every facet of their operations—from design to product planning and control, to sales and service. To get feedback on how well they're doing, many companies routinely use surveys and other methods to monitor customer satisfaction. By tracking the results of feedback over time, they can see where they need to improve.

Employee Involvement

Successful TQM requires that everyone in the organization, not simply upper-level management, commits to satisfying the customer. A mobile phone isn't solely the responsibility of the manufacturer's quality control department; it's the responsibility of every employee involved in its design, production, and even shipping. To get everyone involved in the drive for quality assurance, managers must communicate the importance of quality to subordinates and motivate them to focus on customer satisfaction. Employees have to be properly trained not only to do their jobs but also to detect and correct quality problems. In many companies, employees who perform similar jobs work as teams, sometimes called quality circles, to identify quality, efficiency, and other work-related problems, to propose solutions, and to work with management in implementing their recommendations.

Continuous Improvement

An integral part of TQM is continuous improvement: the commitment to making constant improvements in the design, production, and delivery of goods and services. Improvements can almost always be made to increase efficiency, reduce costs, and improve customer service and satisfaction. Everyone in the organization is constantly on the lookout for ways to do things better.

Statistical Process Control

Statistical process control (SPC) *is defined as the use of statistical techniques to control a process or production method. SPC tools and procedures can help you monitor process behavior, discover issues in internal systems, and find solutions for production issues. Statistical process control is often used interchangeably with statistical quality control (SQC).*[19]

Quality products meet customers' needs

Companies can use a variety of tools to identify areas for improvement. A common approach in manufacturing is called statistical process control. This technique monitors production quality by testing a sample of output to see whether goods in process are being made according to predetermined specifications. An example of a statistical process control method is Six Sigma. A Six-Sigma process is one in which 99.99966% of all opportunities to perform an operation are free of defects. This percentage equates to only 3.4 defects per million opportunities.

Assume for a moment that you work for Kellogg's, the maker of Raisin Bran cereal. You know that it's the company's goal to pack two scoops of raisins in every box of cereal. How can you test to determine whether this goal is being met? You could use a statistical process control method called a sampling distribution. On a periodic basis, you would take a box of cereal off the production line and measure the amount of raisins in the box. Then you'd record that amount on a control chart designed to compare actual quantities of raisins with the desired quantity (two scoops). If your chart shows that several samples in a row are low on raisins, you'd take corrective action.

SPC is widely used in manufacturing industries to monitor and control production processes. By using tools like control charts, histograms, and Pareto charts, manufacturers can identify variations in processes, detect defects early, and improve product quality. This method is particularly effective in industries like automotive, electronics, food production, and pharmaceuticals.

Production Process Technologies

Computer-aided design (CAD) and computer-aided manufacturing (CAM) are technologies that work together and are widely used across various industries to improve design, manufacturing, and production processes. These technologies represent the evolution of manufacturing from manual processes to fully automated and integrated systems, resulting in higher productivity and better-quality products.

Computer-Aided Design

***CAD** refers to the use of computer software to create, modify, analyze, or optimize a design. CAD is widely used in engineering, architecture, and product design to develop precise technical drawings and 3D models. It allows users to detail 2D and 3D models of products, parts, or structures and can test and simulate these designs under various conditions before manufacturing. Examples of CAD software include AutoCAD, SolidWorks, and CATIA. When engineers design a car part (e.g., a wheel rim) using 3D modeling software.*

In an automotive company, CAD is when an engineer designs a car part (e.g., a wheel rim) using 3D modeling software.

Computer-Aided Manufacturing

***CAM** refers to the use of computer software and hardware to control and automate manufacturing processes. CAM takes CAD designs and converts them into instructions for machines, such as CNC (Computer Numerical Control) equipment. Examples of CAM software include Mastercam, Fusion 360, and Siemens NX.*

Because CAD and CAM programs can "talk" with each other, companies can build components that satisfy exactly the requirements set by the computer-generated model. CAD/CAM systems permit companies to design and manufacture goods faster, more efficiently, and at a lower cost, and they're also effective in helping firms monitor and improve quality. CAD/CAM technology is used in many industries, including the auto industry, electronics, and clothing. If you have ever seen how a 3-D printer works, you have a pretty good idea of how CAM works too.

In an automotive company, CAM is when the design is sent to a CNC machine, which uses the instructions to precisely cut the wheel rim from a metal block.

Computer-Integrated Manufacturing

***CIM** represents a comprehensive approach to manufacturing where CAD, CAM, and other business and manufacturing processes are integrated using computer systems. It enables seamless communication between design,*

production, and management. Examples of CIM systems include ERPs such as SAP and Oracle NetSuite, and robotics and automated assembly lines.

CIM systems expand the capabilities of CAD/CAM. In addition to design and production applications, they handle such functions as order entry, inventory control, warehousing, and shipping. In the manufacturing plant, the CIM system controls the functions of industrial robots—computer-controlled machines used to perform repetitive tasks that are also hard or dangerous for human workers to perform.

In an automotive company, CIM is when the entire manufacturing process is integrated with inventory, quality control, and supply chain systems to ensure the right materials are available, defects are minimized, and production schedules are met.

Enterprise Resource Planning (ERP)

Material Requirements Planning (MRP) and ***Enterprise Resource Planning (ERP)*** *are interconnected systems used in modern business operations, particularly in manufacturing and supply chain management. While they serve different purposes, they are closely related and often integrated for greater efficiency. MRP is a system focused on managing the materials and components required for production. It ensures that the right materials are available at the right time to meet production schedules. Key functions include inventory control, production planning, and scheduling materials procurement. ERP is a broader, integrated system that manages and automates a company's core business processes across multiple departments, including finance, HR, manufacturing, supply chain, sales, and customer relationship management (CRM). It often incorporates MRP as a module.*

To keep up with ever-changing customer demand and rising costs, manufacturers are always looking for ways to improve operations, boost efficiency, and stay competitive. But traditional methods for maintaining that competitive edge may no longer be enough in today's world of complex global supply chains and economic uncertainty. According to Deloitte's "2022 Manufacturing Supply Chain Study," 76% of the over 200 manufacturing executives surveyed listed investing in digital supply chain tools as a top strategy to overcome challenges that can include shipping delays and material shortages.[20]

The use of ERP in manufacturing companies provides several benefits: integration of centralization, data-driven decision-making, and connectivity and communication internally (all departments, locations) and externally (customers, suppliers). There are ERP systems available for manufacturing and service businesses.

An enterprise resource planning (ERP) system is a comprehensive business platform that helps businesses manage their daily operations. Manufacturing ERP systems are specifically designed for the manufacturing industry and include specialized features to address the industry's unique challenges, such as production planning, inventory management, quality control, and order tracking. These systems centralize and streamline manufacturing operations by collecting, analyzing, and reporting on business-wide data. Stakeholders can use this data — often through

the use of automation and advanced analytics tools — to improve efficiency, increase productivity, and reduce costs. Manufacturers can also leverage this ERP technology to increase visibility into the entire manufacturing process to impart resilience and potentially improve profitability on the whole.[21]

Key features of manufacturing ERP systems include:[22]

- *Inventory management*
- *Sales order management*
- *Quality management*
- *CAD/CAM management*
- *Bill of Materials (BOM) management*
- *Planning and scheduling*
- *Mobile capabilities*

Benefits of manufacturing ERP systems include:[23]

- *Optimized stock levels*
- *Reduced carrying charges*
- *Reduced stock shortage or stock surplus situations*
- *Improved delivery times*
- *Reduced order errors*

Operations Management for Service Providers

Operations management in service companies and manufacturing companies differs significantly due to the nature of their outputs, processes, and customer interaction.

Though the primary function of both manufacturers and service providers is to satisfy customer needs, there are several important differences between the two types of operations. Let's focus on three of them:

Haircuts are customized to each customer's preference

1. ***Intangibility.*** *Manufacturers produce tangible products—things that can be touched or handled, such as automobiles and appliances. Service companies provide intangible products, such as banking, entertainment, or education.*
2. ***Customization.*** *Most manufactured goods are standardized. Services, by contrast, are often customized to satisfy the specific needs of a customer. For example, when you go to the hairdresser, you ask for a haircut that looks good on you because of the shape of your face and the texture of your hair.*
3. ***Customer contact.*** *You could spend your entire working life assembling cars in Detroit and never meet a customer who bought a car that you helped to make. But if you were a restaurant server, you'd interact with customers every day. In fact, their satisfaction with your product would be determined in part by the service that you provided. Unlike manufactured goods, many services are bought and consumed at the same time.*

As the Canadian economy has changed from a goods producer to a service provider over the last sixty years, the dominance of the manufacturing sector has declined substantially. Today, only about 10 percent of Canadian workers are employed in manufacturing, in contrast to 30 percent in 1950. Research highlights manufacturing's steady decline relative to the growing service sector, with automation and international trade reshaping the industry.[24] *Most of us now hold jobs in the service sector, which accounts for approximately 80 percent of Canadian jobs.*[25]

In service firms, managers typically organize their responsibilities into three key areas: planning operations, managing operations, and controlling quality. These areas help ensure the firm operates effectively and efficiently while meeting customer expectations. Let's review these below.

1. Operations Planning

Service organizations must carefully design their services to meet customer needs while ensuring efficiency. This involves selecting the right service model (e.g., self-service, direct service, or hybrid) and determining the layout of service processes to streamline operations and reduce wait times. For example, in a restaurant, the kitchen layout must optimize food preparation time while ensuring smooth customer service.

When starting or expanding operations, businesses in the service sector must make a number of decisions quite similar to those made by manufacturers:

- *What services (and perhaps what goods) should they offer?*
- *Where will they locate their business, and what will their facilities look like?*
- *How will they forecast demand for their services?*

Let's see how service firms answer questions such as these.

Operations Processes

When planning operations, service organizations focus on tailoring their operations processes to deliver high-quality and consistent service experiences.

Service organizations succeed by providing services that satisfy customers' needs. Companies that provide transportation, such as airlines, have to get customers to their destinations as quickly and safely as possible. Companies that deliver packages, such as FedEx, must pick up, sort, and deliver packages in a timely manner. Companies that provide both services and goods, such as Domino's Pizza, have a dual challenge: they must produce a quality good and deliver it satisfactorily.

Service providers that produce goods can adopt either a make-to-order or a make-to-stock approach to producing them. Subway encourages patrons to customize their sandwiches by using a make-to-order approach, building sandwiches one at a time. Although many fast food restaurants have adopted the make-to-order model, a few continue to make-to-stock. For example, Dunkin' Donuts does not customize doughnuts, and so they do not have to wait for customer orders before making them.

Like manufacturers, service providers must continuously look for ways to improve operational efficiency.

McDonald's Removing Self-Serve Soda Stations

Several years ago, many fast-food restaurants moved the drink stations from behind the counter so

that customers could take over the time-consuming task of filling cups with ice and beverages. This allowed the restaurants to cut back on the number of employees needed per day at every location.

McDonald's customers using drive-thru more often

In 2024, McDonald's decided to eliminate self-serve drink stations from its U.S. locations by 2032. The decision isn't merely about drinks–it reflects a fundamental shift in how customers interact with restaurants today. Digital sales now represent 40% of McDonald's total revenue, highlighting a dramatic shift toward drive-thru and delivery services. With fewer customers dining in, maintaining large self-serve drink stations has become increasingly impractical. This transformation aligns with McDonald's vision for future restaurant designs, which may feature smaller dining areas or none at all. New automated beverage systems will mechanically fill drink orders, ensuring consistency across all ordering channels. This standardization means that whether you're ordering through the app, drive-thru, or in person, your drinking experience remains identical. Beyond adapting to changing consumer habits, this shift brings several operational advantages. The removal of self-serve stations helps maintain cleaner dining areas and reduces maintenance requirements. The transition period until 2032 allows franchisees ample time to adapt their operations and implement new systems gradually. This methodical approach ensures minimal disruption to daily operations while maintaining customer satisfaction.[26]

This shift represents part of a broader industry trend. Other major chains like Chick-fil-A and Taco Bell are also experimenting with new service models that emphasize efficiency and automation. These changes reflect an industry-wide movement toward more streamlined operations that better serve modern consumer preferences.[27]

Facilities

When starting or expanding a service business, owners and managers must invest a lot of time in selecting a location, determining its size and layout, and forecasting demand. A poor location or a badly designed facility can deter customers, and inaccurate estimates of demand for products can result in poor service, excessive costs, or both.

Site Selection

Site selection is also critical in the service industry, but not for the same reasons as in the manufacturing industry. Service businesses need to be accessible to customers. Some service businesses, such as cable-TV providers, package-delivery services, and e-retailers, go to their customers. Many others, however—hotels, restaurants, stores, hospitals, and airports—have to attract customers to their facilities. These businesses must locate where there's a high volume of available customers. In picking a location, service companies perform a detailed analysis of demographics and traffic patterns; the number of people that pass by a specific location in the course of a day. In Canada, where we travel almost everywhere by car, it would make sense for service businesses to look for busy intersections, highway interchanges with easy off and on ramps, or such "primary destinations" as shopping malls, tourist attractions, downtown business areas, or movie theaters. In Europe, public transportation service firms might focus on subway, train, bus, and trolley stops.

Once planners find a site with an acceptable traffic count, they apply other criteria. It must, for example, be easy for vehicles to enter and exit the site, which must also provide enough parking to handle projected dine-in business. Local zoning must permit standard signage, especially along major highways. Finally, expected business must be high enough to justify the cost of the land and building, and future projections of economic growth (expansion) should be positive.

Size and Layout

In the service sector, most businesses must design their facilities with the customer in mind: they must accommodate the needs of their customers while keeping costs as low as possible. It may be more convenient for a hospital to place its freight elevators in the center of the building, for example, but doing so may block the flow of patients, visitors, and medical personnel between floors and departments. The layout of a fast-food restaurant can help the employees involved in different parts of the process–preparing the food and serving customers–to work in a more integrated fashion. For example, the placement of prepared orders, ready for packaging, is near the front counter and drive-thru staff, to make it easier for these staff to pick up the order, put it in a bag or on a tray, and deliver it to the customer.

Service organizations often design operations to adapt quickly to changing demands. For example, a call center may scale its workforce during promotions or crisis situations.

As mentioned previously, there are four main types of facility layouts: process, product, fixed-position, and cellular. A company may also choose to combine any of these layouts into a hybrid layout. To learn more about each type, refer to the end-of-chapter exercises and complete the Service Facility Layout exercise.

Capacity Planning

Estimating capacity needs for a service business isn't the same thing as estimating those of a manufacturer. Service providers can't store their products for later use: hairdressers can't "inventory" haircuts, and amusement parks can't "inventory" roller-coaster rides. Service firms have to build sufficient capacity to satisfy customers' needs on an "as-demanded" basis. Like manufacturers, service providers must consider many variables when estimating demand and capacity:

- *How many customers will we have?*
- *When will they want our services (which days of the week, which times of the day)?*
- *How long will it take to serve each customer?*
- *How will external factors, such as weather or holidays, affect the demand for my services?*

Since services are often produced and consumed simultaneously, capacity planning is crucial. Service managers need to ensure that there is adequate staffing, equipment, and space to meet customer demand without overburdening employees or creating excess capacity. For instance, call centers may adjust staffing based on forecasted call volumes.

Forecasting demand is easier for companies that have a long history of planning facilities than for brand-new service businesses. Existing companies can predict sales for a new restaurant by combining its knowledge of customer-service patterns at existing restaurants with information collected about each new location, including the number of cars or people passing the proposed site and the effect of nearby competition.

2. Operations Control

Overseeing a service organization puts special demands on managers, especially those running firms, such as hotels, retail stores, and restaurants, who have a high degree of contact with customers. Service firms provide customers with personal attention and must satisfy their needs in a timely manner. This task is complicated by the fact that demand can vary greatly over the course of any given day. Managers, therefore, must pay particular attention to employee work schedules and, in many cases, inventory management.

Managing service operations is about more than the efficiency of service. It is about finding a balance between profitability, innovation, customer satisfaction, and associate satisfaction, sometimes referred to as the balanced scorecard. The balanced scorecard model utilizes 360-degree feedback, a process of collecting feedback from all of a business's stakeholders, in order to improve operational efficiency.

Customer Experience

Moment of Truth marketing refers to the type of marketing that takes place at the moment when a customer interacts with a product, brand, or service, and forms or changes their impression about it. Moments can range from calling a help line, checking in at an airline counter, the greeting from a hostess in a restaurant, to having a maintenance problem resolved in a hotel guest room. The quality of staff a company hires, how they train their employees, and the focus management places on creating a culture of service will determine how successful the company is in service delivery and maximizing the impact of these moments of truth. Employee performance directly impacts service delivery, so effective training and engagement are key. Service organizations invest in training programs to ensure employees understand customer expectations and are equipped to handle diverse situations.

Both of the following companies emphasize the importance of investing in their employees' training to ensure excellent service, which is a key differentiator in their respective industries.

RBC is renowned for its commitment to customer service excellence. The bank offers comprehensive training to its employees through its "Customer First" programs, which are designed to ensure that employees at all levels understand and meet customer needs. They emphasize skills like active listening, problem-solving, and delivering personalized service. RBC has been recognized for its exceptional customer service in the banking industry, contributing to its reputation as a customer-centric financial institution. Additionally, RBC has won various awards for customer satisfaction and service quality over the years.[28]

The Keg is another Canadian company famous for its customer service. Known for its high-quality food and friendly atmosphere, The Keg invests significantly in employee training programs that focus on delivering an exceptional dining experience. Their training includes both technical aspects (such as menu knowledge) and soft skills (like interpersonal communication and empathy), which ensures that employees can connect with guests on a personal level and provide top-notch service. The Keg's focus on training and employee empowerment has led it to consistently rank highly for customer satisfaction in the restaurant industry.[29]

Scheduling

In manufacturing, managers focus on scheduling the activities needed to transform raw materials into finished goods. In service organizations, they focus on scheduling workers so that they're available to handle fluctuating customer demand. Restaurants, for example, will have more customers during the peak periods of breakfast, lunch, and dinner, but also during the slower periods in between. If the manager schedules too many people, the labour cost per sales dollar will be too high. If there aren't enough employees, customers have to wait in line. When that happens, some get discouraged and even leave, and many may never come back.

Schedule the right number of employees for peak times

Scheduling is made easier by information provided by a point-of-sale device built into many cash registers (also known as point-of-sale (POS) machines). For restaurants, the register stores data on every sandwich, beverage, and side order sold by the hour, every hour of the day, every day of the week, and sends that data to a computer system that helps managers set schedules. To determine how many people will be needed for next Thursday's lunch hour, the manager reviews last Thursday's data, using sales revenue to determine the appropriate staffing level. Each manager can adjust this forecast to account for other factors, such as current marketing promotions or a local sporting event that will increase customer traffic.

Inventory Control

Businesses that provide both goods and services, such as retail stores and auto-repair shops, have the same inventory control problems as manufacturers: keeping levels too high costs money, while running out of inventory costs sales. Technology, such as the point-of-sale (POS) registers, makes the job easier. POS systems track everything sold during a given time and provide information on how much of each item should be kept in inventory.

For fast-food restaurants, for example, it also makes it possible to count the number of burgers and buns, bags and racks of fries, and boxes of beverage mixes at the beginning or end of each shift. Because there are fixed numbers of supplies—say, beef patties or bags of fries—in each box, employees simply count boxes and multiply. In just a few minutes, the manager knows whether the inventory is correct (and should be able to see if any theft has occurred on the shift).

Operations managers must strike a balance between two threats to productivity: losing production time because they have run out of materials, and wasting money because they are carrying too much inventory. The process of

striking this balance is called inventory control, and companies now regularly rely on a variety of inventory-control methods.

Service operations often rely on technology to streamline processes. For example, service organizations may implement customer relationship management (CRM) systems, scheduling software, or automation tools to improve efficiency. Integrating technology helps reduce errors, improve customer interactions, and facilitate communication across departments.

Outsourcing in the Service Sector

Outsourcing is by no means limited to the manufacturing sector. Service providers also outsource many of their non-core functions. Some universities, for instance, outsource functions such as food services, maintenance, bookstore sales, printing, grounds keeping, security, and even residence operations. For example, there are several firms, like RGIS, that offer inventory services. They will send a team to your company to count your inventory for you. As RGIS puts it, "Our teams expertly deliver complete solutions needed to complete a wide variety of retail projects of all sizes, allowing your team to keep customer service as the number one priority."[30] *Some software developers outsource portions of coding as a cost-saving measure. If you've ever had to get phone or chat assistance on your laptop, there's a good chance you spoke with someone in an outsourced call centre. The centre itself may have even been located offshore. This kind of arrangement can present unique challenges in quality control, as differences in accents and the use of slang words can sometimes inhibit understanding. Nevertheless, in this era of globalization, expect the trend towards outsourcing offshore to continue.*

3. Quality Control

What if you were late for a test because it took you twenty minutes to get a burger and fries at a drive-through window? Like most people, you'd probably be more or less disgruntled. As a customer, you're constantly assured that service will be of the highest possible quality, and you tend to avoid brands that have failed to live up to your expectations. When you go to a drive-through window, you expect to be served in a reasonable amount of time. If your expectations are not met, you'll conclude that you're the victim of poor quality.

Customer-Centric Approach

Quality in service businesses starts with understanding customer expectations. Service providers like hotels, restaurants, and consultancies focus on exceeding customer satisfaction by continuously improving customer interactions, responsiveness, and personalized service. This includes using customer feedback and measuring satisfaction levels through surveys and reviews.

Employee Training and Empowerment

For service businesses, employees are the core of service delivery. Regular training is essential to ensure employees have the skills and knowledge to meet customer needs and adhere to quality standards. Empowering employees to take initiative and resolve customer issues promptly is a key component of maintaining quality

Total Quality Management (TQM)

Quality in service businesses is managed differently from manufacturing, but the principles of Total Quality Management (TQM) and continuous improvement still apply. The TQM concept involves all employees; when customers wait too long at a drive-through window, it's the responsibility of a number of employees, not the manager alone.

TQM ensures quality, and it also considers the customer. A good example of a company that benefited from TQM is Exxon. With the fuel business ever so competitive, Exxon felt the need to explore customer-related issues by using TQM rather than relying only on competitive pricing alone.[31]

How Exxon Benefited From TQM

Customer Focus: TQM encourages companies to deeply understand and address customer needs. For Exxon, this meant not only offering competitive prices but also improving the quality and reliability of its products. By involving customers in feedback loops and continuously improving based on their input, Exxon could strengthen customer loyalty.

Process Improvement: TQM emphasizes continuous improvement in processes. Exxon adopted this by analyzing and refining every part of its supply chain and operations, from sourcing raw materials to refining oil to the customer experience at its service stations. This process improvement helped to reduce waste, increase efficiency, and improve service, ultimately enhancing product quality.

Employee Involvement: TQM encourages employee involvement in decision-making and problem-solving. Exxon empowered employees at all levels to contribute ideas for improving quality,

thus fostering a culture of quality and teamwork. This involvement helped to identify the root causes of issues and implement solutions more effectively.

While pricing may drive initial purchases, customers are more likely to return to a brand that provides a consistent, high-quality experience. By focusing on TQM, Exxon was able to create a more holistic improvement in all facets of the business, which in turn increased brand loyalty and customer satisfaction.

Statistical Process Control

While SPC originated in manufacturing, it is also applicable in service industries, particularly those where consistency and quality are essential, such as call centers, healthcare, and financial services. SPC in services focuses on maintaining consistent service quality and improving processes that affect customer satisfaction, such as wait times, error rates, or customer complaints. For example, in a call center, SPC could be used to monitor the average wait time for customers, ensuring that the process remains efficient and that quality service is delivered consistently.

Just as in manufacturing, services benefit from standardized processes. For instance, fast-food chains like McDonald's rely on standard operating procedures (SOPs) to ensure consistent product and service quality. This is particularly important in service industries that rely on repeatability, such as healthcare or education, where maintaining consistent service delivery can prevent errors.

Continuous Improvement (Kaizen)

Kaizen, meaning "change for the better" or "continuous improvement," originated in Japanese manufacturing—most notably at Toyota—and has since gained worldwide adoption across various industries. It emphasizes a continuous improvement mindset through small, incremental adjustments to processes, with the goal of boosting quality, efficiency, and service delivery. In the service sector, Kaizen promotes active employee participation and consistent efforts to enhance customer satisfaction and overall operational performance.

Quality in service businesses is not static. To achieve continuous improvement, service businesses often use tools like customer satisfaction surveys, service audits, and performance evaluations. These methods allow businesses to identify gaps in service delivery, implement improvements, and monitor progress.

Measuring Service Quality (SERVQUAL)

*The **SERVQUAL model** (Parasuraman et al., 1988) is commonly used in service industries to measure quality across five dimensions: Reliability, Assurance, Tangibles, Empathy, and Responsiveness. Hence, it is also known as the RATER model.*[32] *This framework allows businesses to identify specific areas where they can improve to meet or exceed customer expectations. For example, in the hotel industry, quality is measured by guest satisfaction, cleanliness, check-in and check-out speed, and staff behavior. Hotels often employ mystery shoppers to assess the service quality and use ratings from travel websites like TripAdvisor to track performance. Hospitals and healthcare providers use quality metrics like patient satisfaction surveys, wait times, and treatment success rates to evaluate service quality. They also focus heavily on training staff, ensuring compliance with health regulations, and improving patient care processes.*

Key Takeaways

1. **Production** refers to the process of transforming inputs (such as labour, capital, and raw materials) into outputs (goods and services) that a firm wishes to sell.
2. **Value** is the customer's perception of the benefits they receive compared to the cost or effort required to obtain the product. It is subjective and influenced by factors like branding, emotional appeal, and customer experience.
3. **Utility** refers to the inherent usefulness or the ability of a product or service to satisfy a customer's needs and wants. It is often measurable and tied directly to functionality.
4. **Operations Management** is a vital component of any business, encompassing the practices, techniques, and tools that organizations use to produce and deliver goods and services efficiently and effectively.
5. A **supply chain** refers to the network of individuals, organizations, resources, activities, and technologies involved in the production and distribution of a product or service. It encompasses every stage from sourcing raw materials to delivering the final product or service to the consumer.
6. **Supply chain management (SCM)** is the monitoring and optimization of the production and distribution of a company's products and services. It seeks to improve and make more

efficient all processes involved in turning raw materials and components into final products and getting them to the ultimate customer.

7. The **circular economy** represents a paradigm shift from the traditional linear model of "take-make-dispose" to a regenerative approach that emphasizes the restoration and regeneration of products, materials, and energy. It challenges conventional metrics of value creation and encourages manufacturers to design products and business models with durability, repairability, and recyclability in mind.
8. **Outsourcing** in business refers to the practice of contracting out certain business functions, tasks, or processes to external vendors or service providers, rather than handling them in-house.
9. **Operations managers** manage the process that transforms inputs into outputs. Their responsibilities can be grouped as follows: production planning, production control, and quality control. Managing service operations is about more than the efficiency of service.
10. Effective **production planning** requires a thorough analysis of market demand, capacity capabilities, and available resources.
11. Products are customized to meet the needs of the buyers who order them. This process is called a **make-to-order** strategy.
12. **Mass production** (or make-to-stock strategy), the practice of producing high volumes of identical goods at a cost low enough to price them for large numbers of customers.
13. **Mass customization** combines the advantages of customized products with those of mass production. This approach requires that a company interact with the customer to find out exactly what the customer wants and then manufacture the goods, using efficient production methods to hold down costs.
14. **Site selection** involves measuring the needs of a new project against the merits of potential locations. Site selection is also critical in the service industry, but not for the same reasons as in the manufacturing industry. Service businesses need to be accessible to customers.
15. The **facility layout** is the physical arrangement of resources. In the service sector, most businesses must design their facilities with the customer in mind: they must accommodate the needs of their customers while keeping costs as low as possible.
16. The **capacity requirements** of the production facility—the maximum number of goods that it can produce over a given time under normal working conditions. Estimating capacity needs for a service business isn't the same thing as estimating those of a manufacturer. Service providers can't store their products for later use: hairdressers can't "inventory" haircuts, and amusement parks can't "inventory" roller-coaster rides. Service firms have to build sufficient capacity to satisfy customers' needs on an "as-demanded" basis.

17. The process of acquiring the materials and services to be used in production is called **purchasing (or procurement)**.
18. Businesses that provide both goods and services, such as retail stores and auto-repair shops, have the same inventory control problems as manufacturers: keeping levels too high costs money, while running out of inventory costs sales. The task of striking a balance between two threats to productivity: not enough inventory and carrying too much inventory. The process of striking this balance is called **inventory control**, and companies now regularly rely on a variety of inventory-control methods.
19. In manufacturing, managers focus on **scheduling** the activities needed to transform raw materials into finished goods. In service organizations, they focus on scheduling workers so that they're available to handle fluctuating customer demand.
20. With **just-in-time (JIT) production**: the manufacturer arranges for materials to arrive at production facilities just in time to enter the manufacturing process.
21. A software tool called **material requirements planning (MRP)** relies on sales forecasts and ordering lead times for materials to calculate the quantity of each component part needed for production and then determine when they should be ordered or made.
22. A **Gantt chart**, named after the designer, Henry Gantt, is an easy-to-use graphical tool that helps operations managers determine the status of projects.
23. **PERT** (which stands for Program Evaluation and Review Technique) charts are designed to diagram the activities required to produce a good, specify the time required to perform each activity in the process, and organize activities in the most efficient sequence. It also identifies a critical path: the sequence of activities that will entail the greatest amount of time.
24. **CAD** refers to the use of computer software to create, modify, analyze, or optimize a design.
25. **CAM** refers to the use of computer software and hardware to control and automate manufacturing processes.
26. **CIM** represents a comprehensive approach to manufacturing where CAD, CAM, and other business and manufacturing processes are integrated using computer systems.
27. **ERP** is a broader, integrated system that manages and automates a company's core business processes across multiple departments, including finance, HR, manufacturing, supply chain, sales, and customer relationship management (CRM). It often incorporates MRP as a module.
28. **Quality** is defined by the International Standards Organization (ISO) as the degree to which a set of inherent characteristics of an object fulfills requirements. The term "Quality" can be subjective and can vary depending on the context, the perspective, and the criteria used to evaluate it.
29. **Total quality management (TQM)** is the continual process of detecting and reducing or

eliminating errors in manufacturing. It streamlines supply chain management, improves the customer experience, and ensures that employees are up to speed with training.

30. **Statistical process control (SPC)** is defined as the use of statistical techniques to control a process or production method. SPC tools and procedures can help you monitor process behavior, discover issues in internal systems, and find solutions for production issues. Statistical process control is often used interchangeably with statistical quality control (SQC).
31. Operations management in service companies and manufacturing companies **differs significantly** due to the nature of their outputs, processes, and customer interaction. Three main differences include: 1) **Intangibility.** Manufacturers produce tangible products—things that can be touched or handled, such as automobiles and appliances. Service companies provide intangible products, such as banking, entertainment, or education. 2) **Customization.** Most manufactured goods are standardized. Services, by contrast, are often customized to satisfy the specific needs of a customer. For example, when you go to the hairdresser, you ask for a haircut that looks good on you because of the shape of your face and the texture of your hair. 3) **Customer contact.** You could spend your entire working life assembling cars in Detroit and never meet a customer who bought a car that you helped to make. But if you were a restaurant server, you'd interact with customers every day. In fact, their satisfaction with your product would be determined in part by the service that you provided. Unlike manufactured goods, many services are bought and consumed at the same time.
32. **Managing service operations** is about more than the efficiency of service. It is about finding a balance between profitability, innovation, customer satisfaction, and associate satisfaction, sometimes referred to as the balanced scorecard. The balanced scorecard model utilizes 360-degree feedback, a process of collecting feedback from all of a business's stakeholders, in order to improve operational efficiency.
33. The **SERVQUAL mode**l (Parasuraman et al., 1988) is commonly used in service industries to measure quality across five dimensions: Reliability, Assurance, Tangibles, Empathy, and Responsiveness. Hence, it is also known as the RATER model. This framework allows businesses to identify specific areas where they can improve to meet or exceed customer expectations.

End-of-Chapter Exercises

1. **Product and Service Company.** Use the Internet to research why GE and IBM (or other companies as assigned by your professor) are considered manufacturing companies, and at the same time, are considered two of the largest, most competitive service operations in the world. What did you discover? Share your findings with your class and/or professor.
2. **Utility.** Use the Internet to research a product or service you use. Which of the four types of utility does this product or service hold? How do the attributes of the product or service (what are the product or service features?) bring the benefits you want or need (what's important to you?), and thus, the value you appreciate (which benefits are valuable to you?)? Discuss with your class and/or professor.
3. **Manufacturing Facility Layout.** You've learned about the four main types of facility layouts: process, product, fixed-position, and cellular. Now, apply this knowledge by researching one real-world example for each layout (not mentioned in your textbook). For each example, provide the name of the company, product, or industry. Explain why that layout is the best fit. Describe the production characteristics that support this layout. Identify specific advantages (e.g., efficiency, quality, volume, customization, scalability, or cost). Share your findings with the class and/or professor.
4. **Service Facility Layout.** Use the Internet to research the types of facility layout for ONE of the following: bank, hair salon, automobile repair shop, supercenter department store (or other as assigned by your professor). Explain how the layout enhances production, service, and overall capacity. Share your findings with the class and/or professor.
5. **Site Location.** Use the Internet to research how a service company, Starbucks (or othe companyr), determines where to locate. Which tools does the company use to help make decisions? What research does the company do before making a decision? Share your findings with the class and/or professor.
6. **Quality Certification for Businesses.** Use the Internet to research ONE of the well-known company quality certifications, such as ISO14001, ISO9001, ISO14000, Six Sigma, IATF16949, ISO13485, UKCA/CE Mark, LEED, Fair Trade, Green Seal, TRUE, Cradle to Cradle, and Forest Stewardship Council. Why would a company want this certification? What are the certification requirements? Share your findings with the class and/or professor.

7. **Quality Management Professional Certification**. Use the Internet to research ONE of the well-known personal quality certifications, such as CMQ/OE, CSQP, CQIA, CQPA, CCT, CQI, CQT, CSSBB, CSSGB, CSSYB, DMBB, CFSQA, CMDA, CPGP, CQA, CRE, and CSSQE. Why would an individual want this certification? What are the certification requirements? Share your findings with the class and/or professor.
8. **Total Quality Management (TQM).** Use the Internet to locate information on how a company can implement total quality management (TQM) successfully. Provide tips, benefits, and a company example. Share your findings with your class and/or professor.
9. **ERP.** Use the Internet to research enterprise resource planning (ERP) systems. Which are the most popular? What does a system cost? Can businesses customize ERP systems for their own industry or type of business? Provide an example of a company using a specific ERP. Share your findings with your class and/or professor.
10. **Outsourcing.** Use the Internet to research three (3) ways in which a company can maintain control over outsourced operations. Share your findings with your class and/or professor.
11. **CAD/CAM.** Use the Internet to locate specific examples of how CAD/CAM and/or CIM is used in ONE of these industries: Healthcare, Construction, Jewelry Design, or Aerospace. Share your findings with the class and/or professor.
12. **Industrial Robots.** Use the Internet to search for several industrial robot production companies. What kinds of functions are these robots being used for? In which industries are these robots best suited for? Share your findings with the class and/or professor.
13. **Cafeteria Facility Layout.** Visit your college or university cafeteria and redesign the layout (pencil and paper will do)so that the facility (employees included) could serve its customers more effectively and efficiently. Share your layout with your class and/or professor.
14. **Quality Problem.** Use the Internet to research ONE company that has had a recent recall on a product. What went wrong? Does the company apply quality measures? How did the company correct the issue? How might the company have avoided this issue? Share your findings and conclusions with the class and/or professor.
15. **Bill of Materials (BOM).** Use the Internet to learn about BOM. What software might be used to record a BOM? How could this information be used in an ERP system? Create a manufacturing bill of materials for each of the following products: baby carriage, chocolate chip cookies, and a pair of leather sneakers. Share your BOMs with the class and/or professor.
16. **Company Research.** Choose a Global 500 company to research (or other as assigned by your professor). Write a short report that includes the following:

    - Identify the company and its inputs and outputs.
    - Identify suppliers and any electronic data interchange (EDI) setup they may have.

- Identify Quality Control systems and Credentials (if any).
- Identify transportation methods used and the costs of transportation methods.
- Identify the ERP this company uses.

Self-Check Exercise: Operations Management Quiz

Check your understanding of this chapter's concepts by completing this short self-check quiz.

An interactive H5P element has been excluded from this version of the text. You can view it online here:
https://ecampusontario.pressbooks.pub/businessfundamentals/?p=271#h5p-23

Self-Check Exercise: Operations Management Terms Drag-the-Words

Check your understanding of this chapter's concepts by completing this short self-check quiz.

An interactive H5P element has been excluded from this version of the text. You can view it online here:
https://ecampusontario.pressbooks.pub/businessfundamentals/?p=271#h5p-39

Additional Resources

1. Association for Supply Chain Management
2. The Canadian Chapter of the Society of Quality Assurance
3. American Society of Quality Assurance
4. International Facility Management Association
5. Certification in Production and Inventory Management (CPIM)
6. APICS Certifications
7. SAP Certifications
8. International Trade Certifications
9. The P. Log Designation
10. Canada's Logistics Association and CCLP Designation
11. The Best Companies for a Supply Chain Management Career
12. Mass Customization (Operations Management). YouTube Video.
13. Operations Management. YouTube Video.
14. Project Management in Under 5: What is a Gantt Chart? YouTube Video.
15. Project Management in Under 5: What is a PERT Chart? YouTube Video.
16. Harley-Davidson's Operations Management & Productivity.
17. What is Just-in-Time (JIT) Inventory Management? YouTube Video.
18. Circular Economy. CSA Group.
19. Circular Economy, Stories. World Economic Forum.

20. United Nations Sustainable Development Goals

Attributions

The contents of this chapter is a compilation sourced from various OER resources, please refer to the Book Information for details.

References

(Note: This reference list was produced using the auto-footnote and media citation features of Pressbooks)

Media Attributions

- *The Transformation Process is licensed under a CC BY-NC-SA (Attribution NonCommercial ShareAlike) license*
- *IKEA Home Furnishings © Alexander Isreb | Pexels*
- *The Lifecycle of a Cotton T-Shirt © Unknown is licensed under a CC BY-NC-SA (Attribution NonCommercial ShareAlike) license*
- *Personalized-MMs © Unknown*
- *Factory Worker © md saidul islam | Pixabay*
- *Shipping Supplies © Michael | Pixabay*
- *Gantt Chart © Unknown is licensed under a CC BY-NC-SA (Attribution NonCommercial ShareAlike) license*
- *PERT Chart © Unknown is licensed under a CC BY-NC-SA (Attribution NonCommercial ShareAlike) license*
- *Quality Control © Gerd Altmann*
- *Hair Studio © Thgusstavo Santana | Pexels*
- *McDonald's Sign © akiragiulia | Pixabay*
- *Busy Cafe © protowink | Pixabay*

Notes

1. *geeksforgeeks. (2024, March 27). What is operations management? Definition, purpose, benefits, and examples. https://www.geeksforgeeks.org/operations-management/*
2. *Faircloth, T. (2021, September 16). Why IKEA's operations model is so successful. https://blog.chekhub.com/why-ikeas-operations-model-is-so-successful*
3. *Fernando, J. (2024, June 27). Supply chain management (SCM): How it works & why it's important. https://www.investopedia.com/terms/s/scm.asp*
4. *Ross, L. & Epifano, M. (2023, November 3). The 10 best supply chain companies of 2023. https://www.thomasnet.com/insights/the-10-best-supply-chain-companies-of-2021/?msockid=15becbdd69d56a900b2ddf4168816bfa*
5. *World Economic Forum. (2024, February 27). For manufacturers, the circular economy strengthens supply chains. Here's how. https://www.weforum.org/stories/2024/02/why-businesses-must-embrace-the-circular-economy-for-a-more-sustainable-future/*
6. *World Economic Forum. (2024, February 27). For manufacturers, the circular economy strengthens supply chains. Here's how. https://www.weforum.org/stories/2024/02/why-businesses-must-embrace-the-circular-economy-for-a-more-sustainable-future/*
7. *Patagonia. (n.d.). Supply chain environmental responsibility program. https://www.patagonia.com/our-footprint/supply-chain-environmental-responsibility-program.html?msockid=15becbdd69d56a900b2ddf4168816bfa*
8. *World Economic Forum. (2022, May 26). Circular value chains in fashion: Strengthening trust in second hand markets. https://www.weforum.org/impact/strengthening-trust-in-second-hand-markets/*
9. *World Economic Forum. (2024, February 1). Why businesses must embrace the circular economy to build sustainable success. https://www.weforum.org/stories/2024/02/why-businesses-must-embrace-the-circular-economy-for-a-more-sustainable-future/*
10. *Financial Times. (2020, January 28). Creating a circular economy for fashion. [Video]. YouTube. https://youtu.be/y78UVWd5PHE*
11. *IE Engineer. (2024, February 12). What is production planning? Why is it important? https://ieengineer.com/what-is-production-planning-why-is-it-important/*
12. *Meyer, P. (2024, October 1). Harley-Davidson operations management & productivity. https://panmore.com/harley-davidson-operations-management-10-decisions-areas-productivity*
13. *ISO. (n.d.) Quality management: The path to continuous improvement. https://www.iso.org/quality-management/#:~:text=Quality%20is%20defined%20as%20the%20%E2%80%9Cdegree%20to%20which,inherent%20characteristics%20of%20an%20object%20fulfils%20requirements%E2%80%9D%20*
14. *Lean Outside the Box. (2024, February 18). Andon: Meaning, benefits, and examples. https://leanoutsidethebox.com/the-ultimate-guide-to-andon-meaning-benefits-and-examples/#:~:text=Toyota%20was%20the%20earliest%20manufacturer%20to%20use%20Andon,created%20by%20Sakichi%20Toyoda%2C%20the%20founder%20of%20Toyota.*
15. *Hutchinson, R. (2024, June 11). Inside Apple's secret iPhone testing labs. https://www.geeky-gadgets.com/inside-apples-secret-iphone-testing-labs/*
16. *The Investopedia Team. (2024, June 19). What is total quality management (TQM), and why is it important? https://www.investopedia.com/terms/t/total-quality-management-tqm.asp*
17. *De Lucca Caetano, B. (2024, May 1). Quality management system (QMS) for manufacturing. https://simplerqms.com/manufacturing-quality-management-system/*
18. *CIO. (2022, January 20). What is TQM? A company-wide strategy for customer satisfaction. https://www.cio.com/article/217660/what-is-tqm-a-company-wide-strategy-for-customer-satisfaction.html*

19. *ASQ. (n.d.). What is statistical process control? https://asq.org/quality-resources/statistical-process-control*
20. *Schwarz, L. (2024, October 17). Manufacturing ERP software: A complete guide. https://www.netsuite.com/portal/resource/articles/erp/manufacturing-erp.shtml*
21. *Schwarz, L. (2024, October 17). Manufacturing ERP software: A complete guide. https://www.netsuite.com/portal/resource/articles/erp/manufacturing-erp.shtml*
22. *Schwarz, L. (2024, October 17). Manufacturing ERP software: A complete guide. https://www.netsuite.com/portal/resource/articles/erp/manufacturing-erp.shtml*
23. *Schwarz, L. (2024, October 17). Manufacturing ERP software: A complete guide. https://www.netsuite.com/portal/resource/articles/erp/manufacturing-erp.shtml*
24. *Statistics Canada. (n.d.). Trends in manufacturing employment. https://www150.statcan.gc.ca/n1/pub/75-001-x/2009102/article/10788-eng.htm*
25. *Statistics Canada. (2024). Labour force survey, February 2024. https://www150.statcan.gc.ca/n1/daily-quotidien/240308/dq240308a-eng.htm*
26. *Wright, D. (2024, November 19). Why self-serve soda stations are disappearing from McDonald's. https://grubfeed.com/why-self-serve-soda-stations-are-disappearing-from-mcdonalds/*
27. *Wright, D. (2024, November 19). Why self-serve soda stations are disappearing from McDonald's. https://grubfeed.com/why-self-serve-soda-stations-are-disappearing-from-mcdonalds/*
28. *RBC. (n.d.). Our company. https://www.rbc.com/our-company/index.html*
29. *The Keg. (n.d.). Our story. https://thekeg.com/en/our-story*
30. *RGIS. (n.d.). Retail. https://www.rgis.com/inventory-services/retail/*
31. *Scheid, J. (n.d.). What are some of the companies that benefit from TQM? https://www.brighthubpm.com/methods-strategies/99895-companies-that-benefited-from-tqm/*
32. *Bhasin, H. (2024, November 29). The ServQual model - Definition, dimensions, gaps, and advantages of service. https://www.marketing91.com/servqual/*

CHAPTER 10: FINANCIAL MANAGEMENT AND ACCOUNTING

Chapter 10 Learning Outcomes

After reading this chapter, you should be able to do the following:

1. Explain the importance of forecasts, budgets, and financial controls to a company's financial health.
2. Distinguish between short-term and long-term business financial needs and where businesses may look for sources of funding.
3. Describe the difference between debt and equity financing options.
4. Describe the functions of balance sheets, income statements, and statements of cash flows.
5. Calculate a break-even point given the necessary information.
6. Describe how to evaluate a company's performance using financial statements and ratio analysis.

World's Most Valuable Company

*Chip designer and artificial intelligence juggernaut **Nvidia** narrowly topped **Microsoft's** market capitalization to become the world's most valuable public company, less than two weeks after it surpassed **Apple's** market cap (2024).*[1] *Nvidia designs and sells GPUs for gaming, cryptocurrency mining, and professional applications; the company also sells chip systems for use in vehicles, robotics, and more. Nvidia's Compute and Networking business segment, which includes artificial intelligence (AI), is the company's biggest revenue generator.*

Nvidia Internal Computer Card

Apple, Nvidia, and Microsoft are the top three global companies by that measure, each with market caps of over $3 trillion. The world's biggest companies by market capitalization are mainly tech companies, although other sectors, such as energy, financial services, and pharmaceuticals, also make an appearance in the top 10. Most of these companies generate hundreds of billions of dollars in annual revenue and are highly profitable. However, there are a few exceptions, with the focus of investors being on future growth potential.[2]

These companies know how to manage finances. Let's see who will be at the top of the list next!

What is Financial Management?

*Without good financial controls and planning, a company will not be able to respond to unexpected challenges or planned expansion. **Financial management** involves the strategic planning and budgeting of short- and long-term funds for current and future needs. This may include activities such as investing, borrowing, lending, budgeting, saving, and forecasting. In most companies, the finance department comprises two divisions: accounting and financial management. To remain competitive, a business must make large strategic investments such as buying or building a new factory or investing in more advanced equipment, or technology. At the same time, the business must continue to pay its monthly expenses.*

There are three main types of finance: personal finance, corporate finance, and government finance. In this chapter, we will discuss corporate finance.

The Financial Manager's Role

A financial manager oversees the financial operations of a company. Many financial managers have backgrounds in accounting, banking, business management, economics, or finance. In most organizations, financial managers hold mid to upper-level roles requiring multiple years of experience. They can work in the private or public sectors.[3]

Generally, a financial manager assumes accounting responsibilities for the company and is responsible for planning and managing the company's financial resources, including the following:

- *Developing plans that outline the company's financial short-term and long-term needs.*
- *Defining the sources and uses of funds that are needed to reach goals.*
- *Monitoring the cash flow of a company to ensure that obligations are paid in a timely and efficient manner and that funds owed to the company are collected efficiently.*
- *Investing any excess funds so that those funds can grow and be used for future development.*
- *Raising capital for future growth and expansion.*

***Financial managers** analyze short-term and long-term money flows to optimize a firm's profitability and make the best use of its money. This is usually done in three steps: 1) forecasting the firm's short-term and long-term financial needs, 2) developing budgets to meet those needs, and 3) establishing financial controls to see whether the company is achieving its goals.*

Forecasts, Budgets, and Financial Controls

Forecasts

***Forecasts** predict revenue, costs and expenses for a specific future period. Short-term forecasts would include predictions for the upcoming year, while long-term forecasts would include predictions for a period longer than one year into the future. In developing forecasts, the financial manager considers many factors, including the current and anticipated changes in government regulations, consumer trends, competitor actions, changes in company goals, etc., and the impact these changes might have on the company's financial situation.*

Budgets

Budget

Using forecast expectations, a financial manager creates a ***budget****, a financial plan that outlines the company's planned cash flows, expected operating expenses, and anticipated revenues. The master budget has two major categories: the financial budget and the operating budget. The* ***financial budget*** *plans the use of assets and liabilities and results in a projected balance sheet. The* ***operating budget*** *helps plan future revenue and expenses and results in a projected income statement. Another component of the budgeting process is the* ***capital budget****, which considers the company's long-range plans and outlines the expected financial needs for significant capital purchases such as real estate, manufacturing equipment, plant expansions, or technology. Since capital projects are often financed with borrowed money or money raised through the sale of stocks or bonds, it is important to plan to ensure that necessary funds are available when needed. During the capital budget process, each department in the organization puts together a list of its anticipated needs. Then, senior management and the board evaluate these needs to determine which will best maximize the company's overall growth and profitability.*

Financial Controls

Financial controllers *are responsible for updating financial controls and overseeing all the accounting activities in an organization.* ***Financial controls*** *are procedures and policies that monitor and manage financial resources to prevent errors, fraud, and optimize allocation. These are used in strategic management planning. Preventive controls avoid issues, while directive controls guide actions. Internal controls ensure accurate reporting and compliance. Financial controls are regular checks of financial statements and processes. The financial statements are examined to identify losses and areas of potential losses and to reduce extravagant expenses. Financial Controls also assist in mitigating financial risks and meeting financial objectives.*[4]

Play the video below, Financial Control and Management Best Practices, to learn about these top four internal controls that reduce fraud losses and can improve detection:

- *A robust code of conduct.*
- *A strong internal audit department.*
- *Management certifications of financial statements.*
- *Management reviews of internal controls, processes, accounts, or transactions.*

The video will also mention that the Finance DPro (FMD Pro) model includes these four fundamental, interlinked building blocks that must be in place to ensure good practice in financial management:

- ***Accounting Records** – All organizations are required to maintain records of their financial transactions to demonstrate how funds have been used.*
- ***Financial Planning** – Involves creating budgets and cash flow forecasts for specific projects and overall strategies, ensuring the organization's financial stability and the success of its initiatives.*
- ***Financial Monitoring** – Entails reviewing financial reports to track project progress and support managerial decision-making, while also ensuring transparency and accountability to funders and stakeholders.*
- ***Internal Control** – Refers to a system of checks and safeguards put in place to manage risk, prevent financial loss from errors, theft, or fraud, and ensure the protection of both resources and personnel.*

Play the YouTube video below, "Financial Control and Management Best Practices," to gain an overview of what the term Finance is all about.[5] *Transcript for "Financial Control and Management Best Practices" Video [PDF–New Tab]. Closed captioning is available on YouTube.*

One or more interactive elements has been excluded from this version of the text. You can view them online here: https://ecampusontario.pressbooks.pub/businessfundamentals/?p=269#oembed-1

Business Financial Needs

*To raise capital for business needs, companies primarily have two types of financing options: equity financing and debt financing. Most companies use a combination of **debt** and **equity financing**, but there are some distinct advantages to both. Equity financing carries no repayment obligation and provides extra working capital that can be used to grow a business. Debt financing, on the other hand, does not require giving up a portion of ownership. A company would choose debt financing over equity financing if it doesn't want to surrender any part of its company. A company that believes in its financials would not want to miss out on the profits it would have to pass to shareholders if it assigned someone else equity. Which one a business needs depends on the business goals, risk tolerance, and need for control. Many businesses in the startup stage will pursue equity financing, while those already established and those that have no problem with debt and possess a strong credit score might pursue traditional debt financing types like business loans.*[6]

Debt Financing

Some sources of debt financing are:[7]

- *Term loans*
- *Business lines of credit*
- *Invoice factoring*
- *Business credit cards*
- *Personal loans, usually from a family or friend*
- *Peer-to-peer (P2P) lending services*
- *SBA (small business) loans*

The ability to secure debt financing is largely based on your existing financials and creditworthiness.

Equity Financing

Some sources of equity financing are:[8]

- *Angel investors*
- *Crowdfunding*
- *Venture capital firms*
- *Corporate investors*
- *Listing on an exchange with an initial public offering (IPO)*

Securing equity financing can be simpler than debt financing, but you need to have an extremely attractive product or financial projections, as well as being able to surrender a portion of your company, and often a good amount of control.

Sources of Funding

Refer to Table 10.1 for a list of funding sources where businesses can secure either debt or equity financing:[9]

Table 10.1: Funding Sources

Source	***Description***
Big Five Banks	*The big banks — Chartered Banks — in Canada, including BMO, CIBC, RBC, Scotiabank, and TD Canada Trust, offer a large variety of banking products. Banks can provide loans and lines of credit as well as other funding options.*
Credit Unions	*Credit unions are cooperative savings institutions, owned by their members with a common interest, who receive shares of their profits. They offer almost anything that a chartered bank offers — savings accounts and loans, chequing accounts, home and car loans, credit cards, and even some commercial loans.*
Trust Companies	*A trust company safeguards property, funds, and estates entrusted to it. It may serve as a trustee, transfer agent, and registrar for corporations, and provide other services as well. In recent years, trust companies have declined in importance.*
Online Banks	*Online banks have significant advantages over their traditional counterparts. They have developed a business model that provides customers with the best of both worlds: low — and even no—monthly fees, along with accessible customer service administered remotely. Examples in Canada include Tangerine, EQ Bank, Neo Financial, Simplii Financial, and Manulife Bank.*
Finance Companies	*Finance companies are non-deposit institutions because they do not accept deposits from individuals or provide traditional banking services, such as chequing accounts. They do, however, make loans to individuals and businesses, using funds acquired by selling securities or borrowed from chartered banks. Those that lend money to businesses, such as General Electric Capital Corporation, are commercial finance companies, and those that make loans to individuals or issue credit cards, such a PCFinancial, are consumer finance companies. Some, such as General Motors Acceptance Corporation, provide loans to both consumers (car buyers) and businesses (GM dealers).*
Insurance Companies	*Insurance companies sell protection against losses incurred by illness, disability, death, and property damage. To finance claims payments, they collect premiums from policyholders, which they invest in stocks, bonds, and other assets. They also use a portion of their funds to make loans to individuals, businesses, and government agencies. Manulife is the leading Canadian life insurance company, and it has an international presence.*
Brokerage Firms and Factoring Companies	*Companies like Commercial Capital LLC, which buy and sell stocks, bonds, and other investments for clients, are brokerage firms (also called securities investment dealers). A mutual fund invests money from a pool of investors in stocks, bonds, and other securities. Investors become part-owners of the fund. Mutual funds reduce risk by diversifying investments because assets are invested in dozens of companies in a variety of industries, and poor performance by some firms is usually offset by good performance by others. Mutual funds may be stock funds, bond funds, and money market funds, which invest in safe, highly liquid securities. Finally, pension funds, which manage contributions made by participating employees and employers and provide members with retirement income, are also non-deposit institutions.*

Source	***Description***
Venture Capital Firms	*Venture Capital Firms provide private equity financing or funds to start-ups, early-stage, and emerging companies that have been deemed to have high growth potential or that have demonstrated high growth. Venture capital generally comes from wealthy investors, investment banks, and other financial institutions. However, it does not always take a monetary form; it can also be provided in the form of technical or managerial expertise. Financing a new and untested venture can be risky for investors who put up funds, however, the potential for above-average returns is an attractive payoff.*
Government Financial Institutions and Granting Agencies	*The Canadian government provides government funding support to businesses across the country. This funding support comes in the form of government grants, government loans, tax breaks, tax credits, and other types of financial contributions. Several provincial agencies also provide funding to developing business firms in the hope that they will provide jobs in the province. There are both federal and provincial programs supporting the agriculture industry and providing grants to business operations. Some examples of federal agencies include: The Business Development Bank of Canada (BDC), the Government's Export Development Corporation (EDC), the Canada Mortgage and Housing Corporation (CMHC), the Crown-Indigenous Relations and Northern Affairs Canada (CIRNAC) and Indigenous Services Canada (ISC), and Futurpreneur Canada.*
Pension Funds	*A pension fund is any plan, fund, or scheme that provides retirement income in the future to subscribers. Pension funds typically have large amounts of money to invest and are the major investors in listed and private companies.*

Financing Short-term Needs

Short-term financing *means business financing from short-term sources, which are for less than one year. There are many different types of short-term financing for businesses, these include business line of credit, working capital advance, merchant cash advance, equipment financing, bridge loans, and invoice factoring. Crowdfunding is a way of attracting investors to support your business in return for equity (a shareholding in your business) or a reward.*

Financing Long-Term Needs

Long-term financing *refers to borrowing or issuing equity shares for more than one year. The sources for long-term financing include equity capital, preference capital, debentures, term loans, and retained earnings. Ven-*

ture capitalists often have a long-term investment horizon, allowing startups to focus on growth and development rather than short-term profitability. Venture capitalists provide business financing in return for a significant stake in the company. The percentage they want will be much higher than the percentage required on crowdfunding sites when businesses offer equity and not a reward for investing. To maintain a healthy asset-liability management (ALM) position, a company's management should ensure a mix of short-term and long-term financing sources.[10]

Overcoming Entrepreneurial Financial Challenges

While there has been an increase in the success of the Indigenous economy, Indigenous small businesses are faced with a higher number of **financial barriers** than their non-Indigenous counterparts. These institutional barriers hinder Indigenous business owners from seeking financial aid through common avenues, whether through government programs or loans via centralized banks. Evidence suggests that over 50% of Indigenous entrepreneurs struggle to keep their businesses afloat due to inadequate access to debt financing. To aid FNMI businesses, Indigenous-led financial institutions such as Aboriginal Capital Corporation have been launched, though few Indigenous entrepreneurs are cognizant of their services. Indigenous entrepreneur Kat Pasquach emphasizes the importance of seizing every available option, and Sarah Hopkins-Herr, founder of Three Sisters Consulting, speaks of positive experiences when seeking **financial resources** to keep their businesses operational.[11]

One or more interactive elements has been excluded from this version of the text. You can view them online here: https://ecampusontario.pressbooks.pub/businessfundamentals/?p=269

Indigenous Lifeways in Canadian Business Video with Closed Captioning and Transcript [PDF–New Tab]

The Role of Accounting

Understanding the numbers on the organization's balance sheet can indicate its current financial position and show whether it's on a trajectory for success or failure. By examining its cash flow statement, a business can gain insight into how cash is being generated and used. Through reviewing its income statement, a business can gauge how the business is doing in relation to its expected performance.[12]

Financial accounting provides information not only to internal managers but also to people outside the organization (such as investors, creditors, government agencies, suppliers, employees, and labor unions) to assist them in assessing a firm's financial performance.

Fields of Accounting

Accountants typically work in one of two major fields. Management accountants provide information and analysis to decision makers inside the organization in order to help them run it.

Management Accounting

The main objective of ***managerial accounting*** *is to assist the management of a company in efficiently performing its functions: planning, organizing, directing, and controlling. Because the information that it provides is intended for use by people who perform a wide variety of jobs, the format for reporting information is flexible. Reports are tailored to the needs of individual managers, and the purpose of such reports is to supply relevant, accurate, and timely information that will aid managers in making decisions. In preparing, analyzing, and communicating such information, accountants work with individuals from all the functional areas of the organization—human resources, operations, marketing, etc.*

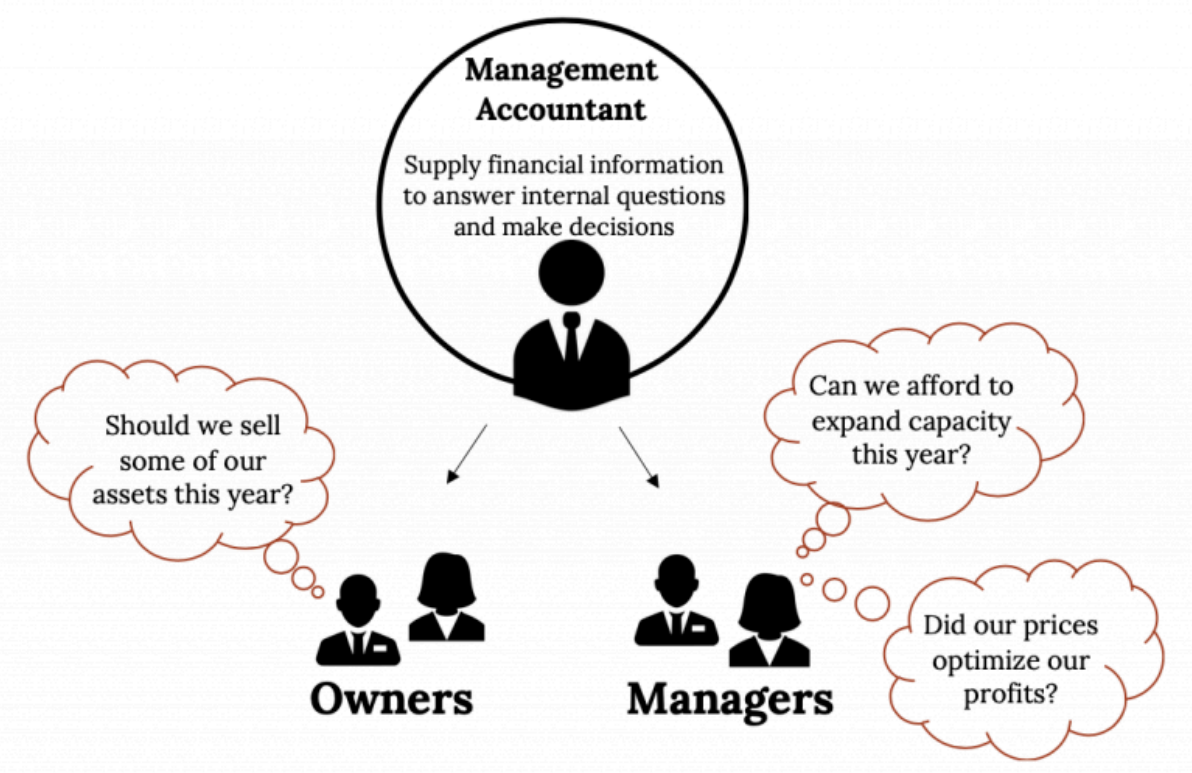


Figure 10. 1 The Role of Managerial Accounting

Financial Accounting

Financial accountants *deliver information to both internal and external stakeholders to help evaluate the organization's financial health. However, their main focus is on serving external users. Put simply, management accounting supports the day-to-day operation of your business, while financial accounting communicates your business's performance to the outside world.*

Financial accounting is responsible for preparing the organization's financial statements—including the income statement, the statement of owners' equity, the balance sheet, and the statement of cash flows—that summarize a company's past performance and evaluate its current financial condition. If a company is traded publicly on a stock market such as the NASDAQ, these financial statements must be made public, which is not true of the internal reports produced by management accountants. In preparing financial statements, financial accountants adhere to a set of standards or guidelines, known as ***Generally Accepted Accounting Principles (GAAP).*** *GAAP is used mainly by companies headquartered in the U.S., while most other countries follow the International Financial Reporting Standards (IFRS). These multinational standards, which are issued by the International Accounting Standards Board (IASB), differ from US GAAP in several important ways, but exploring these fine distinctions is not part of this chapter. Bear in mind, however, that, according to most experts, a single set of worldwide standards will eventually emerge to govern the accounting practices of both US and non-US companies.*

As of 2011, the Canadian Accounting Standards Board (CASB) requires that all publicly accountable enterprises use the International Financial Reporting Standards (IFRS) when preparing financial statements. While IFRS is mandatory for publicly owned companies, private companies can choose to use the Canadian Generally Accepted Accounting Principles (Canadian GAAP).[13] *Users want to be sure that financial statements have been prepared according to IFRS or GAAP because they want to be sure that the information reported in them is accurate. They also know that when financial statements have been prepared by the same rules, they can be compared from one company to another.*

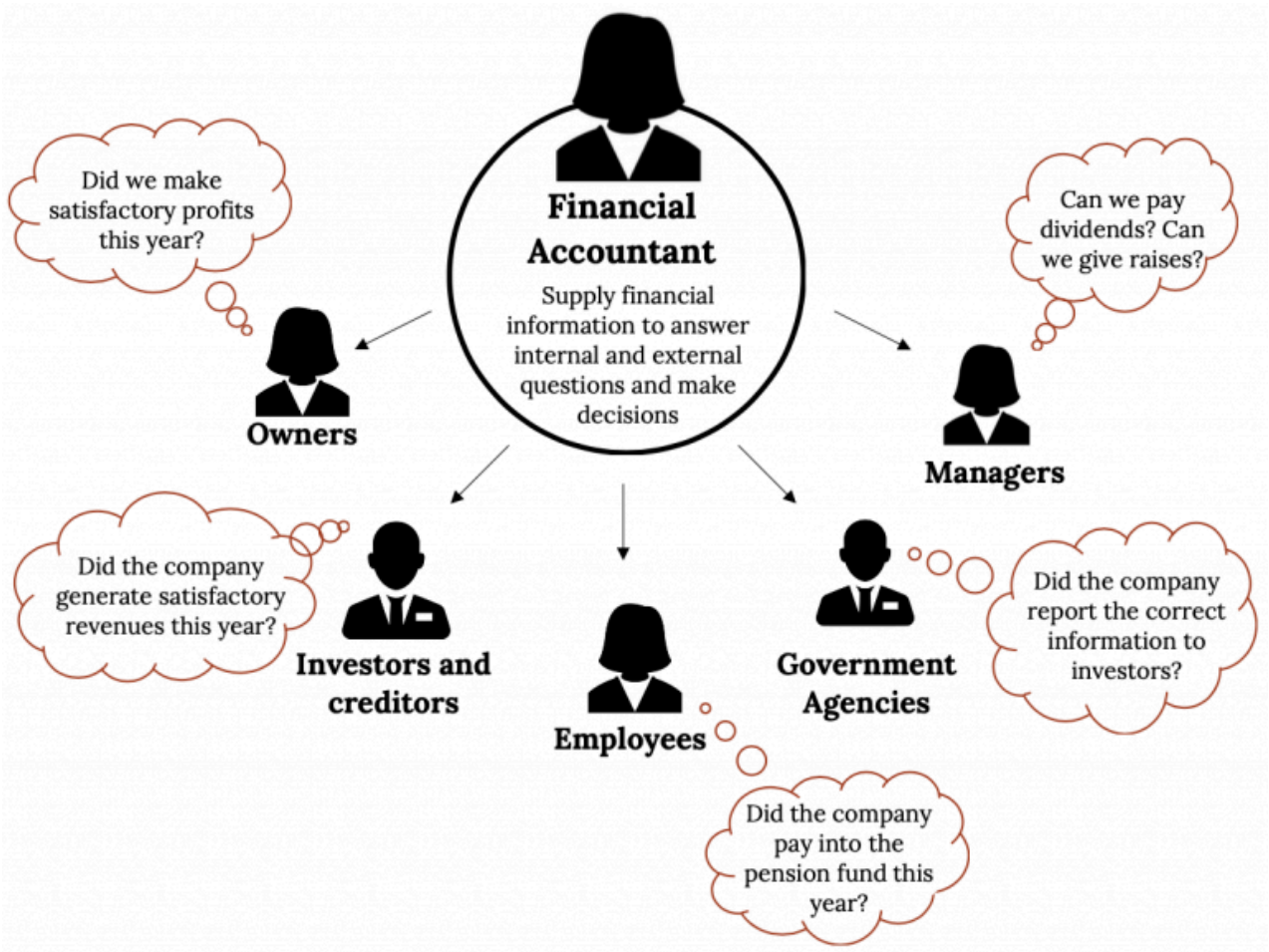


Figure 10.2 The Role of Financial Accounting

Figures 10.1 and 10.2 illustrate the main users of management and financial accounting and the types of information produced by accountants in the two areas. In the rest of this chapter, we'll learn how to prepare a set of financial statements and how to interpret them. We'll also discuss issues of ethics in the accounting community and career opportunities in the accounting profession.

Who Uses Financial Accounting Information?

The users of managerial accounting information are pretty easy to identify—basically, they're a firm's managers. In summarizing the outcomes of a company's financial activities over a specified period of time, financial statements are, in effect, report cards for owners and managers. They show, for example, whether the company did or didn't make a profit and furnish other information about the firm's financial condition. They also provide some information that managers and owners can use in order to take corrective action, though reports produced by management accountants offer a much greater level of depth.

Investors and creditors furnish the money that a company needs to operate, and not surprisingly, they want to know how that business is performing. Because they know that it's impossible to make smart investment and loan decisions without accurate reports on an organization's financial health, they study financial statements to assess a company's performance and to make decisions about continued investment.

Businesses are required to furnish financial information to several government agencies. Publicly-owned companies, for example, the ones whose shares are traded on a stock exchange, must provide annual financial reports to the Securities and Exchange Commission (SEC), a federal agency that regulates stock trades and which is charged with ensuring that companies tell the truth with respect to their financial positions. Companies must also provide financial information to local, state, and federal taxing agencies, including the Internal Revenue Service (IRS).

A number of other external users have an interest in a company's financial statements. Suppliers, for example, need to know if the company to which they sell their goods is having trouble paying its bills or may even be at risk of going under. Employees and labor unions are interested because salaries and other forms of compensation are dependent on an employer's performance.

The Function of Financial Statements

Since this book is an introductory level, the focus will remain on the basic financial statements: the income statement, balance sheet, and cash flow statement, even though there are many other types of financial statements. Later in your business studies, when you complete accounting, finance, management, and other courses, you will learn more about these concepts.

The three core financial statements include:

- ***Income Statement*** *= Shows sales, expenses, and whether the business made a profit.*
- ***Balance Sheet*** *= Shows assets and liabilities, the amount invested in the business.*
- ***Statement of Cash Flows*** *= Shows how much cash is coming in and going out of the business.*

Connor's Confections

Meet Connor. He operates a business out of his home, "Connor's Confections". He loves what he does, and he feels that he's doing pretty well. He has an opportunity to take over a nearby store at very reasonable rent, and he can expand by getting a modest bank loan and investing some more of his own money. So, it's decision time for Connor. He knows that the survival rate for start-ups isn't very good, and before taking the next step, he'd like to get a better idea of whether he's doing well enough to justify the risk.

Figure 10.3 shows the information Connor will obtain by analyzing the three basic financial statements: the Income statement, balance sheet, and statement of cash flows. Connor determined that his income was better than expected, as it grew very fast this past year after he opened the option for customers to order online and have confections shipped to their home. While the shipping costs could be high, depending on shipping location, Connor opted for customer-paid shipping, and he already had a business website, so he had few additional expenses from opening the online ordering option to customers.

Although Connor is nervous about expansion because he knows as a sole proprietor, he will be liable for all expenses, he has decided he has enough equity in the business that he can afford the risk of expansion. Go Connor!

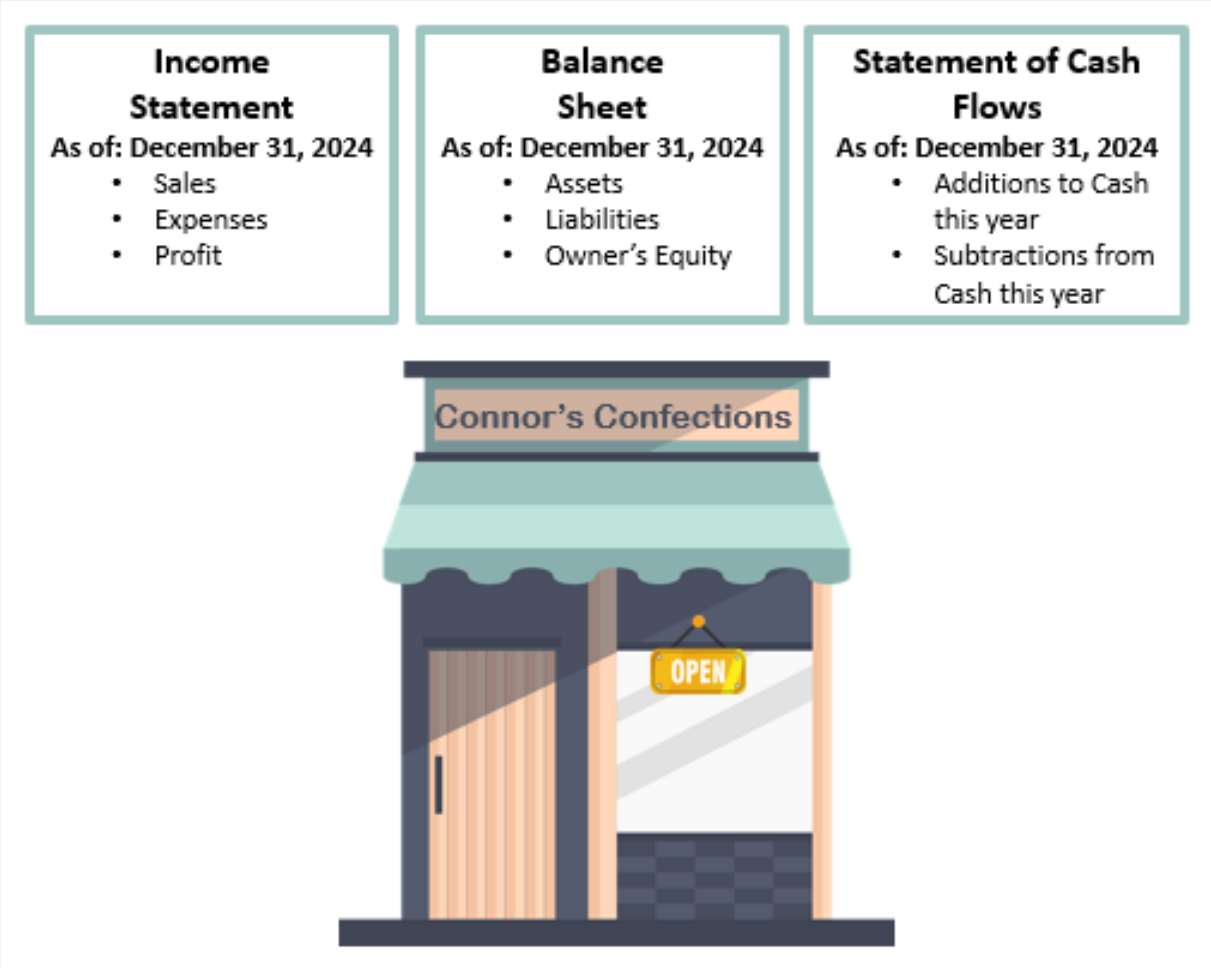


Figure 10.3 Income Statement, Balance Sheet, and Statement of Cash Flows

An interactive H5P element has been excluded from this version of the text. You can view it online here:
https://ecampusontario.pressbooks.pub/businessfundamentals/?p=269#h5p-16

Toying with a Business Idea

To bring this concept closer to home, let's assume that you need to earn money while you're in college and that you've

decided to start a small business. Your business will involve selling stuff to other college students, and to keep things simple, we'll assume that you're going to operate on a "cash" basis: you'll pay for everything with cash, and everyone who buys something from you will pay in cash.

You may have at least a little cash on you right now—some currency, paper money, and coins. In accounting, however, the term cash refers to more than just paper money and coins. It also refers to the money that you have in chequing and savings accounts and includes items that you can deposit in these accounts, such as money orders and different types of cheques.

Your first task is to decide exactly what you're going to sell. You've noticed that with homework, exams, social commitments, and the hectic lifestyle of the average college student, you and most of the people you know always seem to be under a lot of stress. Sometimes you wish you could just lie back between meals and bounce a ball off the wall. And that's when the idea hits you: Maybe you could make some money by selling a product called the "Stress-Buster Play Pack." Here's what you have in mind: you'll buy small toys and other fun stuff—instant stress relievers—at a local dollar store and pack them in a rainbow-colored plastic treasure chest labeled "Stress-Buster."

And here's where you stand financially:

- *You have enough cash to buy a month's worth of plastic treasure chests and toys. After that, you'll use the cash generated from sales of Stress-Buster Play Packs to replenish your supply.*
- *Each plastic chest will cost $2.00, and you'll fill each one with a variety of five simple toys, all of which you can buy for $1.00 each.*
- *You plan to sell each Stress-Buster Play Pack for $10 from a rented table stationed outside a major dining hall.*
- *Renting the table will cost you $20 a month.*
- *To make sure you can complete your schoolwork, you decide to hire fellow students to staff the table at peak traffic periods. They'll be on duty from noon until 2:00 p.m. each weekday except Fridays, and you'll pay them a generous $17.50 an hour. Wages, therefore, will cost you $560 a month (2 hours × 4 days × 4 weeks = 32 hours × $17.50).*
- *Finally, you'll publish ads in the college newspaper at a monthly cost of $40.*

Thus, your total monthly costs will amount to $620 ($20 + $560 + $40).

The Income Statement

Let's say that during your first month, you sell 220 play packs. Not bad, you say to yourself, but did I make a profit? To find out, you prepare an income statement showing revenues, or sales, and expenses—the costs of doing business. You divide your expenses into two categories:

- ***Cost of goods sold**: the total cost of the goods that you've sold*
- ***Operating expenses**: the costs of operating your business except for the costs of things that you've sold.*

Now you need to do some subtracting:

*The difference between sales and cost of goods sold is your **gross profit**, also known as gross margin. The difference between gross profit and operating expenses is your **net income** or profit, which is the proverbial "bottom line."*

Your income statement for the first month is shown in Figure 10.4. (Remember that we've made things simpler by handling everything in cash.)

Stress-Buster Company Income Statement Month Ended April 30, 2024	
Revenues	
Sales Income (220 units x $10 each)	$2,200
Less Cost of Goods Sold (220 units x $7 each)	$1,540
Gross Profit (220 units x ($10 - $7))	$660
Less Operating Expenses	
Salaries	$560
Advertising	$40
Table Rental	$20
Total Operating Expenses	$620
Net Income (Profit) ($660 - $620)	$40

Figure 10.4 Income Statement End of First Month

Did You Make Any Money? Not in your first month. Many businesses operate at a net loss when they first open. It takes time to build a customer following and begin to earn profits. Human resources are one of the highest expenses for many companies. If you could run your business without the need for hiring others, how much profit would you have made?

What does your income statement tell you? It has provided you with four pieces of valuable information:

- *You sold 220 units at $10 each, generating total sales revenue of $2,200.*
- *Each unit cost $7 to produce, which includes $2 for the treasure chest and $5 for the five toys inside, resulting in a cost of goods sold of $1,540 (220 units × $7 per unit).*
- *Subtracting the cost of goods sold from sales gives a gross profit of $660 (220 units × $3 per unit).*
- *After accounting for operating expenses (the costs of doing business other than the cost of goods sold) of $620, you generated a net income for the period of $40.*

The Balance Sheet

The balance sheet shows the cumulative effect of the income statement over time.

Companies prepare financial statements on at least a twelve-month basis—that is, for a fiscal year which ends on December 31 or some other logical date, such as June 30 or September 30. Fiscal years can vary because companies generally pick a fiscal-year end date that coincides with the end of a peak selling period; thus, a crabmeat processor might end its fiscal year in October, when the crab supply has dwindled. Most companies also produce financial statements on a quarterly or monthly basis.

A balance sheet reports the following information:

- ***Assets**: the business resources from which it expects to gain some future benefit (what the company owns)*
- ***Liabilities**: the business debts that it owes to outside individuals or organizations (what the company owes to others)*
- ***Owner's equity**: the investment the owner(s) made in the business (the difference between assets and liabilities)*

Whereas your income statement tells you how much income you earned over some period of time, your balance sheet tells you what you have at a specific point in time.

Debits, Credits, and Double-Entry Accounting

It's important to mention that Debits and credits are used in a company's bookkeeping in order for its books to balance. ***Debits*** *increase asset or expense accounts and decrease liability, revenue, or equity accounts.* ***Credits*** *do the reverse of debits, they decrease asset or expense accounts and increase liability, revenue or equity accounts. The individual entries on a balance sheet are referred to as debits and credits. Debits (often represented as DR) record incoming money, while* ***c****redits (CR) record outgoing money. How these show up on your balance sheet depends on the type of account they correspond to. In* ***double-entry accounting****, every transaction is recorded with a debit*

and credit in two or more accounts, which categorize different types of financial activities in a company's general ledger. You will put these concepts into practice when you complete your first accounting course.

For Stress-Buster, you'll want to prepare them monthly to stay on top of how your new business is doing. Let's prepare a balance sheet at the start and end of your first month in business.

The Accounting Equation

To prepare a balance sheet, one must first understand the ***fundamental accounting equation****:*

Assets = Liabilities + Owner's Equity

This simple but important equation highlights the fact that a company's assets came from somewhere: either from investments made by the owners (owner's equity) or from loans (liabilities). This means that the asset section of the balance sheet, on the one hand, and the liability and owners' equity section on the other, must be equal, or balanced. Thus, the term balance sheet. The Accounting Coach has a comprehensive online tutorial that you may wish to review. It includes the following information about the Accounting Equation.

Let's prepare the two balance sheets we mentioned: one for the first day you started and one for the end of your first month of business. We'll assume that when you started Stress-Buster, you borrowed $400 from your parents and put in $200 of your own money. If you refer to Figure 10.5, your business's first balance sheet, you'll find that your business has $600 in cash (your assets). Of this total, you borrowed $400 (your liabilities) and invested $200 of your own money (your owner's equity). So far, so good, your assets section balances with your liabilities and owner's equity section.

Stress-Buster Company Balance Sheet As of April 1, 2024	
Assets	
Cash	$600
Total Assets	$600
Liabilities	
Loan	$400
Owner's Equity	
Investment	$200
Total Liabilities and Owner's Equity	$600

Figure 10.5 Balance Sheet First Day of Operations

Now let's see how things have changed on the balance sheet by the end of the month. Recall that Stress-Buster, your income statement showed a net income of $40 during the month of April (the first month in operation). The $40 gain increases two items on your balance sheet: the assets of the company (its cash) and your investment in it (its owner's equity). Figure 10.6 shows what your balance sheet will look like on April 30. You now have $640 in cash, $400 that you borrowed, plus a positive amount you invested of $240 (your original $200 investment plus the gain of $40 from the first month of operations).

Stress-Buster Company Balance Sheet As of April 30, 2024	
Assets	
Cash (Original $600 plus $40)	$640
Total Assets	$640
Liabilities	
Loan	$400
Owner's Equity	
Investment (Original $200 plus $40)	$240
Total Liabilities and Owner's Equity	$640

Figure 10.6 Balance Sheet End of First Month

Breakeven Analysis

Let's take a short detour to see how this information might be applied. When reviewing your first financial statements, you might ask yourself: Is there a way to determine the level of sales needed to avoid a loss, to "break even"?

This can be done using ***break-even analysis****. To break even (i.e., earn no profit or incur no loss), your* ***total sales revenue must exactly equal your total expenses*** *— both* ***variable*** *and* ***fixed****.*

- ***Variable costs*** *depend on the quantity produced and sold. For example, each Stress-Buster includes a treasure chest and toys inside — these are costs that increase as you produce more units.*
- ***Fixed costs*** *remain the same regardless of the number of units sold. For instance, you'll pay for advertising whether or not you sell any Stress-Busters.*

The break-even point is reached when ***total contribution margin equals total fixed costs****. Here's how to calculate it, using data from the previous example:*

Break-even Calculation:

1. ***Determine total fixed costs:***
    - *Salaries = $560*
    - *Advertising = $40*
    - *Table rental = $20*
    - ***Total Fixed Costs = $620***
2. ***Identify variable costs per unit:***
    - *Treasure chest = $2*
    - *Toys = $5*
    - ***Variable Cost per Unit = $7***
3. ***Calculate contribution margin per unit:***
    - *Selling Price = $10*
    - *Variable Cost = $7*
    - ***Contribution Margin = $3 per unit***
4. ***Calculate the break-even point in units:***
    - *Break-even Units = Fixed Costs ÷ Contribution Margin*
    - *= $620 ÷ $3 =* ***206.67 units***
    - *Since you can't sell a fraction of a unit, you need to sell at least* ***207 units*** *to break even.*

If you sell ***206.67 units****, you will earn* ***zero profit****, just enough to cover all costs. To test your calculation, you can create a "what-if" income statement based on this breakeven point. For example:*

- *At* ***220 units sold****, with a $3 contribution margin per unit =* ***$660 total gross profit***

- *Break-even requires only **$620** in contribution margin*
- *So, you earn a **net income of $40***

This confirms that selling above the break-even point leads to profit.

Of course, you want to do better than just break even, so you could modify this analysis to a targeted level of profit by adding that amount to your fixed costs and repeating the calculation. Breakeven analysis is rather handy. It enables you to determine the level of sales that you must reach to avoid losing money and the level of sales that you have to reach to earn a certain profit. Such information will be vital to planning your business. Refer to Figure 10.4 for an example of a break-even income statement for Stress-Buster Company.

Stress-Buster Company **Income Statement** **Month Ended April 30, 2024** **(at break-even level of sales = 206.67 units)**	
Revenues	
Sales Income (206.67 x $10 each)	$2,067
Less Cost of Goods Sold (206.67 units x $7 each)	$1,447
Gross Profit (206.67 units x ($10 - $7))	$620
Expenses	
Salaries	$560
Advertising	$40
Table Rental	$20
Total Expenses	$620
Net Income (Profit) ($620 - $620)	$0

Figure 10.7 Break-even Income Statement

The Cash Flow Statement

*The **cash flow statement** provides valuable information about a company's expenses and receipts and allows insights into its future income needs in order to be able to meet its future obligations (expenses and receipts). The cash flow statement reports cash inflows and outflows, and it will identify the amount of cash the company currently holds, which is also reported in the balance sheet. The key difference between the income statement and the cash flow statement is that the income statement can show a profit even if you didn't receive cash yet, while the cash flow statement only tracks actual cash transactions.*

While cash flow statements are usually prepared on a monthly basis, a consolidated statement of cash flows is created to align with the requirements of the International Financial Reporting Standards (IFRS).

A statement of cash flow reports cash in three distinct areas of business:

- *Cash from Operations*
- *Cash from Investing*
- *Cash from Financing*

Refer to Figure 10.8 to review the statement of cash flow for Stress-Buster company for the one-month period ending April 30, 2024. Stress-Buster would have incurred a Net Income of $40 from Operations during the first month of operation, after deducting the month's expenses from the month's revenues. The business also incurred cash from Financing from the initial $400 loan taken out to start the business and the additional $200 of personal income. As Stress-Buster did not invest in new equipment, machinery, or other assets for the business or use prior cash flows and/or retained earnings to earn further investment income, Stress-Buster would not report any cash from investing activities.

Stress-Buster Company Statement of Cash Flow Month Ended April 30, 2024	
Beginning Cash (Owner Investment)	$200
Operating Activities (Sales Income)	$2,200
Cash Paid for Cost of Goods Sold	($1,540)
Cash Paid for Salaries	($560)
Cash Paid for Advertising	($40)
Cash Paid for Table Rental	($20)
Cash Paid for Newspaper Advertising	($40)
Investing Activities	$0
Financing Activities (Loan)	($400)
Increase in Retained Earnings	$240
(Net Change)	$40
Cash at Beginning of Month (April 1, 2024)	$600
Cash at End of Month (April 30, 2024)	$640

Figure 10.8 Statement of Cash Flow After First Month

Financial Statement Analysis

Now that you know a bit about financial statements, let's see how they're used to help owners, managers, investors, and creditors assess a firm's performance and financial strength. You can glean a wealth of information from financial statements, but first, you need to learn a few basic principles for "unlocking" it.

Trend Analysis from the Income Statement

A trend analysis is done by collecting data at selected times and then plotting any observed changes over longer periods. A trend analysis examines the factors that drive business success. The analysis is used to make projections

for the future, identify areas that need attention from managers, and benchmark the business against others in the industry. Some of the most common operating factors tracked in trend analysis include gross margin, sales (in units/dollars), earnings before interest and taxes (EBIT), earnings per common share (EPS), stock price, etc. The most common line items on the balance sheet included in a trend analysis are total assets, total liabilities, total shareholder equity, debt-to-equity ratio, current ratio, and acid test ratio.[14]

Refer to Figure 10.9, which is an abbreviated financial statement for Apple for 2017 taken directly from their website (also available for download in PDF form via Google search). You will note that instead of showing only the current year's results, the company has shown data for the prior year as well. From this relatively simple exhibit, considerable information about Apple's performance can be obtained.

For example:

- *Apple sales grew at 12.7% from 2016 to 2017, not bad for a company with such a large base of sales already, but certainly not the rapid-growth company it once was. When making yearly comparisons, this is commonly referred to as performing a horizontal analysis.*
- *Net income as a percent of sales (a ratio also known as return on sales) was 22.7% in 2017, or in other words, for every $5 in sales, Apple turned more than $1 of it into profit. That is substantial! When calculating ratios as a percent of a larger figure (i.e., Net income as a percent of sales, or cash as a percent of Total Assets), this is commonly referred to as performing a vertical analysis.*

Many other calculations are possible from Apple's data, and we will look at a few more as we explore ratio analysis.

Apple Inc.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)
(In millions, except number of shares which are reflected in thousands and per share amounts)

	Three Months Ended	
	December 30, 2017	December 31, 2016
Net sales	$ 88,293	$ 78,351
Cost of sales [1]	54,381	48,175
Gross margin	33,912	30,176
Operating expenses:		
Research and development [1]	3,407	2,871
Selling, general and administrative [1]	4,231	3,946
Total operating expenses	7,638	6,817
Operating income	26,274	23,359
Other income/(expense), net	756	821
Income before provision for income taxes	27,030	24,180
Provision for income taxes	6,965	6,289
Net income	$ 20,065	$ 17,891
Earnings per share:		
Basic	$ 3.92	$ 3.38
Diluted	$ 3.89	$ 3.36
Shares used in computing earnings per share:		
Basic	5,112,877	5,298,661
Diluted	5,157,787	5,327,995
Cash dividends declared per share	$ 0.63	$ 0.57
[1] Includes share-based compensation expense as follows:		
Cost of sales	$ 252	$ 229
Research and development	$ 646	$ 589
Selling, general and administrative	$ 398	$ 438

Figure 10.9 Apple Inc. Consolidated Statements of Operations (Income Statement)

Ratio Analysis

How do you compare Apple's financial results, shown in Figure 10.10, with those of other companies in your industry or with the other companies whose stock is available to investors? And what about your balance sheet? Are there relationships in this statement that also warrant investigation? These issues can be explored by using ratio analysis, a technique for evaluating a company's financial performance.

Remember that a ratio is just one number divided by another, with the result expressing the relationship between the two numbers. It's hard to learn much from just one ratio, or even a number of ratios covering the same period. Rather, the deeper value in ratio analysis lies in looking at the trend of ratios over time and in comparing the ratios for several time periods with those of other companies. There are a number of different ways to categorize financial ratios.

Apple Inc.

CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)
(In millions, except number of shares which are reflected in thousands and par value)

	December 30, 2017	September 30, 2017
ASSETS:		
Current assets:		
Cash and cash equivalents	$ 27,491	$ 20,289
Short-term marketable securities	49,662	53,892
Accounts receivable, less allowances of $59 and $58, respectively	23,440	17,874
Inventories	4,421	4,855
Vendor non-trade receivables	27,459	17,799
Other current assets	11,337	13,936
Total current assets	143,810	128,645
Long-term marketable securities	207,944	194,714
Property, plant and equipment, net	33,679	33,783
Goodwill	5,889	5,717
Acquired intangible assets, net	2,149	2,298
Other non-current assets	13,323	10,162
Total assets	$ 406,794	$ 375,319
LIABILITIES AND SHAREHOLDERS' EQUITY:		
Current liabilities:		
Accounts payable	$ 62,985	$ 49,049
Accrued expenses	26,281	25,744
Deferred revenue	8,044	7,548
Commercial paper	11,980	11,977
Current portion of long-term debt	6,498	6,496
Total current liabilities	115,788	100,814
Deferred revenue, non-current	3,131	2,836
Long-term debt	103,922	97,207
Other non-current liabilities	43,754	40,415
Total liabilities	266,595	241,272
Commitments and contingencies		
Shareholders' equity:		
Common stock and additional paid-in capital, $0.00001 par value: 12,600,000 shares authorized; 5,081,651 and 5,126,201 shares issued and outstanding, respectively	36,447	35,867
Retained earnings	104,593	98,330
Accumulated other comprehensive income/(loss)	(841)	(150)
Total shareholders' equity	140,199	134,047
Total liabilities and shareholders' equity	$ 406,794	$ 375,319

Figure 10.10 Apple Inc. Consolidated Statements of Operations (Balance Sheet)

Types of Financial Ratios

- ***Profitability ratios*** *tell you how much profit is made relative to the amount invested (return on invest-*

ment) or the amount sold (return on sales).

- ***Liquidity ratios** tell you how well positioned a company is to pay its bills in the near term. Liquidity refers to how quickly an asset can be turned into cash. For example, shares of stock are substantially more liquid than a building or a machine.*
- ***Debt ratios** look at how much borrowing a company has done to finance the operations of the business. The more borrowing, the more risk a company has taken on, and so the less likely it is for new lenders to approve loan applications.*
- ***Efficiency ratios** tell you how well your assets are being managed.*

Refer to Table 10.2 for definitions and examples of various financial ratios used in business.

Table 10.2: Financial Ratios

Ratio	***Definition***	***Formula***	***Type***
Debt Ratio	*Proportion of assets financed by debt*	*Total Liabilities / Total Assets*	*Leverage / Risk*
Current Ratio	*Ability to pay short-term obligations with short-term assets*	*Current Assets / Current Liabilities*	*Liquidity*
Acid-Test Ratio	*Ability to pay short-term obligations without relying on inventory*	*(Current Assets – Inventory) / Current Liabilities*	*Liquidity*
Net Profit Margin	*Profit made per dollar of sales*	*Net Income / Sales Revenue*	*Profitability*
Debt-to-Equity Ratio	*Proportion of financing from debt vs owner investment*	*Total Liabilities / Shareholders' Equity*	*Leverage / Risk*
Return on Assets (ROA)	*How effectively assets generate profit*	*Net Income / Total Assets*	*Effectiveness*
Asset Turnover Ratio	*How efficiently assets are used to generate sales*	*Sales Revenue / Average Total Assets* *ATA = ((beginning total assets + ending total assets) /2)*	*Efficiency*
Inventory Turnover Ratio	*How many times inventory is sold and replaced over a period*	*Cost of Goods Sold / Average Inventory* *AI = ((beginning Inventory + ending inventory) /2)*	*Efficiency*
Receivables Turnover	*How efficiently you collect on credit sales*	*Net Credit Sales / Average Accounts Receivable* *AR = ((beginning AR + ending AR) /2)*	*Efficiency*

We could employ many different ratios, but we'll focus on a few key examples.

Profitability Ratios

Profitability ratios include gross profit margin, net profit margin, and return on equity. Earnings per share (EPS) is a measure of a company's profitability that indicates how much profit each outstanding share of common stock has earned. It's calculated by dividing the company's net income by the total number of outstanding shares. The higher a company's EPS, the more profitable it is considered to be. Earlier, we looked at the return on sales for Apple, and now we will look at its EPS. According to the earlier Figures 10.9 and 10.10, Apple saw its EPS increase from $3.38 in 2016 to $3.92 in 2017, which indicates a profit of about 15%, an excellent return for a company that is already among the world's largest. Well-paid analysts will spend hours to understand how these results were achieved every time Apple issues new financial statements.

Liquidity Ratios

A liquidity ratio is a type of financial ratio used to determine a company's ability to pay its short-term debt obligations. The metric helps determine if a company can use its current, or liquid, assets to cover its current liabilities. Liquidity ratios are one element of measuring the financial strength of a company. A key liquidity ratio is called the current ratio. It simply examines the relationship between a company's current assets and its current liabilities. On December 30, 2017 (remember that balance sheets reflect a point in time), Apple had $68.5 billion in current assets and $63.5 billion in current liabilities. Simply, what this means is that Apple has more money on hand than it needs to pay its bills. When a company has a current ratio greater than 1, it is in good shape to pay its bills; companies selling to Apple on credit would not need to worry that it is likely to run out of money.

Apple's current ratio = $68.5 Billion / $63.5 Billion = 1.08 (greater than >) 1

Now, let's look quickly at something that is not part of the ratio; look down one line on the balance sheet to long-term marketable securities and see that Apple owns $207.9 billion. While they are long-term and so not part of the current ratio, these securities are still easily convertible to cash. So, Apple has far more cushion than the current ratio reflects, even though it reflects a healthy financial position already.

Debt Ratios

A key debt ratio, which tells us how the company is financed, is the debt-to-equity ratio, which calculates the relationship between funds acquired from creditors (debt) and funds invested by owners (equity). For this ratio calculation, we use Apple's total liabilities, not just the line on the balance sheet that says long-term debt, because in effect, Apple is borrowing from those it owes but has not yet paid. Apple's total liabilities at the end of 2017 were $266.6 billion versus owner's equity of $140.2 billion, a ratio of 1.9, which means Apple has borrowed more than it has invested in the business.

Apple's debt-to-equity ratio: $266.6 / $140.2 billion = 1.9

To some investors, that high level of debt might seem alarming. But remember that Apple has $207.9 billion invested in marketable securities. If it wished to do so, Apple could sell some of those securities and pay down its debts, thus improving its ratio. Likely, anyone thinking about lending money to Apple and seeing these figures would be confident that Apple can pay back what it borrows.

Efficiency and Effectiveness Ratios

Refer to Table 10.3 for definitions and examples of effectiveness and efficiency ratios used in business.

Table 10.3: Effectiveness and Efficiency Ratios

Effectiveness Ratios	***Efficiency Ratios***
Focus on how well a business uses resources to achieve desired outcomes (like profits and returns)	*Focus on how quickly or productively resources are used (like inventory, assets, and receivables)*
Effectiveness Ratios help determine if you're achieving your business goals, like turning assets into actual profit.	*These ratios measure how efficiently a company uses its assets to generate revenues and its ability to manage those assets.*
Emphasize results/output	*Emphasize process/speed*
Examples: Return on Assets (ROA), Return on Equity (ROE)	*Example: Asset Turnover, Inventory Turnover, and Receivables Turnover*

There are many more ratios that we could review that aid companies in understanding their performance. Yet going deeper into ratios would be beyond the scope of an introductory business course. If you continue your study of business, you will get ample exposure to these ratios in your accounting and finance courses. So, we'll leave the rest for another day.

Key Takeaways

1. **Financial management** involves the strategic planning and budgeting of short- and long-

term funds for current and future needs. This may include activities such as investing, borrowing, lending, budgeting, saving, and forecasting. In most companies, the finance department comprises two divisions: accounting and financial management.

2. There are three main **types of finance**: personal finance, corporate finance, and government finance. In this chapter, we will discuss corporate finance.
3. **Financial managers** analyze short-term and long-term money flows to optimize a firm's profitability and make the best use of its money.
4. **Forecasts** predict revenue, costs, and expenses for a specific future period. Short-term forecasts would include predictions for the upcoming year, while long-term forecasts would include predictions for a period longer than one year into the future.
5. A **budget** is a financial plan that outlines the company's planned cash flows, expected operating expenses, and anticipated revenues.
6. The **financial budget** plans the use of assets and liabilities and results in a projected balance sheet.
7. The **operating budget** helps plan future revenue and expenses and results in a projected income statement.
8. The **capital budget** considers the company's long-range plans and outlines the expected financial needs for significant capital purchases such as real estate, manufacturing equipment, plant expansions, or technology.
9. **Financial controllers** are responsible for updating financial controls and overseeing all the accounting activities in an organization.
10. **Financial controls** are procedures and policies that monitor and manage financial resources to prevent errors, fraud, and optimize allocation.
11. **Equity financing** carries no repayment obligation and provides extra working capital that can be used to grow a business.
12. **Debt financing**, on the other hand, does not require giving up a portion of ownership.
13. **Sources of Financing.** There are many such as the Big Five Banks for loans and lines of credit, Trust Companies, Credit Unions, Online Banks, Finance Companies, Insurance Companies, Brokerage Firms and Factoring companies, Venture Capital Firms, Government Financial Institutes and Granting Agencies, and Pension Funds.
14. **Short-term financing** means business financing from short-term sources, which are for less than one year. There are many different types of short-term financing for businesses, including business line of credit, working capital advance, merchant cash advance, equipment financing, bridge loans, and invoice factoring.
15. **Long-term financing** refers to borrowing or issuing equity shares for more than one year.

The sources for long-term financing include equity capital, preference capital, debentures, term loans, and retained earnings.

16. **Indigenous small businesses** are faced with a higher number of financial barriers than their non-Indigenous counterparts.
17. The main objective of **managerial accounting** is to assist the management of a company in efficiently performing its functions: planning, organizing, directing, and controlling.
18. **Financial accountants** deliver information to both internal and external stakeholders to help evaluate the organization's financial health. However, their main focus is on serving external users. Put simply, management accounting supports the day-to-day operation of your business, while financial accounting communicates your business's performance to the outside world.
19. In preparing financial statements, financial accountants adhere to a set of standards or guidelines, known as **Generally Accepted Accounting Principles (GAAP)**. GAAP is used mainly by companies headquartered in the U.S., while most other countries follow the **International Financial Reporting Standards (IFRS)**. These multinational standards, which are issued by the International **Accounting Standards Board (IASB)**, differ from US GAAP in a number of important ways.
20. **Income Statement** = Shows sales, expenses, and whether or not a profit was made.
21. **Balance Sheet** = Shows assets and liabilities, the amount invested in the business.
22. To prepare a balance sheet, one must first understand the **fundamental accounting equation: Assets = Liabilities + Owner's Equity**
23. **Statement of Cash Flows** = Show how much cash is coming in and going out.
24. **Cost of goods sold:** the total cost of the goods that you've sold.
25. **Operating expenses:** the costs of operating your business, except for the costs of things that you've sold.
26. **Gross profit**, also known as gross margin. The difference between gross profit and operating expenses is your **net income** or profit, which is the proverbial "bottom line."
27. **Debits** increase asset or expense accounts and decrease liability, revenue, or equity accounts.
28. **Credits** do the reverse of debits; they decrease asset or expense accounts and increase liability, revenue, or equity accounts. The individual entries on a balance sheet are referred to as debits and credits.
29. **Double-entry accounting**: Every transaction is recorded with a debit and credit in two or more accounts, which categorize different types of financial activities in a company's general ledger.
30. **Breakeven analysis:** To break even (have no profit or loss), your total sales revenue must

exactly equal all your expenses (both variable and fixed).

31. The **cash flow statement** provides valuable information about a company's expenses and receipts and allows insights into its future income needs in order to be able to meet its future obligations (expenses and receipts).
32. A **trend analysis** is done by collecting data at selected times and then plotting any observed changes over longer periods.
33. **Profitability ratios** tell you how much profit is made relative to the amount invested (return on investment) or the amount sold (return on sales).
34. **Liquidity ratios** tell you how well-positioned a company is to pay its bills in the near term. Liquidity refers to how quickly an asset can be turned into cash. For example, shares of stock are substantially more liquid than a building or a machine.
35. **Debt ratios** look at how much borrowing a company has done to finance the operations of the business. The more borrowing, the more risk a company has taken on, and so the less likely it is for new lenders to approve loan applications.
36. **Efficiency ratios** tell you how well your assets are being managed.

End-of-Chapter Exercises

1. **Equity Capital and Preference Capital.** Use the Internet to search for the terms, equity capital (common shares) and preference capital (preferred shares). What do they mean? Would you rather hold preferred shares or common shares? Is there a cost difference in buying these shares? How do preference shares affect a company's finances? Discuss your findings with the class and/or your professor.
2. **Successful Investors.** Use the Internet to research some investors who are well-known for their success in investing. Warren Buffett is one we have all heard of. Can you find a few others? What made them successful? Share your findings with the class and/or professor.
3. **Ratios.** Identify two public companies operating in different industries. Collect at least three years' worth of financial statements for the firms. Calculate these financial ratios: profitability, liquidity, and debt. Prepare a summary and share with your class and/or professor.

4. **Accounting Scandals.** Use the Internet to research a recent accounting fraud scandal. What happened? How might this have been stopped? How can companies use better controls to stop accounting fraud? Share your findings with the class and/or teacher.
5. **Debit and Credit App.** Download the App, Debit and Credit – Accounting. Practice debiting and crediting coins to learn basic accounting. Play against the world as you learn. How did you do?
6. **Accounting Flashcards App.** Download the Accounting Flashcards app, which includes translation for English, Chinese, and Spanish. Learn financial accounting using illustrated flashcards. Topics include accounting standards, equations, terms, ratios, and more. How did you do?
7. **Government Support.** Research one or more of the following government agencies and find out what they do: The Business Development Bank of Canada (BDC), the Government's Export Development Corporation (EDC), the Canada Mortgage and Housing Corporation (CMHC), the Crown-Indigenous Relations and Northern Affairs Canada (CIRNAC) and Indigenous Services Canada (ISC), and Futurpreneur Canada. Who do they support? What do they offer? Do you think you could find help from one of these agencies if you were to start your own business? Share your findings with your class and/or professor.
8. **Bank Loan.** Research one of the Big Five Banks and find out what they provide in the way of business loans for a new business. What are the interest rates? Some individuals take out loans to make investments, and then they can deduct the interest they pay on the loan on their taxes. Do you think this is worth it? Explain. Share your findings with the class and/or professor.

Self-Check Exercise: Financial Management and Accounting Quiz

Check your understanding of this chapter's concepts by completing this short self-check quiz.

An interactive H5P element has been excluded from this version of the text. You can view it online here:
https://ecampusontario.pressbooks.pub/businessfundamentals/?p=269#h5p-17

Additional Resources

1. Biggest Companies in the World by Market Cap
2. How Flexible Financing Can Unlock Your Business Potential
3. What is Short-Term Financing?
4. What is Equity Financing?
5. How Does Debt Financing Work?
6. Understanding IFRS and GAAP
7. AccountingPlay.com Apps, Quizzes, Lessons
8. Canadian Mortgage App, Google App, Apple App
9. 10 Accounting Games to Make Education Fun
10. Learn Accounting for Free – Accounting Coach
11. Break-Even Analysis – How to Calculate Your Safe Point. YouTube Video
12. Balance Sheet and Income Statement Relationship. YouTube Video
13. Free Harvard Download: Financial Statement Templates

Attributions

The contents of this chapter is a compilation sourced from various OER resources, please refer to the Book Information for details.

References

(Note: This reference list was produced using the auto-footnote and media citation features of Pressbooks)

Media Attributions

- *Nvidia Internal Computer Card © Wikipedia Images | Pixabay*
- *Budget © Steve Buissinne | Pixabay*
- *The Role of Managerial Accounting © Verry. "Female." Noun Project Inc. CC BY 4.0. Retrieved from: https://thenounproject.com/term/female/2788855; Chrystina Angeline. "Manager." Noun Project Inc. CC BY 4.0. Retrieved from: https://thenounproject.com/search/?q=manager&i=1813155 is licensed under a CC BY-NC-SA (Attribution NonCommercial ShareAlike) license*
- *The Role of Financial Accounting © Verry. "Female." Noun Project Inc. CC BY 4.0. Retrieved from: https://thenounproject.com/term/female/2788855; Chrystina Angeline. "Manager." Noun Project Inc. CC BY 4.0. Retrieved from: https://thenounproject.com/search/?q=manager&i=2392337 is licensed under a CC BY-NC-SA (Attribution NonCommercial ShareAlike) license*
- *Income Statement, Balance Sheet, and Statement of Cash Flows © Yor Ditsayakub, Store & Suman Sarkar, Open Sign | Pixabay adapted by Kerri Shields*
- *Income Statement End of First Month © Kerri Shields is licensed under a CC BY-NC-SA (Attribution NonCommercial ShareAlike) license*
- *Balance Sheet First Day of Operations © Kerri Shields is licensed under a CC BY-NC-SA (Attribution NonCommercial ShareAlike) license*
- *Balance Sheet End of First Month © Kerri Shields is licensed under a CC BY-NC-SA (Attribution Non-Commercial ShareAlike) license*
- *Break-even Income Statement © Kerri Shields is licensed under a CC BY-NC-SA (Attribution NonCommercial ShareAlike) license*
- *Statement of Cash Flow After First Month © Kerri Shields is licensed under a CC BY-NC-SA (Attribution NonCommercial ShareAlike) license*
- *Apple Inc. Consolidated Statements (Income Statement) © Apple Inc. is licensed under a All Rights Reserved license*
- *Apple Inc. Consolidated Statements (Balance Sheet) © Apple Inc.*

Notes

1. *Pesqueno, A. (2024, June 18). Nvidia now world's most valuable company--topping Microsoft and Apple. https://www.forbes.com/sites/antoniopequenoiv/2024/06/18/nvidia-now-worlds-most-valuable-company-topping-microsoft-*

and-apple/

2. *Liberto, D. (2024, October 16). Biggest companies in the world by market cap. https://www.investopedia.com/biggest-companies-in-the-world-by-market-cap-5212784*
3. *Tobin, J. (2024, Ocotber 7). What does a financial manager do? https://www.accounting.com/careers/financial-manager/*
4. *Khan, F. (2023, September 22). Financial controls. https://www.wallstreetoasis.com/resources/skills/finance/financial-controls#:~:text=Key%20Takeaways%201%20Financial%20controls%20are%20procedures%20and,creditworthiness%2C%20and%20efficient%20resource%20use.%20...%20More%20items*
5. *PM4NGOs. (2024, April 19). Financial control and management best practices.[Video]. YouTube. https://youtu.be/1pdwnyqrimY?si=_5suq6BZpMnO9NvM*
6. *Maverick, J. (2024, June 13). Equity financing vs. debt financing: What's the difference? https://www.investopedia.com/ask/answers/042215/what-are-benefits-company-using-equity-financing-vs-debt-financing.asp*
7. *Maverick, J. (2024, June 13). Equity financing vs. debt financing: What's the difference? https://www.investopedia.com/ask/answers/042215/what-are-benefits-company-using-equity-financing-vs-debt-financing.asp*
8. *Maverick, J. (2024, June 13). Equity financing vs. debt financing: What's the difference? https://www.investopedia.com/ask/answers/042215/what-are-benefits-company-using-equity-financing-vs-debt-financing.asp*
9. *Daddey, F. & Newton, R. (2022). The Fundamentals of Business. https://pressbooks.bccampus.ca/fundamentalsbusiness/chapter/economics-and-business/#term_46_663*
10. *WallStreetMojo. (2024, August 21). Long-term financing. https://www.wallstreetmojo.com/long-term-financing/*
11. *University of Windsor & Ryerson University. (2022). Indigenous lifeways in Canadian business. https://ecampusontario.pressbooks.pub/indigenousbusinesstopics/chapter/chapter-1/*
12. *Gavin, M. (2020, June 2). 5 ways managers can use finance to make better decisions. https://online.hbs.edu/blog/post/financial-decision-making*
13. *QuickBooks Canada Team. (2020, September 18). Understanding IFRS and GAAP. https://quickbooks.intuit.com/ca/resources/accounting/understanding-ifrs-and-gaap/*
14. *bdc. (n.d.) Trend analysis. https://www.bdc.ca/en/articles-tools/entrepreneur-toolkit/templates-business-guides/glossary/trend-analysis*

CHAPTER 11: HUMAN RESOURCES MANAGEMENT

Chapter 11 Learning Outcomes

After reading this chapter, you should be able to do the following:

1. Define Human Resource Management (HRM).
2. Explain the Human Resource Planning Process.
3. Describe key legislation regulating hiring, compensating, and managing employees in today's workplace.
4. Explain the recruitment and selection process.
5. Describe how companies train and develop their employees.
6. Explain the three-step performance appraisal process.
7. Explain the importance of inclusion, diversity, equity, and accessibility as business practices and their value to a company.
8. Discuss five factors that are crucial in employee retention and contribute to an organization being a desirable workplace.
9. Explain four ways in which companies compensate employees for their work.
10. List three reasons for voluntary employment termination and three reasons for involuntary employment termination.
11. Explain why forming a workers' union is challenging.
12. Discuss the tactics employed by businesses and unions to strengthen their negotiating stance.

Human Resource Management

Human Resource Management (HRM) *is the strategic practice of managing an organization's workforce to achieve its goals effectively and efficiently. It encompasses the recruitment, training, development, and retention of employees, ensuring their skills and contributions align with the organization's objectives. HRM involves a range of functions, including workforce planning, performance management, employee relations, compensation and benefits, compliance with labor laws, and fostering a positive organizational culture. By focusing on both employee well-being and organizational needs, HRM aims to maximize employee performance, satisfaction, and productivity, driving overall business success.*

Starbucks Seattle

Employees at Starbucks are vital to the company's success. They are its public face, and every dollar of sales passes through their hands.[1] *According to Howard Schultz, they can make or break the company. If a customer has a positive interaction with an employee, the customer will come back. If an encounter is negative, the customer is probably gone for good. That's why Starbucks must recruit and hire the right people, train them properly, motivate them to do their best, and encourage them to stay with the company. Thus, the company works to provide satisfying jobs, a positive work environment, appropriate work schedules, and fair compensation and benefits. These activities are part of Starbucks's strategy to deploy human resources in order to gain a competitive advantage. The process is referred to as human resource management (HRM) and consists of all actions that an organization takes to attract, develop, and retain quality employees. Each of these activities is complex. Attracting talented employees involves the recruitment of qualified candidates and the selection of those who best fit the organization's needs. Development encompasses both new-employee orientation and the training and development of current workers. Retaining good employees means motivating them to excel, appraising their performance, compensating them appropriately, and doing what's possible to keep them.*

Human Resource Planning Process

How does Starbucks make sure that its worldwide retail locations are staffed with just the right number of committed employees? How does Norwegian Cruise Lines make certain that when the Norwegian Dawn pulls out of New York Harbor, it has a complete, fully trained crew on board to feed, entertain, and care for its passengers?

Managing these tasks is a matter of strategic human resource planning—the process of developing a plan for satisfying an organization's human resources (HR) needs.

The Human Resource (HR) Planning Process is a strategic approach to ensuring that an organization has the right number of employees, with the right skills, at the right time to meet its goals. It involves analyzing and forecasting an organization's human resource needs and aligning HR practices to support the overall business strategy.

Here are the key steps in the HR planning process:

1. *Analyze Organizational Objectives and Strategy. Understand business goals. Forecast future HR needs. HR must align its planning with the company's short-term and long-term objectives. This could include expansion plans, new product launches, or entering new markets. Anticipate the workforce requirements based on business growth, market conditions, and other factors like technological changes and regulatory impacts.*
2. *Assess Current Workforce. Conduct an inventory of the current employees, assessing their skills, qualifications, experience, and potential for future roles. Determine where the organization has talent shortages, skill gaps, or excess capacity. Understand the strengths and weaknesses of the current workforce to guide future development and hiring needs.*
3. *Forecast HR Demand and Supply. Predict future human resources needs based on business growth, turnover rates, retirements, and other factors. Assess the current and future availability of talent, considering internal talent, external labour markets, and potential new hires. Ensure the forecasted supply of talent meets the projected demand for skills, considering factors like employee retention and workforce trends.*
4. *Develop HR Strategies. Plan for hiring new talent or promoting from within to meet staffing needs. Identify the necessary training programs to develop employees and close skill gaps, ensuring employees are equipped to meet future demands. Prepare for key leadership roles by identifying potential internal candidates and creating development plans to groom them for future positions.*
5. *Implement HR Strategies. Put the HR strategies into practice, such as launching recruitment drives, rolling out employee development programs, or implementing workforce restructuring plans. Ensure that adequate resources are available to support the execution of the plan (budget, time, training materials, etc.).*
6. *Monitor and Evaluate HR Plans. Regularly review the progress of HR initiatives, such as hiring, training, or retention efforts, to ensure alignment with organizational goals. Assess whether HR planning outcomes are achieving desired results, such as improved workforce skills, reduced turnover, or increased productivity. Make adjustments based on feedback, changing business conditions, or unforeseen challenges to stay aligned with company goals.*
7. *Revise and Update Plans. As business conditions and organizational goals evolve, HR plans must be revisited and updated to stay relevant and effective. Incorporate lessons learned from past HR planning cycles to refine future efforts.*

*A **Strategic HR Plan** lays out the steps that an organization will take to ensure that it has the right number of employees with the right skills in the right places at the right times. HR managers begin by analyzing the company's mission, objectives, and strategies. Starbucks's objectives, for example, include the desire to "develop enthusiastically satisfied customers" as well as to foster an environment in which employees treat both customers and each other with respect.[2] Thus, the firm's HR managers look for people who are "adaptable, self-motivated, passionate, creative team members."[3] The main goal of Norwegian Cruise Lines—to lavish passengers with personal attention—determines not only the type of employee desired (one with exceptionally good customer-relation skills and a strong work ethic) but also the number needed (one for every two passengers on the Norwegian Dawn).[4]*

Forecasting HR Needs

*Once they've analyzed the jobs within the organization, HR managers must forecast future hiring (or firing) needs. **HR forecasting** is the process of predicting how a company's staffing needs change with time so that it can remain prepared to operate successfully. Organizations use HR forecasting to decide to hire more people, reduce their staffing or adjust how they divide responsibilities. There are three steps to forecasting HR needs:*

1. *Identify the human resources currently available in the organization (supply).*
2. *Predict the human resources needed to achieve the organization's mission and objectives (demand).*
3. *Measure the gap between the two (shortage or surplus).*

Starbucks, for instance, might find that it needs three hundred new employees to work at stores scheduled to open in the next few months. Disney might determine that it needs two thousand new cast members to handle an anticipated surge in visitors. The Norwegian Dawn might be short two dozen restaurant workers because of an unexpected increase in reservations.

After calculating the disparity between supply and future demand, HR managers must draw up plans for bringing the two numbers into balance. If the demand for labour is going to outstrip the supply, they may hire more workers, encourage current workers to put in extra hours, subcontract work to other suppliers, or introduce labour-saving initiatives. If the supply is greater than the demand, they may deal with overstaffing by not replacing workers who leave, encouraging early retirements, laying off workers, or (as a last resort) firing workers.

By predicting future workforce needs, HR can strategically recruit, train, and develop employees to align with business objectives, ensuring the organization stays competitive and adaptable in an evolving market. Forecasting staffing requirements allows HR to implement focused recruitment efforts, succession planning, and professional development initiatives that promote employee growth and reduce turnover, ensuring key roles are filled with qualified individuals, which enhances organizational performance. HR planning also helps organizations optimize staffing levels, enabling better control over labor costs while reducing the risk of both understaffing and over-

staffing. By accurately forecasting workforce needs, HR can effectively manage budgets, prevent staffing shortages, and ensure compliance with labor laws and regulations, thus mitigating operational risks.

Human Rights and Employment Law

Before we go any further, it is important to point out that in recruiting and hiring, managers must comply with anti-discrimination laws; violations can have legal consequences. ***Discrimination*** *occurs when a person is treated unfairly based on a characteristic unrelated to ability.*

Human Rights

Under Section 3 of the Canadian Human Rights Act (CHRA), it's illegal to discriminate based on "race, national or ethnic origin, colour, religion, age, sex, sexual orientation, gender identity or expression, marital status, family status, genetic characteristics, disability or conviction for an offence for which a pardon has been granted or in respect of which a record suspension has been ordered." The Canadian Human Rights Act applies to workplaces in federal organizations or industries that are regulated by the federal government (e.g., banks, telecommunications, federal government departments). The Canadian Human Rights Commission (CHRC) investigates complaints of discrimination, ensures compliance with the CHRA, and promotes equality and human rights awareness. It focuses on addressing discrimination within federally regulated entities. Equal Pay in Section 11 of the CHRA protects employees who perform work of equal value, in the same establishment, by ensuring they receive equal pay. Individuals who experience discrimination or harassment in federally regulated workplaces or services can file a complaint with the CHRC. An investigation takes place and CHRC may mediate between the complainant and the respondent to resolve the issue. If mediation fails or the complaint involves complex legal issues, the CHRC may refer the case to the Canadian Human Rights Tribunal (CHRT) for a formal hearing. The Tribunal can order remedies (e.g., reinstatement of employment, changes to workplace policies, wage compensation, training), and the decisions are enforceable in the Federal Court.

Managers must comply with anti-discrimination laws; violations can have legal consequences

Canada's Charter of Rights and Freedoms (CCRF) applies to interactions between individuals and all levels of government (federal, provincial, and territorial). It covers broader rights, such as freedom of expression, equality rights, mobility rights, and legal rights, and provides protection from government action that violates these rights. The Charter applies broadly, protecting Canadians from actions by any government entity that infringes on their constitutional rights. The Charter is part of Canada's Constitution, making it the supreme law, while the CHRA is a federal statute with narrower jurisdiction. Section 15(1) of the Charter protects every Canadian's right to equal treatment with respect to employment regardless of race, national or ethnic origin, colour, religion, sex, age, or mental or physical disability.

The Ontario Human Rights Code (OHRC) is a provincial law, and its role complements federal human rights legislation, like the CHRA and the CCRF. The OHRC applies specifically to individuals and organizations operating in Ontario, including private businesses, public services, housing, and employment. It prohibits discrimination and harassment based on protected grounds such as race, sex, age, disability, family status, and sexual orientation in key areas like employment, housing, and services. Complaints are handled by the Human Rights Tribunal of Ontario (HRTO), which resolves disputes under the OHRC. Each province and territory has its own human rights code or version of it (e.g., Ontario, British Columbia, Quebec), tailored to address regional issues and provide an additional layer of protection against discriminatory practices. The OHRC is Ontario's version, ensuring that local businesses, landlords, and service providers comply with anti-discrimination laws. Under the Code, you have the right to be free from discrimination in five parts of society – called social areas – based on one or more grounds. The five social areas are: employment, housing, services, unions and vocational associations and contracts. The Ontario Human Rights Code (OHRC) does not apply to federal organizations. Both of these laws, the CHRA and the OHRC, cannot apply at the same time. If one applies, the other does not.

Employment Law

The Canada Labour Code (CLC) governs employment standards, workplace health and safety, and industrial relations for federally regulated workplaces. Key areas include hours of work, overtime, wages, vacation, holiday entitlements, termination, severance pay, workplace safety requirements, and collective bargaining rules.

The Employment Equity Act (EEA) is a key piece of Canadian legislation that complements the Canadian Human Rights Act (CHRA), the Canadian Charter of Rights and Freedoms (CCRF), and provincial laws like

the Ontario Human Rights Code (OHRC). The ***Employment Equity Act*** *of 1986 identifies specific populations that are protected from discrimination (women, visible minorities, indigenous peoples, and people with disabilities). EEA applies only to federally regulated employers. It does not apply to provincially regulated workplaces, which are governed by provincial human rights codes like the OHRC. The EEA is distinct in its proactive approach to workplace diversity and equity. Unlike laws that solely prohibit discrimination (e.g., CHRA, OHRC), the EEA requires employers to actively remove barriers and promote inclusion for the four designated groups. Individuals who feel that they have been discriminated against can take their case to the Canadian Human Rights Commission. If an employer fails to address non-compliance or refuses to cooperate, the CHRC can refer the matter to the Employment Equity Review Tribunal. The Tribunal has the authority to issue orders compelling compliance and impose penalties. Non-compliant employers may face fines or other legal consequences as determined by the Tribunal.*

Employees have a right to work in a safe environment

The Occupational Health and Safety Act (OHSA) is designed to ensure that workers are provided with safe and healthy working conditions. These laws outline the responsibilities of employers to maintain a safe work environment, including providing necessary safety equipment, conducting risk assessments, and implementing safety protocols. Employers must take steps to minimize hazards and protect their employees from potential injuries or health risks. On the other hand, employees have the right to refuse work that they believe is unsafe, ensuring they are not forced to work under hazardous conditions. In addition, these laws also facilitate workplace inspections and hazard reporting to identify and rectify potential risks. For example, the Ontario Occupational Health and Safety Act (OHSA) sets out specific regulations regarding workplace safety in Ontario. It covers everything from the duties of employers to the rights of employees, emphasizing the importance of both proactive safety measures and the right of employees to report hazards or unsafe practices without fear of retaliation. These protections are essential to promoting a safe and secure work environment for all employees. Each province and territory in Canada has its own occupational health and safety legislation that applies within its jurisdiction. These laws are similar in nature, but they may have regional variations in terms of enforcement, penalties, and specific requirements. For example, British Columbia has the WorkSafeBC program and the Workers Compensation Act, and Alberta has the Occupational Health and Safety Act (OHS Act) specific to Alberta, and Quebec has La Loi sur la santé et la sécurité du travail (LSST). Federally regulated employers, such as those in transportation, banking, and

telecommunications, must comply with the Canada Labour Code (CLC), which also includes health and safety regulations for federally regulated workplaces.

There are other additional labour laws such as the Accessible Canada Act (ACA)(federal), Accessibility for Ontarians with Disabilities Act (AODA)(Ontario), Workplace Safety and Insurance Act (Ontario), Ontario's Pay Equity Act, Personal Information Protection and Electronic Documents Act (PIPEDA)(federal), Personal Information Protection Acts (Alberta, British Columbia), Ontario Employment Standards Act, 2000 (ESA), but for purposes of this chapter we will not go into additional details.

Refer to Table 11.1 for a comparison of Employment Law and Human Rights discussed in this section.

Table 11.1: Comparison of Human Rights and Employment Law

Aspect	***Canada Labour Code (CLC)***	***Employment Equity Act (EEA)***	***Occupational Health and Safety (OHS) Laws***	***Ontario Human Rights Code (OHRC)***	***Canadian Charter of Rights and Freedoms (CCRF)***	***Canadian Human Rights Act (CHRA)***
Purpose	*Governs employment and labor relations in federally regulated workplaces, ensuring fair treatment and workplace safety.*	*Promotes workplace equity by removing systemic barriers for designated groups (women, Indigenous peoples, persons with disabilities, visible minorities).*	*Ensures workplace safety and health, protecting employees from hazards, injuries, and illnesses.*	*Prohibits discrimination and harassment in Ontario workplaces, housing, and services, ensuring equal treatment.*	*Guarantees fundamental freedoms and rights, including equality and protection from discrimination by government actions.*	*Prohibits discrimination and harassment in employment and services based on protected grounds such as race, gender, religion, disability, and age.*
Scope	*Applies to all federally regulated industries (e.g., transportation, telecommunications, banking, and other federally governed sectors).*	*Federally regulated employers (e.g., banks, transportation, telecommunications) with 100+ employees.*	*Applies to all workplaces in Canada, with specific legislation in each province/ territory.*	*Provincially regulated workplaces, housing, and services in Ontario.*	*Applies to all levels of government actions and laws across Canada. Does not apply to private sector actions directly.*	*Federally regulated workplaces and services, as well as discrimination complaints from individuals.*
Key Enforcement Body	*Enforced by the Labour Program of Employment and Social Development Canada (ESDC).*	*The Canadian Human Rights Commission (CHRC) oversees compliance.*	*Provincial/ territorial workplace safety regulators (e.g., Ontario's Ministry of Labour).*	*Ontario Human Rights Commission (OHRC) oversees policy, with complaints handled by the Human Rights Tribunal of Ontario (HRTO).*	*Enforced through the judicial system, with challenges brought to the courts, including the Supreme Court of Canada.*	*The Canadian Human Rights Commission (CHRC) investigates complaints and refers cases to the Tribunal.*
Escalation/ Tribunal	*Violations of employment standards or labor relations issues can be addressed through dispute resolution mechanisms and the Federal Labour Relations Board.*	*Cases of non-compliance may be referred to the Employment Equity Review Tribunal.*	*Violations may lead to orders, fines, or prosecutions through provincial/ territorial safety bodies.*	*Discrimination complaints are heard by the Human Rights Tribunal of Ontario (HRTO).*	*Cases are escalated through provincial or federal courts, up to the Supreme Court of Canada if necessary.*	*Discrimination complaints may be referred to the Canadian Human Rights Tribunal (CHRT).*

Penalties	*Non-compliance can result in penalties, fines, or mandatory corrective actions to meet employment standards and safety regulations.*	*Corrective action orders, fines, or further legal action for non-compliance.*	*Penalties include fines, stop-work orders, or criminal charges for severe violations.*	*Remedies include monetary compensation, public apologies, policy changes, and reinstatement.*	*Court rulings may invalidate laws or policies, and governments may need to make changes or provide remedies.*	*Remedies include compensation, reinstatement, and policy changes.*
Notable Legislation Examples	*Canada Labour Code (Federal), covering employment standards, occupational health and safety, and labor relations for federally regulated industries.*	*Employment Equity Act (Federal).*	*Ontario Occupational Health and Safety Act (OHSA), Alberta OHS Act, etc.*	*Ontario Human Rights Code (Provincial).*	*Section 15 (Equality Rights), Section 2 (Fundamental Freedoms), Section 7 (Life, Liberty, and Security).*	*Canadian Human Rights Act (Federal).*

Recruitment and Selection Process

The recruitment and selection process is a strategic approach to finding and hiring the right talent for an organization. It begins with workforce planning and job analysis to identify staffing needs and create detailed job descriptions and specifications. The recruitment phase involves sourcing candidates through various channels like job boards, social media, internal promotions, and networking. Once applications are received, the selection process evaluates candidates through resume screening, interviews, assessments, and reference checks to determine their suitability for the role. The process concludes with extending a job offer to the chosen candidate, followed by onboarding to integrate them into the organization. This streamlined approach ensures that the best-fit candidates are hired efficiently while aligning with organizational goals.

The recruitment and selection process in Human Resources (HR) is a series of steps taken to identify, attract, and hire the right candidates for a job position. It typically involves the following stages:

Recruiting Process:

1. *Job Analysis and Planning*
2. *Sourcing Candidates*

Selection Process:

1. *Screening and Shortlisting*
2. *Interviews*
3. *Reference and Background Checks*
4. *Job Offer and Negotiation*
5. *Onboarding*

Just Hired!

Recruitment Process

Armed with information on the number of new employees to be hired and the types of positions to be filled, the HR manager then develops a strategy for recruiting potential employees. ***Recruiting*** *is the process of identifying suitable candidates and encouraging them to apply for openings in the organization. When the organization is seeking to hire talent, recruiters within the HR department assume this responsibility by creating job postings, screening candidates, and setting up interviews. While recruiting refers to the broader effort of attracting and sourcing candidates, selection specifically focuses on evaluating and choosing the best candidate for the job.*

Job Analysis and Planning

Job analysis and planning is the foundational step in the recruitment process, focusing on understanding the specific requirements of a role and preparing for effective talent acquisition. ***Job analysis*** *involves examining the tasks, responsibilities, skills, and qualifications (knowledge and abilities) needed for a position, resulting in a clear and detailed job description and specification. Planning complements this by aligning recruitment efforts with organizational goals, determining the number and type of positions to be filled, and setting timelines and budgets for the hiring process. This stage ensures clarity about the role and provides a strategic framework to attract the most suitable candidates, aligning workforce capabilities with business objectives.*

To develop an HR plan, HR managers must be knowledgeable about the jobs that the organization needs performed. HR managers gather information about a given job by performing a job analysis and use the information collected to prepare two documents:

- *A* ***job description****, which lists the duties and responsibilities of a position*

- *A **job specification**, which lists the qualifications—skills, knowledge, and abilities— needed to perform the job*

Sourcing Candidates

Sourcing candidates is a critical step in the recruitment process that involves identifying and attracting potential candidates who meet the qualifications and requirements of a job opening. This process can include internal sourcing, such as promoting or transferring current employees, and external sourcing, which involves advertising on job boards, leveraging social media platforms, using recruitment agencies, attending career fairs, and tapping into employee referrals or professional networks. The goal is to reach a diverse and qualified talent pool while optimizing the methods used to align with the organization's needs. Effective sourcing ensures that the recruitment process begins with a strong foundation of capable and suitable candidates, increasing the chances of finding the right fit for the role.

Internal Versus External Recruiting

The first step in recruiting is to find qualified candidates. Where do you look for them, and how do you decide whether they're qualified? Companies must assess not only the ability of a candidate to perform the duties of a job, but also whether he or she is a good "fit" for the company– i.e., how well the candidate's values and interpersonal style match the company's values and culture.

*Where do you find people who satisfy so many criteria? You can look in two places: inside and outside your organization. Both options have pluses and minuses. **Hiring internally** sends a positive signal to employees that they can move up in the company—a strong motivation tool and a reward for good performance. In addition, because an internal candidate is a known quantity, it's easier to predict his or her success in a new position. Finally, it's cheaper to recruit internally. On the other hand, you'll probably have to fill the promoted employee's position. **Hiring externally** allows you to bring fresh ideas and skills into the company. In any case, it's often the only alternative, especially if no one inside the company has just the right combination of skills and experience. Entry-level jobs are usually filled from the outside.*

Publicize the Job

Whether you search inside or outside the organization, you need to publicize the opening. If you're looking internally in a small organization, you can alert employees informally. In larger organizations, HR managers generally post openings on bulletin boards (often online) or announce them in newsletters. They can also seek direct recommendations from various supervisors.

Recruiting people from outside is more complicated. It's a lot like marketing a product to buyers: in effect, you're marketing the virtues of working for your company. Starbucks uses the following outlets to advertise openings:[5]

Publicize the job

- *A dedicated section of the corporate website ("Job Centre," which lists openings, provides information about the Starbucks experience, and facilitates the submission of online applications)*
- *College and university campus recruiting (holding on-campus interviews and information sessions and participating in career fairs)*
- *Internships are designed to identify future talent among college students*
- *Announcements on employment websites like LinkedIn, Workopolis, Indeed, LeapOut, JobBank, and Eluta.*
- *Social Media*
- *Local job fairs*
- *In-store recruiting posters*
- *Informative "business cards" for distribution to customers*

When asked what it takes to attract the best people, Starbucks's senior executive Dave Olsen replied, "Everything matters." Everything Starbucks does as a company bears on its ability to attract talent. Accordingly, everyone is responsible for recruiting, not just HR specialists. The best source of quality applicants is often within the company's labour force.[6]

Contingent Workers

Though most people prefer to hold permanent, full-time positions, there's a growing number of individuals who work at temporary or part-time jobs, either by choice or as the only available option. Many of these are ***contingent***

workers *hired to supplement a company's permanent workforce. Most of them are independent contractors, consultants, or freelancers who are paid by the firms that hire them. Others are on-call workers who work only when needed, such as substitute teachers. Still others are temporary workers (or "temps") who are employed and paid by outside agencies or contract firms that charge fees to client companies.*

The use of contingent workers provides companies with a number of benefits. Because they can be hired and fired easily, employers can better control labour costs. When things are busy, they can add temps, and when business is slow, they can release unneeded workers. Temps are often cheaper than permanent workers, particularly because they rarely receive costly benefits. Employers can also bring in people with specialized skills and talents to work on special projects without entering into long-term employment relationships. Finally, companies can "try out" temps: if someone does well, the company can offer permanent employment; if the fit is less than perfect, the employer can easily terminate the relationship. There are downsides to the use of contingent workers, including increased training costs and decreased loyalty to the company. Also, many employers believe that because temps are usually less committed to company goals than permanent workers, productivity suffers.

Social Networking and Employee Recruitment

Referrals and professional networking are commonly used methods of identifying job prospects, particularly for managerial, professional, and technical positions. Several software applications and social networks facilitate employee referrals, reference checking, and hiring based on networks of personal relationships. ExecuNet and ExecRank are just two of the many career sites that allow members to search for contacts and network with other professionals in their fields.

LinkedIn is the most popular social network for professionals.

LinkedIn is the most popular social network for professionals. It is a giant database of contacts with profiles that provide an overview of a person's past and present professional experience, skills, professional referrals, and affiliations with business and professional associations. A member can search through an extended network of contacts based on his or her professional acquaintances. The basis for a search can be job, job title, company, geography, zip code, or membership in a professional organization. LinkedIn uses the concept that there are no more than six degrees of separation between two people, or one person can be linked to any other individual through no more than six other people. With 1 billion members in more than 200 countries and territories worldwide, LinkedIn's extensive platform is an ideal network for both recruiters and those looking to make their next career move.[7]

Did you know that 90% of recruiters report hiring someone from LinkedIn? That's the power of social media recruiting; it offers a host of advantages, such as broader reach, cost-effectiveness, and real-time engagement!

Recruiters utilize various social media platforms because they provide unparalleled reach to potential candidates. By utilizing these platforms, recruiters can access a vast pool of talent and increase the visibility of job opportunities. Social media recruiting is also more cost-effective than traditional recruitment methods. Posting job ads, sharing content, and engaging with candidates on social media platforms are generally more affordable than other advertising channels. Moreover, with the rise of remote work and digital nomadism, job seekers increasingly use their mobile devices for job hunting. Social media platforms are easily accessible via mobile devices, making them convenient for job seekers to browse job postings anytime, anywhere. [8]

Selection Process

After a firm has attracted enough job applicants, employment specialists begin the selection process. ***Selection*** *is the process of determining which people in the applicant pool possess the qualifications necessary to be successful on*

the job. The steps in the employee selection process are shown in Figure 10.1. An applicant who can jump over each step, or hurdle, will very likely receive a job offer; thus, this is known as the successive hurdles approach to applicant screening. Alternatively, an applicant can be rejected at any step or hurdle. Selection steps or hurdles are shown in Figure 11.1 below.

Initial Screening

*During the **initial screening** phase, applicants typically complete an application form and/or submit a résumé and participate in a brief interview lasting 30 minutes or less. The job application generally includes details about the applicant's educational background, prior work experience, and specific job responsibilities performed. For some positions, applicants may be asked to provide additional materials such as work samples, certificates, credentials, or other supporting documents, either along with the résumé or shortly after advancing past the selection interview.*

Initial screenings can vary in format—they may take place over the phone, through online conferencing, or occasionally be bypassed altogether, with candidates proceeding directly to the interview stage. These variations depend on factors such as the position's seniority, the hiring company's practices, industry norms, and specific job requirements.

Will There Be Employment Testing?

Following initial screening, the applicant may be asked to take one or more tests, such as the Wonderlic Personnel Tests. Wonderlic offers a suite of pre-employment tests for each phase of the hiring process. Used individually or together, the tests can assess cognitive ability (ability to learn, adapt, and solve problems), motivation potential (attitude, behavior performance, and productivity), and knowledge and skills (math, verbal, data entry, software proficiency).[9] *Job candidates are scored on how well they complete the employment tests.*

McDonald's, for example, employs over 1.7 million people across the globe and the company uses personality tests to assess whether a candidate is a good fit to become a part of the McD family. Personality questionnaires are tools to gauge a candidate's behavioural preferences, and the company uses these tools to assess a wide range of applicants. By gleaning the results of such standardized questionnaires, the company quickly determines the most suitable candidates for particular roles.[10]

Another example is Ford Motor. The multinational automaker employs over 190,000 people across the globe, with a widespread presence in 73 countries. Building and managing such a diverse workforce requires an exceptional hiring strategy. The company uses a two-part psychometric test, namely, numerical reasoning and verbal reasoning tests. These tests enable recruiters to objectively assess a wide range of candidates with diverse qualifications and experience. As a result, Ford Motor can quickly identify suitable applicants for a given role by analyzing the tests'

outcomes. Gathering such granular insights into candidates' skills from just interviews and resumes seems rather unlikely, so the company employs professional psychometric tests at various stages of the hiring process.[11]

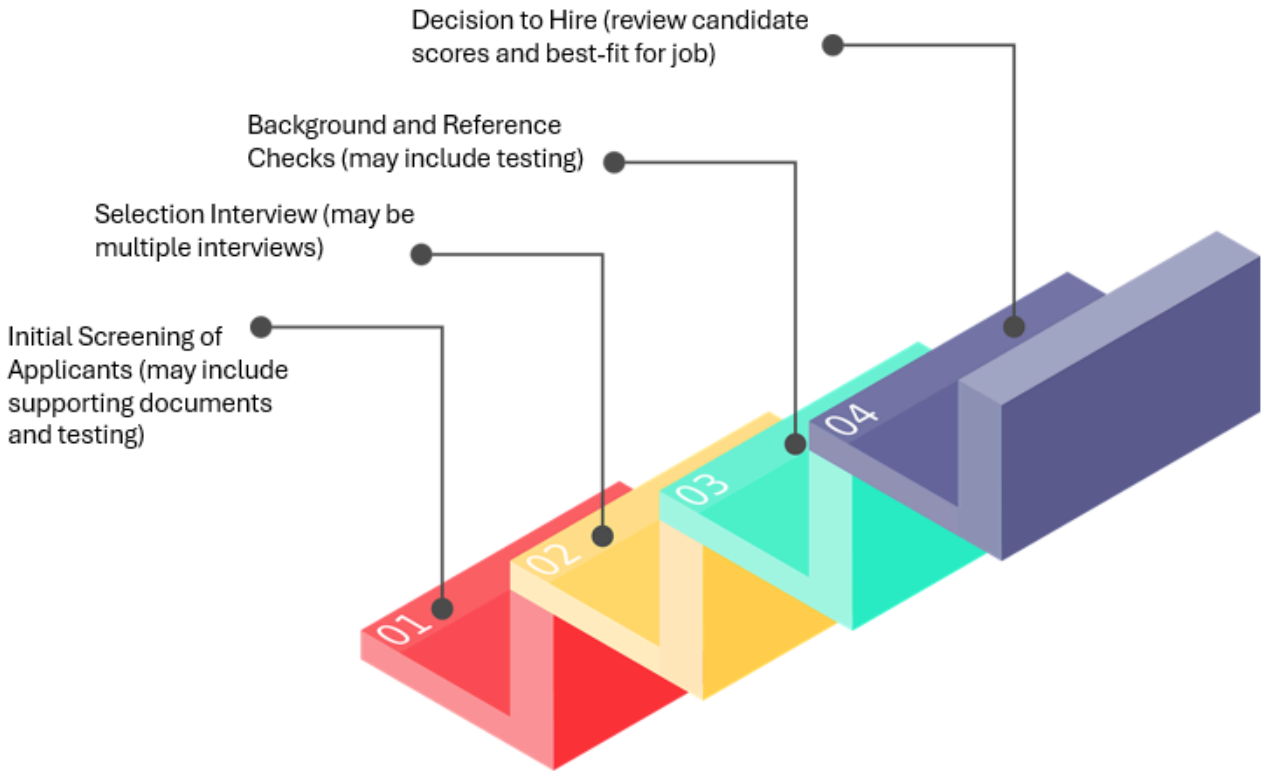


Figure 11.1 Steps in the Selection Process

Selection Interview

The tool most widely used in making hiring decisions is the ***selection interview****, an in-depth discussion of an applicant's work experience, skills and abilities, education, and career interests. For managerial and professional positions, an applicant may be interviewed by several people, including the line manager, for the position to be filled. This interview is designed to determine a person's communication skills and motivation. During the interview, the applicant may be presented with realistic job situations, such as dealing with a disgruntled customer, and asked to describe how they would handle the problem. Some organizations have multiple interviews with candidates at various levels of management. When designing interviews, the HR department will provide the interviewer(s) with score sheets. The candidates are scored on how well they answer the questions during the interview. In Canada, it's illegal for job applications to ask questions about race-related grounds, such as physical characteristics like eye color, hair, height, and weight. When you complete a course in career planning, you will learn how to complete a successful interview.*

Do I Need Physical Exams and Drug Testing?

Eye Exam for Work (a bona fide requirement)

A firm may require an applicant to have a medical checkup to ensure they are physically able to perform job tasks. In the U.S., Drug testing is common in the transportation and health care industries. Southwest Airlines, BNSF Railway, Texas Health Resources, and the U.S. Postal Service use drug testing for reasons of workplace safety, productivity, and employee health. In Canada, pre-employment drug testing could be considered discriminatory (Canadian human rights law). This is because drug and alcohol testing could reveal a person's substance dependency and addiction, and poses a risk of discrimination against the candidate if a job offer is rescinded. Unless an employer can prove that there is a bona fide occupational requirement (BFOR) for testing, it is best practice for employers not to conduct pre-employment drug testing for non-safety positions. If an employer is recruiting for a safety-sensitive position, then pre-employment drug testing could be justifiable as policy for the promotion of workplace safety.[12] *Generally, you do not need a physical exam to get a job, but certain jobs that require physical strength or endurance, or jobs in the public health sector, may require a physical exam. A few of these job examples include firefighter, police officer, lifeguard, truck driver, bus driver, and military personnel.*

Background and Reference Check

If applicants pass the selection interview, most firms examine their background and check their references. ***References*** *are people who will attest to your skills and abilities because they have observed you in action. The most valuable references are those from former or current employers, as they carry the most weight with potential employers. While friends and family may offer positive feedback, hiring managers are more interested in learning about your past performance in a professional setting. In recent years, an increasing number of employers, such as American Airlines, Disney, and Microsoft, are carefully researching applicants' backgrounds, particularly their legal history, reasons for leaving previous jobs, and even creditworthiness. If the company has not already collected supporting evidence of your credentials (e.g., educational credentials, industry certifications, etc.), then they will most likely do so at this stage. Not all job positions require that you have supporting evidence, but higher-level jobs usually do. If a candidate were to, for example, submit fraudulent credential documents and then the company were to discover this after hiring, the company would most probably terminate employment.*

Decision to Hire

If an applicant is successful in completing all stages of the selection process, a ***decision to hire*** *is made. For higher-level positions or roles within unionized environments, this decision is often based on a combination of test results (if applicable) and interview scores. However, not all jobs require testing or a formal scoring process for interview questions. To ensure fairness and objectivity, many companies adopt scoring methods to evaluate candidates systematically. Ultimately, the job offer is extended to the candidate who best aligns with the role's requirements and organizational needs.*

Developing Employees

Because companies can't survive unless employees do their jobs well, it makes economic sense to train them and develop their skills. This type of support begins when an individual enters the organization and continues as long as he or she stays there.

New-Employee Orientation

Have you ever started your first day at a new job feeling upbeat and optimistic, only to walk out at the end of the day thinking that maybe you've taken the wrong job? If this happens too often, your employer may need to revise its approach to orientation—the way it introduces new employees to the organization and their jobs. Starting a new job is a little like beginning college; at the outset, you may be experiencing any of the following feelings:

- *Nervous or anxious*
- *Confusion*
- *Loneliness*
- *Imposter syndrome*
- *Stress and exhaustion*[13]

The employer who understands how common such feelings are is more likely not only to help newcomers get over them but also to avoid the pitfalls often associated with new-employee orientation:

- *Failing to have a workspace set up for you*
- *Failing to implement a feedback mechanism for new hires to give feedback*
- *Failing to introduce new employees to their coworkers*
- *Failing to share clear expectations and goals for new employees*[14]

Initially, when an employee is hired, the organization uses an ***orientation program*** *to introduce the employee to the company's people, policies, and procedures. A good employer will take things slowly, providing you with information about the company and your job on a need-to-know basis while making you feel as comfortable as possible. You'll get to know the company's history, traditions, and culture over time. You'll learn more about salary and benefits, and how your performance will be evaluated. Most importantly, you'll find out how your job fits into overall operations and what's expected of you. Over the first few weeks, the manager should schedule check-in meetings to review expectations, progress, responsibilities and answer any questions the new employee may have. Failure to integrate new hires into a company adequately leads to low retention rates.*

Training and Development

When you start a new job, you may enter that job role with many skills and knowledge gained through education or previous work experience. Even with some experience, knowledge, and skills, your new employer will still want to provide you with ***training*** *specific to the technologies, processes, and practices used by the organization.*

As you grow with your new employer, you will need to continually learn, after all, life is about lifelong learning, and our world continues to grow around us. We need to keep up with the times. Companies ensure their employees have the skills and knowledge to support company goals and for the company to remain competitive in its field. Often, employers pay for programs/courses whereby employees can update their knowledge and skills. This helps retain employees, increase employee satisfaction, and brings new ideas and skills into the business.

Types of Training

Corporate training is essential for employee onboarding and employee retention. Onboarding is a perfect moment to deliver training. A new staff member is bursting with excitement about joining your company. Existing employees are also eager to extend and develop their skills. In any case, for the sake of learning effectiveness, the training method is as important as the content and activities.

Below are seven of the best types of employee training methods:[15]

- *Case Studies*
- *Coaching/mentoring*
- *Technology-based Learning (eLearning)*
- *Instructor-led Training*
- *Interactive Training*
- *On-the-job Training*
- *Video-based Training*

Training at PetroKnowlege: 10 Day Oil & Gas Contracts Training

Why Choose this Training Course?[16]

This PetroKnowledge training course will provide participants with a comprehensive understanding of the full spectrum of oil and gas contracts. It is a highly interactive training course covering the key legal and commercial aspects of these contracts and the inherent risks in the different types of contracts. Participants will learn how to deal with negotiating, drafting, and administering these contracts in the oil and gas and marine sectors. Further, we will also focus on the pros and cons of the different types of contracts and the suitability of each one for your specific needs. We delve into specific contracts like Production Sharing Contracts (PSC), Licensing and Concessions used in upstream operations, and EPCIC (Engineering, Procurement, Construction, Installation & Commissioning) Contracts, EPCM and Alliance contracts used for complex offshore and onshore projects.

How will this Training be presented?[17]

Participants will gain greater knowledge through presentations by an experienced international practitioner designed to both educate and challenge. This PetroKnowledge training course will utilize a variety of proven adult learning techniques to ensure maximum understanding, comprehension, and retention of the information presented. This includes exercises designed to improve and sharpen the skill sets of delegates in planning, negotiating, and managing Oil and Gas contracts, through interactive sessions with case studies, role playing, and discussion groups, and scenario building. The objective of the interactive sessions is to enable participants to apply the knowledge and understanding gained during the course to certain factual scenarios. This will help participants gain invaluable practical insights into managing the risks and enhancing their rewards, and improving bottom lines for their corporations.

Can I Get a Customized Training Course for My Team?[18]

Yes, PetroKnowledge offers customized in-house training solutions for organizations looking to upskill their teams. We work closely with companies to design bespoke training courses for oil and gas professionals that address specific challenges and objectives. Whether you need on-site training or online solutions, we can tailor the training courses to suit your organization's needs.

Training Costs

It would be nice if employees came with all the skills they need to do their jobs. It would also be nice if job requirements stayed the same: once you've learned how to do a job, you'd know how to do it forever. In reality, new employees must be trained; moreover, as they grow in their jobs or as their jobs change, they'll need additional training. Unfortunately, training is costly and time-consuming. How costly?

In a U.S. analysis of corporations and educational institutions with 100 or more employees, companies spent $954 per employee for training in 2023, and the average hours of training each employee received were 57. Services organizations spent the most per learner this year ($1,172), followed by nonprofits ($1,105). Small ($1,420) and midsize ($751) companies spent more per learner than large corporations ($481). On average, organizations allocated the biggest portions of their training budget to mandatory compliance training (13 percent), management/supervisory training (12 percent), and onboarding (11 percent). Diversity, equity, and inclusion was a new category added this year (2023)—it came in at 7 percent.[19]

Canadian firms invest modestly in training—an estimated $240 per employee annually—and lag their international peers in rates and hours of instruction. Larger firms are more likely than smaller firms to provide training. Employers in utilities, finance, insurance, and other knowledge-based, technology-rich industries train at above-average rates, while firms in retail, forestry, and oil and gas extraction provide below-average levels of training. Firms in Québec and Ontario are more likely to provide training than firms in the Prairies or Atlantic provinces. Given their concern for return on investment (ROI), firms tend to invest in training for immediate needs, such as onboarding and orientation, technology adoption, addressing skills gaps, and implementing innovations, and favour on-the-job and at-workplace modes of delivery over classroom and other external options.[20]

Compliance Training

Compliance training covers the standards for a healthy working environment and teaches safety and accident prevention procedures.

Play the YouTube video below, "Planning an Effective Employee Training Program," YouTube video below to learn about how a business can train its employees and specifically provide compliance training for employees.[21] *Transcript for "Planning an Effective Employee Training Program" Video [PDF–New Tab]. Closed captioning is available on YouTube.*

One or more interactive elements has been excluded from this version of the text. You can view them online here: https://ecampusontario.pressbooks.pub/businessfundamentals/?p=267#oembed-1

Performance Appraisal

Performance appraisals *are structured evaluations that assess an employee's job performance, contributions, and achievements over a defined period. The process typically includes reviewing goals, providing constructive feedback, and identifying areas for growth or development. Employees often seek clarity from their managers on three key points: what is expected of them, how well they are meeting those expectations, and how they can enhance their performance. While effective managers provide ongoing feedback, formal appraisals are generally conducted annually or semiannually. These evaluations may involve methods such as self-assessments, peer reviews, and manager evaluations. When implemented effectively, performance appraisals promote open communication, boost employee motivation, and inform decisions regarding promotions, salary adjustments, and career development. Appraisal systems differ between organizations and vary based on the employee's role and level within the company.*

The Basic Three-Step Performance Appraisal Process:

1. *Before managers can measure performance, they must set goals and performance expectations and specify the criteria (such as quality of work, quantity of work, dependability, initiative) that they'll use to measure performance.*
2. *At the end of a specified time period, managers complete written evaluations that rate employee performance according to the predetermined criteria.*
3. *Managers then meet with each employee to discuss the evaluation. Jointly, they suggest ways in which the employee can improve performance, which might include further training and development.*

It sounds fairly simple, but why do so many managers report that, except for firing people, giving performance appraisals is their least favorite task?[22]

Performance appraisals serve multiple purposes:

- *For a manager and employee to discuss the employee's performance and to set future goals and performance expectations*
- *To help identify and discuss appropriate training and career-development opportunities for an employee*

- *To create formal documentation of the evaluation that can be used for salary, promotion, demotion, or dismissal purposes*
- *To help organizations recognize and reward high-performing employees*
- *To align the employee's goals with organizational objectives*

As for disadvantages, most stem from the fact that appraisals are often used to determine salaries for the upcoming year. Consequently, meetings to discuss performance tend to take on an entirely different dimension: the manager may appear judgmental (rather than supportive), and the employee may get defensive. This adversarial atmosphere can make many managers not only uncomfortable with the task but also less likely to give honest feedback. (They may give higher marks in order to avoid delving into critical evaluations.) HR professionals disagree about whether performance appraisals should be linked to pay increases. Some experts argue that the connection eliminates the manager's opportunity to use the appraisal to improve an employee's performance. Others maintain that it increases employee satisfaction with the process and distributes raises on the basis of effort and results.[23]

360-Degree and Upward Feedback

Performance Appraisal

Instead of being evaluated by one person, how would you like to be evaluated by several people, not only those above you in the organization but those below and beside you? The approach is called ***360-degree feedback****, and the purpose is to ensure that employees (mostly managers) get feedback from all directions—from supervisors, reporting subordinates, coworkers, and even customers. If it's conducted correctly, this technique furnishes managers with a range of insights into their performance in a number of roles. Some experts, however, regard the 360-degree approach as too cumbersome.*[24]

"It should be no surprise that tech companies like Google and Netflix are among the adherents to 360 feedback. Another use case from our own roster of clients is the Nissan Corporation, where 360 feedback took off among its North American engineering team. It all started with a senior manager wanting to improve their leadership skills by taking the G360 Survey for Managers. Before long, 360 feedback fever had spread to other teams and different departments."[25]

Inclusion, Diversity, Equity, and Accessibility (IDEA) in the Workplace

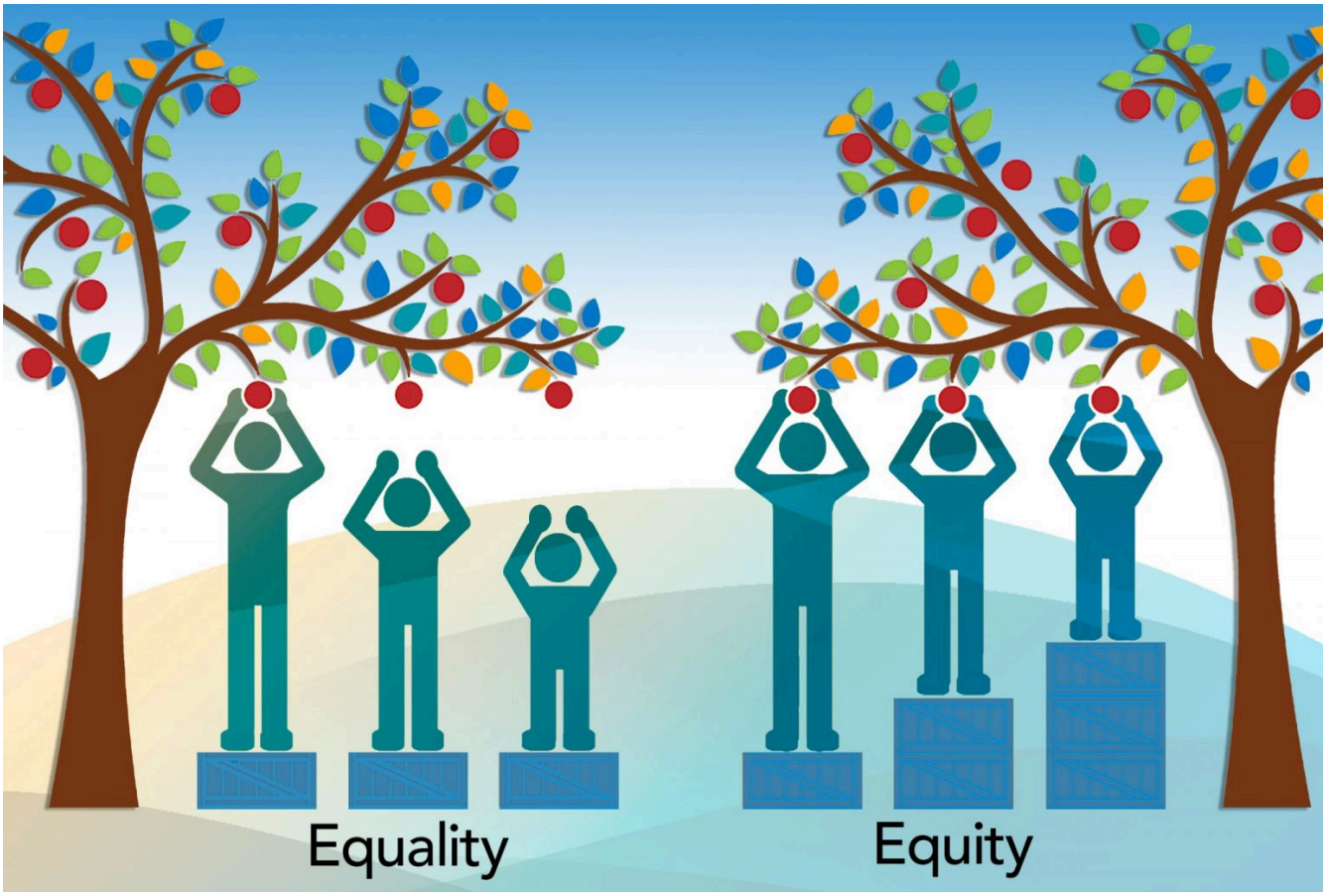
*The acronym used to refer to equity, diversity, and inclusion may appear in various resources such as EDI, DEI, IDE, or IDEA, but they all represent the same concepts. Inclusion, diversity, equity, and accessibility (**IDEA**) are a set of practices that aim to ensure that people from a variety of backgrounds are represented and can thrive.*

Most companies today strive for diverse workforces. HR managers work hard to recruit, hire, develop, and retain a diverse workforce. In part, these efforts are motivated by legal concerns: discrimination in recruiting, hiring, advancement, and firing is illegal under federal law and is prosecuted by the Canadian Human Rights Tribunal. Companies that violate anti-discrimination laws are subject to severe financial penalties and also risk reputational damage.

Reasons for building a diverse workforce go well beyond mere compliance with legal standards. It even goes beyond commitment to ethical standards. It's good business. People with diverse backgrounds bring fresh points of view that can be invaluable in generating ideas and solving problems. In addition, they can be the key to connecting with an ethnically diverse customer base. In short, capitalizing on the benefits of a diverse workforce means that employers should view differences as assets rather than liabilities.

Equity

***Equity** is a process that ensures everyone has access to the same opportunities. Equity appreciates that privileges and barriers exist and, as a result, we don't all start from the same place. Instead, each of us comes from a different background. Equity is an approach that begins with acknowledging this unequal starting place and making efforts to address and change this imbalance.*[26]



Equality Versus Equity

Diversity

Diversity *is the presence, in an organization or a community, of a wide range of people with different backgrounds, abilities, and attribute,s including ethnicity, race, colour, religion, age, gender, and sexual orientation.*[27]

Inclusion

Inclusion *refers to taking into account differences among individuals and groups when designing something (e.g., policy, program, curriculum, building, shared space) to avoid creating barriers. Inclusion is about people with different identities feeling or being valued and welcomed within a given setting.*[28]

Accessibility

A key part of equity is accessibility. ***Accessibility*** *is the practice of making information, activities, and/or environments sensible, meaningful, and usable for as many people as possible. As an overview:*[29]

- *Accessibility is about equity*
- *Accessibility is about cultural practice*
- *Accessibility is about people*
- *Accessibility is about compliance*
- *Accessibility is about usability*
- *Accessibility is about context*

The makeup of the Canadian workforce has changed dramatically over the past 50 years; in the 1950s, more than 70 percent of the workforce was male.[30] *Today's workforce reflects the broad range of differences in the population—differences in gender, race, ethnicity, age, physical ability, religion, education, and lifestyle. A diverse workforce benefits organizations by supplying a broad range of viewpoints necessary to compete in a globalized marketplace. Such variety promotes creative problem solving with improved results. Products and services need to cater to customers and clients with diverse backgrounds, and if a company's workforce does not understand the nuances of different cultural needs, it may be missing some opportunities.*

Unfortunately, a diverse workforce can have its obstacles. Differences in culture, age, religion, and sexual orientation can create misunderstandings and conflict, even over the most well-intentioned behaviors. Therefore, it is important that employers provide effective diversity training for their employees. It is also important for co-workers to look at situations from a perspective different from their own. Modifications to workplace practices, policies or procedures, such as flexible scheduling, voluntary substitutions, swaps, job reassignments, and lateral transfers, are a few examples of how an employer might accommodate an employee's religious beliefs, practices, and observances.

Corporate Indigenous Inclusion: Equity, Diversity, and Inclusion (EDI)

Following the Truth and Reconciliation Commission's Calls to Action in 2015, corporations are struggling to engage with Indigenous communities and knowledge systems in a manner that is both ethical and meaningful. Equity, Diversity, and Inclusion (EDI) programs are tools that are utilized to address inequality in the workplace, including the inequities experienced by Indigenous populations in corporate environments. EDI initiatives that are designed for Indigenous populations in Canada must first become informed about the historic relationship between the settler government and its

First Nations, Métis, and Inuit inhabitants. Corporations attempt to address the anti-Indigenous racism within their own companies by providing opportunities for their employees to engage with Indigenous culture, language, and art; offering financial support for Indigenous community non-profit organizations, and the advancement of Indigenous education. If EDI principles are not sufficiently applied, corporations have established protocols and policies that are built to do so in their place. Dr Russell Evans, an Indigenous professor at the University of Windsor, speaks about the manner in which EDI and Indigenization serve to improve corporate culture for Indigenous populations and other marginalized groups.[31]

One or more interactive elements has been excluded from this version of the text. You can view them online here: https://ecampusontario.pressbooks.pub/businessfundamentals/?p=267

Indigenous Lifeways in Canadian Business with Closed Captioning and Transcript [PDF–New Tab]

Retaining Valuable Employees

What makes a company a great place to work? Ask yourself, what would you want as an employee? Flexible hours, high pay, prestige, recognition, autonomy, empowerment, interesting projects, friendly colleagues, fun events, medical benefits, or something else? We each have our own intrinsic and extrinsic motivators when it comes to work. Managers need to find ways to motivate employees to perform at a high level. This may mean motivating different employees in different ways. Many organizations offer several perks or benefits to employees in an attempt to satisfy many different employees needs and wants. Companies would much rather make their employees happy and retain them than have a continuous rotation of hiring new employees; it costs more to hire new employees than it does to keep existing employees. Happy employees are also shown to provide better customer service and take more interest in doing quality work. Employers strive to provide employees with a work-life balance, challenging and interesting work, and rewards that will motivate employees.

Great Place to Work® provided a 2024 list of the best places to work in Canada based on the organization's 1000+ employees that provide an outstanding employee experience. Some of the companies on the list include Cisco, SAP, Deloitte, ATB Financial, KPMG, TD Canada Trust, FedEx Express Canada, RBC, and Sun Life.[32]

Job Redesign

The average employee spends more than two thousand hours a year at work. If the job is tedious, unpleasant, or otherwise unfulfilling, the employee probably won't be motivated to perform at a very high level. Many companies practice a policy of job redesign to make jobs more interesting and challenging. Common strategies include job rotation, job enlargement, and job enrichment.

Job Rotation

Specialization promotes efficiency because workers get very good at doing particular tasks. The drawback is the tedium of repeating the same task day in and day out. The practice of ***job rotation*** *allows employees to rotate from one job to another on a systematic basis, often but not necessarily cycling back to their original tasks. A computer maker, for example, might rotate a technician into the sales department to increase the employee's awareness of customer needs and to give the employee a broader understanding of the company's goals and operations. A hotel might rotate an accounting clerk to the check-in desk for a few hours each day to add variety to the daily workload. Through job rotation, employees develop new skills and gain experience that increases their value to the company. So great is the benefit of this practice that many companies have established rotational training programs that include scheduled rotations during the first 2-3 years of employment. Companies benefit because cross-trained employees can fill in for absentees, thus providing greater flexibility in scheduling, offering fresh ideas on work practices, and becoming promotion-ready more quickly.*

Job Enlargement

Instead of a job in which you performed just one or two tasks, wouldn't you prefer a job that gave you many different tasks? In theory, you'd be less bored and more highly motivated if you had a chance at ***job enlargement****—the policy of enhancing a job by adding tasks at similar skill levels. The job of sales clerk, for example, might be expanded to include gift-wrapping and packaging items for shipment. The additional duties would add variety without entailing higher skill levels.*

Job Enrichment

Merely expanding a job by adding similar tasks won't necessarily "enrich" it by making it more challenging and rewarding. ***Job enrichment*** *involves adding tasks that enhance an employee's level of responsibility and opportunities for personal growth. This approach helps increase job satisfaction by offering more engaging work, a sense of accomplishment, improved self-esteem, recognition, and the chance to develop one's full potential.*

Consider, for example, the evolving role of support staff in the contemporary office. Today, employees who used to

be called "secretaries" assume many duties previously in the domain of management, such as project coordination and public relations. Information technology has enriched their jobs because they can now apply such skills as word processing, desktop publishing, creating spreadsheets, and managing databases. That's why we now use a term such as administrative assistant instead of secretary.[33]

Giving employees the freedom to make decisions within their roles and empowering them to take ownership of their work fosters a sense of trust and responsibility. This autonomy leads to greater job satisfaction and motivation to stay with the organization.

Work-Life Balance

Work-Life Balance

Work-life balance *generally refers to a balance between your personal and work life. The goal is to strive to keep that balance so that we are managing stress and burnout by fulfilling other areas of our lives that aren't swallowed up by work.*

Building a career requires a substantial commitment of time and energy, and most people find that they aren't left with much time for non-work activities. Fortunately, many organizations recognize the need to help employees strike a balance between their work and their home or personal lives. By helping employees combine satisfying careers and fulfilling personal lives, companies tend to end up with a happier, less stressed, and more productive workforce. The financial benefits include lower absenteeism, turnover, and healthcare costs.[34]

Flexible Work Arrangements

One way companies help employees maintain a work-life balance is by offering flexible work arrangements, such as remote work options, flexible hours, and compressed workweeks, allowing employees to adjust their schedules based on personal needs and preferences. This flexibility helps employees manage their time more effectively, balancing work with family, hobbies, and other responsibilities.

The accounting firm KPMG LLP is committed to helping "employees balance work and their personal lives through a variety of flexible work options" and has consistently made the list of Canada's Top Family-Friendly Employers.[35]

Remote Work

*Remote work, also known as **Telecommuting**, means that you regularly work from home (or from some other non-work location). You're connected to the office by computer and cell phone. You save on commuting time, enjoy more flexible work hours, and have more opportunities to spend time with your family.*

While roughly 40% of Canadian jobs can be done from home, telework capacity varies substantially across industries. For example, about 85% of workers in finance and insurance can work remotely, compared to only 4% of those in the agricultural fields. One challenge for employers seeking to implement telework is to accommodate the diversity of employee preferences. Around 90% of Canadians feel as productive or more productive when working from home. Approximately 41% of remote workers would prefer to work half their weekly hours remotely.[36]

Telecommuting isn't for everyone. Working at home means that you have to discipline yourself to avoid distractions, such as TV, personal phone calls, and home chores, and also not be impacted by feeling isolated from the social interaction in the workplace.

Flextime

*Employers who provide for **flextime** set guidelines that allow employees to designate starting and quitting times. Guidelines, for example, might specify that all employees must work eight hours a day (with an hour for lunch) and that four of those hours must be between 10 a.m. and 3 p.m. Thus, you could come in at 7 a.m. and leave at 4 p.m., while coworkers arrive at 10 a.m. and leave at 7 p.m. With permission, you could even choose to work from 8 a.m. to 2 p.m., take two hours for lunch, and then work from 4 p.m. to 6 p.m.*

Compressed Workweeks

*With **compressed workweeks**, rather than work eight hours a day for five days a week, you might elect to earn a three-day weekend by working ten hours a day for four days a week.*

Job Sharing

*Under **job sharing**, two people share one full-time position, splitting the salary and benefits of the position as each handles half the job. Often, they arrange their schedules to include at least an hour of shared time during which they can communicate about the job.*

Personal Time

Additionally, generous paid time off policies, including vacation days, parental leave, and personal time, give employees the opportunity to recharge and attend to personal matters without financial stress. Employers also sup-

port work-life balance by promoting wellness programs, providing access to mental health resources, and fostering a work environment that encourages employees to take breaks and disconnect from work outside of business hours. Employee Assistance Programs (EAPs) provide confidential support for personal issues, ranging from stress management to financial and legal advice.

Caring for Self

Both KPMG LLP and BASF Canada provide employees with generous vacation allowances and personal days for employees to use in any way they want, in addition to offering employees comprehensive health and dental benefit coverage programs. Both organizations also offer an Employee Assistance Program for employees experiencing personal and/or work-related problems that may negatively affect their job performance and overall well-being. If staying fit makes you happier and more productive, BASF Canada offers a $400 fitness club subsidy, and KPMG LLP offers the equivalent of 1.25% of an employee's salary for home gym equipment.[37]

Parental Leave and Support

Beyond the standard maternity and paternity leave, many companies offer extended paid parental leave for both primary and secondary caregivers. This provides employees with time to care for their new child without the financial strain of taking unpaid leave. New parents in Canada are guaranteed paid leave via Employment Insurance Maternity and Parental Benefits. BASF Canada tops up these payments for new parents to 100% of salary for up to 17 weeks. KPMG LLP further supports new parents by providing those on leave with support in their transition back to work.

Concierge and On-Site Services

Some companies offer concierge services to help employees with personal tasks such as scheduling appointments, making travel arrangements, or even organizing home services. This service allows employees to delegate time-consuming tasks, freeing up personal time for other activities.

Some employers provide on-site amenities like childcare services, dry-cleaning, fitness centers, or even grocery delivery services. These perks save employees time that would otherwise be spent outside of work, allowing them to focus on their job and personal life.

Family-Friendly Programs

Moreover, many companies offer benefits that assist employees in managing family responsibilities, such as on-site childcare, family leave policies, or subsidies for childcare services.

In addition to alternative work arrangements, many employers, including KPMG LLP and BASF Canada,

offer programs and benefits designed to help employees meet family and home obligations while maintaining busy careers. As exemplar companies, they offer the following benefits.[38]

Dependent Care

Dependents include children and elderly parents

Caring for dependents—young children and elderly parents—is of utmost importance to some employees, but combining dependent-care responsibilities with a busy job can be particularly difficult.

Some employers provide on-site childcare, which allows employees to pop in at lunch to see their child. This also reduces time spent commuting to and from daycare and offers peace of mind knowing their child is nearby. Many employers provide access to backup or emergency childcare services for employees who experience last-minute disruptions in their regular care arrangements. This can include a network of approved childcare providers or services that offer temporary care when needed. Employers may offer financial assistance to help employees cover the cost of childcare. This could include subsidies, vouchers, or a reimbursement program that partially or fully offsets childcare expenses.

Flexible schedules, remote work, or compressed workweeks are often offered to employees with dependent care responsibilities. These arrangements allow employees to manage their work and caregiving duties more effectively by adjusting hours or working from home.

Employers are increasingly offering support for employees who care for aging parents or other elderly dependents. This can include access to elder care resources, counseling, and even subsidies for caregiving services.

The Personal Care program at KPMG LLP provides employees with up to 50 hours of paid time off annually to help with a range of personal matters. They also offer emergency backup dependent care all year round, either at a provider's facility or in the employee's home. KPMG LLP also has a Working Parents Network, Special Parents Network, offering support for parents raising children with physical, emotional, and behavioural (virtual support group for parents raising children with physical, emotional, and behavioural issues. Meanwhile, BASF Canada offers its employees a privately run on-site childcare facility.

Positive Work Culture

A company's ***work culture*** *is the shared set of values, beliefs and attitudes that guide your organization, and it's reflected in the way customers and employees are treated. Companies create a positive work culture by fostering*

an environment where employees feel valued, respected, and motivated. This is achieved through clear communication of organizational values, promoting openness and transparency, and recognizing employee achievements. Emphasizing diversity, equity, and inclusion, as well as supporting work-life balance and providing opportunities for professional growth, also contributes to a positive atmosphere. Supportive leadership, team collaboration, and a healthy work environment further strengthen this culture, leading to increased employee satisfaction, engagement, and long-term success for the organization.

Regularly recognizing and appreciating employees' hard work, contributions, and achievements boosts morale and motivation. This can be done through verbal praise, awards, or other forms of recognition, fostering a positive workplace culture where employees feel valued.

A positive workplace culture that encourages open communication, sets clear expectations about work hours, and discourages an "always on" mentality also plays a critical role in maintaining work-life balance. By promoting a healthy, supportive work environment, companies can help employees achieve a better balance between their professional and personal lives, leading to greater job satisfaction, productivity, and overall well-being.

Workplace culture impacts the types of candidates a firm attracts for open positions, and having a strong work culture also boosts productivity, decreases turnover and improves employee engagement. Work culture can have a profound impact on several significant aspects of the employee experience, like individual and team morale, workplace engagement and job satisfaction. For example, experiencing happiness in the workplace could raise employees' productivity by 12 percent.[39]

Elements of Work Culture Employees Care About

Research from the MIT Sloan School of Management and CultureX based on Glassdoor data identified 10 elements of culture employees care most about:[40]

- *Feeling respected*
- *Having supportive leadership*
- *Whether leaders' actions align with core values*
- *Managers who foster a toxic work environment*
- *Witnessing unethical behavior*
- *Benefits*
- *Perks and amenities*
- *Opportunities for learning and professional development*
- *Job security*
- *Frequency and quality of reorganizations*

According to a 2022 survey by Quantum Workplace, employees most strongly experience workplace culture through how their organization handles performance, recognition, celebrations, and the expression of its mission and values. These core aspects of workplace culture help ensure that employees feel appreciated for their contributions and that their voices are acknowledged.

Toxic Work Culture

Researchers have pinpointed six key signs that a work culture is toxic:[41]

- *Treating employees and colleagues with disrespect.*
- *A lack of diversity or a failure to include and promote people from all backgrounds.*
- *Unethical behavior, dishonesty, and false promises.*
- *A dog-eat-dog or cutthroat environment where employees constantly undermine or one-up each other.*
- *A hostile environment.*
- *Job insecurity and the absence of any kind of employee recognition activity*

Compensation and Benefits

In addition to salary and wages, ***compensation packages*** *often include other financial incentives, such as bonuses and profit-sharing plans, as well as benefits, such as medical insurance, vacation time, sick leave, and retirement accounts. Offering attractive salaries, bonuses, and comprehensive benefits packages, including health insurance, retirement plans, and paid time off, helps ensure that employees feel valued and financially secure, making them more likely to stay with the company.*

Wages, Salary, Compensation

Wages and Salaries

The largest and most important component of a compensation package is the payment of wages or salary. Salaried employees are paid the same amount each time they receive a paycheck, while wages can fluctuate depending on how many hours an employee works. The benefits of salaried employment include access to employee benefits like health insurance, greater job security, steady pay, higher income, and better chances for career advancement, while disadvantages include less flexibility and the potential for longer working hours. Wage-based employment has

advantages, including greater job flexibility and fewer working hours, and disadvantages, including a lack of employment benefits, less job security, fluctuating pay, lower income, and fewer opportunities for career advancement.[42]

Piecework and Commissions

Sometimes it makes more sense to pay workers according to the quantity of products that they produce or sell. Piecework pays employees based on how much work they complete. Commission is typically a percentage paid on sales or deals closed. It's commonly used in sales and real estate jobs.

Incentive programs

In addition to regular paychecks, many people receive financial rewards based on performance, whether their own, their employer's, or both. Other incentive programs designed to reward employees for good performance include bonus plans and stock options.

Bonus Plans

If the company has a profitable year, and if you contributed to that success, you'll get a bonus.

Cisco Systems Canada's year-end bonuses—annual income given in addition to salary—are based on individual and company-wide performance. If the company has a profitable year, and if you contributed to that success, you'll get a bonus. They refer to it as "rewarding people for their performance, not their seniority".[43]

Bonus plans have become quite common, and the range of employees eligible for bonuses has widened in recent years. In the past, bonus plans were usually reserved for managers above a certain level. Today, companies have realized the value of extending plans to include employees at virtually every level. The magnitude of bonuses still favors those at the top.

Profit-Sharing Plans

An employee's profit share is paid annually as a percentage of the employee's earnings and is based on the company's net profit.

Nature's Path Foods and Canadian Tire both have profit-sharing arrangements with employees. Today, many Canadian companies offer some type of profit-sharing program. Canadian Tire's plan has long been part of its operating principles, having been around since the late 1960s. Here's how it works. An employee's profit share is

paid annually as a percentage of the employee's earnings and is based on the company's net profit. Profits in the most recent years have averaged about 10%. Interestingly, because this profit share is part of an employee's retirement savings, it is put into a deferred profit-sharing account.[44]

Stock-Option Plans

WestJet's compensation plan also gives employees the right to participate in their Employee Share Purchase Plan. This enables employees to purchase WestJet shares amounting to up to 20 per cent of their gross salary, and the company will match their contributions. This is used as an incentive to attract and retain good people.

U.S.-based Starbucks, by contrast, isn't nearly as selective in awarding stock options. At Starbucks, all employees can earn "Bean Stock"—the Starbucks employee stock-option plan. Both full- and part-time employees get Starbucks shares based on their earnings and their time with the company. If the company does well and its stock goes up, employees make a profit. CEO Howard Schultz believes that Bean Stock pays off because employees are rewarded when the company does well, they have a stronger incentive to add value to the company (and so drive up its stock price). Starbucks has a video explaining its employee stock option program on this webpage.[45]

Benefits

Another major component of an employee's compensation package is ***benefits****— compensation other than salaries, hourly wages, or financial incentives. Types of benefits include the following:*

- *Legally required benefits (Employment Insurance, Canada Pension Plan, Workplace Safety and Insurance Boards)*
- *Paid time off (vacations, holidays, sick leave)*
- *Insurance (health benefits, life insurance, disability insurance)*
- *Retirement benefits*

Because Canadian health and dental plans vary, it's difficult to know the average cost. According to MaRS, the average annual premium works out to about 15% of payroll for smaller businesses or up to 30% of payroll for large companies. [46]

Many workers received benefits in addition to those required by law, including vision care, semi-private hospital stays, and out-of-country medical coverage. Some companies also provide benefits to permanent part-time employees who work a minimum number of hours per week.

When designing the benefits program, employers can use strategies to limit or contain costs in the longer term. These may include:[47]

- *Sharing the cost of premiums between the company and the employee*
- *Building deductibles into the coverage*
- *Considering the level of coverage, or "co-insurance" (e.g., does the employer cover 80% of dental costs, or 90%, or 100%?)*
- *Capping coverage at certain limits (e.g., $400 for vision care over a set period of time)*
- *Limiting carry-over of unused sick days*

Losing Valuable Employees

When a valued employee quits, the loss to the employer can be serious. Not only will the firm incur substantial costs to recruit and train a replacement, but it may also suffer temporary declines in productivity and lower morale among remaining employees who have to take on heavier workloads. Given the negative impact of turnover—the permanent separation of an employee from a company—most organizations do whatever they can to retain qualified employees. Compensation plays a key role in this effort: companies that don't offer competitive compensation packages tend to lose employees. Other factors also come into play, such as training and development, as well as helping employees achieve a satisfying work/non-work balance. In the following sections, we'll look at a few other strategies for reducing turnover and increasing productivity.[48]

Voluntary Employment Termination

Voluntary termination *is when an employee chooses to leave their job of their own accord, without pressure from their employer. It's also known as voluntary resignation.*

As important as such initiatives can be, one bad boss can spoil everything. The way a person is treated by their manager may be the primary factor in determining whether an employee stays or goes. According to the Indeed Career Guide, employees quit for many reasons, a few of which are listed below:[49]

- *Needing more of a challenge*
- *Seek a higher salary*
- *Wanting to feel valued*
- *Seeking a better management relationship*
- *Moving to a new location*
- *Feeling conflicted with workplace policies*
- *Needing a better work-life balance*
- *Looking for more recognition*

Holding managers accountable for excessive turnover can help alleviate the "bad-boss" problem, at least in the long run. In any case, whenever an employee quits, it's a good idea for someone—other than the individual's immediate supervisor—to conduct an exit interview to find out why. Knowing why people are quitting gives an organization the opportunity to correct problems that are causing high turnover rates.

Involuntary Employment Termination

Involuntary termination *is when an employer ends an employee's employment without the employee's consent. It can happen for a number of reasons, including poor performance, unprofessional behavior, policy violations, economic factors, and organizational changes.*

While voluntary separations can create problems for employers, they're not nearly as devastating as the effects of involuntary termination on employees. Losing your job is what psychologists call a "significant life change," and it's high on the list of "stressful life events" regardless of the circumstances. Sometimes, employers lay off workers because revenues are down and they must resort to downsizing, cutting costs by eliminating jobs. Sometimes a particular job is being phased out, and sometimes an employee has simply failed to meet performance requirements.

A good practice in managing terminations is to maintain written documentation so that employers can demonstrate just cause when terminating an employee. If it's a case of poor performance, the employee would be warned that his or her current level of performance could result in termination and then be permitted an opportunity to improve performance. When termination is necessary, communication should be handled in a private conversation, with the manager explaining precisely why the action is being taken.

Unions

A ***union*** *is a group of workers who join together to negotiate with an employer over pay, benefits, scheduling, and other workplace policies and conditions. The process of negotiating with an employer as a unified entity is known as* ***collective bargaining****, and it gives workers some power to set the terms of their employment.*[50]

Collective bargaining is a formal negotiation process where union representatives and employers work together to create or renew a contract that sets the terms of employment, such as wages, benefits, and working conditions. When negotiations between unions and employers stall, they may use mediation or arbitration to resolve disputes. Mediation involves a neutral third party helping both sides reach a voluntary agreement, while arbitration entails a neutral arbitrator making binding decisions. If these processes fail, unions or employers may employ tactics to strengthen their positions.

Union Tactics

Unions have several options at their disposal to pressure company management into accepting the terms and conditions union members are demanding. The tactics available to the union include striking, picketing, and boycotting.

Striking

*A **strike** is a collective work stoppage by employees in response to an employer to force them to agree to certain terms of employment. Strikes are usually a last resort when a union and employer are unable to reach an agreement during collective bargaining.*

Picketing

***Picketing** is a labor tactic where workers gather outside a workplace to protest and persuade others to take industrial action.*

Boycotting

*A **boycott** is a nonviolent, organized protest where workers encourage the public to refuse to buy the company's products or services, or participate in activities, as a way to express their disapproval. Boycotts are often used by unions to protest unfair practices and demand better working conditions and wages.*

Lockout

Employers might respond with a lockout, preventing workers from entering the workplace until an agreement is reached. These measures are intended to exert pressure on the opposing side to finalize negotiations.

Challenges

Convincing workers to unionize can be challenging due to a combination of social, economic, and organizational factors:

- *Fear of Retaliation. Workers may worry about negative consequences from employers, such as job loss, reduced hours, or other forms of subtle retaliation. Even though laws exist to protect employees' rights to unionize, the fear of repercussions can discourage participation.*

- *Lack of Awareness or Misconceptions. Many workers may not fully understand the benefits of unionization or may have misconceptions about unions being ineffective, corrupt, or unnecessary. Employers sometimes foster these views by highlighting union dues or emphasizing direct communication without a union.*
- *Diverse Workforce Needs. Modern workplaces often include employees with varying priorities and needs. Convincing a diverse group of workers to unite around shared goals can be difficult, as some may feel their interests aren't aligned with union objectives.*
- *Employer Resistance Campaigns. Employers often actively resist unionization efforts through campaigns that discourage union membership. These campaigns may involve spreading anti-union messaging, emphasizing the potential downsides, and offering improved benefits and conditions to reduce the perceived need for a union. Business managers resist unions because they generally add to the cost of doing business.*
- *Economic Pressure. Workers may fear losing income during a strike. They may worry about immediate job stability over the long-term benefits unions can provide.*

Company Examples

Starbucks workers: *On July 19, 2024, workers at a Starbucks located in The Mall at Robinson in Pittsburgh voted to unionize. On July 18, workers at a Starbucks located on Mass. Ave in downtown Indianapolis announced it would unionize with Starbucks Workers United. On July 17, workers at the Starbucks location at Speedway & Park in Tucson, Arizona, voted to unionize. Some 10,500 baristas at 460 Starbucks locations nationwide are now unionized with Starbucks Workers United.*[51]

Disney character workers*: On May 18, 2024, about 1,700 Disneyland Resort cast members voted to unionize under the Actors' Equity Association. On May 29, federal labor officials certified the vote.*

Union Examples

The ***Canadian Union of Public Employees (CUPE)*** *is Canada's largest union, with 750,000 members across the country. CUPE represents workers in health care, emergency services, education, early learning and child care, municipalities, social services, libraries, utilities, transportation, airlines, and more. CUPE has 68 offices across the country, in every province.*[52]

OPSEU/SEFPO *represents approximately 180,000 members across Ontario. They are full- and part-time workers, young and old. They trace their ancestry to all parts of the globe – as diverse a group as you could imagine. Our members work for the Ontario government, inside community colleges, for the LCBO, in the health care sector, and they are employed in a wide range of community agencies within the broader public sector.*[53]

*The United Food and Commercial Workers union (****UFCW Canada****) – a proud union that feeds, serves, and*

provides for Canada's hard-working families. It is a private sector union with more than a quarter million members. Some of the most recognizable companies and brands are members, including Coca-Cola Canada, FreshCo, Loblaw Companies, Swiss Chalet, The Keg, Molson Breweries, Rexall, and LensCrafters. UFCW is one of Canada's most youthful unions with more than 40 percent of UFCW Canada members under the age of 30.[54]

Percentage of Employees in Canada in Unions

Statistics Canada reports union membership across Canada from 1981 to 2022 in Figure 11.2[55]

Figure 11.2 Statistics Canada Chart: Percent of employees who are union members.

Country Comparison of Percentage of Workforce in Unions

Refer to Table 11.1 below for a comparison of the percentage of the workforce belonging to labour unions across various countries in 2019 and 2020.[56]

Table 11.1: Country Comparisons Workforce in Unions

Canada	*Mexico*	*Ireland*	*Malta*	*New Zealand*	*Japan*	*USA*	*Philippines*
29.4%	*13.2%*	*25.4%*	*41.9%*	*18.9%*	*16.8%*	*10.3%*	*8.5%*

Table 11.1 data source: (statista, 2022)

Union Activity in North America

Review the video below to learn about what's happening with unions in North America.

Play the YouTube video below, "Are labour unions making a comeback in North America?" YouTube video below for some time management tips for stress-free productivity.[57] *Transcript for "Are labour unions making a comeback in North America?" Video [PDF–New Tab]. Closed captioning is available on YouTube.*

One or more interactive elements has been excluded from this version of the text. You can view them online here: https://ecampusontario.pressbooks.pub/businessfundamentals/?p=267#oembed-2

Key Takeaways

1. **Human Resource Management (HRM)** consists of all actions that an organization takes to attract, develop, and retain quality employees.
2. A **strategic HR plan** lays out the steps that an organization will take to ensure that it has the right number of employees with the right skills in the right places at the right times.
3. A **job analysis** identifies the tasks, responsibilities, and skills that a job entails, as well as the knowledge and abilities needed to perform it. Managers also use the information collected for the job analysis to prepare two documents: A **job description**, which lists the duties and responsibilities of a position, and a **job specification**, which lists the qualifications—skills, knowledge, and abilities— needed to perform the job.
4. **HR forecasting** is the process of predicting how a company's staffing needs change with time so that it can remain prepared to operate successfully. There are three steps to forecasting HR needs: Identify supply, predict the future needs (demand), and measure the gap (shortage or surplus).
5. **Recruiting** is the process of identifying suitable candidates and encouraging them to apply

for openings in the organization.

6. **Discrimination** occurs when a person is treated unfairly based on a characteristic unrelated to ability.
7. The **Canadian Human Rights Act** states that it's illegal to discriminate based on "race, national or ethnic origin, colour, religion, age, sex, sexual orientation, gender identity or expression, marital status, family status, genetic characteristics, disability or conviction for an offence for which a pardon has been granted or in respect of which a record suspension has been ordered."
8. The **Canadian Human Rights Commission** and **Canada's Charter of Rights and Freedoms** protect and enforce a number of federal employment laws and protect each Canadian's right to equal treatment under the law, including Equal Pay and Equal Treatment.
9. The **Employment Equity Act** of 1986 identifies specific populations that are protected from discrimination (women, visible minorities, indigenous peoples, and people with disabilities).
10. **Hiring internally** sends a positive signal to employees that they can move up in the company—a strong motivation tool and a reward for good performance. HR managers generally post openings on bulletin boards (often online) or announce them in newsletters when recruiting internally.
11. **Hiring externally** gives you an opportunity to bring fresh ideas and skills into the company. In any case, it's often the only alternative, especially if no one inside the company has just the right combination of skills and experience. When recruiting externally, job opportunities may be shared on social media, at job fairs, on the corporate website, and in other places.
12. Many of these are **contingent workers** hired to supplement a company's permanent workforce.
13. **Selection** is the process of determining which people in the applicant pool possess the qualifications necessary to be successful on the job.
14. During **initial screening**, an applicant completes an application form and/or submits a résumé and has a brief interview of 30 minutes or less. Following initial screening, the applicant may be asked to take one or more tests.
15. The tool most widely used in making hiring decisions is the **selection interview**, an in-depth discussion of an applicant's work experience, skills and abilities, education, and career interests.
16. In Canada, pre-employment **drug testing** and **physical exams** could be considered discriminatory (Canadian human rights law), unless an employer can prove that there is a bona fide occupational requirement (BFOR) for testing.
17. If applicants pass the selection interview, most firms examine their **background** and check

their **references**. References are people who will attest to your skills and abilities. The best references are former or current employers.

18. If an applicant progresses satisfactorily through all the selection steps, a **decision to hire** the person is made. Usually, for higher-level jobs or jobs within unionized environments, the decision will be based on the test scores (if applicable) and the interview scores each candidate obtained.
19. Initially, when an employee is hired, the organization uses an **orientation program** to introduce the employee to the company's people, policies, and procedures.
20. Even with some experience, knowledge, and skills, your new employer will still want to provide you with **training** specific to the technologies, processes, and practices used by the organization. There are many types of training, and training is very costly for employers. **Compliance training** covers the standards for a healthy working environment and teaches safety and accident prevention procedures.
21. Inclusion, diversity, equity, and accessibility (**IDEA**) are a set of practices that aim to ensure that people from a variety of backgrounds are represented and can thrive.
22. **Equity** is a process that ensures everyone has access to the same opportunities.
23. **Diversity** is the presence, in an organization or a community, of a wide range of people with different backgrounds, abilities, and attributes, including ethnicity, race, colour, religion, age, gender, and sexual orientation.
24. **Inclusion** refers to taking into account differences among individuals and groups when designing something (e.g., policy, program, curriculum, building, shared space) to avoid creating barriers.
25. **Accessibility** is the practice of making information, activities, and/or environments sensible, meaningful, and usable for as many people as possible.
26. The average employee spends more than two thousand hours a year at work. If the job is tedious, unpleasant, or otherwise unfulfilling, the employee probably won't be motivated to perform at a very high level. The practice of **job rotation** allows employees to rotate from one job to another on a systematic basis, often but not necessarily cycling back to their original tasks. In theory, you'd be less bored and more highly motivated if you had a chance at **job enlargement**—the policy of enhancing a job by adding tasks at similar skill levels. **Job enrichment** is the practice of adding tasks that increase both responsibility and opportunity for growth.
27. **Work-life balance** generally refers to a balance between your personal and work life.
28. Some common **alternate work arrangements** embraced by employees include flextime, compressed workweeks, job sharing, and telecommuting. In addition to alternative work

arrangements, many employers offer programs and benefits designed to help employees meet family and home obligations while maintaining busy careers.

29. In addition to **salary and wages**, **compensation packages** often include other financial incentives, such as bonuses and profit-sharing plans, as well as benefits, such as medical insurance, vacation time, sick leave, and retirement accounts.
30. On a semiannual or annual basis, they also conduct formal **performance appraisals** to discuss and evaluate employees' work performance.
31. **360-degree feedback** ensures employees (mostly managers) get feedback from all directions—from supervisors, reporting subordinates, coworkers, and even customers.
32. When a valued employee quits, the loss to the employer can be serious. **Work culture** can have a profound impact on several significant aspects of the employee experience, like individual and team morale, workplace engagement, and job satisfaction.
33. **Voluntary termination** is when an employee chooses to leave their job of their own accord, without pressure from their employer. It's also known as voluntary resignation.
34. **Involuntary termination** is when an employer ends an employee's employment without the employee's consent. It can happen for a number of reasons, including poor performance, unprofessional behavior, policy violations, economic factors, and organizational changes.
35. A **union** is a group of workers who join together to negotiate with an employer over pay, benefits, scheduling, and other workplace policies and conditions.
36. The process of negotiating with an employer as a unified entity is known as **collective bargaining**, and it gives workers some power to set the terms of their employment.
37. A **strike** is a collective work stoppage by employees in response to an employer to force them to agree to certain terms of employment.
38. **Picketing** is a labor tactic where workers gather outside a workplace to protest and persuade others to take industrial action.
39. A **boycott** is a nonviolent, organized protest where people refuse to buy products or services, or participate in activities, to express disapproval.

End-of-Chapter Exercises

1. **Employment Equity Act.** Review the Employment Equity Act: Annual Report (2022) (or if you can locate a more recent report, use that) and review the report on the designated group profiles: women, aboriginal peoples, persons with disabilities, and members of visible minorities. Which groups are under-represented? Which groups receive lower pay? Is anyone left out that should be included? What have you learned? Discuss your thoughts on this act with a partner, the class or the professor.
2. **Provincial Human Rights**. Review the Provincial Human Rights Act for your province or territory. How does this differ from the Canadian Human Rights Act? Share your findings with the class and/or professor.
3. **Diversity in the Workplace.** Use the Internet and visit Statistics Canada or other websites to determine the percentages of different groups in the workforce. What did you learn? Was there a group under-represented or over-represented? Why do you think that is? Discuss your findings with your class and/or professor.
4. **Best Diversity Employers.** Use the Internet to research last year's best diversity employers. Review how the rankings were established. What were the reasons that placed these companies on the list? From what you learned, would you want to work there? Why or why not? Discuss your findings with your class and/or professor.
5. **Job Description.** Create a job description and job specification for a job of your, or your professor's, choosing. Start with a job analysis. You'll probably need to ask your professor some questions along the way. Share your results with your class and/or professor.
6. **Contingent Worker.** Use the Internet to visit an HR Recruiting Agency (e.g., Robert Half, Kelly, Adecco, Manpower) and learn about becoming a temporary or contingent worker. Would you like to do this to get started in your field of work? Use the Job Search feature to look for several types of jobs that interest you. Choose your current city and one where you would like to live. What are the advantages of being a temporary worker? What other services does the agency offer job seekers? Share your findings with the class and/or professor.
7. **Starbucks Working Conditions.** Use the Internet to find recent articles pertaining to Starbucks, its employees, labour laws, or unionization. What did you learn? Is Starbucks today still one of the best companies to work for? Who is the current CEO? What did Howard Schultz do wrong? Share your findings with your class and/or professor.
8. **Staffing Agency.** Locate a staffing agency (HR Recruiting Firm) near you, phone them or email, and ask for information about their recruitment and placement services. Enquire about the processes the agency uses to register, interview, test, and place a job applicant. Does it cost money to register? What skills must you have? What does the interview process entail? What type of tests do they use? Do you notice similarities between the processes used by

the agency and those discussed in this chapter? Do you think you might be interested in registering with an agency once you graduate? Why or why not? Share your findings with your class and/or professor.

9. **Wrongful Dismissal.** Use the Internet to locate a recent case (within the past five years) of wrongful dismissal at a company in Canada or the United States. Read about it and gather some details. Determine what went wrong. Where did either the employer or the employee make mistakes? Could this situation have been resolved earlier, before employment was terminated? Is the employee or the employer right? What was the legal outcome? Summarize your findings and share them with the class and/or professor.
10. **Benefits and Insurance Coverage.** Explore at our college or university what is offered for student health insurance plans? How much do they cost? What is covered? Do you need this, or are you still covered by your parents' health insurance? If you are covered by your parents' plan, then you can often save on ancillary fees by letting your institution know you are already covered by another plan. Do you think health insurance coverage is worth the cost? Do you think only older adults need this coverage? Discuss with your class and/or professor.
11. **Organized Labour.** The Canadian Labour Congress represents the interests of more than three million affiliated workers in every imaginable occupation. Explore the Canadian Labour Congress website (https://canadianlabour.ca). What are its current concerns and causes? How does one become involved with this organization? What about its history? Which historical, political, and social forces propelled the organized labour movement? Share your findings with the class and/or professor.
12. **Legal Matters.** Visit the Canadian Civil Liberties Association (https://ccla.org) to find information about current cases concerning employee rights, anti-discrimination laws, or other HR concerns. What are the circumstances of these cases? What is your opinion on them? Share your findings with your class and/or professor.
13. **Management Training Programs.** Use the Internet to locate one firm that provides management training programs. Provide some details about the firm's management program and share your findings with your class and/or professor.
14. **Employee Training.** Use the Internet to locate one of the Top Companies to Work for in your location in the world. What are the employee training practices of this company? Research to find out if there have been issues with customers being dissatisfied. If so, were these customers upset due to poor customer service or a lack of adequately trained employees? If you were to work for this company, what types of training do you think you would need or appreciate? Share your findings with your class and/or professor.
15. **Research a Global 500 Company**. Use the Internet to locate one of the Global 500 compa-

nies. Research answers to the following questions, then prepare a summarized report with citations and submit it to your professor.

- Provide the name and headquarters of the company. Provide the locations where the company operates.
- How many employees work there (overall or by geographical location)?
- What type of compensation and rewards (perks) does the company offer employees? Benefits?
- Do the employees have a union? If so, gather information about the union (how many members, where it operates).
- Do the company's foreign locations manage employees differently from their Canadian locations? Why?
- Have there been any employee disputes publicized over the past five years?

Self-Check Exercise – Human Resources Management Quiz

Check your understanding of this chapter's concepts by completing this short self-check quiz.

An interactive H5P element has been excluded from this version of the text. You can view it online here:
https://ecampusontario.pressbooks.pub/businessfundamentals/?p=267#h5p-18

Additional Resources

1. Human Resource Management: Explained in 10 Minutes. YouTube Video.
2. Canadian Human Rights Act
3. Employment Equity Act
4. What is the 'gig' economy? YouTube Video.
5. The Surprising Truth About What Motivates Us. YouTube Video.

Attributions

The contents of this chapter is a compilation sourced from various OER resources, please refer to the Book Information for details.

References

(Note: This reference list was produced using the auto-footnote and media citation features of Pressbooks)

Media Attributions

- *Starbucks Seattle © ICC Mande | Pixabay*
- *Human Rights © Gerd Altmann | Pixabay*
- *Construction Work © Indosup | Pixabay*
- *Shaking Hands, New Hire © Tima Miroshnichenko | Pexels*
- *We're Hiring © HelloVector | Pixabay*
- *LinkedIn © Tiffany Loyd | Pixabay*
- *Selection Process © Trang Le | Pixabay adapted by Kerri Shields*
- *Eye Exam © Paul Diaconu | Pixabay*
- *Performance Appraisal © Alex Green | Pexels*
- *Equality Versus Equity © Darla Benton Kearney under CC BY 4.0 License*
- *Work-Life Balance © Riccardo | Pexels*

- *Dependents Playing © Cottonbro studios | Pexels*
- *Person with Money © Tumisu | Pixabay*
- *statscanchart © Statistics Canada is licensed under a All Rights Reserved license*

Notes

1. *Starbucks. (2016). Working at Starbucks. http://www.starbucks.com/careers/working-at-starbucks*
2. *Starbucks. (2016). Working at Starbucks. http://www.starbucks.com/careers/working-at-starbucks*
3. *Fortune. (2007). 100 top MBA employers. http://archive.fortune.com/magazines/fortune/mba100/2007/full_list/index.html*
4. *Cruise International. (n.d.). The Norwegian Dawn. http://www.cruise-international.com/cruise-search/ShpDetails-Query?nShp=290&nLine=18&nOperator=Norwegian+Cruise+Line*
5. *Thompson, C. (n.d.). In Focus: Target your recruitment market. http://www.net-temps.com/recruiters/infocus/article.htm?op=view&id=662#axzz4BVFt5rJY*
6. *Lee, D. (2006). Your first task as a recruiter: Recruit senior management onto your team. https://web.archive.org/web/20130529204750/http://www.humannatureatwork.com/Recruiting-Employees.htm*
7. *LinkedIn. (n.d.). About LinkedIn. https://about.linkedin.com/#:~:text=About%20LinkedIn&text=1%20billion%20members%20in%20more%20than%20200%20countries%20and%20territories%20worldwide.*
8. *Baloun, S. (2024, January 17). Redefining recruitment: How to excel at social media recruiting in 2024. https://www.socialpilot.co/blog/social-media-recruiting*
9. *Wonderlic. (2018, February 8). The Wonderlic personnel tests. https://www.wonderlic.com*
10. *Mercer. (n.d.). Twenty-five companies that use psychometric testing for hiring. https://blog.mettl.com/companies-using-psychometric-tests/*
11. *Mercer. (n.d.). Twenty-five companies that use psychometric testing for hiring. https://blog.mettl.com/companies-using-psychometric-tests/*
12. *Vacaflor, C. (2023, October 25). Pre-employment drug testing in Canada: An employer's guide. https://www.peninsulagrouplimited.com/ca/resource-hub/employer-advice/pre-employment-drug-testing-in-canada/*
13. *Recruiters. (n.d.). Starting a new job? These 5 feelings are completely normal. https://www.recruiters.ie/blog/starting-a-new-job-anxiety/#:~:text=These%205%20feelings%20are%20completely%20normal%201%20Nerves,4%20Stress%20and%20exhaustion%20...%205%20Loneliness%20*
14. *HRM Handbook. (n.d.) Avoiding the onboarding pitfalls: 12 worst practices that hinder new employee success. https://hrmhandbook.com/hrp/onboarding/pitfalls/#:~:text=Avoid%2012%20onboarding%20pitfalls%20for%20new%20hires%3A%20prepare,train%2C%20integrate%2C%20personalize%2C%20follow-up%2C%20involve%20managers%20%26%20coworkers.*
15. *Gore, E. (2023, February 9). 7 types of training methods (and how to choose). https://elmlearning.com/blog/training-methods/*
16. *PetroKnowledge. (2024/2025). The 10-day oil & gas contracts training. https://petroknowledge.com/courses/the-10-day-oil-and-gas-contracts-training*
17. *PetroKnowledge. (2024/2025). The 10-day oil & gas contracts training. https://petroknowledge.com/courses/the-10-day-oil-and-gas-contracts-training*
18. *PetroKnowledge. (2024/2025). The 10-day oil & gas contracts training. https://petroknowledge.com/courses/the-10-day-oil-and-gas-contracts-training*

19. *Freifeld, L. (2023, November 14). 2023 training industry report. https://trainingmag.com/2023-training-industry-report/#:~:text=Average%20training%20expenditures%20for%20large%20companies%20decreased%20from,companies%20rose%20from%20%24368%2C891%20to%20%24459%2C177%20in%202023.*
20. *LMIC. (2023, March). Employer-sponsored skills training: A picture of skills training opportunities provided by Canadian employers. https://lmic-cimt.ca/employer-sponsored-training/*
21. *HR360Inc. (2018, November 9). Planning an effective employee training program. [Video]. YouTube. https://www.youtube.com/watch?v=AZjnBPDYh2Y&t=123s*
22. *Heathfield, S. (2018). Performance appraisals don't work: The traditional performance appraisal process. About Money. http://humanresources.about.com/od/performanceevals/a/perf_appraisal.htm*
23. *Archer North & Associates. (2010). Reward Issues. http://www.performance-appraisal.com/rewards.htm*
24. *OneAdvanced. (2024, December 8). 8 reasons why 360-degree feedback fails. https://www.oneadvanced.com/news-and-opinion/8-reasons-why-360-degree-feedback-fails/*
25. *G360 Surveys. (n.d.). Examples of companies that use 360 degree feedback. https://g360surveys.com/examples-of-companies-that-use-360-feedback/*
26. *General Assembly. (2020, May 24). What's the difference between diversity, inclusion, and equity? https://generalassemb.ly/blog/diversity-inclusion-equity-differences-in-meaning/*
27. *University of Southern Queensland. (2022). Enhancing Inclusion, Diversity, Equity and Accessibility (IDEA) in Open Educational Resources (OER). https://usq.pressbooks.pub/diversityandinclusionforoer/front-matter/definitions/*
28. *University of Southern Queensland. (2022). Enhancing Inclusion, Diversity, Equity and Accessibility (IDEA) in Open Educational Resources (OER). https://usq.pressbooks.pub/diversityandinclusionforoer/front-matter/definitions/*
29. *SeeWriteHear. (n.d.) What is accessibility? https://www.seewritehear.com/learn/what-is-accessibility/*
30. *Usalcas, J. & Kinack, M. (2017). History of the Canadian Labour Force Survey, 1945 to 2016. Statistics Canada. https://www150.statcan.gc.ca/n1/en/pub/75-005-m/75-005-m2016001-eng.pdf?st=VUjdeAww*
31. *University of Windsor & Ryerson University. (2022). Indigenous lifeways in Canadian business. https://ecampusontario.pressbooks.pub/indigenousbusinesstopics/chapter/chapter-1/*
32. *Great Place to Work®. (2024). Best workplaces in Canada in 2024. https://www.greatplacetowork.ca/en/best-workplaces-in-canada-2024-over-1000-employees*
33. *Kerka, S. (1995). The changing role of support staff. http://www.calpro-online.org/eric/docgen.asp?tbl=archive&ID=A019*
34. *Forsythe, G. (2019). Fundamentals of Business: Canadian Edition. https://openlibrary.ecampusontario.ca/catalogue/item/?id=9d2935f5-c088-4207-a25f-a813dce8e5ae*
35. *Forsythe, G. (2019). Fundamentals of Business: Canadian Edition. https://openlibrary.ecampusontario.ca/catalogue/item/?id=9d2935f5-c088-4207-a25f-a813dce8e5ae*
36. *Bush, O. (2024, November 4). Working from home statistics in Canada. https://madeinca.ca/working-from-home-canada-statistics/*
37. *Yerema, R. & Leung, K. (2018). KPMG LLP: Recognized as one of Canada's top 100 employers (2019). https://content.eluta.ca/top-employer-kpmg*
38. *Yerema, R. & Leung, K. (2018). BASF Canada Inc: Recognized as one of Canada's top 100 employers (2019). https://content.eluta.ca/top-employer-basf-canada*
39. *Heinz, K. (2024, May 21). What is work culture? 12 ways to build a positive environment. https://builtin.com/company-culture/positive-work-culture*
40. *Heinz, K. (2024, May 21). What is work culture? 12 ways to build a positive environment. https://builtin.com/company-culture/positive-work-culture*
41. *https://bucketlistrewards.com/blog/positive-work-culture-examples/*
42. *Indeed Editorial Team. (2024, July 23). Wages vs. salary: Differences, advantages, and disadvan-*

tages. https://ca.indeed.com/career-advice/career-development/wages-vs-salary

43. *Cisco. (n.d.). Benefits and perks. https://www.cisco.com/c/en/us/about/careers/we-are-cisco/benefits-and-perks.html#~sticky-nav=1*
44. *Canadian Tire. (n.d.). Distribution center careers. https://corp.canadiantire.ca/English/careers/distribution-centres/default.aspx*
45. *Starbucks. (n.d.). About bean stock. https://starbucksbeanstock.com/en-us/*
46. *Canada Life. (2021, December 1). Insights & advice. https://www.canadalife.com/insurance/business-insurance/cost-of-benefits-for-employers.html*
47. *MaRS. (n.d.). Employee benefits and benefits packages: What Ontario employers should know. https://learn.marsdd.com/article/employee-benefits-and-benefits-packages-what-ontario-employers-should-know/*
48. *Smith, G. P. (2017). 5 tips to attract, keep and motivate your employees. http://www.businessknowhow.com/manage/attractworkforce.htm*
49. *Indeed Editorial Team. (2024, September 9). 16 reasons why employees choose to leave their jobs. https://www.indeed.com/career-advice/career-development/reasons-employees-leave*
50. *Phaneuf, T. (2023, November 29). What is a union, and how does a union work? https://www.nerdwallet.com/article/finance/what-is-a-union*
51. *Helhoski, A. (2024, July 31). What Is a union and how does a union work?https://www.nerdwallet.com/article/finance/what-is-a-union*
52. *CUPE. (n.d.). About us. https://cupe.ca/about-us*
53. *OPSUE/SEFPO. (n.d.) About us. https://opseu.org/about/*
54. *UFCW Canada. (n.d.). About our union. https://www.ufcw.ca/index.php?option=com_content&view=article&id=59&Itemid=2&lang=en*
55. *Statistics Canada. (2022, November 23). Unionization in Canada, 1981 to 2022. https://www150.statcan.gc.ca/n1/pub/36-28-0001/2022011/article/00001-eng.htm*
56. *statista. (2022, May). Countries with the highest percentage share of their workforce being members of labor unions worldwide as of 2020. https://www.statista.com/statistics/1356735/labor-unions-most-unionized-countries-worldwide/*
57. *Young Entrepreneurs Forum. (2016, August 15). Are labour unions making a comeback in North America? [Video]. YouTube. https://www.youtube.com/watch?v=Oc0nOIsrns4&t=265s*

CHAPTER 12: INFORMATION AND RISK MANAGEMENT

Chapter 12 Learning Outcomes

After reading this chapter, you should be able to do the following:

1. Explain how analyzing Big Data can help businesses.
2. Provide three threats to data security a business may experience.
3. Explain what is meant by "information sharing" and the challenges this may present.
4. Define information mining and visualization.
5. Distinguish between real risk and perceived risk by providing an example of each.
6. List four types of business risks within one or more sectors.
7. Discuss three factors that influence an organization's risk tolerance.
8. Explain how risk impacts business and outline the five steps of risk management.
9. List three risk response strategies and provide examples for each.
10. Provide at least three strategies businesses can take to mitigate business risks.
11. Describe how Artificial Intelligence is being used in business to enhance information and risk management.

The Role and Management of Business Information in Modern Organizations

Business information *refers to collective data related to a company and its operations, including statistical information, raw analytical data, customer feedback, and sales numbers.*[1]

In today's fast-evolving digital era, businesses depend heavily on data and information for operations, customer

relations, innovation, and strategic planning. The effective use and management of information have become fundamental to achieving organizational goals. While the benefits of robust information systems are significant, they come with challenges, particularly in ensuring security and effective utilization.[2]

The integration of technology in modern business has brought about a revolutionary transformation by automating processes and enhancing efficiency. Today, businesses are leveraging technology to gain a competitive edge, improve customer experience, and optimize resource allocation. Emerging technologies such as artificial intelligence (AI), machine learning (ML), and robotic process automation (RPA) are now part of a solid business strategy. These technologies help businesses to streamline operations, reduce human error, and optimize resource allocation. For instance, AI-powered chatbots can help businesses to provide 24/7 customer support, while RPA can automate repetitive tasks, thus freeing employees to focus on more complex tasks.[3]

Big Data: The Foundation of Modern Business Intelligence (BI)

Big data *refers to datasets that are so large and complex that traditional data-processing methods cannot handle them. Its defining characteristics are volume, velocity, variety, veracity, and value (the 5Vs). Organizations use big data to gain actionable insights by analyzing patterns and trends across various domains. It impacts various sectors, including transportation, finance, marketing, and healthcare.*

Here are a few ways some companies use Big Data:[4]

- *Customer Insights: Retailers like Amazon use big data analytics to personalize recommendations and understand purchasing behavior.*
- *Operational Efficiency: Manufacturing firms optimize supply chains and predict equipment maintenance needs using big data.*
- *Market Analysis: Businesses employ big data to identify emerging market trends and competitive analysis.*

Big Data Processing (server racks)

The financial industry puts Big Data and analytics to highly productive use, for:[5]

- *Fraud detection: Banks monitor credit cardholders' purchasing patterns and other activity to flag atypical movements and anomalies that may signal fraudulent transactions.*
- *Risk management: Big Data analytics enable banks to monitor and report on operational processes, KPIs,*

and employee activities.

- *Customer relationship optimization: Financial institutions analyze data from website usage and transactions to better understand how to convert prospects to customers and incentivize greater use of various financial products.*
- *Personalized marketing: Banks use Big Data to construct rich profiles of individual customer lifestyles, preferences, and goals, which are then utilized for micro-targeted marketing initiatives.*

Big data presents challenges in storage, processing, and ensuring the accuracy of analyses. Companies need robust infrastructures and skilled professionals to extract meaningful insights from massive datasets.

Data Security: Protecting Valuable Assets

***Data security** is paramount to protect sensitive information from breaches, unauthorized access, and cyberattacks. As businesses store vast amounts of data, securing this information is critical to maintaining customer trust and meeting regulatory requirements. For example, financial institutions implement advanced cybersecurity measures, such as anomaly detection systems, to protect customer data.[6] The 2017 Equifax data breach exposed the personal data of over 147 million individuals due to unpatched software vulnerabilities, underscoring the importance of proactive cybersecurity measures.[7]*

A few of the major threats include:

- ***Cyberattacks:** Incidents like ransomware and phishing attacks can compromise sensitive information.*
- ***Insider Threats:** Employees or contractors with malicious intent pose risks.*
- ***Third-Party Vulnerabilities:** Vendors and supply chain partners with inadequate security measures may expose a business's data.*

A few of the best practices include:

- *Encrypting sensitive data both in transit and at rest.*
- *Regularly updating security software and protocols.*
- *Training employees to recognize potential threats.*

Information Sharing: Collaboration and Risks

*Effective **information sharing** is crucial for fostering collaboration and improving decision-making both within and across organizations. For instance, supply chain partners exchange real-time inventory data to streamline logistics, minimize delays, and enhance operational efficiency. While seamless information flow supports col-*

laboration, it also introduces potential risks, particularly in terms of data security and privacy. To mitigate these risks, companies rely on secure communication platforms such as Slack or Microsoft Teams, implementing stringent access controls to safeguard sensitive information. A notable example is McDonald's, which collects and analyzes data from its global outlets to refine its drive-thru service, optimize customer experiences, and customize its digital offerings based on local preferences and patterns. By balancing efficient information sharing with robust security measures, companies can unlock operational efficiencies while protecting their data.[8]

While information sharing offers significant benefits, it also carries inherent risks. Shared data can be misappropriated or lead to privacy violations, and the use of interconnected networks can amplify the risk of a breach affecting multiple stakeholders simultaneously. This makes it essential for organizations to prioritize security when facilitating the exchange of information.

Fortunately, advancements in technology provide robust solutions to ensure secure information sharing. Blockchain technology, for instance, guarantees data integrity and secure transactions in decentralized environments, making it ideal for safeguarding shared information. Additionally, secure file sharing platforms like Dropbox Business and Google Workspace offer controlled access to sensitive data, enabling organizations to manage permissions and protect confidential information while still fostering collaboration. These technologies help mitigate the risks associated with information sharing by providing a secure, transparent, and efficient means of exchanging data.

Play the YouTube video below, "What are the Six Important Business Objectives of Information Technology?" to learn more about how technology supports business processes. [9] *Transcript for "What are the Six Important Business Objectives of Information Technology?" Video [PDF–New Tab]. Closed captioning is available on YouTube.*

One or more interactive elements has been excluded from this version of the text. You can view them online here: https://ecampusontario.pressbooks.pub/businessfundamentals/?p=275#oembed-1

Information Mining and Visualization

Data mining *is the process of extracting valuable patterns, trends, and relationships from large volumes of data. Businesses leverage various techniques such as clustering, classification, and predictive modeling to uncover actionable insights that drive decision-making and strategic initiatives. Two common examples of data mining applications are:*

1. ***Fraud Detection:*** *Financial institutions, like banks, use data mining techniques to analyze transaction*

patterns and identify anomalies that may indicate fraudulent activities. By recognizing these unusual patterns, banks can take proactive measures to prevent fraud and protect customer assets.

2. ***Customer Segmentation:*** *Marketers apply clustering algorithms to group customers based on shared characteristics and behaviors. This allows companies to target specific demographics with tailored marketing strategies, improving customer engagement and boosting sales.*

By utilizing data mining, organizations can gain deeper insights into their operations, enhance decision-making, and improve customer experiences. Data mining helps businesses identify market trends, predict consumer behavior, and reduce business risk by uncovering hidden patterns in customer data.

Information mining, on the other hand, is sometimes used as a broader term that encompasses the process of gathering, analyzing, and extracting knowledge from various sources, not just data. It can refer to the process of mining both structured data (e.g., databases) and unstructured information (e.g., text documents, websites, or social media content) to uncover valuable insights. While data mining focuses primarily on the extraction of patterns from large datasets, information mining may involve a more general exploration of data and unstructured information for knowledge discovery. In many cases, especially in business and analytics, the terms overlap, and "data mining" is more commonly used to describe the specific practice of extracting valuable patterns from large data sets.

Visualization *converts data into graphical representations, making complex datasets easier to understand and interpret. Popular tools include Tableau, Power BI, and Google Charts. Netflix uses advanced visualization to analyze viewer data and recommend personalized content, increasing customer retention and satisfaction.*[10]

Information mining and visualization facilitates quick understanding of trends and anomalies and enhances communication of findings to stakeholders.

Despite the advantages, these technologies come with challenges such as privacy concerns and ethical dilemmas. Organizations must balance innovation with regulatory compliance to build trust with customers and stakeholders.[11]

Information Management: An Integrated Approach

Information management *encompasses the collection, storage, organization, and distribution of information to optimize business operations and decision-making. Managing large volumes of information comes with some challenges. It requires balancing accessibility with security and avoiding information silos that hinder collaboration.*[12]

Some of the key elements in information management include:

- ***Data Governance:*** *Establishes policies and procedures for data quality, security, and compliance.*
- ***Technology Infrastructure:*** *Includes databases, cloud systems, and analytics platforms.*
- ***Employee Training:*** *Ensures staff can effectively use and manage information systems.*

A few trends in information management include:

- ***Artificial Intelligence:*** *AI streamlines information processing and improves decision-making.*
- ***Cloud Adoption:*** *Cloud platforms offer scalable and cost-effective solutions for information management.*
- ***Automation:*** *Robotic Process Automation (RPA) enhances efficiency in repetitive data tasks.*

Future Trends in Business Information

1. *Edge Computing: With the rise of IoT devices, edge computing processes data closer to its source, reducing latency and enhancing real-time decision-making.*
2. *Ethical AI and Data Use: As AI becomes central to information systems, ensuring ethical use and avoiding biases in data-driven decisions will be critical.*
3. *Advanced Cybersecurity Measures: Innovations like quantum encryption are expected to redefine data security.*

Business information plays a crucial role in today's competitive environment. Leveraging big data, ensuring data security, adopting efficient information-sharing mechanisms, and using visualization tools can provide significant advantages. However, these benefits come with challenges, including cyber threats, compliance requirements, and data overload. Organizations must adopt best practices in information management and invest in emerging technologies to stay resilient and competitive in a data-driven world.[13]

Self-Check Exercise: Information Management Drag-the-Words

Check your understanding of information management concepts by completing this short self-check quiz.

An interactive H5P element has been excluded from this version of the text. You can view it online here:
https://ecampusontario.pressbooks.pub/businessfundamentals/?p=275#h5p-34

Risk Management in Business Operations

Risk is defined according to its context. For example, if you are camping in the woods there is the risk of meeting a bear; if you are walking down stairs there is the risk of falling; if you are investing in stocks there is the risk of losing money, if you are hiring a new employee there is the risk they won't work out, and so on.

***Business risk** refers to the potential for a company to experience financial losses or other challenges that could impact its ability to achieve its objectives. These risks arise from uncertainties in the internal and external environment in which the business operates.*

Organizations face a wide array of uncertainties that can disrupt operations, threaten profitability, and damage reputation. Whether it's market volatility, technological disruptions, or regulatory changes, the ability to anticipate, assess, and mitigate risks has become a crucial part of successful management. This is where risk management comes into play.[14] *Risk management is how organizations anticipate and address potential threats. Risk management in business is a structured process that identifies, evaluates, and mitigates risks to minimize their impact.*

Types of Business Risks

Understanding the various types of risks helps leaders create a risk mitigation plan tailored to their specific industry. Here's a look at some key risk categories:

- ***Operational risk** arises from internal processes, people, and systems.*
- ***Financial risk**, which is related to financial operations and transactions.*
- ***Strategic risk** stems from business strategies and industry changes.*
- ***Compliance risk** is due to legal and regulatory requirements.*
- ***Reputational risk** impacts public perception and brand reputation.*

- ***Market risk*** *is a result of market dynamics like price and demand fluctuations.*
- ***Credit risk*** *due to potential default on financial obligations.*
- ***Technology risks*** *include cybersecurity threats and system failures.*

Real Versus Perceived Risk

Real risks *are backed by data, evidence, or historical trends. They are measurable and often require proactive mitigation. For example, there is a real risk of a car accident when driving on icy roads during a Canadian winter. This is a genuine hazard as icy conditions have been proven to increase the likelihood of accidents. Individuals can mitigate this risk by installing winter tires, reducing speed, and checking weather reports. A real risk to a manufacturing company is supply chain disruptions due to geopolitical tensions or natural disasters. These risks can halt production or increase costs. By diversifying suppliers, maintaining inventory buffers, and creating contingency plans, a manufacturing company can mitigate this risk.*

Real Risk with a High Tolerance for Risk

Perceived risks *are based on feelings, fears, or assumptions and may lack concrete evidence. They often result from misinformation, cognitive biases, or heightened awareness. For example, some people have a fear of flying in an airplane due to hearing about high-profile crashes or turbulence, despite the fact that air travel is statistically much safer than driving. The perception arises from media coverage and the dramatic nature of plane crashes compared to car accidents. A perceived risk for a business starting up is competition from established companies within its market. While this is a valid concern, the more pressing real risk might be inadequate cash flow or poor internal management, which pose a higher likelihood of failure. The perceived risk may distract management from addressing the more immediate operational risks.*

It's important to differentiate real risks from perceived risks in both personal and business contexts. This allows individuals and companies to allocate resources and attention effectively to mitigate genuine threats while avoiding unnecessary anxiety or misdirection.

Risk Tolerance

Risk tolerance *in a business context refers to the degree of uncertainty and potential loss an organization is willing to accept to achieve its objectives. It reflects the company's capacity and willingness to take on risks as part of its strategy and decision-making processes.*

Factors influencing business risk tolerance include:

1. *Industry and market environment.*
2. *Financial stability.*
3. *Leadership and culture.*
4. *Strategic goals.*
5. *Regulatory and ethical constraints.*

A startup investing heavily in research and development (R&D) for an untested product is an example of high risk tolerance. While the potential for failure is high, the company is willing to take the risk for significant market rewards. Example: Tesla's early years involved large investments in electric vehicle technology without guaranteed returns.

A family-owned retail business focusing on incremental growth and avoiding aggressive expansion to preserve stability is an example of low risk tolerance. Example: A local grocery store chooses to maintain its single location rather than expanding into new markets.

Risk tolerance must align with the company's mission, values, and objectives to avoid taking on unnecessary risks or missing growth opportunities. Businesses must periodically reassess their risk tolerance to adapt to changing internal and external conditions, such as market shifts, economic downturns, or technological advancements.

Personal risk tolerance *refers to an individual's ability or willingness to accept uncertainty and potential loss in pursuit of a goal. It plays a critical role in decision-making, particularly in areas like investments, career choices, and lifestyle decisions. While personal risk tolerance focuses on individual comfort and goals, business risk tolerance considers organizational objectives, resources, and stakeholder expectations. However, both require balancing the potential for loss with the pursuit of rewards.*

Risk Management

Risk management *is the structured process of identifying potential threats, evaluating their likelihood and impact, and developing strategies to minimize or eliminate their adverse effects. By integrating risk management*

into their decision-making processes, organizations can not only safeguard their assets but also seize opportunities that arise from taking calculated risks.[15]

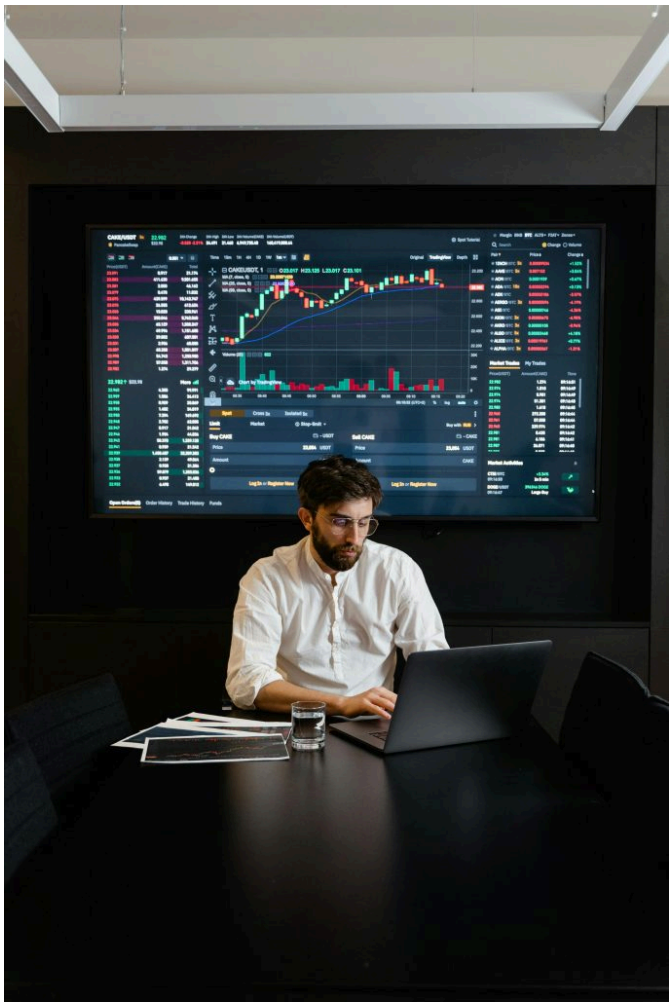
The five primary steps in risk management are as follows:[16]

1. ***Identify Risks.*** *Recognize potential risks that could negatively affect the business.*
2. ***Analyze Risks.*** *Analyze and assess the likelihood and potential impact of each risk.*
3. ***Evaluate and Prioritize Risks.*** *Determine which risks require immediate attention and resources.*
4. ***Implement Risk Controls.*** *Develop and apply strategies to mitigate, transfer, accept, or avoid risks.*
5. ***Monitor and Review.*** *Continuously track risks and the effectiveness of implemented controls.*

Best business practices in risk management include:

- *Involving all levels of the organization in risk management discussions.*
- *Maintaining documentation for accountability and future reference.*
- *Using a risk management framework like ISO 31000.*

Proactive risk management enables organizations to protect their operations, preserve assets, and navigate uncertainty with confidence. While there's no one-size-fits-all approach—different risks demand different tactics—some widely adopted strategies include:[17]



Analyzing Data to Manage Risks

- ***Forecasting, planning, and budgeting:*** *Align initiatives with corporate objectives, reserve funds for innovation, and build in contingency plans.*
- ***Environmental scanning:*** *Use tools like SWOT, PEST, and Porter's Five Forces to evaluate industry dynamics and competitor activity before decision-making.*
- ***Insurance coverage:*** *Purchase policies that protect against injuries, theft, property damage, fires, and other unforeseen losses.*
- ***Safety protocols:*** *Train employees, supply personal protective equipment as needed, and establish emergency response and evacuation procedures to minimize accidents.*
- ***Supplier and market diversification:*** *Secure multiple vendors across different regions and cultivate varied customer segments to reduce dependency.*
- ***Risk assessment frameworks:*** *Conduct regular risk audits, identify emerging threats early, and implement a structured risk-management process.*
- ***Financial reserves:*** *Maintain emergency funds, liquid investments, and strong cash flow to absorb shocks.*
- ***Intellectual property protection:*** *Safeguard innovations via patents, trademarks, copyrights, and trade-secret policies.*
- ***Regulatory compliance and ethics:*** *Adhere to relevant laws—industry regulations, employment standards, contract and tax laws—and uphold ethical business practices.*

- ***Talent development:*** *Communicate risk policies clearly, provide compliance training, and assemble teams with the right skills and mindset.*
- ***Supply-chain transparency:*** *Foster open communication and collaboration with suppliers and other stakeholders to identify and address vulnerabilities.*
- ***Crisis response and continuity planning:*** *Prepare detailed crisis-management and business-continuity plans to maintain operations during disruptions.*
- ***Performance metrics:*** *Track input, process, and output indicators to monitor risk-management effectiveness.*
- ***Technology integration:*** *Leverage project management tools, ERP systems, data-security measures, and analytics to boost efficiency and safeguard information.*
- ***Risk-sharing partnerships:*** *Collaborate with government entities, industry peers, customers, and suppliers to distribute potential liabilities.*
- ***Ongoing review and adaptation:*** *Continuously evaluate your risk-management practices in light of new market trends, technological advances, and regulatory changes.*

By implementing these measures, organizations can dramatically reduce their exposure to threats, build resilience, and position themselves for sustained success—even in the face of unpredictability.

Risk Management Across Different Sectors

Risk management helps organizations anticipate and address potential threats and uncertainties in areas such as:

Project Management

Risk management is equally important in project management, where uncertainties and potential risks can significantly impact project success. By incorporating risk management into project planning and execution, project managers can identify potential obstacles, allocate resources effectively, and implement contingency plans to minimize project delays and cost overruns. Almost everything that happens in a business is a project. For example, developing a new product, implementing a new process, hiring a new employee, upgrading to a new computer system–all business projects. Most likely, you will be part of one of these types of project teams in the future.

Creating a comprehensive project plan is crucial for ensuring the smooth execution and successful completion of any project. A well-structured plan serves as a strategic guide, detailing the tasks, timelines, required resources, and

project objectives necessary to meet the desired outcomes. For example, consider a large organization undertaking the implementation of an enterprise resource planning (ERP) system.

To manage potential project risks effectively, the organization could take several key actions:

- *First, it would identify potential risks such as data migration challenges, gaps in employee training, and potential system downtimes that could disrupt operations.*
- *Next, the organization would implement strategies to mitigate these risks, including conducting pilot tests, selecting a vendor with a strong track record in similar projects, and ensuring thorough and ongoing staff training before the full system rollout. Additionally, the organization would establish a clear project scope and deliverables to avoid scope creep, ensure that all stakeholders are aligned on expectations, and set realistic milestones.*
- *Third, the organization would implement strong change management practices to address any resistance to new technology and processes, providing employees with clear communication and support throughout the transition. Furthermore, it would allocate a contingency budget to cover any unforeseen issues that may arise during the project.*
- *Finally, the organization would closely monitor progress through regular project team meetings, maintain open communication about project goals and timelines, and establish feedback loops to address emerging issues proactively, ensuring that the project stays on track and any risks are promptly managed.*

Project management tools can help reduce risks. Tools like Trello, Asana, Monday.com and Microsoft Project help organize tasks, track progress, and manage resources. Gantt Charts and PERT Charts are visual timelines that show project progress against deadlines. While both visualize timelines, Gantt charts are more explicit about specific dates, whereas PERT charts emphasize task relationships and sequences without necessarily focusing on calendar-specific details. Many project managers use both tools together for comprehensive project planning and execution. RiskWatch is risk management software that tracks and analyzes risks.

Information Technology

Information technology (IT) is another sector where risk management is of utmost importance. With the increasing reliance on digital systems and the rise of cyberthreats, organizations must implement robust risk management practices to protect sensitive data, maintain system integrity, and ensure business continuity. Cybersecurity risks, such as data breaches and malware attacks, can have severe consequences, including financial losses and reputational damage.

***Information risk management** is defined as the policies, procedures, and technology an organization adopts to reduce the threats, vulnerabilities, and consequences that could arise if data is not protected.*[18]

To continuously manage information risk, a business should do the following:[19]

- ***Use Security Performance Monitoring.*** *Software can help a business monitor for emerging vulnerabilities such as identifying and alerting the business to misconfigured software, unpatched systems, open ports, and anomalies in user behaviour. It also ranks areas of disproportionate risk, allowing security teams to prioritize where to allocate resources.*
- ***Measure Security Effectiveness.*** *Software can provide data-driven views of how effective the business's information security efforts are and help maintain alignment with compliance requirements. Findings are presented as a numerical score making it easy to convey security risks and the organization's cyber readiness in terms that all stakeholders can understand.*
- ***Manage Third-Party Risks:*** *Third-party vendors and partners are an integral part of modern business operations but also introduce significant risk. Mitigate supply chain risk by measuring, verifying, and continuously monitoring vendors' security postures – without relying on manual, subjective, point-in-time assessments. If a vendor's security performance drops below a pre-agreed risk threshold, the business will receive automatic alerts and insights that can be shared with your vendors, making third-party risk management a more collaborative process.*

Finance

In the financial sector, risk management is crucial for banks, insurance companies, and investment firms. These institutions face a wide range of risks, including credit risk, market risk, operational risk, and liquidity risk. Effective risk management practices in the financial industry help ensure stability and prevent financial crises. Canadian financial institutions face an increasingly complex regulatory web as regulators in Canada and globally are imposing greater pressures to assess, monitor and mitigate regulatory and operational risks. Also, today's financial institutions need to keep up with new regulations, deal with new issues, including those created by remote work and emerging technologies, and manage the human resources and technological requirements to get the job done. The speed of change is rapid and the demands are increasing.[20]

Risk management in the financial world is the process of identification, analysis, and acceptance or mitigation of uncertainty in investment decisions. Essentially, risk management occurs when an investor or fund manager analyzes and attempts to quantify the potential for losses in an investment.

A few of the alternatives financial institutions might choose to mitigate to risk include:

- ***Credit Risk.*** *Establish strict loan approval criteria and conduct creditworthiness evaluations.*
- ***Market Risk.*** *Hedge against fluctuations using derivatives and portfolio diversification.*
- ***Operational Risk.*** *Implement strong internal controls and compliance programs.*

JPMorgan Chase implemented advanced AI-driven fraud detection and risk management solutions to address these challenges. These systems use machine learning algorithms and predictive analytics to monitor real-time

transactions, identify anomalies, and flag suspicious activities. By processing vast datasets and learning from historical fraud patterns, AI systems continuously evolve to counter new threats.[21]

The financial industry's reliance on technology, global markets, and complex financial instruments underscores the importance of a proactive and comprehensive approach to risk management.

Health Care

The healthcare industry relies heavily on risk management to ensure patient safety and quality of care. Health care organizations face risks related to medical errors, patient privacy breaches, and regulatory compliance. By implementing robust risk management strategies, providers can identify and mitigate potential risks, leading to improved patient outcomes and reduced legal liabilities.

Risk Management in Healthcare

Risks in health care include medication errors, patient safety incidents (e.g., falls, infections), data breaches involving patient records, and legal risks from malpractice claims. Strategies to reduce risks might include staff training, installing electronic health records with safety checks, and ensuring compliance with infection control protocols.

Some challenges experienced in the health care sector include balancing patient care with cost control, integrating new technologies without compromising security, and navigating evolving regulations and industry standards.

Risk management in healthcare requires a proactive and multidisciplinary approach, involving clinicians, administrators, and compliance experts to create a safe and efficient care environment.

Supply Chain Management

Supply chain management is yet another area where effective risk management is critical. Supply chains are vulnerable to various risks, such as disruptions in logistics, supplier failures, and natural disasters. By implementing risk management strategies, organizations can identify potential vulnerabilities, establish alternative supply sources, and develop contingency plans to minimize the impact of supply chain disruptions.

Here are a few examples of supply chain risks:

- ***Natural Disasters:** Earthquakes, hurricanes, or floods can damage infrastructure or halt production, as*

seen in the aftermath of the 2011 earthquake in Japan, which disrupted global supply chains, particularly in the automotive and electronics sectors.

- ***Global Pandemic:*** *The COVID-19 pandemic disrupted the supply chain globally as it caused widespread factory shutdowns. The directly impacted industries were electronics, automotive, and consumer goods. COVID-19 revealed numerous vulnerabilities in supply chains, from reliance on single-source suppliers to inadequate risk management practices for global disruptions. Many companies have since adapted by diversifying suppliers, investing in digital technologies for better supply chain visibility, and rethinking inventory strategies.*
- ***Geopolitical Risks:*** *Trade wars, tariffs, and sanctions, like the U.S.-China trade war, can disrupt international supply chains, leading to delays, cost increases, and changes in supplier strategies.*
- ***Cybersecurity Risks:*** *Data breaches, such as the 2020 cyberattack on a major food distributor, can compromise sensitive information, causing financial and reputational damage.*

Technological Tools in Supply Chain Relationship Management that help monitor and reduce risks:

- ***Supply Chain Mapping:*** *Tools like RiskMethods and Resilience360 help companies map their entire supply chain to visualize risks.*
- ***Predictive Analytics:*** *Software like Llamasoft and SAP Integrated Business Planning use AI and machine learning to forecast risks and optimize supply chain operations.*
- ***Blockchain:*** *Companies like IBM and Maersk have used blockchain technology to improve transparency and reduce fraud risks in supply chains.*

Supply chain risk management is a critical component of modern business operations, enabling companies to proactively handle disruptions, reduce costs, and improve their resilience. By using a combination of strategic planning, risk assessment, and technological solutions, companies can minimize vulnerabilities and maintain a competitive edge even in times of uncertainty.

Risk Response Strategy

Risk response planning ensures risks are managed proactively, helping businesses achieve their objectives while minimizing potential disruptions. When analyzing risks and determining appropriate risk response strategies, business leaders must consider the following:[22]

- ***Risk Significance and Urgency:*** *High-impact risks often require avoidance or mitigation.*
- ***Cost-Benefit Analysis:*** *The cost of mitigating or transferring the risk must be balanced against the potential impact.*
- ***Organizational Goals:*** *Align the response with strategic priorities and resources.*
- ***Risk Appetite:*** *An organization's willingness to tolerate certain risks plays a significant role in determining the response.*

Labels can help Mitigate the Risk of Injuries

Risk response strategies include:[23]

- *Avoidance.*
  - *Definition: Eliminating the risk by choosing not to engage in the activity or decision that creates the risk.*
  - *Example: Kodak, once a giant in the photography industry and the inventor of the digital camera, recognized that digital photos was a potential threat to their core business and chose not to engage int the risk/opportunity. They did not think people would want photos stored on a computer, but they were wrong, and ultimately went bankrupt.*
  - *When to Use: The potential benefits of taking the risk do not outweigh the possible losses. For high-probability, high-impact risks with exponential and difficult-to-calculate risks.*
- *Mitigation (Reduction).*
  - *Definition: Reducing the likelihood or impact of a risk to acceptable levels through preventive measures.*
  - *Example: A financial firm using advanced software to monitor stock price fluctuations and reduce*

exposure to market volatility.

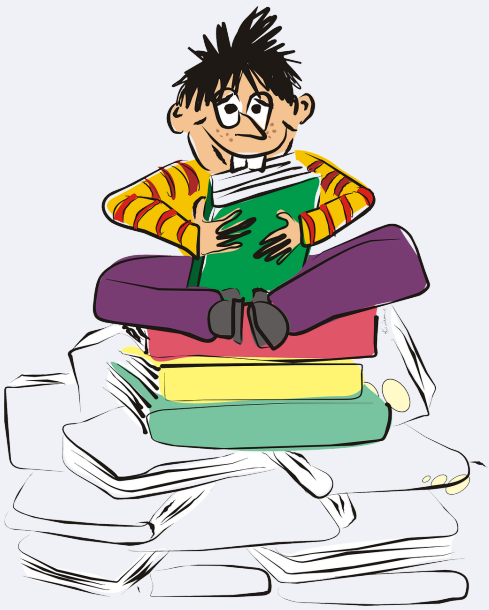
- *When to Use: The organization has a clear plan for impact reduction, or redundancies are in place to help maintain operations, or the risk is not expected to cause prolonged harm or exceed the organization's tolerance level.*

- *Transfer (Sharing).*
  - *Definition: Involves shifting risk to a third party—typically through insurance, outsourcing, or contractual agreements.*
  - *Example: Organizations often outsource payroll functions due to the complexity of compliance and regulatory requirements. By doing so, they transfer the associated risks to a specialized provider, reducing their exposure.*
  - *When to Use: This approach is best suited for risks that are expensive to manage in-house, fall outside the organization's core expertise, or involve intangible impacts like reputational harm. It is especially effective when risks can be clearly defined and transferred through contracts.*
- *Acceptance (Retention).*
  - *Definition: Acknowledging the risk and choosing to accept its potential impact without taking specific preventive measures.*
  - *Example: A startup accepts the risk of initial financial losses while developing its product.*
  - *When to Use: For low-impact, low-probability risks or when avoiding the risk is impossible. When efforts to avoid the risk are not cost-effective.*
- *Exploitation (for Opportunities).*
  - *Definition: Taking actions to ensure a positive risk (opportunity) is fully realized.*
  - *Example: Expanding into a new market based on favorable conditions or trends.*
  - *When to Use: For risks that present clear potential benefits if managed correctly.*
- *Enhancement (Opportunity-Related).*
  - *Definition: Increasing the likelihood or impact of a positive risk.*
  - *Example: Strengthening relationships with a key supplier to secure better terms or reliability.*
  - *When to Use: When opportunities can be leveraged with added effort or resources.*

Downtown Comics – Managing Theft Risk

Downtown Comics, a popular comic book store located in a busy urban area, has identified theft as a significant risk. To address this, the management considers the following risk response strategies:

- **Avoidance:** The store could choose to close its physical location and shift entirely to an online retail model, eliminating the risk of in-store theft.
- **Mitigation:** Management may implement preventative measures such as staff training to recognize suspicious behavior, installing security cameras, locking high-value items in display cases, and optimizing the store layout to reduce blind spots and opportunities for theft.
- **Transfer:** The company could purchase commercial insurance that specifically covers losses due to theft, shifting the financial burden to an insurer.
- **Acceptance:** Downtown Comics may decide to accept the risk and set aside a designated budget to cover any potential losses, viewing theft as an operational cost of doing business.



I love my comic book collection!

Which risk response strategy would you recommend to the owner of Downtown Comics? What things did you consider before making this recommendation?

Risk Management Standards

There are a number of risk management standards designed to consolidate best practice principles and help to streamline and improve risk management implementations for businesses. Another factor driving the standardization of risk management frameworks has been the increased scrutiny that organizations must face with regard to their risk management systems. Risk management systems are often required to stand up to rigorous internal

audits and assessments in order to prove that they are effective in their implementation and that they are in line with company goals and objectives.

The family of risk management standards defined by ISO 31000 is one such example of a leading international standardization of a risk management approach.[24]

***ISO** refers to the International Organization for Standardization; the 31000 portion refers to a family of standards for risk management. As well as being an umbrella term for a bunch of different standards, ISO 31000 also refers to a singular standard, specifically known as ISO 31000:2018. This standard defines a set of guidelines for managing risk, designed to be used by organizations of any size, working in any area, to implement effective risk management systems. Unlike many other ISO standards like 9001 for quality management, or 14001 for environmental management, ISO 31000 is a set of guidelines. That means you can't get an ISO 31000 certification in the same way you could for other standards with specific requirements. Nonetheless, ISO 31000 is a leading framework for organizations seeking to get started with risk management.*

There are several standards organizations and committees that have developed risk management frameworks, guidance, and approaches that business teams can leverage and adapt for their own company.[25]

Some of the more popular risk management frameworks available include:

- *ISO 31000 Family: The International Standards Organization's guidance on risk management is broad and adaptable to various sectors and industries.*
- *NIST Risk Management Framework (RMF): The National Institute of Standards and Technology has released risk management guidance compatible with its Cybersecurity Framework (CSF).*
- *COSO Enterprise Risk Management (ERM): The Committee of Sponsoring Organizations' enterprise risk management guidance. COSO ERM is highly strategic and focuses on aligning risk with organizational objectives.*
- *PMBOK and RIMS are more suited for project and insurance-related risks, respectively.*
- *FERMA and BS 31100 are more region-specific but still provide valuable guidelines for broader risk management practices.*
- *AIRMIC/IRM/ALARM Risk Management Standard is widely used in the UK to manage risks.*

Each of these frameworks provides valuable insights and methods for organizations to manage risks effectively, but the choice of framework depends on the organization's industry, structure, and specific risk management needs.

AI in Business: Enhancing Information and Risk Management

Artificial Intelligence (AI) *refers to the simulation of human intelligence in machines, enabling them to perform tasks that typically require human cognitive abilities. These tasks include learning from data (machine learning), problem-solving, decision-making, natural language understanding, and pattern recognition. AI systems use algorithms, statistical models, and computational power to process vast amounts of information, identify patterns, and make predictions or recommendations.*

Artificial Intelligence (AI) is revolutionizing the way businesses manage information and mitigate risks. With the increasing complexity of global markets, regulatory requirements, and cybersecurity threats, AI-powered systems provide businesses with the ability to process vast amounts of data in real time, identify risks before they escalate, and support informed decision-making. AI enhances information management by automating data collection, organizing unstructured data, and providing predictive insights that improve business operations. From financial institutions monitoring fraud to supply chain managers predicting disruptions, AI is becoming an integral tool in modern business environments.

One of the most significant ways AI is transforming information management is through automated data processing and analysis. Traditional methods of handling business information involve manual entry, classification, and retrieval, which are time-consuming and prone to human error. AI, particularly through machine learning and natural language processing (NLP), can automatically extract insights from emails, reports, social media, and customer feedback, helping organizations make faster and more accurate decisions. AI-powered analytics platforms can detect patterns in large datasets, enabling businesses to anticipate market trends, customer preferences, and operational inefficiencies.

In the realm of risk management, AI plays a crucial role in identifying and mitigating potential threats. Cybersecurity is one area where AI is particularly valuable, as businesses face increasing threats from cyberattacks, data breaches, and ransomware. AI-driven cybersecurity solutions continuously monitor networks for anomalies, flag suspicious activities, and respond to threats in real time, reducing the risk of costly security breaches. Similarly, AI is transforming fraud detection by analyzing transactional data and identifying unusual behaviors that may indicate fraudulent activities, helping financial institutions and e-commerce platforms minimize financial losses.

AI also supports regulatory compliance by automating monitoring and reporting processes. Businesses in highly regulated industries, such as finance, healthcare, and agriculture, must comply with strict legal and safety standards. AI can track compliance requirements, alert businesses to potential violations, and generate reports that ensure regulatory adherence. This not only reduces legal risks but also improves overall transparency and governance.

The use of AI in automated milking systems (AMS) has revolutionized dairy farming by improving efficiency, milk quality, and herd health. Traditional milking, which requires manual labor, is being replaced by robotic milking machines that integrate AI, sensors, and data analytics to streamline the milking process while ensuring optimal animal welfare.

Beyond mitigating external risks, AI helps businesses manage operational and financial risks by improving forecasting and decision-making. In supply chain management, AI-powered predictive analytics can anticipate potential disruptions—such as delays, supplier shortages, or geopolitical risks—allowing businesses to take proactive measures. In finance, AI algorithms analyze economic indicators, market fluctuations, and company performance data to assess risks associated with investments, lending, and pricing strategies. These AI-driven insights allow businesses to make data-backed decisions that minimize uncertainty and enhance long-term sustainability.

Despite its advantages, AI-driven information and risk management come with challenges. Data privacy and security concerns are at the forefront, as AI systems require access to large datasets, including sensitive customer and business information. Companies must ensure that their AI systems comply with data protection regulations, such as the General Data Protection Regulation (GDPR) and Canada's Personal Information Protection and Electronic Documents Act (PIPEDA). Additionally, AI biases remain a significant concern, as biased algorithms can lead to unfair or discriminatory outcomes in hiring, lending, and risk assessment. Organizations must invest in explainable AI (XAI) to improve transparency and accountability in AI-driven decision-making.

Looking ahead, AI will continue to play a pivotal role in business information and risk management, with advancements in AI-powered risk intelligence platforms, real-time monitoring systems, and automated decision-support tools. As businesses navigate an increasingly digital and data-driven world, integrating AI responsibly will be essential for enhancing efficiency, mitigating risks, and maintaining a competitive edge in the market.

Emerging Trends in Risk Management

In the dynamic landscape of business and technology, the importance of effective risk management cannot be over-

stated. The ever-evolving global environment brings forth new challenges and opportunities that demand a proactive and adaptive approach to risk.[26]

Here are six of the key risk management trends shaping the corporate landscape (in 2024):

1. ***Digital transformation and cybersecurity**. Robust IT infrastructure and fostering a culture of cyber-awareness among employees. Continuous monitoring, threat intelligence, and advanced analytics are becoming essential components of a comprehensive cybersecurity risk strategy.*
2. ***Supply chain resilience.** Building resilience by diversifying suppliers, embracing digital technologies like blockchain for transparent and traceable supply chains, and implementing contingency plans for unforeseen events.*
3. ***Environmental, social, and governance (ESG) risks.** Assessing and mitigating risks related to climate change, social justice issues, and ethical business practices. Companies are realizing that effective ESG risk management not only aligns with societal expectations but also enhances long-term sustainability and reputation.*
4. ***Data privacy and compliance.** Investing in robust data governance frameworks, ensuring that they not only comply with regulations but also uphold customer trust. Innovations in data anonymization and encryption technologies are gaining prominence to navigate the complex landscape of data privacy risks.*
5. ***Remote work and challenges.** Managing remote teams, ensuring data security in dispersed environments, and addressing the mental health and well-being of employees. Risk management strategies now encompass policies and technologies that secure remote workspaces while fostering a supportive and inclusive organizational culture.*
6. ***Regulatory changes and geopolitical risks.** Scenario planning for potential regulatory shifts, tariff impacts, and geopolitical tensions that may affect supply chains and market dynamics. The ability to navigate regulatory complexities has become a key differentiator for businesses operating on a global scale.*

Key Takeaways

1. **Business information** refers to collective data related to a company and its operations, including statistical information, raw analytical data, customer feedback, and sales numbers.

2. **Big data** refers to datasets that are so large and complex that traditional data-processing methods cannot handle them. Its defining characteristics are volume, velocity, variety, veracity, and value (the 5Vs).
3. **Data mining** involves extracting valuable patterns and relationships from large datasets. Businesses use techniques like clustering, classification, and predictive modeling to derive actionable insights.
4. **Data security** is paramount to protect sensitive information from breaches, unauthorized access, and cyberattacks.
5. Effective **information sharing** enhances collaboration and decision-making within and between organizations.
6. **Visualization** converts data into graphical representations, making complex datasets easier to understand and interpret. Popular tools include Tableau, Power BI, and Google Charts.
7. **Information management** encompasses the collection, storage, organization, and distribution of information to optimize business operations and decision-making.
8. **Business risk** refers to the potential for a company to experience financial losses or other challenges that could impact its ability to achieve its objectives. These risks arise from uncertainties in the internal and external environment in which the business operates.
9. **Real risks** are backed by data, evidence, or historical trends. They are measurable and often require proactive mitigation.
10. **Perceived risks** are based on feelings, fears, or assumptions and may lack concrete evidence. They often result from misinformation, cognitive biases, or heightened awareness.
11. **Risk tolerance** in a business context refers to the degree of uncertainty and potential loss an organization is willing to accept to achieve its objectives. It reflects the company's capacity and willingness to take on risks as part of its strategy and decision-making processes.
12. **Personal risk tolerance** refers to an individual's ability or willingness to accept uncertainty and potential loss in pursuit of a goal. It plays a critical role in decision-making, particularly in areas like investments, career choices, and lifestyle decisions.
13. **Risk management** is the structured process of identifying potential threats, evaluating their likelihood and impact, and developing strategies to minimize or eliminate their adverse effects.
14. **Project risk management**, where uncertainties and potential risks can significantly impact project success. By incorporating risk management into project planning and execution, project managers can identify potential obstacles, allocate resources effectively, and implement contingency plans to minimize project delays and cost overruns.
15. **Information risk management** is defined as the policies, procedures, and technology an

organization adopts to reduce the threats, vulnerabilities, and consequences that could arise if data is not protected.

16. In the **financial sector**, risk management is crucial for banks, insurance companies, and investment firms. These institutions face a wide range of risks, including credit risk, market risk, operational risk, and liquidity risk. Effective risk management practices in the financial industry help ensure stability and prevent financial crises.
17. The **healthcare industry** relies heavily on risk management to ensure patient safety and quality of care. Health care organizations face risks related to medical errors, patient privacy breaches, and regulatory compliance. By implementing robust risk management strategies, providers can identify and mitigate potential risks, leading to improved patient outcomes and reduced legal liabilities.
18. **Supply chain management** is yet another area where effective risk management is critical. Supply chains are vulnerable to various risks, such as disruptions in logistics, supplier failures, and natural disasters. By implementing risk management strategies, organizations can identify potential vulnerabilities, establish alternative supply sources, and develop contingency plans to minimize the impact of supply chain disruptions.
19. **Risk response strategy.** The choice of risk response for organizations depends on the severity of the risk, cost-benefit analysis, organizational goals, and risk appetite. Risk response strategies include: avoidance, mitigation, transfer, acceptance, exploitation, and enhancement.
20. There are a number of risk management standards designed to consolidate best practice principles and help to streamline and improve risk management implementations for businesses. For example, **ISO** refers to the International Organization for Standardization; the 31000 part refers to a family of **standards** for risk management. As well as being an umbrella term for a bunch of different standards, **ISO 31000** also refers to a singular standard, specifically known as ISO 31000:2018.
21. **Artificial Intelligence (AI)** is revolutionizing the way businesses manage information and mitigate risks. AI-powered systems provide businesses with the ability to process vast amounts of data in real time, identify risks before they escalate, and support informed decision-making. AI enhances information management by automating data collection, organizing unstructured data, and providing predictive insights that improve business operations. From financial institutions monitoring fraud to supply chain managers predicting disruptions, AI is becoming an integral tool in modern business environments.

End-of-Chapter Exercises

1. **Big Data in Google Trends.** Visit the Google Trends website and explore what Canada is searching right now. Assume you are a business that sells a product, for example, Harley Davidson motorbikes, or M&Ms Candy, or Nike shoes, use Google Trends to learn about the band's popularity. Are people searching for that company's brand? Which brands are most popular? Discuss with the class and/or professor how Google Trends might be useful to a business.
2. **Power BI Visualization.** Download Power BI online for free. Review a simple "Getting Started" with Power BI tutorial. Try making a simple visualization. You may notice that the charts look similar to those in Excel. This is one of the tools businesses use to make visualizations. How did you do? Share your learning with the class and/or professor.
3. **Data Analytics.** Use the Internet to research data analytics. What is it? How do companies use it? What kind of jobs are there in data analytics? Is this a field that is expanding? What is Google Data Analytics Certification about? Share your findings with the class and/or professor.
4. **Tableau for Students.** Visit the Tableau for Students website. Review the resources for learning. What resources are available to students? Do you think it would be helpful to gain certification? What can you learn for free? Take a short course or module (your professor may assign a specific module) and share your experience with the class and/or professor.
5. **IT Monitoring.** How does electronic monitoring impact your life as a student? Should the IT department at your college or university be monitoring emails and files? How might the goals of the institution come into conflict with the needs of the students on this issue? What if a student were to send a threatening email, should IT notify authorities? Who should judge what is deemed threatening?
6. **Managers' Information Needs.** Think of Walmart. Consider these three levels of management: 1) the manager in the store who is in charge of day-to-day operations, 2) the district manager who is in charge of several stores, and 3) the National or Regional Manager who manages several districts within a region or country. Identify the information needs of the managers at each of these levels. Discuss with a partner, the class and/or professor.
7. **Data Security.** What are some of the ways companies try to protect their data against hackers? What is a firewall? What is encryption? What can you do to protect yourself from

being hacked or defrauded? Discuss with the class and/or the professor.

8. **ERP.** Use the Internet to find one company that is using an ERP system to manage data. Does the company have multiple locations that are networked together to share data? What can you discover about the data the company stores, the security used to keep the data safe, and the information that is pulled from that data to support business operations and decisions? Share your findings with the class and/or professor.
9. **Personal Risk.** Identify three personal risks you have taken over the past three years. What happened? How did you mitigate those risks? Did you change your behaviour or thinking afterward? Discuss with a partner, the class and/or the professor.
10. **Personal Risk Tolerance.** Do you have a high or low risk tolerance? What have you done that demonstrates your risk tolerance? Provide three examples. Do you think your risk tolerance might change over time? Why or why not? Discuss with a partner, the class and/or the professor.
11. **Financial Risk Tolerance Quiz**. Take one of these free risk tolerance quizzes to determine your investment risk tolerance level. Rugers Paper-based Quiz or finmasters Online Quiz.
12. **Risk Response Strategy.** Select an extreme sport, for example, rock climbing, zip lining, or white-water rafting (or other). What would your risk response strategy be? If it's avoid, then let's assume a friend of yours is going to do this. You and/or your friend sign up with a company that offers these sporting excursions. Make a list of the things you and/or your friend could do to mitigate the risks. Make another list of the things the company could do to mitigate the risks for its customers. Share your lists with a partner, the class and/or professor.
13. **Risk Failure.** Use the Internet to find information on a company that took a risk, and it failed. What happened? What risk response strategy did the company take, if any? Why do you think it failed? Summarize your findings and share them with the class and/or professor.
14. **Risk Success.** Use the Internet to find information on a company that took a risk, and it was successful in a big way. What happened? What risk response strategy did the company take, if any? Why was it so successful? Summarize your findings and share them with the class and/or professor.
15. **Remote Work.** Does working remotely increase employee productivity? What are the pros and cons for employers of allowing employees to work from home? What are the pros and cons of working from home for employees? Would you like a job where you work from home? Why or why not? What types of people might like to work from home? Discuss with the class and/or professor.

Self-Check Exercise: Risk Management Quiz

Check your understanding of risk management concepts by completing this short self-check quiz.

An interactive H5P element has been excluded from this version of the text. You can view it online here:
https://ecampusontario.pressbooks.pub/businessfundamentals/?p=275#h5p-35

Additional Resources

1. What are the 4 Concepts of Business Intelligence? YouTube Video.
2. The Intersection of Business and Technology: An Interview with Mike Jackowski, CEO, Duck Creek. YouTube Video.
3. Report a Privacy Breach at Your Organization.
4. Get Started with Google Analytics. YouTube Video.
5. Google Data Analytics Professional Certificate
6. Risk Management, Judgement, and Decision-Making OER
7. Risk Management, Supply Chain and Operations Perspective OER
8. What is Information Risk Management?
9. The 7 Best Free and Open Risk Management Software
10. Innovation Metrics. YouTube Video.

11. Google Foundations: Data, Data, Everywhere Coursera Course.
12. The Most Powerful AI Use Cases for Business
13. 10 Ways for Businesses to Use AI in 2025

Attributions

The contents of this chapter is a compilation sourced from various OER resources, please refer to the Book Information for details.

References

(Note: This reference list was produced using the auto-footnote and media citation features of Pressbooks)

Media Attributions

- *Standing Beside Server Racks © Christina Morillo | Pexels*
- *Hanging on Zip Line © Alexandre Cubateli Zanin | Pexels*
- *Analyzing Data © Tima Miroshnichenko | Pexels*
- *Medical Operation © sasint | Pixabay*
- *Electrical Box © Erik McLean | Pexels*
- *Cartoon person holding comic books © Alics | Pixabay*
- *Cow Milking System © G. Botan | Pexels*

Notes

1. *Indeed Editorial Team. (2024, August 15). What is data in business? (Plus importance and examples). https://www.indeed.com/career-advice/career-development/data-in-business*
2. *Arora, R. (2024, August 23). Technology in today's business world. https://www.m-inc.com/article/the-role-of-information-technology-in-todays-business-world/*
3. *U-Tech Electronics. (n.d.). The impact of technology on modern business: A comprehensive analysis. https://utech.co/blog/the-impact-of-technology-on-modern-business/*
4. *Hillier, W. (2023, September 23). What are some real-world examples of big data? https://careerfoundry.com/en/blog/data-analytics/big-data-examples/*

5. *MongoDB. (n.d.). 9 big data examples & use cases. https://www.mongodb.com/resources/basics/big-data-explained/examples*
6. *MongoDB. (n.d.). 9 big data examples & use cases. https://www.mongodb.com/resources/basics/big-data-explained/examples*
7. *Equifax. (n.d.). Equifax. https://www.equifax.com/*
8. *Hillier, W. (2023, September 23). What are some real-world examples of big data? https://careerfoundry.com/en/blog/data-analytics/big-data-examples/*
9. *BusinessGuide360. (2024, November 30). What are the six important business objectives of information technology?. [Video]. YouTube. https://www.youtube.com/watch?v=4IvdzLRyDSo*
10. *Hillier, W. (2023, September 23). What are some real-world examples of big data? https://careerfoundry.com/en/blog/data-analytics/big-data-examples/*
11. *Hillier, W. (2023, September 23). What are some real-world examples of big data? https://careerfoundry.com/en/blog/data-analytics/big-data-examples/*
12. *MongoDB. (n.d.). 9 big data examples & use cases. https://www.mongodb.com/resources/basics/big-data-explained/examples*
13. *MongoDB. (n.d.). 9 big data examples & use cases. https://www.mongodb.com/resources/basics/big-data-explained/examples*
14. *Peterson, O. (2019, August 9). The ultimate risk management guide: Everything you need to know. https://www.process.st/risk-management/*
15. *Peterson, O. (2019, August 9). The ultimate risk management guide: Everything you need to know. https://www.process.st/risk-management/*
16. *IMD. (2024, November). Risk management: Understanding the basics and importance. https://www.imd.org/blog/management/risk-management/*
17. *Businessnes. (2024, October 2). 20 examples of risk management & guide. https://businessnes.com/examples-of-risk-management-guide/*
18. *Holmes, R. (2024, June 4). What is information risk management? https://www.bitsight.com/blog/what-is-information-risk-management*
19. *Holmes, R. (2024, June 4). What is information risk management? https://www.bitsight.com/blog/what-is-information-risk-management*
20. *BCCampus. (2022). Fundamentals of business. https://pressbooks.bccampus.ca/fundamentalsbusiness/chapter/chapter-17-financial-decisions-and-risk-management/*
21. *DigitalDefynd. (2025). 10 ways JP Morgan is using AI. https://digitaldefynd.com/IQ/jp-morgan-using-ai-case-study/*
22. *FasterCapital. (2025, April 6). Business risk response: How to plan and execute risk management actions. https://fastercapital.com/content/Business-Risk-Response--How-to-Plan-and-Execute-Risk-Management-Actions.html*
23. *Emergency Management. (2024, December 18). 7 business risk response strategies [+Mitigation plan]. https://www.alertmedia.com/blog/risk-response-strategies/*
24. *Peterson, O. (2019, August 9). The ultimate risk management guide: Everything you need to know. https://www.process.st/risk-management/*
25. *Villanueva, E. (2023, August 16). Risk management 1010: Process, examples, strategies. https://www.auditboard.com/blog/risk-management-101/*
26. *Aragon Research. (2024, January 5). 6 emerging risk management trends in 2024. https://aragonresearch.com/6-emerging-risk-management-trends-in-2024/*

CHAPTER 13: MANAGING PERSONAL FINANCES

Chapter 13 Learning Outcomes

After reading this chapter, you should be able to do the following:

1. Define personal finances and financial planning.
2. Explain the financial planning life cycle.
3. Discuss the advantages of a college education in meeting long-term financial goals.
4. Describe strategies to manage and minimize personal debt.
5. Explain how to manage monthly income and expenses.
6. Explain compound interest and the time value of money.
7. Discuss the value of getting an early start on your plans for saving.
8. Explain how you can build a credit history that will give you a high credit score.

Financial Planning

Before we go any further, you need to understand a couple of key concepts. First, just what, exactly, is meant by personal finances? Finance itself concerns the flow of money from one place to another, and your personal finances concern your money and what you plan to do with it as it flows in and out of your possession. Essentially, then, ***personal finance*** *is the application of financial principles to the monetary decisions that you make either for your individual benefit or for that of your family.*

Second, as suggested earlier, monetary decisions work out much more beneficially when they're planned rather than improvised. Thus, our emphasis on ***financial planning****—the ongoing process of managing your personal finances in order to meet goals that you've set for yourself or your family.*

Financial planning requires you to address several questions, some of them relatively simple:

- *What's my annual income?*
- *How much debt do I have, and what are my monthly payments on that debt?*

Others will require some investigation and calculation:

- *What's the value of my assets?*
- *How can I best budget my annual income?*

Still others will require some forethought and forecasting:

- *How much wealth can I expect to accumulate during my working lifetime?*
- *How much money will I need when I retire?*

Financial Planning Life Cycle

Another question that you might ask yourself—and certainly would do if you worked with a professional in financial planning—is, "How will my financial plans change over the course of my life?" Figure 13.3 illustrates the ***financial planning life cycle*** *of a typical individual, one whose financial outlook and likely outcomes are probably a lot like yours.*[1] *As you can see, the diagram divides this individual's life into three stages, each of which is characterized by different life events (such as beginning a family, buying a home, planning an estate, retiring).*

Financial planning priorities evolve over time, typically across three key stages:

- ***Stage 1*** *is centered on wealth accumulation.*
- ***Stage 2*** *shifts the focus to protecting and growing the wealth already built.*
- ***Stage 3*** *emphasizes drawing from that wealth in retirement—ideally, while still allowing it to grow.*

Naturally, unexpected changes—such as shifts in employment, marital status, or the broader economy—can affect planning at any stage. It's also important to note that your financial needs often peak during Stage 2, usually around age 55, roughly a decade before the average retirement age.

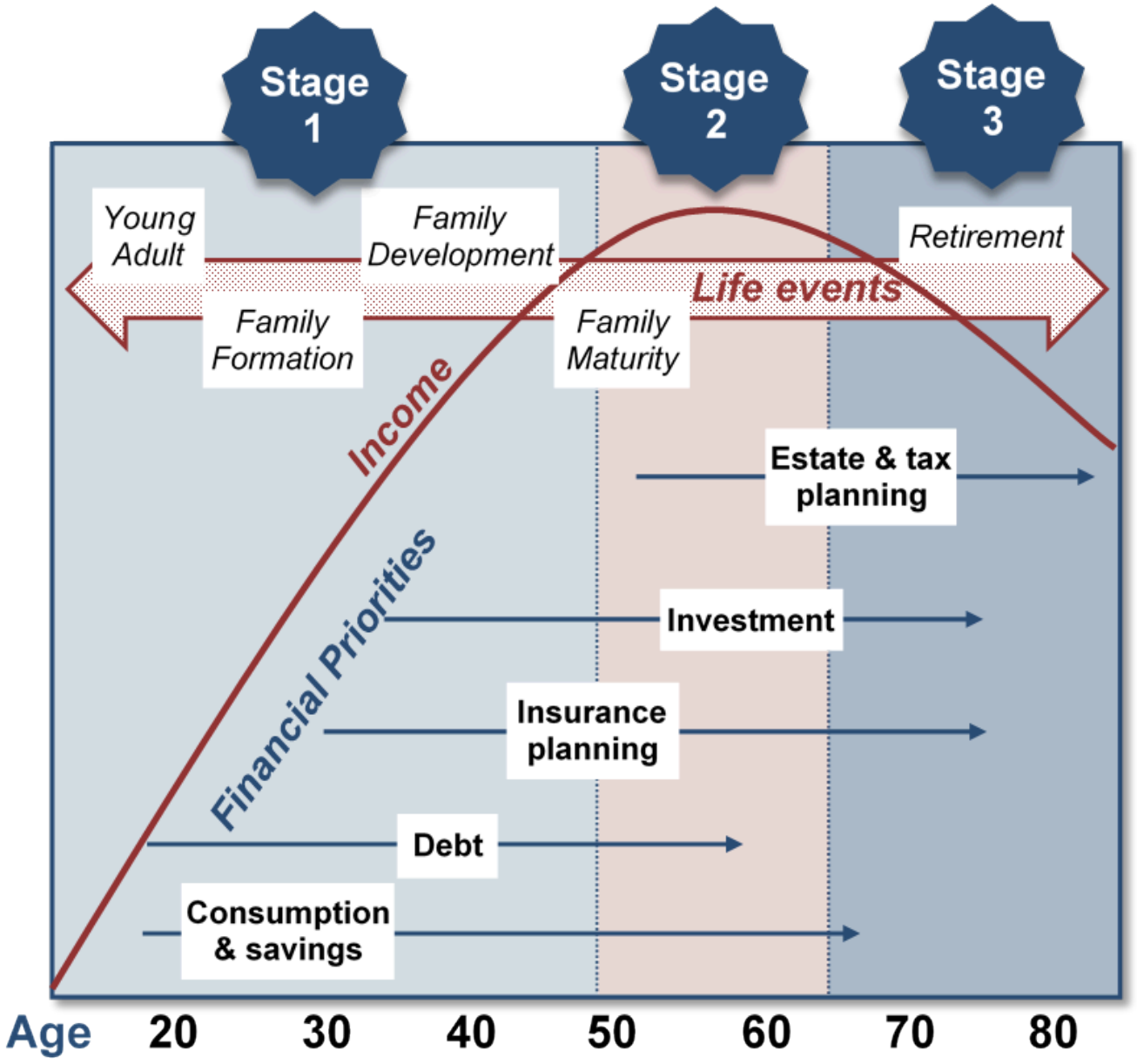


Figure 13.3 The Financial Life Cycle

Until you're financially independent and earning your own income, you're likely relying on your parents' resources. In our example of the financial life cycle, planning typically starts in a person's early twenties. While that might seem early, it's actually a crucial time—this is when you begin making key decisions about your career path, which will shape both your earning potential and the lifestyle you aim to achieve.

Manage Personal Debt

*Your "**personal debt**" is how much money you owe to other people, businesses, banks, credit card companies, and other creditors. Do you sometimes wonder where your money goes? Do you worry about how you'll pay off your student loans? Would you like to buy a new car or even a home someday, and you're not sure where you'll get the money? If these questions seem familiar to you, you could benefit from help in managing your personal finances.*

Let's say that you're 28 and single. You have a good education and a good job—you're pulling down $60K working with a local accounting firm. You have $6,000 in a retirement savings account, and you carry three credit cards. You plan to buy a condo in two or three years, and you want to take your dream trip to the world's hottest surfing spots within five years. Your only big worry is the fact that you're $70,000 in debt, due to student loans, your car loan, and credit card debt. In fact, even though you've been gainfully employed for a total of six years now, you haven't been able to make a dent in that $70,000. You can afford the necessities of life and then some, but you've occasionally wondered if you're ever going to have enough income to put something toward that debt.[2]

Student Loans for College and University Studies

With increased demand for college education, students are willing to take on debt for the potential benefits, such as better earning potential and more job opportunities.

Here are a few statistics (2022/2023) about Canadian student loans:[3]

- *The average student loan debt in Canada is approximately $28,000.*
- *The total amount of student loan debt in Canada is more than $23.5 billion.*
- *Women make up the majority of Canada's student loan debt borrowers.*
- *20-to-24-year-olds hold the most student loan debt.*
- *Ontario holds the most student loan debt, followed by Alberta and British Columbia.*
- *Nova Scotia has the highest tuition costs.*

How long does it take to pay off $50,000 in student loans?

Your potential savings from refinancing will vary based on your loan terms. For example, say you have a $50,000 loan balance with a 6.22% interest rate — the average student loan interest rate for graduate students. On the standard 10-year repayment plan, you'd pay $561 per month and $17,277 in interest over time.

College and university graduates earn significantly more per year than those without these credentials throughout

their careers. Statistics Canada provides the following statistics from 2020 within Ontario's 35-44-year-old population:[4]

- *High school graduates earned $46,960*
- *College graduates made $56,550*
- *University graduates with a bachelor's made $80,100*
- *University graduates with a master's made $90,700*

Naturally, there are exceptions to these average outcomes. You'll find some college graduates stocking shelves or serving coffee, and you'll find college dropouts running multibillion-dollar enterprises. Microsoft co-founder Bill Gates dropped out of college after two years, as did his founding partner, Paul Allen. Generally, a college or university education opens doors to increased job opportunities, increased earning potential, and a path to advancement.

How Can You Get Out of Debt?

There are several strategies to help reduce or eliminate personal debt. These include consolidating your debts, boosting your income, setting a realistic budget, cutting down on monthly expenses, limiting impulse purchases, and following a structured debt repayment plan. You might also consider credit counselling, using cashback rewards wisely, temporarily reducing your savings contributions, and building an emergency fund to avoid future debt. While bankruptcy is a last-resort option, it should be avoided if possible, as it can severely damage your credit rating for years to come.

Here are some ways to get out of personal debt:

- *Create a budget: Adjust your budget and cut back on spending.*
- *Reduce monthly bills: Choose less costly options.*
- *Curb impulse spending: Wait a day or two to see if you feel strongly about buying an item before you buy it. Stick to a budget.*
- *Consolidate debt: Look into consolidating your debt to simplify payments and potentially lower interest rates. Combine multiple debts into one loan or line of credit with a single monthly payment.*
- *Consider credit counseling: A nonprofit credit counselor can review your finances and debt and recommend next steps.*
- *Increase income: Find ways to make extra money, such as taking on a part-time job.*
- *Use a debt repayment strategy: Simplify your debt repayment schedule and stay accountable.*
- *Use cashback rewards: Use cashback rewards to pay down your balance.*
- *Scale back on savings: Temporarily reduce your savings until you're debt-free.*
- *Create an emergency fund: Set aside money for emergencies and avoid relying on credit in the future.*

- *Cut up your credit cards and start living on a cash-only basis. Although credit cards can be an important way to build a credit rating, many people simply lack the financial discipline to handle them well. If you see yourself in that statement, then moving to a pay-as-you-go basis, i.e., cash or debit card only, may be for you. Be honest with yourself; if you can't handle credit, then don't use it.*
- *Pay your most expensive debts (high-interest) first. Pay down the debt with the highest interest charges.*

By following these steps, you can begin to regain control of your finances and work toward becoming debt-free.

If you're unable to get out of debt, you may need to consider bankruptcy. However, bankruptcy is a lengthy process, and it won't erase all debts, like student loans. It can also ruin your credit rating and make it difficult to get loans or credit for future years.

Create a Personal Budget

*A **budget** is a plan that helps you manage your money. It helps you figure out how much money you get, spend, and save. Making a budget can help you balance your income with your savings and expenses. It guides your spending to help you reach your financial goals (Government of Canada, n.d.). To learn how to make a personal budget and stick to it, visit Making a Budget from the Financial Consumer Agency of Canada.*

Apps like Mint, YNAB (You Need a Budget), or Excel spreadsheets can simplify budgeting and track spending. Regular review of the budget is important to ensure you stay on track, and you will need to adjust categories if unexpected expenses arise or your priorities change.

A budget is especially important if you:

- *Don't know where your money is going*
- *Don't save regularly*
- *Have problems paying off your debts*
- *Feel overwhelmed by your finances*
- *Feel like you're not in control of your finances*
- *Want to make the most of your money*
- *Are planning for a major purchase or a life event*

Making a budget can help you:

- *Set spending limits*
- *Find ways to pay down your debts*
- *Reduce costs and save more*

- *Live within your means*
- *Reduce financial stress*
- *Have more money for things that are important to you*
- *Feel in control of your finances*

Below are a few suggestions on how college students can more effectively manage their money while furthering their education:

- *Set up a self-enforced budget and manage your credit card responsibly*
- *Utilize meal plans or make your own meals rather than eating out, and share expenses with roommates*
- *Investigate economic ways to buy essential items and supplies*
- *Distinguish between essential and non-essential purchases*
- *Take advantage of scholarships and grant awards*
- *Investigate off-campus housing and whether or not you can share a place with another student*
- *Get a paid, part-time job if your schedule permits, but don't work full-time hours; otherwise, you may not have time to keep up with your studies*
- *Take advantage of free (on campus) or low-priced (Value Village, Salvation Army) options for food, clothing, and furniture*
- *If asked, request practical gifts for your birthday and other special occasions*
- *Buy used books when possible and resell them when you are finished with them, or check out the library to see if you can borrow a course textbook*
- *Investigate whether or not you can remain on your parents' health insurance plan instead of purchasing health insurance yourself*

Creating and using a budget is not just for those who need to closely monitor their cash flows from month to month because money is tight. Almost everyone can benefit from budgeting.[5] *Building the right college student budget for your situation can help you stay on track for your financial life after graduation. Plus, learning to build and maintain a budget is an important skill to carry with you for the rest of your life. If you aren't sure how to create the perfect college budget that works for you, then check out this free budgeting course. It will walk you through the steps of building a budget that actually sticks.*[6]

Self-Check Exercise: Create a Personal Budget

One of the best ways to manage your money and personal finances is to build a personal budget.

A **personal budget** (for an individual) or household budget (for a group sharing a household) is a plan for the coordination of income and expenses.

You will need to have all your information gathered. This includes what you bring in – from employment to student loans – and what goes out – for food, entertainment, health and wellness, rent, utilities, etc. Be honest and thorough.

The Government of Canada, through the Financial Agency of Canada, created a tool that provides an in-depth account of your personal finances. Use the Budget Calculator to document your situation. Export your budget as an Excel spreadsheet. You will now be able to make improvements, if appropriate. If your balance is negative, or when your expenses exceed your income, you need to make some choices based on what you learned when you tracked your spending. Ask yourself some tough questions:

- What can be eliminated from my expenses?
- What can be reduced from my expenses?
- In what areas can I be a smarter consumer?
- Where does my money seem to get gobbled up?

After you have made some difficult choices, turn back to the budget worksheet and create a new "revised" column. You will want to work toward achieving a positive balance.

Should you end up with a surplus or positive balance, you need to make some choices about what to do with the extra money. Perhaps you could put it toward your financial SMARTER goal. Avoid the temptation to spend it.

Reduce Monthly Bills

Here are a few suggestions to help you reduce your monthly bills:

- *Get a cheaper mobile phone bill.*

- *Pay your bills on time so you are not charged interest fees.*
- *Cancel unnecessary or unused subscriptions.*
- *Share rent, utilities, and grocery expenses with a roommate.*
- *Carpool to reduce travel costs, take transit, or buy less expensive auto insurance.*
- *Reduce, reuse, recycle. You can buy gently used clothing, furniture, bicycles, automobiles, and just about anything. Don't throw out leftover food; make a new recipe from it.*
- *Seek student discounts such as no-fee bank accounts, 20% off at specific retailers with student cards, etc.*
- *Use the money-back on your credit cards or customer loyalty points from various vendors whenever you can.*
- *Cook more often so you don't need to eat out or order in. Eat out as a reward, not as a rule. A sandwich or leftovers from home can be just as tasty and can save you $5 to $15 a day!*
- *Get a student scholarship or grant.*
- *Eliminate impulse buying.*

Curb Impulse Spending

Here are a few suggestions to help you curb impulse spending:

Impulse Shopping

- *Build a budget that follows the 50-30-20 rule for budgeting.*
- *Take $100 out of the bank and don't spend a penny more.*
- *Make a list of what you plan to buy over a week, a month, and stick to it. Seeing your planned purchases can help you stay on track.*
- *Eat before you grocery shop. You don't want to be hungry and pick up a bunch of snack food while grocery shopping.*
- *Sleep on it. Wait a day or two and think about whether or not you really need the item or really want the item. Often, if you wait a few days, you will determine it is not needed, or you will find a better deal somewhere else.*

You'll probably be surprised at how much of your money can quickly become somebody else's money. If, for example, you spend $3 every day for one cup of coffee at a coffee shop, you're laying out nearly $1,100 a year just for coffee. If you use your ATM card at a bank other than your own, you'll probably be charged a fee that can be as high as $3. If you do this even twice per month, that adds up to $72 per year in ATM fees. To avoid ATM fees, choose a bank with no ATM fees or a bank that refunds ATM fees for student accounts. You might also consider spending on

your credit card, then paying off the balance each month. To do this, you must be self-disciplined in not charging more than you have saved for. This way you won't pay so many bank fees, nor will you pay interest on your credit card balances. Planning ahead, reading the fine print, and making sure you're knowledgeable about the banking services you're using are the three most important things everyone who is looking for free banking should do.[7]

You may or may not be among the Canadian consumers, reported by Statistics Canada, who purchased more than 2 billion litres of beer (equivalent to 3.7 bottles of beer per week per person of legal drinking age) during the 2021/2022 fiscal year, or purchased one or more of the over 2 billion Tim Hortons coffees sold each year.[89] *You may or may not be one of the 40% of Canadian consumers who regret holiday-spending bills.*[10] *Bottom line – if, at age 28, you have a good education and a good job, a $60,000 income, and $70,000 in debt—by no means an implausible scenario—there's a very good reason why you should think hard about controlling your debt: your level of indebtedness will be a key factor in your ability—or inability—to reach your longer-term financial goals, such as home ownership, a dream trip, and, perhaps most importantly, a reasonably comfortable retirement.*

Self-Check Exercise: Financial Savvy Quiz

How financially savvy are you? Are you good at managing your money month-to-month or do you need a budget? Quiz yourself to find out.

An interactive H5P element has been excluded from this version of the text. You can view it online here:
https://ecampusontario.pressbooks.pub/businessfundamentals/?p=934#h5p-15

Grow Your Money

Choosing a career early in your financial life cycle is just one reason to start financial planning as soon as possible. Consider this scenario: it's your eighteenth birthday, and you receive $10,000 that your grandparents had set aside in a trust for you. You could spend it, perhaps fulfilling a long-held dream like funding flight training for a pri-

vate pilot's license. Alternatively, your grandfather might encourage you to save it instead, taking advantage of the power of interest.

Interest is either the cost of borrowing money or the extra payment made to you by an investing institution, typically expressed as an annual percentage rate. If you deposit the $10,000 into a savings account earning 5 percent interest annually and leave it untouched until after college, your savings will grow to approximately $12,000—$10,000 in principal and $2,000 in interest. That extra $2,000 could be reinvested or spent on something else.

This prospect sparks curiosity: if $10,000 can grow to $12,000 in just four years, what might it be worth by the time you retire at age 65? A quick search using a compound interest calculator reveals that, after 47 years at a 5 percent interest rate, your $10,000 would grow to $104,345. While not enough to fully fund a retirement, it's a solid foundation.

But let's take it a step further. Imagine that your college education pays off as planned, leading to a good job that allows you to add $10,000 annually to your retirement savings. With consistent contributions and the same 5 percent annual interest rate, your nest egg could grow to over $1.6 million by age 65. This example underscores the value of starting early with financial planning and making the most of compound interest to secure your financial future.

Investing

Investing *is what someone does when they buy something in hopes that it will grow in value over time. While students don't have a lot of money to invest after paying tuition and their bills, it is important to start early. Investing doesn't have to be complicated. If you can afford to invest a small amount each month as a student, it could pay off big in the long run. Here are a few investment options for students:*[11]

- *Guaranteed investment certificates (GICs)*
- *Bonds*
- *Stocks*
- *Mutual Funds*
- *Exchange-traded Funds (ETFs)*

If you're in a position to start investing as a student, you can set yourself up on the right financial path.

Compound Interest

Compound interest *is the process of earning interest on both the original principal and the accumulated interest from previous periods. Unlike simple interest, which is calculated only on the principal amount, compound interest allows your investment or loan to grow at an accelerating rate over time because interest is added to the principal at regular intervals.*

Time Value of Money

Imagine, for instance, you follow your grandfather's advice and invest $10,000 (your principal) in a savings account with an annual interest rate of 5 percent. At the end of the first year, your investment will earn $500 in interest, bringing your total balance to $10,500. If you then reinvest the entire $10,500 at the same 5 percent rate, you'll earn $525 in interest during the second year, resulting in a total of $11,025. This process continues each year, with interest being earned on both your initial investment and the accumulated interest. Over time, this compounding effect can lead your investment to grow to $81,496.67 by the time you reach 65.

Prefer a video to help you decipher and understand compound interest? Visit Khan Academy's seven minute explanation.

Time Value of Money

The ***time value of money*** *is a key financial concept that emphasizes that a dollar received today holds more value than the same dollar received in the future. This principle stems from the earning potential of money: money available now can be invested to generate returns, such as interest or dividends, over time. The sooner money is received, the sooner it can be utilized to grow wealth, making it inherently more valuable in the present.*

Inflation plays a significant role in this principle. Over time, the general increase in prices reduces the purchasing power of money, meaning that a dollar in the future will buy less than it can today. Additionally, the opportunity cost of delaying money is another critical factor. For example, if you lend someone money, you forgo your chance to invest or spend it now. To compensate for this sacrifice, interest is charged, which also accounts for factors like inflation and risk. Lending money to a government, for instance, might involve minimal risk, but lending to an individual introduces uncertainties, requiring higher compensation.

Ultimately, the time value of money reflects both the financial and practical realities of managing resources, emphasizing the importance of immediate access to funds for maximizing their potential. This principle underpins many financial decisions, from borrowing and lending to investment strategies.

The time value of money principle emphasizes that a dollar received today begins earning interest immediately, while a dollar received tomorrow starts earning later. For example, suppose you receive $2,000 in cash gifts upon graduating from college. At 23, with your degree in hand and no immediate need for the money, you decide to invest the $2,000 in an account earning 10 percent interest compounded annually, adding another $2,000 each year (roughly $167 per month) for the next 11 years. Note that the 10 percent rate is used for illustration and is not representative of today's market conditions.

The orange line in Figure 13.1 illustrates how your account balance grows each year, showing your total savings at various ages between 24 and 67. By age 36, you'd have almost $52,000, and by age 50, over $196,000. By the time you reach 67, you'd have nearly $1 million. In contrast, the yellow line shows what would happen if you didn't start saving until age 36. Although you'd still accumulate a respectable sum by age 67, it would be less than half of what you would have accumulated by starting at 23. More importantly, to reach this amount, you would need to contribute $2,000 every year for 32 years, instead of just 12.

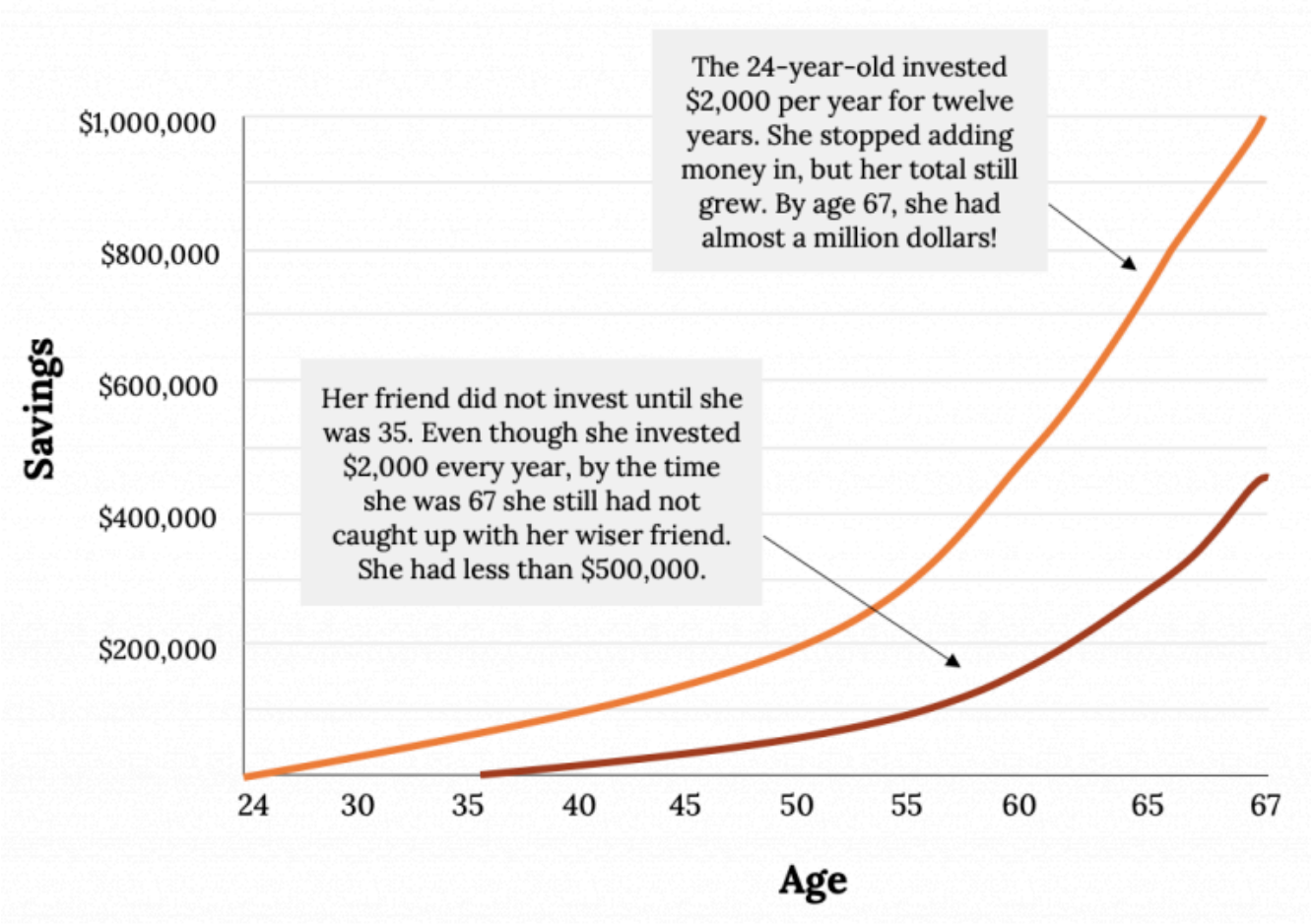


Figure 13.1 The Power of Compound Interest

Here's another way of looking at the same principle. Suppose that you're 20 years old, don't have $2,000, and don't want to attend college full-time. You are, however, a hard worker and a conscientious saver, and one of your financial goals is to accumulate a $1 million retirement nest egg. As a matter of fact, if you can put $33 a month into an account that pays 12 percent interest compounded, you can have your $1 million by age 67. (Again, 12 percent may be unrealistic in today's market). That is, if you start at age 20. As you can see from Figure 13.2, if you wait until you're 21 to start saving, you'll need $37 a month. If you wait until you're 30, you'll have to save $109 a month, and if you procrastinate until you're 40, the ante goes up to $366 a month.[12] *Unfortunately, in today's low interest rate environment, finding 10–12 percent return is not likely. Nevertheless, these figures illustrate the significant benefit of saving early.*

The reason should be fairly obvious: a dollar saved today not only starts earning interest sooner than one saved tomorrow (or 10 years from now) but also can ultimately earn a lot more money in the long run. Starting early means in your 20s—early in stage 1 of your financial life cycle. As one well-known financial advisor puts it, "If you're in your 20s and you haven't yet learned how to delay gratification, your life is likely to be a constant financial struggle."[13]

How to save a million dollars by age 67	
Make your first payment at age:	**And this is what you'll have to save each month:**
20	$33
21	$42
23	$47
24	$53
25	$60
26	$67
27	$76
28	$85
30	$109
35	$199
40	$366
50	$1,319
60	$6,253

Figure 13.2 How to Save a Million Dollars by Age 67

Banking

Suppose you want to save or invest – do you know how or where to do so? You probably know that your branch bank can open a savings account for you, but interest rates on such accounts can be pretty unattractive. Investing in individual stocks or bonds can be risky, and usually requires a level of funds available that most students don't have. In those cases, mutual funds can be quite interesting. A mutual fund is a professionally managed investment program in which shareholders buy into a group of diversified holdings, such as stocks and bonds. Any of the big 5 banks in Canada (RBC, CIBC, BMO, TD Canada Trust, or Scotiabank) offer a range of investment options, including indexed funds, which track with well-known indices such as the Toronto Stock Exchange, a.k.a. the TSX. Minimum investment levels in such funds can actually be within the

reach of many students, and the funds accept electronic transfers to make investing more convenient. We'll leave a more detailed discussion of investment vehicles to your more advanced courses.

You may choose to do your banking with a major bank or with a local credit union. Most people never notice the differences between credit unions and banks. They offer similar products and services, but they're not the same. The following are some key points that highlight the differences:

Major Banks:

- *Funds are secure*
- *Profitability– usually shareholders own a bank and expect financial performance from the bank management*
- *Offer a wide range of competitive and advanced banking products*
- *Inter-branch banking = convenience*

Credit Unions:

- *Customers are "members"; deposits are called "shares"*
- *Credit Unions are non-profit organizations that strive for service over profitability. They are NOT charities; credit unions must make sound financial decisions, collect revenue, pay salaries, and compete with other institutions.*
- *May not have all the banking products as major banks*
- *Inter-branch banking is limited*
- *Funds are also secure*

Choose an Institution that is Right for You

As a college or university student, you might be out on your own for the first time. Part of handling your own finances will be choosing a banking institution or institutions that best suit your needs.

Banks are eager to gain new clientele and establish brand loyalty early on. It should come as no surprise, then, that just about every major banking institution in Canada offers student banking plans.

Any of the big 5 banks in Canada (RBC, CIBC, BMO, TD Canada Trust, or Scotiabank) offer a range of investment options, including indexed funds, which track with well-known indices such as the Toronto Stock Exchange, a.k.a. the TSX. Minimum investment levels in such funds can be within the reach of many students, and the funds accept electronic transfers to make investing more convenient.

An interactive H5P element has been excluded from this version of the text. You can view it online here:
https://ecampusontario.pressbooks.pub/businessfundamentals/?p=934#h5p-13

You may wish to review this article for more information on How to Choose a Bank That's Right for You.

Now you are ready to start planning for your financial future.

Build a Good Credit Rating

If you can create a budget and stay on budget, that's a good thing; however, as the saying goes, life happens, and you may find that your car breaks down when you least expect it, and the bill could be over $1000 – that may not have been in your budget. You may require a loan, so ensure you understand the different types of loans. You won't get a bank loan unless you have a good credit rating. A good thing to do is to plan for crises and contingencies, which will help you mitigate these risks. It is always a good idea to have a special reserve of money, a "rainy day" fund, for emergencies or large expenditures you did not plan for.

The amount of money you should have in your emergency fund can vary depending on your personal and financial goals. As a rule of thumb, financial experts recommend having enough savings to cover three to six months' worth of living expenses.[14]

For now, you are probably thinking about credit cards more than anything else. They are a great way to establish your credit history so that you can apply and qualify for some of those other loans later. There are some important things about credit cards that you need to know, though, a big part of that has to do with the way that you use the

credit card and how the banks interpret that use – it's called utilization. Read "How Does the Credit Utilization Percentage Impact My Credit Score?" to learn more.

Do you often find yourself splurging or impulse shopping? Are your monthly bills more than you can comfortably afford? If you find yourself unable to make timely payments on loans or rent, you risk damaging your credit rating, which could affect your ability to borrow money in the future.

So, how do potential lenders determine if you are a good or bad credit risk? If your credit is poor, how might this affect your ability to secure a loan or the interest rates you'll be offered? In Canada, a ***credit rating*** *is a numerical score that reflects an individual's or business's creditworthiness, based on their financial behavior and credit history. Every time you use a credit card or borrow money, such as from a bank, your spending and debt habits are recorded. This information is then used by lenders, such as banks and financial institutions, to assess the risk of lending money or extending credit. Credit ratings in Canada are typically provided by two main credit bureaus—Equifax Canada and TransUnion Canada.*

While Canadian credit scores are similar to the U.S. ***FICO score****, they are not the same. Credit bureaus in Canada, like Equifax and TransUnion, use their scoring models to assess creditworthiness. Canadian credit scores range from 300 to 900, with most individuals falling in the 600–700 range, which is considered a good score. Your score is influenced by factors such as payment history, debt-to-income ratio, length of credit history, and the types of credit accounts you have. While Canadians may not use FICO scores, the concept is similar: both systems assess an individual's ability to repay debt and manage credit responsibly. You can access your Equifax score for free online or by mail, and residents of Quebec can access their TransUnion score for free. Some banks also provide free credit scores through online banking services. Ultimately, your credit score plays a key role in determining whether you qualify for credit and the interest rates you'll pay.*

A credit score is calculated by considering five main criteria:

- *Payment history*
- *Use of available credit*
- *Length of credit history*
- *Number of inquiries*
- *Types of credit accounts*

This score, along with other credit history information, is shared by the credit bureaus with their subscribers, helping lenders assess credit risk when considering loan applications.[15]

So, what does this mean for you? It depends on your credit behavior. If you pay your bills on time and don't take on excessive debt, you're likely to have a high credit score, which will make you more attractive to lenders. This could result in receiving loans with reasonable interest rates. However, if your credit score is low, lenders may be hesitant

to approve your loan applications, or they might offer loans at higher interest rates. A low credit score can even impact your ability to rent an apartment or secure certain jobs. That's why it's crucial to do everything you can to maintain a strong credit score.

Credit Score Ranges and What They Mean

Although the exact credit score ranges may vary slightly depending on the credit bureau or scoring agency, understanding where your credit score falls is essential for assessing your financial health. Knowing your score will help you understand what actions you may need to take to improve your creditworthiness and achieve your financial goals.

Here's a breakdown of typical Canadian credit score ranges and their implications:

- ***Poor** (300 to 559): If your score falls in this range, you may be considered a higher credit risk. You might find it difficult to obtain loans or credit cards, and if approved, you could face higher interest rates or less favorable terms.*
- ***Fair** (560 to 659): With a score in this range, some lenders may still see you as a higher-risk borrower. You may have access to credit, but at higher interest rates and less favorable terms.*
- ***Good** (660 to 749): A good credit score indicates you are a reliable borrower and can likely qualify for many loans and credit cards with reasonable terms and rates.*
- ***Very Good** (750 to 849): At this level, you are seen as a low-risk borrower, which means you are likely to qualify for the best loan terms, lower interest rates, and higher credit limits.*
- ***Excellent** (850 and above): If your score is in this range, you're considered an exceptional borrower, which typically means the best possible loan terms, lowest interest rates, and higher credit limits are available to you.*

As a young person, building a strong credit history that will lead to a higher credit score can be achieved with a few key steps:

- *Become an authorized user on a parent's credit account.*
- *Obtain your own credit card, but don't apply for several credit cards at the same time.*
- *Choose the right credit card for your needs.*
- *Use the credit card for small, regular purchases, but avoid large purchases unless necessary.*
- *Pay off your balance in full each month to avoid interest.*
- *Pay all your bills on time.*
- *Avoid cosigning loans for others or applying for multiple credit cards at once.*
- *Use student loans for education expenses only, and always make your payments on time.*

If you qualify for your own credit card, aim for one with a low interest rate and no annual fee to build your credit responsibly.

Secured Versus Unsecured Credit

Credit Cards

Credit Card Payment

Credit cards can be secured or unsecured. Unsecured credit cards don't require a deposit and offer a credit limit based on your creditworthiness, such as your credit score and income. If you carry a balance, you'll be charged interest, typically between 15% to 25% APR. The interest compounds, meaning you'll pay interest on both the principal and any accumulated interest if the balance isn't paid off in full each month. Secured credit cards, on the other hand, require a deposit that acts as collateral for your credit limit. These are often used by people building or rebuilding credit and may have similar interest rates to unsecured cards but carry less risk for the issuer.

Your credit card usage directly impacts your credit score, particularly through factors like credit utilization (the percentage of your limit used) and payment history. Many cards offer rewards such as cashback, points, or miles, along with benefits like purchase protection or travel insurance. However, credit cards can also come with fees, including annual fees, late payment fees, or foreign transaction fees. By managing your credit card well—paying on time, keeping balances low, and avoiding high-interest debt—you can build a strong credit history and minimize interest charges.

Bank Loans

Bank loans come in both secured and unsecured varieties, and the type of loan you choose impacts factors like interest rates, required collateral, and the potential for compound interest.

- ***Secured loans** require you to provide collateral—something of value, such as a house (for a mortgage) or a car (for an auto loan). This collateral reduces the risk for the lender, which typically results in lower interest rates compared to unsecured loans. The interest rates for secured loans can vary widely based on factors like the type of loan, your creditworthiness, and the collateral involved, but they are generally more favorable than unsecured loans. For example, mortgage rates might range from 3% to 7%, while auto loan rates might*

be in the 4% to 10% range. In a secured loan, if you fail to repay, the lender has the right to seize the collateral.

- ***Unsecured loans**, on the other hand, do not require collateral. Because there is no asset backing the loan, these loans are considered higher risk for the lender, which typically results in higher interest rates. Unsecured loans, such as personal loans or credit card debt, often come with interest rates ranging from 10% to 30%, depending on your credit score and financial history. Compound interest applies to unsecured loans as well, meaning the interest is calculated not only on the original amount borrowed but also on any interest that has accrued. This can cause the debt to grow quickly if not managed carefully, particularly if only minimum payments are made.*

In both types of loans, interest is generally calculated as simple interest for personal loans, mortgages, and auto loans, meaning the interest is only charged on the initial loan amount. However, with credit cards and some other types of revolving credit, compound interest is used, leading to interest on both the principal and any accrued interest. To minimize the impact of interest, it's important to understand the loan terms, make timely payments, and pay more than the minimum required whenever possible. For both secured and unsecured loans, maintaining a strong credit score can help you secure better interest rates and more favorable loan terms.

Key Takeaways

1. **Financial planning** is the ongoing process of managing your personal finances in order to meet goals that you've set for yourself or your family.
2. **Personal finance** is the application of financial principles to the monetary decisions that you make either for your individual benefit or for that of your family.
3. The **financial planning life cycle** of a typical individual's life has three stages, each of which is characterized by different life events. Stage 1: Focus on building wealth, Stage 2: Focus on preserving and increasing wealth, and Stage 3: Focus on living on one's saved wealth after retirement.
4. Your "**personal debt**" is how much money you owe to other people, businesses, banks, credit card companies, and other creditors.
5. A few ways to **get out of personal debt** include consolidating debt, increasing your

income, creating a budget, using a debt repayment strategy, considering credit counselling, using cashback rewards, reducing monthly bills, curbing impulse spending, temporarily scaling back on savings, and creating an emergency fund. Bankruptcy is a final option, but not the best one, as it negatively affects your future credit rating.

6. One of the best ways to manage your money and personal finances is to build a personal budget. A **personal budget** (for an individual) or household budget (for a group sharing a household) is a plan for the coordination of income and expenses.
7. **Investing** is what someone does when they buy something in hopes that it will grow in value over time.
8. **Compound interest** refers to the effect of earning interest on your interest.
9. The **time value of money** is a key financial concept that emphasizes that a dollar received today holds more value than the same dollar received in the future.
10. In Canada, a **credit rating** is a numerical score that reflects an individual's or business's creditworthiness, based on their financial behavior and credit history. Credit ratings in Canada are typically provided by two main credit bureaus—Equifax Canada and TransUnion Canada. While Canadian credit scores are similar to the U.S. FICO score, they are not exactly the same.
11. Loans that involve some type of collateral are referred to as secured loans or **secured credit**. Collateral is something of value, such as a house (for a mortgage) or a car (for an auto loan). This collateral reduces the risk for the lender, which typically results in lower interest rates compared to unsecured loans.
12. Loans that do not require collateral are referred to as unsecured loans or **unsecured credit.** Because there is no asset backing the loan, these loans are considered higher risk for the lender, which typically results in higher interest rates. Unsecured loans, such as personal loans or credit card debt, often come with interest rates ranging from 10% to 30%, depending on your credit score and financial history.

End-of-Chapter Exercises

1. **OECD Financial Literacy.** The Organization for Economic Cooperation and Development began measuring the financial literacy of its OECD countries using this 5-Question Financial Literacy Survey. This simple 5-question survey tests basic financial literacy knowledge. You can Take the survey or download the examples with answers. How did you do?
2. **Find Your Latte Factor.** Use this Find Your Latte Factor calculator to determine how much money, over time, you could save by cutting out a small, unnecessary thing from your daily/weekly expenses. What did you discover? Share with your class and/or professor.
3. **Budget Calculator.** (Also, within the chapter) The Government of Canada, through the Financial Agency of Canada, created a tool that provides an in-depth account of your personal finances. Use the Budget Calculator to document your situation. Export your budget as an Excel spreadsheet. What did you learn? Where can you make improvements?
4. **Financial Literacy.** Test your financial literacy knowledge by taking the My Money Sense (Singapore) Financial Literacy Quiz. How did you do? Did you learn a few things? Share your learning with the class and/or professor.
5. **Make a Budget.** Follow the TD Bank Budgeting Advice for Students and make a budget for yourself. Your college or university may also have a learning strategist who can help you with this. Follow the 50-30-20 framework: 50% of your income should go toward your needs, 30% of your income should go toward your wants, and 20% of your income should go toward savings or financial goals. After you finish, reflect on how you are doing and what adjustments you may need to make to your spending habits. Discuss budgeting with the class and/professor. It's quite conceivable that your peers have similar budgeting challenges as you.
6. **Reduce Expenses.** Determine three ways in which you can reduce your expenses this week. Put your ideas to work this coming week and track how you do. Were you successful? If not, why not? If not, what will you change when you try again? If you were successful, how much did you save? Share your results with the class and/or professor.
7. **Online Banks**. Use the Internet to research online banks, such as Tangerine, and review their bank fees. Usually, these banks have no fees or lower fees than brick-and-mortar banks (the Big Five). Would you trust your money to an online bank? Why or why not?
8. **Check Your Credit Rating.** Use the Internet to find information on how you can check your FICO score. What is your credit rating? How can you find out? Are there free options? Share what you learned with your class and/or professor.
9. **Investing.** Visit one of the Big Banks' websites and learn more about investing as a student. What are the current interest rates banks are paying on investments? Do you like the idea of investing in GICs, or are you more interested in investing in Stocks? Explain. Share your find-

ings with your class and/or professor.

10. **Financial Calculator.** Use the calculators at Dinkytown.net to answer the following questions. Starting today, how much would you need to save each month to become a millionaire before you retire? You need $5,000 for a Caribbean Cruise in one year from today. How much would you need to deposit monthly in a savings account paying 1% interest to meet your goal? Share your results with the class and/or professor.
11. **Rent Versus Buy.** Use the Internet to gather information regarding the cost to rent a two-bedroom apartment or to buy a two-bedroom condominium in your area. Go to Dinkytown.net and use the site's "rent-versus-buy calculator" to compare these costs. Discuss your findings with the class and/or professor.

Self-Check Exercise: Managing Personal Finances Quiz

Check your understanding of this chapter's concepts by completing this short self-check quiz.

An interactive H5P element has been excluded from this version of the text. You can view it online here:
https://ecampusontario.pressbooks.pub/businessfundamentals/?p=934#h5p-14

Additional Resources

1. TD Bank Budgeting Advice for Students
2. Khan Academy's Seven Minute Explanation of Compound Interest
3. 7 Effective Tips for Reducing Your Expenses
4. 30-Day No Spend Challenge
5. How to Save Money on Household Bills
6. How I Saved $10,000 in Six Months
7. A Third of Canadians Say They're "House Poor", and a Fifth Regret Their Purchase
8. Government of Canada, Credit Report and Score Basics
9. How to Pay Off $50,000 of Debt in One Year
10. What College Students Need to Know About Money. YouTube Video.
11. Compound Interest. YouTube Video.
12. Financial Empowerment: Personal Finance for Indigenous and Non-Indigenous People
13. Student Banking 101: What you Need to Know About Investing as a Student
14. Free Financial Literacy Program, Government of Canada
15. One Page Financial Plan. YouTube Video
16. Making a Budget. Government of Canada
17. Financial Consumer Agency of Canada

Attributions

The contents of this chapter is a compilation sourced from various OER resources, please refer to the Book Information for details.

References

(Note: This reference list was produced using the auto-footnote and media citation features of Pressbooks)

Media Attributions

- *The Financial Life Cycle © Unknown is licensed under a CC BY-NC-SA (Attribution NonCommercial ShareAlike) license*
- *Impulse Shopping © Andrea Piacquadio | Pexels*
- *Time Value of Money © Tumisu | Pixabay*
- *The Power of Compound Interest © Unknown is licensed under a CC BY-NC-SA (Attribution NonCommercial ShareAlike) license*
- *How to Save a Million Dollars by Age 67 © Unknown is licensed under a CC BY-NC-SA (Attribution NonCommercial ShareAlike) license*
- *Credit Card Payment © energepic.com*

Notes

1. *Gallager T. J., & and Andrews, J. D. Jr., (2003). Financial Management: Principles and Practice, 3rd ed. Upper Saddle River, NJ: Prentice Hall. p. 34, 196.*
2. *Gerson, E. & Simon, J. (2016). "10 ways students can build good credit. CreditCards.com. http://www.creditcards.com/credit-card-news/help/10-ways-students-get-good-credit-6000.php*
3. *Siege Media. (2024, February 5). What's the average student loan debt in Canada? 19 staggering statistics. https://www.robertsoncollege.com/blog/studying-at-robertson/average-student-loan-debt-canada/#:~:text=The%20average%20student%20loan%20debt%20in%20Canada%20is%20approximately%20%2428%2C000,the%20most%20student%20loan%20debt.*
4. *OCUFA. (2024, September 6, 2024). CBC asks: Is university still worth it? We answered. https://ocufa.on.ca/general/cbc-asks-is-university-still-worth-it/#:~:text=Statistics%20Canada%20proves%20this%3A%20in,with%20a%20bachelor's%20made%20%2480%2C100*
5. *Ganti, A. (2024, October 17). What is a budget? Plus 11 budgeting myths holding you back. https://www.investopedia.com/terms/b/budget.asp*
6. *Sharkey, S. (2024, September 27). How to create a college student budget you'll actually use. https://www.clevergirlfinance.com/college-student-budget/*
7. *Wood, C. (2024, November 1). Canadian bank fees: The good, the bad and the ugly. https://loanscanada.ca/money/canadian-bank-fees-the-good-the-bad-and-the-ugly/*
8. *Statistics Canada. (2023, July 4). Hot summer day...cold beer or cooler. https://www.statcan.gc.ca/o1/en/plus/4017-hot-summer-day-cold-beer-or-cooler*
9. *Tim Hortons. (n.d.). Fresh facts. https://company.timhortons.com/us/en/corporate/fresh-facts.php#:~:text=Each%20year%2C%20we%20serve%20more,maintain%20our%20consistently%20high%20quality.*
10. *Bazian, G. (2018, December 21). Over 40 percent of Canadians anticipate feelings of anxiety and regret over holiday-spending bills. https://mnpdebt.ca/en/resources/mnp-debt-blog/over-40-per-cent-of-canadians-anticipate-feelings-of-anxiety-and-regret-over-holiday-spending-bills*
11. *Scotiabank. (n.d.). Student banking 101: What you need to know about investing as a student. https://www.scotiabank.com/ca/en/personal/advice-plus/features/posts.investing-as-a-student.html#:~:text=Investment%20options%20for%20students%201%201.%20Guaranteed%20investment,a%20sin-*

gle%20fund.%20...%205%205.%20ETFs%20

12. *Keown, A. J. (2007). Personal Finance: Turning Money into Wealth, 4th ed. Upper Saddle River, NJ: Pearson Education. p. 23.*
13. *All Financial Matters. (2006, February 10). An interview with Jonathan Clements – Part 2. http://allfinancialmatters.com/2006/02/10/an-interview-with-jonathan-clements-part-2/.*
14. *Horton, C. (2023, July 19). Emergency fund calculator. https://www.forbes.com/advisor/banking/emergency-fund-calculator/*
15. *Government of Canada. (n.d.). Credit report and score basics. https://www.canada.ca/en/financial-consumer-agency/services/credit-reports-score/credit-report-score-basics.html*

GLOSSARY OF TERMS

360-degree feedback

Instead of being evaluated by one person, how would you like to be evaluated by several people—not only those above you in the organization but those below and beside you? The approach is called 360-degree feedback, and the purpose is to ensure that employees (mostly managers) get feedback from all directions—from supervisors, reporting subordinates, coworkers, and even customers.

Absolute advantage

A nation has an absolute advantage if, (1) it's the only source of a particular product, or, (2) it can make more of a product using fewer resources than other countries.

Academic integrity

Academic integrity is a commitment to acting with honesty, trust, fairness, respect, and responsibility in academic work and studies.

Accessibility

Accessibility is the practice of making information, activities, and/or environments sensible, meaningful, and usable for as many people as possible.

Accounting

Accounting is the organizational function that is focused on recording, keeping, analyzing and communicating financial information.

Advertising

Advertising is paid, non-personal communication designed to create an awareness of a product or company.

Artificial Intelligence (AI)

Artificial Intelligence (AI) refers to the simulation of human intelligence in machines, enabling them to perform tasks that typically require human cognitive abilities. These tasks include learning from

data (machine learning), problem-solving, decision-making, natural language understanding, and pattern recognition. AI systems use algorithms, statistical models, and computational power to process vast amounts of information, identify patterns, and make predictions or recommendations.

Assets

Assets: the business resources from which it expects to gain some future benefit.

Audit

An audit involves an examination and verification of records and supporting documents.

Autocratic leaders

Directive leaders who prefer to make decisions and solve problems on their own with little input from subordinates.

Balance of payments

Balance of payments is the difference, over a period of time, between the total flow of money coming into a country and the total flow of money going out.

Balance of trade

Calculate the balance of trade by subtracting the value of its imports from the value of its exports. If a country sells more products than it buys, it has a favourable balance, called a trade surplus. If it buys more than it sells, it has an unfavourable balance, or a trade deficit.

Balance Sheet

Balance Sheet = Show assets and liabilities, the amount invested in the business.

Bank of Canada

The Bank of Canada is a special type of Crown corporation that is owned by the federal government, but has considerable independence to carry out its responsibilities and therefore operates separately from the political process.

Benchmarking

Benchmarking involves comparisons to other organizations' practices and processes with the objective of learning and improvement in both efficiency and effectiveness.

Benefits

Benefits— compensation other than salaries, hourly wages, or financial incentives.

Big data

Big data refers to datasets that are so large and complex that traditional data-processing methods cannot handle them. Its defining characteristics are volume, velocity, variety, veracity, and value (the 5Vs).

Boycott

A boycott is a nonviolent, organized protest where people refuse to buy products or services, or participate in activities, to express disapproval.

Brand strategy

Brand strategy is "The entire experience your prospects and customers have with your company, product or service. Your brand strategy defines what you stand for, a promise you make, and the personality you convey."

Breakeven analysis

Breakeven analysis: to break even (have no profit or loss), the total sales revenue must exactly equal all the expenses (both variable and fixed).

Bribery

Lavish or undisclosed gifts designed to influence decision-making cross the line into bribery.

Budget

A budget is a financial plan that estimates how much money you'll make and spend over a specific period of time. It can be used by individuals, families, businesses, and governments.

Budget audit

A budget audit provides information about where the organization is with respect to what was planned or budgeted for, whereas a performance audit might try to determine whether the figures reported are a reflection of actual performance.

Business

A business is an organization that strives for a profit by providing goods and services desired by its customers.

Business cycle

The business cycle is the regular economic pattern of upturns and downturns in demand and output within the economy that tend to repeat themselves every three to five years or may last much longer.

Business environment analysis

A business environment analysis is a systematic process that evaluates the internal and external factors impacting a business.

Business etiquette

Business etiquette is a type of social and business behaviour that team members (whether at school or work) are expected to exhibit. It includes how people communicate, dress, and conduct themselves in meetings and social events.

Business information

Business information refers to collective data related to a company and its operations, including statistical information, raw analytical data, customer feedback, and sales numbers.

Business law

Business law refers to rules, statutes, codes, and regulations established to provide a legal framework within which business may be conducted.

Business participants

Business participants are the people who participate in conducting the work of the business. These always include the employees and managers, but often include suppliers, customers, and shareholders.

Business risk

Business risk refers to the potential for a company to experience financial losses or other challenges that could impact its ability to achieve its objectives. These risks arise from uncertainties in the internal and external environment in which the business operates.

CAD

CAD refers to the use of computer software to create, modify, analyze, or optimize a design.

CAM

CAM refers to the use of computer software and hardware to control and automate manufacturing processes.

Canadian Charter of Rights and Freedoms

The Canadian Charter of Rights and Freedoms is a binding legal document that protects the basic human rights of all Canadians, such as fundamental freedoms, democratic rights, mobility rights, legal rights, equality rights, and language rights.

Canadian Human Rights Act

The Canadian Human Rights Act extends the law to ensure equal opportunity to individuals who may be victims of discriminatory practices based on a set of prohibited grounds (e.g., gender, disability, or religion).

Capacity requirements

The capacity requirements of the production facility is the maximum number of goods that it can produce over a given time under normal working conditions.

Capital budget

capital budget, which considers the company's long-range plans and outlines the expected financial needs for significant capital purchases such as real estate, manufacturing equipment, plant expansions, or technology.

Capitalism

Capitalism is an economic system that promotes the creation and ownership of capital and wealth.

Carroll's Pyramid

Carroll's Pyramid is a well-respected resource for situating corporate social responsibility. In this model, the focus is on managers—not owners—as the principals involved in the company's relationships with its stakeholders.

Cash flow statement

The cash flow statement reports cash inflows and outflows, and it will identify the amount of cash the company currently holds, which is also reported in the balance sheet.

Centralized decision making

Centralized decision making is done at the top level of management which makes decision making consistent, but can make lower-level managers feel under-utilized and impedes the development of decision-making skills in these managers.

CIM

CIM represents a comprehensive approach to manufacturing where CAD, CAM, and other business and manufacturing processes are integrated using computer systems.

Circular business models

Circular business models offer an alternative that shifts the focus from selling products to providing and preserving value, whether through traditional sales or innovative circular services and activities, such as repair or resale.

Circular economy

The circular economy represents a paradigm shift from the traditional linear model of "take-make-dispose" to a regenerative approach that emphasizes the restoration and regeneration of products, materials and energy. It challenges conventional metrics of value creation and encourages manufacturers to design products and business models with durability, repairability and recyclability in mind.

Circular flow model

The circular flow model is simply a way of depicting how money circulates through the economy from individuals to firms in the form of labor and buying goods and services.

Citation style

A citation style dictates the information necessary for a citation and how the information is ordered, as well as punctuation and other formatting. Popular citation styles such as APA and MLA provide guidelines to authors in how to format documents for professionalism, for crediting other people's words and ideas via citations and references to avoid plagiarism, and for describing other people using inclusive, bias-free language.

Coincident indicators

Coincident indicators show the state of the economy today.

Collective bargaining

The process of negotiating with an employer as a unified entity is known as collective bargaining.

Communication skills

Communicate, both orally and in writing. Whether you're talking informally or making a formal presentation, you must express yourself clearly and concisely.

Communism

Communalism is a political and economic system that aims to eliminate class struggles by having the public own the means of production, such as factories and mines. In a communist society, there is no private property or currency, and wealth is shared equally or based on need. Communism is not the same as a planned economy, but communism is often associated with centrally planned economies.

Comparative advantage

Comparative advantage, which exists when a country can produce a product at a lower opportunity cost compared to another nation.

Compensation packages

In addition to salary and wages, compensation packages often include other financial incentives, such as bonuses and profit-sharing plans, as well as benefits, such as medical insurance, vacation time, sick leave, and retirement accounts.

Competitor analysis

A competitor analysis in business involves examining similar brands in the same industry to gain insight into other companies offerings, brands, sales, and marketing approaches.

Compound interest

Compound interest refers to the effect of earning interest on your interest.

Compressed workweeks

With compressed workweeks, rather than work eight hours a day for five days a week, you might elect to earn a three-day weekend by working ten hours a day for four days a week.

Conceptual skills

Conceptual skills — the ability to reason abstractly and analyze complex situations.

Conflicts of interest

Conflicts of interest occur when individuals must choose between taking actions that promote their personal interests over the interests of others or taking actions that don't.

Conflicts of loyalty

Conflicts of loyalty can arise when individuals in leadership positions prioritize personal gains over their professional obligations, leading to ethical and legal repercussions.

Consensual leaders

Leaders who encourage discussion about issues and then require that all parties involved agree to the final decision.

Consultative leaders

Leaders who confer with subordinates before making a decision but retain the final decision-making authority.

Consumer buying process

The consumer buying process involves five steps: Need recognition, Information search, Evaluation of Alternatives, Purchase or No Purchase Decision, Post-purchase Evaluation.

Consumer price index (CPI)

The CPI measures the rate of inflation by determining price changes of a hypothetical basket of goods, such as food, housing, clothing, medical care, appliances, automobiles, and so forth, bought by a typical household.

Contingency and Crisis Planning

Contingency and Crisis Planning are plans for what actions to take when things go wrong.

Contingent workers

Contingent workers are hired to supplement a company's permanent workforce.

Controlling

Controlling involves ensuring that performance does not deviate from standards.

Corporate culture

The set of attitudes, values, and standards that distinguishes one organization from another.

Corporate social responsibility

Corporate social responsibility is a business model by which companies make a concerted effort to operate in ways that enhance rather than degrade society and the environment.

Corporation

Corporation—When a business is incorporated ownership shares are created, which produce a taxation and legal distance between the company and its shareholders.

Cost of goods sold

Cost of goods sold: the total cost of the goods that a business has sold.

Costs

Costs are expenses including rent, salaries, supplies, transportation, and many other expenses a company incurs from creating and selling goods and services.

Credit rating

In Canada, a credit rating is a numerical score that reflects an individual's or business's creditworthiness, based on their financial behavior and credit history. Every time you use a credit card or borrow money, such as from a bank, your spending and debt habits are recorded.

Credits

Credits do the reverse of debits, they decrease asset or expense accounts and increase liability, revenue or equity accounts.

Cultural environment

The cultural environment is the set of factors that shape the way people interact with each other and their physical and social environment.

Cultural norms

Cultural norms are the standards we live by. They are the shared expectations and rules that guide behavior of people within social groups.

Customer divisions

Structuring the company based on the needs of the customers.

Customer rights

Customer rights: the right to safe products, the right to be informed about a product, the right to choose what to buy, and the right to be heard.

Customer-relationship management

Retaining customers is the purpose of customer-relationship management—a marketing strategy that focuses on using information about current customers to nurture and maintain strong relationships with them.

Customers

Customers buy the products and/or services from the business. Customers are extremely important to the business. In fact, they are participants, stakeholders, and an external environmental influence.

Data mining

Data mining involves extracting valuable patterns and relationships from large datasets. Businesses use techniques like clustering, classification, and predictive modeling to derive actionable insights.

Data security

Data security is paramount to protect sensitive information from breaches, unauthorized access, and cyberattacks.

Debits

Debits increase asset or expense accounts and decrease liability, revenue or equity accounts.

Debt financing

Debt financing, on the other hand, does not require giving up a portion of ownership.

Debt ratios

Debt ratios look at how much borrowing a company has done in order to finance the operations of the business. The more borrowing, the more risk a company has taken on, and so the less likely it would be for new lenders to approve loan applications.

Decentralized decision making

Decentralized decision making is spread throughout the organization. Since the responsibilities and decision-making are given to various people holding different positions in an organization, top management can work towards the growth and long-term vision of the company.

Decision-making

Decision-making is the action or process of thinking through possible options and selecting one.

Decision-making skills

Drawing on your decision-making skills is often a process in which you must define a problem, analyze possible solutions, and select the best outcome.

Deflation

Deflation is downward pressure upon the level of economic activity. It is a period of falling demand and prices. It is usually accompanied by reduce output and rising unemployment.

Delegating

Delegating is the process of entrusting work to subordinates, letting go, trusting – this is challenging for many managers to do; however, it is a necessary skill to learn.

Demand

Demand is the quantity of a product that buyers are willing to purchase at various prices.

Democratic leaders

Leaders who encourage discussion about issues and then require that all parties involved agree to the final decision.

Departmentalization

Departmentalization is grouping specialized jobs into meaningful units.

Digital currencies

Digital currencies are currencies that are only accessible with computers or mobile phones because they only exist in electronic form.

Discrimination

Discrimination occurs when a person is treated unfairly on the basis of a characteristic unrelated to ability.

Diversity

Diversity is the presence, in an organization or a community, of a wide range of people with different backgrounds, abilities and attributes including ethnicity, race, colour, religion, age, gender and sexual orientation.

Divisional organizational structure

A divisional organizational structure is a type of organizational structure where a company is divided into independent divisions that operate like their own companies within the larger organization. Each division has its own resources, teams, and responsibilities.

Double-entry accounting

In double-entry accounting, every transaction is recorded with a debit and credit in two or more accounts, which categorize different types of financial activities in a company's general ledger.

Dumping

Dumping is the practice of selling exported goods below the price that producers would normally charge in their home markets (and often below the cost of producing the goods).

Economic corporate responsibility

Economic corporate responsibility refers to the practice of making financial decisions based on a commitment to doing good.

Economic development

Economic development refers to the process through which a region, country, or community improves the well-being of its citizens by increasing income, reducing poverty, creating jobs, and expanding access to healthcare and education.

Economic indicator

An economic indicators are the monthly statistics that provide information on the country's economic performance. There are different types of indicators which are all subject to considerable error, so it is unwise to draw any conclusions from just one month's data.

Economics

Economics is the study of how individuals, businesses, governments and nations allocate their limited resources to satisfy their unlimited wants and needs.

Effectiveness

Effectiveness is the ability to produce a desired result.

Efficiency

Efficiency is using the least possible amount of resources to get work done, whereas effectiveness is the ability to produce a desired result.

Efficiency ratios

Efficiency ratios tell you how well your assets are being managed.

Embargo

An extreme form of quota is the embargo, which, for economic or political reasons, bans the import or export of certain goods to or from a specific country.

Employability skills

Employability skills are the skills you need to enter, stay in, and progress in the world of work—whether you work on your own or as part of a team.

Employment Equity Act

The Employment Equity Act of 1986 identifies specific populations which are protected from discrimination (women, visible minorities, indigenous peoples, and people with disabilities).

Employment-related legislation

Employment-related legislation covers the following subjects: employment standards, human rights, federal and provincial privacy, occupational health and safety, workers' compensation, and labour regulations legislation.

Empowerment

The process of giving employees increased autonomy and discretion to make decisions, as well as control over the resources needed to implement those decisions.

Enterprise Resource Planning (ERP)

ERP is a broader, integrated system that manages and automates a company's core business processes across multiple departments, including finance, HR, manufacturing, supply chain, sales, and customer relationship management (CRM). It often incorporates MRP as a module.

Equity

Equity is a process that ensures everyone has access to the same opportunities.

Equity financing

Equity financing carries no repayment obligation and provides extra working capital that can be used to grow a business.

Equity theory

The equity theory of motivation is the idea that what an individual receives for their work has a direct effect on their motivation.

ESG

ESG stands for Environmental, Social, and Governance. It refers to a set of standards used by businesses to evaluate and address their impact on the world, beyond just financial performance.

Ethical business environment

Creating an ethical business environment involves adherence to laws and regulations, strong corporate governance, and proactive efforts to ensure the well-being of employees, customers, and the community.

Ethical dilemmas

Ethical dilemmas are situations in which it is difficult for an individual to make decisions either because the right course of action is unclear or carries some potential negative consequences for the person or people involved.

Ethical issues

Ethical issues are the difficult social questions that involve some level of controversy over what is the right thing to do.

Ethical lapse

An ethical lapse is a mistake or error in judgment that produces a harmful outcome. It is a failure to follow proper ethical principles.

Ethical lapse in honesty and integrity

An ethical lapse in honesty and integrity occurs when an individual, organization, or company fails to uphold fundamental ethical principles, such as truthfulness, transparency, and adherence to moral standards. It typically involves actions or decisions that prioritize self-interest, convenience, or profit over fairness, accountability, and ethical responsibility.

Ethical responsibilities

Businesses have ethical responsibilities to ensure fair practices and treat customers, employees, and stakeholders with respect.

Ethics

Ethics is the philosophical discipline concerned with what is morally good and bad, and morally right and wrong

European Union (EU)

Today, the European Union (EU) is a unique economic and political union between 27 countries that have eliminated trade barriers among themselves.

Exchange rate

Currencies are traded in the foreign exchange market. Like any other market, when something is exchanged there is a price. In the foreign exchange market, a currency is being bought and sold, and the price of that currency is given in some other currency. That price is expressed as an exchange rate.

Expectancy Theory

Vroom argues that an employee will be motivated to exert a high level of effort to obtain a reward under three conditions – the employee: believes that his or her efforts will result in acceptable performance, believes that acceptable performance will lead to the desired reward, and values the reward.

Exporting

Exporting is selling domestic products to foreign customers.

Extrinsic motivation

Extrinsic motivation. This is when motivation comes from external factors; in other words, a person needs an incentive to be, stay, or become motivated.

Facility layout

The facility layout is the physical arrangement of resources.

Factors of production

The resources used to create goods and services.

FICO credit score

A FICO credit score is a tool used by many lenders to determine if a person qualifies for a credit card, mortgage, or other loan.

Fiduciary responsibility

Managers have what is known as a fiduciary responsibility to owners: they're responsible for safeguarding the company's assets and handling its funds in a trustworthy manner.

Financial accountants

Financial accountants deliver information to both internal and external stakeholders to help evaluate the organization's financial health. However, their main focus is on serving external users. Put simply, management accounting supports the day-to-day operation of your business, while financial accounting communicates your business's performance to the outside world.

Financial budget

The financial budget plans the use of assets and liabilities and results in a projcted balance sheet.

Financial controllers

Financial controllers are responsible for updating financial controls and overseeing all the accounting activities in an organization.

Financial controls

Financial controls are procedures and policies that monitor and manage financial resources to prevent errors, fraud, and optimize allocation.

Financial functional area

The financial functional area of a business is responsible for managing the company's financial resources, including budgeting, accounting, financial reporting, cash flow management, and investment decisions. Its role is to ensure the financial stability and growth of the organization by optimizing financial performance and minimizing risks.

Financial management

Financial management involves the strategic planning and budgeting of short- and long-term funds for current and future needs. In most companies the finance department comprises two divisions: accounting and financial management.

Financial manager

A financial manager oversees the financial operations of a company. Many financial managers have backgrounds in accounting, banking, business management, economics, or finance. In most organizations, financial managers hold mid to upper-level roles requiring multiple years of experience. They can work in the private or public sectors.

Financial planning

Financial planning—the ongoing process of managing your personal finances in order to meet goals that you've set for yourself or your family

Financial planning life cycle

The financial planning life cycle of a typical individual's life has three stages, each of which is characterized by different life events. Stage 1: Focus on building wealth, Stage 2: Focus on preserving and increasing wealth, and Stage 3: Focus on living on one's saved wealth after retirement.

First-line managers

First-line managers (also referred to as customer-facing or front-line) coordinate activities, supervise employees, report to middle-managers, and are involved in day-to-day operations.

Fiscal policy

Fiscal policy is a government towards its raising of revenue and its level of public spending.

Flextime

Employers who provide for flextime set guidelines that allow employees to designate starting and quitting times.

Forecasts

Forecasts predict revenue, costs and expenses for a specific future period. Short-term forecasts would

include predictions for the upcoming year, while long-term forecasts would include predictions for a period longer than one year into the future.

Foreign direct investment (FDI)

Foreign direct investment (FDI) refers to the formal establishment of business operations on foreign soil—the building of factories, sales offices, and distribution networks to serve local markets in a nation other than the company's home country.

Formal performance appraisals

On a semiannual or annual basis, they also conduct formal performance appraisals to discuss and evaluate employees' work performance.

Free market economy

A free market economy is an economic system where the laws of supply and demand determine prices, and the government has limited or no involvement

Free market system

Free market system is defined as an economy operating by free competition.

Free-rein leaders

The opposite end of the continuum from the autocratic style, is free-rein or laissez-faire(French for "leave it alone") leadership. Managers who use this style turn over all authority and control to subordinates.

FTSE4Good Index Series

The FTSE4Good Index Series is designed to measure the performance of companies demonstrating specific Environmental, Social and Governance (ESG) practices.

Functional areas in a business

Functional areas in a business refer to different departments or sections that perform specific tasks, such as human resources, operations, accounting, and finance.

Fundamental accounting equation

fundamental accounting equation: Assets = Liabilities + Owner's Equity

Gantt chart

A Gantt chart, named after the designer, Henry Gantt, is an easy-to-use graphical tool that helps operations managers determine the status of projects.

Generally Accepted Accounting Principles (GAAP)

In preparing financial statements, financial accountants adhere to a set of standards or guidelines, known as Generally Accepted Accounting Principles (GAAP). GAAP is used mainly by companies headquartered in the U.S., while most other countries follow the international financial reporting standards (IFRS).

Geographical divisions

Structuring the company so that responses to customers in their geographical areas can be done more effectively.

Gift

A gift intended to maintain goodwill or celebrate a partnership might be ethical if it's modest and transparent.

Globalization

Globalization is the process of increasing economic and social integration between countries, and the increased flow of goods, services, and people across borders.

Goods

Goods are tangible items manufactured by businesses, such as laptops.

GPA score (Grade Point Average)

Your GPA score (Grade Point Average) is a cumulation of the grades across the courses throughout your program. To graduate your institution will have a minimum GPA score you must achieve, and should you wish to further your education in the future your GPA score may factor into whether or not you will be accepted for enrollment at specific colleges or universities.

Grapevine

The grapevine represents the informal communication network within an organization. It is a natural

part of corporate culture, where employees share information unofficially through casual conversations, rumors, or personal interactions.

Greenwashing

Greenwashing refers to the practice of misleading consumers or stakeholders into believing that a company, product, or initiative is more environmentally friendly or sustainable than it actually is.

Gross domestic product (GDP)

Gross domestic product (GDP) is defined as the market value of all goods and services produced by the economy in a given year.

Gross national product (GNP)

Gross national product is the value of all products and services produced by citizens of a country both domestically and internationally minus income earned by foreign residents.

Gross profit

The difference between sales and cost of goods sold is your gross profit, also known as gross margin.

Health and safety

In Canada, workplace health and safety are governed by several key pieces of legislation designed to protect workers and ensure safe working environments: Canada Labour Code, provincial and territorial health and safety legislation, occupational health and safety regulations, and workers' compensation legislation.

Herzberg's two-factor theory

Herzberg's two-factor theory. Note that motivation factors (such as promotion opportunities) relate to the nature of the work itself and the way the employee performs it. Hygiene factors (such as physical working conditions) relate to the environment in which it's performed.

Hiring decision

If an applicant progresses satisfactorily through all the selection steps, a decision to hire the person is made. Usually for higher-level jobs or jobs within unionized environments, the decision will be based on the test scores (if applicable) and the interview scores each candidate obtained.

Hiring externally

Hiring externally gives you an opportunity to bring fresh ideas and skills into the company.

Hiring internally

Hiring internally sends a positive signal to employees that they can move up in the company—a strong motivation tool and a reward for good performance.

HR forecasting

HR forecasting is the process of predicting how a company's staffing needs change with time so that it can remain prepared to operate successfully. Organizations use HR forecasting to decide to hire more people, reduce their staffing or adjust how they divide responsibilities.

Human resource (HR) management

Human resource (HR) management is the process of hiring, developing, motivating, and evaluating employees to achieve organizational goals.

Human Resource Management (HRM)

human resource management (HRM) consists of all actions that an organization takes to attract, develop, and retain quality employees.

Human Resources (HR) functional area

The Human Resources (HR) functional area is an organizational function that is about searching for, selecting, training, and maintaining workers.

IDEA

Inclusion, diversity, equity, and accessibility (IDEA) are a set of practices that aim to ensure that people from a variety of backgrounds are represented and can thrive.

Importing

Importing is buying products overseas and reselling them in one’s own country.

Inclusion

Inclusion refers to taking into account differences among individuals and groups when designing something (e.g., policy, program, curriculum, building, shared space) to avoid creating barriers.

Inclusive workforce

In addition to complying with equal employment opportunity laws, many companies make special efforts to create an inclusive workforce by recruiting employees who are underrepresented in the workforce according to sex, race, or some other characteristic.

Income Statement

Income Statement = Shows sales, expenses, and whether or not a profit was made.

Industry life cycle

Understanding of the four stages of the industry life cycle include expansion, peak, contraction, and trough (discussed in the chapter on economics) and industry dynamics informs management's investment decisions and risk management strategies. External factors that affect a business are often analyzed through a PEST analysis.

Inflation

Inflation is a sustained rise in the average prices of goods within an economy. It can also be explained as the fall in the purchasing power of money, since it is usual for wages to move ahead at least as fast as the price level.

Information management

Information management encompasses the collection, storage, organization, and distribution of information to optimize business operations and decision-making.

Information risk management

Information sharing

Effective information sharing enhances collaboration and decision-making within and between organizations.

Information technology

Information technology is the organizational function that aims to understand the information and data needs of the company in terms of obtaining, analyzing, and protecting information.

Initial screening

During initial screening, an applicant completes an application form and/or submits a résumé, and has a brief interview of 30 minutes or less.

Inputs

Inputs are the elements which goes into producing a good or service such as labor, raw materials, capital, land, entrepreneurship etc.

Intermediaries

Retailers are marketing intermediaries that sell products to the eventual consumer.

Internal business environment

The internal business environment in business refers to the elements within the organization that influence its operations and decision-making. It encompasses factors like the company's culture, management practices, employees, and work processes.

International contract manufacturing

Because of high domestic labour costs, many U.S. companies manufacture their products in countries where labour costs are lower. This arrangement is called international contract manufacturing, a form of outsourcing.

International franchise agreement

Under an international franchise agreement, a company (the franchiser) grants a foreign company (the franchisee) the right to use its brand name and to sell its products or services. The franchisee is responsible for all operations but agrees to operate according to a business model established by the franchiser. The franchisee pays royalties to the franchiser. In turn, the franchiser usually provides advertising, training, and new-product assistance.

International licensing agreement

An international licensing agreement allows a foreign company (the licensee) to sell the products of a

producer (the licensor) or to use its intellectual property (such as patents, trademarks, copyrights) in exchange for what is known as royalty fees.

International Monetary Fund

The IMF loans money to countries with troubled economies

International Monetary Fund (IMF)

The International Monetary Fund (IMF) is governed by and accountable to its 191 member countries and has three critical missions: furthering international monetary cooperation, encouraging the expansion of trade and economic growth, and discouraging policies that would harm prosperity.

Interpersonal skills

Interpersonal skills, also known as relational skills — the ability to get along with and motivate other people — are critical for managers in mid-level positions.

Intrinsic motivation

Intrinsic motivation. This is when motivation comes from within; in other words, a person has it within themselves to be, stay, or become motivated

Inventory control

The task of striking a balance between two threats to productivity: not enough inventory and carrying too much inventory. The process of striking this balance is called inventory control, and companies now regularly rely on a variety of inventory-control methods.

Investing

Investing is what someone does when they buy something in hopes that it will grow in value over time.

Involuntary termination

Involuntary termination is when an employer ends an employee's employment without the employee's consent. It can happen for a number of reasons, including: poor performance, unprofessional behavior, policy violations, economic factors, and organizational changes

ISO

ISO refers to the International Organization for Standardization; the 31000 part refers to a family of stan-

dards for risk management. As well as being an umbrella term for a bunch of different standards, ISO 31000 also refers to a singular standard, specifically known as ISO 31000:2018.

Job analysis

A job analysis identifies the tasks, responsibilities, and skills that a job entails, as well as the knowledge and abilities needed to perform it.

Job description

A job description, which lists the duties and responsibilities of a position

Job enlargement

Job enlargement—the policy of enhancing a job by adding tasks at similar skill levels.

Job enrichment

Job enrichment is the practice of adding tasks that increase both responsibility and opportunity for growth.

Job rotation

The practice of job rotation allows employees to rotate from one job to another on a systematic basis, often but not necessarily cycling back to their original tasks.

Job sharing

Under job sharing, two people share one full-time position, splitting the salary and benefits of the position as each handles half the job.

Job specialization

Organizing activities into clusters of related tasks that can be handled by certain individuals or groups is called job specialization.

Job specification

A job specification, which lists the qualifications—skills, knowledge, and abilities— needed to perform the job

Joint venture

A joint venture involves two or more companies forming a new, independent legal entity to pursue a specific business objective or project. The companies share ownership, profits, risks, and governance in the newly created entity.

Just-in-time (JIT) production:

With just-in-time (JIT) production: the manufacturer arranges for materials to arrive at production facilities just in time to enter the manufacturing process.

Labelling

Labelling not only identifies the product but also provides information on the package contents: who made it and where or what risks are associated with it (such as being unsuitable for small children).

Lagging indicators

Lagging indicators show the health of the economy in the recent past.

Law of supply and demand

The law of supply and demand is an economic theory that explains how the relationship between supply and demand determines prices. When supply is greater than demand, prices fall, and when demand is greater than supply, prices rise.

Leadership style

The relatively consistent way that individuals in leadership positions attempt to influence the behaviour of others.

Leading

Leading is providing focus and direction to others and motivating them to achieve organizational goals.

Leading indicators

Leading indicators give a prediction of future events.

Learning Styles

Learning Styles refers to the different methods of learning or understanding new information, the way a

person takes in, understands, expresses and remembers information. There are 4 predominant learning styles: Visual, Auditory, Read/Write, and Kinaesthetic.

Legal compliance

Legal compliance refers to conducting a business within the boundaries of all the legal regulations of that industry.

Legal responsibilities

Businesses have legal responsibilities to comply with laws and regulations at the local, national, and international levels.

Liabilities

Liabilities: the business debts that it owes to outside individuals or organizations.

Lifelong learning

Lifelong learning is the ongoing, voluntary, and self-motivated pursuit of knowledge for either personal or professional reasons.

Liquidity ratios

Liquidity ratios tell you how well positioned a company is to pay its bills in the near term. Liquidity refers to how quickly an asset can be turned into cash. For example, share of stock is substantially more liquid than a building or a machine.

Long-term financing

Long-term financing refers to borrowing or issuing equity shares for more than one year.

Loss

When costs and expenditures are greater than revenue.

M-1 Money

M-1 is the narrowest measure, and it includes the most liquid forms of money — the forms, such as cash and chequing account funds, that are spent immediately.

M-2 Money

M-2 includes everything in M-1 plus near-cash items invested for the short term — savings accounts, time deposits and money market mutual funds.

Macro-environment

The macro-environment refers to the broader condition of an economy as opposed to specific markets.

Macroeconomics

Macroeconomics looks at the decisions of countries and governments.

Make-to-order

Products are customized to meet the needs of the buyers who order them. This process, is called a make-to-order strategy.

Managerial accounting

The main objective of managerial accounting is to assist the management of a company in efficiently performing its functions: planning, organizing, directing, and controlling.

Managers

Managers are designated leaders according to the organizational structure but may need to use negative consequences or coercion to achieve change.

Market research

Market research is the process of gathering, analyzing, and interpreting information about a market, product, service, and customers. It helps companies understand their customers, competitors, and industry, and make strategic decisions about marketing and selling.

Market segments

Market segments are groups of potential customers with common characteristics that influence their buying decisions. You can use a number of characteristics to segment a market including demographic, geographic, behavioral, and psychographic.

Marketing

Marketing plays a crucial role in a business by helping to identify, create, and satisfy customer needs and wants through the promotion of products or services. It is defined as "Marketing is the activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large."

Marketing Concept

The Marketing Concept focuses on understanding and fulfilling customer needs better than competitors. It prioritizes customer research, targeted strategies, and integrated efforts across departments to ensure satisfaction and long-term loyalty.

Marketing mix

The marketing mix is the combination of four factors, known as the "4 Ps" of marketing. The 4 Ps are designed to serve the target market and include product, price, promotion, and place.

Marketing strategy

A marketing strategy consists of two major elements: the organization must determine its target market and then develop a marketing mix to meet the needs of that market.

Maslow's theory

According to Maslow's theory, the idea is that we need to satisfy lower-level needs before we move to the other levels; once we have satisfied said need(s), we move on to the next level as the previous one no longer satisfies us.

Mass customization

Mass customization combines the advantages of customized products with those of mass production. This approach requires that a company interact with the customer to find out exactly what the customer wants and then manufacture the good, using efficient production methods to hold down costs.

Mass production

Mass production (or make-to-stock strategy), the practice of producing high volumes of identical goods at a cost low enough to price them for large numbers of customers.

Material requirements planning (MRP)

A software tool called material requirements planning (MRP), relies on sales forecasts and ordering lead times for materials to calculate the quantity of each component part needed for production and then determine when they should be ordered or made.

Measuring CSR

Corporate Social Responsibility (CSR) is typically measured through a combination of quantitative and qualitative metrics that assess how well a company is meeting its social, environmental, and ethical obligations. Different organizations use various frameworks, tools, and reporting standards to evaluate CSR performance.

Micro-environment

The micro-environment may be defined as including groups and organizations that have a direct relationship with the business.

Microeconomics

Microeconomics is the study of individuals and business decisions.

Middle-level managers

Middle-level managers allocate resources, oversee first-line managers, report to top-level managers and develop and implement activities.

Minimum wage

Employers must obey laws governing minimum wage and overtime pay. A minimum wage is set by the provincial government.

Mixed economy

A mixed economy is an economic system where some resources are planned for by the government, while citizens control others. The world's dominant economic organization is a mixed economy.

Mixed market

A mixed market economy is defined as an economic system blending elements of a market economy with elements of a planned economy, markets with state interventionism, or private enterprise with public enterprise.

Monetary policy

Monetary policy is concerned with the money supply, rates of interest, exchange rates and the amount of credit available in order to control the level of spending within the economy.

Money

Money is anything that is acceptable as payment for goods and services. It affects our lives in many ways.

Monopolistic competition

Monopolistic competition occurs when an industry has many firms offering products that are similar but not identical. Unlike a monopoly, these firms have little power to curtail supply or raise prices to increase profits.

Monopoly

A monopoly is a market structure characterized by a single seller, selling a unique product in the market. In a monopoly market, the seller faces no competition, as he is the sole seller of goods with no close substitute.

Multinational corporation (MNC)

A company that operates in many countries is called a multinational corporation (MNC).

Nation's deficit

A nation's deficit is when a government spends more money than it receives in revenue over a period of time.

National debt

National debt is the liabilities of the government sector. Historically, government deficits have occurred much more often than surpluses since government typically spends more than it takes in.

Net income

The difference between gross profit and operating expenses is your net income or profit, which is the proverbial “bottom line.”

Non-profit or voluntary sector

The non-profit or voluntary sector includes non-governmental, non-profit organizations that receive support from individual citizens, government, and businesses.

Not-for-profit organization

An organization that exists to achieve some goal other than gaining profit.

Oligopoly

Oligopoly means few sellers. In such an oligopolistic market, each seller supplies a large portion of all the products sold in the marketplace.

Operating budget

The operating budget helps plan future revenue and expenses and results in a projected income statement.

Operating expenses

Operating expenses: the costs of operating a business except for the costs of things that were sold.

Operational planning

Operational planning generally assumes the existence of organization-wide or sub-unit goals and objectives and specifies ways to achieve them.

Operations

Operations is the organizational function that is focused on producing the goods and/or services of the business.

Operations management

Operations management is a vital component of any business, encompassing the practices, techniques, and tools that organizations use to produce and deliver goods and services efficiently and effectively.

Operations managers

Operations managers manage the process that transforms inputs into outputs. Their responsibilities can be grouped as follows: production planning, production control., and quality control.

Opportunity cost

Opportunity cost indicates what must be given up to obtain something that is desired.

Organizational charts

Businesses use organizational charts to depict the reporting structure within the organization.

Organizing

Organizing is the second management function and it is the process of coordinating and allocating a firm's resources in order to carry out its plans.

Orientation program

An orientation program introduces a new employee to the company's people, policies, and procedures.

Outputs

Output is the finished product coming from a production process.

Outsourcing

Outsourcing in business refers to the practice of contracting out certain business functions, tasks, or processes to external vendors or service providers, rather than handling them in-house.

Owner's equity

Owner's equity: the investment in the business.

Packaging

Packaging can influence a consumer's decision to buy a product or pass it up. Packaging gives customers a glimpse of the product, and it should be designed to attract their attention, with consideration given to color choice, style of lettering, and many other details.

Participative leaders

Leaders who share decision making with group members and encourage discussion of issues and alternatives; includes democratic, consensual, and consultative styles.

Partnership

Partnership— A partnership is similar to a sole proprietorship, but instead of one proprietor there are two or more.

Partnership agreement

The impact of disputes can be lessened if the partners have executed a well-planned partnership agreement that specifies everyone's rights and responsibilities.

Perceived risks

Perceived Risks are based on feelings, fears, or assumptions and may lack concrete evidence. They often result from misinformation, cognitive biases, or heightened awareness.

Perfect competition

Perfect competition exists when there are many consumers buying a standardized product from numerous small businesses. Because no seller is big enough or influential enough to affect price, sellers and buyers accept the going price.

Personal budget

A personal budget (for an individual) or household budget (for a group sharing a household) is a plan for the coordination of income and expenses.

Personal credit

Personal credit is a measure of an individual's creditworthiness, represented by a credit score. It serves as a determining factor for lenders when assessing loan applications and setting interest rates.

Personal debt

Your "personal debt" is how much money you owe to other people, businesses, banks, credit card companies, and other creditors.

Personal finance

Personal finance is the application of financial principles to the monetary decisions that you make either for your individual benefit or for that of your family.

Personal risk tolerance

Personal risk tolerance refers to an individual's ability or willingness to accept uncertainty and potential loss in pursuit of a goal. It plays a critical role in decision-making, particularly in areas like investments, career choices, and lifestyle decisions.

Personal selling

Personal selling refers to one-on-one communication with customers or potential customers.

PERT Charts

PERT (which stands for Program Evaluation and Review Technique) charts are designed to diagram the activities required to produce a good, specify the time required to perform each activity in the process, and organize activities in the most efficient sequence. It also identifies a critical path: the sequence of activities that will entail the greatest amount of time.

PEST Analysis

PEST is the term used for an external environment scan, whereby a business collects and analyzes data on the political, economic, social, and technological aspects of the business environment in which the business operates.

Pet peeves

Pet peeves are the thing that annoy you, often things other people do that bother you.

Philanthropic responsibility

Philanthropic responsibility is a business's commitment to improving society through charitable activities, community support, and social initiatives. It's a key aspect of corporate social responsibility (CSR), and it emphasizes that businesses should not only focus on profit-making.

Philanthropy

Many large corporations support various charities, an activity called philanthropy.

Picketing

Picketing is a labor tactic where workers gather outside a workplace to protest and persuade others to take industrial action.

Place

Place" is the third of the "4Ps" of marketing and refers to where and how a company sells its products to consumers. The goal is to reach the target audience and meet sales targets.

Planned economy

Planned economy is a system where the state determines production levels and regulates prices. In a centrally planned economy, the state uses advanced planning mechanisms to determine production levels, rather than supply and demand.

Planned system

Planned system is an economic system in which the elements of an economy (such as labor, capital, and natural resources) are subject to government control and regulation designed to achieve the objectives of a comprehensive plan of economic development.

Planning

Planning is the function of management that involves setting objectives and determining a course of action for achieving those objectives.

Power

The ability to influence others to behave in a particular way.

Price

Price is the only element of the marketing mix that directly generates revenue for a company. It's also the most flexible element, and it's important to continuously monitor and revise it.

Price stability

Price stability is the stable level of prices in the economy, which avoids long periods of inflation or deflation and sustains the value of money over time.

Primary data

Primary data is newly collected information that addresses specific questions.

Private business sector

The private business sector includes goods and services produced and delivered by private individuals or groups as a means of enterprise for profit.

Process divisions

Structuring the company based on processes needed to create the product or service.

Producer price index (PPI)

The producer price index (PPI) tracks the average change in prices at the wholesale level (e.g., raw materials, product components that require further processing, and finished goods sold to retailers).

Product

It's important to remember that when it comes to this first 'P" of the marketing mix, the term "product" refers to both products and services.

Product division

Product division is structuring a company based on its product lines.

Product life cycle

A product life cycle is a theoretical model describing a product's sales and profits over the course of its lifetime. During this cycle the product typically goes through four stages: an introductory stage, a growth stage, a maturity stage, and a declining stage.

Production

Production refers to the process of transforming inputs (such as labour, capital, and raw materials) into outputs (goods and services) that a firm wishes to sell.

Production planning

Effective production planning requires a thorough analysis of market demand, capacity capabilities, and available resources.

Productivity

Productivity refers to how efficiently goods and services are being produced.

Professionalism

Professionalism is a broad concept that includes a person's attitude, work ethic, and conduct. It also involves being punctual, dressing appropriately, and having a positive attitude.

Profit

If Microsoft has money left over after it pays all costs, it has a profit.

Profitability ratios

Profitability ratios tell you how much profit is made relative to the amount invested (return on investment) or the amount sold (return on sales).

Promotional mix

Promotional mix is the means by which a company communicates with its customers and includes advertising, social media, email marketing, personal selling, sales promotion, public relations, and more.

Prosperity

During prosperity, the economy expands, unemployment is low, incomes rise, and consumers buy more products.

Public business sector

The public business sector includes goods and services produced, delivered, and allocated by the government and public sector organizations (publicly controlled government business enterprises).

Public relations

Public relations (PR) refers to managing how others see and feel about a person, brand, or company

Purchasing (or procurement)

The process of acquiring the materials and services to be used in production is called purchasing (or procurement).

Quality

Quality is defined by the International Standards Organization (ISO) as the degree to which a set of inher-

ent characteristics of an object fulfills requirements. The term can be subjective and can vary depending on the context, the perspective, and the criteria used to evaluate it.

Quality of life

Quality of life refers to the general level of human happiness based on factors including life expectancy, educational standards, health, sanitation, and leisure time.

Quota

A quota imposes limits on the quantity of a good that can be imported over a period of time.

Real risks

Real Risks are backed by data, evidence, or historical trends. They are measurable and often require proactive mitigation.

Recruiting

Recruiting is the process of identifying suitable candidates and encouraging them to apply for openings in the organization.

References

References are people who will attest to your skills and abilities. The best references are former or current employers.

Relationship-building

Relationship-building roles help team members understand their roles, support them in their roles, and maintain or improve group cohesiveness.

Revenue

Revenue is the money a company receives by providing services or selling goods to customers.

Risk

The potential to lose time and money or otherwise not be able to accomplish an organization's goals.

Risk management

Risk management is the structured process of identifying potential threats, evaluating their likelihood and impact, and developing strategies to minimize or eliminate their adverse effects.

Risk tolerance

Risk tolerance in a business context refers to the degree of uncertainty and potential loss an organization is willing to accept to achieve its objectives. It reflects the company's capacity and willingness to take on risks as part of its strategy and decision-making processes.

Sales promotion

A sales promotion is a marketing strategy that uses temporary offers or campaigns to increase sales, encourage customer loyalty, or build brand awareness

Scarcity

Scarcity is one of the key concepts of economics. It means that the demand for a good or service is greater than the availability of the good or service.

Secondary data

Secondary data is information already collected, whether by the company or by others, that pertains to the target market.

Secured credit

Loans that involve some type of collateral are referred to as secured loans or secured credit.

Selection interview

The tool most widely used in making hiring decisions is the selection interview, an in-depth discussion of an applicant's work experience, skills and abilities, education, and career interests.

Selection process

Selection is the process of determining which people in the applicant pool possess the qualifications necessary to be successful on the job.

Services

Intangible offerings of business that can't be held, touched, or stored

SERVQUAL model

The SERVQUAL model (Parasuraman et al., 1988) is commonly used in service industries to measure quality across five dimensions: Reliability, Assurance, Tangibles, Empathy, and Responsiveness. Hence, it is also known as the RATER model. This framework allows businesses to identify specific areas where they can improve to meet or exceed customer expectations.

Sexual harassment

Sexual harassment occurs when an employee makes "unwelcome sexual advances, requests for sexual favours, and other verbal or physical conduct of a sexual nature" to another employee.

Short-term financing

Short-term financing means business financing from short-term sources, which are for less than one year.

Site selection

Site selection involves measuring the needs of a new project against the merits of potential locations.

Situational leadership

Selecting a leadership style based on the maturity and competency level of those who will complete the task.

SMART goals

SMART is an acronym used to guide and set goals: Specific, Measurable, Attainable, Relevant, and Time Based.

Social media marketing

Social media marketing is the practice of including social media as part of a company's marketing program.

Socialism

Socialism is an economic and political system where the means of production are owned by the public or

the state, rather than private individuals. It's based on the idea that shared ownership of resources leads to a more equal society.

Sole proprietorship

Sole proprietorship—A sole proprietorship is quite informal and easily created, which is why it's the most common structure chosen by new entrepreneurs.

Span of Control

Span of Control can be defined as the total number of direct subordinates that a manager can control or manage.

SQ4R reading system

The SQ4R reading system is designed to help you study your textbook and apply reading and notetaking skills. The letters in SQ4R stand for five steps: survey, question, read, reflect, recite, and review.

Stakeholders

Stakeholders are those affected by the business's operations and its decisions. Examples of stakeholders include shareholders, investors, the community, customers, competitors, and governmental agencies.

Standard of living

The standard of living of any country is measured by the output of goods and services people can buy with the money they have.

Statement of Cash Flows

Statement of Cash Flows = Show how much cash is coming in and going out.

Statistical process control (SPC)

Statistical process control (SPC) is defined as the use of statistical techniques to control a process or production method. SPC tools and procedures can help you monitor process behavior, discover issues in internal systems, and find solutions for production issues. Statistical process control is often used interchangeably with statistical quality control (SQC).

Strategic alliance

A strategic alliance is an agreement between two companies (or a company and a nation) to pool resources in order to achieve business goals that benefit both partners.

Strategic HR plan

A strategic HR plan lays out the steps that an organization will take to ensure that it has the right number of employees with the right skills in the right places at the right times.

Strategic marketing planning

Strategic marketing planning involves setting goals and objectives, analyzing internal and external business factors, product planning, implementation, and tracking your progress.

Strategic planning

Strategic planning involves analyzing competitive opportunities and threats, as well as the strengths and weaknesses of the organization, and then determining how to position the organization to compete effectively in their environment.

Stress

Stress is a physical, mental, and emotional response to a difficult event. Stress Management offers a range of ways to help you better deal with stress and difficulty in your life.

Strike

A strike is a collective work stoppage by employees in response to an employer to force them to agree to certain terms of employment.

Supply

Supply is the quantity of a product that sellers are willing to sell at various prices.

Supply chain

A supply chain refers to the network of individuals, organizations, resources, activities, and technologies involved in the production and distribution of a product or service. It encompasses every stage from sourcing raw materials to delivering the final product or service to the consumer.

Supply chain management (SCM)

Supply chain management (SCM) is the monitoring and optimization of the production and distribution of a company's products and services. It seeks to improve and make more efficient all processes involved in turning raw materials and components into final products and getting them to the ultimate customer.

SWOT analysis

SWOT analysis is an examination of the internal and external factors that impact the organization and its strategies. Generally, the internal factors are strengths and weaknesses; the external factors are opportunities and threats.

Tactical planning

Tactical planning is intermediate-range (one to three years) planning that is designed to develop relatively concrete and specific means to implement the strategic plan. Middle-level managers often engage in tactical planning.

Target market

The target market is the specific group of consumers, with similar needs and wants, toward which a firm directs its marketing efforts. A target market is the group of people who are most likely to buy your product or service.

Tariffs

Tariffs are taxes on imports.

Task-facilitating

Task-facilitating roles help the team accomplish goals.

Team

A team is a group of people with certain skills who share a common purpose, approach, and performance goals.

Team cohesion

Team cohesion is the strength and extent of interpersonal connection existing among the members of a

group. It is this interpersonal bond that causes members to participate readily and remain motivated to accomplish the set goals.

Team conflict

Team conflict is the breakdown of interpersonal relationships between members of a team.

Technical skills

Technical skills — the ones you need to perform specific tasks

Telecommuting

Telecommuting means that you regularly work from home (or from some other non-work location).

The 7 Habits of Highly Effective People

"The 7 Habits of Highly Effective People" written by Stephen R. Covey based on Covey's belief that the way we see the world is entirely based on our own perceptions. In order to change a given situation, we much change ourselves, and in order to change ourselves, we must be able to change our perceptions.

The Equilibrium Price

The Equilibrium Price is the price point at which the demand and supply curves intersect.

The four functions of management

The four functions of management--planning, organizing, leading and controlling--serve as the pillars that allow organizations to meet their goals.

Time management

Time management is the practice of planning and controlling how you use your time to be more productive and efficient. It involves prioritizing tasks, setting deadlines, and avoiding distractions. The goal of time management is to complete important tasks on time while also balancing your personal, professional, and academic responsibilities.

Time management skills

Time management skills are techniques that help you plan and organize your time to complete tasks and achieve goals.

Time value of money

The time value of money, or TVM, means that any amount of money has more value now than it will have in the future.

Top-level managers

Top-level managers set objectives, scan the business environment, and plan and make decisions that affect the overall health of the organization.

Total quality management (TQM)

Total quality management (TQM) is the continual process of detecting and reducing or eliminating errors in manufacturing. It streamlines supply chain management, improves the customer experience, and ensures that employees are up to speed with training.

Trade controls

Trade controls are policies that restrict free trade, and governments continue to control trade.

Trade surplus

A country has a trade surplus when it sells more to other countries than it buys from them.

Training

Even with some experience, knowledge, and skills your new employer will still want to provide you with training specific to the technologies, processes, and practices used by the organization.

Transformational leadership

Transformational leadership is a leadership style that can inspire positive changes in those who follow.

Transparency International

ransparency International reports on corruption and publishes an annual Corruption Perceptions Index that rates the world's countries. Transparency International annually rates nations according to "perceived corruption" and defines corruption as "the abuse of entrusted power for private gain." A score of 100 would be perfect (corruption free) and anything below 30 establishes that corruption is rampant.

TVM

The time value of money, or TVM, means that any amount of money has more value now than it will have in the future.

Unemployment rate

Statistics Canada tracks unemployment and reports the unemployment rate: the percentage of the labour force who are at least 15 years old that is unemployed and actively seeking work.

Union

A union is a group of workers who join together to negotiate with an employer over pay, benefits, scheduling, and other workplace policies and conditions.

United Nations' Sustainable Development Goals (SDGs)

The United Nations' Sustainable Development Goals (SDGs) are a set of 17 goals that aim to achieve peace and prosperity for people and the planet.

Unsecured loans

Unsecured loans, on the other hand, do not require collateral. Because there is no asset backing the loan, these loans are considered higher risk for the lender, which typically results in higher interest rates. Unsecured loans, such as personal loans or credit card debt, often come with interest rates ranging from 10% to 30%, depending on your credit score and financial history.

USMCA

USMCA is a free trade agreement between the United States, Mexico, and Canada which replaced the NAFTA free trade agreement.

Utility

Utility refers to the inherent usefulness or the ability of a product or service to satisfy a customer's needs and wants. It is often measurable and tied directly to functionality.

Value

Value is the customer’s perception of the benefits they receive compared to the cost or effort required to obtain the product. It is subjective and influenced by factors like branding, emotional appeal, and customer experience.

Visualization

Visualization converts data into graphical representations, making complex datasets easier to understand and interpret. Popular tools include Tableau, Power BI, and Google Charts.

Voluntary termination

Voluntary termination is when an employee chooses to leave their job of their own accord, without pressure from their employer. It's also known as voluntary resignation.

Whistleblower

A whistleblower is someone who reports waste, fraud, abuse, corruption, or dangers to public health and safety to someone who is in a position to rectify the wrongdoing.

Work culture

Your work culture is the shared set of values, beliefs and attitudes that guide your organization, and it's reflected in the way you treat your customers and employees.

Work-life balance

Work-life balance generally refers to a balance between your personal and work life.

World Bank

The World Bank is an important source of economic assistance for poor and developing countries.

World Trade Organization (WTO)

The World Trade Organization (WTO) encourages global commerce and lower trade barriers, enforces international rules of trade, and provides a forum for resolving disputes.